**Private & Confidential**

## FACULTY OF BUSINESS

### FINAL EXAMINATION

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| Student ID (in figures) | : |
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| Course Code & Name | : | **HRM5104 STRATEGIC HUMAN RESOURCE MANAGEMENT** |
| Semester & Year | : | September - December 2020 |
| Lecturer/Examiner | : | Dr. Christine Chow |
| Duration | : | 3 hours |

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**INSTRUCTIONS TO CANDIDATES**

1. **This question paper consists of 2 parts:**
   **PART A (40 marks) : ANSWER FOUR (4) SRUCTURED Questions**
   **PART B (60 marks) : ONE (1) Case Study.**
   **Answer all FOUR (4) Case Study Questions**
2. **Candidates are not allowed to bring any unauthorised materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.**
3. **This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.**
4. **Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.**

**WARNING:** The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College

**Total Number of pages = 7 (Including the cover page)**

**PART A : STRUCTURED QUESTIONS (40 MARKS)**
**INSTRUCTIONS : Answer all FOUR (4) questions.**

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**QUESTION 1**

Environment comprises all those forces which have their bearing on the functioning of various activities including human resource activities. Environment scanning helps HR manger become proactive to the environment which is characterised by change and intense competition. Assess how HRM functions are affected internal and external environment.

(10 MARKS)

**QUESTION 2**

Examine the differences between ‘organisation learning’ and ‘learning organisation’.

(10 MARKS)

**QUESTION 3**

Evaluate **FIVE (5**) types of major external sources of change that could affect the organisations’ performances.

(10 MARKS)

**QUESTION 4**

Evaluate how the reward strategy is related to the business strategy to achieve integration.

(10 MARKS)

**END OF PART A**

**PART B : CASE STUDY (60 MARKS)**
**INSTRUCTIONS : Answer all FOUR (4) questions.**

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**Why Walmart Failed in Germany**
November 22, 2019

Walmart is a money-making machine (in a good way). From east to west, the American retail chain has around 11,200 outlets in 27 countries and is a household name in almost every country in this world, and most people have heard of it at least once.

In 1997, Walmart decided to head for Germany and bought two German retail chains — *Wertkauf*, for €750 million — and *Interspar*, for a whopping (*Deutsche Mark) DM* 1.3 billion.

But Walmart's global fame and aggressive entry into foreign markets didn't work out well in Deutschland. In 2006, after losing around $1 billion, Walmart had to leave Germany.

**1. Lack of Communication and understanding of the German Culture**

Wal-Mart's top executives decided to operate the German locations from their offices in the United Kingdom. Thus, Wal-Mart's "corporate language" was English. However, many of the older Wal-Mart managers in Germany do not speak English. As a result, there were often breakdowns in communication. Some managers of the acquired stores did not stay on after the Wal-Mart acquisition. Key business connections were lost. As a result, several key suppliers (e.g. Adidas, Samsonite, Nike) declined to work as suppliers for Wal-Mart. Wal-Mart did not just lose important suppliers; they also lost an important part of their range of goods (Senge 2004). The situation could have been improved by retaining and communicating effectively with the German managers who had know-how about the local market

**2. Walmart Messed Up the Pricing**

Walmart definitely made a questionable decision with "Price". In pricing, there's this thing called **"penetration pricing",** which involves offering products for cheap to penetrate a new market and win fresh customers by helping them save money.

That's exactly what Walmart did. They dropped their prices lower than the local German stores. Well, the German business owners didn't like Walmart's predatory pricing tactic, and the American giant was ordered to raise their prices by Germany's high court.

Walmart realized that the German market won't accept their domination and that they were prepared to fight it out in court if Walmart tried to aggress upon them again.

**3. Walmart Failed to Understand the German Work Culture**

For some reason, a few American businesses have this false belief that every western country has the same culture as theirs — but it's simply not true. This is also one of the reasons why Starbucks failed in Australia.

In America, it's not uncommon for retail assistants to get all chatty and friendly with the customers. Walmart decided to train its German employees to do the same. The cashiers were told to smile at customers during checkout. Oh boy, did that backfire…

Smiling at random strangers and acting like you know them isn't really German. It might happen every once in a while, but it's certainly not an integral part of the German culture.
Hans-Martin Poschmann, a renowned union secretary, said: "People found these things strange; Germans just don't behave that way."

Walmart's German customers found this behaviour very "non-German" and unauthentic. You don't pretend to be a German customer's friend if you're not really their friend — that's not how Germans operated during that era, at least.

**4. Employees Were Made to Do Unconventional Activities**

A regular day at a Walmart outlet in Germany started with light exercise and an almost cultish type of chant. Yes, the employees were made to chant "Walmart! Walmart! Walmart!" while doing light jumping and calisthenics.

Maybe the reason behind this was to get them all excited about their shift and make them feel like a part of the Walmart family. But the employees likely found this to be somewhat embarrassing.

The employees were not allowed to date or be romantically involved with each other. Well, the chances of not developing feelings for someone who you work with 40 hours a week are pretty low. Maybe this was intended to save employees from office politics. But this restriction by Walmart was simply over the top.

To make things more unfriendly, Walmart made it mandatory for its employees to report if any coworker broke a rule. If they failed to report, they could be fired. Imagine saying: "I think Ben and Greta are sleeping with each other" to your manager (or getting fired if you fail to report it).

Once again, a German court had to step in and remind Walmart that they were in Germany. In 2005, an industrial court ordered Walmart to discontinue these practices at work.

**5. The American Company Didn't Get Along With German Unions**

Again, Walmart failed to empathize with the locals and marched to its own drumbeat. The German unions didn't like Walmart's organizational culture. They were like oil and water and never really got along.

"They didn't understand that in Germany, companies and unions are closely connected. They thought we were communists," said Hans-Martin Poschmann.

Wal-mart was kind of micromanaging its employees — including keeping an eye on who's dating who. This, along with some other practices, probably made Walmart look like a heartless employer who only cared about profits and not its employees' job satisfaction and overall happiness. A big no-no in the eyes of the unions, of course.

**All These Factors Led to Massive Losses**

The resentment was growing. First of all, Walmart tried to bankrupt local German businesses by predatory pricing tactics. Secondly, they had these unusual rules and regulations for their employees.

Remember, there were both local and foreign competitors present in the market. While the competitors enjoyed a massive share of the market, Walmart only controlled around 3% of it. Also, Walmart's profit margin in Germany was a measly 1–2%.

So instead of waiting and wasting time, Walmart decided to leave Germany in 2006 and passed on its 85 outlets to a local competitor, Metro.

**Conclusion and Analysis of Wal-Mart Entering Germany**

Wal-Mart has traditionally been able to set the standard in the retailing industry, especially in the US. However, there are certain advantages that may not be fully transferable to other countries. And Wal-Mart's venture into Germany is no exception to this fact.

Rather than engaging in acquisitions as Wal-Mart has done to gain presence in Germany, Wal-Mart should have considered the other options prior to entry: 1) greenfield investing, 2) licensing and franchising with retailer, and 3) creating joint venture with local partner.

Greenfield investing would subject Wal-Mart to similar risks (if not more risks) associated with the acquisition of Wertkauf. Therefore, this option should be ruled out. Franchising and licensing with local retailer would not contribute too much value to a German retailer since Wal-Mart's brand has failed to demonstrate a strong perceived reputation of low prices in the eyes of German customers. The final option would be to launch a joint venture with a local retailer. This would have allowed Wal-Mart to have time to adjust to the steep learning curve associated with the German market.

Since Wal-Mart's competitors learned from the US retailer and selectively utilized new scanning systems upon Wal-Mart's entry, the retailer might as well have worked with a local partner to create a German venture under the terms of a 50-50 equity stake. Wal-Mart could bring its expertise in improving retailing efficiency while its partner could provide Wal-Mart its local supplier and labor union relationships, brand recognized by customers for low prices, and local market and legal knowledge.

The joint venture would greatly reduce the risk profile of the foray into Germany and provide Wal-Mart a better platform on which to analyze the German market, which greatly differs from the UK market despite their close proximity. The risks of working with a partner could include the partner learning Wal-Mart's core competencies and implementing them beyond the joint venture project to capture a dominant foothold of the market. However, as seen in the case study, this has already been the case when Wal-Mart entered the market. The competitors quickly adapted and adjusted their infrastructure to incorporate certain strengths that Wal-Mart demonstrated such as controlling inventory well through advanced scanning systems. Furthermore, Wal-Mart does not necessarily have to provide its German partner with the entire inner workings of the IT technology that drives Wal-Mart's logistics. The US retailer can simply implement the technology into the store in a way that allows the venture to reap the benefits but also prevent its partner from easily imitating its intellectual property behind Wal-Mart's logistics.

Wal-Mart's top executives decided to operate the German locations from their offices in the United Kingdom. Thus, Wal-Mart's "corporate language" was English. However, many of the older Wal-Mart managers in Germany do not speak English. As a result, there were often breakdowns in communication. Some managers of the acquired stores did not stay on after the Wal-Mart acquisition. Key business connections were lost. As a result, several key suppliers (e.g. Adidas, Samsonite, Nike) declined to work as suppliers for Wal-Mart. Wal-Mart did not just lose important suppliers; they also lost an important part of their range of goods (Senge 2004). The situation could have been improved by retaining and communicating effectively with the German managers who had know-how about the local market.

Unfortunately, Wal-Mart had decided that its successful track record in US, Mexico, and the UK would serve as a sufficient prerequisite in entering Germany through acquisition. Also, it assumed that its country-dependent advantages would be able to transfer over such as supplier relationships and consumer market knowledge. As a result, the company's German stores are facing shrinking margins and thus low profitability. However, Wal-Mart has several options to deal with this dilemma: 1) continue expanding in Germany through acquisitions/organic growth to gain economies of scale, 2) halt expansion but attempt to adjust its current assets to the industry landscape in Germany, and 3) divest its German assets.

Considering the fact that it has already spent a considerable amount of time, effort, and money in Germany, Wal-Mart may continue expanding in Germany in hopes of gaining economies of scale. These investments should be considered sunken costs and thus should not bias decision making.

Wal-Mart has already demonstrated that they have been destroying shareholder value through acquiring German retailers and expecting to turn them around. Thus, investing additional capital in hopes of turning around existing German retailers should not be reasonable. The plan to organically scale up operations would not work well in Germany given the current stringent regulatory environment. If Wal-Mart pursues organic growth, Wal-Mart would have to undergo a time-consuming and potentially financially costly process to have their proposal win the approval of the local, state, and national governments.

This is highly unlikely given the perceived detrimental impact of allowing Wal-Mart to establish more Supercenters in Germany. One concern could be that the large stores if built outside the urban areas could draw populations close to the store and thus create population voids in the urban areas. Vacant old buildings in certain urban areas still remain to remind Germans of this possibility. Therefore, Wal-Mart cannot achieve the same economies of scale in Germany as experienced in the US and should not implement this expansion option.

Another more passive approach could be to keep remaining assets and adjust according to the dynamics of the industry in Germany. However, Wal-Mart competitors, who have developed relationships with suppliers and labor unions and a reputation as a low cost provider of goods to customers, have already adapted technology such as RFID, new logistics, and new scanning systems to improve efficiency and lower costs. Even if Wal-Mart reduces the quality of customer service and scales down the size of stores to help minimize costs, there is still little room for Wal-Mart to create a competitive advantage since its rivals have already taken pre-emptive action. They have learned from Wal-Mart and implemented the necessary infrastructure to prevent Wal-Mart from becoming a huge competitive threat in Germany.

The last option for Wal-Mart would be to divest its assets to a domestic retailer to cut its losses in Germany. This would be the most feasible given its current limited profitability with an increasingly competitive landscape filled with competitors taking pre-emptive action against Wal-Mart and the regulatory protocols that hindered Wal-Mart's development in Germany.

The divestment's feasibility was confirmed in 2006. In 2006, Wal-Mart decided to exit the German market by selling its retail stores to German retailer Metro. The exact terms of the agreement were not publicly disclosed; however, the result was that Wal-Mart's decision to leave incurred a $1 billion loss.

(https://medium.com/better-marketing/why-walmart-failed-in-germany-3fdcc6469b89)

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**REQUIRED:**

1. Examine factors that contributed to Wal-Mart CEO Rob Tairk's failure to successfully lead Wal-Mart's German operations.

(15 MARKS)

2. Evaluate whether Wal-Mart should have appointed a German citizen to run the stores in Germany.

(15 MARKS)

3. Assess various types of challenges a German leader might have faced.

(15 MARKS)

4. Propose ways that Wal-Mart could have done better to meet the needs of German consumers.

(15 MARKS)

**(Total: 60 MARKS)**

**END OF EXAM**