Chapter 7

CROSS-CULTURAL COMMUNICATION AND NEGOTIATION

OBJECTIVES OF THE CHAPTER

Communication takes on special importance in international management because of the difficulties in conveying meanings between parties from different cultures. The problems of misinterpretation and error are compounded in the international context. Chapter 7 examines how the communication process in general works, and it looks at the downward and upward communication flows that commonly are used in international communication. Then the chapter examines the major barriers to effective international communication and reviews ways of dealing with these communication problems. Finally, one important dimension of international communication, international negotiation, is examined, with particular attention to how negotiation approaches and strategies must be adapted to different cultural environments. The specific objectives of this chapter are:

1. **DEFINE** the term *communication,* examine some examples of verbal communication styles, and explain the importance of message interpretation.
2. **ANALYZE** the common downward and upward communication flows used in international communication.
3. **EXAMINE** the language, perception, and culture of communication and nonverbal barriers to effective international communications.
4. **PRESENT** the steps that can be taken to overcome international communication problems.
5. **DEVELOP** approaches to international negotiations that respond to differences in culture.
6. **REVIEW** different negotiating and bargaining behaviors that may improve negotiations and outcomes.

The World of *International Management*

Offshoring Culture and Communication

Offshore call-center agents for a North American airline had difficulty relating to customers stranded at airports because of a snowstorm. The reason? These agents had never seen snow or been to an airport. The solution? The airline set up TVs broadcasting CNN in the break rooms so that agents could be exposed to snow, airports, and flight delays.

Offshoring, or the practice of a company moving certain services overseas, has highlighted cultural differences between employees around the world. Yet, if offshoring is managed correctly, companies can save money and increase productivity. By offshoring, Mamas and Papas, a U.K.-based baby stroller company, has benefited from the decreased labor and material costs and the ability to send work to places in the world best equipped to complete each piece of the manufacturing process. An employee of the company, Gill Kingston-Warren, told the Financial Times: “The U.K. is known for design and intellectual property and other countries have skills we are not known for any more. Some countries have strong traditions of craftsmanship, while others are focused on technology.” Offshoring enables companies to capitalize on other countries’ cultural advantages. By the same token, however, these cultural differences can create challenges for firms that engage in offshoring.

Cultural Challenges

According to the global management consultants A.T. Kearney, when companies offshore certain operations, they face four main cultural challenges: communication, context, relationships, and working norms.

First, employees may encounter communication difficulties. In the “The Offshore Cultural Clash,” A.T. Kearney consultants wrote:

> An American financial services manager e-mailed a counterpart in India laying out a project and asking for a

work plan. Her counterpart's reply: "I will do the needful." The meaning, clear to people in India, is "I will do what's necessary to accomplish what we've been talking about." Most Westerners in Europe and North America have probably never heard the phrase and don't understand it. They prefer to convey their views directly and clarify the details of their contracts and intentions. In India, where e-mails are far less specific, such detail seems not only unnecessary, but also distrustful. The two cultures hold different expectations of what is said, what needs to be said, and what can remain unsaid but understood.

Understanding the communication style of different cultures is key to managing employees in different regions of the world. In addition, it is essential to prevent communication lapses. For instance, an American bank had offshore service providers that it had worked with for the past five years, yet their relationships remained strained. The bank eventually discovered that U.S.-based IT teams received important updates for changing business requirements, but the offshore partners never received these updates. As a result, the bank had to re-do much of its work at significant cost. Companies can avoid this problem by having a dedicated liaison between the "home country" and offshore employees to verify that every team has clear information and work expectations.

Second, managers must be aware of offshore workers' "context." Do these workers possess a cultural context necessary to understand the product or service? One credit card company executive told A.T. Kearney that his employees in India struggled to apply their accounting knowledge to credit card payment processing because "Consumer credit markets are not as pervasive in India as they are in the United States, where it's hard to find anyone who doesn't have an intuitive understanding of credit-card transactions. For our offshore agents, we had to develop that foundation."

Third, companies need to understand how offshore agents perceive relationships. According to A.T. Kearney, one manager noticed that offshore agents are very deferential to their superiors. He said that if a manager is in the room, offshore agents "will not answer questions or make comments without specific invitations to do so."

Fourth, managers must be aware of different cultural working norms. Indeed, by fostering collaboration between employees with cultural strengths, managers can increase productivity. One executive told A.T. Kearney that his company was very consensus-driven, but it lacked discipline. He found an offshore service provider that had a culture of discipline. Offshoring can be an opportunity for a company to find employees with different strengths to handle work that is best suited for them.

Tips for Managing Offshoring

The following are a few tips for managing the cultural challenges of offshore operations.

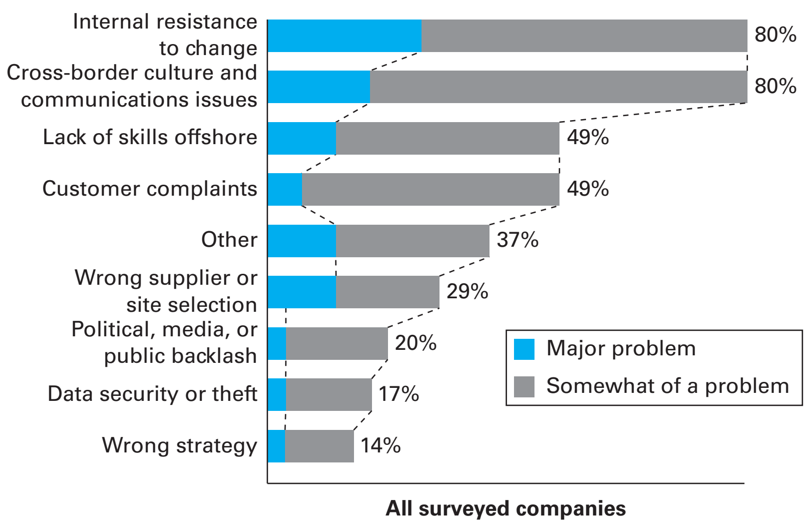
Avoid an "us vs. them" mentality. Instead, insist on mutual respect. Companies that have a strong hierarchical and "clan" culture often resent their offshore colleagues. One manager compared this situation to a transplant patient rejecting a new organ. To prevent this problem, A.T. Kearney recommended: "All parties to the offshoring arrangement should understand that mutual respect for cultures, both national and corporate, is not negotiable. One way to demonstrate mutual respect is to send a healthy mix of rote and 'intelligent' activities to the offshore location. Delegating complex activities to the offshore team also requires a close working relationship, which can build trust." Also, personal face-to-face interactions can help managers work through cultural differences so that offshore counterparts can be true partners.

Provide training to managers to meet new expectations. When companies move certain operations offshore, managers are often expected to be able to manage offshore employees without any additional training. Companies need to provide training opportunities to managers to fulfill their new roles, such as teaching them to use metrics to manage people rather than supervising by line of sight.

Foster collaboration between "home country" and offshore employees. Based on their study of 130 offshore operations in India, Kannan Srikanth and Phanish Puranam found that the operations that "paid close attention to managing coordination performed almost four times as well as their less-successful counterparts." Furthermore, Srikanth and Puranam indicated that by focusing on teamwork between offshore and "home country" employees, companies could expand their offshore operations beyond merely call-centers and IT support. They noted that "if Western companies focused more on fostering collaboration between workers separated by geography and culture, and less on forcing offshore workers to perform tasks in very specific ways, the range of work they could source offshore would be significantly expanded." How do managers achieve this collaboration? Srikanth and Puranam suggested that managers concentrate on "building common ground—essentially, shared knowledge—across locations, so that employees working offshore can anticipate the actions and decisions of their onshore counterparts without the need for extensive discussion." Companies can develop common ground in two ways. Managers can train employees together so they become familiar with others' work habits and adopt the same business vocabulary. Also, firms can utilize technology that allows employees to see work across locations as it is being performed.

As A.T. Kearney consultants point out, "Cultural issues are not insurmountable, but they must be purposely and diligently addressed." In A.T. Kearney's 2007 study of offshoring performance, A.T. Kearney found that cross-border culture and communications issues were a significant problem for companies engaging in offshoring. By understanding cultural differences ahead of time, managers increase their chances that they can make offshoring operations a success for their companies.

Offshoring problems



Source: A.T. Kearney's 2007 study of offshoring performance, *Execution Is Everything: The Keys to Offshoring Success.*

The opening World of International Management illustrates how cross-border communication is affected by cultural differences—both national and organizational—and how the increased offshoring of services tasks has exacerbated those challenges. Many firms offshore tasks in order to save costs without considering the implications for service and managerial oversight, issues that can quickly erode the cost benefits. The stark differences in culture, some emanating from basic variation in political, geographic, and even climatic realities (as in the example of the call-center staff who had never seen snow or been in an airport) can frustrate the coordination of global operations. Yet, there are some simple approaches that can alleviate some of these challenges and begin to bridge cultural divides. These center around anticipating, or at least responding quickly to, cultural gaps, and also creating an environment of continuous information exchange and communication. They also depend on deeper understanding of cultural differences and willingness to adapt and adust to those differences when appropriate.

In this chapter, we explore communication and negotiation styles across cultures, emphasizing the importance of understanding different approaches to the development of effective international communication and negotiation strategies.

The Overall Communication Process

Communication is the process of transferring meanings from sender to receiver. On the surface, this appears to be a fairly straightforward process. On analysis, however, there are a great many problems in the international arena that can result in the failure to transfer meanings correctly.

communication
The process of transferring meanings from sender to receiver.

In addition, as suggested in the opening World of International Management, the means and modes of communication have changed dramatically in recent decades. For example, the advent of the telephone, then Internet, and most recently personal communication devices ("smart phones") has influenced how, when, and why people communicate. These trends have both benefits and disadvantages. On the plus side, we have many more opportunities to communicate rapidly, without delays or filters, and often can incorporate rich content, such as photos, videos, and links to other information, in our exchanges. On the other hand, some are concerned that these devices are rendering our communication less meaningful and personal. In a recent book, Nicholas Carr argues that when we go online, "we enter an environment that promotes cursory reading, hurried and distracted thinking, and superficial learning." Mr. Carr calls the Web "a technology of forgetfulness." Web pages draw us into a myriad of embedded links while we are assaulted by other messages via e-mail, RSS, and Twitter and Facebook accounts. He suggests that greater access to knowledge is not the same as greater knowledge and that an ever-increasing plethora of facts and data is not the same as wisdom.[1]

Despite these concerns, communication—verbal and otherwise—remains an important dimension of international management. In this chapter, we survey different communication styles, how communication is processed and interpreted, and how culture and language influence communication (and miscommunication).

Verbal Communication Styles

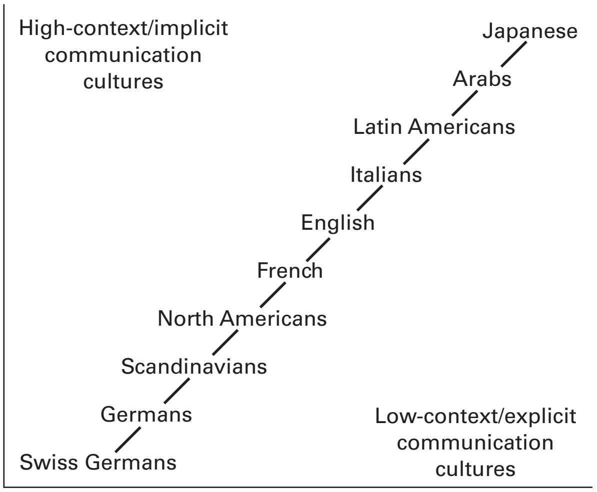
One way of examining the ways in which individuals convey information is by looking at their communication styles. In particular, as has been noted by Hall, *context* plays a key role in explaining many communication differences.[2] **Context** is information that surrounds a communication and helps convey the message. In high-context societies, such as Japan and many Arab countries, messages are often highly coded and implicit. As a result, the receiver's job is to interpret what the message means by correctly filtering through what is being said and the way in which the message is being conveyed. This approach is in sharp contrast to low-context societies such as the United States and Canada, where the message is explicit and the speaker says precisely what he or she means. These contextual factors must be considered when marketing messages are being developed in disparate societies. For example, promotions in Japan should be subtle and convey a sense of community (high context). Similar segments in the United States, a low-context environment, should be responsive to expectations for more explicit messages. Figure 7–1 provides an international comparison of high-context/implicit and low-context/explicit societies. In addition, Table 7–1 presents some of the major characteristics of communication styles.

context
Information that surrounds a communication and helps convey the message.

Indirect and Direct Styles In high-context cultures, messages are implicit and indirect. One reason is that those who are communicating—family, friends, co-workers, clients—tend to have both close personal relationships and large information networks. As a result, each knows a lot about others in the communication network; they do not have to rely on language alone to communicate. Voice intonation, timing, and facial expressions can all play roles in conveying information.

Figure 7–1

Explicit-Implicit Communication: An International Comparison



Source: Adapted from Martin Rosch, "Communications: Focal Point of Culture," *Management International Review* 27, no. 4 (1987), p. 60. Used with permission.

In low-context cultures, people often meet only to accomplish objectives. Since they do not know each other very well, they tend to be direct and focused in their communications.

One way of comparing these two kinds of culture—high context and low context—is by finding out what types of questions are typically asked when someone is contacted and told to attend a meeting. In a high-context culture it is common for the person to ask, "Who will be at this meeting?" so he or she knows how to prepare for appropriate personal interactions. In contrast, in a low-context culture the individual is likely to ask, "What is the meeting going to be about?" so he or she knows how to properly organize for the engagement. In the high-context society, the person focuses on the environment

Table 7–1
Major Characteristics of Verbal Styles

Verbal Style	Major Variation	Interaction Focus and Content	Cultures in Which Characteristic Is Found
Indirect vs. direct	Indirect Direct	Implicit messages Explicit messages	Collective, high context Individualistic, low context
Succinct vs. elaborate	Elaborate	High quantity of talk	Moderate uncertainty avoidance, high context
	Exacting	Moderate amount of talk	Low uncertainty avoidance, low context
	Succinct	Low amount of talk	High uncertainty avoidance, high context
Contextual vs. personal	Contextual	Focus on the speaker and role relationships	High power distance, collective, high context
	Personal	Focus on the speaker and personal relationships	Low power distance, individualistic, low context
Affective vs. instrumental	Affective	Process-oriented and receiver-focused language	Collective, high context
	Instrumental	Goal-oriented and sender-focused language	Individualistic, low context

in which the meeting will take place. In the low-context society, the individual is most interested in the objectives that are to be accomplished at the meeting.

Elaborate to Succinct Styles There are three degrees of communication quantity—elaborate, exacting, and succinct. In high-context societies, the elaborate style is often very common. There is a great deal of talking, description includes much detail, and people often repeat themselves. This elaborate style is widely used in Arabic countries.

The exacting style is more common in nations such as England, Germany, and Sweden, to name three. This style focuses on precision and the use of the right amount of words to convey the message. If a person uses too many words, this is considered exaggeration; if the individual relies on too few, the result is an ambiguous message.

The succinct style is most common in Asia, where people tend to say few words and allow understatements, pauses, and silence to convey meaning. In particular, in unfamiliar situations, communicators are succinct in order to avoid risking a loss of face.

Researchers have found that the elaborating style is more popular in high-context cultures that have a moderate degree of uncertainty avoidance. The exacting style is more common in low-context, low-uncertainty-avoidance cultures. The succinct style is more common in high-context cultures with considerable uncertainty avoidance.

Contextual and Personal Styles A contextual style is one that focuses on the speaker and relationship of the parties. For example, in Asian cultures people use words that reflect the role and hierarchical relationship of those in the conversation. As a result, in an organizational setting, speakers will choose words that indicate their status relative to the status of the others. Commenting on this idea, Yoshimura and Anderson have noted that white-collar, middle-management employees in Japan, commonly known as salarymen, quickly learn how to communicate with others in the organization by understanding the context and reference group of the other party:

> A salaryman can hardly say a word to another person without implicitly defining the reference groups to which he thinks both of them belong. . . . [This is because] failing to use proper language is socially embarrassing, and the correct form of Japanese to use with someone else depends not only on the relationship between the two people, but also on the relationship between their reference groups. Juniors defer to seniors in Japan, but even this relationship is complicated when the junior person works for a much more prestigious organization (for example, a government bureau) than the senior. [As a result, it is] likely that both will use the polite form to avoid social embarrassment.[3]

A personal style focuses on the speaker and the reduction of barriers between the parties. In the United States, for example, it is common to use first names and to address others informally and directly on an equal basis.

Researchers have found that the contextual style is often associated with high-power-distance, collective, high-context cultures. Examples include Japan, India, and Ghana. In contrast, the personal style is more popular in low-power-distance, individualistic, low-context cultures. Examples include the United States, Australia, and Canada.

Affective and Instrumental Styles The affective style is characterized by language that requires the listener to carefully note what is being said and to observe how the sender is presenting the message. Quite often the meaning that is being conveyed is nonverbal and requires the receiver to use his or her intuitive skills in deciphering what is being said. The part of the message that is being left out may be just as important as the part that is being included. In contrast, the instrumental style is goal-oriented and focuses on the sender. The individual clearly lets the other party know what he or she wants the other party to know.

The affective style is common in collective, high-context cultures such as the Middle East, Latin America, and Asia. The instrumental style is more commonly found in individualistic, low-context cultures such as Switzerland, Denmark, and the United States.

Table 7–2
Verbal Styles Used in 10 Select Countries

Country	Indirect vs. Direct	Elaborate vs. Succinct	Contextual vs. Personal	Affective vs. Instrumental
Australia	Direct	Exacting	Personal	Instrumental
Canada	Direct	Exacting	Personal	Instrumental
Denmark	Direct	Exacting	Personal	Instrumental
Egypt	Indirect	Elaborate	Contextual	Affective
England	Direct	Exacting	Personal	Instrumental
Japan	Indirect	Succinct	Contextual	Affective
Korea	Indirect	Succinct	Contextual	Affective
Saudi Arabia	Indirect	Elaborate	Contextual	Affective
Sweden	Direct	Exacting	Personal	Instrumental
United States	Direct	Exacting	Personal	Instrumental

Source: Anne Marie Francesco and Barry Allen Gold, *International Organizational Behavior: Text, Readings, Cases, and Skills,* 1st Edition © 1998. Electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

Table 7–2 provides a brief description of the four verbal styles that are used in select countries. A close look at the table helps explain why managers in Japan can have great difficulty communicating with their counterparts in the United States and vice versa: The verbal styles do not match in any context.

Interpretation of Communications

The effectiveness of communication in the international context often is determined by how closely the sender and receiver have the same meaning for the same message.[4] If this meaning is different, effective communication will not occur. A good example is the U.S. firm that wanted to increase worker output among its Japanese personnel. This firm put an individual incentive plan into effect, whereby workers would be given extra pay based on their work output. The plan, which had worked well in the United States, was a total flop. The Japanese were accustomed to working in groups and to being rewarded as a group. In another case, a U.S. firm offered a bonus to anyone who would provide suggestions that resulted in increased productivity. The Japanese workers rejected this idea, because they felt that no one working alone is responsible for increased productivity. It is always a group effort. When the company changed the system and began rewarding group productivity, it was successful in gaining support for the program.

A related case occurs when both parties agree on the content of the message but one party believes it is necessary to persuade the other to accept the message. Here is an example:

> Motorola University recently prepared carefully for a presentation in China. After considerable thought, the presenters entitled it "Relationships do not retire." The gist of the presentation was that Motorola had come to China in order to stay and help the economy to create wealth. Relationships with Chinese suppliers, subcontractors and employees would constitute a permanent commitment to building Chinese economic infrastructure and earning hard currency through exports. The Chinese audience listened politely to this presentation but was quiet when invited to ask questions. Finally one manager put up his hand and said: "Can you tell us about pay for performance?"[5]

Quite obviously, the Motorola presenter believed that it was necessary to convince the audience that the company was in China for the long run. Those in attendance, however, had already accepted this idea and wanted to move on to other issues.

Still another example has been provided by Adler, who has pointed out that people doing business in a foreign culture often misinterpret the meaning of messages. As a result, they arrive at erroneous conclusions as in the following story of a Canadian doing business in the Middle East. The Canadian was surprised when his meeting with a high-ranking official was not held in a closed office and was constantly interrupted:

> Using the Canadian-based cultural assumptions that (a) important people have large private offices with secretaries to monitor the flow of people into the office, and (b) important business takes precedence over less important business and is therefore not interrupted, the Canadian interprets the . . . open office and constant interruptions to mean that the official is neither as high ranking nor as interested in conducting the business at hand as he had previously thought.[6]

Communication Flows

Communication flows in international organizations move both down and up. However, as Figure 7–2 humorously, but in many ways accurately, portrays, there are some unique differences in organizations around the world.

Downward Communication

downward communication
The transmission of information from managers to subordinate.

Downward communication is the transmission of information from manager to subordinate. The primary purpose of the manager-initiated communication flow is to convey orders and information. Managers use this channel to let their people know what is to be done and how well they are doing. The channel facilitates the flow of information to those who need it for operational purposes.

Communicating with subordinates can be both challenging and difficult, especially if the manager delivering the news does not believe in the decision. Some suggest that managers should consider pushing back with superiors to gauge whether there is some flexibility. If you haven't fully bought into it, "your employees will be able to tell in the tone of your voice or your body language that you do not believe in what you are doing," says Ray Skiba, director of human resources at Streck, a manufacturer of clinical laboratory products in Omaha, Nebraska. Whether or not this is successful, sending a mixed signal is never helpful.

> "Once you've done your internal work, prepare yourself to deliver the message. If there was team involvement in the decision, ask one of the team members to listen to how you plan to address your employees. The more prepared you are, the better the outcome," says Mr. Skiba. Next, consider your communication strategy. "Explain why the decision is important to the business, how the decision was made, and why it is important that the plan be executed," says Kimberly Bishop, founder of a career management and leadership services consulting firm in New York. Give your employees ample time to digest the message. Since it took you some time to accept the information, realize that your employees will need time as well. "When the message has been delivered, be available to answer questions, be visible and approachable to help individuals get to the point of acceptance," says Mr. Skiba.[7]

In the international context, downward communication poses special challenges. For example, in Asian countries, as noted earlier, downward communication is less direct than in the United States. Orders tend to be implicit in nature. Conversely, in some European countries, downward communication is not only direct but extends beyond business matters. For example, one early study surveyed 299 U.S. and French managers regarding the nature of downward communication and the managerial authority they perceived themselves as having. This study found that U.S. managers basically used downward communication for work-related matters. A follow-up study investigated matters that U.S. and French managers felt were within the purview of their authority.[8] The major differences involved work-related and nonwork-related activities: U.S. managers felt that it was within their authority to communicate or attempt to influence their people's social behavior only

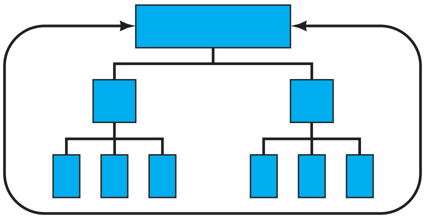
Figure 7–2

Communication Epigrams

There are a number of different "organization charts" that have been constructed to depict international organizations. An epigram is a poem or line of verse that is witty or satirical in nature. The following organization designs are epigrams that show how communication occurs in different countries. In examining them, remember that each contains considerable exaggeration and humor, but also some degree of truth.

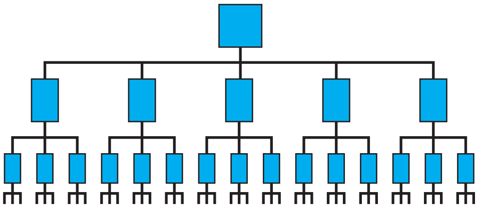
In America, everyone thinks he or she has a communication pipeline directly to the top.

America



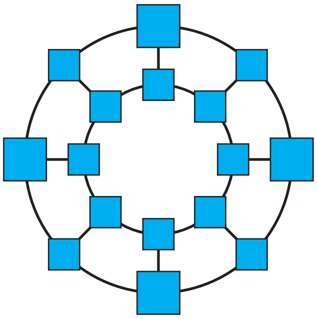
There are so many people in China that organizations are monolithic structures characterized by copious levels of bureaucracy. All information flows through channels.

China



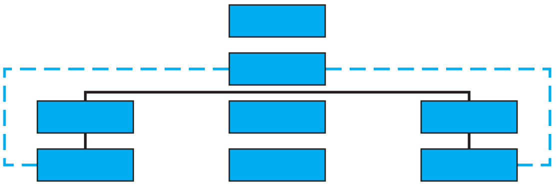
At the United Nations everyone is arranged in a circle so that no one is more powerful than anyone else. Those directly in front or behind are philosophically aligned, and those nearby form part of an international bloc.

United Nations



In France some people in the hierarchy are not linked to anyone, indicating how haphazard the structure can be.

France



Source: Adapted from Simcha Ronen, *Comparative and Multinational Management* (New York: Wiley, 1986), pp. 318–319. The epigrams in turn were derived from a variety of sources, including Robert M. Worchester of the U.K.-based Market and Opinion Research International (MORI), Ole Jacob Raad of Norway's PM Systems, and anonymous managers.

if it occurred on the job or it directly affected their work. For example, U.S. managers felt that it was proper to look into matters such as how much an individual drinks at lunch, whether the person uses profanity in the workplace, and how active the individual is in recruiting others to join the company. The French managers were not as supportive of these activities. The researcher concluded that "the Americans find it as difficult [as] or more difficult than the French to accept the legitimacy of managerial authority in areas unrelated to work."[9]

Harris and Moran have noted that when communicating downward with nonnative speakers, it is extremely important to use language that is easy to understand and allows the other person to ask questions. Here are 10 suggestions that apply not only for downward but for all types of communication with nonnative speakers:

1. Use the most common words with their most common meanings.
2. Select words that have few alternative meanings.
3. Strictly follow the basic rules of grammar—more so than would be the case with native speakers.
4. Speak with clear breaks between the words so that it is easier for the person to follow.
5. Avoid using words that are esoteric or culturally biased such as "he struck out" or "the whole idea is Mickey Mouse" because these clichés often have no meaning for the listener.
6. Avoid the use of slang.
7. Do not use words or expressions that require the other person to create a mental image such as "we were knee deep in the Big Muddy."
8. Mimic the cultural flavor of the nonnative speaker's language, for example, by using more flowery communication with Spanish-speaking listeners than with Germans.
9. Continually paraphrase and repeat the basic ideas.
10. At the end, test how well the other person understands by asking the individual to paraphrase what has been said.[10]

Upward Communication

Upward communication is the transfer of information from subordinate to superior. The primary purpose of this subordinate-initiated upward communication is to provide feedback, ask questions, or obtain assistance from higher-level management. In recent years, there has been a call for and a concerted effort to promote more upward communication in the United States. In other countries, such as in Japan, Hong Kong, and Singapore, upward communication has long been a fact of life. Managers in these countries have extensively used suggestion systems and quality circles to get employee input and always are available to listen to their people's concerns.

upward communication
The transfer of meaning from subordinate to superior.

Here are some observations from the approach the Japanese firm Matsushita uses in dealing with employee suggestions:

> Matsushita views employee recommendations as instrumental to making improvements on the shop floor and in the marketplace. [It believes] that a great many little people, paying attention each day to how to improve their jobs, can accomplish more than a whole headquarters full of production engineers and planners. Praise and positive reinforcement are an important part of the Matsushita philosophy. . . . Approximately 90 percent of . . . suggestions receive rewards; most only a few dollars per month, but the message is reinforced constantly: "Think about your job; develop yourself and help us improve the company." The best suggestions receive company-wide recognition and can earn substantial monetary rewards. Each year, many special awards are also given, including presidential prizes and various divisional honors.[11]

Matsushita has used the same approach wherever it has established plants worldwide, and the strategy has proved very successful. The company has all its employees

Table 7–3
Matsushita's Philosophy

Basic Business Principles

To recognize our responsibilities as industrialists, to foster progress, to promote the general welfare of society, and to devote ourselves to the further development of world culture.

Employees Creed

Progress and development can be realized only through the combined efforts and cooperation of each member of the company. Each of us, therefore, shall keep this idea constantly in mind as we devote ourselves to the continuous improvement of our company.

The Seven Spiritual Values

1. National service through industry
2. Fairness
3. Harmony and cooperation
4. Struggle for betterment
5. Courtesy and humility
6. Adjustment and assimilation
7. Gratitude

begin the day by reciting its basic principles, beliefs, and values, which are summarized in Table 7–3, to reinforce in all employees the reason for the company's existence and to provide a form of spiritual fabric to energize and sustain them. All employees see themselves as important members of a successful team, and they are willing to do whatever is necessary to ensure the success of the group.

Outside these Asian countries, upward communication is not as popular. For example, in South America, many managers believe that employees should follow orders and not ask a lot of questions. German managers also make much less use of this form of communication. In most cases, however, evidence shows that employees prefer to have downward communication at least supplemented by upward channels. Unfortunately, such upward communication does not always occur because of a number of communication barriers.

Communication Barriers

A number of common communication barriers are relevant to international management. The more important barriers involve language, perception, culture, and nonverbal communication.

Language Barriers

Knowledge of the home country's language (the language used at the headquarters of the MNC) is important for personnel placed in a foreign assignment. If managers do not understand the language that is used at headquarters, they likely will make a wide assortment of errors. Additionally, many MNCs now prescribe English as the common language for internal communication, so that managers can more easily convey information to their counterparts in other geographically dispersed locales.[12] Despite such progress, however, language training continues to lag in many areas, although in an increasing number of European countries, more and more young people are becoming multilingual.[13] Table 7–4 shows the percentage of European students who are studying English, French, or German.

Language education is a good beginning, but it is also important to realize that the ability to speak the language used at MNC headquarters is often not enough to ensure that the personnel are capable of doing the work. Stout recently noted that many MNCs worldwide place a great deal of attention on the applicant's ability to speak English without considering if the person has other necessary skills, such as the ability to interact well with others and the technical knowledge demanded by the job.[14] Additionally,

Table 7–4
Multilingualism in the EU Classroom

	Percentage of Pupils in General Secondary Education Learning English, French, or German as a Foreign Language, 2004		
	English	**French**	**German**
Finland	99	13	26
Germany	94	23	–
Denmark	99	15	85
Spain	97	37	2
France	97	–	18
Belgium	70	52	15
Greece	97	39	20
Italy	88	31	5
Romania	92	86	11
Britain	–	34	14
Ireland	–	68	21
Poland	80	6	46

Source: Eurostat (2007).

in interviewing people for jobs, he has noted that many interviewers fail to take into account the applicant's culture. As a result, interviewers misinterpret behaviors such as quietness or shyness and use them to conclude that the applicant is not sufficiently confident or self-assured. Still another problem is that nonnative speakers may know the language but not be fully fluent, so they end up asking questions or making statements that convey the wrong message. After studying Japanese for only one year, Stout began interviewing candidates in their local language and made a number of mistakes. In one case, he reports, "a young woman admitted to having an adulterous affair—even though this was not even close to the topic I was inquiring about—because of my unskilled use of the language."[15]

Written communication has been getting increased attention, because poor writing is proving to be a greater barrier than poor talking. For example, Hildebrandt has found that among U.S. subsidiaries studied in Germany, language was a major problem when subsidiaries were sending written communications to the home office. The process often involved elaborate procedures associated with translating and reworking the report. Typical steps included (1) holding a staff conference to determine what was to be included in the written message; (2) writing the initial draft in German; (3) rewriting the draft in German; (4) translating the material into English; (5) consulting with bilingual staff members regarding the translation; and (6) rewriting the English draft a series of additional times until the paper was judged to be acceptable for transmission. The German managers admitted that they felt uncomfortable with writing, because their command of written English was poor. As Hildebrandt noted:

> All German managers commanding oral English stated that their grammatical competence was not sufficiently honed to produce a written English report of top quality. Even when professional translators from outside the company rewrote the German into English, German middle managers were unable to verify whether the report captured the substantive intent or included editorial alterations.[16]

Problems associated with the translation of information from one language to another have been made even clearer by Schermerhorn, who conducted research among 153 Hong Kong Chinese bilinguals who were enrolled in an undergraduate management course at a major Hong Kong university. The students were given two scenarios, written in either

English or Chinese. One scenario involved a manager who was providing some form of personal support or praise for a subordinate. The research used the following procedures:

> [A] careful translation and back-translation method was followed to create the Chinese language versions of the research instruments. Two bilingual Hong Kong Chinese, both highly fluent in English and having expertise in the field of management, shared roles in the process. Each first translated one scenario and the evaluation questions into Chinese. Next they translated each other's Chinese versions back into English, and discussed and resolved translation differences in group consultation with the author. Finally, a Hong Kong professor read and interpreted the translations correctly as a final check of equivalency.[17]

The participants were asked to answer eight evaluation questions about these scenarios. A significant difference between the two sets of responses was found. Those who were queried in Chinese gave different answers from those who were queried in English. This led Schermerhorn to conclude that language plays a key role in conveying information between cultures and that in cross-cultural management research, bilingual individuals should not be queried in their second language.

Cultural Barriers in Language Geographic distance poses challenges for international managers, but so do cultural and institutional distance. Previous research has conceptualized and measured cross-national differences primarily in terms of dyadic cultural distance; that is, comparing the "distance" of one culture to another. Some, however, have suggested that distance is a multidimensional construct which includes economic, financial, political, administrative, cultural, demographic, knowledge, and global connectedness as well as geographic distance and cannot be summarized in one "score."[18] Nowhere does such cultural distance show up more vividly than in challenges to accurate communications.

As one dimension of such distance, cultural barriers have significant ramifications for international communications. For example, research by Sims and Guice compared 214 letters of inquiry written by native and nonnative speakers of English to test the assumption that cultural factors affect business communication. Among other things, the researchers found that nonnative speakers used exaggerated politeness, provided unnecessary professional and personal information, and made inappropriate requests of the other party. Commenting on the results and implications of their study, the researchers noted that their investigation indicated that the deviations from standard U.S. business communication practices were not specific to one or more nationalities. The deviations did not occur among specific nationalities but were spread throughout the sample of nonnative letters used for the study. Therefore, we can speculate that U.S. native speakers of English might have similar difficulties in international settings. In other words, a significant number of native speakers in the U.S. might deviate from the standard business communication practices of other cultures. Therefore, these native speakers need specific training in the business communication practices of the major cultures of the world so they can communicate successfully and acceptably with readers in those cultures.[19]

Research by Scott and Green has extended these findings, showing that even in English-speaking countries, there are different approaches to writing letters. In the United States, for example, it is common practice when constructing a bad-news letter to start out "with a pleasant, relevant, neutral, and transitional buffer statement; give the reasons for the unfavorable news before presenting the bad news; present the refusal in a positive manner; imply the bad news whenever possible; explain how the refusal is in the reader's best interest; and suggest positive alternatives that build goodwill."[20] In Great Britain, however, it is common to start out by referring to the situation, discussing the reasons for the bad news, conveying the bad news (often quite bluntly), and concluding with an apology or statement of regret (something that is frowned on by business-letter experts in the United States) designed to keep the reader's goodwill. Here is an example:

> Lord Hanson has asked me to reply to your letter and questionnaire of February 12 which we received today.

> As you may imagine, we receive numerous requests to complete questionnaires or to participate in a survey, and this poses problems for us. You will appreciate that the time it would take to complete these requests would represent a full-time job, so we decided some while ago to decline such requests unless there was some obvious benefit to Hanson PLC and our stockholders. As I am sure you will understand, our prime responsibility is to look after our stockholders' interests.
>
> I apologize that this will not have been the response that you were hoping for, but I wish you success with your research study.[21]

U.S. MNC managers would seldom, if ever, send that type of letter; it would be viewed as blunt and tactless. However, the indirect approach that Americans use would be viewed by their British counterparts as overly indirect and obviously insincere.

On the other hand, when compared to Asians, many American writers are far more blunt and direct. For example, Park, Dillon, and Mitchell reported that there are pronounced differences between the ways in which Americans and Asians write business letters of complaint. They compared the approach used by American managers for whom English is a first language, who wrote international business letters of complaint, with the approach of Korean managers for whom English is a second language, who wrote the same types of letters. They found that American writers used a direct organizational pattern and tended to state the main idea or problem first before sharing explanatory details that clearly related to the stated problem. In contrast, the standard Korean pattern was indirect and tended to delay the reader's discovery of the main point. This led the researchers to conclude that the U.S.-generated letter might be regarded as rude by Asian readers, while American readers might regard the letter from the Korean writer as vague, emotional, and accusatory.[22]

Perceptual Barriers

perception
A person's view of reality.

Perception is a person's view of reality. How people see reality can vary and will influence their judgment and decision making.[23] Examples abound, of course, of how perceptions play an important role in international management. Japanese stockbrokers who perceived that the chances of improving their career would be better with U.S. firms have changed jobs. Hong Kong hoteliers bought U.S. properties because they had the perception that if they could offer the same top-quality hotel service as back home, they could dominate the U.S. markets. Unfortunately, *mis*perceptions can become a barrier to effective communication and thus decision making. For example, when the Clinton administration decided to allow Taiwan President Lee Tenghui to visit the United States, the Chinese (PRC) government perceived this as a threatening gesture and took actions of its own. Besides conducting dangerous war games very near Taiwan's border as a warning to Taiwan not to become too bold in its quest for recognition as a sovereign nation, the PRC also snubbed U.S. car manufacturers and gave a much-coveted $1 billion contract to Mercedes-Benz of Germany.[24] In international incidents such as this perception is critical, and misperceptions may get out of hand. The following sections provide examples of perceptual barriers and their results in the international business arena.

Advertising Messages One way that perception can prove to be a problem in international management communication is the very basic misunderstandings caused when one side uses words or symbols that simply are misinterpreted by others. Many firms have found to their dismay that a failure to understand home-country perceptions can result in disastrous advertising programs, for instance. Here are two examples:

> Ford . . . introduced a low cost truck, the "Fiera," into some Spanish-speaking countries. Unfortunately, the name meant "ugly old woman" in Spanish. Needless to say, this name did not encourage sales. Ford also experienced slow sales when it introduced a top-of-the-line automobile, the "Comet," in Mexico under the name "Caliente." The puzzling low sales were finally understood when Ford discovered that "caliente" is slang for a street walker.[25]

> One laundry detergent company certainly wishes now that it had contacted a few locals before it initiated its promotional campaign in the Middle East. All of the company's advertisements pictured soiled clothes on the left, its box of soap in the middle, and clean clothes on the right. But, because in that area of the world people tend to read from the right to the left, many potential customers interpreted the message to indicate the soap actually soiled the clothes.[26]

There have been countless other such advertising blunders. Some speak to the political context, such as when Mercedes-Benz introduced its Grand Sports Tourer, or Mercedes GST, in Canada. Canadians were not very impressed, since they used the letters GST to refer to Canadian socialism. Other times, the advertising is simply offensive. Bacardi, for example, advertised the fruity drink "Pavian" in Germany, believing that it was *tres chic*. "Pavian" to the German population, however, meant "baboon." Needless to say, sales did not exceed expectations. The food and beverage industry may have experienced the worst string of bloopers. The Coors slogan "Turn It Loose" dismayed the Spanish who thought it would cause intestinal problems. In Taiwan, Pepsi's "Come alive with Pepsi" frightened consumers, since it literally meant "Pepsi will bring your ancestors back from the grave." Finally, even though Kentucky Fried Chicken is performing better in the Chinese market than in America, its catchphrase "Finger-licking good" was originally translated as "Eat your fingers off."[27]

Managers must be very careful when they translate messages. As mentioned, some common phrases in one country will not mean the same thing in others. Evidently from the many examples, errors in translation occur frequently, but MNCs can still come out on top with care and persistence, always remembering that perception may create new reality.

View of Others Perception influences how individuals "see" others. A good example is provided by the perception of foreigners who reside in the United States by Americans and the perception of Americans by the rest of the world. Most Americans see themselves as extremely friendly, outgoing, and kind, and they believe that others also see them in this way. At the same time, many are not aware of the negative impressions they give to others. This has become especially salient in light of Americans' reaction to September 11, 2001, and their conduct of the Iraq War, which have at times shaken the world view of the United States. It becomes a trying exercise to sort through truth and error in such circumstances.

An example in the business world where perception is all important and misperception may abound is the way in which people act, or should act, when initially meeting others. The nearby International Management in Action feature, "Doing It Right the First Time," provides some insight regarding how to conduct oneself when doing business in Japan.

Perceptions of others obviously may play a major role in the context of international management in the effects of the ways that international managers perceive their subordinates and their peers. For example, a study examined the perceptions that German and U.S. managers had of the qualifications of their peers (those on the same level and status), managers, and subordinates in Europe and Latin America.[28] The findings showed that both the German and the U.S. respondents perceived their subordinates to be less qualified than their peers. However, although the Germans perceived their managers to have more managerial ability than their peers, the Americans felt that their South American peers in many instances had qualifications equal to or better than the qualifications of their own managers. Quite obviously, these perceptions will affect how German and U.S. expatriates communicate with their South American and other peers and subordinates, as well as how the expatriates communicate with their bosses.

Another study found that Western managers have more favorable attitudes toward women as managers than do Asian or Saudi managers.[29] Japanese managers, according to one survey, also still regard women as superfluous to the effective running of their organizations and generally continue to not treat women as equals.[30] Such perceptions obviously affect the way these managers interact and communicate with their female counterparts.

International Management in Action

Doing It Right the First Time

Like other countries of the world, Japan has its own business customs and culture. And when someone fails to adhere to tradition, the individual runs the risk of being perceived as ineffective or uncaring. The following addresses three areas that are important in being correctly perceived by one's Japanese counterparts.

Business Cards

The exchange of business cards is an integral part of Japanese business etiquette, and Japanese businesspeople exchange these cards when meeting someone for the first time. Additionally, those who are most likely to interface with non-Japanese are supplied with business cards printed in Japanese on one side and a foreign language, usually English, on the reverse side. This is aimed at enhancing recognition and pronunciation of Japanese names, which are often unfamiliar to foreign businesspeople. Conversely, it is advisable for foreign businesspeople to carry and exchange with their Japanese counterparts a similar type of card printed in Japanese and in their native language. These cards can often be obtained through business centers in major hotels.

When receiving a card, it is considered common courtesy to offer one in return. In fact, not returning a card might convey the impression that the manager is not committed to a meaningful business relationship in the future.

Business cards should be presented and received with both hands. When presenting one's card, the presenter's name should be facing the person who is receiving the card so the receiver can easily read it. When receiving a business card, it should be handled with care, and if the receiver is sitting at a conference or other type of table, the card should be placed in front of the individual for the duration of the meeting. It is considered rude to put a prospective business partner's card in one's pocket before sitting down to discuss business matters.

Bowing

Although the handshake is increasingly common in Japan, bowing remains the most prevalent formal method of greeting, saying goodbye, expressing gratitude, or apologizing to another person. When meeting foreign businesspeople, however, Japanese will often use the handshake or a combination of both a handshake and a bow, even though there are different forms and styles of bowing, depending on the relationship of the parties involved. Foreign businesspeople are not expected to be familiar with these intricacies, and therefore a deep nod of the head or a slight bow will suffice in most cases. Many foreign businesspeople are unsure whether to use a handshake or to bow. In these situations, it is best to wait and see if one's Japanese counterpart offers a hand or prefers to bow and then to follow suit.

Attire

Most Japanese businessmen dress in conservative dark or navy blue suits, although slight variations in style and color have come to be accepted in recent years. As a general rule, what is acceptable business attire in virtually any industrialized country is usually regarded as good business attire in Japan as well. Although there is no need to conform precisely to the style of dress of the Japanese, good judgment should be exercised when selecting attire for a business meeting. If unsure about what constitutes appropriate attire for a particular situation, it is best to err on the conservative side.

The Impact of Culture

Besides language and perception, another major barrier to communication is culture, a topic that was given detailed attention in Chapter 4. Culture can affect communication in a number of ways, and one way is through the impact of cultural values.

Cultural Values One expert on Middle Eastern countries notes that people there do not relate to and communicate with each other in a loose, general way as do those in the United States. Relationships are more intense and binding in the Middle East, and a wide variety of work-related values influence what people in the Middle East will and will not do.

In North American society, the generally professed prevalent pattern is one of nonclass-consciousness, as far as work is concerned. Students, for example, make extra pocket money by taking all sorts of part-time jobs—manual and otherwise—regardless of the socioeconomic stratum to which the individual belongs. The attitude is uninhibited. In the Middle East, the overruling obsession is how the money is made and via what kind of job.[31]

Table 7–5
U.S. Proverbs Representing Cultural Values

Proverb	Cultural Value
A penny saved is a penny earned.	Thriftiness
Time is money.	Time thriftiness
Don't cry over spilt milk.	Practicality
Waste not, want not.	Frugality
Early to bed, early to rise, makes one healthy, wealthy, and wise.	Diligence; work ethic
A stitch in time saves nine.	Timeliness of action
If at first you don't succeed, try, try again.	Persistence; work ethic
Take care of today, and tomorrow will take care of itself.	Preparation for future

Source: Adapted from Nancy J. Adler (with Allison Gunderson), *International Dimensions of Organizational Behavior,* 5th ed. (Mason, OH: South-Western, 2008), p. 84.

These types of values indirectly, and in many cases directly, affect communication between people from different cultures. For example, one would communicate differently with a "rich college student" from the United States than with one from Saudi Arabia. Similarly, when negotiating with managers from other cultures, knowing the way to handle the deal requires an understanding of cultural values.[32]

Another cultural value is the way that people use time. In the United States, people believe that time is an asset and is not to be wasted. This is an idea that has limited meaning in some other cultures. Various values are reinforced and reflected in proverbs that Americans are taught from an early age. These proverbs help to guide people's behavior. Table 7–5 lists some examples.

Misinterpretation Cultural differences can cause misinterpretations both in how others see expatriate managers and in how the latter see themselves. For example, U.S. managers doing business in Austria often misinterpret the fact that local businesspeople always address them in formal terms. They may view this as meaning that they are not friends or are not liked, but in fact, this formal behavior is the way that Austrians always conduct business. The informal, first-name approach used in the United States is not the style of the Austrians.

Culture even affects day-to-day activities of corporate communications.[33] For example, when sending messages to international clients, American managers have to keep in mind that there are many things that are uniquely American and overseas managers may not be aware of them. As an example, daylight savings time is known to all Americans, but many Asian managers have no idea what the term means. Similarly, it is common for American managers to address memos to their "international office" without realizing that the managers who work in this office regard the American location as the "international" one! Other suggestions that can be of value to American managers who are engaged in international communications include:

- Be careful not to use generalized statements about benefits, compensation, pay cycles, holidays, or policies in your worldwide communications. Work hours, vacation accrual, general business practices, and human resource issues vary widely from country to country.
- Since most of the world uses the metric system, be sure to include converted weights and measures in all internal and external communications.
- Keep in mind that even in English-speaking countries, words may have different meanings. Not everyone knows what is meant by "counterclockwise," or "quite good."

- Remember that letterhead and paper sizes differ worldwide. The $8^1/_2 \times 11$ inch page is a U.S. standard, but most countries use an A4 ($8^1/_4 \times 11^1/_2$ inch) size for their letterhead, with envelopes to match.
- Dollars are not unique to the United States. There are Australian, Bermudian, Canadian, Hong Kong, Taiwanese, and New Zealand dollars, among others. So when referring to American dollars, it is important to use "US$."

Many Americans also have difficulty interpreting the effect of national values on work behavior. For example, why do French and German workers drink alcoholic beverages at lunchtime? Why are many European workers unwilling to work the night shift? Why do overseas affiliates contribute to the support of the employees' work council or donate money to the support of kindergarten teachers in local schools? These types of actions are viewed by some people as wasteful, but those who know the culture of these countries realize that such actions promote the long-run good of the company. It is the outsider who is misinterpreting why these culturally specific actions are happening, and such misperceptions can become a barrier to effective communication.

Nonverbal Communication

Another major source of communication and perception problems is **nonverbal communication,** which is the transfer of meaning through means such as body language and use of physical space. Table 7–6 summarizes a number of dimensions of nonverbal communication. The general categories that are especially important to communication in international management are *kinesics, proxemics, chronemics,* and *chromatics.*

nonverbal communication
The transfer of meaning through means such as body language and the use of physical space.

kinesics
The study of communication through body movement and facial expression.

oculesics
The area of communication that deals with conveying messages through the use of eye contact and gaze.

Kinesics **Kinesics** is the study of communication through body movement and facial expression. Primary areas of concern include eye contact, posture, and gestures. For example, when one communicates verbally with someone in the United States, it is good manners to look the other person in the eye. This area of communicating through the use of eye contact and gaze is known as **oculesics.** In some areas of the world oculesics is an important

Table 7–6
Common Forms of Nonverbal Communication

1. Hand gestures, both intended and self-directed (autistic), such as the nervous rubbing of hands.
2. Facial expressions, such as smiles, frowns, and yawns.
3. Posture and stance.
4. Clothing and hair styles (hair being more like clothes than like skin, both subject to the fashion of the day).
5. Interpersonal distance (proxemics).
6. Eye contact and direction of gaze, particularly in "listening behavior."
7. "Artifacts" and nonverbal symbols, such as lapel pins, walking sticks, and jewelry.
8. Paralanguage (though often in language, just as often treated as part of nonverbal behavior—speech rate, pitch, inflections, volume).
9. Taste, including symbolism of food and the communication function of chatting over coffee or tea, and oral gratification such as smoking or gum chewing.
10. Cosmetics: temporary—powder; permanent—tattoos.
11. Time symbolism: when is too late or too early to telephone or visit a friend, or what is too long or too short to make a speech or stay for dinner.
12. Timing and pauses within verbal behavior.

Source: From John C. Condon and Fathi S. Yousef, *An Introduction to Intercultural Communication,* 1st Edition. Published by Allyn and Bacon, Boston, MA. Copyright © 1975 by Pearson Education. Reprinted by permission of the publisher.

consideration because of what people should not do, such as stare at others or maintain continuous eye contact, because it is considered impolite to do these things.

Another area of kinesics is posture, which can also cause problems. For example, when Americans are engaged in prolonged negotiations or meetings, it is not uncommon for them to relax and put their feet up on a chair or desk, but this is insulting behavior in the Middle East. Here is an example from a classroom situation:

> In the midst of a discussion of a poem in the sophomore class of the English Department, the professor, who was British, took up the argument, started to explain the subtleties of the poem, and was carried away by the situation. He leaned back in his chair, put his feet up on the desk, and went on with the explanation. The class was furious. Before the end of the day, a demonstration by the University's full student body had taken place. Petitions were submitted to the deans of the various facilities. The next day, the situation even made the newspaper headlines. The consequences of the act, that was innocently done, might seem ridiculous, funny, baffling, incomprehensible, or even incredible to a stranger. Yet, to the native, the students' behavior was logical and in context. The students and their supporters were outraged because of the implications of the breach of the native behavioral pattern. In the Middle East, it is extremely insulting to have to sit facing two soles of the shoes of somebody.[34]

haptics
Communicating through the use of bodily contact.

Gestures are also widely used and take many different forms. For example, Canadians shake hands, Japanese bow, Middle Easterners of the same sex kiss on the cheek. Communicating through the use of bodily contact is known as **haptics,** and it is a widely used form of nonverbal communication.

Sometimes gestures present problems for expatriate managers because these behaviors have different meanings depending on the country. For example, in the United States, putting the thumb and index finger together to form an "O" is the sign for "okay." In Japan, this is the sign for money; in southern France, the gesture means "zero" or "worthless"; and in Brazil, it is regarded as a vulgar or obscene sign. In France and Belgium, snapping the fingers of both hands is considered vulgar; in Brazil, this gesture is used to indicate that something has been done for a long time. In Britain, the "V for victory" sign is given with the palm facing out; if the palm is facing in, this roughly means "shove it"; in non-British countries, the gesture means two of something and often is used when placing an order at a restaurant.[35] Gibson, Hodgetts, and Blackwell found that many foreign students attending school in the United States have trouble communicating because they are unable to interpret some of the most common nonverbal gestures.[36] A survey group of 44 Jamaican, Venezuelan, Colombian, Peruvian, Thai, Indian, and Japanese students at two major universities were given pictures of 20 universal cultural gestures, and each was asked to describe the nonverbal gestures illustrated. In 56 percent of the choices the respondents either gave an interpretation that was markedly different from that of Americans or reported that the nonverbal gesture had no meaning in their culture. These findings help to reinforce the need to teach expatriates about local nonverbal communication.

proxemics
The study of the way people use physical space to convey messages.

intimate distance
Distance between people that is used for very confidential communications.

personal distance
In communicating, the physical distance used for talking with family and close friends.

social distance
In communicating, the distance used to handle most business transactions.

public distance
In communicating, the distance used when calling across the room or giving a talk to a group.

Proxemics **Proxemics** is the study of the way that people use physical space to convey messages. For example, in the United States, there are four "distances" people use in communicating on a face-to-face basis (see Figure 7–3). **Intimate distance** is used for very confidential communications. **Personal distance** is used for talking with family and close friends. **Social distance** is used to handle most business transactions. **Public distance** is used when calling across the room or giving a talk to a group.

One major problem for Americans communicating with people from the Middle East or South America is that the intimate or personal distance zones are violated. Americans often tend to be moving away in interpersonal communication with their Middle Eastern or Latin counterparts, while the latter are trying to physically close the gap. The American cannot understand why the other is standing so close; the latter cannot understand why the American is being so reserved and standing so far away. The result is a breakdown in communication.

Office layout is another good example of proxemics. In the United States, the more important the manager, the larger the office, and often a secretary screens visitors and

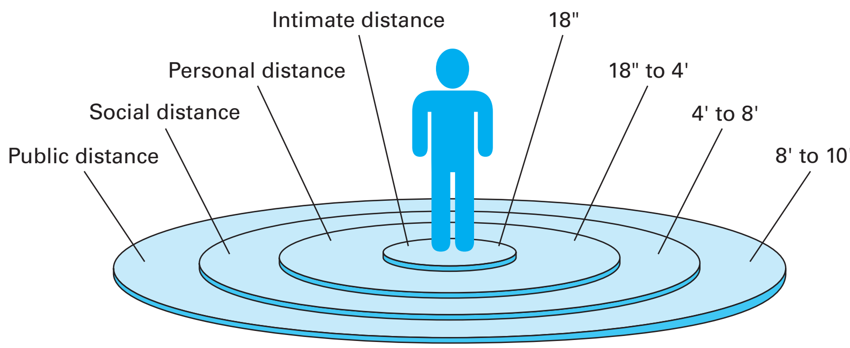


Figure 7–3

Personal Space Categories for Those in the United States

Source: Adapted from Richard M. Hodgetts and Donald F. Kuratko, *Management,* 2nd ed. (San Diego, CA: Harcourt Brace Jovanovich, 1991), p. 384.

keeps away those whom the manager does not wish to see. In Japan, most managers do not have large offices, and even if they do, they spend a great deal of time out of the office and with the employees. Thus, the Japanese have no trouble communicating directly with their superiors. A Japanese manager staying in his office would be viewed as a sign of distrust or anger toward the group.

Another way that office proxemics can affect communication is that in many European companies, no wall separates the space allocated to the senior-level manager from that of the subordinates. Everyone works in the same large room. These working conditions often are disconcerting to Americans, who tend to prefer more privacy.

Chronemics **Chronemics** refers to the way in which time is used in a culture. When examined in terms of extremes, there are two types of time schedules: *monochronic* and *polychronic*. A **monochronic time schedule** is one in which things are done in a linear fashion. A manager will address Issue A first and then move on to Issue B. In individualistic cultures such as the United States, Great Britain, Canada, and Australia, as well as many of the cultures in Northern Europe, managers adhere to monochronic time schedules. In these societies, time schedules are very important, and time is viewed as something that can be controlled and should be used wisely.

chronemics
The way in which time is used in a culture.

monochronic time schedule
A time schedule in which things are done in a linear fashion.

polychronic time schedule
A time schedule in which people tend to do several things at the same time and place higher value on personal involvement than on getting things done on time.

This is in sharp contrast to **polychronic time schedules,** which are characterized by people tending to do several things at the same time and placing higher value on personal involvement than on getting things done on time. In these cultures, schedules are subordinated to personal relationships. Regions of the world where polychronic time schedules are common include Latin America and the Middle East.

When doing business in countries that adhere to monochronic time schedules, it is important to be on time for meetings. Additionally, these meetings typically end at the appointed time so that participants can be on time for their next meeting. When doing business in countries that adhere to polychronic time schedules, it is common to find business meetings starting late and finishing late.

Chromatics **Chromatics** is the use of color to communicate messages. Every society uses chromatics, but in different ways. Colors that mean one thing in the United States may mean something entirely different in Asia. For example, in the United States it is common to wear black when one is in mourning, while in some locations in India people wear white when they are in mourning. In Hong Kong red is used to signify happiness or luck and traditional bridal dresses are red; in the United States it is common for the bride to wear white. In many Asian countries shampoos are dark in color because users want the soap to be the same color as their hair and believe that if it were a light color, it would remove color from their hair. In the United States shampoos tend to be light in color because people see this as a sign of cleanliness and hygiene. In Chile a gift of yellow roses conveys the message “I don’t like you,” but in the United States it says quite the opposite.

chromatics
The use of color to communicate messages.

Knowing the importance and the specifics of chromatics in a culture can be very helpful because, among other things, such knowledge can help you avoid embarrassing situations. A good example is the American manager in Peru who, upon finishing a one-week visit to the Lima subsidiary, decided to thank the assistant who was assigned to him. He sent her a dozen red roses. The lady understood the faux pas, but the American manager was somewhat embarrassed when his Peruvian counterpart smilingly told him, "It was really nice of you to buy her a present. However, red roses indicate a romantic interest!"

Achieving Communication Effectiveness

A number of steps can be taken to improve communication effectiveness in the international arena. These include improving feedback systems, providing language and cultural training, and increasing flexibility and cooperation.

Improve Feedback Systems

One of the most important ways of improving communication effectiveness in the international context is to open up feedback systems. Feedback is particularly important between parent companies and their affiliates. There are two basic types of feedback systems: personal (e.g., face-to-face meetings, telephone conversations, and personalized e-mail) and impersonal (e.g., reports, budgets, and plans). Both systems help affiliates keep their home office aware of progress and, in turn, help the home office monitor and control affiliate performance as well as set goals and standards.

At present, there seem to be varying degrees of feedback between the home offices of MNCs and their affiliates. For example, one study evaluated the communication feedback between subsidiaries and home offices of 63 MNCs headquartered in Europe, Japan, and North America.[37] A marked difference was found between the way that U.S. companies communicated with their subsidiaries and the way that European and Japanese firms did. Over one-half of the U.S. subsidiaries responded that they received monthly feedback from their parent companies, in contrast to less than 10 percent for the subsidiaries of European and Japanese firms. In addition, the Americans were much more inclined to hold regular management meetings on a regional or worldwide basis. Seventy-five percent of the U.S. companies had annual meetings for their affiliate top managers, compared with less than 50 percent for the Europeans and Japanese. These findings may help explain why many international subsidiaries and affiliates are not operating as efficiently as they should. The units may not have sufficient contact with the home office. They do not seem to be getting continuous assistance and feedback that are critical to effective communication.

Provide Language Training

Besides improving feedback systems, another way to make communication more effective in the international arena is through language training. Many host-country managers cannot communicate well with their counterparts at headquarters. Because English has become the international language of business, those who are not native speakers of English should learn the language well enough so that face-to-face and telephone conversations and e-mail are possible. If the language of the home office is not English, this other language also should be learned. As a U.S. manager working for a Japanese MNC recently told one of the authors, "The official international language of this company is English. However, whenever the home-office people show up, they tend to cluster together with their countrymen and speak Japanese. That's why I'm trying to learn Japanese. Let's face it. They say all you need to know is English, but if you want to really know what's going on, you have to talk *their* language."

Written communication also is extremely important in achieving effectiveness. As noted earlier, when reports, letters, and e-mail messages are translated from one language to another, preventing a loss of meaning is virtually impossible. Moreover, if the communications are not written properly, they may not be given the attention they deserve. The reader will allow poor grammar and syntax to influence his or her interpretation and subsequent actions. Moreover, if readers cannot communicate in the language of those who will be receiving their comments or questions about the report, their messages also must be translated and likely will further lose meaning. Therefore, the process can continue on and on, each party failing to achieve full communication with the other. Hildebrandt has described the problems in this two-way process when an employee in a foreign subsidiary writes a report and then sends it to his or her boss for forwarding to the home office:

> The general manager or vice president cannot be asked to be an editor. Yet they often send statements along, knowingly, which are poorly written, grammatically imperfect, or generally unclear. The time pressures do not permit otherwise. Predictably, questions are issued from the States to the subsidiary and the complicated bilingual process now goes in reverse, ultimately reaching the original . . . staff member, who receives the English questions retranslated.[38]

Language training would help to alleviate such complicated communication problems.

Provide Cultural Training

It is very difficult to communicate effectively with someone from another culture unless at least one party has some understanding of the other's culture.[39] Otherwise, communication likely will break down. This is particularly important for multinational companies that have operations throughout the world.[40] Although there always are important differences between countries, and even between subcultures of the same country, firms that operate in South America find that the cultures of these countries have certain commonalities. These common factors also apply to Spain and Portugal. Therefore, a basic understanding of Latin cultures can prove to be useful throughout a large region of the world. The same is true of Anglo cultures, where norms and values tend to be somewhat similar from one country to another. When a multinational has operations in South America, Europe, and Asia, however, multicultural training becomes necessary. International Management in Action, "Communicating in Europe," provides some specific examples of cultural differences.

As Chapter 4 pointed out, it is erroneous to generalize about an "international" culture, because the various nations and regions of the globe are so different. Training must be conducted on a regional or country-specific basis. Failure to do so can result in continuous communication breakdown.[41] Many corporations are investing in programs to help train their executives in international communication. Such training has become more common since it began in the 1970s as many Americans returned from the Peace Corps with increased awareness of cultural differences. And this training is not limited to those who travel themselves but is increasingly important for employees who frequently interact with individuals from other cultures in their workplace or in their communication.

"Whether a multinational or a start-up business out of a garage, everybody is global these days," said Dean Foster, president of Dean Foster Associates, an intercultural consultancy in New York. "In today's economy, there is no room for failure. Companies have to understand the culture they are working in from Day 1." Mr. Foster recounted how an American businessman recently gave four antique clocks wrapped in white paper to a prospective client in China. What the man did not realize, he said, was that the words in Mandarin for clock and the number four are similar to the word for death, and white is a funeral color in many Asian countries. "The symbolism was so powerful," Mr. Foster said, that the man lost the deal.[42] Chapter 14 will give considerable attention to cultural training as part of selection for overseas assignments and human resource development.

Increase Flexibility and Cooperation

Effective international communications require increased flexibility and cooperation by all parties.[43] To improve understanding and cooperation, each party must be prepared to give a little.[44] Take the case of International Computers Ltd., a mainframe computer firm

Communicating in Europe

In Europe, many countries are within easy commuting distance of their neighbors, so an expatriate who does business in France on Monday may be in Germany on Tuesday, Great Britain on Wednesday, Italy on Thursday, and Spain on Friday. Each country has its own etiquette regarding how to greet others and conduct oneself during social and business meetings. The following sections examine some of the things that expatriate managers need to know to communicate effectively.

France

When one is meeting with businesspeople in France, promptness is expected, although tardiness of 5 to 10 minutes is not considered a major gaffe. The French prefer to shake hands when introduced, and it is correct to address them by title plus last name. When the meeting is over, a handshake again is proper manners.

French executives try to keep their personal and professional lives separate. As a result, most business entertaining is done at restaurants or clubs. When gifts are given to business associates, they should appeal to intellectual or aesthetic pursuits as opposed to being something that one's company produces for sale on the world market. In conversational discussions, topics such as politics and money should be avoided. Also, humor should be used carefully during business meetings.

Germany

German executives like to be greeted by their title, and one should never refer to someone on a first-name basis unless invited to do so. When introducing yourself, do not use a title, just state your last name. Business appointments should be made well in advance, and punctuality is important. Like the French, the Germans usually do not entertain clients at home, so an invitation to a German manager's home is a special privilege and always should be followed with a thank-you note. Additionally, as is the case in France, one should avoid using humor during business meetings. They are very serious when it comes to business, so be as prepared as possible and keep light-hearted banter to the German hosts' discretion.

Great Britain

In Britain, it is common to shake hands on the first meeting, and to be polite one should use last names and appropriate titles when addressing the host, until invited to use their first name. Punctuality again is important to the British, so be prepared to be on time and get down to business fairly quickly. The British are quite warm, though, and an invitation to a British home is more likely than in most areas of Europe. You should always bring a gift if invited to the host's house; flowers, chocolates, or books are acceptable.

During business meetings, suits and ties are common dress; however, striped ties should be avoided if they appear to be a copy of those worn by alumni of British universities and schools or by members of military or social clubs. Additionally, during social gatherings it is a good idea not to discuss politics, religion, or gossip about the monarchy unless the British person brings the topic up first.

Italy

In traditional companies, executives are referred to by title plus last name. It is common to shake hands when being introduced, and if the individual is a university graduate, the professional title *dottore* should be used.

Business appointments should be made well in advance, and if you expect to be late, call the host and explain the situation. In most cases, business is done at the office, and when someone is invited to a restaurant, this invitation is usually done to socialize and not to continue business discussions. If an expatriate is invited to an Italian home, it is common to bring a gift for the host, such as a bottle of wine or a box of chocolates. Flowers are also acceptable, but be sure to send an uneven number and avoid chrysanthemums, a symbol of death, and red roses, a sign of deep passion. Be sure to offer high-quality gifts with the wrapping done well, as the Italians are very generous when it comes to gifts. It is not a common practice to exchange them during business, but it is recommended that you are prepared. During the dinner conversation, there is a wide variety of acceptable topics, including business, family matters, and soccer.

Spain

It is common to use first names when introducing or talking to people in Spain, and close friends typically greet each other with an embrace. Appointments should be made in advance, but punctuality is not essential.

If one is invited to the home of a Spanish executive, flowers or chocolates for the host are acceptable gifts. If the invitation includes dinner, any business discussions should be delayed until after coffee is served. During the social gathering, some topics that should be avoided include religion, family, and work. Additionally, humor rarely is used during formal occasions.

that does a great deal of business in Japan. This firm urges its people to strive for successful collaboration in their international partnerships and ventures. At the heart of this process is effective communication. As put by Kenichi Ohmae:

> We must recognize and accept the inescapable subtleties and difficulties of intercompany relationships. This is the essential starting point. Then we must focus not on contractual or equity-related issues but on the quality of the people at the interface between organizations. Finally, we must understand that success requires frequent, rapport-building meetings by at least three organizational levels: top management, staff, and line management at the working level.[45]

Managing Cross-Cultural Negotiations

Closely related to communications but deserving special attention is managing negotiations.[46] **Negotiation** is the process of bargaining with one or more parties to arrive at a solution that is acceptable to all. It has been estimated that managers can spend 50 percent or more of their time on negotiation processes.[47] Therefore, it is a learnable skill that is imperative not only for the international manager but for the domestic manager as well, since more and more domestic businesses are operating in multicultural environments (see Chapter 6). Negotiation often follows assessing political environments and is a natural approach to conflict management. Often, the MNC must negotiate with the host country to secure the best possible arrangements. The MNC and the host country will discuss the investment the MNC is prepared to make in return for certain guarantees or concessions. The initial range of topics typically includes critical areas such as hiring practices, direct financial investment, taxes, and ownership control. Negotiation also is used in creating joint ventures with local firms and in getting the operation off the ground. After the firm is operating, additional areas of negotiation include expansion of facilities, use of more local managers, additional imports or exports of materials and finished goods, and recapture of profits.

negotiation
Bargaining with one or more parties for the purpose of arriving at a solution acceptable to all.

On a more macro level of international trade are the negotiations conducted between countries. The current balance-of-trade problem between the United States and China is one example. The massive debt problems of less developed countries and the opening of trade with Eastern European and newly emerging economies are other current examples.

Types of Negotiation

People enter into negotiations for a multitude of reasons, but the nature of the goal determines what kind of negotiation will take place. There are two types of negotiations that we will discuss here: distributive and integrative negotiation. **Distributive negotiations** occur when two parties with opposing goals compete over a set value.[48] Consider a person who passes a street vendor and sees an item he likes but considers the price, or set value, a bit steep. The goal of the buyer is to procure the item at the lowest price, getting more value for his money, while the goal of the seller is to collect as much as possible to maximize profits. Both are trying to get the best deal, but what translates into a gain by one side is usually experienced as a loss by the other, otherwise known as a *win-lose* situation. The relationship is focused on the individual and based on a short-term interaction. More often than not, the people involved are not friends, or at least their personal relationship is put aside in the matter. Information also plays an important role, since you do not want to expose too much and be vulnerable to counterattack.

distributive negotiations
Bargaining that occurs when two parties with opposing goals compete over a set value.

Research has shown that first offers in a negotiation can be good predictors of outcomes, which is why it is important to have a strong initial offer.[49] This does not imply that overly greedy or aggressive behavior is acceptable; this could be off-putting to the other negotiator, causing her or him to walk away. In addition to limiting the amount of information you disclose, it can be advantageous to know a little about the other side.

Table 7–7
Negotiation Types and Characteristics

Characteristic	Distributive Negotiations	Integrative Negotiations
Objective	Claim maximum value	Create and claim value
Motivation	Individual-selfish benefit	Group-cooperative benefit
Interests	Divergent	Overlapping
Relationship	Short term	Long term
Outcome	Win-lose	Win-win

Source: Adapted from *Harvard Business Essentials: Negotiation* (Boston: Harvard Business School Press, 2003), pp. 2–6.

integrative negotiation
Bargaining that involves cooperation between two groups to integrate interests, create value, and invest in the agreement.

Integrative negotiation involves cooperation between the two groups to integrate interests, create value, and invest in the agreement. Both groups work toward maximizing benefits for both sides and distributing those benefits. This method is sometimes called the *win-win* scenario, which does not mean that everyone receives exactly what they wish for, but instead that the compromise allows both sides to keep what is most important and still gain on the deal. The relationship in this instance tends to be more long term, since both sides take time to really get to know the other side and what motivates them. The focus is on the group, reaching for a best-case outcome where everyone benefits. Table 7–7 provides a summary of the two types of negotiation. This is the most useful tactic when dealing with business negotiation, so from this point on, we assume the *integrative* approach.

The Negotiation Process

Several basic steps can be used to manage the negotiation process. Regardless of the issues or personalities of the parties involved, this process typically begins with planning.

Planning Planning starts with the negotiators identifying the objectives they would like to attain. Then they explore the possible options for reaching these objectives. Research shows that the greater the number of options, the greater the chances for successful negotiations. While this appears to be an obvious statement, research also reveals that many negotiators do not alter their strategy when negotiating across cultures.[50] Next, consideration is given to areas of common ground between the parties. Other major areas include (1) the setting of limits on single-point objectives, such as deciding to pay no more than $10 million for the factory and $3 million for the land; (2) dividing issues into short- and long-term considerations and deciding how to handle each; and (3) determining the sequence in which to discuss the various issues.

Interpersonal Relationship Building The second phase of the negotiation process involves getting to know the people on the other side. This "feeling out" period is characterized by the desire to identify those who are reasonable and those who are not. In contrast to negotiators in many other countries, those in the United States often give little attention to this phase; they want to get down to business immediately, which often is an ineffective approach. Adler notes:

> Effective negotiators view luncheon, dinner, reception, ceremony, and tour invitations as times for interpersonal relationship building and therefore as key to the negotiating process. When American negotiators, often frustrated by the seemingly endless formalities, ceremonies, and "small talk," ask how long they must wait before beginning to "do business," the answer is simple: wait until your counterparts bring up business (and they will). Realize that the work of conducting a successful negotiation has already begun, even if business has yet to be mentioned.[51]

Exchanging Task-Related Information In this part of the negotiation process, each group sets forth its position on the critical issues. These positions often will change later in the negotiations. At this point, the participants are trying to find out what the other party wants to attain and what it is willing to give up.

Persuasion This step of negotiations is considered by many to be the most important. No side wants to give away more than it has to, but each knows that without giving some concessions, it is unlikely to reach a final agreement. The success of the persuasion step often depends on (1) how well the parties understand each other's position; (2) the ability of each to identify areas of similarity and difference; (3) the ability to create new options; and (4) the willingness to work toward a solution that allows all parties to walk away feeling they have achieved their objectives.

Agreement The final phase of negotiations is the granting of concessions and hammering out a final agreement. Sometimes, this phase is carried out piecemeal, and concessions and agreements are made on issues one at a time. This is the way negotiators from the United States like to operate. As each issue is resolved, it is removed from the bargaining table, and interest is focused on the next. Asians and Russians, on the other hand, tend to negotiate a final agreement on everything, and few concessions are given until the end.

Once again, as in all areas of communication, to negotiate effectively in the international arena, it is necessary to understand how cultural differences between the parties affect the process.

Cultural Differences Affecting Negotiations

In international negotiations, participants tend to orient their approach and interests around their home culture and their group's needs and aspirations. This is natural. Yet, to negotiate effectively, it is important to have a sound understanding of the other side's culture and position to better empathize and understand what they are about.[52] The cultural aspects managers should consider include communication patterns, time orientation, and social behaviors.[53] A number of useful steps can help in this process of understanding. One negotiation expert recommends the following:

1. Do not identify the counterpart's home culture too quickly. Common cues (e.g., name, physical appearance, language, accent, location) may be unreliable. The counterpart probably belongs to more than one culture.
2. Beware of the Western bias toward "doing." In Arab, Asian, and Latin groups, ways of being (e.g., comportment, smell), feeling, thinking, and talking can shape relationships more powerfully than doing.
3. Try to counteract the tendency to formulate simple, consistent, stable images.
4. Do not assume that all aspects of the culture are equally significant. In Japan, consulting all relevant parties to a decision is more important than presenting a gift.
5. Recognize that norms for interactions involving outsiders may differ from those for interactions between compatriots.
6. Do not overestimate your familiarity with your counterpart's culture. An American studying Japanese wrote New Year's wishes to Japanese contacts in basic Japanese characters but omitted one character. As a result, the message became "Dead man, congratulations."[54]

Other useful examples have been offered by Trompenaars and Hampden-Turner, who note that a society's culture often plays a major role in determining the effectiveness of a negotiating approach. This is particularly true when the negotiating groups come from decidedly different cultures such as an ascription society and an achievement society. As noted in Chapter 4, in an *ascription* society status is attributed based on birth, kinship, gender, age, and personal connections. In an *achievement* society, status is determined by accomplishments. As a result, each side's cultural perceptions can affect the outcome of the negotiation. Here is an example:

> Sending whiz-kids to deal with people 10–20 years their senior often insults the ascriptive culture. The reaction may be: "Do these people think that they have reached our own level of experience in half the time? That a 30-year-old American is good enough to negotiate with a 50-year-old Greek or Italian?" Achievement cultures must understand that some ascriptive cultures, the Japanese especially, spend much on training and in-house education to ensure that older people actually are wiser for the years they have spent in the corporation and for the sheer number of subordinates briefing them. It insults an ascriptive culture to do anything which prevents the self-fulfilling nature of its beliefs. Older people are held to be important *so that* they will be nourished and sustained by others' respect. A stranger is expected to facilitate this scheme, not challenge it.[55]

U.S. negotiators have a style that often differs from that of negotiators in many other countries. Americans believe it is important to be factual and objective. In addition, they often make early concessions to show the other party that they are flexible and reasonable. Moreover, U.S. negotiators typically have authority to bind their party to an agreement, so if the right deal is struck, the matter can be resolved quickly. This is why deadlines are so important to Americans. They have come to do business, and they want to get things resolved immediately.

A comparative example would be the Arabs, who in contrast to Americans, with their logical approach, tend to use an emotional appeal in their negotiation style. They analyze things subjectively and treat deadlines as only general guidelines for wrapping up negotiations. They tend to open negotiations with an extreme initial position. However, the Arabs believe strongly in making concessions, do so throughout the bargaining process, and almost always reciprocate an opponent's concessions. They also seek to build a long-term relationship with their bargaining partners. For these reasons, Americans typically find it easier to negotiate with Arabs than with representatives from many other regions of the world.

Another interesting comparative example is provided by the Chinese. In initial negotiation meetings, it is common for Chinese negotiators to seek agreement on the general focus of the meetings. The hammering out of specific details is postponed for later get-togethers. By achieving agreement on the general framework within which the negotiations will be conducted, the Chinese seek to limit and focus the discussions. Many Westerners misunderstand what is happening during these initial meetings and believe the dialogue consists mostly of rhetoric and general conversation. They are wrong and quite often are surprised later on when the Chinese negotiators use the agreement on the framework and principles as a basis for getting agreement on goals—and then insist that all discussions on concrete arrangements be in accord with these agreed-upon goals. Simply put, what is viewed as general conversation by many Western negotiators is regarded by the Chinese as a formulation of the rules of the game that must be adhered to throughout the negotiations. So in negotiating with the Chinese, it is important to come prepared to ensure that one's own agenda, framework, and principles are accepted by both parties.

Before beginning any negotiations, negotiators should review the negotiating style of the other parties. (Table 7–8 provides some insights regarding negotiation styles of the Americans, Japanese, Arabs, and Mexicans.) This review should help to answer certain questions: What can we expect the other side to say and do? How are they likely to respond to certain offers? When should the most important matters be introduced? How quickly should concessions be made, and what type of reciprocity should be expected? These types of questions help effectively prepare the negotiators. In addition, the team will work on formulating negotiation tactics. The nearby International Management in Action, "Negotiating with the Japanese," demonstrates such tactics, and the following discussion gets into some of the specifics.

Table 7–8
Negotiation Styles from a Cross-Cultural Perspective

Element	United States	Japanese	Arabians	Mexicans
Group composition	Marketing oriented	Function oriented	Committee of specialists	Friendship oriented
Number involved	2–3	4–7	4–6	2–3
Space orientation	Confrontational; competitive	Display harmonious relationship	Status	Close, friendly
Establishing rapport	Short period; direct to task	Longer period; until harmony	Long period; until trusted	Longer period; discuss family
Exchange of information	Documented; step by step; multimedia	Extensive; concentrate on receiving side	Less emphasis on technology, more on relationship	Less emphasis on technology, more on relationship
Persuasion tools	Time pressure; loss of saving/making money	Maintain relationship references; intergroup connections	Go-between; hospitality	Emphasis on family and on social concerns; goodwill measured in generations
Use of language	Open, direct, sense of urgency	Indirect, appreciative, cooperative	Flattery, emotional, religious	Respectful, gracious
First offer	Fair ±5 to 10%	±10 to 20%	±20 to 50%	Fair
Second offer	Add to package; sweeten the deal	−5%	−10%	Add an incentive
Final offer package	Total package	Makes no further concessions	–25%	Total
Decision-making process	Top management team	Collective	Team makes recommendation	Senior manager and secretary
Decision maker	Top management team	Middle line with team consensus	Senior manager	Senior manager
Risk taking	Calculated personal responsibility	Low group responsibility	Religion based	Personally responsible

Source: Lillian H. Chaney and Jeanette S. Martin, *International Business Communication*, 3rd Edition © 2004. Electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

Sometimes, simply being familiar with the culture is still falling short of being aptly informed. We discussed in Chapter 2 how the political and legal environment of a country can have an influence over an MNC's decision to open operations, and those external factors are good to bear in mind when coming to an agreement. Both parties may believe that the goals have been made clear, and on the surface a settlement may deliver positive results. However, the subsequent actions taken by either company could prove to exhibit even more barriers. Take Pirelli, an Italian tire maker that acquired Continental Gummiwerke, its German competitor. Pirelli purchased the majority holdings of Continental's stock, a transaction which would translate into Pirelli having control of the company if it occurred in the United States. When Pirelli attempted to make key managerial decisions for its Continental unit, it discovered that in Germany, the corporate governance in place allows German companies to block such actions, regardless of the shareholder position. Furthermore, the labor force has quite a bit of leverage with its ability to elect members of the supervisory board, which in turn chooses the management board.[56] Pirelli essentially lost on an investment; that is, unless Continental can be profitable under its current management. If Pirelli had known that this was going to happen, it probably would have reconsidered. One solution could be for Pirelli's management to begin some positive rapport with the labor force to try to sway viewpoints internally. The better option, though, would be for international managers to be as informed as possible and avoid trouble before it occurs.

International Management in Action

Negotiating with the Japanese

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Some people believe that the most effective way of getting the Japanese to open up their markets to the United States is to use a form of strong-arm tactics, such as putting the country on a list of those to be targeted for retaliatory action. Others believe that this approach will not be effective, because the interests of the United States and Japan are intertwined and we would be hurting ourselves as much as them. Regardless of which group is right, one thing is certain: U.S. MNCs must learn how to negotiate more effectively with the Japanese. What can they do? Researchers have found that besides patience and a little table pounding, a number of important steps warrant consideration.

First, business firms need to prepare for their negotiations by learning more about Japanese culture and the "right" ways to conduct discussions. Those companies with experience in these matters report that the two best ways of doing this are to read books on Japanese business practices and social customs and to hire experts to train the negotiators. Other steps that are helpful include putting the team through simulated negotiations and hiring Japanese to assist in the negotiations.

Second, U.S. MNCs must learn patience and sincerity. Negotiations are a two-way street that require the mutual cooperation and efforts of both parties. The U.S. negotiators must understand that many times, Japanese negotiators do not have full authority to make on-the-spot decisions. Authority must be given by someone at the home office, and this failure to act quickly should not be interpreted as a lack of sincerity on the part of the Japanese negotiators.

Third, the MNC must have a unique good or service. So many things are offered for sale in Japan that unless the company has something that is truly different, persuading the other party to buy it is difficult.

Fourth, technical expertise often is viewed as a very important contribution, and this often helps to win concessions with the Japanese. The Japanese know that the Americans, for example, still dominate the world when it comes to certain types of technology and that Japan is unable to compete effectively in these areas. When such technical expertise is evident, it is very influential in persuading the Japanese to do business with the company.

These four criteria are critical to effective negotiations with the Japanese. MNCs that use them report more successful experiences than those that do not.

Negotiation Tactics

A number of specific tactics are used in international negotiation. The following discussion examines some of the most common.

Location Where should negotiations take place? If the matter is very important, most businesses will choose a neutral site. For example, U.S. firms negotiating with companies from the Far East will meet in Hawaii, and South American companies negotiating with European firms will meet halfway, in New York City. A number of benefits derive from using a neutral site. One is that each party has limited access to its home office for receiving a great deal of negotiating information and advice and thus gaining an advantage on the other. A second is that the cost of staying at the site often is quite high, so both sides have an incentive to conclude their negotiations as quickly as possible. (Of course, if one side enjoys the facilities and would like to stay as long as possible, the negotiations could drag on.) A third is that most negotiators do not like to return home with nothing to show for their efforts, so they are motivated to reach some type of agreement.

Time Limits Time limits are an important negotiation tactic when one party is under a time constraint. This is particularly true when this party has agreed to meet at the home site of the other party. For example, U.S. negotiators who go to London to discuss a joint venture with a British firm often will have a scheduled return flight. Once their hosts find out how long these individuals intend to stay, the British can plan their strategy accordingly. The "real" negotiations are unlikely to begin until close to the time that the Americans must leave. The British know that their guests will be anxious to strike some type of deal before returning home, so the Americans are at a disadvantage.

Time limits can be used tactically even if the negotiators meet at a neutral site. For example, most Americans like to be home with their families for Thanksgiving, Christmas, and the New Year holiday. Negotiations held right before these dates put

Americans at a disadvantage, because the other party knows when the Americans would like to leave.

Buyer-Seller Relations How should buyers and sellers act? As noted earlier, Americans believe in being objective and trading favors. When the negotiations are over, Americans walk away with what they have received from the other party, and they expect the other party to do the same. This is not the way negotiators in many other countries think, however.

The Japanese, for example, believe that the buyers should get most of what they want. On the other hand, they also believe that the seller should be taken care of through reciprocal favors. The buyer must ensure that the seller has not been "picked clean." For example, when many Japanese firms first started doing business with large U.S. firms, they were unaware of U.S. negotiating tactics. As a result, the Japanese thought the Americans were taking advantage of them, whereas the Americans believed they were driving a good, hard bargain.

The Brazilians are quite different from both the Americans and Japanese. Researchers have found that Brazilians do better when they are more deceptive and self-interested and their opponents more open and honest than they are.[57] Brazilians also tend to make fewer promises and commitments than their opponents, and they are much more prone to say no. However, Brazilians are more likely to make initial concessions. Overall, Brazilians are more like Americans than Japanese in that they try to maximize their advantage, but they are unlike Americans in that they do not feel obligated to be open and forthright in their approach. Whether they are buyer or seller, they want to come out on top.

Negotiating for Mutual Benefit

When managers enter a negotiation with the intent to win and are not open to flexible compromises, it can result in a stalemate. Ongoing discussion with little progress can increase tensions between the two groups and create an impasse where groups become more frustrated and aggressive, and no agreement can be reached.[58] Ultimately, too much focus on the plan with little concern for the viewpoint of the other group can lead to missed opportunities. It is important to keep objectives in mind and at the forefront, but it should not be a substitute for constructive discussions. Fisher and Ury, authors of the book *Getting to Yes,* present five general principles to help avoid such disasters: (1) separate the people from the problem, (2) focus on interests rather than positions, (3) generate a variety of options before settling on an agreement (as mentioned earlier in this section), (4) insist that the agreement be based on objective criteria, and (5) stand your ground.[59]

Separating the People from the Problem Often, when managers spend so much time getting to know the issue, many become personally involved. Therefore, responses to a particular position can be interpreted as a personal affront. In order to preserve the personal relationship and gain a clear perspective on the issue, it is important to distinguish the problem from the individual.

When dealing with people, one barrier to complete understanding is the negotiating parties' perspectives. Negotiators should try to put themselves in the other's shoes. Avoid blame, and keep the atmosphere positive by attempting to alter proposals to better translate the objectives. The more inclusive the process, the more willing everyone will be to find a solution that is mutually beneficial.

Emotional factors arise as well. Negotiators often experience some level of an emotional reaction during the process, but it is not seen by the other side. Recognize your own emotions, and be open to hearing and accepting emotional concerns of the other party. Do not respond in a defensive manner or give in to intense impulses. Ignoring the intangible tension is not recommended; try to alleviate the situation through sympathetic gestures such as apologies.

As mentioned earlier, good communication is imperative to reaching an agreement. Talk to each other, instead of just rehashing grandiose aspects of the proposal. Listen to responses, and avoid passively sitting there while formulating a response. When appropriate, summarize the key points by vocalizing your interpretation to the other side to ensure correct evaluation of intentions.

Overall, don't wait for issues to arise and react to them. Instead, go into discussion with these guidelines already in play.

Focusing on Interests over Positions The position one side takes can be expressed through a simple outline, but still does not provide the most useful information. Focusing on interests gives one insight into the motivation behind why a particular position was chosen. Digging deeper into the situation by both recognizing your own interests and becoming more familiar with others' interests will put all active partners in a better position to defend their proposal. Simply stating, "This model works, and it is the best option," may not have much leverage. Discussing your motivation, such as, "I believe our collaboration will enhance customer satisfaction, which is why I took on this project," will help others see the *why*, not just the *what*.

Hearing the incentive behind the project will make both sides more sympathetic, and may keep things consistent. Be sure to consider the other side, but maintain focus on your own concerns.

Generating Options Managers may feel pressured to come to an agreement quickly for many reasons, especially if they hail from a country that puts a value on time. If negotiations are with a group that does not consider time constraints, there may be temptation to have only a few choices to narrow the focus and expedite decisions. It turns out, though, that it is better for everyone to have a large number of options in case some proposals prove to be unsatisfactory.

How do groups go about forming these proposals? First, they can meet to brainstorm and formulate creative solutions through a sort of invention process. This includes shifting thought focus among stating the problem, analyzing the issue, pondering general approaches, and strategizing the actions. After creating the proposals, the groups can begin evaluating the options and discuss improvements where necessary. Try to avoid the win-lose approach by accentuating the points of parity. When groups do not see eye to eye, find options that can work with both viewpoints by "look[ing] for items that are of low cost to you and high benefit to them, and vice versa."[60] By offering proposals that the other side will agree to, you can pinpoint the decision makers and tailor future suggestions toward them. Be sure to support the validity of your proposal, but not to the point of being overbearing.

Using Objective Criteria In cases where there are no common interests, avoid tension by looking for objective options. Legitimate, practical criteria could be formed by using reliable third-party data, such as legal precedent. If both parties would accept being bound to certain terms, then chances are the suggestions were derived from objective criteria. The key is to emphasize the communal nature of the process. Inquire about why the other group chose its particular ideas. It will help you both see the other side and give you a springboard from which you can argue your views, which can be very persuasive. Overall, effective negotiations will result from international managers being flexible but not folding to external pressures.

These are just general guidelines to abide by to try and reach a mutual agreement. The approaches will be more effective if the group adhering to the outline was the one with more power. Fisher and Ury also looked at what managers should do if the other party has the power.

Standing Ground Every discussion will have some imbalance of power, but there is something negotiators can do to defend themselves. It may be tempting to create a "bottom line," or lowest possible set of options that one will accept, but it does not necessarily accomplish the objective. When negotiators make a definitive decision before engaging in discussion, they may soon find out that the terms never even surface. That is not to say that their bottom line is below even the lowest offer, but instead that without working with the other negotiators, they cannot accurately predict the proposals that will be devised. So what should the "weaker" opponent do?

The reason two parties are involved in a negotiation is because they both want a situation that will leave them better off than before. Therefore, no matter how long negotiations drag on, neither side should agree to terms that will leave it worse off than its best alternative to a negotiated agreement, or BATNA. Clearly defining and understanding the BATNA will make it easier to know when it is time to leave a negotiation and empower that side. An even better scenario would be if the negotiator learns of the other side's BATNA. As Fisher and Ury say: "Developing your BATNA thus not only enables you to determine what is a minimally acceptable agreement, it will probably raise that minimum."[61]

Even the most prepared manager can walk into a battle zone. At times, negotiators will encounter rigid, irritable, caustic, and selfish opponents. A positional approach to bargaining can cause tension, but the other side can opt for a principled angle. This entails a calm demeanor and a focus on the issues. Instead of counterattacking, redirect the conversation to the problem, and do not take any outbursts as personal attacks. Inquire about their reasoning and try to take any negative statements as constructive. If no common ground is reached, a neutral third party can come in to assess the desires of each side and compose an initial proposal. Each group has the right to suggest alternative approaches, but the third-party person has the last word in what the true "final draft" is. If the parties decide it is still unacceptable, then it is time to walk away from negotiations.

Fisher and Ury compiled a comprehensive guide as to how to approach negotiations. While no guideline has a 100 percent effective rate, their method helps gain a position where both sides win.

Bargaining Behaviors

Closely related to the discussion of negotiation tactics are the different types of bargaining behaviors, including both verbal and nonverbal behaviors. Verbal behaviors are an important part of the negotiating process, because they can improve the final outcome. Research shows that the profits of the negotiators increase when they make high initial offers, ask a lot of questions, and do not make many verbal commitments until the end of the negotiating process. In short, verbal behaviors are critical to the success of negotiations.

Use of Extreme Behaviors Some negotiators begin by making extreme offers or requests. The Chinese and Arabs are examples. Some negotiators, however, begin with an initial position that is close to the one they are seeking. The Americans and Swedes are examples here.

Is one approach any more effective than the other? Research shows that extreme positions tend to produce better results. Some of the reasons relate to the fact that an extreme bargaining position (1) shows the other party that the bargainer will not be exploited; (2) extends the negotiation and gives the bargainer a better opportunity to gain information on the opponent; (3) allows more room for concessions; (4) modifies the opponent's beliefs about the bargainer's preferences; (5) shows the opponent that the bargainer is willing to play the game according to the usual norms; and (6) lets the bargainer gain more than would probably be possible if a less extreme initial position had been taken.

Although the use of extreme position bargaining is considered to be "un-American," many U.S. firms have used it successfully against foreign competitors. When Peter Ueberroth managed the Olympic Games in the United States in 1984, he turned a profit of well over \$100 million—and that was without the participation of Soviet-bloc countries, which would have further increased the market potential of the games. In past Olympiads, sponsoring countries had lost hundreds of millions of dollars. How did Ueberroth do it? One way was by using extreme position bargaining. For example, the Olympic Committee felt

Table 7–9
Cross-Cultural Differences in Verbal Behavior of Japanese, U.S., and Brazilian Negotiators

	Number of Times Tactic Was Used in a Half-Hour Bargaining Session		
Behavior and Definition	**Japanese**	**United States**	**Brazilian**
Promise. A statement in which the source indicated an intention to provide the target with a reinforcing consequence which source anticipates target will evaluate as pleasant, positive, or rewarding.	7	8	3
Threat. Same as promise, except that the reinforcing consequences are thought to be noxious, unpleasant, or punishing.	4	4	2
Recommendation. A statement in which the source predicts that a pleasant environmental consequence will occur to the target. Its occurrence is not under the source's control.	7	4	5
Warning. Same as recommendation except that the consequences are thought to be unpleasant.	2	1	1
Reward. A statement by the source that is thought to create pleasant consequences for the target.	1	2	2
Punishment. Same as reward, except that the consequences are thought to be unpleasant.	1	3	3
Positive normative appeal. A statement in which the source indicates that the target's past, present, or future behavior was or will be in conformity with social norms.	1	1	0
Negative normative appeal. Same as positive normative appeal, except that the target's behavior is in violation of social norms.	3	1	1
Commitment. A statement by the source to the effect that its future bids will not go below or above a certain level.	15	13	8
Self-disclosure. A statement in which the source reveals information about itself.	34	36	39
Question. A statement in which the source asks the target to reveal information about itself.	20	20	22
Command. A statement in which the source suggests that the target perform a certain behavior.	8	6	14
First offer. The profit level associated with each participant's first offer.	61.5	57.3	75.2
Initial concession. The differences in profit between the first and second offer.	6.5	7.1	9.4
Number of no's. Number of times the word "no" was used by bargainers per half-hour.	5.7	9.0	83.4

Source: Adapted from John L. Graham, "The Influence of Culture on the Process of Business Negotiations in an Exploratory Study," *Journal of International Business Studies,* Spring 1983, p. 88. Reproduced with permission of Palgrave Macmillan.

that the Japanese should pay $10 million for the right to televise the games in the country, so when the Japanese offered $6 million for the rights, the Olympic Committee countered with $90 million. Eventually, the two sides agreed on $18.5 million. Through the effective use of extreme position bargaining, Ueberroth got the Japanese to pay over three times their original offer, an amount well in excess of the committee's budget.

Promises, Threats, and Other Behaviors Another approach to bargaining is the use of promises, threats, rewards, self-disclosures, and other behaviors that are designed to influence the other party. These behaviors often are greatly influenced by the culture. Graham conducted research using Japanese, U.S., and Brazilian businesspeople and found that they employed a variety of different behaviors during a buyer-seller negotiation simulation.[62] Table 7–9 presents the results.

The table shows that Americans and Japanese make greater use of promises than do Brazilians. The Japanese also rely heavily on recommendations and commitment. The Brazilians use a discussion of rewards, commands, and self-disclosure more than Americans and Japanese. The Brazilians also say no a great deal more and make first offers that have higher-level profits than those of the others. Americans tend to operate between these two groups, although they do make less use of commands than either of their opponents and make first offers that have lower profit levels than their opponents'.

Nonverbal Behaviors Nonverbal behaviors also are very common during negotiations. These behaviors refer to what people do rather than what they say. Nonverbal behaviors sometimes are called the "silent language." Typical examples include silent periods, facial gazing, touching, and conversational overlaps. As seen in Table 7–10, the Japanese tend to use silent periods much more often than either Americans or Brazilians during negotiations. In fact, in this study, the Brazilians did not use them at all. The Brazilians did, however, make frequent use of other nonverbal behaviors. They employed facial gazing almost four times more often than the Japanese and almost twice as often as the Americans. In addition, although the Americans and Japanese did not touch their opponents, the Brazilians made wide use of this nonverbal tactic. They also relied heavily on conversational overlaps, employing them more than twice as often as the Japanese and almost three times as often as Americans. Quite obviously, the Brazilians rely very heavily on nonverbal behaviors in their negotiating.

The important thing to remember is that in international negotiations, people use a wide variety of tactics, and the other side must be prepared to counter or find a way of dealing with them. The response will depend on the situation. Managers from different cultures will employ different tactics. Table 7–11 suggests some characteristics needed in effective negotiators, as exemplified by various cultures. To the extent that international managers have these characteristics, their success as negotiators should increase.

Table 7–10
Cross-Cultural Differences in Nonverbal Behavior of Japanese, U.S., and Brazilian Negotiators

	Number of Times Tactic Was Used in a Half-Hour Bargaining Session		
Behavior and Definition	**Japanese**	**United States**	**Brazilian**
Silent period. The number of conversational gaps of 10 seconds or more per 30 minutes.	5.5	3.5	0
Facial gazing. The number of minutes negotiators spend looking at their opponent's face per randomly selected 10-minute period.	1.3 minutes	3.3 minutes	5.2 minutes
Touching. Incidents of bargainers' touching one another per half-hour (not including handshakes).	0	0	4.7
Conversational overlaps. The number of times (per 10 minutes) that both parties to the negotiation would talk at the same time.	12.6	10.3	28.6

Source: Adapted from John L. Graham, "The Influence of Culture on the Process of Business Negotiations in an Exploratory Study," *Journal of International Business Studies,* Spring 1983, p. 88. Reproduced with permission of Palgrave Macmillan.

Table 7–11
Culture-Specific Characteristics Needed by International Managers for Effective Negotiations

U.S. managers	Preparation and planning skill
	Ability to think under pressure
	Judgment and intelligence
	Verbal expressiveness
	Product knowledge
	Ability to perceive and exploit power
	Integrity
Japanese managers	Dedication to job
	Ability to perceive and exploit power
	Ability to win respect and confidence
	Integrity
	Listening skill
	Broad perspective
	Verbal expressiveness
Chinese managers (Taiwan)	Persistence and determination
	Ability to win respect and confidence
	Preparation and planning skill
	Product knowledge
	Interesting
	Judgment and intelligence
Brazilian managers	Preparation and planning skill
	Ability to think under pressure
	Judgment and intelligence
	Verbal expressiveness
	Product knowledge
	Ability to perceive and exploit power
	Competitiveness

Source: Adapted from Nancy J. Adler, *International Dimensions of Organizational Behavior,* 2nd ed. (Boston: PWS-Kent Publishing, 1991), p. 187; and from material provided by Professor John Graham, School of Business Administration, University of Southern California, 1983.

The World of International Management—Revisited

The chapter's opening World of International Management surveyed some of the international communication and negotiation challenges that have emerged as a result of the increasing prevalence of offshoring. Offshoring has increased telephone and e-mail communication, which may exacerbate already substantial cultural differences in communication. In the opening World of International Management, recall how an e-mailed reply from an Indian colleague stating "I will do the needful" resulted in confusion on the part of an American manager. Even cultures that are speaking the same language (English, in this instance) may experience such difficulties. Understanding the communication styles of different cultures is a critical variable in managing relationships among employees and customers, managers and subordinates, and in all business relationships.

A key to success in today's global economy is being able to communicate effectively within and across national boundaries and to engage in effective negotiations across cultures. Considering the communication challenges faced by offshoring firms, along with what you have read in this chapter, answer the following questions: (1) How is communication in India similar to that of Europe and North America? How is it different? (2) What kind of managerial relationships could you assume exist between the American financial services firm (mentioned in The World of International Management) and its employees in India? (3) What kind of negotiations could help engage Indian employees and overcome some of the cultural problems encountered? How might culture play a role in the approach the Indian employees take in their negotiation with the financial firm?

SUMMARY OF KEY POINTS

1. Communication is the transfer of meaning from sender to receiver. The key to the effectiveness of communication is how accurately the receiver interprets the intended meaning.
2. Communicating in the international business context involves both downward and upward flows. Downward flows convey information from superior to subordinate; these flows vary considerably from country to country. For example, the downward system of organizational communication is much more prevalent in France than in Japan. Upward communication conveys information from subordinate to superior. In the United States and Japan, the upward system is more common than in South America or some European countries.
3. The international arena is characterized by a number of communication barriers. Some of the most important are intrinsic to language, perception, culture, and nonverbal communication. Language, particularly in written communications, often loses considerable meaning during interpretation. Perception and culture can result in people's seeing and interpreting things differently, and as a result, communication can break down. Nonverbal communication such as body language, facial expressions, and use of physical space, time, and even color often varies from country to country and, if improper, often results in communication problems.
4. A number of steps can be taken to improve communication effectiveness. Some of the most important include improving feedback, providing language and cultural training, and encouraging flexibility and cooperation. These steps can be particularly helpful in overcoming communication barriers in the international context and can lead to more effective international management.
5. Negotiation is the process of bargaining with one or more parties to arrive at a solution that is acceptable to all. There are two basic types of negotiation: distributive negotiation involves bargaining over opposing goals while integrative negotiation involves cooperation aimed at integrating interests. The negotiation process involves five basic steps: planning, interpersonal relationship building, exchanging task-related information, persuasion, and agreement. The way in which the process is carried out often will vary because of cultural differences, and it is important to understand them.
6. There are a wide variety of tactics used in international negotiating. These include location, time limits, buyer-seller relations, verbal behaviors, and nonverbal behaviors.
7. Negotiating for mutual benefit is enhanced by separating the people from the problem, focusing on interests rather than positions, generating a variety of options, insisting that the agreement be based on objective criteria, and standing one's ground.

KEY TERMS

chromatics, *211*
chronemics, *211*
communication, *195*
context, *195*
distributive negotiations, *215*
downward communication, *199*
haptics, *210*
integrative negotiation, *216*
intimate distance, *210*
kinesics, *209*
monochronic time schedule, *211*
negotiation, *215*
nonverbal communication, *209*
oculesics, *209*
perception, *205*
personal distance, *210*
polychronic time schedule, *211*
proxemics, *210*
public distance, *210*
social distance, *210*
upward communication, *201*

REVIEW AND DISCUSSION QUESTIONS

1. How does explicit communication differ from implicit communication? Which is one culture that makes wide use of explicit communication? Implicit communication? Describe how one would go about conveying the following message in each of the two cultures you identified: “You are trying very hard, but you are still making too many mistakes.”
2. One of the major reasons that foreign expatriates have difficulty doing business in the United States is that they do not understand American slang. A business executive recently gave the authors the following three examples of statements that had no direct meaning for her because she was unfamiliar with slang: “He was laughing like hell.” “Don’t worry; it’s a piece of cake.” “Let’s throw these ideas up against the wall and see if any of them stick.” Why did the foreign expat have trouble understanding these statements, and what could be said instead?
3. Yamamoto Iron & Steel is considering setting up a minimill outside Atlanta, Georgia. At present, the company is planning to send a group of executives to the area to talk with local and state officials regarding this plant. In what way might misperception be a barrier to effective communication between the representatives for both sides? Identify and discuss two examples.
4. Diaz Brothers is a winery in Barcelona. The company would like to expand operations to the United States and begin distributing its products in the Chicago area. If things work out well, the company then will expand to both coasts. In its business dealings in the Midwest, how might culture prove to be a communication barrier for the company’s representatives from Barcelona? Identify and discuss two examples.
5. Why is nonverbal communication a barrier to effective communication? Would this barrier be greater for Yamamoto Iron & Steel (question 3) or Diaz Brothers (question 4)? Defend your answer.
6. For U.S. companies going abroad for the first time, which form of nonverbal communication barrier would be the greatest, kinesics or proxemics? Why? Defend your answer.
7. If a company new to the international arena was negotiating an agreement with a potential partner in an overseas country, what basic steps should it be prepared to implement? Identify and describe them.
8. Which elements of the negotiation process should be done with only your group? Which events should take place with all sides present? Why?
9. An American manager is trying to close a deal with a Brazilian manager, but has not heard back from him for quite some time. The American is getting very nervous that if he waits too long, he is going to miss out on any backup options lost while waiting for the Brazilian. What should the American do? How can the American tell it is time to drop the deal? Give some signs that suggest negotiations will go no further.
10. Wilsten Inc. has been approached by a Japanese firm that wants exclusive production and selling rights for one of Wilsten’s new high-tech products. What does Wilsten need to know about Japanese bargaining behaviors to strike the best possible deal with this company? Identify and describe five.

INTERNET EXERCISE: WORKING EFFECTIVELY AT TOYOTA

In 2006 Toyota’s Camry was the best-selling car in the United States, and the firm’s share of the American automobile market was solid. However, the company is not resting on its laurels. Toyota has expanded worldwide and is now doing business in scores of countries. Visit the firm’s website and find out what it has been up to lately. The address is www.toyota.com. Then take a tour of the company’s products and services including cars, air services, and sports vehicles. Next, go to the jobs section site, and see what types of career opportunities there are at Toyota. Finally, find out what Toyota is doing in your particular locale. Then, drawing upon this information and the material you read in the chapter, answer these three questions: (1) What type of communication and negotiation challenges do you think you would face if you worked for Toyota and were in constant communication with home-office personnel in Japan? (2) What type of communication training do you think the firm would need to provide to you to ensure that you were effective in dealing with senior-level Japanese managers in the hierarchy? (3) Using Table 7–1 as your guide, what conclusions can you draw regarding communicating with the Japanese managers, and what guidelines would you offer to a non-Japanese employee who just entered the firm and is looking for advice and guidance regarding how to communicate and negotiate more effectively?

In the International Spotlight

China

China, with more than 1.3 billion people, is the world's most populous country and has a rapidly growing economy. Economic development has proceeded unevenly. Urban coastal areas, particularly in the southeast, are experiencing more rapid economic development than other areas of the country. China has a mixed economy, with a combination of state-owned and private firms. A number of state-owned enterprises (SOEs) have undergone partial or full privatization in recent years. The Chinese government has encouraged foreign investment—in some sectors of the economy and subject to constraints—since the 1980s, defining several "special economic zones" in which foreign investors receive preferable tax, tariff, and investment treatment. Since 2003 Hu Jintao has been the country's president and he also has the chairmanship of the Central Military Commission.

With China's entry into the World Trade Organization in November 2001, the Chinese government made a number of specific commitments to trade and investment liberalization that have substantially opened the Chinese economy to foreign firms. In telecommunications, this means the lifting or sharp reduction of tariffs and foreign ownership limitations, although China retains the right to limit foreign majority ownership of telecom firms. There has been increasing concern on the part of foreign MNCs that China has not moved fast enough in opening up previously protected sectors and generally favors Chinese firms for large government tenders such as those issued as part of the government's $586 billion stimulus package, designed to counteract the effects of the global economic crisis. China's successful hosting of the 2008 Summer Olympics in Beijing reinforced the country's pride and position as a global leader in economics, culture, foreign relations, and sports.

China's real GDP grew by 8.7 percent in 2009, an impressive performance given the global economic crisis. This growth brought China's GDP to $4.9 trillion and boosted per capita GDP to $6,600. China's economy grew by 11.9 percent and 10.0 percent in the first and second quarter of 2010, respectively.

Despite this impressive growth, employees are increasingly demanding higher wages and better working conditions. Widespread strikes at firms such as Foxconn (a large contract manufacturer that assembles Apple's i-phone, along with many other products), Honda, and Toyota underscore the desire by workers to receive a greater share of company profits and to have a stronger voice in decisions that affect them. In June 2010 a plant of Toyoda Gosei, a car parts manufacturer affiliated with Toyota, was forced to halt production in Tianjin due to a strike. The cause of the strike was the workers' demand for higher wages.

Some analysts believe that the era of China's reliance on low cost labor to fuel its economic growth may be coming to an end. Increasingly, the Chinese government and Chinese industry are investing in higher value-added products such as clean energy technology, aviation and avionics, and health care equipment. China's growth has been unparalleled and China will no doubt play an increasingly important role in global economic affairs in the future.

http://www.cnbc.com/id/37768476; http://www.1stheadlines.com/china.htm.

Questions

1. Do you think China will continue to achieve record growth? What factors could hurt its prospects?
2. Because of an abundance of cheap labor, China has been called "the workshop of the world." Do you think this will still be the case a decade from now? Why or why not?
3. What communication and negotiation approaches are likely to work best when foreign MNCs experience demands from Chinese workers for higher wages?

You Be the International Management Consultant

Foreign or Domestic?

Connie Hatley is a very successful businesswoman who has holdings in a wide variety of industries. Hatley recently was approached by one of the Big Three automakers and offered a multidealership arrangement. In return for investing $50 million in facilities, the auto manufacturer would be willing to give her five dealerships spread throughout the United States. These locations, for the most part, are in rural areas, but over the next decade, these locales likely will become much more populated. In addition, the company pointed out that a large percentage of new cars are purchased by individuals who prefer to buy in rural locations, because prices at these dealerships tend to be lower. Hatley has been seriously considering the offer, although she now has a competitive alternative.

A South Korean auto manufacturer has approached Hatley and offered her the same basic deal. Hatley indicated that she was wary of doing business with a foreign firm so far away, but the Korean manufacturer presented her with some interesting auto sales data: (1) Between 1981 and 2001, the South Korean share of the U.S. auto market went from 0 to over 3 percent. (2) South Korean automakers are capturing market share in the United States at a faster rate than any other competitor. (3) New technology is being incorporated into these Korean-built cars at an unprecedented rate, and the quality is among the highest in the industry. (4) Although the Big Three (GM, Ford, and DaimlerChrysler) hold a large share of the U.S. auto market, their market share among those 45 years of age or younger is declining and being captured by foreign competitors. (5) The South Korean firm intends to increase its share of the U.S. market by 20 percent annually.

Hatley is very impressed with these data and forecasts. Recently, however, the Korean auto company's sales and market share have been declining, and she remains uneasy about having to deal with someone located halfway around the world. "If I don't receive scheduled deliveries, whom do I call?" she asked one of her vice presidents. "Also, we don't speak their language. If there is a major problem, how are we going to really communicate with each other? I like the proposal, and I'd take it if I were sure that we wouldn't have communication problems. However, $50 million is a lot of money to invest. If a mistake is made, I'm going to lose a fortune. They did experience some problems last year, and their sales were off that year. Of course, if the South Koreans are right in their long-range forecasts and I have no major problems dealing with them, my return on investment is going to be almost 50 percent higher than it will be with the U.S. manufacturer."

Questions

1. What specific types of communication problems might Hatley encounter in dealing with the South Koreans?
2. Can these communication problems be resolved, or are they insurmountable and will simply have to be tolerated?
3. Based on communication problems alone, should Hatley back away from the deal or proceed? Give your recommendation; then defend it.
4. What negotiation approaches might Hatley use if she wants to continue with the deal in order to increase her confidence that it will be successful?

Source: Lillian H. Chaney and Jeanette S. Martin, "Negotiation Styles from a Cross-Cultural Perspective," *International Business Communication,* 3rd Edition

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Brief Integrative Case 2.1

Coca-Cola in India

Coca-Cola is a brand name known throughout the entire world. It covers 60 percent of the $1.6 billion soft drink market. In 2006–2007, Coca-Cola faced some difficult challenges in the region of Kerala, India. The company was accused of using water that contained pesticides in its bottling plants in Kerala. An environmental group, the Center for Science and Environment (CSE), found 57 bottles of Coke and Pepsi products from 12 Indian states that contained unsafe levels of pesticides.[1]

The Kerala minister of health, Karnataka R. Ashok, imposed a ban on the manufacture and sale of Coca-Cola products in the region. Coca-Cola then arranged to have its drinks tested in a British lab, and the report found that the amount of pesticides found in Pepsi and Coca-Cola drinks was harmless to the body.[2] Coca-Cola then ran numerous ads to regain consumers' confidence in its products and brand. However, these efforts did not satisfy the environmental groups or the minister of health.

India's Changing Marketplace

During the 1960s and 1970s, India's economy faced many challenges, growing only an average of 3–3.5 percent per year. Numerous obstacles hindered foreign companies from investing in India, and many restrictions on economic activity caused huge difficulties for Indian firms and a lack of interest among foreign investors. For many years the government had problems with implementing reform and overcoming bureaucratic and political divisions. Business activity has traditionally been undervalued in India; leisure is typically given more value than work. Stemming from India's colonial legacy, Indians are highly suspicious of foreign investors. Indeed, there have been a few well-publicized disputes between the Indian government and foreign investors.[3]

More recently, however, many Western companies are finding an easier time doing business in India.[4] In 1991, political conditions had changed, many restrictions were eased, and economic reforms came into force. With more than 1 billion consumers, India has become an increasingly attractive market.[5] From 2003–2006, foreign investment doubled to $6 billion. Imported goods have become a status symbol for the burgeoning middle class.[6]

In 2008/09 FDI in India stood at $27.31 billion.[7] In 2009, India was the third highest recipient of FDI and was likely to continue to remain among the top five attractive destinations for international investors during the following two years, according to a United Nations Conference on Trade and Development (UNCTAD) report.[8] The 2009 survey of the Japan Bank for International Cooperation conducted among Japanese investors continued to rank India as the second most promising country for overseas business operations, after China. According to the Minister of Commerce and Industry, Mr. Anand Sharma, FDI equity inflows as a percentage of GDP have grown from 0.75 percent in 2005–2006 to nearly 2.49 percent in 2008–2009.[9]

India's GDP has grown at the impressive average annual rate of 8.5 percent during the six years spanning 2003/04–2008/09. Even the global financial crisis, which began in September 2008, has cut the rate of growth by only 2–3 percentage points, and the economy continued to grow at the annual rate of 6 percent during the three quarters following the crisis.[10] But the country needs more investment in manufacturing if it hopes to improve the lives of the 350 million people living in poverty.[11]

Coca-Cola and Other Soft Drink Investment in India

Coca-Cola had experienced previous confrontations with the Indian government. In 1977, Coke had pulled out of India when the government demanded its secret formula.[12]

Circumstances have dramatically improved over the years for soft drink providers of India. Coke and Pepsi have invested nearly $2 billion in India over the years. They employ about 12,500 people directly and support 200,000 indirectly through their purchases of sugar, packaging material, and shipping services. Coke is India's number one consumer of mango pulp for its local soft drink offerings.[13] Coca-Cola in India is also the largest domestic buyer of sugar and green coffee beans.[14] From 1994 to 2003, Coca-Cola sales in India more than doubled.

In 2008–2009 Coca-Cola announced its plans to invest more than $250 million in India over the next three years. The money would be used for everything from expanding bottling capacity to buying delivery trucks and refrigerators for small retailers. The new money will mean around a 20 percent increase in the total Coca-Cola has invested in India.[15] Coca-Cola's sales in India climbed 31 percent in the three months ended March 31, 2009, compared to a year earlier. That's the highest volume growth of any of Coke's markets.[16]

Royal Crown Cola (RC Cola) is the world's third largest brand of soft drinks. The brand was purchased in 2000 by Cadbury Schweppes and entered the Indian market in 2003. For production in India, the company hired three licensing and franchising bottlers. In order to ensure that it was not associated with the pesticide accusations against Pepsi and Coke, RC Cola immediately had its groundwater tested by the testing institute SGS India Pvt Ltd.[17]

The Charges against Coke

The pesticide issue began in 2002, in Plachimada, India. Villagers thought that water levels had sunk and the drinking water was contaminated by Coke's plant. They launched a vigil at the plant, and two years later, Coke's license was canceled. Coca-Cola's most recent pesticide issue began at a bottling plant in Mehdiganj. The plant was accused of exploiting the groundwater and polluting it with toxic metals.[18] Karnataka R. Ashok, the health minister of Kerala, India, banned the sale of all Coca-Cola and PepsiCo products, claiming that the drinks contained unsafe levels of pesticides.

The alleged contamination of the water launched a debate on everything from pesticide-polluted water to the Indian middle-class's addiction to unhealthy, processed foods. "It's wonderful," said Sunita Narin, director of CSE. "Pepsi and Coke are doing our work for us. Now the whole nation knows that there is a pesticide problem."[19]

Coca-Cola fought back against the accusations. "No Indian soft drink makers have been tested for similar violations even though pesticides could be in their products such as milk and bottled teas. If pesticides are in the groundwater, why isn't anyone else being tested? We are continuously being challenged because of who we are," said Atul Singh, CEO of Coca-Cola India.[20]

Some believe that Coca-Cola was targeted to bring the subject of pesticides in consumer products to light. "If you target multinational corporations, you get more publicity," adds Arvind Kumar, a researcher at the watchdog group Toxic Links. "Pesticides are in everything in India."[21]

India's Response to the Allegations

After CSE's discovery of the unsafe levels of pesticides,[22] some suggested the high levels of pesticides came from sugar, which is 10 percent of the soft drink content. However laboratories found the sugar samples to be pesticide free.[23]

Kerala is run by a communist government and a chief minister who still claims to have a revolutionary objection to the evils of capitalism.[24] Defenders of Coca-Cola claim that this is a large reason for the pesticide findings in Coca-Cola products. After the ban was placed on all Coca-Cola and PepsiCo products in the region of Kerala, Coca-Cola took its case to the state court to defend its products and name. The court said that the state government had no jurisdiction to impose a ban on the manufacture and sale of products.[25] Kerala then lifted the statewide ban on Coke products.[26]

In March 2010, after several years of tense battles, the Indian unit of Coca-Cola Company was asked to pay $47 million in compensation for causing environmental damage at its bottling plant in the southern Indian state of Kerala. A state government panel said Coca-Cola's subsidiary, Hindustan Coca-Cola Beverages Pvt Ltd (HCBPL), was responsible for depleting groundwater and dumping toxic waste around its Palakkad plant between 1999 and 2004. Protests by farmers, complaining about the alleged pollution, forced Coca-Cola to close down the plant in 2005. Coca-Cola responded that HCBPL was not responsible for pollution in Palakkad, but the final decision on the compensation will be taken by the state government.[27]

Pepsi's Experience in India

PepsiCo has had an equally noticeable presence in India; and it is not surprising that the company has weathered the same storms as its rival Coca-Cola. In addition to claims of excessive water use, a CSE pesticide study, performed in August 2006, accused Pepsi of having 30 times the "unofficial" pesticide limit in its beverages (Coke was claimed to be 27 times the limit in this study).[28] These findings, coupled with the original 2003 CSE study that first tarnished the cola companies' image, have prompted numerous consumers to stop their cola consumption. Some have even taken to the streets, burning pictures of Pepsi bottles in protest.

Indra Nooyi, CEO of PepsiCo Inc. and a native of India, is all too familiar with the issues of water contamination and water shortages. Yet, in light of the recent claims made against Pepsi, she has expressed frustration with the exaggerated CSE findings (local tea and coffee have thousands of times the alleged pesticide level found in Pepsi products) and the disproportionate reaction to Pepsi's water-use practices (pointing out that soft drinks and bottled water account for less than 0.04 percent of industrial water usage in India).[29]

In order to reaffirm the safety and popularity of its products, Pepsi has taken on a celebrity-studded ad campaign across India, as well as continued its legacy of corporate social responsibility (CSR). Some of Pepsi's CSR efforts have involved digging village wells, "harvesting" rainwater, and teaching better techniques for growing rice and tomatoes.[30] Pepsi has also initiated efforts to reduce water waste at its Indian facilities.

Although Pepsi sales are back on the rise, Nooyi realizes that she should have acted sooner to counteract CSE's claims about Pepsi products. From here on out, the company must be more attentive to its water-use practices; but Nooyi also notes, "We have to invest, too, in educating communities in how to farm better, collect water, and then work with industry to retrofit plants and recycle."[31]

Coke's Social Responsibility Commitments

Coca-Cola has recently employed The Energy and Resources Institute (TERI) to assess its operations in India. The investigations have been conducted because of claims that Coca-Cola has engaged in unethical production practices in India.

These alleged practices include causing severe water shortages, locating water-extracting plants in "drought prone" areas, further limiting water access by contaminating the surrounding land and groundwater, and irresponsibly disposing of toxic waste. Colleges and universities throughout the United States, U.K., and Canada have joined in holding the company accountable for its overseas business practices by banning Coca-Cola products on their campuses until more positive results are reported. However, critics have argued that TERI's assessment would undoubtedly be biased since the organization has been largely funded by the Coca-Cola Company.[32]

Coca-Cola stands behind the safety of its products. "Multinational corporations provide an easy target," says Amulya Ganguli, a political analyst in New Delhi. "These corporations are believed to be greedy, devoted solely to profit, and uncaring about the health of the consumers." There is also a deeply rooted distrust of big business, and particularly foreign big business, in India.[33] This is a reminder that there will continue to be obstacles, as there were in the past, to foreign investments in India.

In order to reaffirm their presence in India, Coke and Pepsi have run separate ads insisting that their drinks are safe. Coke's ad said, "Is there anything safer for you to drink?" and invited Indians to visit its plants to see how the beverage is made.[34] Nevertheless, in July 2006, Coke reported a 12 percent decline in sales.[35]

Coca-Cola has undertaken various initiatives to improve the drinking water conditions around the world. It has formally pledged support for the United Nations Global Compact and co-founded the Global Water Challenge, which improves water access and sanitation in countries in critical need. It is improving energy efficiency through the use of hydrofluorocarbon-free insulation for 98 percent of new refrigerater sales and marketing equipment. Specifically, in India, Coke has stated, "More than one-third of the total water that is used in operations is renewed and returned to groundwater systems."[36] Among its first water renewal projects was installation of 270 rainwater catching devices.[37] Later, Coca-Cola expanded the number of rainwater harvesting projects by partnering with the Central Ground Water Authority (CGWA), State Ground Water Boards, schools, colleges, NGOs, and local communities to combat water scarcity. According to Coca-Cola India's 2007–2008 Environment Report, the company was actively engaged in 400 rainwater harvesting projects running across 17 states. These efforts were contributing to the company's eventual target of being a "net zero" user of groundwater by the end of 2009.[38]

Having inspected its own water-use habits, Coca-Cola has vowed to reduce the amount of water it uses in its bottling operations. As of June 2007, Coca-Cola had reduced the amount of water needed to make one liter of Coke to 2.54 liters (compared with 3.14 liters five years earlier).[39]

At the June 2007 annual meeting of the World Wildlife Fund (WWF) in Beijing, Coca-Cola announced its multi-year partnership with the organization "to conserve and protect freshwater resources." E. Neville Isdell, chairman and CEO of the Coca-Cola Company, said, "Our goal is to replace every drop of water we use in our beverages and their production. For us that means reducing the amount of water used to produce our beverages, recycling water used for manufacturing processes so it can be returned safely to the environment, and replenishing water in communities

Table 1 A Timeline of Coca-Cola in Kerala, India

1977:	Coca-Cola pulls out of India when the government demands its secret formula.
1991:	Restrictions are eased in India for easier international business development.
1999:	A report is published by the All-Indian Coordinated Research Program stating that 20% of all Indian food commodities exceed the maximum pesticide residue level and 43% of milk exceeds the maximum residue levels of DDT.
2002:	Villagers in Plachimada, India, make the accusation that Coke's bottling plant is contaminating their drinking water.
2003:	The Center for Science and Environment produces a study that finds unsafe levels of pesticides in Coca-Cola products in India.
January 2004:	Parliament in India forms a Joint Parliamentary Committee to investigate the charges by the CSE.
March 2004:	A Coca-Cola bottling facility is shut down in Plachimada, India.
2004:	Indian government announces new regulations for carbonated soft drinks based on European Union standards.
2005:	Coca-Cola co-founds the Global Water Challenge, develops the Global Community-Watershed Partnership, and establishes the Ethics and Compliance Committee.
August 2006:	The CSE produces another report finding 57 Coke and Pepsi products from 12 Indian states that contain unsafe pesticide levels.
September 2006:	India's high court overturns the ban on the sale of Coke products in Kerala.
March 2010:	Indian unit of Coca-Cola Co asked by state government to pay $47 million compensation for causing environmental damage at its bottling plant in Kerala.

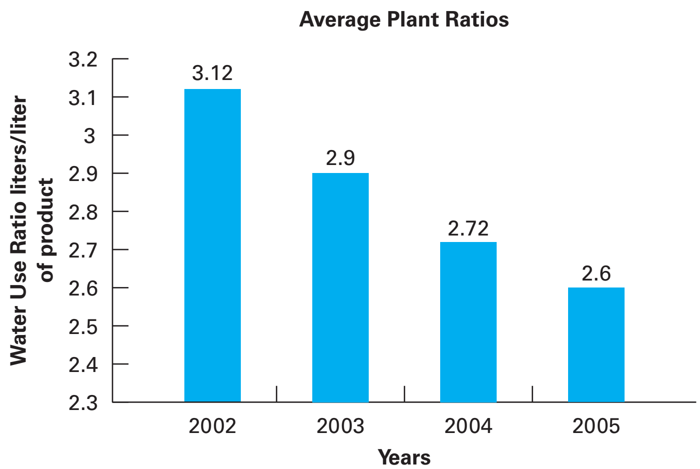


Figure 1

Coca-Cola's Water Use: Average Plant Ratios

Source: The Coca-Cola Company, *2005 Environmental Report,* www.thecocacolacompany.com/citizenship/environmental_report2005.pdf.

and nature through locally relevant projects." Coca-Cola hopes to spread these practices to other members of its supply chain, particularly the sugar cane industry. The Coca-Cola–WWF partnership is also focused on climate protection and protection of seven of the world's "most critical freshwater basins," including the Yangtze in China. Although Coca-Cola's corporate social responsibility efforts have included other projects with the WWF in the past, it hopes that this official partnership will help achieve larger-scale results.[40] Figures 1 and 2 show Coca-Cola's declining water use on a per-plant and systemwide basis.

Coca-Cola has also established EthicsLine, which is a global Web and telephone information and reporting service that allows anyone to report confidential information to a third party. Service is toll free—24 hours a day—and translators are available. Coca-Cola is currently focusing on improving standards through the global water challenge and enhancing global packaging to make it more environmentally friendly. It is also working on promoting nutrition and physical education by launching programs throughout the world. For example, in January 2009, Coca-Cola India announced a partnership with the Bharat Integrated Social Welfare Agency (BISWA) to build awareness regarding micro-nutrient malnutrition (or "Hidden Hunger") in the "bottom of the socio-economic pyramid" population in India. The two partners will work together to establish a successful income-generation model for comunities through Self-Help Groups in Sambalpur in Orissa and also provide them with affordable alternatives to alleviate "Hidden Hunger." The first product developed by Coca-Cola India to address the issue of "hidden hunger" is Vitingo, a tasty, affordable and refreshing orange-flavored beverage fortified with micro-nutrients.

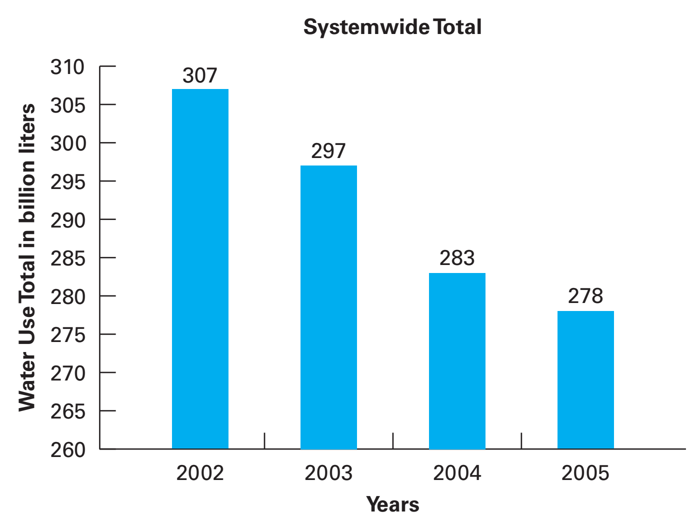


Figure 2

Coca-Cola's Water Use: Systemwide Total

Source: The Coca-Cola Company, *2005 Environmental Report,* www.thecocacolacompany.com/citizenship/environmental_report2005.pdf.

During the past decade, the Coca-Cola Company has invested more than US$1 billion in India, making it one of India's top international investors. Almost all the goods and services required to produce and market Coca-Cola are made in India. The Coca-Cola Company directly employs approximately 5,500 local people in India; and indirectly, its business in India creates employment for more than 150,000 people.[41] Hindustan Coca-Cola Beverages Pvt Ltd operates 22 bottling plants, some of which are located in economically underdeveloped areas of the country. The Coca-Cola system also includes 23 franchise operated plants, and has one facility that manufactures concentrates or beverage bases.[42]

Lessons Learned

Yet Coca-Cola was caught off guard by its experience in India. Coke did not fully appreciate how quickly local politicians would attack Coke in light of the test results, nor did it respond quickly enough to the anxieties of its consumers. The company failed to realize how fast news travels in modern India. India represents only about 1 percent of Coca-Cola's global volume, but it is central to the company's long-term growth strategy. The company needed to take action fast.[43]

In what Coke thought to be a respectful and immediate time frame, it formed committees in India and the United States. The committees worked on rebuttals and had their own labs commission the tests, and then they commented in detail. Coke also directed reporters to Internet blogs full of entries that were pro-Coke. Critics say that Coke focused too much on the charges instead of winning back the support of its customers. "Here people interpret silence as guilt," said Mr. Seth, Coke's Indian public relations expert.

Ms. Bjorhus, the Coke communications director, said she could now see how the environmental group had picked Coca-Cola as a way of attracting attention to the broader problem of pesticide contamination in Indian food products. Coca-Cola stands behind its products as being pesticide free. It is now up to the Indian consumer to decide the success of Coca-Cola in future years.

Nevertheless, Coca-Cola has been optimistic about its future in India. While India was still among the countries with the lowest per capita consumption of Coke, in 2009 it was the second fastest growing region in terms of Coca-Cola unit case volume growth.[44] Coca-Cola recorded a 3 percent growth in sales in 2009 and most of it came from India and China, even as the company faced hard economic times elsewhere in the world.[45]

The Global Water Challenge

In 2007, one out of every five people globally lacked access to clean drinking water.[46] In August 2006, an international conference was held in Stockholm, Sweden, to discuss global water issues. A UN study reported that many large water corporations have decreased their investments in developing countries because of high political and financial risks. Even nations that have had abundant water supplies are experiencing significant reductions. These reductions are believed to be caused by two factors: the decline in rainfall and increased evaporation of water due to global warming and the loss of wetlands. Water is something that affects every person each and every day. The executive director of the Stockholm Water Institute, Anders Berntell, noted that water affects the areas of agriculture, energy, transportation, forestry, trade, financing, and social and political security. The Food and Agriculture Organization points out, "Agriculture is the world's largest water consumer. Any water crisis will therefore also create a food crisis."

There have been attempts to improve the water conditions around the world. The United Nations recently released the *World Water Development Report.* This report was compiled by 24 UN agencies and claimed that, in actuality, only 12 percent of the funds targeted for water and sanitation improvement reached those most in need. The United Nations stated that more than 1.1 billion people still lack access to improved water resources. Nearly two-thirds of the 1.1 billion live in Asia.[47] In China, nearly a quarter of the population is unable to access clean drinking water. Over half of China's major waterways are also polluted. The Institute of Public and Environmental Affairs reported that 34 foreign-owned or joint-venture companies, including Pepsi, have caused water pollution problems in China. Ma Jun, the institute's founder, said, "We're not talking about very high standards. These companies are known for their commitment to the environment."[48]

According to the 2009 UN World Water Development Report, the world's population is growing by about 80 million people a year, implying increased freshwater demand of about 64 billion cubic meters a year. An estimated 90 percent of the 3 billion people who are expected to be added to the population by 2050 will be in developing countries, many in regions where the current population does not have sustainable access to safe drinking water or adequate sanitation. The world will have substantially more people in vulnerable urban and coastal areas in the next 20 years.[49]

With businesses expanding globally every day, water is a crucial resource, and water issues will increasingly affect all industries. With water conditions improving at a slower rate than business development, businesses will have to take on the responsibility of not only finding an adequate supply of the diminishing resource but also making sure the water is safe for all to consume. This responsibility is going to be an additional cost to companies, but a necessary one that will prevent loss of sales in the future. Coca-Cola's specific situation in India is a reminder for all global corporations.

Questions for Review

1. What aspects of U.S. culture and of Indian culture may have been causes of Coke's difficulties in India?
2. How might Coca-Cola have responded differently when this situation first occurred, especially in terms of responding to negative perceptions among Indians of Coke and other MNCs?
3. If Coca-Cola wants to obtain more of India's soft drink market, what changes does it need to make?
4. How might companies like Coca-Cola and PepsiCo demonstrate their commitment to working with different countries and respecting the cultural and natural environments of those societies?

Source: This case was prepared by Jaclyn Johns of Villanova University under the supervision of Professor Jonathan Doh as the basis for class discussion. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility. Research assistance was provided by Courtney Asher and Tetyana Azarova.

Brief Integrative Case 2.2

Danone's Wrangle with Wahaha

In 1996, Danone Group and Wahaha Group combined forces in a joint venture (JV) to form the largest beverage company in China. Last year, a longstanding trademark dispute between the JV members, embedded within a broader clash of national and organizational cultures, came to a head. Valuable lessons can be learned from this dispute for investors considering joint ventures in China.[1]

The Wahaha Joint Venture was established in 1996 by Hangzhou Wahaha Food Group Co. Ltd., Danone Group, and Bai Fu Qin Ltd. In 1997, Danone bought the interests of Bai Fu Qin and gained legal control of the JV with 51 percent of shares. While members of the JV are entitled to use the JV's Wahaha trademark, in 2000, the Wahaha Group developed companies outside of the JV that sold products similar to those of the JV and used the JV's trademark. The Danone Group objected and sought to purchase those non-JV companies.[2]

In April 2007, Danone offered RMB4 billion to acquire 51 percent of the shares of Wahaha's five non-JV companies. Wahaha Group rejected the offer. Subsequently, Danone filed more than 30 lawsuits against Wahaha for violating the contract and illegally using the JV's Wahaha trademark in countries such as France, Italy, the U.S., and China.[3]

Danone's Background

Danone traces its routes to Europe in the early 20th century. In 1919, Isaac Carasso opened a small yogurt stand in Spain. He named it "Danone," meaning "Little Daniel," after his son. Carasso was aware of new methods of milk fermentation conducted at the Pasteur Institute in Paris. He decided to merge these new techniques with traditional practices for making yogurt. The first industrial manufacturer of yogurt was started.[4]

Following his success in Europe, Carasso immigrated to the U.S. to expand his market. He changed the Danone name to Dannon Milk products, Inc., and founded the first American yogurt company in 1942 in New York. Distribution began on a small scale. When Dannon introduced the "fruit on the bottom" line in 1947, sales soared. The following year, he sold his company's interest and returned to Spain to manage his family's original business.[5]

By 1950, Dannon had expanded to other U.S. states in the Northeast. It also broadened the line by introducing low-fat yogurt that targeted the health-conscious consumer. Sales continued to rise. Dannon expanded across the country throughout the 1960s and 1970s. In 1979, Dannon became the first company to sell perishable dairy products coast to coast in the U.S.[6]

In 1967, Danone merged with leading French fresh cheese producer Gervais to become Gervais Danone. In 1973, Gervais Danone merged with Boussois-Souchon-Neuvesel (BSN), a company which had also acquired the Alsacian brewer Kronenbourg and Evian mineral water.[7] In 1987, Gervais Danone acquired European biscuit manufacturer Général Biscuit, owners of the LU brand, and in 1989, it bought out the European biscuit operations of Nabisco.

In 1994, BSN changed its name to Groupe Danone, adopting the name of the Group's best known international brand. Under its current CEO, Franck Riboud, the company has pursued its focus on the three product groups: dairy, beverages, and cereals.[8]

Today, Danone is a Fortune 500 company with a mission to produce healthy, nutritious, and affordable food and beverage products for as many people as possible.

Danone's Global Growth

Danone, with 160 plants and around 80,000 employees, has a presence in all five continents and over 120 countries. In 2008, Danone recorded €15.2 billion in sales. Danone enjoys leading positions in healthy food:[9]

- No. 1 worldwide in fresh dairy products
- No. 2 worldwide in bottled water
- No. 2 worldwide in baby nutrition
- No. 1 in Europe in medical nutrition

Its portfolio of brands and products includes Activia, a probiotic dairy product line; Danette, a brand of cream desserts; Nutricia, an infant product line; Danonino, a brand of yogurts; and Evian, a brand of bottled water.[10]

Listed on Euronext Paris, Danone is also ranked among the main indexes of social responsibility: Dow Jones Sustainability Index Stoxx and World, ASPI Eurozone (Advanced Sustainable Performance Indices), and Ethibel Sustainability index.[11] Danone has ranked number 60 in top 100 international brands according to Interbrand 2009 Best Global Brand valuation, with the brand value of $5.96 billion.[12]

In 2008, Danone recorded an organic growth rate of 8.4 percent. With its operating margin increasing for the 14th year running, the group further strengthened its global standing. The group's performance is the result of a balanced strategy that builds on international expansion, a growing commitment to innovation, and strengthening health-oriented brands. Danone invests heavily in research and development—€208 million in 2008. One hundred percent of projects currently in the pipeline focus on health and nutrition.[13]

With a total of roughly 18 billion liters of bottled water marketed in 2008, Danone is the world's second largest producer (its global market share is approximately 11 percent). Danone owns the world's top-selling brand of packaged water, Aqua, which recorded sales of 6 billion liters. With Evian and Volvic, Danone also owns two of the five worldwide brands of bottled water.[14] Its revenue from water products amounted to €2.9 billion in 2008: Europe accounted for 47 percent of this total, Asia 31 percent, and the rest of the world 22 percent. At constant structure and exchange rates, the proportion of sales in emerging countries rose in 2008 to 52 percent.[15]

In the mid-1990s, Danone did 80 percent of its business in Western Europe. Until 1996, the company was present in about a dozen markets including pasta, confectionery, biscuits, ready-to-serve meals, and beer. The company realized that it is difficult to achieve simultaneous growth in all these markets. Therefore, they decided to concentrate on the few markets that showed the most growth potential and were consistent with Danone's focus on health. Starting in 1997, the Group decided to focus on three business lines worldwide (Fresh Dairy Products, Beverages, as well as Biscuits and Cereal Products), and the rest of the business lines were divested. This freed the company's financial and human resources and allowed for quick expansion into new markets in Asia, Africa, Eastern Europe, and Latin America. In less than 10 years, the contribution of emerging markets to sales rose from zero to 40 percent while that of Western Europe went below 50 percent.[16]

The 2007 year marked the end of a 10-year refocusing strategy period during which the Group's activities were refocused in the area of health. That year, the Group sold nearly all of its Biscuits and Cereal Products business to the Kraft Foods group, while adding Baby Nutrition and Medical Nutrition to its portfolio by acquiring Numico.

Danone is now centered on 4 business lines:

1. Fresh Dairy Products, representing approximately 57 percent of consolidated sales for 2008
2. Waters, representing approximately 19 percent of consolidated sales for 2008
3. Baby Nutrition, representing approximately 18 percent of consolidated sales for 2008
4. Medical Nutrition, representing approximately 6 percent of consolidated sales for 2008

Danone Strategy in China

Danone entered the Chinese market in the late 1980s. Since then, it has invested heavily in China, building factories and expanding production. Today, Danone has 70 factories in China, including Danone Biscuits, Robust, Wahaha, and Health. Danone sells primarily yogurt, biscuits, and beverages in China.[17]

Danone's Asia-Pacific division employs 23,000 people in the Asia-Pacific area, which is almost 30 percent of Danone's total employees. Of Danone's Asian sales, 57 percent were in China. Danone's Wahaha was China's largest beverage company. Two billion liters of Wahaha were sold in 2004, making it the market leader in China with a 30 percent market share.[18] In Asia, in 2007, Danone Group was the market leader with a 20 percent share of a 34-billion liter market. In comparison, rivals Coca-Cola and Nestlé had a 7 percent and 2 percent share, respectively. Evian, its global brand, was sold alongside of local brands such as China's Wahaha.

In the past 20 years, Danone has purchased shares of many of the top beverage companies in China: 51 percent of shares of the companies owned by Wahaha Group, 98 percent of Robust Group, 50 percent of Shanghai Maling Aquarius Co., Ltd., 54.2 percent of Shenzhen Yili Mineral Water Company, 22.18 percent of China Huiyuan Group, 50 percent of Mengniu, and 20.01 percent of Bright dairy. These companies, leaders in their industry, all own trademarks that are well-known in China.[19]

However, while expanding into the Chinese market, Danone faced challenges due to lack of market knowledge. In 2000, Danone purchased Robust, the then-second-largest company in the Chinese beverage industry. Sales of Robust had reached RMB2 billion in 1999. After the purchase, Danone dismissed the original management and managed Robust directly. Because its new management was not familiar with the Chinese beverage market, Robust struggled. Its tea and milk products almost disappeared from the market. During 2005–2006, the company lost RMB150 million.[20]

Wahaha Company

The Wahaha company was established in 1987 by a retired teacher, Mr. Zong Qinghou. In 1989, the enterprise opened its first plant, Wahaha Nutritional Food Factory, to produce "Wahaha Oral Liquid for Children," a nutritional drink for kids. The name Wahaha was meant to evoke a laughing child, combining the character for baby (wa) with the sound of laughter.[21] After its launch, Wahaha won a rapid public acceptance. By 1991, the company's sales revenue grew beyond 100 million renminbi (¥).[22]

In 1991, with the support of the Hangzhou local district government, Wahaha Nutritional Food Factory merged with Hangzhou Canning Food Factory, a state-owned enterprise, to form the Hangzhou Wahaha Group Corporation. After mergers with three more companies, Wahaha became the biggest corporation of its district.[23]

Since 1997, Wahaha has set up new many subsidiaries. It was aided by state and local government since its continuous expansion helped create new jobs and its increased profits led to more tax revenues.

In 1996, the Hangzhou Wahaha Group Corporation began a joint venture with Danone Group and formed five new subsidiaries, which attracted a $45 million foreign investment and then added another $26.2 million investment. With the investment funds, Wahaha brought world-class advanced production lines from Germany, America, Italy, Japan, and Canada into its sites. The terms of the Danone–Wahaha joint venture allowed Wahaha to retain all managerial and operating rights as well as the brand name Wahaha. In the next eight years, the company established 40 subsidiaries in China, and in 1998 launched its own brand, "Future Cola," to compete against Coke and Pepsi.[24]

In 2000, the company produced 2.24 million tons of beverages with sales revenue of $5.4 billion. The production accounted for 15 percent of the Chinese output of beverages. The group became the biggest company in the beverage industry of China with total assets of $4.4 billion.[25]

In 2007, it produced 6.89 million tons of beverage with a sales revenue of $25.8 billion. Today, Hangzhou Wahaha Group Co., Ltd., is still the leading beverage producer in China and has more than 100 subsidiary companies with total assets of $17.8 billion. The company product category contains more than 100 varieties, such as milk drinks, drinking water, carbonated drinks, tea drinks, canned food, and health care products.[26]

According to a report on the "Top 10 Beverage Companies" released by the China Beverage Industry Association, Wahaha contributed 55.57 percent to the Association Top 10's overall production, 65.84 percent to its revenue, and 73.16 percent to its profit tax. According to Zong Qinghou, the president of Wahaha: "As China becomes the world's largest food and beverage market, we'll be a major player in the global market." Wahaha implements a strategy of "local production and local distribution" and has built an excellent production-distribution network. Its Wahaha R&D center and Analysis Center provide guarantees for high product quality.[27]

Danone–Wahaha Joint Venture Conflict

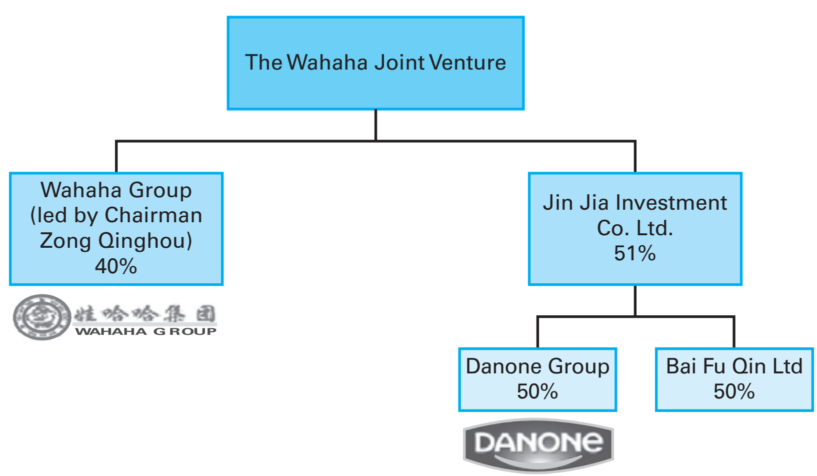
The Wahaha joint venture (JV) was formed in 1996 with three participants: Hangzhou Wahaha Food Group (Wahaha Group); Danone Group, a French corporation (Danone); and Bai Fu Qin, a Hong Kong corporation (Baifu). Danone and Baifu did not invest directly in the JV. Instead, Danone and Baifu formed Jin Jia Investment, a Singapore corporation (Jinjia). Upon the formation of the JV, Wahaha Group owned 49 percent of the shares of the JV and Jinjia owned 51 percent of the shares of the JV. This structure led to immediate misunderstandings between the participants. From Wahaha Group's point of view—with the division of ownership at 49 percent Wahaha Group, 25.5 percent Danone, and 25.5 percent Baifu—it was the majority shareholder in the JV. Since Wahaha Group felt it controlled the JV, it was relatively unconcerned when it transferred its trademark to the JV.[28]

In 1998, Danone bought out the interest of Baifu in Jinjia, becoming 100 percent owner of Jinjia and effectively the 51 percent owner of the JV. This gave it legal control over the JV because of its right to elect the board of directors. For the first time, the Wahaha Group and Zong realized two things: (1) They had given complete control over their trademark to the JV; (2) A foreign company was now in control of the JV. From a legal standpoint, this result was implied by the structure of the JV from the very beginning. However, it is clear from public statements that the Wahaha Group did not understand the implications when they entered into the venture. The Danone "takeover" in 1998 therefore produced significant resentment on the part of Wahaha Group. Rightly or not, Wahaha felt that Danone misled them from the very beginning.[29]

Figure 1

Structure of Initial Wahaha Joint Venture[30]

Hierarchy of the Initial Wahaha Joint Venture



Source: Danone website.

When the JV was formed, Wahaha Group was a state-owned enterprise owned by the Hangzhou city government. After formation of the JV, it was converted into a private corporation, effectively controlled by Zong. This set the stage for Wahaha Group's decision to take back control of the trademark it felt had been unfairly transferred to Danone. Zong and his employees now viewed the transferred trademark as their personal property.[31]

When the JV was formed, Wahaha Group obtained an appraisal of its trademark valuing it at RMB100 million (US$13.2 million). The trademark was its sole contribution to the JV, while Jinjia contributed RMB500 million (US$66.1 million) in cash. Wahaha Group also agreed not to use the trademark for any independent business activity or allow it to be used by any other entity. However, the trademark transfer was rejected by China's Trademark Office. It took the position that, as the well-known mark of a state-owned enterprise, the trademark belonged to the state and Wahaha Group did not have the right to transfer it to a private company.[32]

Rather than terminate the JV, the shareholders (now Danone and Wahaha Group) decided to work around the approval issue by entering into an exclusive license agreement for the trademark in 1999. Since the license agreement was intended to be the functional equivalent of a sale of the trademark, they were concerned the Trademark Office would refuse to register the license. Therefore, they only registered an abbreviated license. This was accepted by the Trademark Office, which never saw the full license. As a result, Wahaha Group never transferred ownership of the Wahaha trademark to the JV, just the exclusive license. Thus, Wahaha Group never complied with its basic obligation for capitalization of the JV. It does not appear that any of the JV documents were revised to deal with this changed situation.[33]

Although Danone was the majority shareholder and maintained a majority interest on the board of directors, day-to-day management of the JV was delegated entirely to Zong. He filled management positions with his family members and employees of the Wahaha Group. Under Zong's management, the JV became the largest Chinese bottled water and beverage company.[34]

Beginning in 2000, the Wahaha Group created a series of companies that sold the same products as the JV and used the Wahaha trademark. The non-JV companies appear to have been owned in part by Wahaha Group and in part by an offshore British Virgin Islands company controlled by Zong's daughter and wife. Neither Danone nor Wahaha group receives any benefits from the profits of these non-JV companies. According to press reports in China, products from the non-JV companies and the JV were sold by the same sales staff working for the same sales company, all ultimately managed by Zong.[35]

In 2005, Danone realized the situation and insisted it be given a 51 percent ownership interest in the non-JV companies. Wahaha Group and Zong, who by this time was one of the richest men in China, refused.[36]

Details of the Dispute

In April 2006, Wahaha was informed by its 10-year JV partner Danone that it had breached the contract by establishing nonjoint ventures, which had infringed upon the interests of Danone. Danone proposed to purchase 51 percent of shares of Wahaha's nonjoint ventures.[37] The move was opposed by Wahaha. In May 2007, Danone formally initiated a proceeding, claiming that Wahaha's establishment of nonjoint ventures as well as the illegal use of "Wahaha" trademark had seriously violated the noncompete clause. The two parties carried on 10 lawsuits in and out of China, and all the ruled cases between Wahaha and Danone have ended in Wahaha's favor.[38]

On February 3, 2009, a California court in the United States dismissed Danone's accusation against the wife and daughter of Zong Qinghou and ruled that the dispute between Danone and Wahaha should be settled in China. In addition, Danone's lawsuits against Wahaha were rejected by courts in Italy and France; and a series of lawsuits brought by Danone in China against Zong Qinghou and Wahaha's nonjoint ventures all ended in failure.[39]

The rationality of the existence of the nonjoint ventures, the ownership of the "Wahaha" trademark, and the noncompete clause issue were the key points of the Danone-Wahaha dispute.[40] In 1996, Wahaha offered a list of 10 subsidiaries to Danone, which after evaluation selected four. Jinja Investments Pte Ltd. (a Singapore-based joint venture between Danone Asia Pte Ltd. and Hong Kong Peregrine Investment, of which Danone is the controlling shareholder), Hangzhou Wahaha Group Co., Ltd., and Zhejiang Wahaha Industrial Holdings Ltd. jointly invested to form five joint venture enterprises, with shareholdings of 51 percent, 39 percent, and 10 percent, respectively. In 1998, Hong Kong Peregrine sold its stake in Jinja Investments to Danone, which makes Danone the sole shareholder of Jinja Investments, giving it the control of over 51 percent of the joint ventures. Wahaha and Danone cooperated on the basis of joint venture enterprises, rather than the complete acquisition of Wahaha by Danone. As a result, Wahaha was always independent, and its nonjoint ventures have existed and developed since 1996. Relevant transactions of Wahaha's nonjoint ventures and joint ventures were disclosed fully and frankly by the auditing reports of PricewaterhouseCoopers, an accounting firm appointed by Danone. Meanwhile, during the 11-year cooperation, Danone assigned a Finance Director to locate in the headquarters of Wahaha Group to audit the latter's financial information.[41]

Danone and Wahaha had signed in succession three relevant agreements concerning the ownership of the "Wahaha" brand name. In 1997, the two parties signed a trademark transfer agreement, with an intention to transfer the "Wahaha" trademark to the joint ventures. The move, however, was not approved by the State Trademark Office.[42] For this reason, the two parties signed in 1999 the trademark licensing contract. According to law, the same subject cannot be synchronously transferred and licensed the use to others by the same host. Therefore, the signing and fulfillment of the trademark licensing contract showed that the two parties had agreed to the invalidation of the transfer agreement. The "Wahaha" brand should belong to the Wahaha Group, while the joint ventures only have right of use.[43]

In October 2005, the two parties signed the No. 1 amendment agreement to the trademark licensing contract, in which it confirmed Party A (Hangzhou Wahaha Group Co., Ltd.) as owner of the trademark. In addition, the second provision of the amendment agreement clearly stated that the several Wahaha subsidiaries listed in the fifth annex of the licensing contract as well as other Wahaha subsidiaries (referred to as "licensed Wahaha enterprises") established by Party A or its affiliates following the signing of the licensing contract also have right granted by one party to use the trademark. The "licensed Wahaha enterprises" involved in the amendment agreement refer to the nonjoint ventures.[44] According to related files, Wahaha owns the ownership of the "Wahaha" trademark, while its nonjoint ventures have the right to use the trademark.[45] The Wahaha brand is among the most famous in China. It ranked No. 16 among domestic brands and is worth $2.2 billion, according to a recent report by Shanghai research firm Hurun Report. Wahaha doesn't publicly disclose financial figures.[46]

Ventures and Acquisitions

Several years ago, as Wahaha sought to expand its market, Wahaha suggested adding online new production lines by increasing investment, while Danone requested Wahaha outsource to product processing suppliers for its joint ventures. Wahaha saw the shortcomings in using product processing suppliers, so it set up nonjoint ventures to meet production needs. Wahaha believed that the existence and operation of the nonjoint ventures did not adversely affect the interest of Danone.[47]

During the 11 years that followed 1996, Danone invested less than RMB1.4 billion in Wahaha's joint ventures, but received a profit of RMB3.554 billion as of 2007. On the other hand, Danone acquired several strong competitors of Wahaha including Robust, Huiyuan, and Shanghai Maling Aquariust. Wahaha saw Robust as its biggest rival. Wahaha was disappointed that Danone failed to hold up its end of the bargain of "jointly exploring markets in and out of China" listed in the JV contract.[48]

Through influence of the Chinese and French governments, Danone and Wahaha reached a peaceful settlement in late 2007. However, Danone's proposal to sell its shares in the joint ventures to Wahaha for RMB50 billion (finally reduced to approximately RMB20 billion) was rejected by Wahaha.[49]

After the negotiations were suspended, the two parties again turned to legal action. As of April 2009, all the ruled cases both in China and abroad have ruled against Danone.[50]

Conflict Resolution

In late September 2009, France's Groupe Danone SA agreed to accept a cash settlement to relinquish claims to the name Wahaha. In a joint statement issued September 30, 2009, Danone announced a settlement with China's Hangzhou Wahaha Group Co. by saying its 51 percent share in joint ventures that make soft drinks and related products will be sold to the businesses' Chinese partners. "The completion of this settlement will put an end to all legal proceedings related to the disputes between the two parties," the statement said.[51]

The feud over control of the Wahaha empire offered a glimpse into the breakup of a major Asian-foreign joint venture. Danone's strategy to publicly confront its partner and Wahaha's strategy to respond with its own accusations marked a break with prevailing business practice in China, where problems have usually been settled with face-saving, private negotiations.[52]

Analysts said the case served to reinforce how difficult it is to operate a partnership in China. "That's a key lesson: To build a [brand] business in China you need to build from the ground up," said Jonathan Chajet, China managing director for consultancy Interbrand.[53] Foreign firms such as Procter & Gamble, Starbucks, and General Motors have operated wholly or in part through joint ventures in China. But executives involved say the expectations of foreign and local parties can conflict in a JV, for instance, when an international company is striving for efficiencies and profits that match its global goals while the local partner—sometimes an arm of the Chinese government—strives to maximize employment or improve technology. At other times, partners have stolen corporate secrets or cheated and otherwise sabotaged a venture, while legal avenues have had little effect on disputes over operations.[54]

Danone, which reported the Wahaha business generated about 10 percent of its global revenue in 2006 but has since adjusted how it accounted for Wahaha, said it expects no impact on its income statement from the settlement. In China, it will be left with a much smaller footprint and is essentially starting over.[55] Danone's CEO Franck Riboud stated: "Danone has a long-standing commitment to China, where it has been present since 1987, and we are keen to accelerate the success of our Chinese activities." China is Danone's fourth-largest market after France, Spain, and the U.S., contributing about €1bn, or 8 percent, of Danone's revenues.[56]

Lessons Learned[57]

What can potential foreign investors learn from this dispute? Although JVs in China can be quite difficult, with proper planning and management, they can be successful. In the case of the Wahaha-Danone JV, many basic rules of JV operations in China were violated, virtually guaranteeing the JV's destruction. According to Steve Dickinson, lawyer at Harris Moure PLC, the primary rules violated are as follows:[58]

1. Don't use technical legal techniques to assert or gain control in a JV.
2. Do not expect that a 51 percent ownership interest in a JV will necessarily provide effective control.
3. Do not proceed with a JV formed on a weak or uncertain legal basis.
4. The foreign party must actively supervise or participate in the day-to-day management of the JV.

Questions for Review

1. When and how did Danone expand into the Chinese market? What problems did Danone Group encounter while operating in China?
2. How was the Danone and Wahaha JV formed? What was its structure? Why did Danone decide to form a joint venture rather than establish a 100 percent–owned subsidiary?
3. What was the problem of Danone Wahaha joint venture that triggered the conflict between the companies? What were the differences in Danone's and Wahaha's understanding of their own respective roles and responsibilities in this venture? What aspects of national and organizational culture affected this perspective?
4. Was Danone successful in proving its claims in court? How was the conflict between the two companies resolved? What were the key lessons for Danone about doing business in China?
5. Did Danone follow the advice regarding JVs in China mentioned in the list just above? Which aspects did it follow and which did it not?

Source: This case was prepared by Tetyana Azarova of Villanova University under the supervision of Professor Jonathan Doh as the basis for class discussion. Research assistance was provided by Kelley Bergsma. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility.

In-Depth Integrative Case 2.1a

Euro Disneyland

On January 18, 1993, Euro Disneyland chairperson Robert Fitzpatrick announced he would leave that post on April 12 to begin his own consulting company. Quitting his position exactly one year after the grand opening of Euro Disneyland, Fitzpatrick with his resignation removed U.S. management from the helm of the French theme park and resort.

Fitzpatrick's position was taken by a Frenchman, Philippe Bourguignon, who had been Euro Disneyland's senior vice president for real estate. Bourguignon, 45 years old, faced a net loss of FFr 188 million for Euro Disneyland's fiscal year, which ended September 1992. Also, between April and September 1992, only 29 percent of the park's total visitors were French. Expectations were that closer to half of all visitors would be French.

It was hoped that the promotion of Philippe Bourguignon would have a public relations benefit for Euro Disneyland—a project that had been a publicist's nightmare from the beginning. One of the low points was at a news conference prior to the park's opening when protesters pelted Michael Eisner, CEO of the Walt Disney Company, with rotten eggs. Within the first year of operation, Disney had to compromise its "squeaky clean" image and lift the alcohol ban at the park. Wine is now served at all major restaurants.

Euro Disneyland, 49 percent owned by Walt Disney Company, Burbank, California, originally forecasted 11 million visitors in the first year of operation. In January 1993 it appeared attendance would be closer to 10 million. In response, management temporarily slashed prices at the park for local residents to FFr 150 ($27.27) from FFr 225 ($40.91) for adults and to FFr 100 from FFr 150 for children in order to lure more French during the slow, wet winter months. The company also reduced prices at its restaurants and hotels, which registered occupancy rates of just 37 percent.

Bourguignon also faced other problems, such as the second phase of development at Euro Disneyland, which was expected to start in September 1993. It was unclear how the company planned to finance its FFr 8–10 billion cost. The company had steadily drained its cash reserves (FFr 1.9 billion in May 1993) while piling up debt (FFr 21 billion in May 1993). Euro Disneyland admitted that it and the Walt Disney Company were "exploring potential sources of financing for Euro Disneyland." The company was also talking to banks about restructuring its debts.

Despite the frustrations, Eisner was tirelessly upbeat about the project. "Instant hits are things that go away quickly, and things that grow slowly and are part of the culture are what we look for," he said. "What we created in France is the biggest private investment in a foreign country by an American company ever. And it's gonna pay off."

In the Beginning

Disney's story is the classic American rags-to-riches story, which started in a small Kansas City advertising office where Mickey was a real mouse prowling the unknown Walt Disney floor. Originally, Mickey was named Mortimer, until a dissenting Mrs. Disney stepped in. How close Mickey was to Walt Disney is evidenced by the fact that when filming, Disney himself dubbed the mouse's voice. Only in later films did Mickey get a different voice. Disney made many sacrifices to promote his hero-mascot, including selling his first car, a beloved Moon Cabriolet, and humiliating himself in front of Louis B. Mayer. "Get that mouse off the screen!" was the movie mogul's reported response to the cartoon character. Then, in 1955, Disney had the brainstorm of sending his movie characters out into the "real" world to mix with their fans, and he battled skeptics to build the very first Disneyland in Anaheim, California.

When Disney died in 1966, the company went into virtual suspended animation. Its last big hit of that era was 1969's *The Love Bug,* about a Volkswagen named Herbie. Today, Disney executives trace the problem to a tyrannical CEO named E. Cardon Walker, who ruled the company from 1976 to 1983, and to his successor, Ronald W. Miller. Walker was quick to ridicule underlings in public and impervious to any point of view but his own. He made decisions according to what he thought Walt would have done. Executives clinched arguments by quoting Walt like the Scriptures or Marx, and the company eventually supplied a little book of the founder's sayings. Making the wholesome family movies Walt would have wanted formed a key article of Walker's creed. For example, a poster advertising the unremarkable *Condorman* featured actress Barbara Carrera in a slit skirt. Walker had the slit painted over. With this as the context, studio producers ground out a thin stream of tired, formulaic movies that fewer and fewer customers would pay to see. In mid-1983, a similar low-horsepower approach to television production led to CBS's cancellation of the hour-long program *Walt Disney,* leaving the company without a regular network show for the first time in 29 years. Like a reclusive hermit, the company lost touch with the contemporary world.

Ron Miller's brief reign was by contrast a model of decentralization and delegation. Many attributed Miller's ascent to his marrying the boss's daughter rather than to any special gift. To shore Miller up, the board installed Raymond L. Watson, former head of the Irvine Co., as part-time chairperson. He quickly became full time.

Miller sensed the studio needed rejuvenation, and he managed to produce the hit film *Splash,* featuring an apparently (but not actually) bare-breasted mermaid, under the newly devised Touchstone label. However, the reluctance of freelance Hollywood talent to accommodate Disney's narrow range and stingy compensation often kept his sound instincts from bearing fruit. "Card [Cardon Walker] would listen but not hear," said a former executive. "Ron [Ron Miller] would listen but not act."

Too many box office bombs contributed to a steady erosion of profit. Profits of $135 million on revenues of $915 million in 1980 dwindled to $93 million on revenues of $1.3 billion in 1983. More alarmingly, revenues from the company's theme parks, about three-quarters of the company's total revenues, were showing signs of leveling off. Disney's stock slid from $84.375 a share to $48.75 between April 1983 and February 1984.

Through these years, Roy Disney Jr. simmered while he watched the downfall of the national institution that his uncle, Walt, and his father, Roy Disney Sr., had built. He had long argued that the company's constituent parts all worked together to enhance each other. If movie and television production weren't revitalized, not only would that source of revenue disappear but the company and its activities would also grow dim in the public eye. At the same time the stream of new ideas and characters that kept people pouring into the parks and buying toys, books, and records would dry up. Now his dire predictions were coming true. His own personal shareholding had already dropped from $96 million to $54 million. Walker's treatment of Ron Miller as the shining heir apparent and Roy Disney as the idiot nephew helped drive Roy to quit as Disney vice president in 1977 and to set up Shamrock Holdings, a broadcasting and investment company.

In 1984, Roy teamed up with Stanley Gold, a tough-talking lawyer and a brilliant strategist. Gold saw that the falling stock price was bound to flush out a raider and afford Roy Disney a chance to restore the company's fortunes. They asked Frank Wells, vice chairperson of Warner Bros., if he would take a top job in the company in the event they offered it. Wells, a lawyer and a Rhodes scholar, said yes. With that, Roy knew that what he would hear in Disney's boardroom would limit his freedom to trade in its stock, so he quit the board on March 9, 1984. "I knew that would hang a 'For Sale' sign over the company," said Gold.

By resigning, Roy pushed over the first of a train of dominoes that ultimately led to the result he most desired. The company was raided, almost dismantled, greenmailed, raided again, and sued left and right. But it miraculously emerged with a skilled new top management with big plans for a bright future. Roy Disney proposed Michael Eisner as the CEO, but the board came close to rejecting Eisner in favor of an older, more buttoned-down candidate. Gold stepped in and made an impassioned speech to the directors. "You see guys like Eisner as a little crazy . . . but every studio in this country has been run by crazies. What do you think Walt Disney was? The guy was off the goddamned wall. This is a creative institution. It needs to be run by crazies again."[1]

Meanwhile Eisner and Wells staged an all-out lobbying campaign, calling on every board member except two, who were abroad, to explain their views about the company's future. "What was most important," said Eisner, "was that they saw I did not come in a tutu, and that I was a serious person, and I understood a P&L, and I knew the investment analysts, and I read *Fortune.*"

In September 1984, Michael Eisner was appointed CEO and Frank Wells became president. Jeffrey Katzenberg, the 33-year-old, maniacal production chief, followed Fisher from Paramount Pictures. He took over Disney's movie and television studios. "The key," said Eisner, "is to start off with a great idea."

Disneyland in Anaheim, California

For a long time, Walt Disney had been concerned about the lack of family-type entertainment available for his two daughters. The amusement parks he saw around him were mostly filthy traveling carnivals. They were often unsafe and allowed unruly conduct on the premises. Disney envisioned a place where people from all over the world would be able to go for clean and safe fun. His dream came true on July 17, 1955, when the gates first opened at Disneyland in Anaheim, California.

Disneyland strives to generate the perfect fantasy. But magic does not simply happen. The place is a marvel of modern technology. Literally dozens of computers, huge banks of tape machines, film projectors, and electronic controls lie behind the walls, beneath the floors, and above the ceilings of dozens of rides and attractions. The philosophy is that "Disneyland is the world's biggest stage, and the audience is right here on the stage," said Dick Hollinger, chief industrial engineer at Disneyland. "It takes a tremendous amount of work to keep the stage clean and working properly."

Cleanliness is a primary concern. Before the park opens at 8 a.m., the cleaning crew will have mopped, hosed, and dried every sidewalk, street, floor, and counter. More than 350 of the park's 7,400 employees come on duty at 1 a.m., to begin the daily cleanup routine. The thousands of feet that walk through the park each day and chewing gum do not mix; gum has always presented major cleanup problems. The park's janitors found long ago that fire hoses with 90 pounds of water pressure would not do the job. Now they use steam machines, razor scrapers, and mops towed by Cushman scooters to literally scour the streets and sidewalks daily.

It takes one person working a full eight-hour shift to polish the brass on the Fantasyland merry-go-round. The scrupulously manicured plantings throughout the park are treated with growth-retarding hormones to keep the trees and bushes from spreading beyond their assigned spaces and destroying the carefully maintained five-eighths scale modeling that is utilized in the park. The maintenance supervisor of the Matterhorn bobsled ride personally walks every foot of track and inspects every link of tow chain every night, thus trusting his or her own eyes more than the $2 million in safety equipment that is built into the ride.

Eisner himself pays obsessive attention to detail. Walking through Disneyland one Sunday afternoon, he peered at the plastic leaves on the Swiss Family Robinson tree house noting that they periodically wear out and need to be replaced leaf by leaf at a cost of $500,000. As his family strolled through the park, he and his eldest son Breck stooped to pick up the rare piece of litter that the cleanup crew had somehow missed. This old-fashioned dedication has paid off. Since opening day in 1955, Disneyland has been a consistent moneymaker.

Disney World in Orlando, Florida

By the time Eisner arrived, Disney World in Orlando was already on its way to becoming what it is today—the most popular vacation destination in the United States. But the company had neglected a rich niche in its business: hotels. Disney's three existing hotels, probably the most profitable in the United States, registered unheard-of occupancy rates of 92 percent to 96 percent versus 66 percent for the industry. Eisner promptly embarked on an ambitious $1 billion hotel expansion plan. Two major hotels, Disney's Grand Floridian Beach Resort and Disney's Caribbean Beach Resort, were opened during 1987–89. Disney's Yacht Club and Beach Resort along with the Dolphin and Swan Hotels, owned and operated by Tishman Realty & Construction, Metropolitan Life Insurance, and Aoki Corporation opened during 1989–90. Adding 3,400 hotel rooms and 250,000 square feet of convention space made it the largest convention center east of the Mississippi.

In October 1982, Disney made a new addition to the theme park—the Experimental Prototype Community of Tomorrow, or EPCOT Center. E. Cardon Walker, then president of the company, announced that EPCOT would be a "permanent showcase, industrial park, and experimental housing center." This new park consists of two large complexes: Future World, a series of pavilions designed to show the technological advances of the next 25 years, and World Showcase, a collection of foreign "villages."

Tokyo Disneyland

It was Tokyo's nastiest winter day in four years. Arctic winds and 8 inches of snow lashed the city. Roads were clogged and trains slowed down. But the bad weather didn't keep 13,200 hardy souls from Tokyo Disneyland. Mikki Mausu, better known outside Japan as Mickey Mouse, had taken the country by storm.

Located on a fringe of reclaimed shoreline in Urayasu City on the outskirts of Tokyo, the park opened to the public on April 15, 1983. In less than one year, over 10 million people had passed through its gates, an attendance figure that has been bettered every single year. On August 13, 1983, 93,000 people helped set a one-day attendance record that easily eclipsed the old records established at the two parent U.S. parks. Four years later, records again toppled as the turnstiles clicked. The total this time: 111,500. By 1988, approximately 50 million people, or nearly half of Japan's population, had visited Tokyo Disneyland since its opening. The steady cash flow pushed revenues for fiscal year 1989 to $768 million, up 17 percent from 1988.

The 204-acre Tokyo Disneyland is owned and operated by Oriental Land under license from the Walt Disney Co. The 45-year contract gives Disney 10 percent of admissions and 5 percent of food and merchandise sales, plus licensing fees. Disney opted to take no equity in the project and put no money down for construction. "I never had the slightest doubt about the success of Disneyland in Japan," said Masatomo Takahashi, president of Oriental Land Company. Oriental Land was so confident of the success of Disney in Japan that it financed the park entirely with debt, borrowing ¥180 billion ($1.5 billion at February 1988 exchange rates). Takahashi added, "The debt means nothing to me," and with good reason. According to Fusahao Awata, who co-authored a book on Tokyo Disneyland: "The Japanese yearn for [American culture]."

Soon after Tokyo Disneyland opened in April 1983, five Shinto priests held a solemn dedication ceremony near Cinderella's castle. It is the only overtly Japanese ritual seen so far in this sprawling theme park. What visitors see is pure Americana. All signs are in English, with only small *katakana* (a phonetic Japanese alphabet)

Exhibit 1 How the Theme Parks Grew

1955	Disneyland
1966	Walt Disney's death
1971	Walt Disney World in Orlando
1982	Epcot Center
1983	Tokyo Disneyland
1992	Euro Disneyland

Stephen Koepp, "Do You Believe in Magic?" *Time,* April 25, 1988, pp. 66–73.

translations. Most of the food is American style, and the attractions are cloned from Disney's U.S. parks. Disney also held firm on two fundamentals that strike the Japanese as strange—no alcohol is allowed and no food may be brought in from outside the park.

However, in Disney's enthusiasm to make Tokyo a brick-by-brick copy of Anaheim's Magic Kingdom, there were a few glitches. On opening day, the Tokyo park discovered that almost 100 public telephones were placed too high for Japanese guests to reach them comfortably. And many hungry customers found countertops above their reach at the park's snack stands.

"Everything we imported that worked in the United States works here," said Ronald D. Pogue, managing director of Walt Disney Attractions Japan Ltd. "American things like McDonald's hamburgers and Kentucky Fried Chicken are popular here with young people. We also wanted visitors from Japan and Southeast Asia to feel they were getting the real thing," said Toshiharu Akiba, a staff member of the Oriental Land publicity department.

Still, local sensibilities dictated a few changes. A Japanese restaurant was added to please older patrons. The Nautilus submarine is missing. More areas are covered to protect against rain and snow. Lines for attractions had to be redesigned so that people walking through the park did not cross in front of patrons waiting to ride an attraction. "It's very discourteous in Japan to have people cross in front of somebody else," explained James B. Cora, managing director of operations for the Tokyo project. The biggest differences between Japan and America have come in slogans and ad copy. Although English is often used, it's "Japanized" English—the sort that would have native speakers shaking their heads while the Japanese nod happily in recognition. "Let's Spring" was the motto for one of their highly successful ad campaigns.

Pogue, visiting frequently from his base in California, supervised seven resident American Disney managers who work side by side with Japanese counterparts from Oriental Land Co. to keep the park in tune with the Disney doctrine. American it may be, but Tokyo Disneyland appeals to such deep-seated Japanese passions as cleanliness, order, outstanding service, and technological wizardry. Japanese executives are impressed by Disney's detailed training manuals, which teach employees how to make visitors feel like VIPs. Most worth emulating, say the Japanese, is Disney's ability to make even the lowliest job seem glamorous. "They have changed the image of dirty work," said Hakuhodo Institute's Sekizawa.

Disney Company did encounter a few unique cultural problems when developing Tokyo Disneyland:

The problem: how to dispose of some 250 tons of trash that would be generated weekly by Tokyo Disneyland visitors?
The standard Disney solution: trash compactors.
The Japanese proposal: pigs to eat the trash and be slaughtered and sold at a profit.

Exhibit 2 Investor's Snapshot: The Walt Disney Company (December 1989)

Sales (latest four quarters)	$4.6 billion
Change from year earlier	Up 33.6%
Net profit	$703.3 million
Change	Up 34.7%
Return on common stockholders' equity	23.4%
Five year average	20.3%
Stock price average (last 12 months)	$60.50–$136.25
Recent share price	$122.75
Price/Earnings Multiple	27
Total return to investor (12 months to 11/3/89)	90.6%

Source: Fortune, December 4, 1989.

James B. Cora and his team of some 150 operations experts did a little calculating and pointed out that it would take 100,000 pigs to do the job. And then there would be the smell . . .

The Japanese relented.

The Japanese were also uneasy about a rustic-looking Westernland, Tokyo's version of Frontierland. "The Japanese like everything fresh and new when they put it in," said Cora. "They kept painting the wood and we kept saying, 'No, it's got to look old.'" Finally the Disney crew took the Japanese to Anaheim to give them a firsthand look at the Old West.

Tokyo Disneyland opened just as the yen escalated in value against the dollar, and the income level of the Japanese registered a phenomenal improvement. During this era of affluence, Tokyo Disneyland triggered an interest in leisure. Its great success spurred the construction of "leisurelands" throughout the country. This created an increase in the Japanese people's orientation toward leisure. But demographics are the real key to Tokyo Disneyland's success. Thirty million Japanese live within 30 miles of the park. There are three times more than the number of people in the same proximity to Anaheim's Disneyland. With the park proven such an unqualified hit, and nearing capacity, Oriental Land and Disney mapped out plans for a version of the Disney-MGM studio tour next door. This time, Disney talked about taking a 50 percent stake in the project.

Building Euro Disneyland

On March 24, 1987, Michael Eisner and Jacques Chirac, the French prime minister, signed a contract for the building of a Disney theme park at Marne-la-Vallee. Talks between Disney and the French government had dragged on for more than a year. At the signing, Robert Fitzpatrick, fluent in French, married to the former Sylvie Blondet, and the recipient of two awards from the French government, was introduced as the president of Euro Disneyland. He was expected to be a key player in wooing support from the French establishment for the theme park. As one analyst put it, Disney selected him to set up the park because he is "more French than the French."

Disney had been courted extensively by Spain and France. The prime ministers of both countries ordered their governments to lend Disney a hand in its quest for a site. France set up a five-person team headed by Special Advisor to Foreign Trade and Tourism Minister Edith Cresson, and Spain's negotiators included Ignacio Vasallo, Director-General for the Promotion of Tourism. Disney pummeled both governments with requests for detailed information. "The only thing they haven't asked us for is the color of the tourists' eyes," moaned Vasallo.

The governments tried other enticements too. Spain offered tax and labor incentives and possibly as much as 20,000 acres of land. The French package, although less generous, included spending of $53 million to improve highway access to the proposed site and perhaps speeding up a $75 million subway project. For a long time, all that smiling Disney officials would say was that Spain had better weather while France had a better population base.

Officials explained that they picked France over Spain because Marne-la-Vallee is advantageously close to one of the world's tourism capitals, while also being situated within a day's drive or train ride of some 30 million people in France, Belgium, England, and Germany. Another advantage mentioned was the availability of good transportation. A train line that serves as part of the Paris Metro subway system ran to Torcy, in the center of Marne-la-Vallee, and the French government promised to extend the line to the actual site of the park. The park would also be served by A-4, a modern highway that runs from Paris to the German border, as well as a freeway that runs to Charles de Gaulle airport.

Once a letter of intent had been signed, sensing that the French government was keen to not let the plan fail, Disney held out for one concession after another. For example, Disney negotiated for VAT (value-added tax) on ticket sales to be cut from a normal 18.6 percent to 7 percent. A quarter of the investment in building the park would come from subsidized loans. Additionally, any disputes arising from the contract would be settled not in French courts but by a special international panel of arbitrators. But Disney did have to agree to a clause in the contract which would require it to respect and utilize French culture in its themes.

The park was built on 4,460 acres of farmland in Marne-la-Vallee, a rural corner of France 20 miles east of Paris known mostly for sugar beets and Brie cheese. Opening was planned for early 1992, and planners hoped to attract some 10 million visitors a year. Approximately $2.5 billion was needed to build the park, making it the largest single foreign investment ever in France. A French "pivot" company was formed to build the park with starting capital of FFr 3 billion, split 60 percent French and 40 percent foreign, with Disney taking 16.67 percent. Euro Disneyland was expected to bring $600 million in foreign investment into France each year.

As soon as the contract had been signed, individuals and businesses began scurrying to somehow plug into the Mickey Mouse money machine—all were hoping to benefit from the American dream without leaving France. In fact, one Paris daily, *Liberation,* actually sprouted mouse ears over its front-page flag.

The $1.5 to $2 billion first phase investment would involve an amusement complex including hotels and restaurants, golf courses, and an aquatic park in addition to a European version of the Magic Kingdom. The second phase, scheduled to start after the gates opened in 1992, called for the construction of a community around the park, including a sports complex, technology park, conference center, theater, shopping mall, university campus, villas, and condominiums. No price tag had been put on the second phase, although it was expected to rival, if not surpass, the first phase investment. In November 1989, Fitzpatrick announced that the Disney–MGM Studios, Europe, would also open at Euro Disneyland in 1996, resembling the enormously successful Disney–MGM Studios theme park at Disney World in Orlando. The new studios would greatly enhance the Walt Disney Company's strategy of increasing its production of live action and animated filmed entertainment in Europe for both the European and world markets.

"The phone's been ringing here ever since the announcement," said Marc Berthod of EpaMarne, the government body that oversees the Marne-la-Vallee region. "We've gotten calls from big companies as well as small—everything from hotel chains to language interpreters all asking for details on Euro Disneyland. And the individual mayors of the villages around here have been swamped with calls from people looking for jobs," he added.

Euro Disneyland was expected to generate up to 28,000 jobs, providing a measure of relief for an area that had suffered a 10 percent–plus unemployment rate for the previous year. It was also expected to light a fire under France's construction industry, which had been particularly hard hit by France's economic problems over the previous year. Moreover, Euro Disneyland was expected to attract many other investors to the depressed outskirts of Paris. International Business Machines (IBM) and Banque National de Paris were among those already building in the area. In addition one of the new buildings going up was a factory that would employ 400 outside workers to wash the 50 tons of laundry expected to be generated per day by Euro Disneyland's 14,000 employees.

The impact of Euro Disneyland was also felt in the real estate market. "Everyone who owns land around here is holding on to it for the time being, at least until they know what's going to happen," said Danny Theveno, a spokesman for the town of Villiers on the western edge of Marne-la-Vallee. Disney expected 11 million visitors in the first year. The break-even point was estimated to be between 7 and 8 million. One worry was that Euro Disneyland would cannibalize the flow of European visitors to Walt Disney World in Florida, but European travel agents said that their customers were still eagerly signing up for Florida, lured by the cheap dollar and the promise of sunshine.

Protests of Cultural Imperialism

Disney faced French communists and intellectuals who protested the building of Euro Disneyland. Ariane Mnouchkine, a theater director, described it as a "cultural Chernobyl." "I wish with all my heart that the rebels would set fire to Disneyland," thundered a French intellectual in the newspaper *La Figaro*. "Mickey Mouse," sniffed another, "is stifling individualism and transforming children into consumers." The theme park was damned as an example of American "neoprovincialism."

Farmers in the Marne-la-Vallee region posted protest signs along the roadside featuring a mean looking Mickey Mouse and touting sentiments such as "Disney go home," "Stop the massacre," and "Don't gnaw away our national wealth." Farmers were upset partly because under the terms of the contract, the French government would expropriate the necessary land and sell it without profit to the Euro Disneyland development company.

While local officials were sympathetic to the farmers' position, they were unwilling to let their predicament interfere with what some called "the deal of the century." "For many years these farmers have had the fortune to cultivate what is considered some of the richest land in France," said Berthod. "Now they'll have to find another occupation."

Also less than enchanted about the prospect of a magic kingdom rising among its midst was the communist-dominated labor federation, the Confédération Générale du Travail (CGT). Despite the job-creating potential of Euro Disney, the CGT doubted its members would benefit. The union had been fighting hard to stop the passage of a bill which would give managers the right to establish flexible hours for their workers. Flexible hours were believed to be a prerequisite to the profitable operation of Euro Disneyland, especially considering seasonal variations.

However, Disney proved to be relatively immune to the anti-U.S. virus. In early 1985, one of the three state-owned television networks signed a contract to broadcast two hours of dubbed Disney programming every Saturday evening. Soon after, *Disney Channel* became one of the top-rated programs in France.

In 1987, the company launched an aggressive community relations program to calm the fears of politicians, farmers, villagers, and even bankers that the project would bring traffic congestion, noise, pollution, and other problems to their countryside. Such a public relations program was a rarity in France, where businesses make little effort to establish good relations with local residents. Disney invited 400 local children to a birthday party for Mickey Mouse, sent Mickey to area hospitals, and hosted free trips to Disney World in Florida for dozens of local officials and children.

"They're experts at seduction, and they don't hide the fact that they're trying to seduce you," said Vincent Guardiola, an official with Banque Indosuez, one of the 17 banks wined and dined at Orlando and subsequently one of the venture's financial participants. "The French aren't used to this kind of public relations—it was unbelievable." Observers said that the goodwill efforts helped dissipate initial objections to the project.

Financial Structuring at Euro Disneyland

Eisner was so keen on Euro Disneyland that Disney kept a 49 percent stake in the project, while the remaining 51 percent of stock was distributed through the London, Paris, and Brussels stock exchanges. Half the stock under the offer was going to the French, 25 percent to the English, and the remainder distributed in the rest of the European community. The initial offer price of FFr 72 was considerably higher than the pathfinder prospectus estimate because the capacity of the park had been slightly extended. Scarcity of stock was likely to push up the price, which was expected to reach FFr 166 by opening day in 1992. This would give a compound return of 21 percent.

Exhibit 3 Chronology of the Euro Disneyland Deal

1984–85	Disney negotiates with Spain and France to create a European theme park. Chooses France as the site.
1987	Disney signs letter of intent with the French government.
1988	Selects lead commercial bank lenders for the senior portion of the project. Forms the Société en Nom Collectif (SNC). Begins planning for the equity offering of 51% of Euro Disneyland as required in the letter of intent.
1989	European press and stock analysts visit Walt Disney World in Orlando. Begin extensive news and television campaign. Stock starts trading at 20–25 percent premium from the issue price.

Source: Geraldine E. Willigan, "The Value-Adding CFO: An Interview with Disney's Gary Wilson," *Harvard Business Review,* January–February 1990, pp. 85–93.

Walt Disney Company maintained management control of the company. The U.S. company put up $160 million of its own capital to fund the project, an investment which soared in value to $2.4 billion after the popular stock offering in Europe. French national and local authorities, by comparison, were providing about $800 million in low-interest loans and poured at least that much again into infrastructure.

Other sources of funding were the park's 12 corporate sponsors, and Disney would pay them back in kind. The "autopolis" ride, where kids ride cars, features coupes emblazoned with the "Hot Wheels" logo. Mattel Inc., sponsor of the ride, was grateful for the boost to one of its biggest toy lines.

The real payoff would begin once the park opened. The Walt Disney Company would receive 10 percent of admission fees and 5 percent of food and merchandise revenue, the same arrangement as in Japan. But in France, it would also receive management fees, incentive fees, and 49 percent of the profits.

A Saloman Brothers analyst estimated that the park would pull in 3 to 4 million more visitors than the 11 million the company expected in the first year. Other Wall Street analysts cautioned that stock prices of both Walt Disney Company and Euro Disney already contained all the Euro optimism they could absorb. "Europeans visit Disney World in Florida as part of an 'American experience,'" said Patrick P. Roper, marketing director of Alton Towers, a successful British theme park near Manchester. He doubted they would seek the suburbs of Paris as eagerly as America and predicted attendance would trail Disney projections.

The Layout of Euro Disneyland

Euro Disneyland is determinedly American in its theme. There was an alcohol ban in the park despite the attitude among the French that wine with a meal is a God-given right. Designers presented a plan for a Main Street USA based on scenes of America in the 1920s, because research indicated that Europeans loved the Prohibition era. Eisner decreed that images of gangsters and speakeasies were too negative. Though made more ornate and Victorian than Walt Disney's idealized Midwestern small town, Main Street remained Main Street. Steamships leave from Main Street through the Grand Canyon Diorama en route to Frontierland.

The familiar Disney Tomorrowland, with its dated images of the space age, was jettisoned entirely. It was replaced by a gleaming brass and wood complex called Discoverland, which was based on themes of Jules Verne and Leonardo da Vinci. Eisner ordered $8 or $10 million in extras to the "Visionarium" exhibit, a 360-degree movie about French culture which was required by the French in their original contract. French and English are the official languages at the park, and multilingual guides are available to help Dutch, German, Spanish, and Italian visitors.

With the American Wild West being so frequently captured on film, Europeans have their own idea of what life was like back then. Frontierland reinforces those images. A runaway mine train takes guests through the canyons and mines of Gold Rush country. There is a paddle wheel steamboat reminiscent of Mark Twain, Indian explorer canoes, and a phantom manor from the Gold Rush days.

In Fantasyland, designers strived to avoid competing with the nearby European reality of actual medieval towns, cathedrals, and chateaux. While Disneyland's castle is based on Germany's Neuschwanstein and Disney World's is based on a Loire Valley chateau, Euro Disney's *Le Château de la Belle au Bois Dormant,* as the French insisted Sleeping Beauty be called, is more cartoonlike with stained glass windows built by English craftspeople and depicting Disney characters. Fanciful trees grow inside as well as a beanstalk.

The park is criss-crossed with covered walkways. Eisner personally ordered the installation of 35 fireplaces in hotels and restaurants. "People walk around Disney World in Florida with humidity and temperatures in the 90s and they walk into an air-conditioned ride and say, 'This is the greatest,'" said Eisner. "When it's raining and miserable, I hope they will walk into one of these lobbies with the fireplace going and say the same thing."

Children all over Europe were primed to consume. Even one of the intellectuals who contributed to *Le Figaro*'s Disney-bashing broadsheet was forced to admit with resignation that his 10-year-old son "swears by Michael Jackson." At Euro Disneyland, under the name "Captain EO," Disney just so happened to have a Michael Jackson attraction awaiting him.

Food Service and Accommodations at Euro Disneyland

Disney expected to serve 15,000 to 17,000 meals per hour, excluding snacks. Menus and service systems were developed so that they varied both in style and price. There is a 400-seat buffeteria, 6 table service restaurants, 12 counter service units, 10 snack bars, 1 Discovery food court seating 850, 9 popcorn wagons, 15 ice-cream carts, 14 specialty food carts, and 2 employee cafeterias. Restaurants were, in fact, to be a showcase for American foods. The only exception to this is Fantasyland which re-creates European fables. Here, food service will reflect the fable's country of origin: Pinocchio's facility having German food; Cinderella's, French; Bella Notte's, Italian; and so on.

Of course recipes were adapted for European tastes. Since many Europeans don't care much for very spicy food, Tex-Mex recipes were toned down. A special coffee blend had to be developed which would have universal appeal. Hot dog carts would reflect the regionalism of American tastes. There would be a ball park hot dog

Exhibit 4 The Euro Disneyland Resort

5,000 acres in size
30 attractions
12,000 employees
6 hotels (with 5,184 rooms)
10 theme restaurants
414 cabins
181 camping sites

Source: Roger Cohen, "Threat of Strikes in Euro Disney Debut," *New York Times,* April 10, 1992, p. 20.

(mild, steamed, a mixture of beef and pork), a New York hot dog (all beef, and spicy), and a Chicago hot dog (Vienna-style, similar to bratwurst).

Euro Disneyland has six theme hotels which would offer nearly 5,200 rooms on opening day, a campground (444 rental trailers and 181 camping sites), and single family homes on the periphery of the 27-hole golf course.

Disney's Strict Appearance Code

Antoine Guervil stood at his post in front of the 1,000-room Cheyenne Hotel at Euro Disneyland, practicing his "Howdy!" When Guervil, a political refugee from Haiti, said the word, it sounded more like "Audi." Native French speakers have trouble with the aspirated "h" sound in words like "hay" and "Hank" and "howdy." Guervil had been given the job of wearing a cowboy costume and booming a happy, welcoming howdy to guests as they entered the Cheyenne, styled after a Western movie set.

"Audi," said Guervil, the strain of linguistic effort showing on his face. This was clearly a struggle. Unless things got better, it was not hard to imagine objections from Renault, the French car company that was one of the corporate sponsors of the park. Picture the rage of a French auto executive arriving with his or her family at the Renault-sponsored Euro Disneyland, only to hear the doorman of a Disney hotel advertising a German car.

Such were the problems Disney faced while hiring some 12,000 people to maintain and populate its Euro Disneyland theme park. A handbook of detailed rules on acceptable clothing, hairstyles, and jewelry, among other things, embroiled the company in a legal and cultural dispute. Critics asked how the brash Americans could be so insensitive to French culture, individualism, and privacy. Disney officials insisted that a ruling that barred them from imposing a squeaky-clean employment standard could threaten the image and long-term success of the park.

"For us, the appearance code has a real effect from a product identification standpoint," said Thor Degelmann, vice president for human resources for Euro Disneyland. "Without it we wouldn't be presenting the Disney product that people would be expecting."

The rules, spelled out in a video presentation and detailed in a guide handbook, went beyond height and weight standards. They required men's hair to be cut above the collar and ears with no beards or mustaches. Any tattoos must be covered. Women must keep their hair in one "natural color" with no frosting or streaking, and they may make only limited use of makeup like mascara. False eyelashes, eyeliners, and eye pencil were completely off limits. Fingernails can't pass the end of the fingers. As for jewelry, women can wear only one earring in each ear, with the earring's diameter no more than three-quarters of an inch. Neither men nor women can wear more than one ring on each hand. Further, women were required to wear appropriate undergarments and only transparent panty hose, not black or anything with fancy designs. Though a daily bath was not specified in the rules, the applicant's video depicted a shower scene and informed applicants that they were expected to show up for work "fresh and clean each day." Similar rules are in force at Disney's three other theme parks in the United States and Japan.

In the United States, some labor unions representing Disney employees have occasionally protested the company's strict appearance code, but with little success. French labor unions began protesting when Disneyland opened its "casting center" and invited applicants to "play the role of [their lives]" and to take a "unique opportunity to marry work and magic." The CGT handed out leaflets in front of the center to warn applicants of the appearance code, which they believed represented "an attack on individual liberty." A more mainstream union, the Confédération Française Démocratique du Travail (CFDT), appealed to the Labor Ministry to halt Disney's violation of "human dignity." French law prohibits employers from restricting individual and collective liberties unless the restrictions can be justified by the nature of the task to be accomplished and are proportional to that end.

Degelmann, however, said that the company was "well aware of the cultural differences" between the United States and France and as a result had "toned down" the wording in the original American version of the guidebook. He pointed out that many companies, particularly airlines, maintained appearance codes just as strict. "We happened to put ours in writing," he added. In any case, he said that he knew of no one who had refused to take the job because of the rules and that no more than 5 percent of the people showing up for interviews had decided not to proceed after watching the video, which also detailed transportation and salary.

Fitzpatrick also defended the dress code, although he conceded that Disney might have been a little naive in presenting things so directly. He added, "Only in France is there still a communist party. There is not even one in Russia any more. The ironic thing is that I could fill the park with CGT requests for tickets."

Another big challenge lay in getting the mostly French "cast members," as Disney calls its employees, to break their ancient cultural aversions to smiling and being consistently polite to park guests. The individualistic French had to be molded into the squeaky-clean Disney image. Rival theme parks in the area, loosely modeled on the Disney system, had already encountered trouble keeping smiles on the faces of the staff, who sometimes took on the demeanor of subway ticket clerks.

The delicate matter of hiring French citizens as opposed to other nationals was examined in the more than two-year-long preagreement negotiations between the French government and Disney. The final agreement called for Disney to make a maximum effort to tap into the local labor market. At the same time, it was understood that for Euro Disneyland to work, its staff must mirror the multicountry makeup of its guests. "Casting centers" were set up in Paris, London, Amsterdam, and Frankfurt. "We are concentrating on the local labor market, but we are also looking for workers who are German, English, Italian, Spanish, or other nationalities and who have good communication skills, are outgoing, speak two European languages—French plus one other—and like being around people," said Degelmann.

Stephane Baudet, a 28-year-old trumpet player from Paris, refused to audition for a job in a Disney brass band when he learned he would have to cut his ponytail. "Some people will turn themselves into a pumpkin to work at Euro Disneyland," he said. "But not me."

Opening Day at Euro Disneyland

A few days before the grand opening of Euro Disneyland, hundreds of French visitors were invited to a preopening party. They gazed perplexed at what was placed before them. It was a heaping plate of spare ribs. The visitors were at the Buffalo Bill Wild West Show, a cavernous theater featuring a panoply of "Le Far West," including 20 imported buffaloes. And Disney deliberately didn't provide silverware. "There was a moment of consternation," recalls Fitzpatrick. "Then they just kind of said, 'The hell with it,' and dug in." There was one problem. The guests couldn't master the art of gnawing ribs and applauding at the same time. So Disney planned to provide more napkins and teach visitors to stamp with their feet.

On April 12, 1992, the opening day of Euro Disneyland, *France-Soir* enthusiastically predicted Disney dementia. "Mickey! It's Madness" read its front-page headline, warning of chaos on the roads and suggesting that people might have to be turned away. A French government survey indicated that half a million might turn up with 90,000 cars trying to get in. French radio warned traffic to avoid the area.

By lunchtime on opening day, the Euro Disneyland car park was less than half full, suggesting an attendance of below 25,000, less than half the park's capacity and way below expectations. Many people may have heeded the advice to stay home or, more likely, were deterred by a one-day strike that cut the direct rail link to Euro Disneyland from the center of Paris. Queues for the main rides, such as Pirates of the Caribbean and Big Thunder Mountain railroad, were averaging around 15 minutes less than on an ordinary day at Disney World, Florida.

Disney executives put on a brave face, claiming that attendance was better than at first days for other Disney theme parks in Florida, California, and Japan. However, there was no disguising the fact that after spending thousands of dollars on the preopening celebrations, Euro Disney would have appreciated some impressively long traffic jams on the auto route.

Other Operating Problems

When the French government changed hands in 1986, work ground to a halt, as the negotiator appointed by the Conservative government threw out much of the groundwork prepared by his Socialist predecessor. The legalistic approach taken by the Americans also bogged down talks, as it meant planning ahead for every conceivable contingency. At the same time, right-wing groups who saw the park as an invasion of "chewing-gum jobs" and U.S. pop culture also fought hard for a greater "local cultural context."

On opening day, English visitors found the French reluctant to play the game of queuing. "The French seem to think that if God had meant them to queue, He wouldn't have given them elbows," they commented. Different cultures have different definitions of personal space, and

Exhibit 5 **What Price Mickey?**

	Euro Disneyland	Disney World, Orlando
Peak Season Hotel Rates		
4-person room	$97–$345	$104–$455
Campground Space		
	$48	$30–$49
One-Day Pass		
Children	$26	$26
Adults	$40	$33

Source: BusinessWeek, March 30, 1992.

Disney guests faced problems of people getting too close or pressing around those who left too much space between themselves and the person in front.

Disney placed its first ads for work bids in English, leaving small- and medium-sized French firms feeling like foreigners in their own land. Eventually, Disney set up a data bank with information on over 20,000 French and European firms looking for work, and the local Chamber of Commerce developed a video text information bank with Disney that small- and medium-sized companies through France and Europe would be able to tap into. "The work will come, but many local companies have got to learn that they don't simply have the right to a chunk of work without competing," said a chamber official.

Efforts were made to ensure that sooner, rather than later, European nationals take over the day-to-day running of the park. Although there were only 23 U.S. expatriates among the employees, they controlled the show and held most of the top jobs. Each senior manager had the task of choosing his or her European successor.

Disney was also forced to bail out 40 subcontractors who were working for the Gabot-Eremco construction contracting group, which had been unable to honor all of its commitments. Some of the subcontractors said they faced bankruptcy if they were not paid for their work on Euro Disneyland. A Disney spokesperson said that the payments would be less than $20.3 million and the company had already paid Gabot-Eremco for work on the park. Gabot-Eremco and 15 other main contractors demanded $157 million in additional fees from Disney for work that they said was added to the project after the initial contracts were signed. Disney rejected the claim and sought government intervention. Disney said that under no circumstances would it pay Gabot-Eremco and accused its officers of incompetence.

As Bourguignon thought about these and other problems, the previous year's losses and the prospect of losses again in the current year, with their negative impact on the company's stock price, weighed heavily on his mind.

Questions for Review

1. Using Hofstede's four cultural dimensions as a point of reference, what are some of the main cultural differences between the United States and France?
2. In what way has Trompenaars's research helped explain cultural differences between the United States and France?
3. In managing its Euro Disneyland operations, what are three mistakes that the company made? Explain.
4. Based on its experience, what are three lessons the company should have learned about how to deal with diversity? Describe each.

Source: This case was prepared by Research Assistant Sonali Krishna under the direction of Professors J. Stewart Black and Hal B. Gregersen as the basis for class discussion. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility. Reprinted by permission of the authors.

In-Depth Integrative Case 2.1b

Beyond Tokyo: Disney's Expansion in Asia

After its success with Tokyo Disneyland in the 1980s, Disney began to realize the vast potential of the Asian market. The theme park industry throughout Asia has been very successful in recent years, with a range of regional and international companies all trying to enter the market. Disney has been one of the major participants, opening Hong Kong Disneyland in 2005 and discussing future operations in at least three other Asian cities.

Disney in China

After Disney's success in Tokyo, China, in particular, became a serious option for its next theme park venture in light of the country's impressive population and economic growth throughout the 1990s. Successful sales associated with the Disney movie *The Lion King,* in 1996, also convinced Disney officials that China was a promising location. However, consumer enthusiasm for theme parks in China was at a low in the late 1990s. "Between 1993 and 1998, more than 2,000 theme parks had been opened in China," and "many projects were swamped by excessive competition, poor market projections, high costs, and relentless interference from local officials," forcing several hundred to be closed.[1] Nevertheless, Disney continued to pursue plans in both Shanghai and Hong Kong.

Shanghai, known as the "Paris of the Orient," was an attractive site for Disney officials because of its growing commercialization and industrialization and its already extant transportation access. The projected $1 billion project was scheduled to be built across the Huangpu River from Shanghai's world-famous waterfront promenade, the Bund, on a 200-square-mile expanse called The Pudong New Area. The first phase of construction included a Magic Kingdom park, while an EPCOT-style theme park was to be added after at least five years of operations.[2]

A Disney theme park in Shanghai would be mutually beneficial for the company and the nation of China. From Disney's perspective, it would gain access to one of the world's largest potential markets (and also compete with Universal Studios' new theme park). From the perspective of Chinese government officials, Disney's park would be a long-awaited mark of international success for a communist nation.[3]

Initially planners hoped to have a Disneyland operating in Shanghai prior to the World Expo in 2010. However the project stalled, and as of late 2006, "the chances of Beijing approving the project have shrunk since Shanghai's Communist Party boss was implicated in a big corruption investigation in September [2005]." This led Disney to consider other options for the construction of a new park.[4]

Hong Kong Disneyland

Plans in Hong Kong, which culminated in the opening of Hong Kong Disneyland in September 2005, began after the 1997–1998 Asian financial crisis. Despite the poor economic condition of Hong Kong in the late 1990s, Disney was still optimistic about prospects for a theme park in the "city of life." Hong Kong, already an international tourist destination, would draw Disneyland patrons primarily from China, Taiwan, and Southeast Asia.

The official park plans were announced in November 1999 as a joint venture between the Walt Disney Company and the Hong Kong SAR Government. Unlike its experience in Tokyo, where Disney handed the reins over completely to a foreign company (the Oriental Land Company), Disney decided to take more direct control over this new park. The park was built on Lantau Island at Penny's Bay, within the 6-mile stretch separating the international airport and downtown. Hong Kong Disneyland was estimated to create 18,000 jobs upon opening and ultimately 36,000 jobs. The first phase of the park was to include a 10 million annual visitor Disneyland-based theme park, 2,100 hotel rooms, and a 300,000-square-foot retail, dining and entertainment complex.[5]

In order to make the park "culturally sensitive," Jay Rasulo, president of Walt Disney Parks & Resorts, announced that Hong Kong Disneyland would be trilingual with English, Cantonese, and Mandarin. The park would also include a fantasy garden for taking pictures with the Disney characters (popular among Asian tourists), as well as more covered and rainproof spaces to accommodate the "drizzly" climate.[6]

Unfortunately, Disney soon realized that its attempts at cultural sensitivity had not gone far enough. For instance, the decision to serve shark fin soup, a local favorite, greatly angered environmentalists. The park ultimately had to remove the dish from its menus. Park executives also failed to plan for the large influx of visitors around the Chinese New Year in early 2006, forcing them to turn away numerous patrons who had valid tickets. Unsurprisingly, this led to customer outrage and negative media coverage of the relatively new theme park.

Other criticisms of the park have included its small scale and slow pace of expansion. Hong Kong Disneyland has only 16 attractions and "one classic Disney thrill ride, Space Mountain, compared to 52 at Disneyland Resort Paris [formerly Euro Disneyland]."[7] However the government has made plans to increase the size of the park by acquiring land adjacent to the existing facilities. Likely due to its small size and fewer attractions, Hong Kong Disneyland pulled in only 5.2 million guests during its first 12 months, less than the estimated 5.6 million.[8] Failure to meet its projected levels of attendance and guest spending could cause the park to look toward other sources of funding for these expansions.

Battle over Hong Kong Park Expansion

Disney had plans to expand the size of the theme park in Hong Kong by about a third and it had been trying to obtain the local government's financial support for these plans since 2007. However, Disney's Park in Hong Kong had been performing well below the projected sales number in 2007–2008, and the government, which is 57 percent stockholder in this business, has expressed serious doubts in the need to fund the further expansion. As noted by *Financial Times* analysts, in one of the March 2009 reports, Hong Kong Disneyland has attracted about 15m visitors since its opening in September 2005, or about 4.3m a year. That figure fell short of the original projection of more than 5m a year.[9] Although Disney did not release financial figures to the public, Euromonitor estimated the park had an operating loss of $46 million in the year ended June 2006, and lost $162 million the following year.[10]

Disney's officials have been trying to stress the importance of park expansion for the overall viability of the project. So far, the park occupied 126 hectares and had only four "lands"—Fantasyland, Tomorrowland, Adventureland, and Main Street USA—and two hotels. Hong Kong Disneyland Managing Director Andrew Kam said expansion is vital to the park's success. In one of the September 2008 releases, Kam said the park had plenty of room to grow, since it was only using half of the land available. "Expansion is part of the strategy to make this park work for Hong Kong," he said.[11] An expansion could cost as much as 3 billion Hong Kong dollars, or $387 million, local media have reported. In December 2008, the *Sing Tao Daily* newspaper in Hong Kong reported that Disney, in what was deemed an unusual concession, might give the government a greater share in the project in repayment of a cash loan of nearly $800 million that the city had extended previously to the theme park.[12]

Unable to come to agreement with the Hong Kong government, Disney has indicated that it is putting on hold long-awaited plans to expand the park. In a statement from Disney's Burbank (Calif.) office released in March 2009, the company said it was laying off employees in Hong Kong after failing to reach an agreement with the Hong Kong government to fund a much-needed expansion. According to Disney, "The uncertainty of the outcome requires us to immediately suspend all creative and design work on the project." Thirty Hong Kong–based Disney "Imagineers" who helped to plan and design new parks, will be losing their jobs.[13] Business news sources had noted that one reason Disney might be willing to end negotiations with the Hong Kong government is the company's progress in negotiations with Shanghai officials to open a theme park there that would be much larger and arguably a more exciting China project. This park is expected to be easier for many Chinese families to visit. However, the possible shift of mainland Chinese away from Hong Kong to Shanghai could mean a drop of as much as 60 percent in visitor numbers to the Hong Kong park, according to Euromonitor's estimates.[14]

In June of 2009 Disney and Hong Kong's government finally reached a deal to expand the territories of the Disneyland theme park at a cost of about $465 million. Under terms of the deal, the entertainment giant will contribute all the necessary new capital for construction as well as sustaining the park's operation during the building phases. It will also convert into equity about $350 million in loans to the venture to help with funding and will keep open a credit facility of about $40 million. Hong Kong, which shouldered much of the $3.5 billion original construction cost, will not add any new capital. "Disney is making a substantial investment in this important project," Leslie Goodman, a Disney vice president, said in a statement.[15]

Disney Gets Green Light for Shanghai Park

In spite of the global economic downturn, Walt Disney Co. has revisited its plans to build a park in Shanghai, China. In January 2009 Disney presented to the Chinese central government a $3.59 billion proposal that outlined the plans for a jointly owned park, hotel, and shopping development. Shanghai Disneyland, if the project succeeds, would be one of the largest-ever foreign investments in China.[16] Though Disney had been unsuccessful in its negotiations with the Chinese government a few years earlier, and almost abandoned its plans of expansion to Shanghai, the global economic crisis played a role making the prospective creation of 50,000 new jobs amid a cooling Chinese economy especially attractive, and gave Disney the grounds to revisit its plans.[17]

The preliminary agreement signed in January represented a framework to be considered by China's State Council, the central government's highest administrative body. According to the proposal Disney would take a 43 percent equity stake in Shanghai Disneyland with 57 percent owned by the Shanghai government forming a joint-venture company.[18] The park's first phase would include building a theme park, a hotel, and shopping outlets on about 1.5 square kilometers (371 acres) site near Shanghai's Pudong International Airport.[19] The preliminary agreement outlined a six-year construction period for the first phase with the projected opening of the park in 2014. Disney will likely pay $300 million to $600 million in capital expenses for the park in exchange for 5 percent of the ticket sales and 10 percent of the concessions.[20] Shanghai Disneyland will incorporate Chinese cultural features as well as attractions built around traditional Disney characters and themes. The ownership structure will contain some aspects of Disney's Hong Kong joint venture agreement. But the details of the Shanghai project will need to be further negotiated and the actual contract will have to be approved by the central government. According to *The Wall Street Journal,* a newly formed Shanghai company named Shendi will hold the local government's interest in the park. Shendi is owned by two business entities under district governments in Shanghai, as well as a third company owned by the municipal government's propaganda bureau.[21]

After almost a year of negotiation, in November 2009, Disney finally received an approval from the Chinese government to proceed with its Shanghai park plan.[22] The new park planned for the Pudong new district of China's financial capital will take years to contribute to a company that takes in more than $30 billion in annual revenue. But analysts see the move as an important step forward for Disney and other Western media firms to make inroads into the vast and untapped Chinese media and entertainment market.

"They've been laying the groundwork for a park for many years by exposing the population to Disney properties, film, TV and merchandising," said Christopher Marangi, senior analyst with Gabelli and Co in New York.[23]

There are certain public concerns that the new Shanghai park, which would be Disney's sixth, will inevitably affect the Hong Kong park. The main concern is that Hong Kong park's revenue may be cannibalized which will make the financial perspectives of this underperforming park even sadder looking. However, Disney thinks that both parks will complement each other rather than be competitors. Disney's main points are that Shanghai is close to a number of other major cities within easy driving distance, including Nanjing, Suzhou, and Hangzhou, and that Shanghai's own population of around 19 million, combined with tens of millions more within a three-hour driving radius, would provide a more-than-ample base of local users for the park. There are analysts, like Paul Tang, chief economist at Bank of East Asia, who share this optimism, projecting that "visitors from Guangdong and southern China will still find Hong Kong more convenient, while Shanghai will attract visitors from northern and eastern China."[24]

The critics of the Shanghai park on the other hand are convinced that this project is a bigger threat to the Hong Kong park than anybody can imagine. According to Parita Chitakasem, research manager at Euromonitor International in Singapore, who specializes in theme parks, "Disneyland Shanghai will have two big features which will make it more attractive than its Hong Kong counterpart: Although it is still early days, Disneyland in Shanghai will probably offer a much better experience for your money than Disneyland in Hong Kong—initial plans show that Shanghai's Disneyland will be six times bigger compared to the current size of Hong Kong Disneyland, which is very small (only 16 attractions). Also, for visitors from mainland China, it will be much easier to travel to Disneyland in Shanghai, as there are no visa/cross border concerns to take care of."[25]

While the public is debating the project, Disney is not wasting time and moves on with getting all other necessary approvals and documents that are needed for the park construction, which still may take long to obtain. In April 2010 the company received approval for the land. Authorities have also confirmed that 97 percent of residents have been already relocated, and the land would be transferred over to Disney in July. Over 2,000 households and 297 companies have to be relocated to make way for the first phase of construction. The head of Pudong New District where Shanghai Disney will be sited informed the public that the first phase of the project, including a theme park and supporting facilities, will span four square km with the theme park covering one square km. The project would take five to six years to finish.[26]

Other Asian Ventures

The Walt Disney Company has also looked into building other theme parks and resorts in Asia. Based on its successful operation of two theme parks in the United States (at Anaheim and Orlando), Disney believes that it can have more than one park per region. Another strategically located park in Asia, officials agreed, would not compete with Tokyo Disneyland or Hong Kong Disneyland, but rather bring in a new set of customers.

One such strategic location is the state of Johor in Malaysia. Malaysian officials wanted to develop Johor in order to rival its neighbor, Singapore, as a tourist attraction. (Two large casinos were built in Singapore in 2006.) However, Disney claimed to have no existing plans or discussions for building a park in Malaysia. Alannah Goss, a spokeswoman for Disney's Asian operations based in Hong Kong, said, "We are constantly evaluating strategic markets in the world to grow our park and resort business and the Disney brand. We continue to evaluate markets but at this time, we have no plans to announce regarding a park in Malaysia."[27]

Singapore, in its effort to expand its tourism industry, had also expressed interest in being host to the next Disneyland theme park. Although rumors of a Singapore Disneyland were quickly dismissed, some reports suggested there were exploratory discussions of locations at either Marina East or Seletar. Residents of Singapore expressed concern that the park would not be competitive, even against the smaller-scale Hong Kong Disneyland. Their primary fears included limited attractions (based on size and local regulations), hot weather, and high ticket prices.

Disney's Future in Asia

Although Disney is wise to enter the Asian market with its new theme parks, it still faces many obstacles. One is finding the right location. Lee Hoon, professor of tourism management at Yanyang University in Seoul, noted, "Often, more important than content is whether a venue is located in a metropolis, whether it's easily accessible by public transportation." Often tied to issues of location is the additional threat of competition, both from local attractions and those of other international corporations. It seems that Asian travelers are loyal to their local attractions, evidenced by the success of South Korea's Everland theme park and Hong Kong's own Ocean Park (which brought in more visitors than Hong Kong Disneyland in 2006).[28] The stiff competition of the theme park industry in Asia will center on not only which park can create a surge of interest in its first year but also which can build a loyal base of repeat customers.

Despite its already large size, the Asian theme park industry is still developing. Disney officials will need to be innovative and strategic in order to maintain sales. After Universal Studios in Japan witnessed a 20 percent drop in attendance between 2001 and 2006 and Hong Kong Disneyland failed to meet its estimated attendance level in 2006, Disney officials might want to think twice about building additional parks in Asia.[29]

In spite of underperformance of some theme parks, and a recent world economic crisis, Asia is still viewed by many as the most attractive region for the entertainment industry. Attendance may be stagnating in some parts of the world, but a growing middle class with disposable incomes to match is making the Asia-Pacific region a prime target for investors and theme park owners. "China will lead the way," said Kelven Tan, Southeast Asia's representative for the International Association of Amusement Parks and Attractions, an industry group. "The critical mass really came about with the resurgence of China. You need a good source of people; you also need labor and you need cheap land."[30]

That's what the people behind the just-completed Universal Studios in Singapore are betting. Developers aim to tap the wallets of Singapore's 4.6 million residents and 9.7 million tourists a year and its proximity to populous areas of Indonesia and southern Malaysia. After opening in spring of 2010, it will be the island nation's first bona fide amusement park. Outside this and other foreign brands like Legoland, which plans to open a park in Johor, Malaysia, for 2013, home-grown companies like Genting in Malaysia and OTC Enterprise Corp. in China are aggressively looking to take advantage of the burgeoning market in their backyards.[31]

Overall spending on entertainment and media in Asia Pacific is set to increase 4.5 percent each year, jumping to $413 billion in 2013 from $331 billion in 2008, according to PricewaterhouseCoopers, with places like South Korea, Australia, and China posting the biggest increases. "It's an up-and-coming market, and growing quite fast," said Christian Aaen, Hong Kong–based regional director for AECOM Economics, a consulting firm that specializes in the entertainment and leisure industries. MGM Studios and Paramount, too, are scouting around Asia for future projects. PricewaterhouseCoopers predicted the region's market will be worth nearly $8.5 billion by 2012, up from $6.4 billion in 2007.[32]

In light of these optimistic projections, it is reasonable to assume that Disney may consider expansion to other Asian countries such as Malaysia, South Korea, or Singapore, where it appeared to have seriously considered a park. Given that the Hong Kong park expansion and Shanghai park construction are on track, Disney now has the experience and motivation to further penetrate the Asian region. In this regard, Disney announced in mid-2010 a comprehensive plan to develop and operate English language schools throughout China.[33] Such a move could constitute a broader push by Disney to establish a strong Asian presence across its businesses and brands, a move that would undoubtedly involve the theme park operations as a central component.

Questions for Review

1. What cultural challenges are posed by Disney's expansion into Asia? How are these different from those in Europe?
2. How do cultural variables influence the location choice of theme parks around the world?
3. Why was Disney's Shanghai theme park so controversial? What are the risks and benefits of this project?
4. What location would you recommend for Disney's next theme park in Asia? Why?

Source: This case was prepared by Courtney Asher under the supervision of Professor Jonathan Doh of Villanova University as the basis for class discussion. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility.

In-Depth Integrative Case 2.2

Walmart's Global Strategies

Introduction

In 1991, Walmart became an international company when it opened a Sam's Club near Mexico City. Just two years later, Walmart International was created. Since venturing into Mexico in 1991, Walmart International has grown somewhat erratically. During the 1990s the retailer exported its big-box, low-price model, an approach the company expected to be as successful in foreign markets as it was in the United States. Although Walmart has had success in several overseas markets, this success has been far from universal. For example, in Mexico, China, and the U.K., the company's efforts to offer the lowest price to customers backfired because of resistance from established retailers. And in Germany, Walmart could not seem to fit its model to local tastes and preferences. In Japan, its joint venture had a series of setbacks, many related to buying habits for which the Walmart model did not respond well. In Mexico, three of the largest domestic retailers constructed a joint buying and operational alliance solely to compete with Walmart.[1] Its presence in Hong Kong ended after only two years during the 1990s, and it shuttered operations in Indonesia in the mid-1990s after rioting incidents in Jakarta. Walmart also owned approximately 16 stores in South Korea and 85 in Germany; however, it sold off these operations in 2006 after merchandise failed to match consumer tastes, distribution and re-bagging problems arose, and strong loyalties to other brands made attracting customers difficult and expensive.[2]

In addition, labor advocates and environmentalists have created headaches for the U.S. behemoth, making continued expansion both cumbersome and expensive. For instance, in 2006, Walmart faced a strong public relations campaign from the All-China Federation of Trade Unions (ACFTU) over Walmart's refusal to let its workers in China unionize. Walmart was eventually forced to concede, perhaps because the Chinese government also lent its weight to the ACFTU's campaign in its effort to establish unions in all foreign-funded enterprises throughout the country. As of October 2006, almost 6,000 of Walmart China's 30,000 employees were union members.[3] Despite its public battle with the ACFTU, *Fortune China* and Watson Wyatt still voted Walmart China as one of the "Top 10 Best Companies to Work for" in 2005.[4] As Walmart continues to expand its global operations, analysts are curious to see how the company is received and whether consumers' opinions in fragmented market settings are a match with Walmart's low price model.

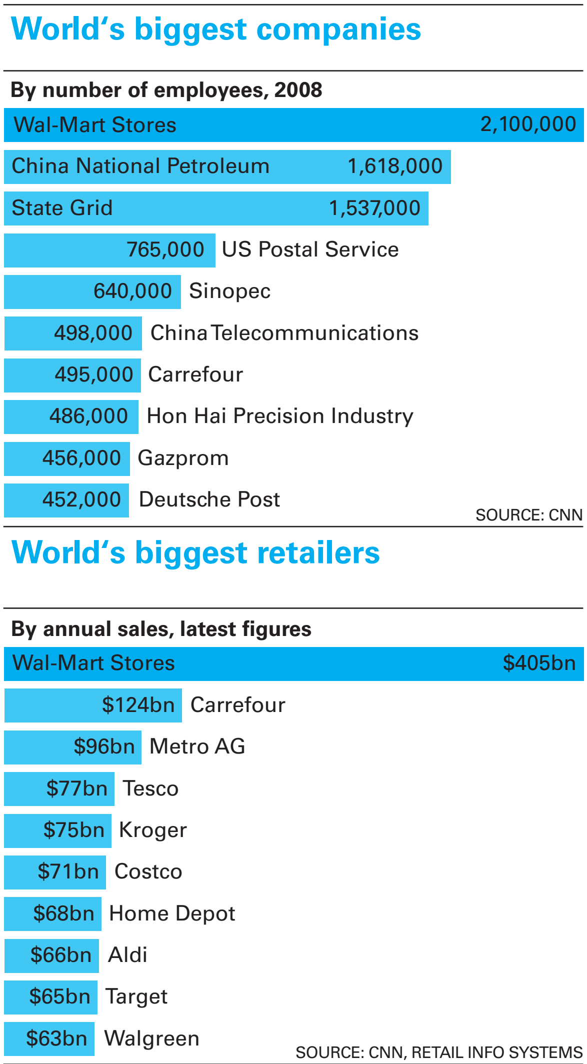
Exhibit 1 **Walmart International Operations, April 2010[8]**

Market	Retail Units (04/2010)	Date of Entry
Mexico	1,479	November 1991
Canada	317	November 1994
Brazil	438	May 1995
Argentina	44	August 1995
China	284	August 1996
United Kingdom	374	July 1999
Japan	371	March 2002
Costa Rica	170	September 2005
El Salvador	77	September 2005
Guatemala	164	September 2005
Honduras	53	September 2005
Nicaragua	55	September 2005
Chile	254	January 2009
India	1	May 2009

Notwithstanding these challenges, today, Walmart International is a fast-growing part of Walmart's overall operations, with 4,081 stores and more than 664,000 associates in 14 countries outside the continental U.S.[5] (See Exhibit 1.) According to international chief C. Douglas McMillon, Walmart is "progressing from being a domestic company with an international division to being a global company." In two decades Walmart International had become a $100 billion business. Had it been a standalone company, it would have ranked among the top five global retailers.[6] (See Exhibit 2.) Walmart International's business represents a solid chunk of Walmart's overall $405 billion revenues for the fiscal year 2010.[7]

With a market capitalization of more than $200 billion in 2010, Walmart is worth as much as the gross domestic product of Nigeria. Four of America's 10 richest individuals are from Walmart's low-profile Walton family, which still owns a 40 percent controlling stake. The company's portfolio ranges from superstores in the U.S. to neighborhood markets in Brazil, bodegas in Mexico, the ASDA supermarket chain in Britain, and Japan's nationwide network of Seiyu shops. Walmart sources many of its products from low-cost Chinese suppliers. The pressure group China Labour Watch estimates that if it were a country, Walmart would rank as China's seventh largest trading partner, just ahead of the U.K., spending more than $18bn annually on Chinese goods.[9]

Exhibit 2 **The Largest Global Companies and Retailers, 2008**



Source: Guardian (http://www.guardian.co.uk/business/2010/jan/12/walmart-companies-to-shape-the-decade).

Walmart Early Internationalization

In venturing beyond its large domestic market, Walmart had a number of regional options, including entering Europe, Asia, or other countries in the Western hemisphere. (See Exhibits 3 and 4.) At the time, however, Walmart lacked the requisite financial, organizational, and managerial resources to pursue multiple countries simultaneously. Instead, it opted for a logically sequenced approach to market entry that would allow it to apply the learning gained from its initial entries to subsequent ones. In the end, during the first five years of its globalization (1991 to 1995), Walmart decided to concentrate heavily on establishing a presence in the Americas: Mexico, Brazil, Argentina, and Canada. Obviously, Canada had the business environment closest to the U.S. and appeared the easiest entry destination. The other countries that Walmart chose as its first global points of entry—Mexico (1991), Brazil (1994), and Argentina (1995)—were those with the three largest populations in Latin America.[10]

The European market had certain characteristics that made it less attractive to Walmart as a first point of entry. The European retail industry was mature, implying that a new entrant would have to take market share away from an existing player—a very difficult task. Additionally, there were well-entrenched competitors on the scene (e.g., Carrefour in France and Metro A.G. in Germany) that would likely retaliate vigorously against any new player. Further, as with most newcomers, Walmart's relatively small size and lack of strong local customer relationships would be severe handicaps in the European arena. In addition, the higher growth rates of Latin American and Asian markets would have made a delayed entry into those markets extremely costly in terms of lost opportunities. In contrast, the opportunity costs of delaying acquisition-based entries into European markets appeared to be relatively small.[11]

While the Asian markets had huge potential when Walmart launched its globalization effort in 1991, they were the most distant geographically and different culturally and

Exhibit 3 **Walmart International Retail Unit Count (2001–2006)**

Country	2001	2002	2003	2004	2005	2006
Argentina	11	11	11	11	11	11
Brazil	20	22	22	25	149	295
Canada	174	196	213	235	262	278
China	11	19	26	34	43	56
Germany	94	95	94	92	91	88
Japan	0	0	0	0	0	398
Mexico	499	551	597	623	679	774
Puerto Rico	15	17	52	53	54	54
UK	241	250	258	267	282	315
South Korea	6	9	15	15	16	16
Total	1,071	1,170	1,288	1,355	1,587	2,285

Source: Walmart Annual Reports for fiscal years 2001, 2002, 2003, 2004, 2005, 2006.

Exhibit 4 Walmart International Retail Unit Count (2006–2010)

Country	2007	2008	2009	2010
Argentina	13	21	28	43
Brazil	299	313	345	434
Canada	289	305	318	317
Chile	0	0	197	252
China	73	202	243	279
Costa Rica	137	149	164	170
El Salvador	63	70	77	77
Guatemala	132	145	160	164
Honduras	41	47	50	53
India	0	0	0	1
Japan	392	394	371	371
Mexico	889	1,023	1,197	1,469
Nicaragua	40	46	51	55
Puerto Rico	54	54	56	56
UK	335	352	358	371
Total	2,757	3,121	3,615	4,112

Source: Walmart Annual Reports for fiscal years 2007, 2008, 2009, 2010.

logistically from the United States market. It would have taken considerable financial and managerial resources to establish a presence in Asia.[12] However, by 1996, Walmart felt ready to take on the Asian challenge and it targeted China. This choice made sense in that the lower purchasing power of the Chinese consumer offered huge potential to a low-price retailer like Walmart. Still, China's cultural, linguistic, and geographical distance from the United States presented relatively high entry barriers, so Walmart decided to use two beachheads as learning vehicles for establishing an Asian presence.[13]

During 1992–93, Walmart agreed to sell low-priced products to two Japanese retailers, Ito-Yokado and Yaohan, that would market these products in Japan, Singapore, Hong Kong, Malaysia, Thailand, Indonesia, and the Philippines. Then, in 1994, Walmart entered Hong Kong through a joint venture with the C.P. Pokphand Company, a Thailand-based conglomerate, to open three Value Club membership discount stores in Hong Kong.[14]

Success in Mexico and China

Overall, Walmart has had a very successful experience in Mexico. In 1991 Walmart entered into a joint venture with retail conglomerate Cifra and opened a Sam's Club in Mexico City. In 1997 it gained a majority position in the company and in 2001 changed the store name to Walmart de Mexico, or more commonly, "Wal-Mex." In addition to its 195 Walmart Supercenters and Sam's Club warehouses, Wal-Mex also operates Bodega food and general merchandise discount stores, Superama supermarkets, Suburbia apparel stores, and Vips and El Portón restaurants. The majority of its stores are located in and around Mexico City; however, it does business in over 145 cities throughout Mexico. Wal-Mex has shown no signs of slowing down. In 2005 Walmart opened 93 new stores and saw a 13.7 percent increase in net sales overall. As of February 2007, it operated 889 stores in Mexico and had plans to open another 125 that year.[15]

In late 2006 the company was also approved by Mexico's Finance Ministry to open its own bank. In a country where 75 percent of citizens have never had a bank account due to high fees, "Banco Walmart de Mexico Adelante" added much-needed competition to the financial services industry and it was hoped would begin to offer consumers lower fees than traditional banks.[16] In November 2007, Wal-Mex opened its first consumer bank, Banco Walmart, in Toluca; by August 2010, the company had opened nearly 250 branches. Banco Walmart is especially targeting the low-income market in a country where just 24 percent of households have savings accounts, compared with 55 percent in Chile. Wal-Mex plans to boost sales via debit cards, later ease users into more profitable services like insurance, and make money on interest-rate spreads. Wal-Mex's mission is to lure newcomers with easy instructions and entry points, like minimum balances of less than \$5 and no commissions, compared with \$100 minimums at competing banks. Wal-Mex is also eyeing the \$23 billion remittances market—the amount sent home every year by Mexican immigrants in the U.S.[17]

Wal-Mex's plans for future growth involve more heavily targeting the 16–24-year-old age group, which constitutes 55 percent of Mexico's population. In April 2010, Mexico ranked as Walmart's number one international destination with 1,479 retail outlets, far ahead of its second major international destination Brazil, which had only 438 stores.[18]

Though not as easy as its experience in Mexico, Walmart has also found decent success in China. Walmart entered the Chinese market in 1996 when it opened a Supercenter and Sam's Club in Shenzen. As of late 2006 the company had expanded to 73 stores in 36 cities. In order to cater to its Chinese shoppers, Walmart has introduced "retail-tainment" and attempted to create a more hands-on shopping experience.[19] China's Tourism Bureau even named one underground Walmart store a tourist destination.[20]

In addition to its own stores, Walmart has had a stake in the Taiwanese Bounteous Company Ltd., which owned the popular chain of Trust-Mart stores.[21] In late 2006, *The Wall Street Journal* publicized a $1 billion deal between Walmart and Bounteous, in which Walmart would acquire Trust-Mart's 100 stores over the course of three years. In light of Walmart's slowing U.S. sales and the termination of its operations in Germany and South Korea, the company's expansion in China is quite timely. Like its operations in Mexico, Walmart has also entered the Chinese financial service industry, by introducing a credit card with Bank of Communications Ltd. in late 2006.[22]

Walmart's expansion has not gone unnoticed. Domestic Chinese rivals have also built up their businesses in order to compete. In 2005 Shanghai Bailan Group purchased four rival supermarkets and department stores and now operates over 5,000 stores. China Resources Enterprise has hired away managers from foreign chains and cut staff in order to increase its profitability.[23] While these efforts signal greater competition for Walmart in particular, they are necessary for domestic companies to survive in China's $841 billion retail market,[24] which has been increasingly competitive ever since the country joined the WTO and dropped restrictions on foreign retailers.

Mixed Results in Europe and Japan

In 1998 Walmart entered the European market through Germany by acquiring 21 Wertkauf hypermarkets, one-stop shopping centers that offered a broad assortment of high quality general merchandise and food. Germany was seen as the largest single base for retailing in Europe. Wertkauf's annual sales were about $1.4 billion, and its stores operated similar to the popular Walmart Supercenter format in the U.S. Walmart's executives considered Wertkauf as an "excellent fit" for Walmart and hoped that it would provide the company with an ideal entry into a new market.[25]

However, Walmart's operations in Germany quickly turned into a costly struggle. There were a number of critical factors that the company underestimated when it entered the new market. First of all, the stores of the acquired German retail chain were geographically dispersed and often in poor locations. Also, Walmart had faced some serious cultural differences, which it tried to resolve by making one error after another. For example, the company initially installed American managers, who made some well-intentioned cultural gaffes, like offering to bag groceries for customers (Germans prefer to bag their own groceries) or instructing clerks to smile at customers (Germans, used to brusque service, were put off).[26]

Other problems, however, were largely outside Walmart's control. Two German discounters, Aldi and Lidl, dominated the grocery business, with smaller shops that featured cut-rate, though still good-quality, food. Aldi also heavily promoted one-week sales, featuring deeply discounted merchandise, ranging from wine to garden hoses, which draw customers back. While Walmart's vast size gave it enormous leverage in purchasing clothing and other goods, it had to buy much of the food for its German stores locally. And there, it lacked the muscle of Aldi, which had 4,100 shops and a presence in nearly every town in the country.[27]

"Germany is the home of the discounter," said Mark Josefson, a retail analyst at Kepler Securities in Frankfurt. "Walmart is not competing on price, and that is one of its main attributes in its home market." Beyond these competitive pressures there was another serious factor to consider, namely that the German consumer was one of the most parsimonious and price-conscious in Europe. Profit margins in German retailing were the lowest in Europe.[28]

Walmart had struggled in Germany for almost 8 years. Analysts said that Walmart Germany was losing about €200 million (£137 million) a year on a turnover of about €2 billion, despite several attempts to turn around the business. In 2006 it finally made the decision to withdraw from the German market, by selling its 85 German stores to the rival supermarket chain Metro and taking a pre-tax loss of about $1 billion (£536 million) on the failed venture.[29] The decision to sell out to the Metro Group came two months after Walmart sold its 16 stores in South Korea and it appeared a rare retreat by the world's largest retailer from its breakneck global expansion.[30]

In contrast, Walmart's second retail destination in Europe, the United Kingdom, has brought the company much needed success. Walmart entered the U.K. market in June 1999 by acquiring ASDA Group PLC, Britain's third-largest food retailer. Walmart offered £6.7 billion ($10.8 billion). The cash deal, which topped a rival bid from the British retail group Kingfisher PLC, was predicted to double Walmart's international business at a stroke and put it in a position to expand its retailing expertise throughout Europe.[31]

Walmart executives said they hoped to draw upon ASDA's management talent and experience. ASDA's 229 stores are a little less than half the size of Walmart's supercenters of more than 200,000 square feet (18,000 square meters) in the United States, but the lack of space in much of Europe for new out-of-town shopping developments could make ASDA's formula more relevant as a platform for expansion.[32]

However, while the chain has been only a moderate success, delivering consistent results, Walmart has been frustrated in its efforts to expand, though competing in Britain's feverishly competitive supermarket industry has taught Walmart a good deal. Nevertheless, ASDA is now something of a center for excellence for its global grocery sales. The head of global marketing for Walmart is based at ASDA's head office in Leeds. And, in an example of Walmart's global distribution muscle, *The Wall Street Journal* recently reported that the best-selling wine in the whole of Japan is an own-label ASDA Bordeaux.[33]

The third major strategic step in Walmart's early 2000s global expansion was entering the Japanese market. In 2002 Walmart set foot in Japan with the purchase of a 6 percent stake in the 371-store Seiyu chain. Despite continued losses, Walmart gradually raised its stake, making Seiyu a wholly owned subsidiary in June 2008. Walmart has had to confront numerous issues in Japan, from longtime Seiyu managers resisting its initiatives to a tendency among Japanese shoppers to equate low prices with inferior products. Also, bulk deals did not play well in a country where many lived in small urban apartments, and the country's grocery distribution system was populated with wholesalers who brokered deals between suppliers and retailers, skimming profits. Even rival Carrefour abandoned this market.[34]

Edward J. Kolodzieski was the man in charge of turning Seiyu around. As CEO of Walmart Japan, Kolodzieski has slashed expenses, closed 20 stores, and cut 29 percent of corporate staff. In-store butchers were removed, with most meat now processed in a central facility. With the freed-up floor space, Seiyu bulked up meals-to-go offerings. To bypass the middlemen, Seiyu has also boosted the number of products it imports directly from manufacturers by 25 percent in 2009, and was also focusing on increasing sales of its own private-label brands.[35]

The biggest change, however, was a shift away from weekly specials to "everyday low prices" in areas like baby care and pet products, and, eventually, throughout the store. Taking a page from Britain's ASDA, Seiyu instead used its marketing dollars to compare prices against competitors. With the pressure of prolonged recession Japanese consumers have finally accepted that they can buy quality merchandise for a lower price.[36] After spending 100 billion yen (roughly $1.2 billion), by 2010, Wal-Mart's situation in Japan had stabilized, with two years of profits and reports that it was looking for further expansion through acquisition.[37]

After 2005: Refocusing on Latin America

2005 became another turning point in Walmart's strategy. Somewhat frustrated by strategic failure in Germany, and very slow expansion in the developed countries like Canada and the U.K., the company has turned its focus toward Latin America. Walmart has decided to leverage its positive experience in Mexico toward other South American countries. In 2005 Walmart successfully entered this market with the purchase of a 331/3 percent interest in Central American Retail Holding Company (CARHCO) from the Dutch retailer Royal Ahold NV. CARHCO is Central America's largest retailer, with 363 supermarkets and other stores in the following five countries: Guatemala (120), El Salvador (57), Honduras (32), Nicaragua (30), and Costa Rica (124). CARHCO has approximately 23,000 associates. Its sales during 2004 were approximately $2.0 billion.[38]

Prior to that, in March 2004, Walmart bought a 118-store supermarket chain, Bompreco, in northeastern Brazil for $300 million, also from Royal Ahold of the Netherlands. This acquisition has significantly increased Walmart's competitive position in the country. In 2006 the company made another successful deal with Portugal-based Sonae by purchasing its 140 Brazilian stores for $757 million. The Sonae purchase was expected to boost Walmart's presence in Brazil's wealthier southern states. With the Sonae acquisition, Walmart store count increased to 295 units in 17 of Brazil's 26 states. However, this move made Walmart only the third-largest retailer in Brazil, following Carrefour of France and Companhia Brasileira de Distribuio Po de Acar.[39]

The last step in the sequence of its strategic moves in Latin America was Walmart's expansion into Chile. In 2009 Walmart acquired a majority stake of D&S (short for Distribución y Servicio) 224-store chain for $1.6 billion. In acquiring D&S, the nation's leading grocer and third-largest retailer, Walmart hopes to cement its dominance in Latin America, where it is by far the biggest retailer with $38 billion in sales, estimates research firm Planet Retail, double that of its closest rival, Carrefour. In Chile, Walmart enters a market that has long been inhospitable to foreign retailers. Home Depot, Carrefour, and JC Penney are among the companies that have tried, and failed, to make it in Chile, a nation of 17 million with the sixth-largest retail market in Latin America.[40]

Walmart has increased D&S's expansion budget from $150 million to $250 million, which would go toward opening nearly 70 stores in fiscal year 2010, many of them small stores that cater to lower-income shoppers, according to Vicente Trius, Walmart Latin America's president and CEO. The appeal of D&S goes well beyond its stores. About 1.7 million Chileans carry a Presto card issued by its financial services unit, up from 1.2 million in 2004. "There is a saying here that large retailers generate sales with [stores] and earnings with their credit cards," says Rodrigo Rivera, a partner with the Boston Consulting Group in Santiago.[41]

Indeed, analysts estimate some South American retail chains generate upwards of 70 percent of their profits from financial services. (At D&S that figure is just 17 percent.) Walmart already offers financial services in Mexico and Brazil, though its attempts to launch a bank in the U.S. have failed. The retailer is keen to grow the Presto business by adding more low-risk services such as selling life insurance for outside vendors.[42]

Walmart's Plans for 2010–2011

In October 2009 Walmart Stores, Inc., presented its global plans for store and club growth in the next year at its annual conference for the investment community and updated its projections for capital expenditures through the fiscal year ending on January 31, 2011. According to this plan, total capital spending for the fiscal year ending January 31, 2010, is projected to be in a range of $12.5 to $13.1 billion, up from approximately $11.5 billion in fiscal year 2009. Total capital spending for the fiscal year ending January 31, 2011, is projected to be in a range of $13.0 to $15.0 billion.[43]

"Our plan for growth is clearly intended to increase shareholder value," said Tom Schoewe, executive vice president and chief financial officer. "In the U.S., we're building new stores and accelerating the pace of our remodels because they have been so successful at winning and retaining customers. We're stepping up growth in our International operations to take advantage of growing economies and opportunities in emerging markets, such as China and Brazil."[44] Capital expenditures for all purposes are projected as shown in Exhibit 5 and exclude the impact of any future acquisitions.

If fiscal year 2009 were placed on a constant currency basis with fiscal year 2010, international capital expenditures in fiscal year 2009 would have been approximately $3.8 billion. In the fiscal year ending January 31, 2010, the company expected to add approximately 38 million square feet globally, compared to approximately 44 million square feet added in the prior year (excluding square footage added by acquisition). Walmart expects to increase global square footage by approximately 37 million square feet in fiscal year 2011.[45] Square footage growth (excluding any acquisitions) is projected as shown in Exhibit 6.

Exhibit 5 **Walmart Actual and Projected Capital Expenditure 2009–2011 (US$ billions)**

	Actual	Projected	
Segment	**FY09**	**FY10**	**FY11**
Walmart U.S.	$5.8	$6.6–6.8	$7.0–8.0
Sam's Club U.S.	$0.8	$0.8–0.9	$0.7–1.0
Walmart International	$4.1	$4.2–4.4	$4.5–5.0
Corporate	$0.8	$0.9–1.0	$0.8–1.0
Total	$11.5	$12.5–13.1	$13.0–15.0

Source: walmartstores.com.

Exhibit 6 **Walmart Actual and Projected Square Footage Growth by Segment (in millions)**

	Actual	Projected	
Additional Square Footage for:	**FY09**	**FY10**	**FY11**
Walmart U.S.	23	14	11
Sam's Club U.S.	2	1	1
Walmart International	19	23	25
Total Company	44	38	37

Source: walmartstores.com.

Walmart International plans aggressive investment, particularly in growth markets such as China and Brazil. The International portfolio includes a variety of formats, from supercenters to small grocery stores. New stores are expected to add approximately 23 million square feet in fiscal year 2010, and approximately 25 million more square feet in fiscal year 2011. These projections are based on the existing store base and do not include possible acquisitions.[46]

"We will continue our organic growth strategy, with strong capital discipline and optimization of our portfolio of formats and brands worldwide," said Doug McMillon, president and CEO of Walmart International in company press release in October 2009. "We will allocate capital, by country and by format, to improve returns from these investments."[47]

China

In March 2010, the official website of China's Ministry of Commerce reported that Walmart had set up a new wholly owned subsidiary in Hebei. This move is reportedly designed to help Walmart's smooth expansion and localization of Walmart in China. An insider from Walmart revealed to the local media that the company will continue to speed up its expansion in China in 2010 and in the future the Chinese market is expected to have the most Walmart stores worldwide, exceeding even its domestic American market.[48]

Since 2009, Walmart has set up more than 10 wholly owned subsidiaries in Chinese cities and provinces, including Hunan, Chongqing, Hubei, and Dongguan. Before setting up these regional subsidiaries, Walmart cooperated with Chinese companies, including Shenzhen International Trust & Investment, for expansion in China. However, the complicated operating processes slowed down the retailer's expansion. With the help of these new subsidiaries, Walmart opened nearly 40 new outlets in 2009 and the total number of Walmart stores in China exceeded that of its competitor Carrefour for the first time.[49]

Brazil

In this most open of the large emerging economies, the world's two biggest supermarket chains and a homegrown competitor are battling for dominance. Leading the field is Companhia Brasileira de Distribuicão Grupo Pão de Açúcar, with revenues of $13 billion in 2009. Close behind is France's Carrefour, with sales last year of $12.6 billion. In third place, but making a big push, is the world's No. 1 retailer, Walmart Stores, which operates under several names in Brazil. It racked up $9.5 billion in sales in Brazil last in 2009.[50]

All three plan to invest big in Brazil in coming years. As its middle class expands, annual spending on food is expected to rise 50 percent over the next five years, to $406 billion, says Carlos Hernandez, a Madrid-based analyst at consultant Planet Retail. Among the emerging nations known as the BRICs, Brazil offers fewer barriers to business than Russia, India, and China. India bans foreign stores that sell multiple brands, and Russia limits expansion by retailers. China is attractive because of its rapid economic growth, expected to be 8 percent in 2010, versus 5.8 percent in Brazil. However, "Brazil is more developed in terms of infrastructure and wealth creation," says Justin Scarborough, a retail analyst at Royal Bank of Scotland in London. "Consumers are used to shopping in hypermarkets, whereas retail in China is more traditional."[51]

Already No. 1 in Mexico, Walmart aims to overtake Carrefour to become No. 2 or No. 1 in Latin America's largest market. The Bentonville (Arkansas) retailer plans to spend $1.2 billion this year to open 110 new stores in Brazil, on top of the 436 it now operates. It may also scout out an acquisition, says Héctor Núñez, president of Walmart Brazil. "We have a very, very clear plan to win here in Brazil," he says. "We are investing heavily to start having a much more solid and persuasive presence."[52]

Walmart is opening the cash spigot at a time when Carrefour is contending with the recession in Europe, which accounts for 80 percent of its revenues. Annual sales growth for the Paris-based chain at home has averaged less than 1 percent over the last 10 years. To defend its No. 2 position in Brazil, Carrefour is planning to spend $1.4 billion over the next two years. The goal: to add 70 stores and double Brazil's share of Carrefour's overall sales to 20 percent by 2015. Pão de Açúcar, which is 34 percent owned by French supermarket chain Casino, says it will invest $2.8 billion to add 300 stores to its 1,080-store chain by 2012.[53]

India and Russia

The other two attractive growing markets from the BRIC group that also draw Walmart's attention are India and Russia. India and Russia are widely regarded as two of the world's fastest-growing retail markets—and two of the most frustrating for foreign retailers. Walmart boasts one wholesale outlet so far in India, and it has only a 30-person development administrative office in Moscow to show after more than five years of scouting in Russia. But through a combination of joint ventures, acquisitions, and expansion, the retailer is hoping to become a major player in both countries.[54]

India's $350 billion retail sector is composed of small family-run ventures, with organized chains accounting for less than 5 percent of sales. To get around government restrictions on foreign retailers selling to consumers, Walmart recently teamed up with Bharti Enterprises to open a cash-and-carry operation in the northern city of Amritsar. Best Price Modern Wholesale, as it's called, technically caters to merchants and small businesses. But with few restrictions, more than 30,000 members have signed up for the first store.[55]

As in the U.S., the emphasis is on a wide selection of goods in one location at a low cost—everything from Castrol motor oil and sneakers to milk in large canisters that can be tied to the side of bicycles. Best Price employs 25 people to go around the region each week and check prices at mom-and-pop shops, to ensure that they're consistently offering the best value. Raj Jain, a former Whirlpool executive who now heads Walmart's Indian operations, also opened a training institute in Amritsar last December in partnership with Bharti and the Punjab government.[56]

Walmart plans to open 10 to 15 outlets through the partnership over the next three years, eventually employing about 5,000 people. But McMillon wants to see Walmart running its own retail stores there, too. He pressed his case with commerce and agriculture ministers in New Delhi in July. "What I tried to convey is that we would invest more, and faster, if we had the opportunity to do so," he says. A representative from the Indian government declined to comment.[57]

In April of 2010 Scott Price, president and CEO of Walmart Asia, reinforced the major points of Walmart's Asian strategy: "We will capture 10 to 15 markets in Asia in ten years. At present, expansion plans for India alone is the full time job for us." He also noted that India has a lot of potential as it has availability of a highly educated workforce. "The retail giant would also like to increase sourcing from India for their stores all over the world," he said.[58]

In Russia, the impediments to retail development are less visible but no less worrisome. Corruption is rampant with various administrative authorities capable of gumming up operations if payments are not made. Anticorruption group Transparency International ranked Russia 147th out of 180 countries on its most recent corruption perception index. While Walmart is looking at opening its own stores in Russia, it's far more likely it will start by acquiring a local retailer. Analysts say the prime candidate is Lenta, a fast-growing, privately held chain of 34 hypermarkets and the nation's fifth-largest retailer. Lenta founder Oleg Zherebtsov is saddled with debts and sold his 35 percent stake to the investment group of private equity firm TPG and the private equity arm of Russian state bank VTB in early September.[59]

According to another source Walmart made a preliminary offer to the Kopeika store chain in June 2009.[60] Walmart is not the first retailer Kopeika has dealt with. X5 Retail Group tried to negotiate a deal at the end of 2008 and it was in discussions with Magnit in January 2009. Kopeika operates a network of around 500 supermarkets in Moscow and the Moscow region, where it competes with around 400 X5 Retail Group Pyaterochka stores and Dixy Group's outlets. Walmart is actively seeking a partner in Russia. It was in negotiations with St. Petersburg–based hypermarket operator Lenta in 2008, but no deal was reached.[61] With rivals such as Metro expanding their presence through new stores, and Carrefour opening its second outlet in September, "they cannot wait," says Planet Retail analyst Milos Ryba.[62]

Canada

Established in 1994 and headquartered in Mississauga, Ontario, Walmart Canada currently operates 317 stores and serves more than 1 million customers each day across Canada. Walmart is Canada's third-largest employer with more than 85,000 associates, and was recently named one of Canada's top 10 corporate cultures by Waterstone Human Capital.[63]

In February 2010 Walmart Canada announced that the company will open 35 to 40 supercentres in 2010. According to Walmart, the projects will include new stores, relocations of existing stores, store expansions, and store remodels, representing a combined investment of almost half a billion dollars in Canadian communities. The supercentres are expected to generate approximately 6,500 store and construction jobs, with specific store locations to be announced over the coming weeks and months. "The combination of one-stop shopping and low prices that our supercentres provide has been embraced by our customers," said David Cheesewright, president and CEO of Walmart Canada. "We look forward to bringing this popular format to a new range of shoppers."[64]

In addition to store expansions, Walmart Canada is investing in its first sustainable refrigerated distribution center, which is anticipated to open in Balzac, Alberta, in the fall of this year. The company is investing $115 million in its construction. The center will create 1,400 jobs, including trade and construction jobs.[65]

Expected to be one of the most energy-efficient distribution facilities of its kind in North America, the cutting-edge distribution center will be an estimated 60 percent more energy-efficient than Walmart's traditional refrigerated distribution centers. The center will include a pilot of fuel cell technology and many other sustainable features. Walmart Canada is committed to reducing costs while implementing energy-saving strategies across its operations. The company's new stores are now 30 percent more energy-efficient than previous prototypes.[66]

South Africa

In October of 2010, it was announced that Walmart was conducting due diligence on Massmart, a leading retailer in South Africa which operates 288 large stores located in 14 African countries, most of them in South Africa where it has a strong presence catering to a range of customers. Initially, reports suggested that Walmart would offer 32 billion rand ($4.63 billion) to own Massmart outright.[67] Subsequently, it was reported that Walmart would bid only for a majority controlling share (more than 50 percent but less than 100 percent) in order to preserve Massmart's listing on the Johannesburg stock exchange.[68] If either deal goes through, it would place Walmart ahead of its European competitors Tesco PLC and Carrefour SA, which don't have any stores in Africa.

Walmart's Global.com Challenge to Amazon.com

In January 2010 Vice Chairman Eduardo Castro-Wright announced that Walmart is creating a new unit that will be responsible for driving online growth around the world, both in developed markets where the company has stores and an online presence and in markets it doesn't. This new organization will be called Global.com.[69]

Wan Ling Martello, formerly the Chief Financial Officer of Walmart International, will be the Executive Vice President and Chief Operating Officer of Global.com. In her new role, Wan Ling's primary responsibilities will include (1) development and execution of a global strategy for e-commerce; (2) establishing cross-functional and cross-border Walmart relationships designed to accelerate and broaden growth in the global online channel; and (3) the creation of technology platforms and applications that can be used effectively in every Walmart market.[70]

In early 2008, the retailer said it would invest "millions of dollars" in its global e-commerce initiative, which it labeled "a multi-billion dollar opportunity over the next three to five years." Walmart, with stores in 15 countries, currently operates separate e-commerce sites in the U.S., U.K., Mexico, and Brazil. It has been working on developing a single global e-commerce platform that would be replicable in all of its markets, similar to the model developed by its rival Amazon.[71]

In the U.S., where the retailer competes directly with Amazon, Walmart has named Steve Nave, currently chief operating officer, as general manager of its website, taking over from Raul Vazquez, who has taken a new position as head of the retailer's new Walmart West division.

But Mr. Nave will now report directly to John Fleming, the chief merchandising officer who himself previously served as CEO of Walmart.com. Mr. Castro-Wright said Walmart hopes to "integrate merchandising and operations capabilities of the dot-com organization with those of our traditional retail business." Walmart's online marketing will now be overseen directly by Stephen Quinn, its chief marketing officer.

The changes reflect Walmart's strategy of tying its website closely to its stores, which some argue could give it a long-term strategic advantage over Amazon. Currently around 40 percent of its U.S. business is delivered to stores for pickup under its "site to store" service, which it sees as also augmenting the development of smaller format stores in the future.[72]

Questions for Review

1. What was Walmart's early global expansion strategy? Why did it choose to first enter Mexico and Canada rather expand into Europe and Asia?
2. What cultural problems did Walmart face in some of the international markets it entered? Which early strategies succeeded and which failed? Why? What lessons did it learn from its experience in Germany and Japan?
3. How would you characterize Walmart's Latin America strategy? What countries were targeted as part of this strategy? What potential does this region brings to Walmart's future global expansion? What cultural challenges and opportunities has Walmart faced in Latin America?
4. What group of countries will be targeted for Walmart's future growth? What are the attractiveness and risk profiles of these countries? What regions of the world do you think will be vital for Walmart's future global expansion?

Exercise

You are part of Walmart's global strategic planning group and have been asked to explore the benefits and challenges of expansion into one of the following regions. Divide into 6 teams, each representing a country or region of the world other than North America.

Team	Country/Region
1	Latin America
2	Western Europe
3	Central/Eastern Europe
4	Japan
5	China
6	Russia

Describe the opportunities and challenges of expansion in your assigned country or region. Be sure to summarize the cultural environment, how it differs from the U.S., and what challenges that might pose for the company.

Source: This case was prepared by Tetyana Azarova of Villanova University under the supervision of Professor Jonathan Doh as the basis for class discussion. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility.