Wal-Mart Goes to Germany

Culture, Institutions, and the Limits of Globalization

Matthias Kaelberer
Political Science, University of Memphis

Abstract: Wal-Mart's failed entry into the German retail market represents a puzzle for theories of globalization, which assert that more efficient producers will drive out poorly performing competitors, producing profits for themselves and gains for consumers. Wal-Mart's ability to dominate its input network and to provide low-cost leadership through lean production has often been seen as the global example of creating efficiencies in the retail sector. In 2006, however Wal-Mart abandoned an eight-year effort to become a dominant player in Germany's retail market. I argue that efficiency is not absolute, but rather context-specific and socially constructed. Domestic culture and institutions interact to constrain convergence towards a single business model in the retail sector. In the end, it was not the rigidity of German market conditions–such as high labor costs or union power–that led to failure, but rather the inflexibility of Wal-Mart's strategy in coping with complex local conditions.

Keywords: German-style capitalism, globalization, institutions, lean retailing, political economy, retail sectior, Wal-Mart

Wal-Mart's failed entry into the German retail market represents a fascinating puzzle for contemporary theories of globalization. The basic premise of theories of a globalizing international economy is that more efficient producers will drive out poorly performing competitors and produce profits for themselves and gains for consumers. Wal-Mart's ability to dominate its input network and to provide low-cost leadership through its form of lean production has often been seen as the global example of creating efficiencies in the retail sector. Once Wal-Mart had reached a certain saturation point in its domestic American market, internationalization of the company's retail business became a new area of activity during the 1990s. Given Wal-Mart's size and domestically successful business model, the expectations were high that the company could succeed anywhere in the world. Moreover, many observers in the mid 1990s viewed the German retail sector as overregulated and inefficient and therefore ready for an

German Politics and Society, Issue 122 Vol. 35, No. 1 (Spring 2017): 1–18

doi:10.3167/gps.2017.350101 • ISSN 1045-0300 (Print) • ISSN 1558-5441 (Online)

incursion by the American store chain. In 2006, however, Wal-Mart abandoned an eight-year effort to become a dominant player in Germany's retail market, leaving behind an estimated $1 billion in losses.

In order to explain this seemingly surprising outcome, I argue that efficiency is not absolute, but rather context-specific and socially constructed. What appeared from the American business perspective as a rather inefficient German retail market was in fact quite efficient from the viewpoint of German consumers and businesses. Domestic culture and institutions interact to constrain convergence towards a single model of doing business in the retail sector. The factors that benefit Wal-Mart's market power in the United States and many other national retail markets turned out to be detrimental for a successful incursion into the German retail market. German political culture and the institutional structure of Germany's retail sector serve as the key explanatory element in solving this puzzle of globalization theory. By examining the interaction of culture and institutions, I refute the popular contention that the allegedly high labor costs, the power of German unions, or rigidities of the German labor market caused the Wal-Mart business model to fail. In the end, it was not the inflexibility of German market conditions that led to this failure, but rather Wal-Mart's inability to adjust its business practices to different local conditions.

Taking a look back at Wal-Mart's failure to succeed in the German market ten years later comes with the added benefit of some historical distance. Clearly, it was not just German conditions that proved hostile. A number of international retail companies have been quite successful in establishing themselves in the German market–most notably, IKEA, H&M, Ebay, and Amazon. Their staying power indicates that it is not rigidities of the German market per se that prevented success. If other foreign companies were able to succeed, the key to Wal-Mart's failure must have been a mismatch between the company's strategies and the existing market conditions. Thus, reconsidering the case of Wal-Mart's engagement in Germany now helps us better understand the circumstances under which globalization will take place and under which globalization runs up against constraints set by local institutions and cultures.

Another important goal for this article is to instigate more explicitly political economy research into the retail sector. The field of comparative and international political economy has devoted significant attention to the areas of trade, finance, monetary policy, and production. The retail sector, however, has escaped scrutiny by political economists. Instead, the subject has been left largely to the business management literature. I, on the other hand, contend that political economy is ideally suited to address questions of the retail economy. Political economy is particularly well situated for an analysis of the retail sector because it can emphasize the interaction of culture and institutions and because it can frame the strategic choices of firms within a market environment that is socially constructed. Adding these dimensions to the analysis of the retail economy will facilitate the recognition of globalization patterns.

In the first part of this paper, I examine some general characteristics of globalization and its impact on the retail sector. I then briefly review Wal-Mart's entry into the German retail market. In the third section, I examine the structure of the German retail market and a number of peculiar management mistakes Wal-Mart committed when entering the German market. In the final section, I demonstrate how German-style capitalism with its distinctive interaction of culture and institutions created a mismatch for Wal-Mart's model of lean retailing.

Globalization and the Political Economy of Retail Markets

According to the liberal market perspective, efficient producers drive out poorly performing producers. Wal-Mart, with its capacity to dominate its input network and its ability to provide low cost leadership was seen as an ideal candidate to enter the supposedly quite inefficient retail market in Germany. As a result of increased international competition, globalization purportedly facilitates convergence to a model that works best around the globe.[1] Translated to the economic realm, that means that markets should converge on the most efficient form of production. Within the retail sector there was apparently nothing that could stop the Wal-Mart model of lean production and always low prices.[2] After it had emerged as the biggest retail company in the world, the German market of the late twentieth century seemed ripe for Wal-Mart.

Before I continue to review the globalization of the retail sector, I should call attention to some caveats and constraints as well. Unlike certain sectors of the economy that could easily profit from the increasing velocity of transactions in a globalized economy, the retail economy features some inherent limits to globalization. For example, there have to be physical brick and mortar stores and local supplier networks to operate internationally. Customers in retail stores are bound to a specific locality.[3] Transportation networks have to be built to move supplies and customers to the stores, and so on. Thus, the retail economy, by definition, inherently maintains a certain local flavor–even under conditions of globalization.

Divergent consumer tastes in different countries and regions represent another element often mentioned as a constraint to globalization in the retail sector. Nevertheless, while globalization has undoubtedly failed to harmonize consumer tastes across the globe completely, successful companies in the retail sector have adapted. Some companies, such as Proctor & Gamble, Colgate, Mars, Nestle, and Kraft have generated global consumer products that appeal to customers around the globe. Others, such as Coca-Cola, McDonald's or IKEA created and maintained unifying brand names and images, while adapting their business to local tastes. For example, McDonald's includes beer on its German menus and replaces beef with chicken and vegetarian burgers in India.

Table 1: Top 10 Global Retailers, 2013

Company	Country of origin	Retail revenue (U.S $ million)	Countries of operation
Wal-Mart	United States	$476,294	28
Costco	United States	$105,156	9
Carrefour	France	$98,688	33
Schwarz	Germany	$98,688	26
Tesco	United Kingdom	$98,631	13
Kroger	United States	$98,375	1
Metro	Germany	$86,393	32
Aldi	Germany	$81,090	17
Home Depot	United States	$78,812	4
Target	United States	$72,596	2

Source: National Retail Federation: http://www.nrf.com

Thus, the existing constraints to globalization in the retail sector are not absolute. Globalization has come later to the retail sector than to other industries, but it certainly has begun to take place. Grocery chains, such as Carrefour, Metro, and Tesco have started to internationalize. The German retail chain Aldi, one of the key competitors of Wal-Mart in the German low-cost retail sector, pursued a successful globalization strategy, establishing the company in seventeen different countries–most importantly also in the United States, where it owns close to 1,400 stores (Aldi and Trader Joe's).[4] The German retail chain Lidl has over 10,000 stores in twenty-eight European countries and is expected to open stores in the United States in 2018.

Table 2: Number of Wal-Mart Stores outside the United States (November 2015)

Country	Stores
Mexico	2,317
United Kingdom	618
Brazil	558
China	421
Canada	396
Chile	395
South Africa	367
Japan	345
Costa Rica	222
Guatemala	222
Argentina	108

Source: http://www.walmartstores.com

Wal-Mart in particular has become an important global player. In 1993 Wal-Mart operated only ten stores outside the U.S. borders, whereas in 2015 it featured ventures in twenty-eight markets world-wide–among them Mexico, Canada, Great Britain, China, India, Japan, Brazil, Argentina and numerous countries of Southern Africa. Wal-Mart is the largest private employer in the world (with 2.2 million employees), in the United States (1.3 million employees) and in Mexico (close to 200,000 employees). It is among the largest employers in Canada as well. Indeed, the very success of Wal-Mart as a global company makes its failure in Germany even more puzzling. Why would Wal-Mart succeed in countries as disparate as Great Britain, China, Brazil, and South Africa, but fail in Germany?

Wal-Mart's Entry into Germany

By 1991, Wal-Mart had become the world's largest retailer. Yet, it had achieved this status exclusively by selling its products in the United States domestic market, where it represented the biggest grocery, toy, and furniture retailer. Internationalization of its business was, thus, the next logical step for the company. A relative latecomer to internationalizing retail, Wal-Mart opened its first two stores in Mexico in 1991. In 1997, Wal-Mart arrived in the European market through its acquisition of twenty-one Wertkauf stores in Germany, which it expanded a year later through the purchase of seventy-four Spar supermarket stores. Entering Europe through Germany sounded like a sensible strategy at first sight. With 82 million people, Germany was the largest retail market in Europe, and, accounted for about 15 percent of the continent's retail market.[5] Given its high GDP per capita, the purchasing power of German consumers was very promising for the company's profitability. Germany's transportation infrastructure was conducive to building a successful supplier network and distribution system. Moreover, located in the center of Europe, Germany could serve as a hub for further expansion into the rest of Europe.

At the time, the prevailing thinking was that Wal-Mart's philosophy of "Everyday Low Prices" should appeal culturally to thrifty and cost-conscious German shoppers.[6] In addition, there existed a general impression among many American and European observers that the German retail market was characterized by inefficiencies and ready for a shake-up by an efficient company. I will later demonstrate that these expectations did not match the reality of competitive conditions in the German retail sector. At this point, however, I want to describe how the situation appeared to many contemporary observers at the time of Wal-Mart's entry. Paul Geitner's 1998 article, written for the Associated Press and published in numerous American newspapers after the Spar acquisition, expressed the widespread feeling among American observers in this way: "Germans used to high prices, rude sales clerks and long lines at the checkout are about to get a break: Wal-Mart is arriving with an American-style shopper-friendly experience." Geitner continued, "Wal-Mart expects to bring to its new stores an innovation German retailers have only started to discover: improving service."[7] Similarly, Bob Martin, head of Wal-Mart's international division said this about German shoppers: "They want a fun and friendly shopping experience. … They don't want to wait in long lines to buy merchandise. And when the day is done, they want to be appreciated by the stores where they spend their money."[8] In the same way, Bernd Heller of the EuroHandels Institut pronounced: "What is really frightening the German market is not so much the price pressure but Wal-Mart's concept. … Customers don't think highly of the German retailer. There's basically no service."[9] Economists also pointed to a lack of efficiency and slow German productivity growth as reasons to expect a convergence to an American-style lean production model.[10]

Likewise, the family-owned retail chains in Germany, as well as the stores organized as cooperatives, were seen as outdated business models in a world of large companies financed through investment capital in the stock market. Tellingly, many of Wal-Mart's competitors in the German retail market anticipated the American company's arrival in Europe with some degree of apprehension. The prospect of Wal-Mart's entry led to pre-emptive merger activity and consolidation in the German retail sector.[11] Wal-Mart's first price-cutting campaign caused a price war among retailers and a sell-off of stocks in those German retail companies that are publicly traded–such as Metro (-4.4 percent) and Karstadt (-6.1 percent).[12] In other words, the general thinking at the time was that there existed great potential for Wal-Mart in the German market.

Wal-Mart's basic strategy for capturing the German market was simply to replicate the company's blueprint that had proven to be successful in the American domestic market. Success in the American market made Wal-Mart inclined to repeat the strategy in Germany during the 1990s instead of adapting it to the diversity of market conditions around the globe.[13] The idea was to become the number one retailer in the German market through Wal-Mart's four-pronged formula of everyday low prices, high quality customer service, a strong organizational culture, and efficient operations.[14] Given these assumptions, entry in the end would be successful if Wal-Mart could meet consumer preferences more effectively than current companies in the German retail market, or, alternatively, if Wal-Mart could generate new demands among German consumers.

By and large, Wal-Mart tried to "change German consumers' preferences in favour of the one stop shop concept."[15] As I review later, German shoppers were used to shopping at several stores for different kinds of products. In particular, they mixed shopping for everyday necessities at hard discounters such as Aldi or Lidl, with purchases of higher-end quality goods at their neighborhood store. One-stop shopping at a big box store would have revolutionized German shopping habits. In order to achieve such a change, Wal-Mart introduced a number of things that were new for customers at German stores, such as free plastic bags, friendly customer service (including greeters and help in the store aisles), and bagging help at the check out.

While the idea of attracting customers to a new shopping model may have been sound in theory, the effort backfired. Instead of making German consumers appreciate the customer service orientation of Wal-Mart, it made them think about how much they had to pay for things they did not really want–namely the greeters, the aisle help, and the baggers. While Wal-Mart never gained a strong reputation for customer service among German consumers, the very effort to introduce American-style customer service defeated the other goal of Wal-Mart's entry strategy: becoming the everyday low-price leader. Because German customers saw spending on customer service as wasteful, Wal-Mart never attained the image of a low price retail store in the eyes of the German public. In other words, Wal-Mart's entry into the German market did not lead to the desired branding in the eyes of German consumers. Aldi and Lidl had successfully attained the label as low price leaders, and Wal-Mart had no capacity to switch to another brand recognition. This stands in marked contrast to those foreign companies that did make successful inroads into the German retail sector. IKEA, H&M, Ebay, and Amazon were all successful in branding their companies and their products in the eyes of German consumers. These companies stand for unique products and/or distinctive shopping experiences. IKEA, for example, offers an unparalleled shopping experience that goes far beyond furniture shopping, which includes food, child care services, and the display of practical and unique equipment for every room in the house. H&M also provides a shopping adventure, in which narrow aisles, jumbled crowds and trendy colors and patterns are part of the experience that simultaneously appeals to young shoppers and those that want to feel young. Wal-Mart never developed brand recognition along those lines among German consumers.

Retail Market Conditions in Germany and Wal-Mart's Management Mistakes

In this section, I examine a few particularities of the German retail market and a number of the mistakes committed by Wal-Mart's management in entering the German market. These aspects are an interesting part of the story. Ultimately, however, I argue that the management flaws themselves are not the main reasons for Wal-Mart's failure in the German market. There are deeper causes embedded in the structure of German-style capitalism to which I turn in the subsequent section.

First, the idea that the German retail market is somehow inefficient and that regulations keep German consumers from exercising smart consumption choices is a myth. Prices in German retailing are very low. German shoppers can easily get cheap merchandise. As a result of the low price level, profit margins in the German retail market–particularly grocery retailing–are very low.[16] Thus, retailers need to benefit from the economies of scale and network effects in order to be profitable. This imposes high entry barriers for any foreign competitor into a market that is relatively fragmented and saturated. Building a supply chain network in a country only makes sense, if a retailer enters at a large scale. Few retailers, however, will come into a market at such a magnitude. Developing a network takes time and will initially incur losses. For instance, Wal-Mart ran profits in China only after fifteen years.[17]

The system of company financing is a critical element here, as Wal-Mart investors simply did not show the patience to take the losses in the German retail market for the long-term goal of creating a sufficiently large network.

As Susan Christopherson points out, "the constant pressure for rapidly increasing return on investment from activist stockholders pressured Wal-Mart to re-concentrate its internationalization efforts"[18] and ultimately to pull out of the German market. Despite the initial losses, the still-evolving retail market in China simply offered better long-term growth prospects than the long-term struggle necessary to gain a viable foothold in the well-established German market.

Overall, the acquisition and merger strategy was flawed. The amount Wal-Mart paid for the acquisitions was overpriced–a fact that limited the profitability of Wal-Mart in Germany from the start. Wal-Mart paid euro 560 million for seventy-four stores, while Spar had paid merely euro 85 million two years earlier for half of those stores.[19] Moreover, several other aspects of the Spar acquisition were problematic. Their stores were run down and were heterogeneous in size and format.[20] Generally, their small size did not match well with Wal-Mart's big box store setup. This produced not only significant renovation and rebranding costs for Wal-Mart, but also helped stick Wal-Mart Germany with an image problem for decrepit stores and the unsuccessful business practices of its predecessor stores.

Management problems remained a consistent aspect of Wal-Mart's operations throughout its eight-year involvement in the German market. The company went through a rapid succession of CEOs. The first CEO, Ron Tiark, had only limited knowledge of the German language but let long-standing German Wertkauf and Spar managers go, only to bring more Americans into the leadership of Wal-Mart Germany. Tiark left after only sixteen months to be succeeded by the British manager Allan Leighton, who had joined Wal-Mart through the company's acquisition of the British retailer Asda. Leighton also could not speak German and ran the company mainly from Leeds in northern England. He showed up only occasionally at the German headquarters of Wal-Mart in Wuppertal. He left after ten months to be replaced by Volker Barth, who lasted only a few months until Kay Hafner took over in May 2001.

The pattern of appointing CEOs and the way these individuals ran the company meant that Wal-Mart's management did not take advantage of the talent pool it had been handed through the acquisitions of Wertkauf and Spar. The German leadership of Wertkauf and Spar was fired or left quickly, leaving foreigners to handle the intricacies of the legal framework and the cultural complexities of the German retail market. English became the official language of Wal-Mart Germany at the management level. That even further excluded the older German sales people and managers. Their lack of English skills meant that their expertise was ignored.

In part as a result of the discontinuity in management, suppliers who had worked with Wertkauf and Spar–like Adidas, Puma, or Nike–cancelled their contracts. Of course, these suppliers also resented the strong-arm tactics Wal-Mart Germany would apply in their dealings with them. While this was consistent with American business practices, Wal-Mart Germany did not have the same bargaining power with suppliers as the parent company. Given the limited number of stores and the small network of Wal-Mart Germany, these suppliers had no need for successful business relations with Wal-Mart. Wal-Mart was also unable to adjust to the cultural norms of a more symmetrical relationship between retailers and suppliers. For example, Wal-Mart managers demanded access to their suppliers' premises in order to check on their operations. This contributed to alienating suppliers from Wal-Mart even further. Moreover, due to the small number of stores it owned in Germany and its limited market power, Wal-Mart was unable to bypass the wholesalers by dealing directly with the factories–a key element of its low-price success in the United States. In other words, in the German context, Wal-Mart could not replicate its success in dominating its supplier network.[21] More importantly, though, Wal-Mart ignored the German cultural and institutional practice in which companies view suppliers in terms of cooperative strategic partnerships instead of arms-length, if not adversarial, subcontractor-service provider relationships.

German-style Capitalism and the Intersection of Culture and Socioeconomic Institutions

It is critical to understand Wal-Mart's failure in Germany not merely as an expression of a flawed or mismanaged approach to its move into the German market. Similarly, it is too easy to lay the blame on cheerless German consumers, who react with hostility to any change in their shopping habits.[22] Rather, Wal-Mart's failure in Germany is based on much deeper structures and represents a mismatch between what Wal-Mart had to offer in the German retail market and the political, social, and cultural conditions of that market. What could be enormous strengths in one market context produced counterproductive rigidities when the same principles were applied in a different market setting.

The fact that unionization rates in Germany tend to be higher than in the United States by itself was not necessarily critical for Wal-Mart's failure. Actually, unionization levels in the retail sector in Germany are lower than in the manufacturing sector.[23] Far more important than the absolute level of unionization was Wal-Mart's failure to understand the consensual relationship among employers and workers and their unions in German-style capitalism. The German retail market "is essentially a private regulatory system governed by trade associations and unions with state support."[24] This limits the autonomy of firms and imposes collective responsibilities on all stakeholders in the market, including both companies and unions.

Wal-Mart's repudiation of this consensual bargaining system and its implicit norms is at the core of its failure in Germany. One particular example is Wal-Mart's refusal formally to recognize the outcome of Germany's centralized wage bargaining process. The union's decision to organize walkouts at Wal-Mart stores in 2000 and 2001–despite the fact that the company paid its staff slightly above the centrally-agreed wage increases[25]–simply stunned management. Thus, the key issue at stake in the walkouts was not pay, but rather the company's rejection of the consultative and cooperative system of German labor relations.[26] Similarly, Wal-Mart largely neglected consulting the work councils that are critical to intrafirm decision-making inside German companies. While American managers introduced the quite un-German practice of family-style barbeques as a means to create community spirit among its employees, German workers preferred the rationalization of consensual working relations through work councils.

Although unions in the retail sector are weak, the social norms that favored consultation remained strong. When Wal-Mart employees went on strike in July 2000, the goal was to force the company to join the employer association and abide by collective bargaining agreements.[27] The success of Germany's consensual labor relations rested not so much on high unionization rates, but more importantly on the institutionalization of cooperative relations among firms. In the end, Wal-Mart's familiarity with adversarial labor relations and with arms-length and competitive relations among firms in the United States clashed with the consensus orientation of German labor relations and cooperation among firms. The popular story line that German wages are simply too high and that the German labor market is too rigid for the Wal-Mart business model to work does not hold.

Wal-Mart Germany voluntarily paid its workers 3 percent above the industry scale.[28] The fact that German Wal-Mart workers made slightly more money than workers at other retail chains, however, did not increase the loyalty of workers to the company. Rather, it created distrust in the company strategy for breaking the social norms of the German labor market. It appears doubly ironic that Wal-Mart, in contrast to its home country practices, used a higher wage policy as part of an anti-union strategy to break up the loyalty of their employees to the unions and the work council labor relations model–an effort that backfired in that it encouraged Wal-Mart workers to stick with the German model. Moreover, as Wal-Mart paid its workers above scale, its refusal to join the employer association and collective bargaining agreements reflected Wal-Mart's inability to come to terms with German cultural norms, with labor market institutions and with stakeholder, rather than shareholder capitalism.

Wal-Mart's failure to understand the consensual nature of labor relations in German capitalism is part of a broader misconception of the company's people policies in general. The imposed ritual Wal-Mart Cheer for its sales people simply did not sit well with the company's German staff. At the beginning of their shifts or during specific breaks, employees had to engage in group chants to spell all the letters of Wal-Mart and to cheer "Who is Number One for us? Always the Customer." While the exercise was meant to boost morale, it alienated Wal-Mart employees who saw the practice as embarrassing and as unfitting for a culture in which mass rallies and group-think had a very problematic legacy.

Wal-Mart's alleged customer orientation expressed in the cheer backfired as well. Wal-Mart's principle that smiling associates would offer help to customers at every opportunity did not match with the German shopping culture. While customers might in principle like service, they are willing to forgo service in the interest of lower prices for their basic consumer needs. The very point of discount stores is that they are supposed to be anonymous places that are functional, not comfortable. If German customers desire greater service, they can chose to go to higher-end stores. With respect to discount stores, however, any expenditure on customer service appears wasteful in the eyes of customers. Similarly, German shoppers could not get used to the idea of strangers bagging their purchases–despite the fact that bags were free of charge at Wal-Mart. Aldi's barebones, no-frills approach was a much better fit for German shoppers' low-price shopping habits than the customer orientation of Wal-Mart.[29] Ironically, in the minds of German customers, Wal-Mart could never acquire the image of a low-price store, because German customers saw the customer orientation as wasteful spending for which they did not want to pay.[30] Again, the branding problems for Wal-Mart were formidable. A "sometimes, sort-of low prices" image did not have enough durable appeal among German consumers.

A similar setback for Wal-Mart's people policies was the use of "greeters" at the stores. Analogous to its American practice, Wal-Mart would have associates say "Guten Tag" at the door to entering customers. The company had to abandon this practice quickly after customers complained about being irritated by the greeters and some reported feeling harassed by the greeters on store premises.[31] Germany, thus, became the first country in which Wal-Mart had to stop the use of greeters. In sum, Wal-Mart's people policies were out-of-touch with the German labor force and German customers.

Similarly, Wal-Mart's adoption of an ethics code for its employees did not fit well with German cultural practices.[32] The code prohibited sexual relationships among employees and encouraged workers to report misconduct to the company. Workers, unions, and work councils strongly objected to these rules. Not only did Wal-Mart employees disagree with the content of the code, the formal way the code was adopted violated the emphasis on consensual labor relations and workers' rights to codetermination. Wal-Mart did not consult with its work councils when it adopted the code. Consequently, in 2005 the courts struck down Wal-Mart's ethics code for violating German labor law.

Another example of Wal-Mart's misunderstanding of Germany's corporate culture concerns the move of its German headquarters from Karlsruhe (in the southwestern part of Germany) to Wuppertal (in the west central part of Germany). Despite the fact that the company offered to transfer all 463 staff members, only 100 took the offer. Much to the surprise of a company that was used to high levels of labor mobility in the United States, the rest of the staff at Wal-Mart's German headquarter refused to uproot their families.[33]

For the purposes of this article, there are four interrelated types of institutional and legal features of a specifically German-style capitalism that further constrain the introduction of American-style retail practices: company structure, zoning regulations, shopping hour regulations, as well as antitrust and unfair trading regulations.

With regard to company structure, the vast majority of German retailers are family-owned or organized as cooperatives, which implies that they are not publicly traded.[34] Thus, they are not dependent on shareholders' expectations for profitability the way most American companies are. Consequently, the barrier for market exit by German retailers is relatively high, giving a company like Wal-Mart less of a chance to drive competitors out of business. Similarly, Wal-Mart's constant need of satisfying its shareholders, conflicts with Germany's emphasis on stakeholder capitalism. While Wal-Mart, for example, can easily impose wage restrictions on its American employees to satisfy the preferences of its shareholders, such a policy requires protracted negotiations and consensus building among the stakeholders in the German context.

The family-ownership model of the German retail sector also meant that these companies do not have to rely on the stock market for investment capital. They can simply use their own cash reserves or their real estate equity.[35] This fact severely constrained the execution of Wal-Mart's preferred strategy of taking over already existing chains in order to address the prevailing regulatory structures in the new markets and to move to scale quickly.[36] The family-financed firm structure foreclosed the option for Wal-Mart of acquiring existing chains through hostile takeovers–not even to mention the fact that a strategy of hostile takeovers also would have clashed with German cultural norms of negotiated takeovers.[37]

Zoning restrictions in Germany impose significant constraints on the building of large stores. They prohibit the construction of stores with more than 800 square meters in locations not designated for retailing. In part, this reflects a deliberate policy to avoid inner city decay. It is noteworthy, however, that German zoning laws are less stringent than those of Great Britain–a fact that did not prevent a fairly successful entry of Wal-Mart into the British retail market. Moreover, these zoning laws were not sufficient to foil the development of successful shopping centers (in particular in Eastern German cities where property rights disputes and decaying inner cities made suburban shopping more prevalent) and factory outlet stores.[38] Rather, in the German case, zoning laws and shopping culture interact with each other, reflecting the preference of many Germans to do their shopping in walking distance from their homes. Overall, German shoppers engage in price averaging: purchasing cheap necessities at hard discounters, such as Aldi, and buying higher priced items at their neighborhood grocery store.[39] In addition, the relatively small refrigerator sizes in Germany often necessitate several trips per week to the grocery store, making walking distance a critical issue in shopping decisions. Similarly, typical refrigerator sizes limited the usefulness of Wal-Mart's big packaging retail model for the German market.

Shopping hour restrictions prevented Wal-Mart from establishing the 24/7-business model in Germany. At the time of Wal-Mart's entry into the German market, laws required the closure of stores after 8 P.M. on weekdays and after 4 P.M. on Saturdays. Stores had to be closed on Sundays and holidays.[40] While Wal-Mart decided to extend shopping hours by opening its stores at, for German circumstances, the unusually early time of 7 A.M.,[41] the limitation on shopping hours curtails the ability of German shoppers to drive their cars to big box stores in the suburbs and incentivizes shopping in small downtown or local neighborhood stores. These restrictions make the Wal-Mart model even more inefficient in the German context. It is worthwhile pointing out that the need for big box stores alone, is insufficient to explain Wal-Mart's lack of success. The Swedish furniture chain IKEA made a very successful entry into the German retail market, despite depending heavily on the big box store concept.[42]

German antitrust laws and fair-trade rules constrain the ability of large retailers to engage in dumping practices designed to drive out competitors. It puts severe limits on Wal-Mart's ability to emerge as the "Everyday-Low-Price" leader in Germany, because of the restrictions on engaging in price wars. Germany's law against unfair competition prohibits general price reductions and restricts discounts to the two-week-long winter and summer clearance sales that begin in late January and late July.[43] Similarly, German law prohibits such practices as buy-one-get-one-free purchases, free gifts for purchases or frequent buyer discounts.[44]

Used to American practices, however, Wal-Mart managers did not fully understand the prohibition on dumping and price wars. Germany's cartel office intervened frequently to stop price wars triggered by Wal-Mart.[45] In September 2000, for example, the Federal Cartel Office banned Wal-Mart's dumping prices for such basic food items as milk, butter, sugar, flour, and rice. In addition, domestic German courts were not shy in interpreting antitrust legislation in favor of domestic retailers against Wal-Mart. In any case, in the eyes of German consumers Wal-Mart never emerged as a low price retailer; German shoppers clearly gave the edge on low prices to hard discounters, such as Aldi and Lidl.

Conclusion

Efficiency is not an abstract measure that can be separated from the social context in which a company operates. Lean retailing is not absolute. Globalization theories often imply that there is one best practice of how to do things and that all countries will converge to that best practice standard. Wal-Mart Germany, however, tells a different story. Lean retailing practices that work well in the United States may have little relevance in an environment with different social norms and institutions. Wal-Mart believed mistakenly that its very successful business model set the global best practice standard that could be applied universally without adapting it to local circumstances.

Local culture and institutions interact to constrain the impact of globalization. Best practices are context-specific. Wal-Mart's failure in Germany does not mean that the company's efforts at gaining access to the German market are doomed for eternity. Nevertheless, the key for any potential future success by Wal-Mart or any other company would be to adjust their model to an environment that values consensus and cooperative decision-making, deemphasizes reliance on shareholders and integrates stakeholders into the process.

MATTHIAS KAELBERER is Professor of Political Science and Chair of the Department of Political Science at the University of Memphis. He is the author of *Money and Power in Europe: The Political Economy of European Monetary Cooperation* (Albany, 2001) and numerous articles on European political economy and culture.

Notes

1. George Ritzer's McDonaldization thesis is one of the best known examples of the convergence argument. George Ritzer, *The McDonaldization of Society* (Thousand Oaks, 1993).
2. In *The World Is Flat*, Thomas Friedman describes Wal-Mart's business strategy as a "great flattener" of the world. Thomas Friedman, *The World Is Flat: A Brief History of the Twenty-First Century* (New York, 2005). See also Gary Gereffi and Michelle Christian, "The Impacts of Wal-Mart: The Rise and Consequences of the World's Dominant Retailer," *Annual Review of Sociology* 37 (2009): 573-591.
3. A comparison to online retailing could be very instructive in this context. Amazon's successful entry into the German market provides a counterexample to Wal-Mart in this area. Such an analysis remains beyond the scope of this paper.
4. As opposed to Wal-Mart's "Everyday Low Prices" strategy, Aldi based its successful globalization strategy on extreme simplicity and no-frills shopping. For the contrast see Marcel Corstjens and Rajiv Lal, "Retail Doesn't Cross Borders: Here's why and what to do about it," *Harvard Business Review* (April 2012): 104-111.
5. Susan Christopherson, "Challenges Facing Wal-Mart in the German Market" in *Wal-Mart World: The World's Biggest Corporation in the Global Economy*, ed. Stanley D. Brunn (New York, 2006), 261-274, here 263.
6. Jeremy Kahn, "Wal-Mart Goes Shopping in Europe," *Fortune*, 7 June 1999.
7. Paul Geitner, "Wal-Mart expands: U.S. retail giant announces plans to buy, convert 74 supermarkets," *Associated Press*, 10 December 1998.
8. Quoted in Ibid.
9. Quoted in Kahn (see note 6).
10. See Olivier Boylaud and Giuseppe Nicoletti, "Regulatory Reform in Retail Distribution," *OECD Economic Studies* 32 (2001): 253-274; Robert J. Gordon, "Why was Europe left at the station when America's productivity locomotive departed," *NBER Working Paper Series*, no. 10661 (2004); Bart Van Ark, Mary O'Mahony, and Marcel P. Timmer, "The Productivity Gap between Europe and the United States: Trends and Causes," *Journal of Economic Perspectives* 22, no. 1 (2008): 25-44.
11. See Kahn (see note 6); Misha Petrovic and Gary G. Hamilton, "Making Global Markets: Wal-Mart and Its Suppliers" in *Wal-Mart: The Face of Twenty-First-Century Capitalism*, ed. By Nelson Lichtenstein (New York, 2006), 107-141. The potential expansion of Wal-Mart into France also triggered the 1999 merger between Carrefour and Promodes as a proactive defensive strategy by French retail chains. See John Fernie and Stephen J. Arnold, "Wal-Mart in Europe: Prospects for Germany, the UK and France," *International Journal of Retail & Distribution Management* 30 no. 2/3 (2002): 92-102, here 100.
12. See Edmund L. Andrews, "Wal-Mart Lowers Its Prices at Stores Across Germany," *The New York Times*, 3 January 2000; see also Kahn (see note 6).
13. Nicholas Alexander and Hayley Myers describe Wal-Mart as an "ethnocentric" retailer, believing that the strategies developed under the specific market conditions of the United States had universal applicability. Arguably however, Wal-Mart's most spectacular failures in Germany and South Korea led to changes in later internationalization efforts that paid closer attention to local cultures and market conditions. A good example of this

changed strategy is Wal-Mart's entry into India's retail market. Nicholas Alexander and Hayley Myers, "The Retail Internationalization Process," *International Marketing Review* 17, no. 4/5 (2000): 334-353; see also Jonathan Matusitz and Anne Reyers, "A Behemoth in India: Walmart and Glocalisation," *South Asia Research* 30, no. 3 (2010): 233-252.

14. Elke Pioch, Ulrike Gerhard, John Fernie, and Stephen J. Arnold, "Consumer acceptance and market success: Wal-Mart in the UK and Germany," *International Journal of Retail & Distribution Management* 37, no. 3 (2009): 205-225, here 206.
15. Ibid., 209.
16. Andreas Knorr and Andreas Arndt, "Why did Wal-Mart fail in Germany?" *Materialien des Wissenschaftsschwerpunktes "Globalisierung der Weltwirtschaft,"* 24 June 2003, 16; Pioch et al. (see note 14), 209.
17. Corstjens and Lal (see note 4), 108.
18. Susan Christopherson, "Barriers to 'U.S. style' lean retailing: the case of Wal-Mart's failure in Germany," *Journal of Economic Geography* 7 (2007): 451-469, here 452.
19. Mario Brück, "Wal-Mart: Mission impossible," *Handelsblatt* 15 August 2006. Acquisitions are not necessarily a bad strategy for market entry. The Asda acquisition in Britain, for example, was a good strategic fit for Wal-Mart: "Asda's marketing, operations and organizational culture mirrored" that of Wal-Mart. Pioch et al. (see note 14), 209.
20. Yuko Aoyama and Guido Schwarz. 2006. "The Myth of Wal-Martization: Retail Globalization and Local Competition in Japan and Germany" in Brunn (see note 5), 275-292.
21. Fernie and Arnold (see note 11), 97.
22. Consumer responses to IKEA's, H&M's, or Amazon's successful strategy demonstrate that German consumers were hardly wedded to their shopping habits.
23. Christopherson (see note 18).
24. Ibid., 460.
25. Knorr and Arndt (see note 16), 21.
26. Christopherson (see note 18).
27. Christopherson (see note 5), 264.
28. Ibid. Wal-Mart's low wage phenomenon appears to be restricted to the United States. In addition to Germany, the company pays its workers above industry standards in numerous other countries, such as Mexico, Argentina, and China. See Chris Tilly, "Wal-Mart and Its Workers: *NOT* the Same All Over the World," *Connecticut Law Review* 39, no. 4 (2007): 1805-1823.
29. Christopherson (see note 5), 269, reports that the "week Wal-Mart opened in Berlin, the Aldi across the street from the new superstore was offering for only 34 cents the same bread Wal-Mart was selling for $1.13."
30. A customer satisfaction survey by KPNG in 2001 showed no-frills Aldi in first place with an index number of 73.45 (out of 100) and Wal-Mart only in seventh place at 64.39. See Knorr and Arndt (see note 16).
31. Konstanze Senge, "Der Fall Wal-Mart: Institutionelle Grenzen ökonomischer Globalisierung," *Soziologisches Arbeitspapier* Nr. 4, Universität Dortmund (2004) 13; Knorr and Arndt (see note 16), 22.
32. For the following see Till Talaulicar, "Global retailer and their corporate codes of ethics: the case of Wal-Mart in Germany," *The Service Industries Journal* 29, no. 1 (2009): 47-58.
33. Kahn (see note 6).
34. Knorr and Arndt (see note 16), 16.
35. Fernie and Arnold (see note 11), 95.
36. Christopherson (see note 5), 263.
37. The issue of hostile takeovers represents another example of the interactions between culture and institutions in German markets. When the United Kingdom-based Vodafone tried a hostile takeover of the German company Mannesmann in 1999 it triggered a huge political debate in Germany, and forced Vodafone to settle on a negotiated takeover process.
38. Christopherson (see note 5), 270.

39. Christopherson (see note 18).
40. New legislation in 2006 delegated decision-making power on store closing policies to the sixteen Länder (states). That has led to some liberalization of shopping hours, with some states now allowing 24/6 shopping, while Sunday remains a shopping-free day all across Germany.
41. Heiner Köhnen, "Das System Wal-Mart: Strategien, Personalpolitik und Unternehmenskultur eines Einzelhandelsgiganten," *Hans-Böckler Stiftung: Arbeitspapier* 20 (2000), 54.
42. In 2014, IKEA opened its first truly urban store in Hamburg. See Elke Spanner, "Pommes gelb-blau," *Die Zeit*, 2 January 2015, 8.
43. See for these issues Aoyama and Schwarz (see note 20).
44. Famously, the American company Lands' End was unable to advertise its "money back guarantee" as this would have constituted a "free gift" under German law. See Aoyama and Schwarz (see note 20).
45. Senge (see note 31), 12.