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## HOW INSTITUTIONS AFFECT RETAILERS' INTERNATIONALIZATION ?<sup>#</sup>

### *A COMPARATIVE ANALYSIS OF WAL-MART AND CARREFOUR TRAJECTORIES*

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**KEY WORDS** : retail – internationalization – performance - institutions

**JEL CLASSIFICATION** : F23 – L81 – L11

#### **ABSTRACT**

This paper examines the institutional and economic factors determining success and failure of global retailers abroad through the trajectories of Wal-Mart and Carrefour. Three kinds of explanations are considered : the time and modalities of entry and development, the factors that allow the exercise of an upstream market power and the sensitivity to labor standards. The two retailers are not identically affected by those factors. It suggests that the process of hybridization between different varieties of capitalism and productive models shapes in a crucial way the international trajectories of retailers.

#### **MOTS CLÉS**

grande distribution – multinationales – performance - institutions

**CODES JEL** : F23 – L81 - L11

#### **RÉSUMÉ**

Cette contribution étudie les déterminants économiques et institutionnels du succès relatif des distributeurs internationaux à l'étranger à travers les trajectoires de Wal-Mart et Carrefour. Trois types d'éléments explicatifs sont mis en évidence: le moment et les modalités d'implantation, les facteurs permettant l'exercice d'un pouvoir de marché et les institutions organisant la relation salariale. Les deux distributeurs ne sont pas affectés de la même manière par ces éléments. Cela suggère que le processus d'hybridation entre les différentes variétés de capitalisme et de modèles productifs joue un rôle crucial dans les trajectoires d'internationalisation des distributeurs.

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## 1. INTRODUCTION

The late 1990s witnessed a powerful wave of retail internationalization as leading retailers from Europe and the USA entered new growth markets, especially in developing countries (Wrigley, 2000 ; Coe, 2004 ; Dawson, Larke and Mukoyama, 2006). This process has two faces strongly interrelated : the internationalization of stores and the globalization / regionalization of supply networks (Coe and Hess, 2005 ; Dawson et Mukoyama, 2006). In this paper, we will focus mainly on stores internationalization and consider the internationalization of supply chains only as far as stores performances are concerned.

The burst of retail foreign direct investment (FDI) occurs when the domestic growth of the retail sector slows down (for France see Moati, 2001). It is pulled by a significant wave of FDI liberalization in developing economies and other reglementary changes (Reardon and Hopkins, 2006). Moreover, the modernization of supply chains allows such cost reductions that it becomes very attractive for frontrunners to absorb latecomers.

The multidimensional embeddedness of retail activity (Coe and Wrigley, 2007 ; Durand, 2007) implies a high sensitivity of international retailers to the institutional context when they try to expand abroad. This paper explores how this combination of economical and institutional factors affects the performance of foreign affiliates through an analysis of the trajectories of Wal-Mart and Carrefour, the two global leaders of the sector.

Our work is based on empirical case studies available in the literature and informations published by stock regulators (SEC and AMF)<sup>1</sup> and economic press. Institutional data are extracted from the CEPII institutional data base.

Section 2 presents some important stylized facts about the international trajectories of Wal-Mart and Carrefour and shows the inadequacy of macroeconomic factors to explain the heterogeneity of the international success of the two firms. Section 3 explains the conceptual framework of our study. Further sections analyze how the development of the firms subsidiaries is affected by the process of implementation (section 4), the factors that allow to exert market power (section 5) and the institutions organizing the capital-labor nexus (section 6). In conclusion we suggest an interpretation of our results in terms of affinity between productive models and types of capitalism.

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1 Unless special mention, as far as firms are concerned data comes from filings provided to regulatory authorities.

## **2. The internationalization of Wal-Mart and Carrefour : some stylized facts**

As Wal-Mart and Carrefour have become more and more international, their sales improved substantially. However, the internationalization process is risky and discontinuous as shows the withdrawal of several countries since the end of the nineties. An index of relative development of the foreign subsidiaries of Wal-Mart and Carrefour is presented in order to give an account of the heterogeneity of the performance of these retailers abroad. It is then confronted with macroeconomic data.

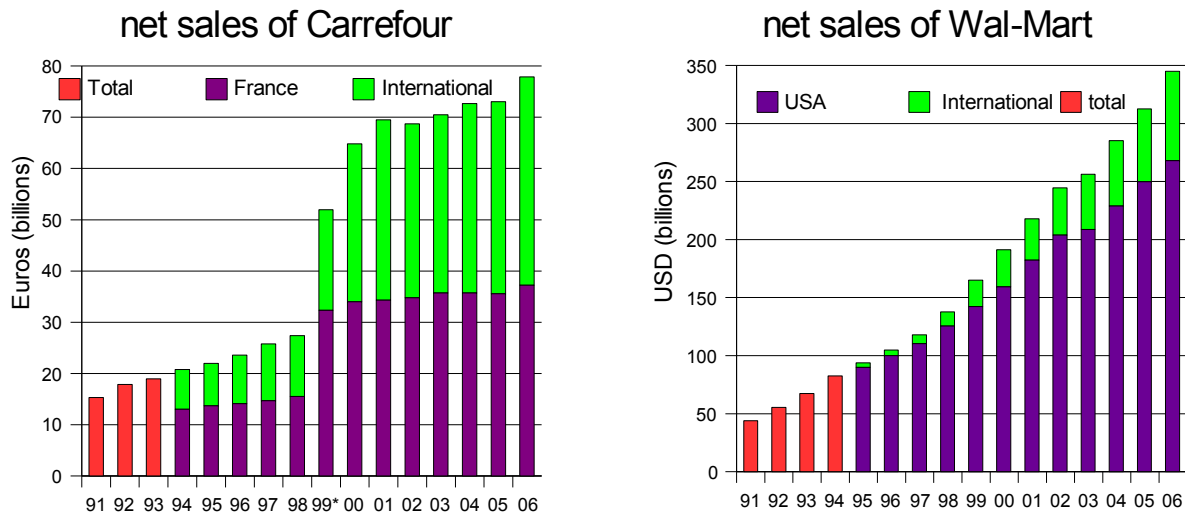
### *2.1. Internationalization in a context of growth*

Carrefour has largely preceded Wal-Mart in its internationalization. It entered the Spanish, the Brazilian and the Argentine market during the seventies and early nineties (Daumas, 2006). We will not examine that initial move in this paper. Instead we will concentrate on the 1991-2006 period, during which Wal-Mart, like a certain number of other western retailers (Auchan, Tesco, Metro, K-Mart, Ahold, Casino), has turned gradually but resolutely to the international when Carrefour accentuated its orientation towards the foreign markets.

Wal-Mart and Carrefour differ significantly as far as their size is concerned. In 2006, Wal-Mart's sales are than four times larger than Carrefour's. But the process of internationalization intervenes for the two companies within a context of strong growth of the activity (graph 1 and 2). The growth is regular at Wal-Mart: with an average rate of almost 15% per annum between 1992 and 2006, sales were multiplied by 7,8 over the period ! The progression is carried out partly on the domestic market but the international activity weighs more and more: in 1995, less than 4% of sales were done abroad whereas the figure is 16,7% in 1999 and more than 22% in 2006.

Carrefour became the second retailer worldwide after its fusion with Promodès in 1999. This fusion has induced a dilution of the shareholding. The dilution led to an increased preoccupation of the management for financial profitability in order to prevent hostile takeover. Carrefour's development path is much more uneven than that of Wal-Mart. The average growth rate of the sales (12,96% between 1992 and 2006) is lower than Wal-Mart's but nevertheless the sales were multiplied by 5,09 during the period. The growth is mainly due to international activity since the sales on the domestic market (except acquisition) stagnate. Carrefour is more internationalized than Wal-Mart because of the relative narrowness of the national market. Thus, between 1994 and 1998, the share of the sales realized abroad grows from 37,7% to 43,4%. After the fusion with Promodès, this trend is even more obvious : the share of international grows from 37% to 52% between 1999 and 2006.

Graph 1. Domestic and international sales



## 2.2. An interruption of the international diversification after 2000

There are various steps of retail internationalization and, especially, a temporary reduction of the geographical diversity of Wal-Mart and Carrefour following important withdrawals after 2000 (table 1).

There are three periods of Wal-Mart's internationalization (Burts and Spark, 2006). Initially, between 1991 and 1994, Wal-Mart entered the adjacent Mexican and Canadian markets when they integrated the agreement of Free Trade Agreement of North America (NAFTA). The second phase (1994-1999) is a resolute opening to the rest of the world. During this period the firm from Bentonville has rather tested new markets than tried to establish a dominant position. After 1999, a third phase starts characterized by a higher attention to financial performances. The new strategy allows the acquisition of strongly established firms. It also leads the group to sell its assets in South Korea and Germany. It is not the first time that Wal-Mart is constrained to withdraw from a country, but the preceding retreat concerned only a small number of stores : in Hong-Kong in 1996 and in Indonesia, in 1998, after one of its stores had been burned during the social riots that followed the financial crisis (Steidtmann, 2003).

The Carrefour group benefits from a long international experience with investments in Spain and Latin America since 1973. It was also the first international distributor to be established in Asia, in Taiwan, in 1989. The failure of the entry in the United States (1988-1993, see Dupuis, Chul Choi

and Larke, 2006) has not prevented the distributor from accelerating considerably its internationalization : between 1990 and 2006, the French group enters 29 new countries.

However, we observe a significant inflection around 2000. In 1998 and 1999, we have a sequence of rapid external growth with the fusions with Comptoirs Modernes and Promodès. It implies a big rise of the debt and a more direct exposure to the requirements of the financial markets. Moreover, the group is affected by the Asian crisis of 1997 and, four years later, by the Argentine crisis. Carrefour then changed strategy. It focused more on an organic growth and aimed to gain profitability while exploiting the strategic positions acquired during the previous period. After leaving Hong-Kong in 2000, Carrefour decided to separate from its non-strategic or insufficiently profitable assets: stores in Chile, in Mexico, in Japan, in South Korea, Czech Republic and Slovakia were sold. The objective was to keep only the subsidiaries which belong to the first three distributors of the market concerned. Except for Switzerland in 2001 – it will finally quit in 2007, the few stores opened in new countries were operated under franchise.

Wal-Mart's and Carrefour's withdrawal from several countries is significant in the trajectories of the firms. It implies sunk costs much higher than for manufacturing multinationals (Clark and Wrigley, 1997). Indeed it implies the abandonment of intangible investments resulting from the insertion within a new country and the long delay between the project of establishment and the generation of income flows. However, this is not the end of the internationalization process. Leading retailers have managed to push back the limits of mature domestic markets for a moment through external growth (Carrefour) or organic growth with the geographical extension of Wal-Mart. But this constraint still remains and constitutes a powerful pushing for international growth. Thus Wal-Mart took the control of CAHRCO in Central America and Seiyu in Japan in 2005 and aims to create a new chain in India<sup>2</sup>. Carrefour is still cautious in its international operations. In 2007, it announced the sale of its hypermarkets in Switzerland and in Portugal<sup>3</sup>. However it plans to enter the Indian market<sup>4</sup> and will open its first hypermarkets in Russia<sup>5</sup> and Bulgaria<sup>6</sup> in 2008.

*Table 1. Entries and withdrawals of Carrefour and Wal-Mart stores since 1991 (subsidiaries and stores operated under franchise)*

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2 « Wal-Mart to enter the Indian Market », *BBC News*, 27 november 2006, <http://news.bbc.co.uk/2/hi/business/6186930.stm> ; Leahy J., « Bharti set to invest \$2.5bn in Wal-Mart venture », *FT.com*, site, Feb 19, 2007, <http://search.ft.com/ftArticle?queryText=Wal-Mart+india&y=0&aje=true&x=0&id=070219008290>

3 « Carrefour quitte la Suisse et se restructure à l'international », *Les Echos*, 21 août 2007, <http://www.lesechos.fr/info/distri/300195895.htm>

4 Visseyrias M., B. Jacquot et G. de Capele, Interview de Jose Luis Duran, *Le Figaro*, 25 janvier 2007.

5 « Carrefour Opens 1st Store in Russia in 2008 », *Kommersant*, May 14, 2007, [http://www.kommersant.com/p764992/Carrefour\\_Grocery\\_Retail/](http://www.kommersant.com/p764992/Carrefour_Grocery_Retail/)

6 « Carrefour arrive en Bulgarie », *Radio Bulgarie*, [http://www.bnr.bg/RadioBulgaria/Emission\\_French/Theme\\_Economie/Material/25.07.+Carrefour.htm](http://www.bnr.bg/RadioBulgaria/Emission_French/Theme_Economie/Material/25.07.+Carrefour.htm)

| Carrefour |  | Wal-Mart  |                                   |
|-----------|--|---|-----------------------------------|
| entry     | withdrawal<br>(number of stores)                               | entry   | withdrawal<br>(number of stores)  |
| 1991      | Greece et Chypre<br>(Promodès)                                 | Mexico  |                                   |
| 1992      | Portugal   | Puerto Rico   |                                   |
| 1993      | Italy<br>Turkey  |   |                                   |
| 1994      | Malaysia<br>Mexico   | Canada<br>Hong-Kong   |                                   |
| 1995      | China<br>United Arab Emirates                                  | Argentina<br>Brazil   |                                   |
| 1996      | Thailand<br>South Korea  | China<br>Indonesia  | Hong-Kong (3)                     |
| 1997      | Poland<br>Chile<br>Singapore<br>Hong-Kong                      | South Korea<br>Germany  |                                   |
| 1998      | Indonesia<br>Colombia  |   | Indonesia (2)                     |
| 1999      | Csech republik and<br>Slovakia                                 | United Kingdom  |                                   |
| 2000      | Japan<br>Oman<br>Belgium<br>Qatar<br>Romania<br>Saint-Domingue |   |                                   |
| 2001      | Switzerland<br>Tunisia<br>Romania<br>Norway                    |   |                                   |
| 2002      | Egypte   |   |                                   |
| 2003      |  |   | Chile(7)                          |
| 2004      | Saudi Arabia   |   |                                   |
| 2005      | Algeria  | Central America<br>(Guatemala, Salvador,<br>Honduras, Nicaragua and<br>Costa-Rica)<br>Japan |                                   |
| 2006      |  |   | Germany (88)<br>Sourth Korea (16) |
|           | South Korea (31)<br>Czech republik and<br>Slovakia (15)        |   |                                   |

**sources :** companies' websites and economic press

### 2.3. An indicator of the relative performance of the subsidiaries

The stylized facts presented stress the heterogeneity of retailer's performances abroad. In order to appreciate the various degrees of success or failure, we have built an indicator of relative development. It shows the relative penetration of the market and the relative dynamism of each subsidiary compared to the other subsidiaries of each group.

To measure the penetration of the market, a ratio connects the surface of the stores to the GDP of each country in 2002. To measure the relative dynamism of the subsidiaries we had to do it in two different ways. For Carrefour, the indicator compares the variation of the growth rate of the sales on the 2003-2006 period with the average growth rate of all the subsidiaries. When the firm withdraws from a country, the growth rate for this subsidiary for that year is - 100%. For Wal-Mart, the principle and the period are the same ; however, as the sales of each subsidiary are not available, we have calculated the growth on the basis of the evolution of the surface of sales.

The synthetic indicator of relative development of each subsidiary is a simple average of the two indicators, each one being previously brought down to a value ranging between 0 and 1.

*Table 2.a. Relative development, penetration and dynamism indicators for Carrefour's subsidiaries*

| country<br>indicator | Argentina | Turkey | Colombia | Portugal | Spain | Greece | Indonesia | Poland | Brazil |
|----------------------|-----------|--------|----------|----------|-------|--------|-----------|--------|--------|
| relative development | 0,64      | 0,62   | 0,58     | 0,57     | 0,56  | 0,50   | 0,49      | 0,46   | 0,41   |
| penetration          | 1         | 0,24   | 0,16     | 0,51     | 0,58  | 0,3    | 0,02      | 0,17   | 0,31   |
| dynamism             | 0,28      | 0,99   | 1        | 0,63     | 0,55  | 0,69   | 0,98      | 0,76   | 0,51   |

| country<br>indicator | Belgium | Taiwan | Thailand | Switzerland | China | Italy | Singapore | Malaysia | Japan |
|----------------------|---------|--------|----------|-------------|-------|-------|-----------|----------|-------|
| relative development | 0,40    | 0,38   | 0,36     | 0,34        | 0,32  | 0,32  | 0,27      | 0,27     | 0,22  |
| penetration          | 0,32    | 0,31   | 0,12     | 0,18        | 0,25  | 0     | 0,02      | 0,06     | 0,01  |
| dynamism             | 0,48    | 0,45   | 0,61     | 0,5         | 0,39  | 0,55  | 0,53      | 0,48     | 0,44  |

| country<br>indicator | Czech Republik and Slovakia | South Korea | Chile | Mexico |
|----------------------|-----------------------------|-------------|-------|--------|
| relative development | 0,15                        | 0,11        | 0,09  | 0,03   |
| penetration          | 0,06                        | 0,03        | 0,09  | 0,06   |
| dynamism             | 0,25                        | 0,19        | 0,09  | 0      |

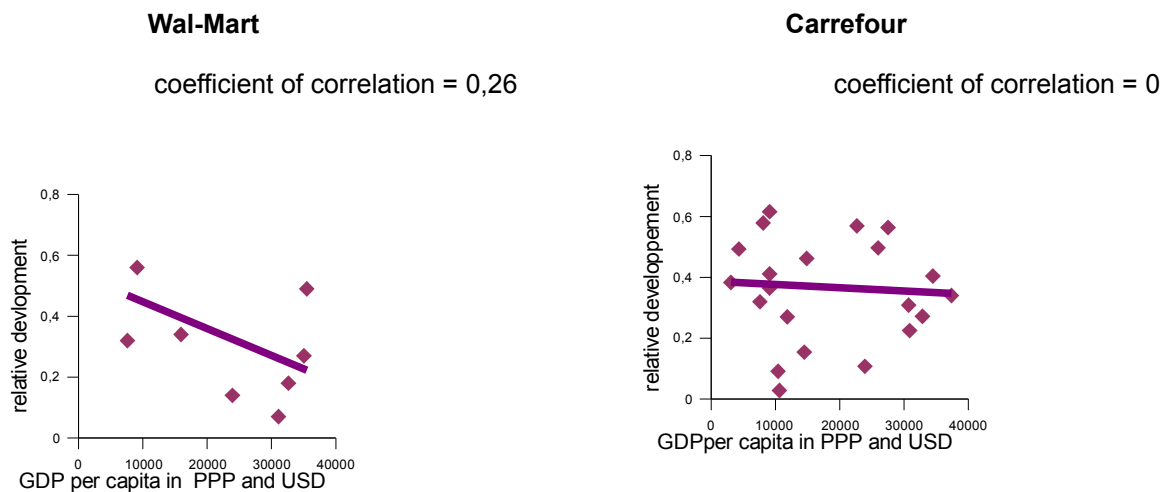


Table 2.b. Relative development, penetration and dynamism indicators for Wal-Mart's subsidiaries

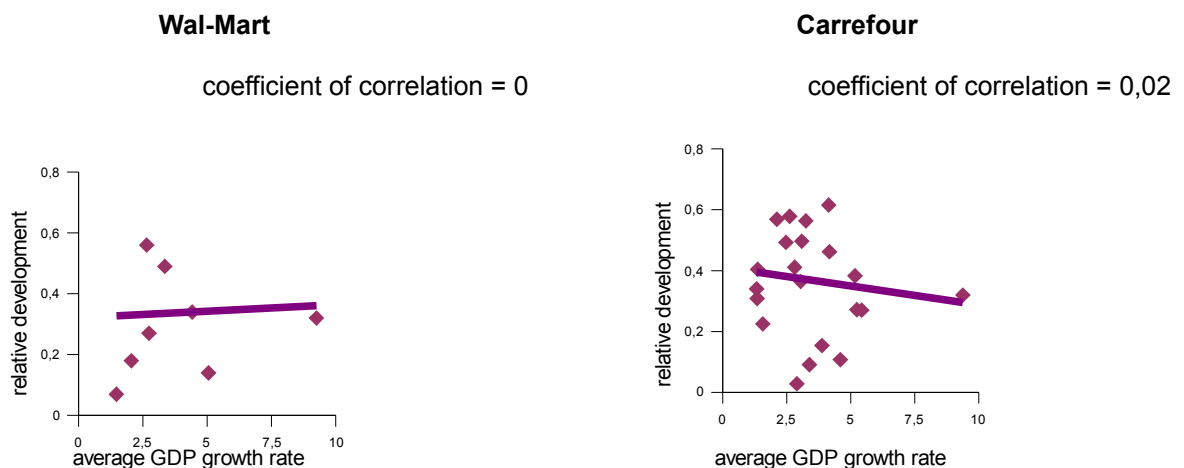
| country indicator    | Mexico | Brazil | Canada | Argentina | China | United Kingdom | Japan | South Korea | Germany |
|----------------------|--------|--------|--------|-----------|-------|----------------|-------|-------------|---------|
| relative development | 0,67   | 0,56   | 0,49   | 0,34      | 0,32  | 0,27           | 0,18  | 0,14        | 0,07    |
| penetration          | 1      | 0,13   | 0,68   | 0,43      | 0,06  | 0,27           | 0,13  | 0,11        | 0,13    |
| dynamism             | 0,33   | 1      | 0,29   | 0,25      | 0,58  | 0,27           | 0,22  | 0,17        | 0       |

The comparison of, on the one side, the indicator of relative development, and on the other side the GDP/capita and the average annual GDP growth rate doesn't provide clear correlations except one negative relationship between Wal-Mart's development and GDP/capita which suggests a greater success in developing economies.

Graph 2. Confrontation of relative development and GDP per capita (2006 or year of exit)



Graph 3. Confrontation of relative development and average GDP growth (1992 or year of entry and 2006 or year of exit)



### 3. From conceptual tools to explanations

In the literature we noticed four kinds of issues that may help to explain the heterogeneity of retailers' performances abroad (table 2). First, management studies focus mainly on the importance of strategic decisions along the internationalisation cycle (Gielens et Dekimpe 2000, 2007 ; Vidal, Reardon, and Fairhurst, 2000). However, the approach of economic geographers suggests that such a perspective lacks consideration of the multidimensional territorial embeddedness of the retail activity : this embeddedness leads to a process (successful or not) of mutual transformation of the firm and the targeted territory (Dicken, 2002 ; Coe and Wrigley, 2007). This approach can be articulated with the regulationist concept of productive models (Boyer, 1997 ; Freyssenet, 1998 ; Boyer et Freyssenet, 2000). Based on a wide study of the world automotive industry, these works show the diversity of the successful ways of producing and the hybridization of productive models as they expand abroad.

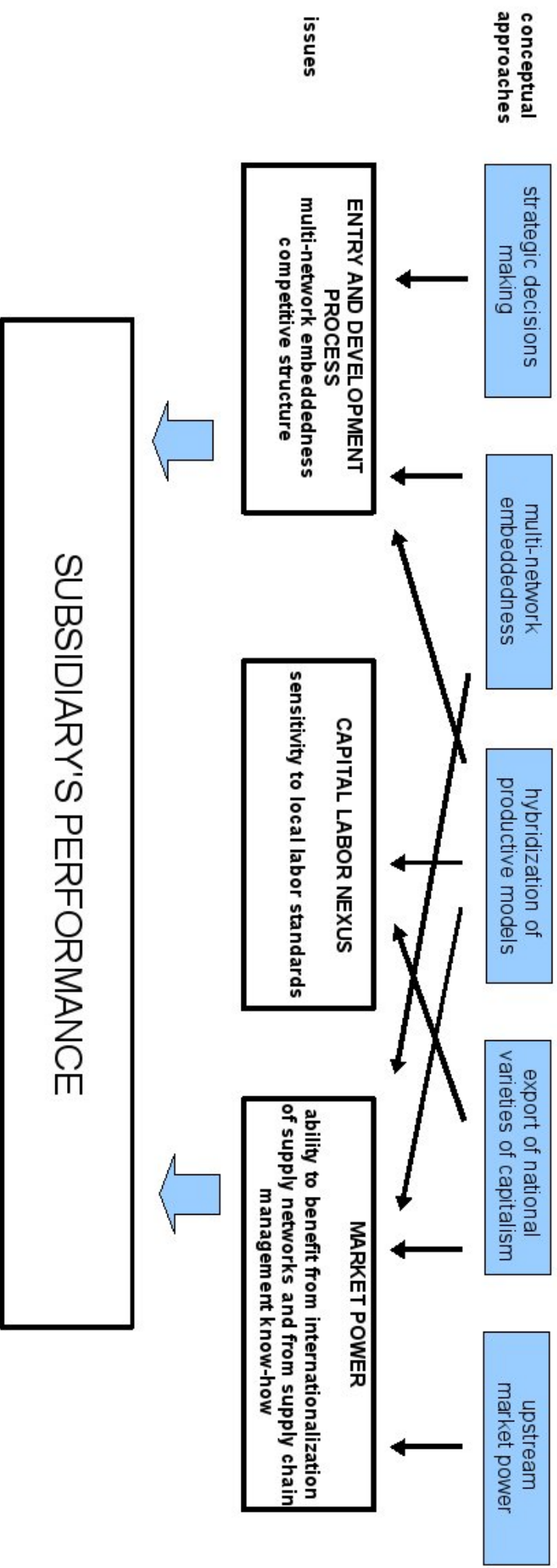
To understand better this hybridization process, we may use the notion capitalism's diversity (Hall and Soskice, 2001 ; Amable, 2005 ; Dore, 2000 ; Jacoby, 2005). A recent comparative study of Ikea and Wal-Mart suggests that as transnationals expand abroad they export their productive models (Konzelmann and *alii.*, 2005). However the success of this exportation depends on the affinity *-ex ante* or *ex post* – between the productive model and the kind of capitalism it is implemented in, especially as far as labor market institutions are concerned. Finally, global value chains perspective focus on asymmetries resulting from market power position as a crucial source of competitive advantage and on the way multinational corporations manage through strategic decisions or political channels to gain such positions (Gereffi et Korzeniewicz, 1994 ; Gereffi et Kaplinsky, 2001 ; Hopkins et Wallerstein, 1994 ; Dussel Peters, 1999; Sacchetti and Sugden, 2003; Kaplinsky, 2000; Dutrenit y Vera-Cruz, 2004 ;Gereffi, Humphrey and Sturgeon, 2005 ; Pierre Dockès, 2000).

*Table 3. Conceptual tools useful to explain the performance of multinational retailers abroad*

|  | AUTHORS   | EMPIRICAL ANALYSIS  | ISSUES   |
|--|---|---|--|
| <b>STRATEGIC DECISIONS MAKING</b>              | Giens and Dekimpe (2001 and 2007)<br>Dupuis and Fournioux (2005)<br>Vidal and <i>alii.</i> (2000)<br>Palmer (2005)        | Retail studies case   | The internationalization cycle include successive strategic decisions that determine futures performances of the firm :<br>- choice of the country to entry<br>- scale, modalities and speed of entry<br>- format of stores<br>- supply chain control implementation<br>- management structures implementation   |
| <b>MULTI-NETWORKS TERRITORIAL EMBEDDEDNESS</b> | Wrigley and Coe, (2007)   | Retail multinationals   | Mutual transformations of receiving economies and entering retailer through intra, inter and extra-firm networks   |
| <b>HYBRIDATION OF PRODUCTIVE MODELS</b>        | Boyer and Freyssene (2000)<br>GERPISA   | Automobile industry   | Internal coherence of corporate governance and profit strategy and pertinence vis-à-vis the accumulation regime<br><br>mutual hybridization of the productive system of the firm and the accumulation regime   |
| <b>EXPORT OF VARIETIES OF CAPITALISM</b>       | Konzelmann and <i>alii.</i> (2005)  | Ikea et Wal-Mart case study   | Exportation of the productive system of the firm<br><br>Affinities between the firm's productive system and the receiving economy productive system as fair as labor and supply chains organization are concerned  |
| <b>MARKET POWER</b>                            | Gereffi and Korzeniewicz (1994)<br>Kaplinsky (2000)<br>Dockès (2000)<br>Wallerstein (2004)<br>Sacchetti and Sugden (2003) | Vertical perspective on asymmetric relationship between firms and many differentiated empirical studies | Market power is a competitive advantage : it's a way to modify the surplus repartition between supply and demand because of some degree of captivity of one firm to another resulting from market structure and/or asset specificity and/or informational asymmetry.<br><br>In order to impose a market power another kind of power, dynamic, is necessary to transform the market structure and/or the institutions |

This conceptual framework leads us to suggest three kinds of explanation for the performances of retailers' foreign subsidiaries (Diagram 1). The first focus is on the strategic decisions made about the entry (moment and modes) and the development of the subsidiary (organic growth or acquisition). Indeed, these decisions affect the ability of the multinational's subsidiary to connect itself to social, political and economic networks. Moreover, the competitive structure it has to face depends also on these decisions. The second issue is about the multinational's ability to benefit from a upstream market power position. It depends on its capability to exploit the advantages resulting from its proficiency to operate simultaneously in various countries and from its know-how in supply chain management. The third factor is the sensitivity of international retailers to local labor standards. Indeed, local labor standards may be more or less consistent with the way international retailers usually manage the conflicting capital-labor nexus (labor organization ; wages bargaining process ; unions rights..).

*Diagram 1. From conceptual tools to explanations*



## 4. Moment and mode of entry

Various variables characterize the entry of a multinational firm on a new market:

- modes of investment (investment greenfield, acquisition, joint-venture or franchise) ;
- speed of entry, i.e. the fact that the development is progressive or sudden and that it is or not announced publicly in advance ;
- preexistent market structure, especially the fact that the entry is or is not preceded by another international distributor
- marketing's strategy, especially stores' format and localization

The combined game of these variables influences the relative success of the entry. Two types of mechanisms call our attention : the existence – or not – of a partnership with a local firm and the moment chosen for the entry.

Working with a local firm or buying a local firm is of crucial importance because of the market knowledge that may be transferred through such kind of arrangements. Moreover, it accelerates the embedding process of the foreign firm within local networks : as underlined by Currah and Wrigley (2004) the differentiated performances of multinational retailers “*has depended very much on inter-firm alliances - not least because of the importance of being associated with local incumbent in bargaining with governmental elites and suppliers*”. Association or not with a local actor and the intensity of this association matter also as far as reaching a critical size is concerned : indeed it helps to benefit from economies of scale and a market power vis-à-vis local suppliers. Finally, this type of entry also benefits the multinational as it makes it possible to deploy faster the specific advantage of the firm on a greater scale ; it also gives less time for local firms to begin an imitation process.

The fact of being or not preceded by another multinational is also a key factor in developing countries. Indeed, the entry of a foreign actor has deep and rapid effects on the sector as a whole. The first mover is thus much more likely than the second to benefit from the ideas-gap which separates multinationals from local firms (Romer, 1993; Durand, 2005). The disadvantage of the second-mover may however be compensated by a strategic acquisition of a local actor. Moreover, an ancient entry implies that the foreign retailer has been a pillar of the modernization of the retail sector. Finally, a precocious entry relatively to the development of retailing means a quasi absence of pre-existing regulation of the sector. Thus, a study on the establishment of foreign retailers in Shanghai shows that multinationals can take advantage of the conflicts between local and national authorities that occurs in the course of *ex-post* regulation building processes (Wang and Zhang, 2005).

Various case studies confirm the influence of modes and moment of entry. Thus bad decisions concerning the moment and the price for which stores were bought as well as too greater diversity of formats are blamed in the failure of Wal-Mart in Germany (Palmer, 2005 ; Christopherson, 2006). Wal-Mart also withdrew from Indonesia, Hong-Kong and Korea where it has also made a quite limited entry (Burt and Sparks, 2006). In the case of Carrefour, the entry in Mexico 3 years after Wal-Mart did not enable it to grow up to a sufficient scale (Tilly, 2004). The progressive opening of stores under direct control in Japan, but also in the Czech Republic and Slovakia and in Chile have also ended in failures. In Chile, Carrefour did not succeed to connect to social and economic networks nor to adapt to consumers demands, nor to reach a sufficient size (Bianchi and Ostale, 2005). Moreover, the late arrival of international retailers, well after their entry in Argentina, Brazil and Mexico, has left sufficient time for local actors to modernize their activities before facing foreign competition (Bianchi and Carried out, 2004). In Korea, Carrefour was the first-mover. However, it was not sufficient to compensate the disadvantage of not having a local partner. Unable to take a dominant position, it has been progressively caught up by local retailers and finally has left the country in 2006. In Hong-Kong, Carrefour has accumulated the disadvantage of a greenfield investment with a second-mover position.

*Box 1. Scale of endogeneity of subsidiary's development*

1 = greenfield investment and dominant organic growth

2 = JV limited to the stores created jointly or JV limited to a local chain including initially less than 10 stores and dominant organic growth

3 = acquisition of a local chain or JV with a local chain including initially more than 10 stores or presence since at least 1993

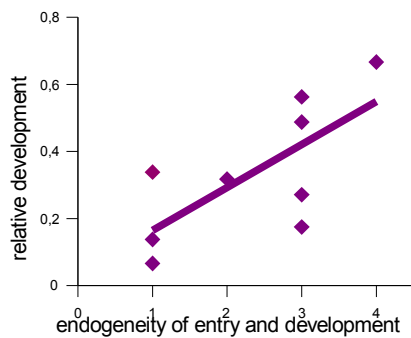
4 = acquisition of a leader during the development or position of leader in 1993

Therefore, the success or failure of multinationals' entry are affected by the modes and the moment chosen : on the one side, being or not associated with a local actor, the intensity of this association and the size of this partner ; on the other side, the precocity of the entry in a developing economy relatively to the process of modernization of the sector. According to this reasoning, we have built a scale of endogeneity (box1) in order to characterize the entry and development of Wal-Mart in 9 countries and of Carrefour in 22 countries (except countries where there are only stores under franchise).

Graph 4 shows a correlation between, on the one side, the endogeneity of the entry and development process and, on the other side, the relative success of the subsidiary. Carrefour and

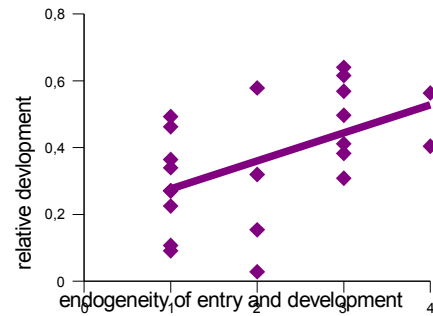
Wal-Mart differ partially as far as their strategies of entry are concerned - Wal-Mart seems keener on acquisitions - but the degree of endogeneity appears to be a crucial element for the two firms.

Graph 4. The impact of the endogeneity of entry on relative development of subsidiaries



coefficient of correlation = 0,5

**Wal- Mart**



coefficient of correlation = 0,26

**Carrefour**

## 5. The ability to benefit from an upstream market power position

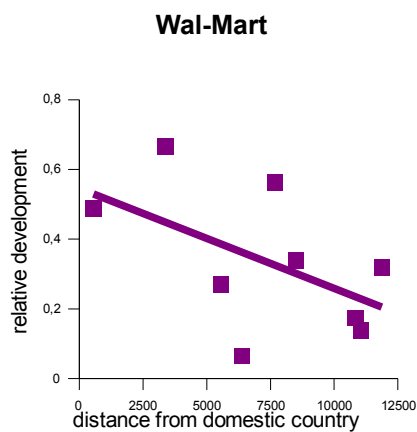
The market power of international retailers constitutes one of their specific advantages. Thus their capacity to exert this market power is a crucial element when they enter a new market. We consider this question at three levels: first, the possibility to be connected to preexistent supply networks in neighbouring countries ; second, the impact of free trade agreements ; third, the ability of the firms to impose their data-processing standards and their methods of control onto the local supply chains.

### 5.1. The benefits of proximity

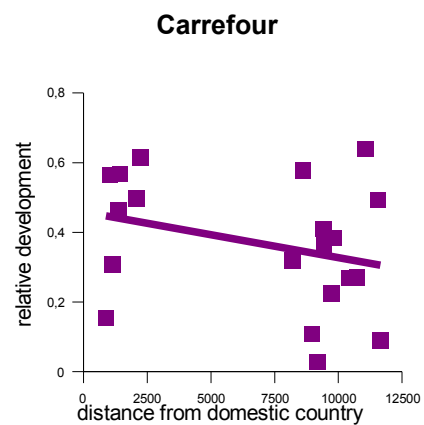
The initial, durable and successful international development of Wal-Mart has been achieved in the adjacent markets of Mexico, Canada and Puerto Rico. The entry in the United Kingdom has also been a success. On the contrary, the tentative in Indonesia, a country very distant from the geographical as well as from the cultural point of view was a quasi immediate failure. Carrefour, has acquired a position of European leader with strong positions Spain, Turkey Portugal, Greece, Poland, Belgium and Italy. It has also managed to develop regional poles in South America (Argentina and Brazil) and in South East Asia (Thailand, Malaysia, Singapore and Indonesia). Therefore, the geographical and cultural proximity seems to play a positive role for the subsidiaries. On the one hand, proximity increases the firm's market-power as it allows to connect supply chains internationally. On the other hand, the connection of the supply networks, logistic infrastructures but also of the management teams and of marketing activities allows economies of scale. These two elements give a competitive advantage of proximity for retailers as they expand internationally.

Graph 5 suggests a relationship between the relative development of subsidiaries and the distance from the country of origin. These charts reveal substantial differences between Wal-Mart and Carrefour. In both cases, the geographical distance is correlated negatively with the relative development. But this phenomenon is much more important for Wal-Mart, which tends to confirm the greatest adaptability of Carrefour (Dupuis, Chul Choi and Larke, 2006) as compared to Wal-Mart (Hugill, 2006). It also suggests that the connection of the supply networks constitutes an important competitive advantage. The positive impact of the presence of the firm in a nearby country (graph 6) tends to confirm this point for Wal-Mart and, to a lesser extent, for Carrefour.

*Graph 5. The impact of the distance from the domestic market on relative development of subsidiaries*



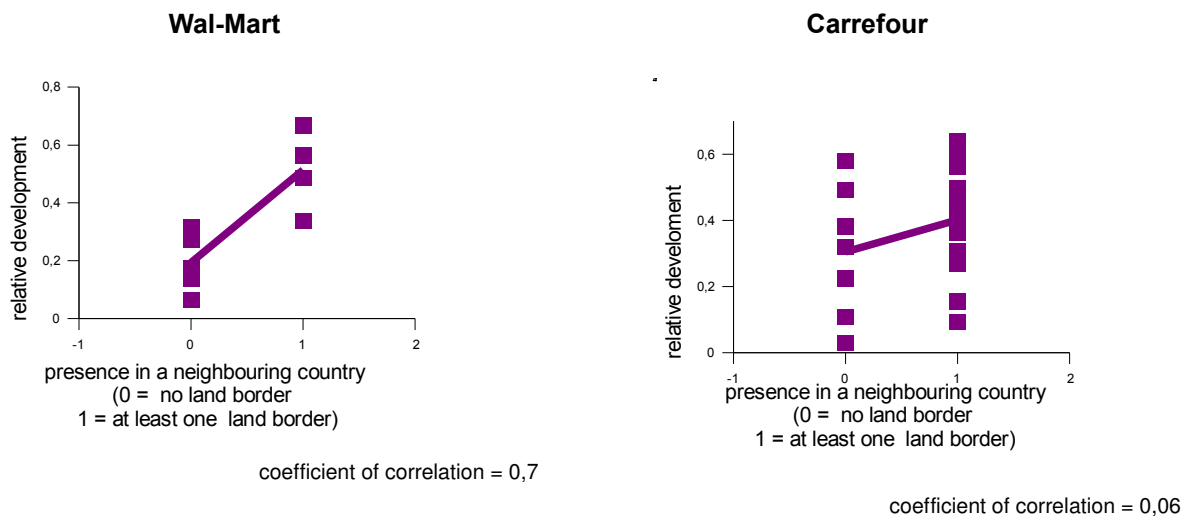
coefficient of correlation = 0,29



coefficient of correlation = 0,09



Graph 6. The impact of the presence of the retailer in a neighbouring country on relative development of subsidiaries



## 5.2. The importance of trade liberalization

In 2006, all the countries in which Carrefour and Wal-Mart are present have a full convertibility for current transactions and are WTO members (CEPII, 2007). A striking fact is the concomitancy of, on the one side, trade and investment liberalization and, on the other side, the moment of entry of retailers. Thus Wal-Mart has entered Mexico and Central America just when the treaties of free trade with the United States (NAFTA and the CAFTA) were concluded. The entry of Carrefour in Poland, the Czech Republic, Slovakia, Romania and Bulgaria was also nearly simultaneous with the integration of these countries into the EU.

However we have to notice that the trajectories of Wal-Mart and Carrefour are quite different on this point. Wal-Mart became an internationalized company after the end of the cold war, during a period where the ideals of free trade were completely dominating (Hugill, 2006). On the contrary, the internationalization of Carrefour has begun in the seventies in a Latin-American context dominated by the import-substitution model. More recently, the hardening of the legislation on FDI in Thailand doesn't seem to stop the plans of the French retailer in this country. Eventually, trade liberalization appears to be an unescapable element for Wal-Mart, not for Carrefour.

Geographical proximity as well as trade liberalization allow multinational retailers to benefit completely from their international connections : first, they can improve their market power against local suppliers through competitive pressure from imports ; second, they can compete better with local retailers as they can use the advantage that result from the already existing global supply networks ; third, they increase their global market power as they increase their global purchases. Thus, in Mexico we observe at the end of the nineties a spectacular rise of Wal-Mart's imports

(Durand, 2007).

The entry of global retailers may also open a new channel of exports for local suppliers (Coe and Wrigley, 2007 ; Reardon and Al, 2007). Even in this case, there is an increase of the market power of international retailers against local suppliers as the growth of the local suppliers is carried out within the multinationals' networks. Thus, the concept of immiserising growth (Kaplinsky, 2000) suggests such a process of growth in the activity with a slow down of the accumulation.

### **5.3. Supply chain management**

In order to exert completely their market power, international retailers need to implement their supply chain management techniques in order to benefit from the informational asymmetry against their suppliers. Indeed, these techniques include software that constrain suppliers to weaken their bargaining power through information sharing.

Some case studies show resistance of local suppliers to this logic. Thus, Wal-Mart in Korea and, initially, in Brazil encountered difficulties in the implementation of its main software within local suppliers informational structure (Han and Al, 2002). The causes of such a resistance are difficult to identify. However, we should suggest that suppliers sectoral organizations and specific governmental regulations may affect the informational bargaining power between retailers and suppliers.

## **6. A rigidity for the rise of labor standards**

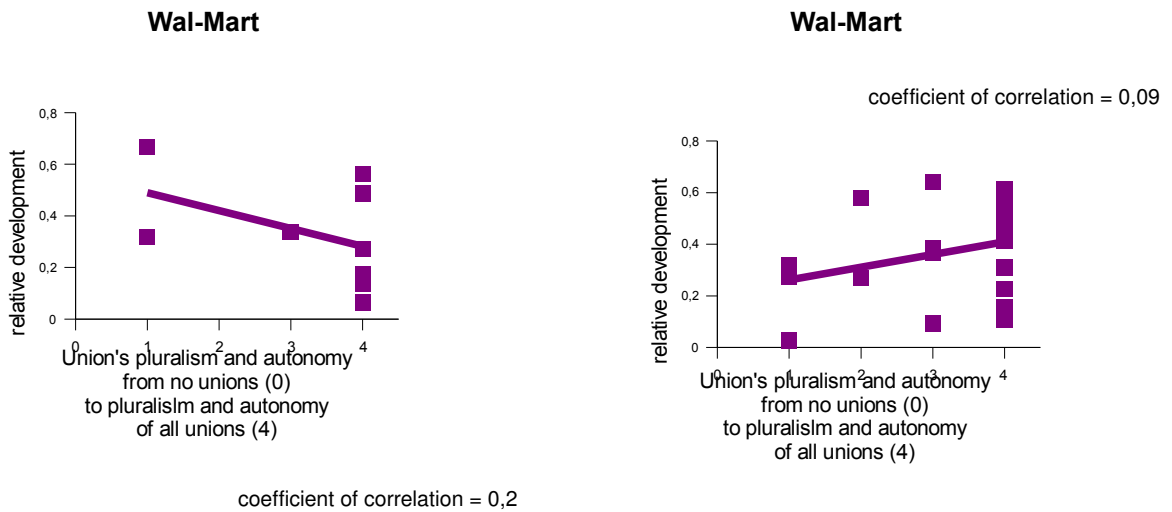
Retailing is a low skilled labor intensive activity. Thus, we can assume that the institutional configuration of the capital labor nexus is a key element of retailers' performance. More precisely, our hypothesis is that there is a ceiling labor standards effect: a company could easily adapt her practices in a country where labor standards are lower than its domestic market ; nonetheless, it will be very difficult for her to compete in an environment with higher labor standards than in its domestic country. We assume here that a downward adjustment is easier to realize than an upward adjustment. Indeed, it seems easier to take advantage of new possibilities than to manage successfully new constraints.

This hypothesis is corroborated by the fact that Wal-Mart and Carrefour subsidiaries appears to be very distinctively sensitive to labor institutions. The initial development of Wal-Mart took place in the small cities of the south and the west of the United States, a geographical area well-known for its hostility to trade unions and its weak wages (Hugill, 2006). The international development of Wal-Mart confirms its aversion to any kind of labor regulation. On the contrary, Carrefour's initial growth took place in France during the sixties, a context distinct by substantial labor rights and social benefits. Therefore, as the French retailer expands abroad, it doesn't manifest a clear counter

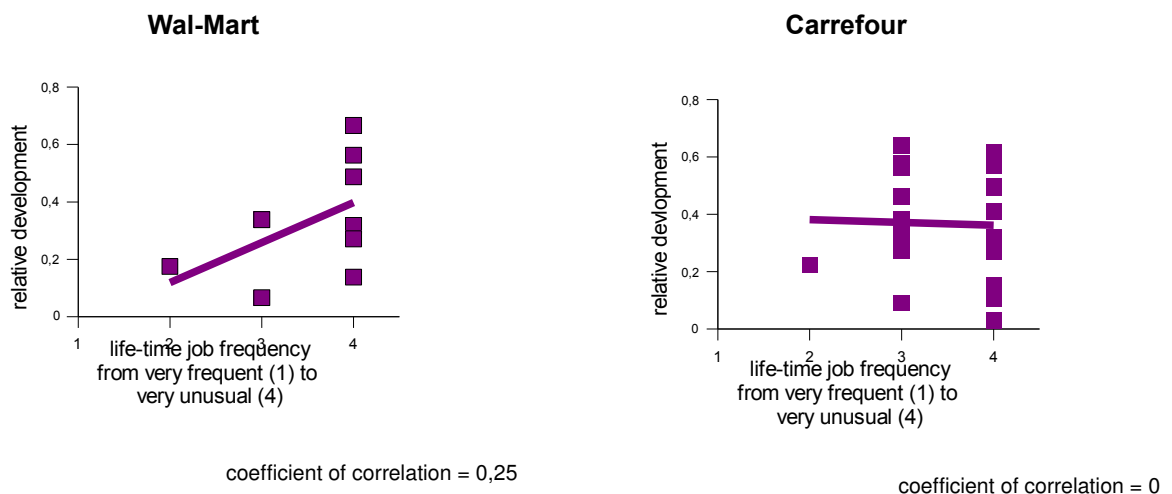
performance related to labor regulations.

Graph 7 highlights a clear correlation between, on the one side, the weakness of pluralism and unions autonomy and, on the other side relative development of its subsidiaries. However, there is no such correlation for Carrefour. We observe the same opposition between Wal-Mart and Carrefour as far as life-time job frequency (graph 8), labor law enforcement (graph 9) and the degree of centralization of the wage bargaining process (graph 10).

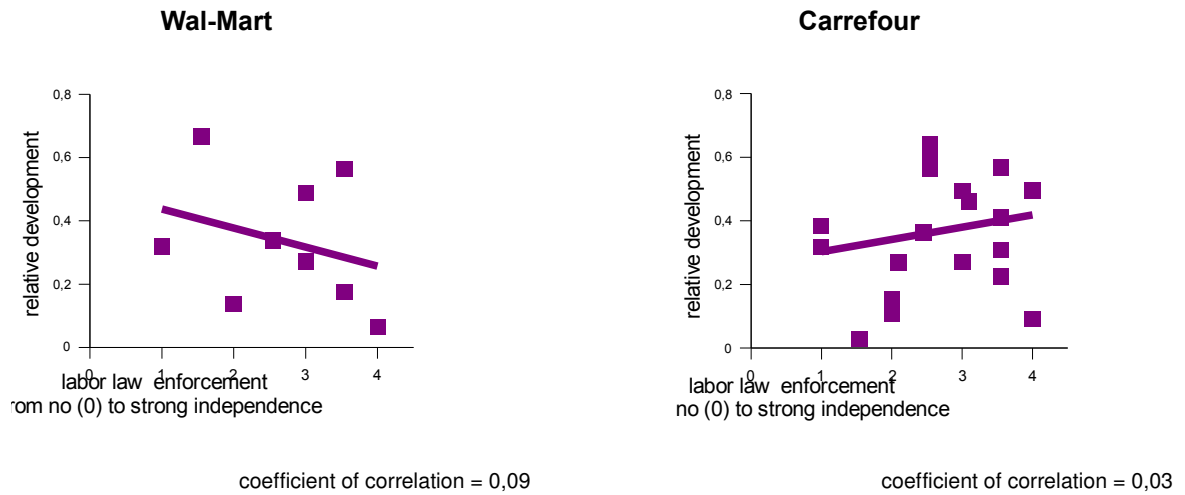
Graph 7. The impact of Unions' pluralism and autonomy on relative development of subsidiaries



Graph 8. The impact of life-time job frequency on relative development of subsidiaries

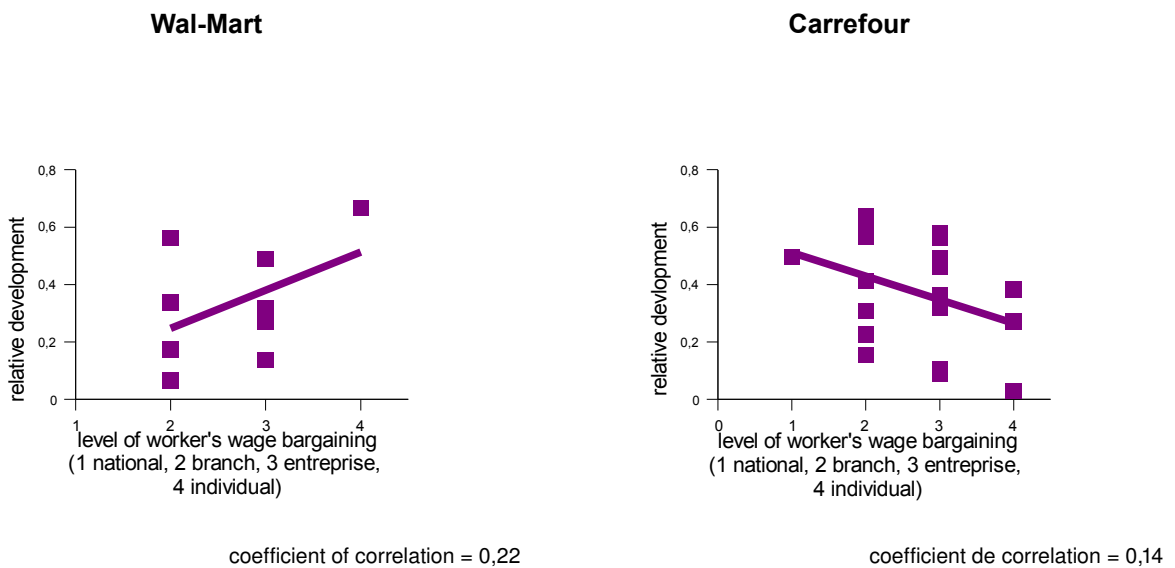


Graph 9. The impact of labor justice enforcement on relative development of subsidiaries



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Graph 10. The impact of wage bargaining level on relative development of subsidiaries



Various elements support this distinctive sensitivity of Wal-Mart and Carrefour to labor regulation. A case study on Wal-Mart failure in Germany insists on its inability to implement the same labor management as in the US : weak wages, weak welfare benefits, extremely rigorous supervision of the employees and extortion of free work (Konzelman et al., 2005). Thus, Wal-Mart has faced serious worker resistance. The retailer was also defeated by law court which prohibited it to implement its “ethical code of the employee” which is an important tool of labor discipline in the

US. Finally it had difficulties to recruit and stabilize skilled workers. Another fact is striking : in 2006 and 2007, the activism of US business groups in China – among which Wal-Mart - against a project of labor law increasing workers's rights and the power of unions<sup>7</sup>. However, in that case, the pressure aims at least as much at maintaining low wages in suppliers' factory than in stores.

Quite differently, Carrefour has tried to built a reputation of social responsibility. Thus, in November 2000, Carrefour's chairman and UNI's president (Union Network International) signed an agreement in order to implement the International Labour Office's standards on unions freedom and collective bargaining. Moreover, the FIDH has been requested by Carrefour to do social audits since 2002. Even if this social policy strongly differs from Wal-Mart's, it remains limited as exemplified by the refusal of Carrefour to contribute to a compensation for the workers and families that were affected by the fatal accident which has occurred in one of its supplier's factory in Bangladesh<sup>8</sup>.

## Conclusion

The spectacular international expansion of Wal-Mart and Carrefour was carried out in a context of strong growth of sales for the two groups. This move was a response to the maturation of domestic markets. However it is still a risky process ; thus, the two leading retailers have been constrained to several withdrawals since the end of the nineties. The heterogeneity of international subsidiaries performances has been shown through the relative development index that we have built.

In this study we have pointed out some economic and institutional determinants of retailers' success and failure abroad. First, we stated that there is no strong correlation between macroeconomic performance of receiving economies and retailers' development. We then have identified three kinds of factors : first, the degree of endogeneity of subsidiaries' development process ; second, the ability of the firm to exert its market power ; three, labor standards. Using case studies, on the one side, and, on the other side, confrontation between the relative development index and institutional data we have explored these three kind of determinations of retailers performances.

Table 4 synthesizes our results. The two retailers are highly sensitive to the endogeneity of the process of development of their subsidiary. However, Wal-Mart is keener to acquire local leaders and Carrefour is benefiting from a precocious internationalization. The factors allowing the exercise of a market power appear to be much more crucial for Wal-Mart than for Carrefour. Finally, the two retailers are affected in two contradictory ways by labor regulations: to a small extent, the relative

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7 G. Dyer, « China's labour debate spurs war of words for US interests », *Financial Times*, May 03, 2007.

8 Clean Clothes Campaign, <http://www.cleanclothes.org/urgent/07-04-10-spectrum.htm>

success of Carrefour appears to be related to the existence of some element of collective labor regulation ; on the contrary, relative development of Wal-Mart subsidiaries are negatively connected to the existence of such standards.

These results suggest that beyond macroeconomic and strategic elements, institutional configuration of the receiving economy has to be considered in order to explain success or failure of multinational corporations abroad. Moreover, we have shown that different firms are affected in different ways by the same institutions because of the characteristics of their own productive model. However, the multinationals are not simply institutions-takers : they contribute and try to influence institutional change as much as they can adapt to the configuration of receiving economies. Therefore, the internationalization of retailing is also a story of institutional hybridization of firms' productive models and receiving countries' kind of capitalism. Further analysis in dynamics is needed in order to better explain this process of hybridization. Especially, we should explain to what extent, on the one hand, the pre-existent affinities between the domestic institutional system of the firm and the receiving economy's institutional system are important and, on the other hand, to what extent there is a process -successful or not - of exportation by the international retailers of some institutional peculiarities of their domestic capitalism.

*Table 4. Some determination of Carrefour and Wal-Mart subsidiaries' relative development*

| TYPE OF DETERMINATION   | WAL-MART             | CARREFOUR    |
|---|----------------------|--------------|
| <b>macroeconomic indicators</b>   |                      |              |
| GDP per capita  | - - -                | 0            |
| growth  | 0                    | 0            |
| <b>endogeneity of development process</b>                                   |                      |              |
| partnership with local retailers or acquisition                             | +++                  | +++          |
| precocity of the entry relatively to the modernization of the retail sector | +                    | +++          |
| <b>upstream market power</b>  |                      |              |
| geographic proximity with domestic market                                   | +++                  | +            |
| contiguity with countries where the firm operate                            | ++                   | +            |
| trade liberalization of receipting economy                                  | preliminary to entry | +            |
| implementation of supply chains management techniques                       | ++                   | not informed |
| <b>labor regulation</b>   |                      |              |
| union's pluralism and autonomy  | - - -                | +            |
| frequency of life-time job  | - - -                | 0            |
| inspection du travail et prud'hommes  | -                    | +            |
| degree of centralization of wage bargaining                                 | - - -                | ++           |

**Légende** : no correlation (0) weakly positive (+), positive (++) , very positive (+++), negative (-), negative (- - ) very négative (- - -).

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### ***Institutionnal data***

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