

Critical study of foreign direct investments (fdi) within the indian retail sector...

[Business](#)



Abstract:

Foreign direct investments in Indian retail sector recently has emerged to be one of the most common economic factor but the term still remains vague to many of them. This paper aims at the detail analysis on the factor which recently has been having profound impact on the Indian economy. Retail Sector and Foreign Direct investments are two vast areas to study but the recent trend exhibited by the Indian retail Sector in attracting foreign players and legislative reforms by the government in order to encourage FDI's is studied in this paper.

CHAPTER 1**INTRODUCTION**

Retailing can be defined as the point of interaction where deals are made between the producer or the manufacturer and the consumer for their personal consumption. A consumer in this process is exclusive of bulk buyers and other established institutional buyers like governments. A retailer is involved in accumulating stock directly from the manufacturers or producers for direct selling to an individual customer for personal consumption for marginal profits. At the end retailing can be termed as the final technique which lays down connection between the manufacturer or the producer and the end user. The present scenario in Indian retail sector is most often seen as the emerging sectors for the improvement in the nation's economy. The renowned global management consultancy, AT Kearney, assumed that

Out of thirty most attractive global destinations India has been the top second most attractive emerging market for the retail investors.

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

Retail sector in the world is the leading major industry whose global industry size is recorded at \$ 6. 6 trillion at this point many latest surveys have proved India as one of the top FDI attractive destination . Further expansions are possibly expected with the liberalization and new reforms made in FDI restrictions by the Indian government. Retail, India's largest private service sector at present seems to be the most active and well performing industries with many new entrants into the market. Retailing in India is contributing around 10% for the nations GDP and 8% of employment gradually heading towards the boom industry in India. As India becoming more and more attractive for the foreign investors the investors are investigating on the possibilities of developing malls and hypermarkets. India being a nation which practices traditional retailing yet expects to adopt organized retailing and reach around \$30 billion by 2010.

The choice of allowing foreign Direct Investments in the Indian retail sector has been an argument for a significant period of time. The government of India has allowed FDI's into a variety of several sectors but the impact that FDI could have on certain group of economy specially ones in small business by allowing FDI's in retail sector has been the issue with this sector.

The changes and reforms made in the policies related to the FDI's and also liberalization on the restrictions which were laid on FDI's by the government was with an intention of developing the employment status for the improvement of the nation's economy. It is with this intention Government of India has been very careful though allowing FDI's that is by permitting FDI's into India would create more employment opportunities at the same time

holding those already employed. The Indian organized retail sector has shown extraordinary performance in a very short p from 2001 to 2006. One major factor which has added to the development of the Indian organized retail sector was the relaxation on all the regulatory concerns affecting FDI's in India. With the changes in the income levels and the choice of lifestyles this sector is expected to grow beyond the growth of GDP as these factors are demonstrating positive signs that are to be possessed by an emerging market for the foreign investors.

Indian economy is the combination of rich and poor. Economic progress of the nation from retail sector cannot be completely credited to the upper income society but also frequently depends on the diffusion of the retail sector into the lower income group and taps the possible customers. The favourable and positive research reports on the current retail scenario has given scope for estimating the growth at 25-30% per annum if the government of India can liberalize the existing FDI policy in retail sector. The year 2006 proved to be the year of defining moment for India in terms of growth in retailing which has been recorded at the rate of 9 % holding second position after Indonesia. Many international retailers have step its foot in the country by forming joint ventures and also the reforms in the legislation allowed the single brand retailing other local retailers displayed enthusiasm towards changing trends. Major business institutions like the Reliance Group, Bharati Group and the Aditya Birla Group are all set to establish its presence in the next expected to be the huge business.

The government of India had to face massive pressure from around the globe to eliminate the trade restrictions and allow FDI's up to 100 % in retail sector. As the result of which the government of India in the beginning of the year 2006 allowed FDI's up to 51% in single brand retailing. These sluggish but continuous reforms in the legislation had increased the level of competition both among global and domestic players to expand their businesses in the initial stage

<http://business.mapsofindia.com/india-retail-industry/emerging-trends-in-indian-organized-retail-sector.html>

http://www.josephandjoseph.in/legalupdates/FDI_In_Retail.pdf

1. 1 Aims and Objectives:

1. 3. 1 Aims:

During the recent years India has been experiencing increasing growth rate in the retail sector. The retail sector in this nation has dual players both equally competing with each other the domestic retailers trying hard to stand and the foreign investors trying to enter into the retail market. India being one of the most attractive investment destinations many international retailers like Wal-Mart and Carrefour are also trying to make an entry.

Some of the remarkable figures according to the recent surveys reveal that India has the highest number of retail outlets recorded around 15 million outlets in the world. As per the Indian retail report 2007 the present retail market's worth is approximately around \$ 270 billion with 5. 7 % growth rate per year. Further 96 % of retail trade in India is unorganised. The value of

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

total organised retail market in the year 2006 was approximately around Rs. 48500 crores, which is around 4.7% of the retail market. In terms of employment retail industry is the second largest employment generating sector after agricultural sector employing around 6-7 % of the personnel.

http://articles.maxabout.com/artid0005755/retail_boomindia.aspx

The reasons for the recent growth trend recorded in the Indian retail sector have been analysed below

India's economy is booming

Increase in disposable income and purchasing power of consumers

Increase in consuming desire

Low share of organized retailing

Falling real estate prices

Increase in expenditure for luxury items

More nuclear families in urban areas

Global retail giants entering the retail industry in India

Favourable reforms initiated by the government of India

<http://www.realtyzing.com/retail-sector-india/>

The economic boom in India and the role of retail sector in such development are the two factors which caught my attention during the last few months.

The rapid change in the Indian economy and the factors contributing to such growth is the principal area of research. Retail sector has been one major contributor for such development. Encouraging FDI's in Indian retail sector is the noticeable cause behind the success of retail sector. The main aim of this

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

study is to identify the reasons behind the restrictions and complex legal framework by the government of India in allowing FDI's despite many benefits. The foreign investors always had tough experiences with the complex Indian legislative system. The rigid regulations and stringent framework against the entry of retail giants has been a big drawback for the emerging retail industry in India.

1. 3. 2 Objectives:

The research further is carried on with the following objectives

To study the current scenario of the Indian retail sector

To explore the entry modes adopted by the foreign investors

To analyze the need for FDI's in Indian retail sector

Detail examination of the trade barriers obstructing FDI's

CHAPTER 2

LITERATURE REVIEW

Theories related to Foreign Direct Investments:

Foreign direct investments entirely emerged as a new concept in the early days of 1960's with the increase of the investment activities among the nations. Before this Foreign direct investment was always perceived as the capital investment activity and has been based with the theories related to portfolio investments such as neoclassical capital theory. But Dunning (1981) stated the reasons why the concept of FDI cannot be used synonymous with the capital investments, first reason being that FDI is not just involved in the transfer of capital but also involves in further activities like transfer

of technology, organisational and management skills. Second being the transfer of such resources is not between two independent parties but is transferred within the firm. These are the two main factors which make FDI stand out from generalised capital investment theories. The following theories can be viewed as the base for studying Foreign Direct Investments.

Haymer's contributions (1960) International operations of national firms

Vernon's (1966) Product life cycle theory

Modern theories:

Dunning's (1977) Eclectic paradigm

These theories are briefly described below

2. 1 Haymer's Contribution:

Haymer's theory of international operations of national firms starts with the description of the entry barriers for the firms intending to expand its business operations into other nations. According to Haymer such barriers are often seen as uncertainty, host country nationalism and risk. Uncertainty arises from the unfamiliarity that the intending investor has with the local market conditions as country has its own legal system, language, economy and government, the factors with which the investor is less familiar compared to the firms or the investors from the same region.

The second barrier host country nationalism and risk: The situation which may be caused by the government's intervention with the motive of protecting the local firms or from the consumers who prefer their local

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

producers to the foreign manufacturers. Finally the exchange rate risk as the profits are divided between the partner in the home country and host country need for currency exchange arouses.

Haymer's theory also discusses and mentions the following factors as the reasons behind the firm's interest in investing in foreign nations. Both of these factors have its impact on the profits of the firm. In order to overcome the competition within the firm and also to gain the competitive advantage over the firms operating in the foreign nations.

2. 2 Vernon's (1966) Product life cycle theory:

Product life cycle theory by Vernon drew from the point which was not identified by Haymer in his contribution towards the FDI theories. Vernon in this theory argued that the choice of nation to produce or plant a manufacturing unit is not based on the factor cost or labour cost alone but has more detail process. The author could conclude this by examining the market conditions in USA which has been investing in many nations at that period. US had the highest average income at the same time the highest labour cost compared to other nations. Both these factors influenced the economic conditions of the nation, the firms had to decrease the labour cost in order to increase the average income of the nation this is where Vernon drew the theory of Product life cycle.

Product development phase- Stage I

In this stage the inputs required for the development of the product are calculated to standardize the product, lack of any relevant information in this

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

area creates uncertainty raising the need for communication among the suppliers, producers and the customers. This will eventually lead to the location decision.

Product maturity phase - Stage II

As the product is developed and brought into the market the demand for the product plays its role and enters into the maturity stage. Location decision is the producer's choice; the manufacturer will have to decide on setting up the manufacturing unit for the product. If the manufacturing unit set up abroad is cost efficient or if it would be better for the manufacturer to set up a unit close to the market where the product is actually sold will have impact on the location decision.

Standardised product - Stage III:

Standardised product stage is the final stage of the product. Product is established in the market and price is determined on the competitive basis. Cost of production can be reduced by manufacturing the product in the less developed and low labour cost facilitating nations which can be the biggest strength for the firm and is also equally beneficial for such developing nations.

Vernon's theory of product life cycle was the first theory based on the location decisions for foreign direct investments. It includes the dimensions of why, when and where concept for a product.

MODERN THEORY:

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

2. 3 Dunning's (1977) Eclectic paradigm to examine the Indian Multinational firms:

Eclectic paradigm is the three tire frame work for determining or analysing the degree of benefits for a firm by involving in foreign direct investments. The assessment of the expanding multinationals in the Indian economy in the decade is massive topic to study. Many reforms in the economic, technological, political environment in the nation also encourages the firms in the nation to embark on the market seeking, resource seeking and efficiency seeking foreign direct investments. Dunning's eclectic paradigm of international production is therefore used to study the history of the Indian MNE's.

The three sources of advantage in international expansion:

The eclectic theory of international production specifies that for a firm in order to expand its business operations globally need to achieve the following three advantages; ownership specific advantage, advantages derived from internalization and advantages related to localization (corporate strategy, Pierre Dussauge and Bernard Garratte, 1999)

Ownership specific advantage (O-type advantage):

It is the kind of competitive advantage that can be developed internally. They are originated from the possession of unique resources like know-how, experience, brands etc., and must endow with the stronger position multinational company compared to the domestic companies. This will in turn

promote better knowledge of the economic, political, and social context of the host country.

Internalization advantage (I -type advantage):

This can be created only if the company is in a better position to utilize the O type of advantage than being in a position which may require the investing company to transfer the resources to the domestically established firms, like for example licensing or renting the assets to the domestic companies.

Transaction cost theories are applicable here in order to assess the internalization advantage.

Localization advantage (L- type of advantage):

The firm on gaining the O & I type of advantages concurrently will come to a decision on the further activities the firm intends to carry on which would be between exporting the goods or on setting up a subsidiary firm in the targeted nation. The company will decide on the second option of setting up a subsidiary only if domestic economic, political conditions allow them to do so. At this point the firm attains the localization advantage.

“ Hence for a firm to globalize need to attain the following (i) Possess a specific competitive advantage (ii) that is better leveraged internally (iii) by physical setting up a number of assets in the host country.”(Corporate strategy, Pierre Dussauge and Bernard Garratte, 1999)

2. 4 Integrating the Three Leading Perspectives:

To begin with the factors that have their impact on the business strategies only two factors have been identified first, the industry based view which has its say on the conditions within the industry and the greater degree of impact on the strategy and the performance (Porter, 1980) followed by the resource based view which argues that it is the firm specific differences that influence strategy (Barney, 1991; Teece, Pisano & Shuen 1997). Recently institution based view came into existence from the research conducted on EE (Meyer & Peng 2005, Peng 2003, Wright et al; 2005a) particularly saying that the strategic choice are not only dependent on the industry and firm capabilities but are affected by other constraints based on the institutional factors. The following are the three leading perspectives on strategy (Mike W. Peng, 2006)

Industry based views

Resource based views

institution based views

2. 4. 1. Industry based considerations:

Industry based view is demonstrated using Porters Five force analysis which recommends

Interfirm rivalry

entry barriers

Bargaining power of supplier

bargaining power of buyer

Threat of substitute products

Inter firm Rivalry:

Interfirm rivalry will have direct impact on the firms, the lesser the number of competing firms the more possible conspiracy occurs in order to put off the new entrants from the profitable market. The intensity of rivalry in the market is said to be high in the market if the market reflects the following behavioural traits;

Frequent price wars

Proliferation of new products

Intense advertising campaigns

High cost competitive actions and reactions

Intensity of rivalry among the firms will have greater impact on reducing the profit margin of the firms, the higher the intensity the lesser are the profits.

Six set of conditions are identified for the increase in the inter firm rivalry; number of competitors is the first among the list the more intense the firm is the lesser are number of competitors, intensity of rivalry can be reduced only if the firms can understand the importance of interdependence. Second factor for intense rivalry is the market size; if a firm holds similar size of market share the commodities offered by such firms strongly compete with each other. Industries involved in manufacturing and selling of the so called " Big ticket items" such as the items which are purchased less frequently like (motorcycles, mattresses'), tend to suffer intense rivalry as the gaining dominance in such industries is not easy. More over consumers for this particular segment prefer cost effectiveness to the reputation of the manufacturer or the seller. Fourth; the entry of new firm with higher capacity

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

or increasing the capacity of the established firms in the competing market will push the inter firm rivalry to a higher degree. The industries phase after the maturity stage but nearly before the decline stage the need for new competitive actions arises to compete with the competitors increasing the rivalry. Finally an exit barrier plays a role in intense rivalry. The firms tend to continue in the market if they high exit cost need to be incurred.

A comprehensive model of entrepreneurship:

Source: Global strategy Mike W. Peng 2006

THREAT OF POTENTIAL ENTRY:

The incumbents also known as the established firms in the market will need to block the new entrants into the market simultaneously fighting against inter firm rivalry. Firms attract new entrants with the high margin of profits exhibited by the incumbents. The following five factors are related to the high entry barriers.

Economies of scale

Non scale based low cost advantages

Insufficient product differentiation

Little fear of retaliation

No government policy banning or discouraging entry

(Mike W. Peng 2006)

In general if the established firms could manage to control the benefits of scale and non scale basis providing adequate amount of differentiation and

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

maintain threat of retaliation along with the regulatory barriers allows the firms to reap higher profits.

Bargaining power of Suppliers:

Suppliers are the firms which are involved in providing the raw materials or any other required services to the firm's crucial industry. The bargaining power of the suppliers is the capacity of the suppliers to increase or decrease the price of the products and sometimes it also holds the power on reducing or improving the quality of the product. Four attributes lead to the increase in the bargaining power of the supplier;

Fewer number of suppliers

Uniqueness of the product supplied

Significance of the purchasing firm

Ability of the customers to integrate vertically

The dependence of the crucial firm on the supplier should be low in order to decrease the intensity of the bargaining power of the suppliers.

THREATS OF FIVE FORCES:

FIVE FORCESTHREATS INDICATIVE OF STRONG COMPETITIVE FORCES THAT CAN DEPRESS INUDSTRY PROFITABILITY

Rivalry among competitorsLarge number of competing firms

Rivals are similar in size, influence and product offerings

High-price, low frequency purchases

Capacity is added in large increments

Slow industry growth and decline

High exit costs

Threat of potential entry
Little scalable -based low cost advantages
(economies of scale)

Little non-scalable based low cost advantages

Insufficient product differentiation

Little no retaliation

No government policy banning or discouraging entry

Bargaining power of suppliers
A small number of suppliers

Suppliers provide unique, differentiated products

Focal firm is not an important customer of suppliers

Suppliers are willing and able to vertically integrate forward

Bargaining power of buyers
A small number of buyers

Products provide little cost saving or quality of life enhancement

Buyers purchase standard, undifferentiated products from focal firm

Buyers are having economic difficulties

Buyers are willing and able to vertically integrate backward

Threat of substitutes
Substitutes superior to existing products in quality and
functioning

Switching costs to use substitutes are low.

Bargaining Power of Buyers:

The crucial industry in this context becomes the supplier and will have to resist the bargaining power exhibited by the buyers in the competitive market. Four factors influence the bargaining power of the buyer;

Limited number of buyers

Lesser cost saving

Preference for standard products

Economic instability of the buyers

Willingness for vertical integration

The bargaining power of the buyers can be reduced if the incumbents manage to increase the number of buyers and boost up the barriers to entry.

Threat of Substitutes:

Substitutes are the different range of products yet can fulfil the needs of the customers. Two attributes of substitute product can impact the crucial industry. The quality and price of the substitute products are the threatening factors. The focal industry has the threat of losing their markets share if it allows a better quality or a lesser price ranged product into the competitive market.

2. 4. 2 Resource Based Consideration:

The “ capabilities” and the “ resources” of the firm laid initial foundation to the resource based view. The basic idea behind the resource based view begins with the perception of the firms possessions of resources and capabilities. This theory is based on two key assumptions “ resource

heterogeneity” in which all the firms though operating in the same industry will have different set of resources and capabilities. In simpler terms every firm has its own unique set of resources and capabilities and that no two firms possess same or similar set of resources and capabilities is the first assumption followed by the “ resource immobility” assumption this refers to the advantage of in-imitatable feature of the competing firm. It is assumed that the unique set of resources and capabilities possessed by the firms cannot be copied by any other competing firm.

The VRIO Frame Work: Features of a Resource or Capability

Valuable	Rare	Costly to Imitate	Exploited by Organization?	Competitive Implications	Firm Performance
NO	___	No	Competitive disadvantage	Below Average	
Yes	No	___	Yes	Competitive Parity	Average
Yes	Yes	No	Yes	Temporary competitive advantage	Above average
Yes	Yes	Yes	Yes	Sustained Competitive advantage	Persistently above average

NO ___ No Competitive disadvantage Below Average

Yes No ___ Yes Competitive Parity Average

Yes Yes No Yes Temporary competitive advantage Above average

Yes Yes Yes Yes Sustained Competitive advantage Persistently above average

Source adopted from (1) J. Brney, 2002, gaining and sustaining competitive advantages, 2nd edition.

Value:

The basic question to begin with; Will the resources and the capabilities held by the actually add any value Competitive advantage is gained only if the resources add value or may in turn lead to competitive disadvantage. The firms will suffer below average profits as long as the non- value adding capabilities are held with them. For the organizations to move forward from

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

the below average profit margin will need to get rid of such non value adding resources.

Rarity:

Though possessing valuable resources or capabilities is an added advantage for the firms the next question followed by is about the uniqueness of the product " How rare are these Valuable resources?" The firm can gain better competitive advantage only if it can possess valuable but rare resources.

Imitability:

Competing firms always suffer from imitation. The firms usually try to imitate the winning firms hence it is important for the firms to be cautious with the possessions. This concept directly questions the firm's possessions with " How challenging is it for the competitors to imitate them?" The greater is the difficulty to imitate the higher will be the competitive advantage for the firms. Imitation can be in two ways; (1) Direct Imitation (2) Substitution

Direct imitation is considered as the most difficult forms of imitations as the all resources possessed by the competing and the vital firm need to match, where as Substitution involves in possessing similar resources or capabilities.

Organization:

Valuable-rare-in imitable resources possessed by a firm still have a concern with the competitive advantage. At this point a question that would obviously arise will be to find out the necessity of the organization. The competing firms strive to make the maximum usage of their possessions

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

which is why a firm need to be organized. A firm adopting organized techniques prove to gain higher competitive advantage compared to the unorganized firms.

2. 4. 3 Institution Based Consideration:

Institutions are defined as “ The humanly devised constraint that structure human reaction” by, Douglas North; Institutional frame work is built on two institutions which guide the behaviour of the individuals and the firms. The two institutions are formal and informal which are held up by three aspects often regarded as three pillars.

Dimensions of Institutions:

Degree of Rivalry Examples Supportive Pillars

Formal Institutions Laws

Regulations

Rules

Regulatory (coercive)

Informal Institutions Norms

Cultures

Ethics

Normative

cognitive

Formal Institutions and Regulatory Pillar:

Formal institutions are composed with the laws, regulations and rules laid down by the government; like Contract law, Trade policies etc; Every firm is bound to follow and support the formal institution and any violations will be dealt in legal procedures

Informal Institutions and Normative/Cognitive Pillar:

Informal institutions are associated with the normative and cognitive pillars, normative which refers to the values, beliefs and ethics of the have there impact on the firms or the individuals involved in the firms. Cognitive pillar reflects to the behaviour of the firms or the individuals associated with the firm in a manner of take it for granted.

2. 5Entry Modes:

2. 5. 1 Where to Enter?

The encouraging conditions for the firms operating in a particular are region tend to gain location- specific -advantages. Various locations exhibit various benefits for the firms operating in that area enabling them in seeking new set of strategicgoalsfrom;

Natural resources

Market

Efficiency

Innovation

Strategic goalsLocation-Specific advantage

Natural resource seekingPossession of natural resources and related

transport and communication infrastructure

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

Market seeking Abundance of strong market demand and customers willing to pay

Efficiency seeking Economies of scale and abundance of low cost factors

Innovation Seeking Abundance Of innovative individuals, firms and universities.

Source . Mike W peng (2006)

Natural resource seeking; Firms seeking advantage of natural resources will be predetermined and fixed to a particular location. E. g.; Oil, petrol based firms gain location advantage from Middle East countries seek to expand its operations in the same location. Market Seeking; every firm strives hard to hold the maximum market share which is the desire to gain market advantage. Firms prefer the market in which the firm has a stronger role.

Efficiency seeking; Dual benefit scenario, combination of economies of scale and low unit cost of production. The firms seeking efficiency usually are benefited in the above said two ways. Innovation seeking ; innovation seeking firms usually fore see the future of an existing firm and its place in the near future. Such firms exhibit outstanding and innovative world class performance like France for cosmetics, Germany for chemicals etc.

2. 5. 2 When to enter?

Most of the firms usually prefer to gain “ first mover advantage”. The following set of advantages is followed by for any firm that gains the first mover advantage. Tough a firm could this advantage any disadvantage will become advantage for the following firm;

First mover advantages
First mover disadvantages

Proprietary technological leadership

Pre-empting scarce resources

Avoidance of clash with dominant firms at home

Relationships and connections with firms

Opportunity for free ride on first mover investments

Resolution of technological and market uncertainty

First mover's difficulty to adopt to market changes.

Source: Mike w. peng (2006)

2. 5. 3 How to enter?

Choice of entry modes is enormous and from among these it is the firm's decision to choose relevant entry modes. Entry modes are primarily classified into two types as " Non equity mode" and " Equity mode" which are further classified into two sub divisions each, but this paper emphasizes more on the equity (FDI) modes. Non equity mode has lesser degree of obligation compared to the equity mode.

The basic definition of MNE's is derived from the difference between equity and non equity modes

CHAPTER 3

RESEARCH METHODOLOGY

3. 1 Research Paradigm:

Educational research usually consists of the observations and analysis of the transformations in the social phenomena mostly of the ones which keep occurring in the series of actions in socio-cultural and psychological factors. In doing so, it deals with educational questions that can be investigated in a satisfactory manner, and the methods which enable such satisfactory investigation and the utility of results emanating from such investigation (Dash, 1993). Various paradigms came into existence in order to reveal the system which could help the researcher reach to a satisfactory conclusion. Thomas Kuhn a well known author defined the term ' paradigm' as " An integrated cluster of substantive concepts, variables and problems attached with corresponding methodological approaches and tools..."

Many different paradigms have evolved with the noticeable increase in the research areas. Two paradigms have been identified above all for the examining the relevance of the theories namely positivism and anti-positivism.

[http://www.celt.mmu.ac.](http://www.celt.mmu.ac.uk/researchmethods/Modules/Selection_of_methodology/index.php)

[uk/researchmethods/Modules/Selection_of_methodology/index.php](http://www.celt.mmu.ac.uk/researchmethods/Modules/Selection_of_methodology/index.php)

Positivism:

This paradigm has evolved from the thoughtful opinion of the French philosopher August Comte on the investigations based on the social reforms. He highlights observations and reasons as the instrument for the insight of human behavior. As of him the origin of true knowledge is from one's personal observations and experiences. The researchers who are positivistic

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

use this scientific approach for generating knowledge in their research. Thus this can be assumed as the structure of scientific beliefs and assumptions. Positivist paradigm has strongly influenced most of the researches till the early twentieth century later has been subjected to many critics stating it as a biased approach used only by a particular group of individuals. Also stating human behavior as an element controlled by external factors and is not proactive. These critics further lead to the substitution of biased approach to an independent and unbiased approach in the process of investigation giving rise to the anti-positivist paradigm.

Anti-Positivism:

This paradigm highlights the social reality as the assumptions of an individual according to their opinion and not from observation or experiments. Further stating knowledge as an element gained from personal experiences and not that which is acquired from external factors. The anti-positivists believe that reality is multi-layered and complex (Cohen et al, 2000). Both the paradigms referred in this research paper are essentially concerned about two concepts of social reality. Positivism here is defined as a term which stands for the ability to measure, predict and control the human behavior while anti-positivism is essentially understanding and analyzing depending on one's ability.

Selection of research paradigms and research methods

Research paradigms	Research approach	Research methods	Examples
--------------------	-------------------	------------------	----------

Positivism	Quantitative	Surveys: longitudinal, cross-sectional, correlation;	
------------	--------------	--	--

experimental, and quasi-experimental and ex-post facto research- Attitude of distance learners towards online based education- Relationship between students' motivation and their academic achievement.- Effect of intelligence on the academic performances of primary school learners
Anti-positivism Qualitative Biographical; Phenomenological; Ethnographical;
case study- A study of autobiography of a great statesman.- A study of dropout among the female students- A case study of an open distance learning Institution in a country.

Source: [http://www.celt.mmu.ac.](http://www.celt.mmu.ac.uk/researchmethods/Modules/Selection_of_methodology/index.php)

[uk/researchmethods/Modules/Selection_of_methodology/index.php](http://www.celt.mmu.ac.uk/researchmethods/Modules/Selection_of_methodology/index.php)

This research is based on both positivist and anti-positivist paradigm as it is based on both quantitative and qualitative data. The data for a research topic like Foreign Direct Investment in Indian retail sector needs both quantitative and qualitative data in order to draw appropriate conclusions. I have used both the sources for this topic though emphasis is on the case study as surveys and experiments did not prove to be very useful to assess the varying environment of the retail sector India.

3. 2 Research Strategy and Research Methods:

3. 2. 1 Research Strategy

<http://www.newcastle.edu.au/service/library/tutorials/infoskills/glossary.html#R>

Research strategy is a plan or a sketch laid down by the researcher in order to find out the possible sources to access the information required to keep

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

the research process in progress. A research strategy is in a step by step format which firstly deals with analysis of the concepts and theories relevant to the research topic and then defining related keywords and its synonyms. Search for the appropriate source of information like books and data bases is the third important step and the fourth step deals with the analysis on the relevance and validation of the data collected from the said sources.

3. 2. 2 Research Methods:

Research methods is “ systematic approaches to gathering information that rely on established processes and procedures drawn from scientific research techniques, particularly those developed in the social and behavioural sciences”. (IAR glossary- [http://www. utexas.](http://www.utexas.edu/academic/diia/assessment/iar/glossary.php#r)

[edu/academic/diia/assessment/iar/glossary. php#r\)](http://www.utexas.edu/academic/diia/assessment/iar/glossary.php#r)

Examples include

Experiment

Survey

Case study

Ground Theory

It can be further defined as the techniques or the strategies that have been adopted in the research process. This research paper is based on the case study and theories adopting other research techniques were futile. This paper predominantly deals with the analysis of the current scenario in the Indian retail sector and also evaluating the reasons behind its current state of affairs. It may be ineffective to use surveys and experiments as they may

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

not be able to provide accurate information on the current state and may also not be able exactly predict the future prospects in this regard.

3. 2. 2. a Case study approach:

The case study approach is often associated with descriptive or exploratory research, without being restricted to these areas (Ghauri 1983; Bonoma, 1985, Yin 1994). All the three authors clearly state the need for using case study research approach as the condition which is not easy to study about in the natural settings or as the circumstance were other research methods are inappropriate. Case study is often seen as the explanation of the management's condition. Data is collected from various sources like from verbal reports, personal interviews particularly from the financial reports, and other statements which can reveal the budget and market conditions of the firms. But case study approach is certainly cannot be used for every research problem.

Different types of case study design (Yin 1994)

Four types of case study design with a 2X2 matrix has been presented by Yin (1994) as follows:

Single case design, holistic

single case design, embedded

Multiple case design, holistic

Multiple case design, embedded

SINGLE CASE DESIGN MULTIPLE CASE DESIGN

Holistic (single unit of analysis)

TYPE-I TYPE-III

Embedded multiple units of analysis

TYPE-II TYPE-IV

Source: Yin 1994

Single case design is appropriate in two situations, firstly in the critical case it can be used to examine the recognized theory. Second of all single case design is used when the case is revelatory. It is usually when the researcher needs to study a conditions which was not previously studied or examined

Multiple case study design is generally adopted when the cases are lesser critical and are not rare but this approach demands justification for the choice of cases the researcher chooses in the research process. Although case study design research approach can be considered as the most flexible method that can be changed or revised.

For this research topic I felt case study would be more appropriate. Case studies are particularly helpful in interpreting and describing the observations concerning a particular issue. A case study is developed by the researcher in order to assess the strengths and weaknesses of the research topic and also sometimes to evaluate the positive and negative factors affecting the topic. A case study is used to categorize or arrange the vast information in a chosen pattern and then explore by comparing the

information. A case study is in depth analysis and comparison of the any data the researcher intends to study or examine.

<http://www.managementhelp.org/evaluatn/casestdy.htm>

3. 3 Data sources:

Data sources are defined as the carriers of information. The basic difference between the secondary and primary data is that the secondary data is the information collected by others for a particular purpose and that which cannot be generalized with our purpose, primary data is the first hand information collected by the researcher for drawing conclusion to a particular topic in hand. These two types of sources are discussed in detail below

3. 3. 1 Secondary data:

The information gathered from secondary data can be used to solve the research problem in hand and can also be used to describe the research problem in a better way . A research usually starts with the literature review which includes books, journal articles, and online data sources like web pages, surveys conducted by government and semi government organizations. Usually the information collected from secondary sources may be reflecting different purpose.

Types of secondary data:

Reports published by the government to the annual reports from the companies all this data is from the secondary source are few among the types of secondary data. Secondary data is further classified into two type's

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

internal and external source. Internal sources include information on the consumers, manufacturers, work force, plans related to marketing activities and sometimes about the opponents in the market. All the above information is readily made available for any user. External sources include printed and published books by professionals, journal articles by scholars which can be academic books or any other published material. One among external sources is the data gathered by few companies for commercial use like for selling the data

3. 3. 2 Primary Data:

Unavailability of the secondary data will create the need for generating primary data. Primary data is the information that the researcher derives by conducting certain set of activities in order to find solution for the research question. Types of primary data sources include:

Experiments

observations

communication

Using observation as a tool for data collection will involve in the activities where the researcher need to be sensible to the behaviour of the target group like be a careful listener or need to be a detail observer in watching the actions of the group. This source can be called as the best first hand data provider. Further the researcher can personally analyse and interpret the data gathered from such observations.

Communication as a primary data source will deal with the surveys and interviews. It does not always require face to face communication. Well structured questionnaires sent by post or email can also be used. Four different sources have been identified as follows;

Postal survey

Personal interview

telephone interview

Email interview.

The integrity of research findings:

3. 4 Reliability:

Reliability refers to the degree of the data collected or the techniques or the procedures adopted in the research capitulate finding reliable. Reliability of the data can be assessed by posing the following three questions (Easter by-smith 2002)

Will the measures yield the same result on other occasions

Will similar observations can be reached by other observers

Is there transparency in how sense was made from raw data

Threats to reliability:

The following four threats have been identified by Robson (2002) in the reliability of the data

Subject or participant error

Subject or participant bias

Observer error

Observer bias

Every minute difference may have impact on the reliability of the data such as if the participant gives opinion in any hyper state of mood may end up in drawing wrong conclusions because of the participants error. Likewise in the opinion given by the participant who has been working in an authoritarian environment may give biased opinion resulting in unreliable data. Observer error or observer bias can be discussed as the difference in the perceptions leading to different kinds of data influencing the creditability of the data.

3. 5 Validity:

Validity of the data refers to the appearance and existence of the data, it is concerned about the availability of the data and if all such available data is true as it appeared. Robson (2002) drew the following threats on the validity of the data;

Threats of validity of the data:

History

Testing

Instrumentation

Mortality

Maturation

Ambiguity about causal direction

3. 6 Generalisability:

Generalisability is also known as the external validity. It deals with the conclusion drawn up by the researcher and the degree to which they are applicable for any other research topic. The theories, conclusions or the results drawn in this particular paper cannot be generalised as these are related to only one particular topic of research.

CHAPTER 4

RETAILING IN INDIA

4. 1 Retailing in India:

Indian retailing is broadly divided into two types store based and non store based retailing. This paper is an overview of the Indian retail market. Store based retailing:

This is further classified into two parts

(i) Grocery retailer

(ii) Non- grocery retailer

Store-based retailing

Grocery retailers: Hypermarkets; Supermarkets; Discounters; Convenience stores; Independent grocers; Food/drink/tobacco specialists; Other grocery retailers

Non-grocery retailers: Mixed retailers; Health and beauty retailers; Clothing and footwear retailers; Home furniture and household goods retailers;

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

Durable goods retailers; Leisure and personal goods retailers; Other non-grocery retailers

Vending

Homeshopping

Internet retailing

Direct selling

Non-store retailing

4. 2 Executive Summary:

The retail sector in India during the past decade has witnessed positive upward trend especially after the legislative reforms in the year 2006 by encouraging single brand retailing, entry of foreign players through joint ventures and the making up of the local firms for surviving in the competitive market. Retailing in India is growing at 9% following the value growth of Indonesia. The major local market players in the retail sector like the Reliance Group, Aditya Birla Group and Barathi Group all came to a common viewpoint and viewed Retailing as the next big business in India. The year 2007 has witnessed tie up between the gigantic Wal-Mart stores with the local Barati Group;

Independent grocery stores are commonly known as Kirana stores was the general retailing layout in India. Such stores held whole 66% of retail outlets in the nation. Store based retailing recorded increase with the launch and rapid expansion of hyper markets in the year 2006.

4. 3 Convenience Stores:

A less known and less popular format among Indian consumers until 2004,

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

the entry of new players since 2003 has fuelled the growth of convenience stores since 2005. In 2005, new players such as Big Apple and Twenty Four Seven made their entry, and with Spencer's Express entry in 2006, convenience stores have gained popularity due to their inherent convenience. Over 2004-7 the number of convenience stores in India more than doubled from 375 to 1, 000.(Euromonitor international, 2007)

Convenience Stores: Value Sales, Outlets and Selling Space 2002-2007

2002 2003 2004 2005 2006 2007

Value sales Rs million 4, 180. 0 4, 600. 0 5, 190. 9 6, 592. 5 10, 218. 3 18, 086. 4

Outlets 335. 0 350. 0 375. 0 420. 0 620. 0 1, 000. 0

Selling Space ' 000 sq m 26. 3 27. 7 30. 5 35. 7 55. 9 101. 2

Source: Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor

Convenience Stores Forecasts: Value Sales, Outlets and Selling Space: % Growth 2007-2012

% growth

2011/12 2007-12 CAGR 2007/12 TOTAL

Value sales Rs million 25. 0 46. 0 563. 1

Outlets 18. 3 38. 4 407. 5

Selling Space ' 000 sq m 20. 0 40. 7 450. 7

Source: Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates

4. 4 Hyper Markets:

Growing from a low base, 58 hypermarkets were added in 2007, taking the total number of hypermarkets in India to 128. Of the 58 hypermarkets added during the year, 40 were added by Big Bazaar. Spencer's Hyper and Hypercity also added new outlets in 2007, with Reliance's Reliance Mart the new player launching its first hypermarket in mid-2007. There were no closures of hypermarkets by any of the prominent players. Most hypermarkets in India are targeted at mass, middle-class consumers, with a mix of grocery and non-grocery products on offer. Hypercity in Mumbai is the only exception, with its supply arrangement with Waitrose enabling it to sell Waitrose's products in its outlets. These products are, however, targeted at expatriate and more affluent consumers. With 128 hypermarkets as of 2007, hypermarkets were located mainly in the metro cities such as Delhi, Mumbai, Chennai and Kolkata, with most players having at least one outlet in any of the four metro cities. Outside these metros, second-tier cities such as Ahmedabad, Hyderabad and Bangalore were the other popular locations for setting up hypermarkets, as retailers set up outlets in the metro cities first before opening outlets in other smaller cities.

Hypermarkets Company Shares by Value 2004-2007

% retail value rsp excl sales tax

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

Company 2004 2005 2006 2007

Pantaloon Retail India Ltd 66. 869. 7 62. 0 62. 7

Spencer's Retail Ltd -- 12. 8 10. 6

Hypercity Retail India Pvt Ltd -- 4. 3 4. 8

Trent Ltd 3. 7 3. 8 2. 7 2. 4

Reliance Retail Ltd -- - 2. 2

Aditya Birla Retail Ltd -- - 1. 6

Nirmal Supermarkets Pvt Ltd 0. 6 4. 3 2. 5 1. 5

Great Wholesale Club Ltd 16. 8 11. 4 - -

Others 12. 1 10. 8 15. 7 14. 2

Total 100. 0 100. 0 100. 0 100. 0

Source: Trade associations, trade press, company research, trade interviews, Euromonitor International estimates

4. 5 Super Markets in India:

The supermarket retail environment in India underwent a complete makeover in 2007, with Subhiksha expanding its operations in North and West India, and with the addition of outlets by Reliance Retail Ltd under its Reliance Fresh umbrella. Meanwhile, Subhiksha launched its second phase of expansion in 2007, with outlets opening in the states of Punjab, Chandigarh,

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

Haryana and Uttar Pradesh in North India, Madhya Pradesh in West India and West Bengal in East India. Reliance, on the other hand, opened outlets nationwide to emerge as the second largest supermarket brand with 325 outlets in 2007.

Supermarkets Company Shares by Value 2004-2007

% retail value rsp excl sales tax

Company 2004 2005 2006 2007

Subhiksha Trading Services Pvt 12. 011. 2 17. 4 22. 4

Ltd

Reliance Retail Ltd -- 3. 8 20. 0

Spencer's Retail Ltd-- 8. 7 7. 4

Pantaloon Retail India Ltd 4. 7 5. 5 6. 7 6. 5

Aditya Birla Retail Ltd -- - 5. 4

Nilgiri's Franchises Ltd 7. 5 6. 4 5. 3 3. 9

Foodworld Supermarkets Ltd 17. 3 5. 4 4. 5 3. 2

Radhakrishna Foodland Pvt Ltd 0. 0 0. 4 0. 7 0. 5

Trinethra SuperRetail Ltd 5. 5 7. 0 8. 2 -

Great Wholesale Club Ltd - 6. 4 - -

Adani Retail Ltd - 4. 1 - -

B2C India Ltd 3. 4- - -

Fabmall (India) Pvt Ltd 2. 0- - -

Others 47. 753. 6 44. 9 30. 9

Total 100. 0 100. 0 100. 0 100. 0

Source: Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates

4. 6 Retailing: Key issues:

4. 6. 1 Government Policies:

With India becoming more attractive for the foreign players, the government of India is more carefully examining the impact of the new foreign players will have on the existing domestic players. Liberalization and deregulation of many legislative policies are being laid in request from many nations from prominent personalities to the chief head of the giant business leaders of USA asking for a wider scope to operate in this nation.

The economic and political outlook on the FDI policy on retailing will be the most debatable issue. Liberalization for the economic development may be beneficial for which the government of India is encouraging the new entrants the nation has been facing tremendous opposition from the communist parties against the foreign players with a protective agenda. The recent 2006 FDI policy in India was allowed only up to 51% in single brand retailing the first reform on allowing 100% on cash and carry retailing proves the

opening up of Indian retail sector.

The initial phase of FDI's near the beginning of 2000's the involvement of the government was lesser raising the ambiguity level from the local players regarding the international retailers, this is when the government of India started framing legislative policies in particular on the FDI's in retail sector. Many foreign players were anxious to invest in the liberalized economy but the government held it self back from opening up the retail sector.

CHAPTER 5

CASE STUDY CONCLUSIONS & RECOMENDATIONS

5. 1 Case study:

Title: Wal-Mart in India: a success or failure?

Journal: International Journal of retail and distribution management by- Jaya Halepete

This paper analyses and investigates the challenges that Wal -Mart may have been facing in the process of expanding its presence into the Indian retail market. The failure stories of Wal-Mart in South Korea and Germany are carefully examined in order to recognize the influential factors during the course of expansion.

Methodology Adopted: Dunning's eclectic paradigm which is usually applicable for the international expansion cases has been adopted to identify the pros and cons in the Germany and South Korean market. The same theory is then applied to analyze the Indian market conditions to assess the

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

advantages and disadvantages for the entering firm into the Indian retail sector.

Key findings:

Wal-Mart may face many locational as well as ownership disadvantages in the attempt to enter Indian market. The study on these challenges may help in drawing proper solutions to overcome the challenging factors for Wal-Mart to succeed in the Indian retail market.

The need for international expansion arose with the domestic retail markets suffering the saturation phase and the higher degree of competition among the firms. Numerous American retailers expanded their businesses into many other nations though many proved successful few retailers had to face failures. Wal-Mart is one among the internationally expanding firms recording both success and failure stories. This case study is the analysis on the failure stories in Germany and South Korea and simultaneously learning from the outcomes to imply with the expansion plans in the Indian market.

Company Back Ground and History:

Wal-Mart business is known for the lowest price provider for the customers. The expansion strategy adopted by this firm is to regularly open new stores in a very huge geographical area which is measured around 100,000-200,000 sq. ft. (Wharton, 2003). Wal-Mart was first discount store started by Sam Walton in the year 1962 in Rogers, Arkansas, it a city with a population around 6000 residents. Today Wal-Mart discount stores have reached up to 917 further with 2,447 super stores, 591 Sam's Club and 132 neighbouring

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

markets in The United States of America and 3. 020 international retail stores (Annual report 2007).

Source Euromonitor international 2008

Initially Wal Mart began as a small local firm offering services to a population of around 5000 people, the launch of supercenters in 1980's which is geographically spread on 200, 000 sq. ft area for selling groceries encouraged the firm to expand into the metropolitan areas .

International Expansion Strategy:

Wal-Mart with on establishing itself in the American market gave an attempt to expand its business outside USA and increase its sales with this it spread its operations into the nations like Canada, Mexico, Brazil, Costa Rica. Wal-Marts international outlets reached to 45% of its total number of retail outlets (International operations fact sheet -2007).

Wal Mart adopts the following three strategies to achieve the targeted growth rate

- (1) Expanding into new markets with multiple formats;
- (2) Opening new stores in existing markets; and
- (3) Increasing sales at existing international stores.

Expansion in Latin America region was the first aggressive that the firm has started with in the year 2005 by taking the ownership title of 413 stores from a domestic retailer. Wal mart managed to succeed in the expansion activities

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

in the near surrounding regions but the firms business units in the Asian and European regions proved much more difficult to handle. (“ International operations factsheet”, 2007). In the late 1990’s Wal Mart expanded into the south Korean market in the Asia pacific and Germany in the European region. Lack of financial performance in these regions Wal-Mart with drew its presence from these markets with this 13 markets have been reduced in the Wal-Marts expansion phase. (Ramstad, 2006a, b; World’s biggest, 2006). Wal-Mart officials have indicated that India, where government reforms lifting restrictions on foreign ownership of retail operations are underway, is a major target market for the company (Annual Report, 2007; Knowledge Wharton, 2006).

Wal -Mart in Germany:

Wal-Mart chose Germany for its entry into the European market because it is the major market in Europe and has a central location. The idea was that it would be likely to spread out into other markets in Europe from Germany. Wal-Mart entered the German market by buying 21 Wertkauf hypermarkets at the end of 1997 and 74 Interspar hypermarkets a year later in 1998. Several of the stores they purchased were not functioning beneficially and on the whole of the stores were in need of reformation (Berggoetz and Laue, 2002). Wal-Mart functions in Germany as a wholly owned subsidiary of the parent company.

Utilizing the eclectic theory, we analyze the ownership, locational, and internalization dimensions of Wal-Mart’s entry into Germany. First, we analyze the ownership and internalization dimensions together. Since Wal-

<https://assignbuster.com/critical-study-of-foreign-direct-investments-fdi-within-the-indian-retail-sector/>

Mart entered Germany through a completely owned German subsidiary, it owned all assets, and has the ability to implement its own approach to transactions within its operations in Germany. Wal-Mart seems to have failed to take advantage of the benefits arising from ownership. To start, there were delays in changing the name of the stores to Wal-Mart. Further, considering that several stores were in need of substantial renovation, Wal-Mart missed on renovating the stores immediately, which seems to have resulted in a poor image of the Wal-Mart brand. Customers began to associate the name of Wal-Mart with the image of run-down stores. Also, even though Wal-Mart constantly increased the share of store brands, they still accounted for only 15 percent of all articles and Wal-Mart never became a well-known brand name in Germany. Finally, Wal-Mart was not really able to differentiate itself in terms of the service it provided compared to competition. Its return policies were viewed as identical to other German retailers, and its quality of service was mediocre. The only difference cited between Wal-Mart and other retailers was that Wal-Mart's shopping bags were free. Overall, Wal-Mart was not able to create a positive, well-known image or to find a niche of its own in the fragmented German retail market (Gerhard and Hahn, 2005). Second, we analyze the locational dimension. Wal-Mart's natural approach in Germany was to focus on improving operations through the rationalization of stores by closing some of them to open new ones. One locational parameter that Wal-Mart seems to have underestimated was the strict zoning laws and the scarcity of development sites. The resulting delays in the opening of new stores rapidly did not allow for Wal-Mart to scale up fast enough. The inability to scale effectively

reduced Wal-Mart's ability to obtain sufficient volume discounts from suppliers or to achieve efficiencies in logistics - two key factors that have driven Wal-Mart's success in the USA. Owing to the small number of Wal-Mart stores, the company was at a disadvantage when compared to other German discount chains (Gerhard and Hahn, 2005). Furthermore, the lack of scale power resulting in Wal-Mart's failure to achieve price leadership. Wal-Mart's capability to reduce prices was limited because of the low-profit margins and it is illegal to sell below the buying price in Germany. Whenever Wal-Mart reduced prices, competitors did so as well. This ties back to the first dimension of ownership where transactional advantages could not be achieved. Although, Wal-Mart had 92 stores by 2003, the inability to scale to the right size in a timely manner within a strongly regulated environment resulted in significant annual losses of between \$130 million (Newsweek, 2003) and \$260 million (Business Week, 2001). Further, Wal-Mart's lack of market success made it difficult to find partners willing to invest with them.

One of the distinct and critical attributes of localization is culture, where again Wal-Mart seemed to have faced challenges in Germany; cultural differences between American and German consumers was a significant reason that prevented the successful acceptance of the Wal-Mart culture in Germany (Gerhard and Hahn, 2005). The cultural factor affected Wal-Mart internally as well. Knorr and Arndt (2003) attributed Wal-Mart's failure to the company's management, writing that "Wal-Mart's attempt to apply the company's proven US success formula in an unmodified manner to the German market turned out to be nothing short of a fiasco." Wal-Mart's American managers pressured German executives to enforce American-style

management practices in the workplace. Employees were forbidden, for instance, from dating colleagues in positions of influence. Workers were also told not to flirt with one another. Several workers resisted the management's demands which they felt were unjust. Two senior managers of Wal-Mart in Germany were quoted as saying:

Corporate culture not only requires supportive action (intercultural training, coaching) but also time and patience in order to grow within an acquired company with a cultural history of its own. There is no such pill as a pill for cultural transformation (Berggoetz and Laue, 2002, p. 8).

Besides, running up against German tradition, analysts say Wal-Mart also misfired when it came to knowing the market they were attempting to crack. American styles do not always translate well. Many of the product buyers in Germany were Americans, resulting in a lack of understanding of the German consumer markets. As an example, in the US supercenters, food accounts for about 40 percent of sales. In its German competitors, food accounted for 50-360 percent of sales (O'Connor, 1998) the German consumer as much as possible. German refrigerators are usually much smaller than American ones and Germans tend to have less storage room and therefore, are not used to buying large quantities of food or other items. For this reason, Wal-Mart offered smaller sizes in Germany but they did not reduce the share of food in the stores and this resulted in lower operating margins (Gerh