Walmart around the World

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Question 1

The American retailer, Walmart, entered the Mexican and Chinese market through joint ventures (JV) and Canada, Germany, South Korea, the United Kingdom (UK), Japan, Central America, Chile and Africa by acquisitions. The retailer expanded into the Argentinian market by use of a green field investments (GI) and Brazil through a GI followed by an acquisition.

The paper will evaluate the retailer’s entry strategies by applying the theory proposed by Meyer et al. (2009). Employing a resource-based view of the firm, the authors seek to explain how firm’s different resource endowments should determine the nature of the market entry strategy best capable of creating value for the firm. Specifically, the theory argues that entry modes should be chosen on the basis of whether the firm’s competences are derived from resources characterized by geographic fungibility or location specificity. When the firm’s existing recourses are not capable of enabling the firm to operate successfully in a foreign market, i.e. when the firm’s resources are characterized by location specificity and the firm needs to augment its resource base, the firm should enter a market through collaborative strategies facilitating knowledge development or by acquisitions that allow the firm to directly access complementary resources. Oppositely, the firm should pursue resourceexploiting entry modes, such as GI entry strategies, when its resources are characterized as geographical fungible. As such, acquisitions have the highest augmentation potential, while JVs assume an intermediary position and GIs the lowest position (Meyer et al., 2009).

Walmart has predominately entered foreign markets by the use of acquisitions, to a lesser extent JVs and only in a single case purely through a GI. This is indicative of Walmart’s resources being characterized by location specificity. This can be further demonstrated by looking at Walmart’s ability to adopt key competences of Walmart’s American operation in foreign subsidiaries. Walmart’s key capability seems to be operational expertise and the resources on with the “Everyday Low Price” (EDLP) model is based. Walmart attempted adopting the EDLP model in Mexico, Brazil, Japan and South Korea. While the EDLP model proved successful in Mexico, the pricing
policy proved unsustainable in the Brazilian market, the company struggled with the EDLP model in Japan as costumers associated low prices with low quality and the model was not successful in South Korea because consumers valued luxurious shopping experiences. Thus, Walmart was not able to exploit one of its core competences in several foreign markets implying that the company in these markets needed to access complementary resources and/or acquire location specific resources.

All of Walmart’s acquisitions and JVs have not been successful, though the theoretical framework suggests that higher-level resource-augmenting modes should facilitate the development and/or acquisition of location-specific resources. In the case of both Germany, Japan and Canada, Walmart acquired unsuccessful retailers. Walmart eventually exited the German market, struggled in Japan and succeeded in the Canadian market. The fact that Walmart acquired unsuccessful retailers questions the extent to which such acquisitions enabled Walmart to augment its resource base and acquire location specific resources as the local retailers were not able to derive competitive competences on the basis of their resources. While this might explain Walmart’s lack of success in Germany and Japan, it poses the question of why Walmart was still able to achieve remarkable success in Canada. As the Canadian market was somewhat similar to the retailer’s home market, it can be argued that the retailer’s location-specific resources developed in the US market were more easily deployed in the Canadian market, thereby decreasing the necessity of acquiring location specific resources. Contrary to the three cases mentioned in the preceding, Walmart entered the UK, Central America and Chile by acquiring already successful retailers and Walmart experienced success in all three countries.

Walmart entered China through a JV with a small investor and subsequently a diversified holding company. While JVs allow a company to tap into local resources and facilitate knowledge development, the JV in China was not with partners possessing competences within the retail sector. Thus, it is not evident how the JV should allow Walmart to tap into resources relevant for the retail industry, which explains why Walmart struggled in China. Oppositely, Walmart entered Mexico through a JV with a successful domestic retailer and Walmart experienced remarkable
success in this market. The JV with the Mexican retailer can be said to have given Walmart access to a large pool location specific resources directly relevant for the company’s operations while still allowing Walmart to exploit own resources. Finally, Walmart entered Argentina through GI and Brazil through GI followed by the acquisition of a struggling retailer. Walmart experienced ambiguous performance in the two markets. According to the theoretical framework, GIs belongs to the category of the lowest resource augmenting modes. Thus, such a strategy should only be pursued if the firm’s resources are geographical fungible, which is suggested to not be the case with Walmart.

The preceding analysis suggests that Walmart is the most successful in foreign markets when acquiring an already successful foreign retailer or by entering into a JV with a successful retailer. The examples of China, Germany and Japan demonstrated that while JV and acquisitions may give access to location specific resources, the foreign company/partner must possess the right resources. The analysis offered a caveat by suggesting that resource augmentation is less necessary in countries resembling Walmart’s home market as the firm can more easily deploy the location-bound resources developed in the home market. In conclusion, acquisitions of and JVs with competent retailers are the best entry strategies for Walmart when entering foreign markets where the company’s existing resources cannot be deployed, while entry modes with less augmentation may be viable in countries reflecting Walmart’s home market.

**Question 2a**

Institutionalization theory defines the multinational firm and the multinational firm’s environment as being both political and business in nature. The firm must therefore position itself amid political institutions as well as coercive, normative and cognitive aspects of the environment. Coercive aspects refer to regulatory institutions and the rules/norms emanating from such institutions, normative aspects refer to the social values of the environment to which the firm must display commitment and cognitive
aspects refer to those norms that are implicit in society. Responding and adapting to these forces becomes imperative for the firm as they impact the possibilities of establishing a successful presence in foreign institutional contexts. The process of internationalization therefore involves not only establishing a business position in a foreign market, but equally involves gaining legitimacy by responding and adapting to the multifaceted forces of the foreign context (Forsgren, 2017). The case of Walmart’s entry into the German market illustrates this argument. When entering the German market, Walmart was unfamiliar with the regulatory environment of Germany’s labour market and consequently broke labour laws, which in turn gave the company bad press. Thus, the firm must understand the more or less tacit demands of the foreign context in order to gain legitimacy. The extent of “institutional distance”, i.e. the difference in coercive, normative and cognitive institutions between countries, is positively correlated to the difficulty of transferring practices from the headquarter (HQ) to the subsidiary as firm capabilities based on the familiarity of one environment cannot be transferred to another environment with ease (Forsgren, 2017). As such, institutional distance can explain why Walmart is politically influential in its home country, but not in its foreign markets.

Walmart’s political influence in its home market is likely to be based on Walmart’s perceived legitimacy in that market as a consequence of the retailer’s successful response to coercive, normative and cognitive aspects of the home environment. A firm is more likely to successfully position itself in and respond to the home environment, as it naturally has an understanding of and familiarity with the environment in which it is incubated. Oppositely, Walmart’s strategy of political influence is not easily replicated in foreign countries due to institutional distance. To the extent that Walmart has failed in attaining legitimacy and credibility in overseas markets, political actors and institutions can be expected to cater less to the interests of Walmart, thereby further reducing Walmart’s ability to influence foreign policy makers. Consequently, the factor explaining why Walmart has been politically influential in its home country, but not overseas, is institutional distance.
Question 2b

Like the institutionalization theory, Oliver & Holzinger (2008) adopt the definition of the environment advanced by institutionalization theory and similarly regards the multinational firm as being a political actor. This reciprocal relationship between the firm and its environment implies that the political environment not only imposes constraints on the firm, but also create opportunities open to the firm. In developing the model, the resource-based view is utilized arguing that firms’ primary objective is to increase or safeguard value in order to gain or sustain competitive advantage. Value, in turn, is created by taking advantage of opportunities derived from resources internal to the firm and differences in firm performance is therefore owed to the internal resources of firms. The authors advance an argument of “dynamic capabilities” understood at “the ability of firms to maintain and create firm value by developing and deploying internal competencies to maximize congruence with the requirements of a changing environment” (Oliver & Holzinger, 2008: 496-497). The quote further suggests that firms can be motivated to take advantage of opportunities arising in the political environment due to considerations pertaining to either value creation or maintenance. Motivated by either, the firm chooses to influence its political environment or comply with regulation. The choice of strategy is determined by the motivation of the firm and the firm’s strategic orientation.

With a reactive strategy (compliance – value maintenance), the firm seeks to efficiently align its internal processes to the political demands. Anticipatory strategies (compliance – value creation) describes strategies whereby the firm aims at anticipating future policy change, thereby allowing the firm to gain a first-mover advantage in adapting to this change. Third, defensive strategies (influence – value maintenance) seeks to influence the political environment by thwarting undesired political change in order to maintain a situation favourable to the firm. Finally, proactive strategies (influence – value creation) aims at influencing the very content of political change by manipulating perceptions, norms and definitions in the political environment. Political dynamism, understood as the pace at which policy changes occur and the number of such changes, impacts the effectiveness of the four strategies. In stable political
environments, reactive and defensive strategies are more effective, while anticipatory and proactive strategies are more effective in dynamic political environments (Oliver & Holzinger, 2008).

In answering question 2a), the paper suggested that institutional distance was the factor explaining Walmart’s lack of political influences in overseas market. Moreover, it was argued that a political strategy cannot be easily replicated as it has to respond to the particularities of the individual environment. In countries such as Canada, which are fairly similar to Walmart’s home market, adapting the political strategy of Walmart to the environment would be less extensive than in markets with higher institutional distance, e.g. China. The dynamic capabilities framework further emphasizes the importance of adapting political strategies. As internal competencies and assets are likely to differ between subsidiaries as well as between subsidiaries and HQs, a political strategy must be chosen which deploys the internal assets of that subsidiary in order to maximize congruence with the environment. Furthermore, the political dynamism of the specific political environment is likely to also affect the efficiency of different political strategies. Such dynamics specific to the environment should affect Walmart’s choice of strategy as they illustrate that the choice of strategy must be contingent on both the resources of subsidiaries and the particularities of the environment.

Finally, an alternative answer to this question can be proposed. The theory of institutional isomorphism advanced by DiMaggio and Powell (1983) argues that firms experience pressures of mimetic, normative and coercive nature to mirror the organizations in their environment. As Walmart’s subsidiaries operate in different political environments, the subsidiaries will be subjected to different isomorphic pressures. Hence, the differential nature of subsidiaries’ environments might force subsidiaries to mirror organizations in their host environment, including the nature and underpinnings of their political strategies.
Question 3

When Walmart entered China in 1996, the retailer encountered a market much different from that of its home market in terms of both consumer patterns and preferences, competition and regulation. The case states that in order to respond to the specificities of the Chinese market, the retailer initially gave store managers significant autonomy, but that eventually “(...) incidents forced the retailer to centralize many operational decisions.” (Alcácer et al., 2013: 4). From this, it is unclear whether operational decisions were moved from local store managers to the company’s HQ in the USA or to the company’s Chinese administrative division. While the former indicates a centralized organizational structure, the latter still implies a fairly decentralized structure as the decision-making process in regards to the Chinese market would be delegated from the HQ in the USA to the Chinese subsidiary. As the case has no mention of a Chinese operational division, though it is reasonable to assume the existence of one, the present paper will answer this question from the perspective of the former, i.e. operational decisions were centralized in the American HQ.

The contingency theory explicitly deals with the multinational firm’s environment and argues that the optimal way of organizing the firm is contingent on the nature of the firm’s surrounding environment. However, unlike the institutionalization theory presented in question 2, contingency theory does not argue that firms actively can influence their environment. A widely acknowledged tenet within contingency theory is the argument that the more important adaptation to the local environment is, the greater is the necessity of decentralization. As subsidiaries possess greater information of the local environment and thereby more information of how to adapt to the individual subsidiary’s environment, decentralizing decision-making to subsidiaries allows for a more effective response to local particularities (Forsgren, 2017). Within the contingency theory, the theory of “the multinational firm as a differentiated network” seems the most important for the case at hand. This perspective differentiates between the multiple environments in which a firm’s different subsidiaries operate and as such argues that the structure of the multinational firm should not be determined by the general environment in which the firm operates. Thus, a single organization-wide
structure or fixed measure of centralization cannot be applied across the entire organization of the firm, but rather the degree of autonomy of the individual subsidiary should be determined by that subsidiary’s environment (Forsgren, 2017).

The contingency theory sheds important light on issue of Walmart’s strategic adaptability in China. As the Chinese market differed greatly from that of the retailer’s home market, Walmart needed to adapt to the local needs of the Chinese market. According to the contingency theory, this is best achieved by decentralizing, which was initially recognized by Walmart as the firm delegated decision-making to store managers. However, as Walmart subsequently centralized decision-making in the American HQ, the theory suggests that Walmart’s strategic adaptability in the Chinese market decreased. This conclusion does not apply to all subsidiaries, as the approach of the multinational firm as a differentiated network suggests that decision-making processes could be centralized in regards to markets more like the home-market, e.g. the Canadian market in our case. This could potentially create an organizational structure with heterogeneous relations between subsidiaries and the HQ as some would be characterized by different degrees of centralization and decentralization. The conclusion is slightly different if operational decisions are assumed to have been centralized in a Chinese administrative division. In such a case, the decision-making process is still somewhat decentralized, as decisions would be taken in Walmart’s Chinese subsidiary. Hence, decentralization would allow the subsidiary to respond to particularities of the Chinese market and thus strategic adaptability would not be remarkably affected. However, to the extent that multiple markets exist within China, subnational adaption might be necessary and in such a case strategic adaptability would be impacted negatively.

**Question 4**

The multilevel model of ethical leadership developed by Schaubroeck et al. (2012) gives important insight into how to promote an ethical culture within an organization. Ethical leadership is by the authors defined as “(...) a leader’s use of social influence
to promote ethical conduct (…)”. (Schaubroeck et al., 2012: 1054) while ethical culture is understood as an interplay between formal and informal systems of behavioural control. The nature of and interplay between these systems creates a shared understanding of ethical culture which may either encourage or discourage ethical conduct. An important conclusion is that ethical leadership not only promotes an ethical culture in the unit subjected to ethical leadership, but that higher organizational levels also impact the ethical culture of lower organizational units. Moreover, ethical leadership at higher organizational levels can either countervail or enhance the nature of subordinate leadership. Ethical leadership, in turn, involves primary and secondary mechanisms. Primary mechanisms involve the terms on which rewards, promotions, resources and status are allocated, sanctions for unethical conduct, how performance is measured, etc. Secondary mechanisms, which are less effective, involve narratives, myths, work-flow designs, policies and formal statements (Schaubroeck et al., 2012).

The appendix extensively describes how the unethical conduct was pervasive throughout the Mexican subsidiary and that top executives of the American HQ attempted to bury the matter. The model suggested by Schaubroeck et al. (2012) demonstrates the imperative importance of ethical leadership in promoting an ethical culture and suggests that the ethical culture and leadership of lower level units is contingent on the on the ethical leadership of higher levels. The organizational culture of the Mexican subsidiary therefore depends on both the leadership of that subsidiary as well as the nature of leadership at Walmart’s American HQ. Walmart should therefore employ a recruitment strategy emphasizing ethical virtues, especially when recruiting managers at higher levels. To this end, Walmart could adopt personality tests and employ senior managers with displayed ethical performance (recommendation 1).

As emphasized by primary mechanisms, the terms on which resources and recognition are based are an important component of ethical leadership. Thus, Walmart should formalize a system that rewards displayed ethical conduct. Such a system might involve annual reports on ethical conduct in Walmart’s subsidiaries performed by independent auditors followed by the HQ’s subsequent allocation of bonuses to subsidiaries on the basis of their ethical conduct (rec. 2). One of the core issues related to the handling of
bribery in Mexico was the lack of sanctions once unethical conduct was discovered. In spite of Walmart having adopted a strict anticorruption policy, the unethical behaviour in the shape of bribery was not sanctioned, but rather rewarded. The subsidiary’s CEO, Eduardo Castro-Wright, was promoted several times and in 2008 to vice chairman of Wal-Mart in spite of the HQ’s knowledge of the Mexican subsidiary’s engagement in unethical conduct during his tenure. In order to ensure the sanctioning of unethical behaviour and effective enforcement of the retailer’s own code of conduct, Walmart’s investigation unit should have complete autonomy and report to the board of directors. By reporting to the board of directors, it is more likely, though not guaranteed, that unethical conduct at the highest level of Walmart will be sanctioned. Moreover, autonomy would help ensure that investigations are not distorted by implicated, unethical leaders, as was the case with Walmart (rec. 3).

In order to adopt secondary mechanisms facilitating ethical leadership, Walmart should promote stories of particular ethical or virtuous behaviour by members of the organization. Such stories might be communicated throughout the organization by means of internal communication platforms (e.g. newsletters, blogs, etc.) (rec. 4). Finally, the company should adopt mandatory training programs on how to deal with unethical conduct. Such programs should be tailored for the environment in which members of the organization work and the comprehensiveness of the program should be determined on the basis of how widespread unethical conduct is in that environment. Besides educating employees, such program would signal the management’s commitment to ethical conduct (rec. 5).
Bibliography


