CASE STUDIES IN GLOBAL ENTREPRENEURSHIP

third edition

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Kendall Hunt
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Dedication

Dianne H.B. Welsh

I dedicate this book to my husband Thaddeus J. Shalek, daughter Shannon, grandkids Elin, Collin, and Owen, and to my co-author. Also I wish to thank Srikavya Menugu for her assistance.

Shawn M. Carraher

I dedicate this book to my lovely wife Sarah, sons Shawn Jr. & Charles, and to my co-author.

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Preface

This 3rd edition casebook is the companion book for *Global Entrepreneurship* that was edited by us and published in its 4th edition by Kendall Hunt Publishing Company. For the 3rd edition, we have added seven new cases that include cases from South Africa, Pakistan, Australia, the United States, and the UK. Based on requests from users of the textbook, we have compiled global cases that can be used with the chapters. The book and this companion casebook are a user-friendly, easy-to-read account of what you need to know about global entrepreneurship. It explains the principles that come from entrepreneurship, international business, cross-cultural management, strategy, exporting, international education, international economics and environmental concerns, and leadership. We have divided the casebook into three sections with the chapters identified on each case that we think best fit the topic of the chapter. The casebook can be used alone or with Global Entrepreneurship. We have authored many of the cases based on our experiences around the world, including work in the former U.S.S.R., Afghanistan, Andorra, Angola, Antigua and Barbuda, Australia, Austria, Bahamas, Bahrain, Bangladesh, Barbados, Belarus, Belgium, Benin, Bolivia, Botswana, Brunei, Bulgaria, Burkina Faso, Cambodia, Canada, Central African Republic, Chile, China, Columbia, Costa Rica, Cote d'Ivoire, Czech Republic, Denmark, Djibouti, Dominica, Dominican Republic, Ecuador, El Salvador, England, Eritrea, Estonia, Ethiopia, Finland, France, Gabon, Germany, Ghana, Guinea, Haiti, Hungary, India, Indonesia, Iran, Iraq, Ireland, Italy, Jamaica, Japan, Kenya, Kuwait, Laos, Latvia, Lebanon, Liberia, Liechtenstein, Lithuania, Luxembourg, Madagascar, Malawi, Malaysia, Mauritius, Mexico, Moldova, Mongolia, Mozambique, Myanmar, Namibia, Nepal, the Netherlands, New Zealand, Niger, Nigeria, Norway, Pakistan, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Reunion, Romania, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Senegal, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sudan, Swaziland, Sweden, Switzerland, Taiwan, Tanzania, Thailand, Togo, Trinidad and Tobago, Ukraine, United Arab Emirates, the UK, the United States, Uruguay, Vietnam, former Yugoslavia, Zambia, and Zimbabwe. In addition, the casebook contains real cases based on the experiences of our contributing authors from around the world. This casebook summarizes what we believe are the most significant core principles put into real cases.

We live in a world with countless opportunities, and the majority of these opportunities are international. As electronic mediums expand, ideas that may be opportunities will multiply by the thousands. This casebook has been developed with the entrepreneur in mind, especially those who want to identify ideas that can lead to opportunities beyond their borders. We provide hands-on, real cases that provide the essential background information and knowledge that will give the entrepreneur the skills he or she needs to operate globally. The world economy will benefit from entrepreneurs that contribute internationally, both economically and socially.

This casebook presents cases along with accompanying questions that apply the basic principles of global entrepreneurship. Each case includes a teaching note with case overview, learning objectives, relevant courses, data sources, analysis with discussion questions and answers, and references. We have added video links for online courses and for enhancing classroom content. These videos focus on real dilemmas, opportunities, and challenges from an entrepreneur's perspective. This casebook was developed due to the lack of accessible material available in one place and from compiling our own materials while teaching the topic for many years. We welcome feedback on the casebook as well as cases for our next edition. We would like to thank our colleagues who contributed to this casebook and to the field of global entrepreneurship.

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Introduction

This casebook is organized into three sections to coincide with *Global Entrepreneurship*. The three sections divide the chapters in the textbook, and the real cases can be used alone or in conjunction with each other. Section 1 includes the first five chapters in the casebook. The Introduction includes Chapter 1: International Entrepreneurship and International Business and the following real cases: "Jenny Craig Goes Latin" by Don Sciglimpaglia and Massoud Saghafi, and "Entrepreneurial Decision Making Under Conditions of Uncertainty: Boeing versus Airbus" by Michael Pettus and J. Mark Munoz. Chapter 2: Environmental and Contextual Sources of Global Variation in Entrepreneurial Activities real case is "Shopping for Sunglasses at the Burjaman Center: The Case of a Shady Buyer" by Dianne H. B. Welsh and Ibrahim Al-Fahim. It is about the former student's family business, Paris Gallery and the problem of shoplifting by those on tourist visas. Chapter 3: Global Entrepreneurship Strategy real case is "Starbucks International Enters Kuwait" by Dianne H. B. Welsh, Peter Raven, and Nasser Al-Mutair. The case is a precursor to Starbuck's entering Kuwait a year later. The location, for many years, was the most profitable location outside the United States. "The Journey of Doorstep Entrepreneurship: A Case on Jaipur Rugs" tells the story of the founding of the company and how its founder is changing the face of social entrepreneurship through his weavers and lifting villages up. Chapter 4: Global Business Plan real case is "Dr. Shingle Goes International: A Roofer's Dream" by Dianne H. B. Welsh. It is a true story that originated from a student's idea at a campus entrepreneurship center that she directed. Chapter 5: Business Opportunities for Global Entrepreneurship has two cases to choose from: "Growing Pains at Growth Cycle Strategies, Inc.," by Dianne H. B. Welsh, is about a sales and marketing consulting business that has the challenge of growing with limited resources. The second case is "Flextronics: Foreign Direct Investment Decisions in Central Europe," by Pavel Štrach and André M. Everett, which takes place in Czech Republic.

The second section of the casebook focuses on Specialized Topics and includes Chapters 6 through 11. Chapter 6: Exporting cases include "UNAGRO Corporation: Nothing Is Impossible!" by Flavia Barbery and Janet L. Rovenpor, and "TESY: Exporting in an Uncertain Environment," by Mark Potts. Chapter 7: Global Economics and Finance includes a true case about a small town and the town's main business and the owner's ethical responsibilities, "Owens Sawmill: A Family Business Facing a Social Responsibility Dilemma," by Dianne H. B. Welsh and David Rawlings. Chapter 8: Cross-Cultural Customs and Communication Styles includes a real case that describes communication challenges after war, "Al-Bahar and Jacorossi Engineering and Contracting Company: A Study of the Effect of Kuwaiti and Italian Culture on Human Resource Management After the Iraqi Invasion," by Dianne H. B. Welsh and Abdulrahman Al-Bahar and "Badriya's Short Career in Saudi Arabia," by Dianne H. B. Welsh and Mohammed Al-Boluhad. This is a true story of an accomplished U.S. graduate that returns to Saudi Arabia. Chapter 9: Providing Students with a Worldview: A Competency-Based System for International Entrepreneurship, Education, and Development case is "The Hit and Run Expatriate Employees," by Dianne H. B. Welsh and Ibrahim Al-Fahim. This is a true story about shoplifting in the U.A.E. and how culture influences the law. Chapter 10: Global Franchising and Other Forms of Entrepreneurship includes two cases: "The Case of the Elegant Shoplifter," by Dianne H. B. Welsh, Peter V. Raven, and Faisel Al-Bisher and "To Market, To Market: An Independent Luxury Hotel's Battle for Survival," by Udo A. Schlentrich and Margaret J. Naumes. Chapter 11: Global International Alternative Modes of Entry for Entrepreneurial Firms has two cases to choose from, "Crystal Lustry: An Entrepreneurial Company's Entry into the World's Biggest and Most Competitive Market," by Jay Gronlund and J. Mark Munoz, and "Fuel Jet Pro: Developing a Market Entry Strategy," by George Puia and Mark Potts.

Section 3 Area Studies includes the last three chapters and focuses on Eastern Europe, Latin America, and China. Chapter 12: Entrepreneurship and Security: The State of Entrepreneurship in Eastern Europe case, "The Early Days of 'Perestroika': First-Hand Impressions" by Dianne H. B. Welsh tells the story of Russia in the midst of major changes during Gorbachev's administration in 1990 before the major change heralded in by Yeltsin. "A Romanian Entrepreneur's Success—Florin Talpes—on Hypercompetitive Cybersecurity Global Market" by Mariana Dragusin and Raluca Mariana Grosu tells the story of a real entrepreneur and his global success after the defeat of communism in Romania. Chapter 13: Latin America case, "Kurotel Medical Longevity Center and Spa: Setting a Global Standard of Excellence" by Janet L. Rovenpor, Carolyn E. Predmore, and Frederick D. Greene is a real case of a global quality achievement combined with marketing challenges. Chapter 14: China has two cases to choose from: "Corporate Entrepreneurship of Foreign Multinationals in China: A Comparison of Motorola and Nokia in the Cellular Phone Industry" by Nir Kshetri, and "What Works in Beijing, Doesn't Work in Beijing? The Use of Pay for Performance in China," by Sherry E. Sullivan and Shawn M. Carraher. "What Works in Beijing, Doesn't Work in Beijing" discusses how the implementation of human resource management projects in China can influence the effectiveness and outcomes from the project.

In all, we have compiled a diversified set of cases that will provide the reader with a comprehensive look at the issues surrounding going global, while highlighting opportunities that may be applied to their own future. We wish to thank our contributing authors for their enlightening cases and look forward to hearing from you, the reader, on what to include in the next edition.

Dianne H.B. Welsh and Shawn S. Carraher

About the Authors

Dianne H. B. Welsh is the Hayes Distinguished Professor of Entrepreneurship and Founding Director of the Entrepreneurship Programs at The University of North Carolina Greensboro, including the North Carolina Entrepreneurship Center and the Entrepreneurship Cross-Disciplinary Program. She has previously founded two entrepreneurship programs and centers and has held three endowed professorships. In 2015, Dianne was named the Fulbright-Hall Distinguished Chair in Entrepreneurship for Central Europe in 2015. She was honored with the Senior Teaching Award for the University of North Carolina Greensboro in 2015, the 2015 Commencement Speaker, and the Board of Governors Teaching Award in 2019, the highest award in the State. She is also a visiting professor at the renowned Aalto University International Business program as well as teaching in Poland, Slovakia, and Austria.

Dianne is the recipient of the Legacy Award for Lifetime Achievement from the Global Consortium of Entrepreneurship Centers and the Barbara Hollander Award for lifelong contributions to family business, education, and civic causes from the Family Firm Institute.

Dianne is a recognized scholar in family business, international entrepreneurship, women-owned businesses and franchising and has seven books and over 150 publications. Her research has been published in *AMJ, JIBS, ET&P, JBV, FBR, JSBM*, and *JFBS*, among other journals. She has three new books, *Creative Cross-Disciplinary Entrepreneurship*, published by Palgrave-Macmillan, *Global Entrepreneurship* (4th edition), and *Case Studies in Global Entrepreneurship* (3rd edition), published by Kendall-Hunt. She serves on over 20 journal editorial review boards.

She served as the 2015 Chair for the Technology and Innovation Management Division of the Academy of Management with 2,700 members. Dianne is a Fellow in the Family Firm Institute, U.S. Association for Small Business & Entrepreneurship, and Small Business Institute. She is a Certified Family Business Counselor and holds the Senior Profession in Human Resources certification. She served as a Presidential Appointee to the US Air Force Academy and the Defense Advisory Committee for Women in the Services (DACOWITS). Dianne delivered the keynote address at the U.N.E.C.E. Conference in Azerbaijan in 2012. Dianne is a keynote speaker at numerous conferences on family business, franchising, international entrepreneurship and reward systems. She held the Fulbright-Hall Distinguished Chair for Entrepreneurship in Central Europe at WU (Vienna University of Economics and Business) in the spring of 2015. She has consulted for Fortune 50 businesses, family businesses, franchises, and high growth businesses throughout the world. Dianne has assisted ten universities in implementing programs across campus in the US and Australia. She was chosen in 2018 to be an expert panelist on the European Commission (DG EAC) evaluation of entrepreneurship programs in Europe. Most recently, she interviewed and wrote a case on the 18th oldest family business in the world. The case on the Chilean family business is the newest edition to *Global Entrepreneurship* (4th edition).

Shawn M. Carraher received his Ph.D. in Business Administration from the University of Oklahoma. He has served as the Oxford Journal Distinguished Research Professor and Director of the Small Business Institute® and Clinical Professor in International Business at the University of Texas at Dallas as well as serving at the Undergraduate Research Director. He has served as President of the SouthWest Academy of Management, Division Chair of the Management History Division, Division Chair of the Technology & Innovation Management Division, and PDW Co-Chair and Board member for the Careers Division and the Southern Management Association. He has also served as the President of the Small Business Institute®, the Association for Small Business & Entrepreneurship, and the Association for Entrepreneurship, Family Business, & Franchising as well as an officer of six Divisions of the US Association for Small Business & Entrepreneurship.

He has published over 100 journal articles, which have been cited over 17,000 times. His most recent publications have appeared in the *Journal of Applied Psychology, Journal of International Business Studies, Journal of Occupational & Organizational Psychology, Organizational Research Methods, Decision Sciences, Educational and Psychological Measurement, Journal of Managerial Issues, Journal of Vocational Behavior, Journal of Quality Management, Journal of Applied Management and Entrepreneurship, Career Development International, Polymeric Materials: Science and Engineering, Global Business and Finance Review,* and the *Journal of Business Strategies.*

He has directed research projects in over 130 countries. His research focuses on a variety of behavioral global entrepreneurship topics in the healthcare and tourism industries, and he has worked with over 50,000 SME owners from around the world. Shawn has also worked as a consultant specializing in performance enhancement and management development. He has co-owned a family business which has been in his family since 1893. He has served as the editor of several journals including the *Journal of Management History* affiliated with Division 1 of the Academy of Management and the *Journal of Technology Management in China* affiliated with the China Association of the Management of Technology, the *Cambridge Case Studies Journal*, the *Academy of Strategic Management Journal*, the *International Journal of Family Business*, the *Global Journal of Management and Marketing*, as well as serving as the interim editor of the *Journal of Entrepreneurship Education*.

In November 2015 Shawn was named one of the top 50 Global Business Educators in the world at the Saïd Business School of the University of Oxford. While in 2016 he was named one of the top 12 [#9 based upon academic age] most impactful business professors in Switzerland and in 2017 was recognized as one of the top 30 Professors in the World by three groups in China [Four were in business]. He received the Larry R. Watts Distinguished Service Award from the Allied Academies in 2011 and has been named a Fellow of the Academy of Strategic Management, the Academy of Entrepreneurship, the Academy of Global Business Advancement, the Small Business Institute® and the Direct Selling Education Foundation. On Dec. 6, 2017, celebrating the 100-year anniversary of independence from Russia, Shawn was one of 100 recognized in Helsinki for his contributions to economic development in Scandinavia by the King of Sweden. In the last two years, he has served as the advisor of 106 students who has received grants to support their research. His students have raised over $250,000 to support their travels to present papers at Harvard, Cambridge, and Oxford Universities. They have published 31 peer-reviewed journal articles. His program of educating students with research has received an Innovative Program Award from the Small Business Institute® as well as attracting funders to his programs.

About the Contributors

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Flavia Barbery has a Bachelor of Science degree in Business Administration from Manhattan College in Riverdale, NY. She completed a double major in Economics and Management and graduated magna cum laude in May 2010. She has work experience as a project assistant for UNAGRO Corporation in Santa Cruz, Bolivia. She was in charge of developing, analyzing and evaluating feasibility projects for the implementation of a new business unit overseas.

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Wendy M. Eager is retired as a Senior Lecturer in Management from Eastern Washington University. She has taught courses at an undergraduate and graduate levels including Human Resource Management, Multinational People Management, Strategic HUman Resource Management, Organizational Theory and Management, and Business and Society. She has also presented her research at national and international conferences.

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Dr. André M. Everett retired as Professor of International Management at the University of Otago, Dunedin, New Zealand. His writings on diverse topics have been published in more than 30 countries, and he has taught in Argentina, Austria, Brazil, Chile, China, France, Israel, Korea, New Zealand, and the USA.

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Frederick D. Greene, Ph.D., now retired, was an Associate Professor of Management and Director of the award winning Small Business Institute (SBI) at Manhattan College in Riverdale, NY. He is an active member of the Small Business Institute Director's Association (SBIDA) having served on numerous national committees that include programs, strategic planning and the Board of Directors. He is a Fellow of the SBIDA and is the immediate past president of SBIDA Region 2. Dr. Greene's teaching, consulting, research and writing have concentrated on various aspects of small business management and entrepreneurship.

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Jay Gronlund is President of The Pathfinder Group, international business development consulting firm, plus training and ideation workshops. Previous senior marketing positions at Newsweek, Seagram, Church & Dwight and Richardson-Vicks. Taught "Positioning & Brand Development" course at NYU for 20 years. MBA from Tuck, Dartmouth College and BA from Colby College.

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Dr. Mahesh Chandra Joshi is working with Lovely Professional University, India. With over 20 years of experience has credit of above 40 publications. He is actively involved and teaching, research and consultancy. His area of expertise is International Business and Entrepreneurship.

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Dr. J. Mark Munoz is a Full Professor of Management at Millikin University. His recognition include the ACBSP Teaching Excellence Award and Global Academic Excellence Award. Aside from top-tier journal publications, he has authored/edited/co-edited more than 20 books. He is Chairman/CEO of international management consulting firm Munoz and Associates International.

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Michael L. Pettus worked for and consulted with multi-national firms. His specialization is strategic management and logistics. He taught at Millikin University and Wake Forest University in over 25 years in academia. He holds a B.S. from Millikin University, and an MBA and PhD in Strategic Management from the University of Illinois.

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David Rawlings

David Rawlings holds a B.B.A. with a major in Management and a concentration in Entrepreneurship from John Carroll University in suburban Cleveland, Ohio. He wrote the case based on a true dilemma his cousin was facing his senior year. David obtained a Commercial Driver's License and drives a semi dump truck for Cajins Trucking in Walton Hills, Ohio. David has also started his own company, DZR Enterprises LLC, through which he sells items on eBay with eBay username Rawl123dzr.

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Udo Schlentrich is a graduate of the Lausanne Hotel Management School, Cornell University, and holds his Ph.D. from Strathclyde University. He is the Director of the Rosenberg International Center of Franchising and a member of the board of the Educational Foundation of the International Franchise Association. Schlentrich is engaged in advancing the field of franchising and hospitality marketing through applied research, teaching and outreach. He teaches the following courses: strategic management, international franchising, hospitality finance and development, and marketing. Schlentrich has received various awards for his innovative and engaged teaching style.

Schlentrich has held CEO and senior board level positions with leading American and international hospitality organizations such as Hilton International, Loew's, Stakis, Omni International, Preferred Hotels and Steigenberger. He is a regular consultant to international companies and investor groups. He is currently retired and now lives in Texas.

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Don Sciglimpaglia is Professor of Marketing and Director of Business Consulting Programs at San Diego State University. He has published in many leading academic journals including *Journal of Marketing, Journal of Advertising, European Journal of Marketing, Journal of Consumer Research and Industrial Marketing Management*. He is an active marketing consultant in the areas of marketing research and marketing planning and has consulted with Hewlett Packard, IBM, McDonald's and many other firms.

Pavel Strach (Bc., Ing., Ph.D. (Prague), Ph.D. (Otago))

Pavel Strach (Bc., Ing., PhD (Prague), PhD (Otago)) chairs the Department of Marketing and Management at Skoda Auto University, teaching international business and business research methods. His research has been published in more than 30 countries in outlets such as *Services Marketing Quarterly* and *Journal of Knowledge Management*.

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Sherry E. Sullivan (Ph.D. The Ohio State University) holds the College of Business' Owens-Illinois Professorship and was also designated a Bowling Green State University Distinguished Research Professor. She was recognized in Scopus' Top 100,000 most influential scientists in the world, being among the top one percent of researchers in her field. She is the co-creator of the Kaleidoscope Career Theory and conducts research on careers, mentoring, networking, expatriates, and international human resource management. Her articles have appeared in journals including *Academy of Management Executive, Career Development International, Journal of Applied Psychology, Journal of International Business Studies,* and *Journal of Management*. She is a Fellow of Southern Management Association.

Priyesh Tiwari

Priyesh Tiwari is an entrepreneur and Founder, Word Wizards, a complete content solutions provider, based out of Jaipur, India. He has done his Masters in Marketing and International Business from Indian Centre for International Business, Pune and Bachelor's in Arts faculty from Rajasthan University, Jaipur. He has over 14 years of experience spread over corporate organizations and educational institutions like Bennett, Coleman & Co. Ltd. (The Times of India), Music Broadcast India Pvt. Ltd. (Radio City 91.1 FM), Sakaal Media Group, Poddar Group of Institutions and Poornima University, Jaipur. His areas of interest includes International Business (specially FDI), Entrepreneurship and Strategic Management.

Dr. Qureshi

Dr. Qureshi has a Ph.D. in Entrepreneurship from the Technical University of Berlin and currently serves as the Program Director of the Center for Entrepreneurial Development at the Institute of Business Administration - Karachi, Pakistan. He is the recipient of the Outstanding Specialty Entrepreneurship Program Award on Women Entrepreneurship.

Ambreen R. Khan

Ambreen R. Khan has a Masters' in Business Administration. She is a passionate teacher of women entrepreneurship and she presented her research work at IBA, LUMS, and ESCP Germany. She loves helping women to pursue family-centered women entrepreneurship. She has trained and helped more than 1000 women across Pakistan.

Neha Ekhlaque

Neha Ekhlaque is a member of the IBA CED team. She has been engaged in Entrepreneurship case writing and research. She has successfully managed and coordinated Women Entrepreneurship Programs in various parts of the country. She is a passionate believer in the Women Entrepreneurship Plus model.

Misbah Amin

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Bassem Nasri

Bassem Nasri is Assistant Professor of Entrepreneurship and International Business, and Coordinator of Graduate Business Studies, at Prince Mohammad Bin Fahd University, Al-Khobar, Kingdom of Saudi Arabia. Bassem holds a PhD in Entrepreneurship from Grenoble École de Management, France, an MBA in Strategic Management from City University, London, and a B.Sc. from the American University of Beirut, Lebanon. An academician, entrepreneur, and management consultant, with extensive international business experience, Bassem occupied executive positions at multinational companies based out of Lebanon, Saudi Arabia, and GCC countries, developed partnership ventures across Europe and Saudi Arabia in F&B, fashion, retail and professional services, and ran academic and consulting projects in entrepreneurship, strategic management, international competitiveness, franchising, conflict management, and CSR. He is a member of the International Society of Franchising, The European Academy of Management, The Lebanese-German Business Council, and The Lebanese-Dutch Business Association. Bassem participated at/addressed multiple international conferences across USA, Europe, Asia, and the Middle East. He speaks English, German, French, and native Arabic.

Prof. Dr. Pablo Collazzo

Prof. Dr. Pablo Collazzo has an extensive professional and academic experience at the interplay of strategy, finance and entrepreneurship. He is Managing Director of Sequoia, a consulting firm with a global portfolio of corporate and public sector clients, while active in academia, as Professor at Danube University, and Affiliate Faculty and Council Chair of the MOC Network at Harvard Business School. A former Rector of Universidad del Pacífico in Ecuador, he was Academic Director of the European Academy of Business in Society in Brussels, after an international career in investment banking (Merrill Lynch) and consulting (PwC). He serves as board member to profit and non-profit organizations and is Senior Advisor on Sustainable Competitiveness to the United Nations Industrial Development Organization. His academic background is in law and economics, with graduate studies at Boston University (MBA) and ESADE (PhD).

E. Hachemi Aliouche, PhD

E. Hachemi Aliouche, PhD, is the Director of the Rosenberg International Franchise Center at the University of New Hampshire. He holds the Rosenberg Chair in Franchising and he is an Associate Professor. His academic research focuses on franchise finance, international franchising, and social franchising.

Brandon Carroll

Brandon Carroll is a professional in the international logistics industry and holds a master's degree in international business. When not consulting companies on how best to move goods around the globe, he spends his time cooking for his wife and son, fencing, and playing a lot of video games.

Nick Russell

Nick Russell is a student in the international business master's program at The University of North Carolina at Greensboro. Outside of being a student, he has 10 years of experience in the sales and marketing working with customers domestic and international. Within his time with sales and marketing, he has also trained extensively with accounting and production.

Samantha J. Taylor

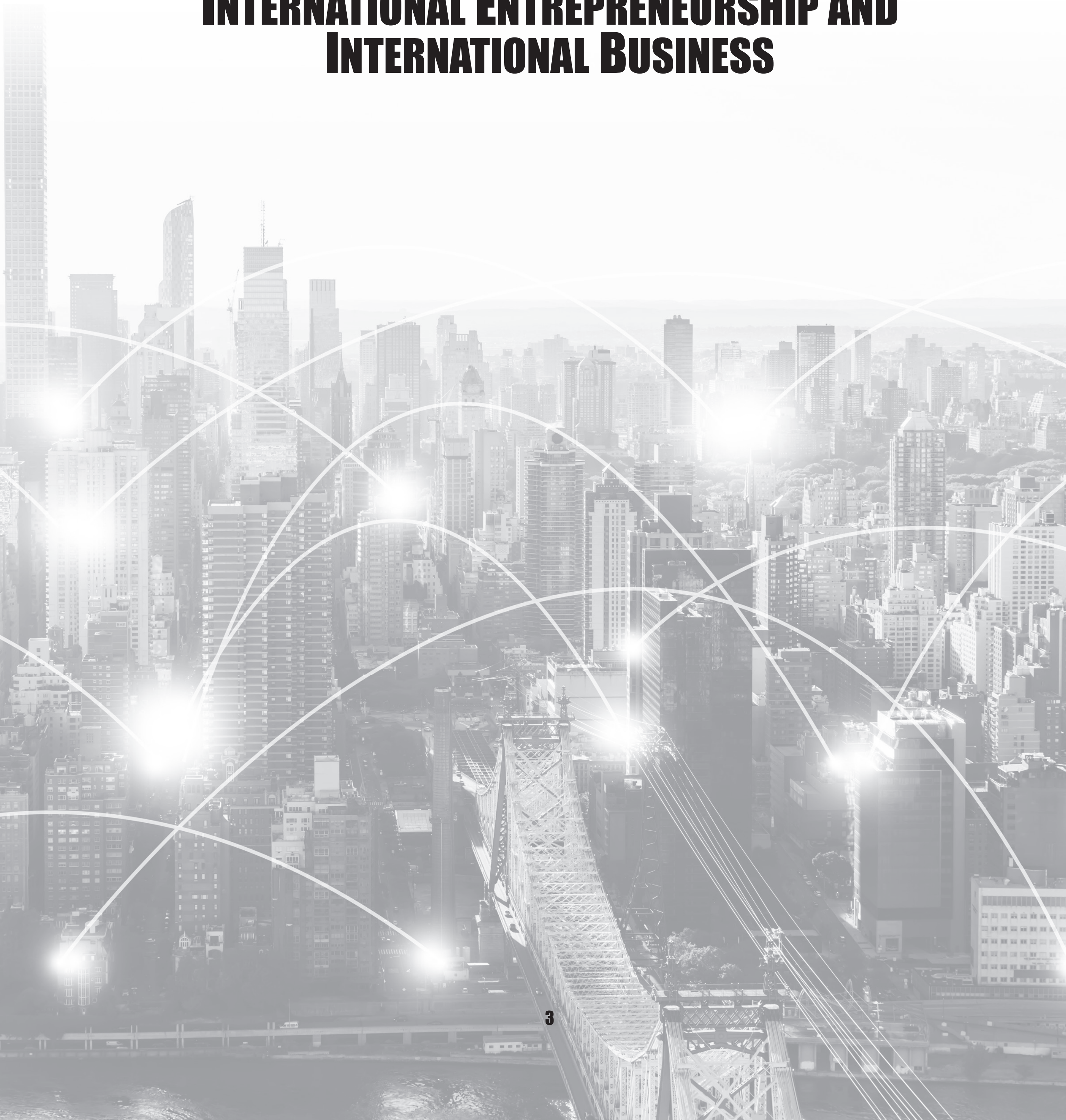
Samantha J. Taylor was born in Florida and raised in rural western Maryland where she resided until joining the U.S. Army in January 2011 after earning her associate of applied science degree in criminal justice from Allegany College of Maryland in 2010. While serving honorably in the U.S. Army, Samantha earned her bachelor of arts degree in criminal justice in 2016 and soon thereafter started to work toward her bachelor of arts degree in Spanish language and literature. Samantha currently works for the U.S. Army as a civilian federal employee and resides in the State of Kentucky with her active duty military husband, their three dogs, and one cat, and are expecting a baby boy in August of 2020. She is currently working toward the completion of her master of science degree in the field of international business and in her free time enjoys relaxing with her family, outdoor activities, and DIY projects/crafts.

Part One

Introduction

Chapter One

International Entrepreneurship and International Business



Jenny Craig Goes Latin

Don Sciglimpaglia and Massoud Saghafi
San Diego State University

Learning Objectives

1. *Analyze* market information regarding potential viability of the Jenny Craig business model in Mexico.
2. *Assess* differences in culture as they would impact business viability.
3. *Identify* the health and environmental issues, which are related to social responsibility and may impact business viability.
4. *Discuss* the role of franchising in international market expansion.
5. *Discuss* basic business concepts and functional areas, including recruiting, operations, training, sales development, marketing, and performance management as it relates to the case.
6. *Evaluate* how the strength of a strong business concept or vision at all levels affects the ability for a business to compete in the worldwide marketplace.

Key Words

Obesity
Body mass index (BMI)
Franchising
Master franchise
Noncompete clause

Abstract

Jenny Craig International is a market leader in the weight management industry and an entrepreneurial success story. The company is considering expansion into Latin America. Mexico is of particular interest, based on preliminary market research, access to American media, and the Mexican population's experience with American products. An expert team must assess market information, evaluate Mexico's business and cultural characteristics, and decide if Jenny Craig can succeed in that market. The team must also contemplate the best market entry strategy, assess the pros and cons of various options for the company, and arrive at a viable recommendation.

Problem Statement

Since its inception, Jenny Craig Inc. has provided weight management services to over 5 million clients. Started as an entrepreneurial venture, it has become one of the leading companies in that industry, both in terms of annual revenues and the number of clients. Headquartered in Carlsbad, just north of San Diego, it operates in Canada, the United States, Australia, New Zealand, and France. A team of corporate entrepreneurs has just been charged to evaluate Jenny Craig's potential expansion into Latin America.

About the founder Jenny Craig

Through a combination of diet and exercise, she was able to get back to her pre-baby weight—but realized that there wasn't much information on the dangers of obesity and lifestyle changes that could help (Elisa, 2020).

History

Jenny Craig International, founded in 1983 by Jenny and Sid Craig, is now one of the world's leading weight management companies. The entrepreneurial couple had originally founded and expanded a company called Body Contour into 200 centers by 1980, and then sold it to NutriSystem in 1982. Restricted from competing with NutriSystem in the United States, they subsequently opened a weight control company, Jenny Craig Inc., in Australia in 1983. Their Australian company, using nutritional guidance, prepackaged food, exercise, and behavior modification, grew to $50 million in revenues by 1985. With the expiration of the noncompete clause of their sales agreement with NutriSystem, Jenny Craig entered the North American market, opening twelve centers in the Los Angeles area during their first year in the United States. Sid Craig's prior experience with another Los Angeles based weight control business, Gloria Marshall salons, proved to be an invaluable background for their American expansion.

In 1991, Jenny Craig went public in the United States. With revenues of over $350 million and 780 centers by 1999, the company's rapid growth was a phenomenon. Company ownership accounted for roughly eighty percent of the centers in 1999 and the rest were franchised. In a complicated transaction in 2002, Jenny and Sid Craig sold their majority stake in the company to an investor group, of which they were a part, in a take-private transaction. The managing director of ACI Capital, one of the major investors in the transaction, made the following statement at that time: "With well over half of all Americans considered to be overweight or obese, and obesity related claims costing the economy an estimated $100 billion annually, we realized that Jenny Craig not only possessed huge business growth potential, but that the company could also make a significant positive impact on the health of our nation. We also understood that by strengthening and expanding the company, Jenny Craig could create jobs in communities across the U.S."

Within one year of the 2002 sale, Jenny Craig Centers were in 646 locations in the United States, Canada, Australia, New Zealand, and Puerto Rico. In 2006 the company was acquired for $600 million by the food and beverage giant Nestlé, which subsequently acquired Novartis Medical Nutrition, maker of Boost beverages and nutritional supplements, in 2007. According to the company website, there are now over 800 Jenny Craig Centers worldwide. Approximately 15% of centers in North America are franchised, with the Australian and New Zealand markets controlled by a single master franchisee. As of March 2010, the company announced the launch of its Jenny Craig weight management program in France, with seventeen Jenny Craig centers and an at-home program. Later in 2010, Jenny Craig is planning a new national roll-out in the UK since its earlier failure in that market. Other European markets are also likely to be considered and evaluated.

Jenny Craig announced the appointment of David Pastrana as CEO beginning February 1, 2020. Pastrana will replace existing CEO and President Monty Sharma, who will become the company's board chairman (Craig, 2020a).

The Need for Weight Management in the United States: Obesity

Obesity is ranked as the number one health threat facing America by the U.S. Centers for Disease Control and Prevention. In the United States, it causes over 400,000 deaths annually and obesity related costs are between $100 billion and $200 billion annually. The increased risks of developing several serious health conditions, such as cardiovascular disease, hypertension, type 2 diabetes, and thyroid disease, are a direct or indirect result of obesity. The growing problem of childhood obesity, defined as individuals under age 18 who are classified as overweight, has grown to more than 15% of that age group.

Body mass index (BMI) is a measure of body fat based on height and weight that applies to adult men and women. BMI categories are: underweight (BMI less than 18.5), normal weight (between 18.5 and 24.9), overweight (between 25 and 29.9) and obese (30 or greater). Using these standards, nearly two-thirds of U.S. adults are overweight or obese, with nearly one-third characterized as obese. Less than one-half of U.S. adults are at a healthy weight, and over 15% of children and adolescents were overweight in 2000. Additionally, 15% of children and almost 15% of adolescents were classified as at risk for overweight due to a BMI for their age between the 85th and 95th percentile. Between 1960 and 2000, the prevalence of overweight among U.S. adults increased from 32% to 34%, and the prevalence of obesity among adults during the same time period more than doubled from 13% to 31%. Extreme obesity (defined as BMI of 40 or more) increased from 3% of the adult population to 5% between 1988 and 2000.

The prevalence of overweight and obesity among racial and ethnic minorities, especially women, tends to be higher than that of White population in the United States. For example, overweight and obesity among non-Hispanic Black women is over 77%, and among Mexican American women is almost 72%, compared to a rate of just over 53% among White women in the United States. In contrast, almost 61% of non-Hispanic Black men are classified as overweight or obese, while almost 75% of Mexican American men and over 67% of non-Hispanic White men fall into that category.

Recently Jenny Craig is being recognized as for the tenth sequential year as a top diet in the U.S. News and World Report's 2020 Best Diet rankings. A broadly perceived distributer of buyer guidance and rankings, *U.S. News and World Report* perceives Jenny Craig as a Best Commercial Diet Plan (#2) and Best Fast Weight-Loss Diet (#3) (Craig, 2020b).

The Need for Weight Management in the United States: Health Risks

Unhealthy dietary habits and lack of physical activity contribute to more than 300,000 adult deaths in the United States each year. Obesity increases the risk of death from all causes between 50% and 100% compared with normal-weight individuals, while the life expectancy of a moderately obese person is shortened by between 2 and 5 years. The impact of extreme obesity is more striking, shortening life expectancy for White men by 13 years and for White women by up to 8 years. Overweight and obesity also contributes to a diagnosis of type 2 diabetes, with all its attendant health problems. An estimated 70% of diabetes risk in the United States can be attributed to excess weight. The ongoing costs to the U.S. health system are dramatically affected by the health risks that result from the epidemic of obesity in our culture.

Jenny Craig Business Approach

With over 150,000 participants in an average week, the Jenny Craig program charges a fixed enrollment fee and then encourages its followers to buy some of its more than 80 prepared meals and snacks as part of the program. The company makes participation in the program easier and more convenient through an at-home consultation and food delivery option, called Jenny Direct.

The company website indicates that its weight management program combines one on one support in nutritional and lifestyle counseling to help clients modify their activities and eating habits. When clients have reached their desired weight levels, they are gradually transitioned away from the prepackaged food and planned menus into the maintenance of a healthy weight and activity level. Jenny Craig offers programs specifically tailored to women, men, teens, senior citizens, and individuals with type 2 diabetes.

Jenny Craig participants work with program consultants in individual, private counseling sessions. Although the consultants are not required to be professionally certified as nutritionists or health professionals, they are trained by the company to provide clients with educational and motivational support. Jenny Craig members join one of a number of types of plans and then purchase prepackaged food from their local center. Dry and frozen foods are also shipped by the company directly to clients who have joined the Jenny Craig at Home program. Initially, clients follow a planned menu using the company's frozen and dry foods, supplemented with grocery items such as dairy and vegetables. Participants later learn to customize their menus following the nutritional guidelines of the program. After reaching the halfway point of their weight loss goal, clients begin to use a menu with 3 or 4 days of nonprogram foods.

The company has effectively utilized as spokespeople multiple celebrity clients who are on the program. This started with the use of Jenny Craig herself as the "face" of the company when it was launched in Australia. In early 2000, Monica Lewinsky became a somewhat controversial spokeswoman for the program, but was dropped due to criticism. In 2005, actress Kirstie Alley became the spokeswoman, later joined by Valerie Bertinelli, who had slowly gained weight over the years. In 2008, Queen Latifah became a spokesperson, and is continuing to work with the company. Also in that year, comedian Ashley Young joined the program and is serving as an "ambassador" for the company in Australia. In the second half of 2009 Phylicia Rashad, Sara Rue and Nicole Sullivan became clients or spokespersons and in 2010 Jason Alexander became a spokesman for Jenny Craig. The marketing message, particularly for Queen Latifah and Phylicia Rashad is to focus on losing 5% to 10% of body weight and leading a healthier lifestyle, rather than to concentrate on a specific weight-loss goal.

Weight Management Market and Competitors

Weight management services comprise a complex industry, offering nutritional guidance, products and exercise programs. Top competitors of Jenny Craig include Weight Watchers International, and NutriSystem. Smaller challengers in the market include online services, nutritional weight loss products sold at retail, and "do-it-yourself" diet programs that forgo membership fees and packaged products. These other competitors include Slim Fast, Atkins Nutritionals, Alticor, Bally Total Fitness, ConAgra, eDiets.com, GNC, Heinz, Medifast, Reliv' International, Schiff Nutrition International, and WebMD Health. In the United States, the total market for weight control programs and products is roughly $3.9 billion. While the market leading companies vary in their consumer-facing models and, to a lesser degree, in positioning, their target markets are very similar (Table 1.1). The 2007 IBIS World Industry Report for Weight Loss and Dietary

TABLE 1.1 Jenny Craig, Weight Watchers, and NutriSystem Competitive Overview

Company	Market Segment	Positioning	Target market
JENNY CRAIG INTERNATIONAL	One-on-one consulting	• Improve looks • Feel good	• Females 25–54 • Skewed Caucasian • Mid-upper class • 20+ lbs to lose
	Direct to consumer	• Lose weight with convenience	
WEIGHT WATCHERS INTERNATIONAL, INC.	Group Program	• Attain health • Feel good	• Females 25–54 • Various ethnicities • 20+ lbs to lose
NUTRISYSTEMS, INC.	Direct to consumer	• Improve looks • Lose weight with convenience	• Females, males • 22–54 • Want to "diet in private" • 20+ lbs to lose

Centers in the United States describes competition in the industry as high, based on the degree to which the industry trades on brand recognition, pricing, and promotions, as well as the large range of substitutes to weight loss centers and programs that exist. Jenny Craig is growing its footprint broadly, developing its pledge to interfacing with individuals in manners that fit into their regular day-to-day existences—face to face, on the web, and at home. The brand announced a coordinated effort with Walgreens, in which 100 Jenny Craig at Walgreens areas will open early this year in business sectors over the United States, including Dallas, Houston, Philadelphia, and Phoenix, among others (Craig, 2020b).

Jenny Craig International Corporate Entrepreneurship: Rationale for Expansion

Following its success in current markets, Jenny Craig International is looking into expanding its global market. A corporate entrepreneurship team led by Landry Parker, a recent MBA graduate, is beginning to study new markets. In particular, she has steered the company toward considering Latin America, where there are potential growth opportunities in neglected or underserved markets. Of particular interest is Mexico, which is known to have increasing obesity levels and improving socioeconomic conditions, which may indicate considerable opportunity. Although management is aware that some competitors have already entered the market, the company could gain an advantage by establishing a significant early presence.

Obesity in Latin America and in Mexico

The World Health Organization (WHO) estimated in 2005 that over 1 billion adults were overweight, including 805 million women, and that over 300 million were obese. WHO predicts that the number of overweight people will increase to 1.5 billion and more than 400 billion of them will be obese by 2015. Obesity was considered a problem mainly in advanced economies, with the United States having the highest prevalence of obesity among all countries. However, it is now rising dramatically in developing countries, mainly in urban areas, primarily related to increasing urbanization and changing lifestyles. As urbanization increases, people are more inclined to consume external food instead of a traditional diet, which includes diets that are high in grains, fruit and vegetables, and low in fat. A decrease in physical activity is another contributor to the obesity problem. As a result, many countries that formerly were fighting with an undernutrition problem are now faced with an obesity problem as well. Overall, nations in Latin American have seen dramatic increases in obesity; among all countries, Argentina ranks third, Mexico ranks fourth, and Chile ranks eighth in prevalence of obesity.

In Mexico, the increase in the prevalence of overweight and obese individuals has resulted from a series of changes in diet, physical fitness, general health, and nutrition. The cultural changes affecting obesity in Mexico include the following:

- Consumers are often provided with a wider variety of food choices at comparatively lower prices.
- Increased access by urban areas to processed and packaged foods imported from more industrialized countries, including the United States, which tend to be higher in both fat and sugar.
- Less demanding physical work required of workers in service-oriented urban areas.

In 2005, approximately 38% of the Mexican urban adult population was classified as preobese, and 21% as obese, mostly women. The cost of obesity to Mexico's economy was estimated to be $317 million, amounting to roughly 38% of national health care costs.

Mexican Market Size

Mexico has a GDP of $1.149 trillion with a real growth rate of 4.8%. This translates to a GDP per capita of about $7,300 that on a parity basis would be equivalent to about $10,700. Approximately 11 million people earn more than $32,000, with 4.5 million earning more than $52,000 per year. The role of women in the workforce has been steadily increasing and women currently make up 36% of the labor force.

The population of Mexico in 2005 was estimated at 103 million with a growth rate of 1.6% of which 53 million are female, with half under 25. Over 19 million Mexicans fall in the 25 to 54 age range (the primary age demographic for Jenny Craig in the United States). Almost 10% of Mexican women have college degrees and over 12 million are considered overweight or obese, of which nearly 1.85 million are in the 25 to 54 age group. The population of Mexico is heavily concentrated in major metropolitan areas. The top three urban centers have a combined population of 27 million.

In Mexico, the average household size is 4.2 persons and does not significantly vary throughout the three markets considered in Table 1.2. In these markets, the top 15 percent of the population has a household income of $52,000. This translates into a purchasing power parity with the United States of $70,000.

TABLE 1.2 **Population & Household Characteristics of Top Three Metropolitan Areas**

SMAS	Population	Females	Females, 25–54	No. of Obese and Overweight Women	No. of House-Holds	No. of House-Holds Earning $52k+
Mexico City	19,231,829	9,895,930	3,580,347	433,863	4,135,877	616,245
Guadalajara	4,095,853	2,107,562	762,516	124,127	1,016,340	161,598
Monterrey	3,664,331	1,885,518	682,180	106,289	916,082	166,727

Cultural Factors

To better understand the Mexican consumers' response to weight-loss programs, the attitudes and perceptions of Mexican females as they relate to weight loss, appearance, and health should be considered.

Motivations for Dieting in the U.S. and in Mexico

In the United States, motivations to diet typically vary by lifestyle stage. For example, younger individuals are more concerned with their appearance, being accepted by society and attracting potential partners than in dieting for health reasons. As both men and women grow older, they tend to accumulate weight, which can increase health risks and other related conditions. Despite cultural differences between the United States and Mexico, motivations to diet are similar across these different lifestyle stages as summarized in Table 1.3.

Differences in the Perception of Appropriate Weight

Studies have indicated that societal norms regarding female body image and appropriate weight do vary with culture. In particular, Mexican culture traditionally idealizes a curvier female physique than the mainstream Western culture, where a thin physique is typically the goal to be attained. Supporting this theory

TABLE 1.3 **Motivations for Dieting in the United States Compared to Mexico**

	Country	
Motivator	The United States	Mexico
Health	A motivator for older people who have accumulated weight over their lifetime	
	33 percent think weight is a top health concern	
	49 percent regularly make diet changes to reduce fat, sugar, or calories to improve health	
	14 percent suffer from diabetes	15 percent suffer from diabetes
Appearance	Individuals with higher disposable incomes more motivated in dieting for appearance and confidence	
	Younger versus older adults more motivated in dieting for appearance and confidence	
Pressure from family and peers		1 in 4 adolescent females feel pressure from peers to lose weight
		3 in 4 adolescent females report having a dieting family member at home

is evidence from a comparative study of ethnic groups, the goal of which was to examine differences in body image discrepancy and body mass index (BMI) across ethnicity.

Female Hispanic participants in a reported study (20% Mexican, 40% Central American, and 40% Puerto Rican) were significantly slower to report body dissatisfaction than the white American females studied. Additionally, Hispanics did not report considering themselves overweight until they reached a significantly higher BMI that the white Americans. In terms of pounds, a Caucasian-American female, 5'6" tall would become dissatisfied at 153 pounds, while a Hispanic of the same height would not become dissatisfied until she reached 177 pounds, a 24-pound difference.

Cross-Cultural Differences

Compared to American culture, there are differences that may affect the way that Jenny Craig is perceived and adopted in Mexico. These differences, their implications, and the seriousness of the hurdles they pose are listed here.

Studies show that the Mexican culture idealizes a fuller female figure than the United States. The ideal perception of the Mexican female is not to be thin all over, as in the United States. In Mexico, the ideal is to be a little heavier, with more curves. Specifically, typical female adolescents in Mexico City's upper and middle class desire a thinner waist, but heavier breasts and buttocks than what they already have. However, weight loss to accommodate a body image is becoming increasingly more important for Mexican women as they increase contact with the culture of the United States and Europe.

Mexican families across all socioeconomic groups, tend to eat at least breakfast and dinner together. Weekend lunches are also a family affair. Mexican lifestyle does not emphasize fast, convenient meals. Most upper-class women choose not to work full-time because it is not financially necessary. Most upper-class families have a personal cook while most middle-class families may have a housekeeper. The existence of the personal cook introduces a new dynamic to the method of weight loss for women. Middle-class mothers, who do not have personal cooks, are responsible for preparing meals. Normally, if the mother decides to lose weight, the entire family has to cut its calorie intake.

Many Mexicans add other foods to frozen meals and eat more than the allotted size of the meal. In the United States, there is more of an understanding that maintaining the portion size of the frozen meal is important for weight loss. However, in Mexico, it is common to add spices, breads, tortillas, or other foods to the frozen meal. This extra food consumption may inhibit good weight-loss results.

There is prestige associated with consuming American products. Many Mexicans travel to the United States simply to bring back brand-name clothing and gadgets, and this brand consciousness applies to food as well. Additionally, many Mexican women feel that the United States is a clear leader in weight-loss products, and is therefore likely to be trusted before many Mexican services and products.

Marketing and Advertising in Mexico

Rather than turning to family, friends, or doctors for health advice, most middle- and upper-class Mexican females look to magazines, television, and radio sources for information and advice about body image and weight loss. Due to its media penetration and close proximity to Mexico, the United States is currently the most trusted source of new trends in health and diet.

Other sources of influence include Mexican celebrities, such as the *telenovela*, Mexican soap opera stars. The women on these programs are upper class, light-skinned, thin women who are symbols of beauty in Mexico. Mexican females also receive exposure to celebrities through national publications, especially lifestyle magazines, which are in the rise. The most popular of these are *Quien* (translated as "Who" in Spanish) and *Caras* (translated as *Faces*), both of which focus on high society and celebrity lifestyles. While considered trendy among the upper class, they typically offer somewhat superficial content about fashion, celebrities, and entertainment events. Other popular women's magazines include *Vanity Fair, Harper's Bazaar, Vanidades*, and *Marie Claire*. While Jenny Craig's U.S. marketing efforts rely heavily on national television and public relations efforts, the most effective forms of marketing in Mexico are more localized, direct advertising efforts. Localized advertising techniques include the distribution of pamphlets in a store's immediate locality, as well as the placement of ads and articles in smaller local magazines.

Additionally, word of mouth and the goodwill are incredibly important in spreading the word throughout the community. Evidence of this can be seen in the story of Herbalife's top Mexican distributor, who attributes his personal sales success to understanding that the people he met didn't want "the hard sell," but were willing to "hang around and talk."

Next Steps

The Jenny Craig International corporate entrepreneurship team led by Landry Parker must decide what to do next, based on these data. Increasing obesity levels in Mexico and improving socioeconomic conditions indicate that a considerable opportunity exists. However, a new market in a new country presents unique challenges. Consideration should be given to factors such as size and nature of the market, likelihood of profitability, and cultural attitudes and behaviors that could either inhibit or promote adoption of the Jenny Craig product.

The first major question to address is whether or not the company should consider entry into Mexico. In this regard, the team needs to determine the relative arguments for and against market entry. If it recommends moving forward, should the company consider franchising? In Australia one master franchisee is used. Would that be the best alternative for Mexico? Given the size of the Mexican market, should market entry be limited to major metropolitan areas or should a larger portion of the country be targeted? What type of marketing approach might be recommended based on prior success in the United States and knowledge of Mexico?

Discussion Questions

1. In the U.S., Jenny Craig Inc. was viewed not only as having a positive impact on health, but also as a means of creating jobs in communities across the country. Assess the same situation in Mexico. What potential entrepreneurship and small business opportunities might exist there with the weight-loss market and with Jenny Craig? What other small businesses may develop from Jenny Craig entering Mexico?
2. From the perspective of global corporate entrepreneurs, it is said that companies are involved beyond their country borders either internationally, multinationally, or globally. Based on the case, which characterization best fits Jenny Craig Inc.?
3. As entrepreneurs, Jenny and Sid Craig had experience in Australia and the U.S. How would this experience be different in Mexico? What are the most important cultural difficulties to expect in the Mexican market?
4. The first major strategic question to address is whether or not Jenny Craig Inc. should consider entry into Mexico. In this regard, what are the relative arguments for and against market entry? What are the major potential financial risks involved?
5. Assume the perspective of an international entrepreneur. Do you detect a viable opportunity in the Mexican weight-loss market? Given the competitive landscape, how should Jenny Craig Inc. position itself in this fast-evolving weight-loss market in Mexico? Given the size of the Mexican market, should market entry be limited to major metropolitan areas, or should a larger portion of the country be targeted?
6. If it plans to move forward, should the company consider franchising? In Australia, one master franchisee is used. What is a master franchise compared to a franchisee? Are franchisees entrepreneurs? Why or why not? Where would you recruit franchisees? In your opinion, what would be the best alternatives for Jenny Craig in Mexico?
7. What is the most promising potential target market for Jenny Craig, Inc.? What types of marketing approaches might be recommended based on prior success in the U.S. and knowledge of Mexico?
8. What would you do? Would you be willing to open a Jenny Craig center in Mexico? Why or why not would you make that decision?

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Relevant Videos

Entrepreneur 101 - Potato Chip Business - Mexico City:
https://www.youtube.com/watch?v=kg5aq_eBO6k

Jenny Craig Anywhere:
https://www.youtube.com/watch?v=438NmyBRoy8

JENNY CRAIG'S HEALTHY WEIGHT LOSS APPROACH:
https://www.youtube.com/watch?v=MqtGA3pqC-U

Mexico: Culture and Business:
https://www.youtube.com/watch?v=Od8p65oxVwU

Entrepreneurial Decision Making Under Conditions of Uncertainty: Boeing vs Airbus

Michael Pettus and J. Mark Munoz

Learning Objectives

1. *Understand* that entrepreneurial decisions can have a long-term impact on a firm's position within an industry.
2. *Develop* an understanding of competitive dynamics. Firms make decisions that not only affect their viability/profitability but that also impact competitors.
3. *Explore* decision-making approaches under environmental uncertainty.
4. *Evaluate* decision making in a global duopoly.
5. *Utilize* the information developed in SWOT analysis to make competitive decisions.
6. *Understand* that entrepreneurs can make strategic decisions that are erroneous (i.e., designing an aircraft that has fatal flaws, such as the A380 model with a wingspan that is not compatible with the infrastructure of major international airports.)
7. *Learn* that growth will come from BRIC markets, and that products such as aircraft need to be designed to meet the requirements of airports in foreign countries.

Key Words

Entrepreneurial Decision Making
Global Entrepreneurship
Internationalization
International Strategy
Managing Uncertainty

Abstract

Two entrepreneurs, Phil Conduit of Boeing and Andrew Harriston of Airbus, must predict how the international aircraft manufacturing industry will unfold. This is of significant importance because the development of new models of aircraft is time-consuming and expensive (i.e., substantial R&D investment). A correct prediction will position the company for growth for many years. An incorrect decision could lead to negative returns for many years to come. Global entrepreneurs, such as these leaders of Boeing and Airbus, need to make tough business decisions and grapple with diverse issues under uncertainty.

The Dilemma

Phil Conduit, the entrepreneurial CEO of Boeing, and Andrew Harriston, the entrepreneurial CEO of Airbus, pondered if they had made the right decision in terms of developing the international marketplace. The long-term priority of any plane manufacturer is to produce and market the plans that their customers will want (Sindreu, 2020). Mr. Conduit had selected the Boeing 787 as the next version of passenger aircraft. The 787 is a midrange aircraft that could be used within many developed markets (i.e., the United States and the EU). The aircraft can also be used along the Pacific Rim.

Andrew Harriston had taken a different approach to developing the commercial aircraft industry. Mr. Harriston felt that the growth of the industry would be in long haul (i.e., in excess of 12,000 miles) in markets such as those from the Pacific Rim to the United States or the EU.

Which entrepreneur had made the correct decision?

The Decision Process

Entrepreneurship happens because entrepreneurs conceive of new products or services and then develop them through the launch and operation of new ventures. It is anchored on innovation, risk-taking, and proactiveness (Morris & Kuratko, 2001). A key driver in entrepreneurship, especially in a corporate environment is innovation, and this process can be radical. The emergence of new radical technology and the subsequent development of technological innovation provide opportunities for entrepreneurs to found new organizations and incumbent firms to explore new markets (Aldrich & Ruef, 2006). Scholars and practitioners have argued that corporate entrepreneurs must not innovate just occasionally, but often quickly and efficiently to ensure future revenue growth generated from customers purchasing new and improved products and services (Wooley, 2010). Firms that offer high-quality products, after radical change is introduced, clarify the opportunity and build market share to gain competitive advantage (Ireland & Webb, 2007). For instance, in the case of Apple, early creation of the iPod and the iTunes music website set the stage for its market domination, proprietary strength, and difficulty of product replication (Ketchen, Ireland, & Snow, 2007). In this sense, entrepreneurs truly are the active element in new venture creation (Iriyama, Li, & Madhavan, 2010).

In global corporations, the ability to spot the right opportunity is essential (Morris & Kuratko, 2001). A company's ability to practice corporate entrepreneurship can lead to a path toward business success (Zahra, Kuratko, & Jennings, 1999). One action that corporate entrepreneurs take to better understand the competitive landscape is through environmental scanning. Managers first scan the external environment to collect data, and then interpret the data by giving them meaning before actions are taken (Smith & Cao, 2007). External scanning enables managers to perceive external events and trends to identify the capabilities necessary for effective adaptation in dynamic markets (Castanias & Helfat, 2001). Indeed, external scanning is considered as the first link in the chain of managerial perceptions and actions that enables an organization to achieve environmental adaptation (Hambrick, 1982).

One way in which environmental scanning can be utilized is by developing a SWOT analysis of your own firm and those of your primary competitors. The global aircraft manufacturing industry is dominated by Airbus and Boeing. No other firm has a significant position within the industry. The SWOT analysis of Boeing, which was directed by Mr. Conduit, resulted in the following matrix.

TABLE 1.4 **Boeing**

STRENGTHS	WEAKNESSES
Brand recognition and overall reputation	Heavy reliance on suppliers
Entrepreneurial action paves the way in which the industry unfolds	Tarnished reputation due to delays in producing a finished product (Boeing 787)
Strategic alliances/networks for building and maintaining aircraft	Market trends have reduced available capital spending on asset replacement
Lower cost alternative to A-380 (Boeing 777)	Unsure of the 787's final profit margin
Has orders for 863 aircraft	Additional delays causing order cancellations are difficult to foresee
Most airports are not set up to accept an A-380, but they are for a 787	
Provides an aircraft with which Airbus cannot compete	
Minimal competition since barrier to entry for additional contenders is extremely high	

OPPORTUNITIES	THREATS
Most efficient transportation to date will provide buyers with greater revenue potential	Airbus continues to develop and sell directly competing products
Air traffic growth trends in China (8.8% annual) and India (25% annual) favor the 787 over the A-380	Technology used by Boeing suppliers in Japan could also be used by Airbus
Joint Strike Force (JSF) program participation	Potential foreign government contracts favoring Airbus because of their affiliations
Boeing's position within the defense industry	
Marketing a fuel efficient aircraft (787) during a period when countries need to reduce their dependence on foreign oil	

(*Source:* Boeing Annual Reports. (2007 & 2008). Boeing annual reports. Retrieved from www.annualreports.com/HostedData/AnnualReportArchive/b/NYSE_BA_2008.pdf)

From a strength perspective, the 787 was forecasted to cost much less than Airbus 880. Another strength that Boeing had over the A380 pertained to airport runway restrictions. Aircraft were expected to acquire certain clearances while taxing and on runways. The Boeing 787 had a wingspan of 60 m. This wingspan is acceptable at virtually all global airports. However, the A380 had a wingspan of 80 m. This wingspan was not acceptable at major international airports. Certain airports, such as Heathrow in London, had begun the process of modifying its airport to provide A380 service. Since this cost was over $100 million, Boeing felt that the issue provided a tactical advantage for Boeing.

The most significant weakness was the extensive delays that both Boeing and Airbus had encountered from a production perspective. These delays plagued Boeing's small suppliers with uncertainty (Bushey, 2020). This tactical problem could seriously impact the vision of both Conduit and Harrison. In other words, tactical constraints can seriously impact entrepreneurial vision. In addition, the global economic crisis had just begun. As such, capital was more difficult to obtain. Boeing's ability to innovate gives optimism to many that it will be able to sustain the 26% average annual stock price increase that has been generated in the last decade (Cohan, 2019).

Boeing had a more favorable position within the industry. In 1997, Boeing had acquired McDonnell Douglas. This gave Boeing a solid position within the U.S. defense industry. This position within the military aircraft market provided opportunities for Boeing that were not available to Airbus. In the early 2000s, the U.S. government and the British government agreed to collaborate on the next generation of fighter aircraft. This program was called the Joint Strike Force (JSF) Program. The program was valued at $320 Billion. Had Boeing not acquired McDonnell Douglas, it would not have been in position to bid on this program. This is a position that Airbus did not have. From an entrepreneurial perspective, Conduit felt that its core business (manufacturing commercial aircraft) was a cyclical business. He developed positions in other sectors that Airbus could not establish a position in. In addition, the 787 was much more fuel efficient than the A380. Further, Boeing felt that India and China were two developing markets that would welcome the midrange 787.

The analysis that Mr. Harrison's team had accomplished at Airbus is depicted below:

TABLE 1.5 **Airbus**

STRENGTHS	WEAKNESSES
Repeat customers due to brand recognition and overall reputation Large A-380 has no direct competitor with a comparable sized aircraft Has orders for 121 aircraft Made from advanced composite materials Extensive product lines provide revenue from various sources Develops strong affiliations with many international governments Minimal competition since barrier to entry for additional contenders is extremely high	Heavy reliance on foreign governments for funding and components Most airports are not set up to accept an A-380, but they are for a 787 Market trends have reduced available capital spending on asset replacement Profit margins have decreased as the company needs to produce more than 400 A-380s to break even
OPPORTUNITIES	**THREATS**
Potential foreign government contracts favoring Airbus because of their affiliations Take advantage of Boeing not having their 787 ready for mass production by selling Airbus alternatives	Boeing continues to develop and sell directly competing products Technology learned through subcontracting can be used by the Japanese, and other countries in alliance, to directly compete Tarnished reputation due to many delays in producing the A-380 and A-350

(*Source:* EADS (AIRBUS) Annual Reports. (2007 & 2008). *AIRBUS*. Retrieved from http://company.airbus.com/investors/Annual-reports-and-registration-documents.html)

Mr. Harrison felt that one of the primary benefits of the A380 was that Boeing would not have a competing aircraft. The Boeing 747 was old and used much more fuel than was expected on the A380. Another strength of the A380 was it was made of advanced composite materials instead of metal. Lighter structure results in a reduction in fuel consumption, an increase in the plane's range, and durability of key parts (Michaels & Lunsford, 2007). In addition, there were many potential international contracts that would be favorable to Airbus because of their affiliations with foreign governments. In many international, developing markets, especially the BRIC markets, the government will decide how the purchase of commercial and military aircraft will evolve. In addition, the A380 was scheduled to be in service in 2007, before the Boeing 787. The global crisis also was affecting Airbus as much as it was Boeing. Airbus was betting on the growth coming from long-haul markets. Its A380 would not be suitable for short- to medium-range flying. As with Boeing, Airbus had encountered many production delays that put some orders at risk. A related problem was that the cost to produce the A380 was much greater than expected. This would have an adverse impact on profit margins.

The Way Forward

The case offers an opportunity to review and assess entrepreneurial decision making within a global business platform. The key question is, Which entrepreneur would be successful and could provide his firm with long-term growth potential?

Discussion Questions

1. Which aircraft will be more successful, the Boeing 787 or the Airbus A380?
2. (a) If the A380 is successful, what position should Boeing adopt? (b) If the Boeing 787 is successful, what position should Airbus adopt?
3. How receptive would major international airports be to the A380?
4. What other major points need to be considered for this entrepreneurial decision? While the major decision points have been addressed, could there be a few other remaining issues?
5. Which company's SWOT analysis is more compelling and why?
6. From an entrepreneurial perspective, how will the aircraft manufacturing industry evolve in 2015 and beyond?
7. What lessons in global entrepreneurship can be learned from the case?

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Relevant Videos

https://www.youtube.com/watch?v=NUsvqtso05s

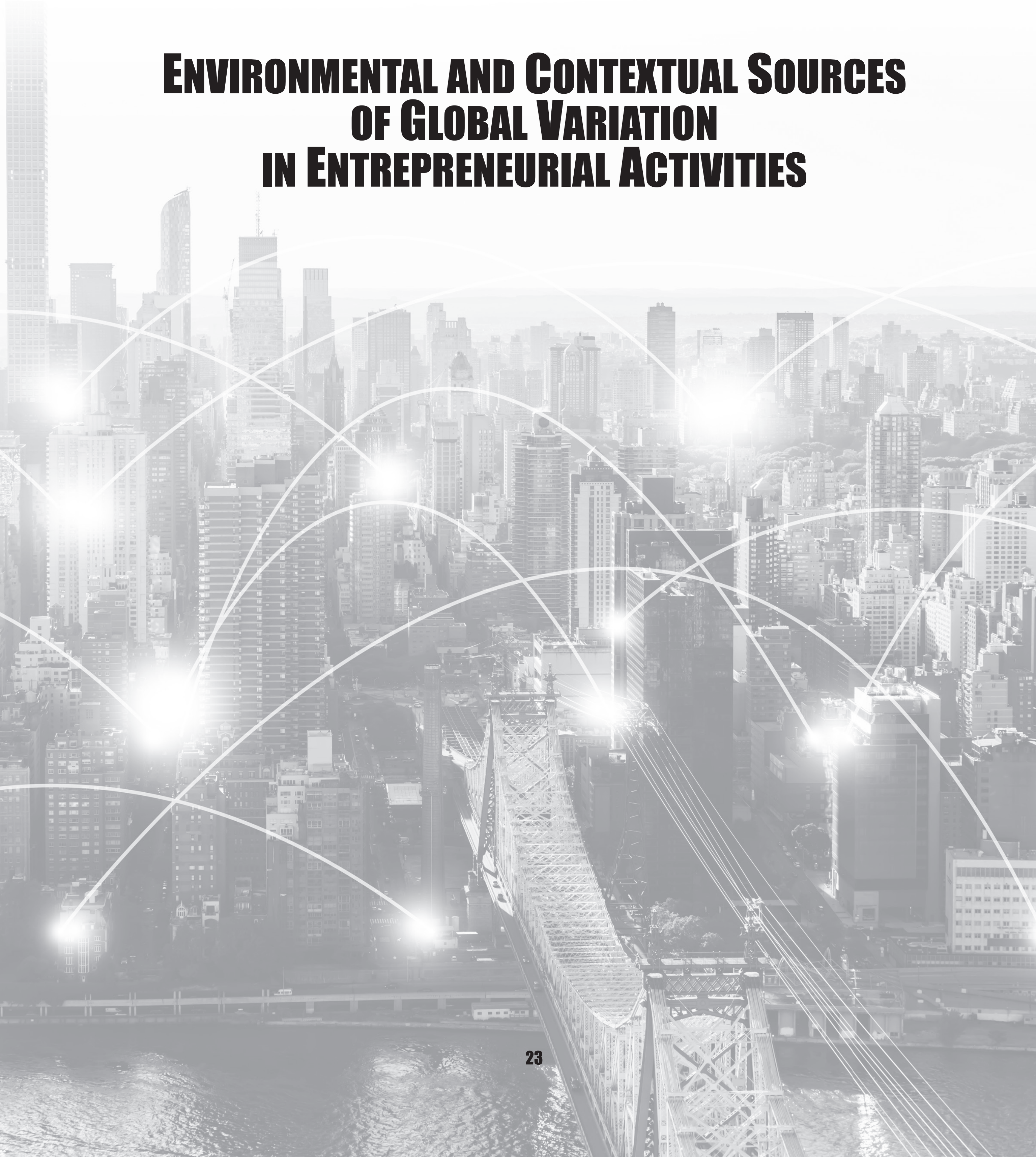
https://www.youtube.com/watch?v=pEQecnUKOfU

https://www.youtube.com/watch?v=FuVccOroftg

https://www.youtube.com/watch?v=VQg6NOxztZ0

Chapter Two

Environmental and Contextual Sources of Global Variation in Entrepreneurial Activities



Shopping for Sunglasses at the Burjaman Center: The Case of a Shady Buyer

Dianne H.B. Welsh, The University of North Carolina at Greensboro
Ibrahim Al-Fahim, Al-Faheem General Trading Company

Learning Objectives

1. To examine shoplifting laws and security device protection.
2. To respond to the way women are treated by police and store personnel.
3. To examine the possibility of a legal action on the retailer's part.
4. To determine the proper management response to the situation.
5. To determine how management can comply with the law and culture of the country, yet prevent shoplifting.
6. To evaluate the current policies and procedures that relate to this situation.

Key Words

Culture
Ethics
Islam
Retail Sales
Security

Abstract

This case describes an alleged shoplifting incident. It requires students to consider relevant issues in determining an appropriate managerial response. These issues include retail store security, shoplifting, employee training, legal regulations, culture, and gender issues.

Dilemma

U.A.E is a large and open financial sector. Large volumes of remittances pass in and out of the U.A.E. The use of cash in transactions is high in this country, and there are active markets for trading gold, precious metals, and stones (Dudley, 2020).

French Gallery is a small specialty shop located in a large mall in the United Arab Emirates (UAE). The store sells colognes, cosmetics, jewelry, watches, sunglasses, and gift items, for men and women. There are five employees working at any one time in the shop. Both men and women are employed as retail clerks in the store. Sales representatives from cosmetic and perfume companies also work in the shop on a varying schedule. Most of these representatives work between one and 3 days per week. A few representatives work every day but Friday. Friday is honored as a Holy Day, although retail stores stay open in the UAE on Fridays since most people are off work. The sales representatives' wages are shared by the local distributors and the retail store.

On a Friday, A beautiful lady walked into the store and started shopping. A salesman, Mr. Ali, believed he saw the female shopper put something under her jacket, but he was not positive. He told the store manager, Mr. Faheem, about the incident. A couple of weeks later, the same woman returned to the store. This time the salesman immediately alerted the manager. Mr. Faheem and Mr. Ali both watched her. She didn't notice. She tried on various sunglasses, picking up three at a time to try on instead of trying them individually. She slipped some pairs of sunglasses in her purse. When the store manager, Mr. Faheem, and the salesman, Mr. Ali, approached her and confronted her, she started crying. Then she went on to accuse Mr. Ali of sexual harassment in a loud voice. She claimed that he accused her of stealing because she refused his advances. When Mr. Faheem attempted to detain her until the police arrived, she darted to another entrance. The store manager did not want to create a scene by chasing the woman in front of the customers. This would have created a negative image for the store because it is against the culture as well as the religious norms of the Middle East to physically restrain a woman. Before she had a chance to escape, the manager ran to the door and locked it. The mall security arrived within a matter of minutes and waited until police got there. Meanwhile, the customers continued to shop. The door was locked, so they couldn't leave anyway. This incident happened on Friday, the busiest day of the week for the store. There were fewer employees working that day because some of the cosmetic and perfume company sales representatives were off.

When the police arrived, they discovered that the suspected shoplifter was a woman, so they went back to the station and returned with a female police officer. After they completed the initial investigation at the store, the officers took the suspected shoplifter back to the station. She vehemently denied stealing any sunglasses, even though Mr. Faheem and Mr. Ali had taken them out of her purse. The police officer searched her purse at the station. He found another pair of sunglasses with the French Gallery price tag on them, a two-week tourist visa, and a passport from Lebanon. The police later searched her hotel room and found more stolen property. The woman was convicted of theft and sentenced to 3 months in jail. After serving her time, she was sent back to Lebanon.

Later, she was identified as part of an organized crime ring. The ring hired beautiful women, who possessed tourist visas, to steal. In Middle Eastern countries, where Islam is the predominant religion, it is morally unacceptable, and usually illegal, for a woman to be stopped or held. These women, consequently, take advantage of local shop owners who are inhibited by laws or customs. When their visas expire, these women leave the country with a large amount of stolen goods. There are many of these rings operating now.

Note:

Security devices are seldom used in the UAE because most people consider it offensive to be monitored for theft. Compared to most Western countries, shoplifting and other misdemeanor thefts are relatively infrequent. However, in recent years, theft has become more common. Retailers are beginning to explore options available to reduce shoplifting and employee theft.

Recent Updates

Dubai—one of the seven emirates that make up the UAE—has developed a notoriety for being the prominent business center in the Middle East. It has an open economy that invites organizations and people from around the globe. It is a city that has the distinction for giving supercars to its police and building palm-shaped islands in the ocean. It has additionally earned a reputation as a spot where ordinary principles can now and again be disregarded or handily avoided (Dudley, 2019).

Despite Dubai's thriving economy, the UAE is the highest rated country in the Middle East and North Africa region for corruption. In the 2018 Corruption Perceptions Index, it ranked 23 out of 180 countries, with a score of 70 points, closely followed by its rival Qatar, which ranked 33 overall, with 62 points (Dudley, 2019).

Discussion Questions

1. Should the law pertaining to women perpetrators be amended in any waychanged regarding women? Should a male police officer be allowed to detain a woman suspected of committing a crime? Why or why not?
2. Could the incident have been handled differently from a public-relations perspective?
3. Should the visa insurance procedures and regulations be more stringent? Currently, anyone who wants to visit the U.A.E. for two2 weeks is automatically issued a visa.
4. Could Mr. Faheem, the store manager, have done anything differently?
5. Should Mr. Ali or the other retail sales clerks have proceededhandled the incident differently? If so, what type of training do you recommend for them?
6. Could the mall security have done anything differently?
7. What could the store do to improve its security and not offend the customers?

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Relevant Videos

Eyeglass Security Glasses Security:
https://www.youtube.com/watch?v=H5lQeKhiG0E&t=1s

Preventing Shop Theft, Employee Training - Take a Good Look:
https://www.youtube.com/watch?v=vwo_GwdtROY

Joe Williams of TRA talks about Organized Retail Crime:
https://www.youtube.com/watch?v=AYqb0AdGEVU

Organized shoplifting rings on the rise:
https://www.youtube.com/watch?v=ID0Ise6_46Q

Busting Organized Retail Crime Rings:
https://www.youtube.com/watch?v=JCncdGb3Lzc

RFID-enabled Store – Overhead:
https://www.youtube.com/watch?v=eQYs6rqGY-k

Goody's® Pharmaceuticals Faces Possible Tampering Incident

Thad Lewallen, III, Former VP Marketing, Goody's® Pharmaceuticals
Adjunct Professor—Wake Forest University

Learning Objectives

1. To evaluate the need for outside resources when internal resources are not adequate.
2. To analyze the need to have a contingency crisis plan for unknown situations that may arise in a business.
3. To develop a clear management and ownership succession plan in a family business.
4. To compare the marketing plan for the growth of a family business domestically versus internationally.

Key Words

Product Diversification
Family Business Management Succession
Family Dynamics
Crises Resources
Family Business Ownership Succession
Ethical Dilemma Decisions
Legal versus Moral Ramifications

Abstract

Ownership and management succession of a family business is always challenging. In 1992, Goody's® Pharmaceuticals, Inc., headquartered in the heart of the Southeastern United States in Winston-Salem, NC, was not unique in facing these issues. Goody's® was in growth mode. The company was acquiring new regional brands in order to diversify from its core product of Goody's® Headache Powders (n.d.). The headache powder brand represented over 80% of over-the-counter product sales. A new updated manufacturing facility was under consideration to consolidate production of the newly acquired products as well as the core product of headache powders. Headache Powders as a category of over-the-counter drugs represented less than 5% share of market of the analgesics sector in the United States (Euromonitor Passport, n.d.; Statista Website Data, n.d.). However, in many areas of the Southeastern United States, it was the leader in the analgesics segment (Thompson, 2016). Headache Powders were popular in the Southeastern United States for its fast-acting formula and ease of taking the product (most consumers placed the powder on their tongue and followed with a liquid, or it was mixed in water and taken). Through new over-the-counter (OTC) product acquisitions and a newly acquired small prescription drug manufacturer, Mayrand Pharmaceuticals, growth opportunities were strong for Goody's® Pharmaceuticals.

In addition to that, Goody's® Pharmaceuticals owners had retained a family business consultant to explore management and ownership succession options from 2nd to 3rd generation within the family.

Dilemma

Late in the day on Monday, December 20, 1992, senior management of Goody's® received a phone call from an FBI field agent in Eastern Tennessee. The investigator told Goody's® management that a man had died after apparently ingesting sodium cyanide that had been put inside a Goody's headache powder package (UPI Archives, 1992). The packaging apparently had been tampered with. Sodium cyanide is a poisonous white powder similar to what all headache powders look like.

The headache powder had been purchased in Morristown, TN, where the man lived. The FBI said it did not have more details about the victim or a possible motive, and the investigation was ongoing. They were obligated to inform the United States Food and Drug Administration (FDA) of the incident. They recommended to the FDA and to Goody's® that consideration be given to a recall of Goody's® Headache Powders regionally around Morristown, TN (UPI Archives, 1992).

Management was very aware of the Tylenol® tampering incident in 1982 where seven people died in the Chicago area from ingesting Tylenol® capsules that had been laced with potassium cyanide. McNeil Labs, a subsidiary of Johnson & Johnson, issued a massive total recall of all their products (Markel, 2014).

An emergency meeting of top management and the board of directors of Goody's® Pharmaceuticals was called for the next morning to discuss what should be done.

Goody's® Pharmaceuticals History

In the early 1930s, U.S. pharmacists began to create their own form of headache relief medicine that had a different physical and chemical composition than traditional aspirin. Their new formula was a powdered blend primarily with aspirin and caffeine as the main ingredients. These headache powders were easier for pharmacists to make. They sold them by the single dose and provided workers with quick inexpensive relief from headaches that resulted from working in hot, noisy factory environments (Thompson, 2016)

The growing popularity of powdered headache medicine in the southern regions of the United States inspired entrepreneurs to produce powders that contained similar ingredients. Three companies from North Carolina distinguished themselves by marketing directly to textile and tobacco mill workers. The three leading brands were Goody's®, BC®, and Stanback® (North Carolina Room, 2018; T. Lewallen, personal confidential market research data, April 2020).

Martin "Goody" Goodman, a local pharmacist in Winston-Salem, NC, compounded his own formula "Goody's®" to sell in his pharmacy. One of Goodman's wholesale candy and tobacco wholesaler and local entrepreneur, Thad Lewallen, Sr., bought the formula and rights to the brand and product from Goodman in 1936. Lewallen was co-owner of Bennet Lewallen Wholesale Candy & Tobacco with Mr. Bert Bennet, Sr. All three brands, Goody's®, BC®, and Stanback®, relied heavily on sampling their products at the mills during shift changes.

Lewallen, Sr., however, began mixing and packaging the product in Winston-Salem and hired a traveling salesman to market the product to convenience stores, gas stations, and grocery stores. Eventually Goody's® employed 37 salesmen (all men at the time) throughout the southeast (Thompson, 2016).

In 1945, Thad Lewallen, Sr. died unexpectedly. Lewallen, Sr. had two children, Thad Lewallen, Jr. and Ann Lewallen. Both were too young to take over the business. Fortunately, Lewallen, Sr. had left in trust with Wachovia Bank his estate. Wachovia was hired to assist in running the business until new management was put in place. Thad Lewallen, Jr. after returning from serving in WWII began working in the business, but he also passed away unexpectedly at the age of 39. Ann Lewallen (Spencer) had been serving on the board of directors for several years and after becoming more involved in the business was named president and CEO in the early 1980s. She and the board of directors also had put in place a strong management team of nonfamily members (Spencer, 1995).

During Ann Lewallen Spencer's time in the business, Goody's® began acquiring other regional and national OTC brands to diversify away from a one-product company. The brands included Numzit® (baby teething relief), Numzident® (adult toothache relief), Isodettes® lozenges and spray (sore throat relief), Nutra Sweet® saccharin tablets (sweetener), and Sayman® soaps and salve. Goody's® also purchased Mayrand Pharmaceuticals, whose headquarters and production facility were located in Greensboro, NC. This prescription-based manufacturer further diversified Goody's® base away from its primary headache powder product (T. Lewallen, III, personal interview, April 2020).

In the 1980s, as grocery, drug, convenience store, and mass merchandiser chains grew sales, focus shifted to calling on chain corporate headquarters. Goody's®, always known as the "production powder" for the brands popularity among mill workers, was growing geographically and was beginning to open new territories outside the Southeastern United States. Texas was a key new market. Marketing became the key focus for Goody's® as they differentiated themselves from the other two brands. Distributing free samples at sporting events, and advertising with college and professional teams became a strong focus. Goody's® sponsored the Atlanta Braves and was a sponsor of the Grand Ole Opry in Nashville, TN. A Latino focus was placed in Texas and Southern Florida (T. Lewallen, III, personal interview, April 2020).

Goody's innovative marketing breakthrough was in 1977 when it became the first nonautomotive sponsor of NASCAR® (National Association of Stock Car Auto Racing). They also hired Richard Petty as their spokesperson. Petty is the all-time winningest driver in NASCAR® history and is considered the king of NASCAR® (http://richardpettymotorsports.com/). Goody's® quickly became the leading brand of headache powders in the Southeast United States, primarily due to the popularity of NASCAR® racing and their blue-collar fan base (Goody's® Richard Petty Commercials, 1986, 2007).

In 1984, Thad Lewallen, III (Lewallen's Jr.'s son, Lewallen, Sr.'s grandson, and Ann Lewallen Spencer's nephew) joined Goody's® Pharmaceuticals after working for several years outside the business. He trained in all areas of the business and would become VP of marketing and vice chair of the board of directors. He was in this position at the time of the FBI notification of the death in TN in

1992. Ann Lewallen Spencer also had a son, Dale King, who was employed as a sales representative for Mayrand Pharmaceuticals (T. Lewallen, III, personal interview, April 2020).

Prior to the possible tampering incident, Goody's® Pharmaceuticals had acquired a new tract of land in Winston-Salem to build a new corporate headquarters and production facility to house all areas of the business together. Goody's® ownership had also retained an outside family business consultant to advise the company on management and ownership succession issues. Lewallen, III was a candidate to take over the business and was also considering a leveraged buyout of other family members (T. Lewallen, III, personal interview, April 2020).

Ownership consisted of:

- Ann Lewallen Spencer (chairman and CEO)—50% ownership
- Thad Lewallen, III—(VP marketing, vice chair)—16.67% ownership
- Linda Lewallen Watts (Lewallen, III's sister—not employed in the business)—16.67% ownership
- Mark Lewallen—Lewallen, III's brother—not employed in the business)—16.67% ownership

Note: Ann Lewallen Spencer had six children that would be inheriting her 50% ownership equally upon her death.

Goody's® Pharmaceuticals was one of the entrepreneurial success stories in the state of NC. The company was very involved in the community through volunteer and philanthropic opportunities. Goody's® and the family were major supporters of Wake Forest Baptist Hospital's Brenner Children's Hospital. Brenner Children's Hospital is part of Wake Forest Baptist Medical Center in Winston-Salem, North Carolina. They have more than 170 pediatric specialists in nearly every area of medicine. Brenner Children's Hospital treats children from western North Carolina, as well as parts of Virginia, South Carolina, and Tennessee (https://www.brennerchildrens.org/index.htm).

The decisions related to the possible tampering issue in TN would have a major impact on the decisions facing the company, not only for the overall future of the company but that of management and ownership succession as well.

Decision Process

The morning after the call from the FBI in Morristown, Tennessee informing Goody's® Pharmaceuticals management that a man had died after ingesting a Goody's® Headache Powder laced with sodium cyanide, Goody's® senior management team met. The attendees included Ann Lewallen Spencer and Thad Lewallen, III, Bob Boulton (EVP), Bob Halliday (Sr. VP of production, and chief pharmacist), Tom Carter (CFO), and several other outside board of directors (including their chief legal counsel).

The questions that the group faced:

1. Was this a self-inflicted tampering, that is, suicide or a murder by his live-in girlfriend?
2. Was this a random consumer tampering such as the Tylenol® tampering in 1982?
3. If so, was it done after the product left the manufacturing facility?
4. Could it have been tampered with prior to leaving the facility by a disgruntled employee?
5. What further information would the FBI allow us to access. They were not releasing much information until their investigation was completed, which would be several weeks.
6. What outside resources would the company need to retain in managing the public relations needs with whatever decision to be made?

Choice of decision to be made:

1. What are the legal ramifications?
2. Do nothing and await the FBI Investigation to be completed.
3. The immediate recall Goody's® Headache Powders only in a specified geographical area around Morristown, TN.
4. The immediate and total recall of Goody's® Headache Powders nationally.
5. Once decision is made, how does the company handle the communication of the decision?

Discussion Questions

1. How would the family dynamics and culture affect the decision at hand?
2. What are the pros and cons of each decision to be made regarding the tampering incident?
3. What decision should be made regarding the possible tampering incident?
4. What effect will the decision have on the future growth, ownership, and/or management succession issues that the family is facing?

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Epilogue and Update

After a lengthy discussion regarding the pros and cons of each decision option, the company decided to issue a total product recall nationally of the Goody's® Headache Powder brand. It was the right ethical decision to be made to ensure that the brand image would remain strong. The company realized it did not have the needed internal resources to manage the public relations and communications of their decision. The company retained a public relations firm that worked with top management in communicating the decision to the press, their wholesale customers, and the general public. The recall was issued on December 23, 1992, just three days after learning of the possible tampering. The production plant was closed temporarily, and employees laid off.

Management knew that for the company to survive, Goody's® Headache Powders needed to be back on the market quickly, with new packaging and tamper-evident features. Working with external contract packaging experts, graphic designers, and their own internal management and staff, Goody's® was able to reintroduce a newly designed package with a tamper-evident feature. The company was back in production on January 27, 1993. Newly packaged Goody's® Headache Powders were being shipped within a week after the opening of the plant (T. Lewallen, III, personal interview, April 2020).

During this time, the FBI determined that the man who died from ingesting the cyanide-laced Goody's® Headache Powder had actually placed the cyanide in the package himself and had committed suicide. While this determination came too late for Goody's®, it was a relief to know that the product was safe all along. Goody's, through their newly hired public relations firm, Fyock & Associates, issued a press release to inform the public to all news channels nationally. They sent overnight correspondence to all their direct sales wholesale and retail customers to not ship any new orders and to immediately collect any product on the shelves. They provided to all consumers and wholesale/retail customers an address to ship back recalled product to the plant, prepaid. One consumer sent back one 50 count box of Goody's® they had purchased via truck at the cost of $160! (T. Lewallen, III, personal interview, April 2020).

Shortly after the recall and during continued discussion with their family business consultant, Goody's® was contacted by Block Drug Company to open up a discussion to sell the business to them. Block Drug, a New Jersey based company owned many OTC brands, including Goody's® main competitor, BC® Headache Powders. Block Drug subsequently bought Stanback® Headache Powders, controlling all three brands.

Ann Lewallen Spencer, Thad Lewallen, III, other family members, and top management came to an agreement and the company was sold to Block Drug in December 1994 (CompanyHistories.com, n.d.). The purchase did not include Mayrand Pharmaceuticals, which was sold shortly thereafter to Merz Pharmaceuticals, a German based firm that the company had a business relationship with.

Block Drug Company was sold to GlaxoSmithKline in January 2001 (CNN Money, 2000). GlaxoSmithKline spun off their North American OTC brands, including the headache powder brands of Goody's, BC, and Stanback, to Prestige Consumer Healthcare in December 2011 (Prestige Consumer Health 10-K, 2019).

Goody's® is still owned and successfully marketed as one of their top brands by Prestige Consumer Healthcare.

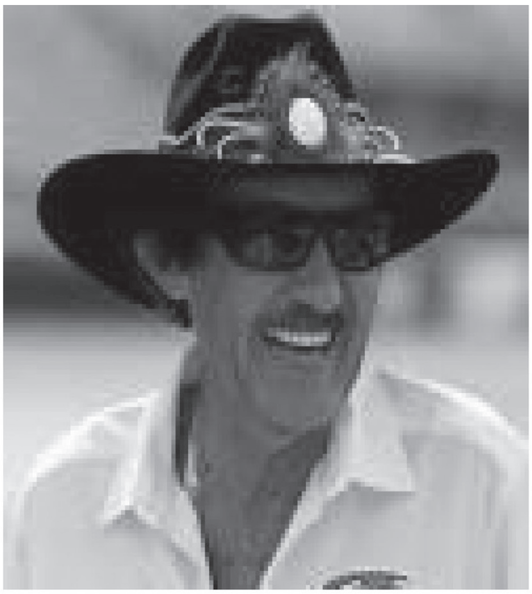
About the Author

Thad Lewallen, III, is the grandson of Goody's® Headache Powders founder, Thad Lewallen, Sr. He never knew his grandfather as he had passed away before he was born. Goody's®, however, was always a part of his life. His father, Thad Lewallen, Jr. worked in the business until his early death at the age of 39. Lewallen, III attended Lenoir-Rhyne University and graduated with a business administration degree. He began working for Goody's® as a sales rep a couple of years after graduating college. He left the company for other entrepreneurial ventures but returned to Goody's in 1984 where he worked and trained in all aspects of the business and bacame the vice president of marketing and then vice chair of the board of directors. After the family sold the business in 1994, Thad Lewallen, III started several successful entreprenerial ventures incuding real estate development and an ad specialty and embroidery company. He bagan teaching part time as an adjunct professor in Wake Forest University's School of Business. He continues to teach at Wake Forest University and works as an outside consultant in various business capacities. He also serves as a volunteer mentor at Forsyth Technical Community College's Small Buisness Center as a consultant to small entreprenerial startups in the Forsyth County, NC area.

Former Goody's Manufacturing Plant in Winston Salem, NC—
On the edges of historic Old Salem
Source: Thad Lewallen

Women packaging Goody's for shipment, South Liberty Street, c. late 1940s
Source: Thad Lewallen

"Goody's Headache Moment", Matt Kenseth deliberately wrecks race leader Joey Logano (22) at Martinsville,VA racetrack, 2015



Sean Gardner/Stringer/Getty Images Sport/Getty Images

Richard Petty – Goody Spokesperson
Sean Gardner/Stringer/Getty Images Sport/Getty Images

Goody's Products today April 2020

ENTREPRENEURS IN THE MAKING "ZAINAB'S MONTESSORI" A CASE OF A PAKISTANI MOMPRENEUR

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Key Words

Entrepreneurial mindset
Effectuation theory of Entrepreneurship
Mother Entrepreneurship
Entrepreneurial skills
Nation Building
Montessori
Mompreneur

Abstract

Seema Ali, a brave effectual mompreneur and a national builder, works as the only breadwinner of her family. As her husband got paralyzed due to serious illness, she decided to pursue an entrepreneurship to support her family. Utilizing her bird in hand, she came up with the idea of hurling a Montessori, and support her family. With a feeling of hope, which made her believe that every dark night brings a bright morning, she took first the step. This case reflects the story of a woman, with values, courage, resilience and strong determination, who remained steadfast toward her goals and never gave up. Seema's love for young minds and her entrepreneurial urge made her successful in her entrepreneurial journey. This case describes about how she coped with the challenge of reduced number of registrations. Seema embraced this challenge as she got new ideas from the IBA Mother Entrepreneurship course. She is working with a much higher enthusiasm, by acting as the second mother of the children enrolled in her Montessori as she believes that today's children are tomorrow's nation builders.

Today's Children Are Tomorrow's Leaders —Barbara Brit

Background

Downheartedly sitting in her room, Seema Ali was concerned about her Montessori. The Montessori, which was launched after a myriad of entrepreneurial struggles, for supporting her husband in ailment. One of the parents just informed her that her daughter has been enrolled in another Montessori and will not join her previous one. Feeling down, Seema, had a nostalgia about how she started *Zainab's Montessori*, back in 2008.

Living in suburbs, of Karachi, Pakistan, Seema completed her bachelor's and got married to a businessman, and has two pretty daughters. Nature had tested Seema, many times, but her resilience and perseverance has made her win. She is religious and has fair trust in her God. Her husband was the only breadwinner of her family. However, after her husband had a paralysis, Seema had to be courageous and enrolled herself in a Montessori Teacher Training course, after completion of which she launched Zainab's Montessori.

Zainab's Montessori

Seema had a big house, considering it as her bird in hand, she allotted a portion of it for the Montessori. She beautifully decorated the house and incorporated a customized setup. She was aware that Almighty Allah is beautiful in His creations and that each child is different and unique. She installed small tables, chairs and customized washrooms for the little ones (**Exhibit 1**). Seema has great love for children. She not only acted as their teacher, but loved them as their mother, and even prepared meal for kids herself with great care and nutritional value. She used to teach her two daughters, along with the children enrolled in her Montessori.

Challenges

Seema was delighted to have Montessori children around; however, she was missing something special. She is a strong woman, but she was unable to recognize her entrepreneurial potential, and then challenges hit her harder.

She used to charge little fee for the students enrolled in her Montessori and provided them lunch on a regular basis. She used to meet and greet with the parents politely, as they would come to pick up their children. Parent teacher meetings were more like family meetups, with Seema's role as appreciator and nation builder. However, there were several challenges that always concerned her. Seema was good at Montessori management, teaching kids, and dealing with the parents. However, the number of children were reducing with time. The nursery was good at internal management, yet there were deficiencies in external management of business activities. She was unable to market the activities that were characteristic of her nursery. She needed a marketing communication expert. She faced a challenge in managing her networks. Additionally, her team was limited to only two people and required team development.

Overcoming Challenges Through Creativity

Seema enrolled her relative in one of the summer courses launched by IBA Center for Entrepreneurial Development (CED), Karachi in June 2019. IBA Center for Entrepreneurial Development (CED) is a part of renowned business school, aimed at unleashing the entrepreneurial potential of budding entrepreneurs.

Previously, Seema was saddened by the responses of parents, and planning to shut down her Montessori. She did not know that she was a *combatant* and a *determined* lady. Her personality can be reflected in a piece of Muhammad Iqbal's poetry:

خودی میں ڈوبنے والوں کے عزم و ہمت نے
اس آبجو سے کیے بحرِ بے کراں پیدا

The firm resolve of those, who depths of self-explore,
Transforms this stream to sea that has no marge or shore.

At IBA, she came to know about the *Mothers' Entrepreneurship Camp (MEC)*—a program that engages woman to become an entrepreneur, a family originator, a nation builder, and someone who can do something creative with whatever effectual skills, abilities, and resources they have (**See Exhibit 4 for MEC Model of Entrepreneurship**). Seema was delighted and got herself enrolled in the program.

The course helped her in recognizing her true hidden potential and gave her hope that she can accomplish tasks in a better and unique way. She learned about effectuation theory and how she can utilize the slack resources available around her. She got inspired by the unique stories of mother entrepreneurs, who worked all by themselves, and listening to real-life single moms who thrived in what they do became a source of inspiration for her. She got the courage to rejuvenate her Montessori. She realized that she was about to take a wrong decision and that she can do wonders, with her own effectual skills.

During the course, Seema was surprised to know that the biggest deficiency was in her marketing communications. She was unable to market her efforts, and only a couple of people knew about her Montessori. The course came as a blessing in disguise! She geared up her confidence, courage, resilience and decided to train her team on effectual mindset and for that she enrolled her principal, Ambreen, in the next batch of *Mothers' Entrepreneurship Camp (MEC).*

They developed a Facebook page and initiated networking through marketing flyers and social media. Ambreen came up with unique ideas and launched a *Winter Camp* for her Montessori children (**see Exhibit 2**). The nursery campaign was unique in its way because it involved "Entrepreneurial Activities." Seema Ali mentioned,

> *I prepared carpentry, gardening and classroom activities during the Winter Camp, that I launched in December, 2019. I wanted to develop entrepreneurial skills, amongst the children at a young age. Surprisingly, I am obliged to see the feedback from parents and children, both.*

The winter camp was an effort to highlight the activities being held at the Montessori. The videos and pictures of the event were uploaded on social media platforms. Seema was pleased to see her nursery children, developing entrepreneurial skills as carpentry and gardening (**Exhibit 3**). She urged the children to sell the wooden stools, chairs, and stairs they made, at a price of ₹100 , to instill sales skills among them.

Way Forward

Overall, Seema learned that it is essential to understand what the market is bringing up for you. Innovation and creativity are essential, and integration of social media has become the need of the hour.

She is aware that development of children takes place during the early years. Montessori is not only a business but a service. One should be selfless and do proper “tarbiah” of the children enrolled in the Montessori, like a second mother, any pay back to the society. She engaged her daughters in the Montessori activities so that they could learn about effectual skills. Seema has set the example of an effective family orientation. Seema is now working on improving her operational efficiency and developing a quilt/collaborative team that could help her in expansion. She is looking forward to online teaching methodologies, given the current COVID-19 pandemic, to serve the children, physically and virtually.

Now the whole model is underpinned with the entrepreneurship plus model based on values and effectuation (**see Exhibit 5 for E+ Model**). Seema Ali is motivated to work with full enthusiasm in the upcoming years, as she mentioned,

> *It is you who has to remain steadfast and determined towards your goals. It will help you in crossing all your barriers and challenges.*

Exhibits

Exhibit 1: Montessori Outlook

Junior kids are busy in their pouring and coloring activities

A learning session in progress for senior kids

Source: Provided by the Owner

Customized wash basin and commodes

Exhibit 2: Kids Winter Camp

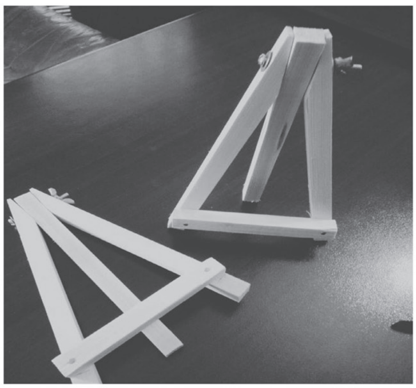
Source: Provided by the Owner

Exhibit 3: Gardening Activity During Winter Camp

Source: Provided by the Owner

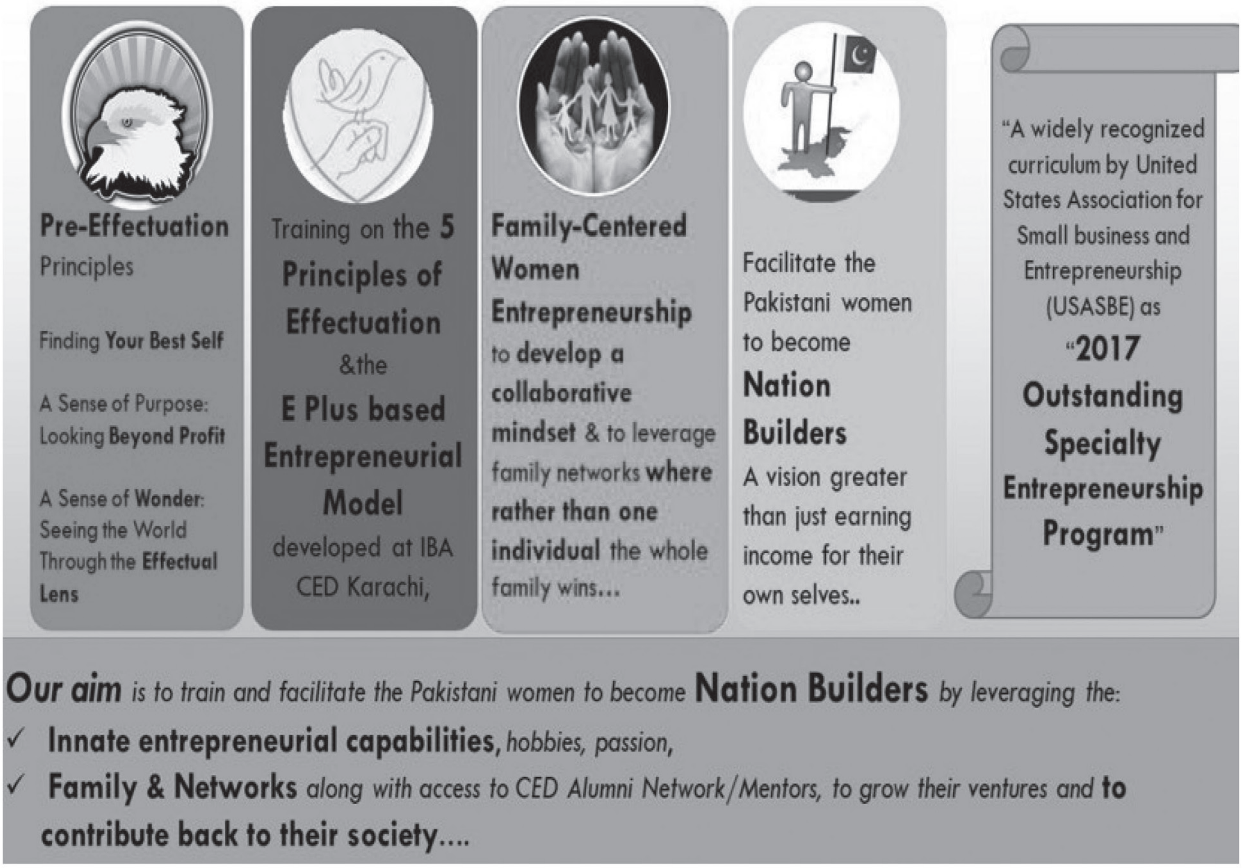
Exhibit 3 A: Clay and Pottery Making Activity

Exhibit 3 B: Carpentry Workshop During Winter Camp



Source: Provided by the Owner

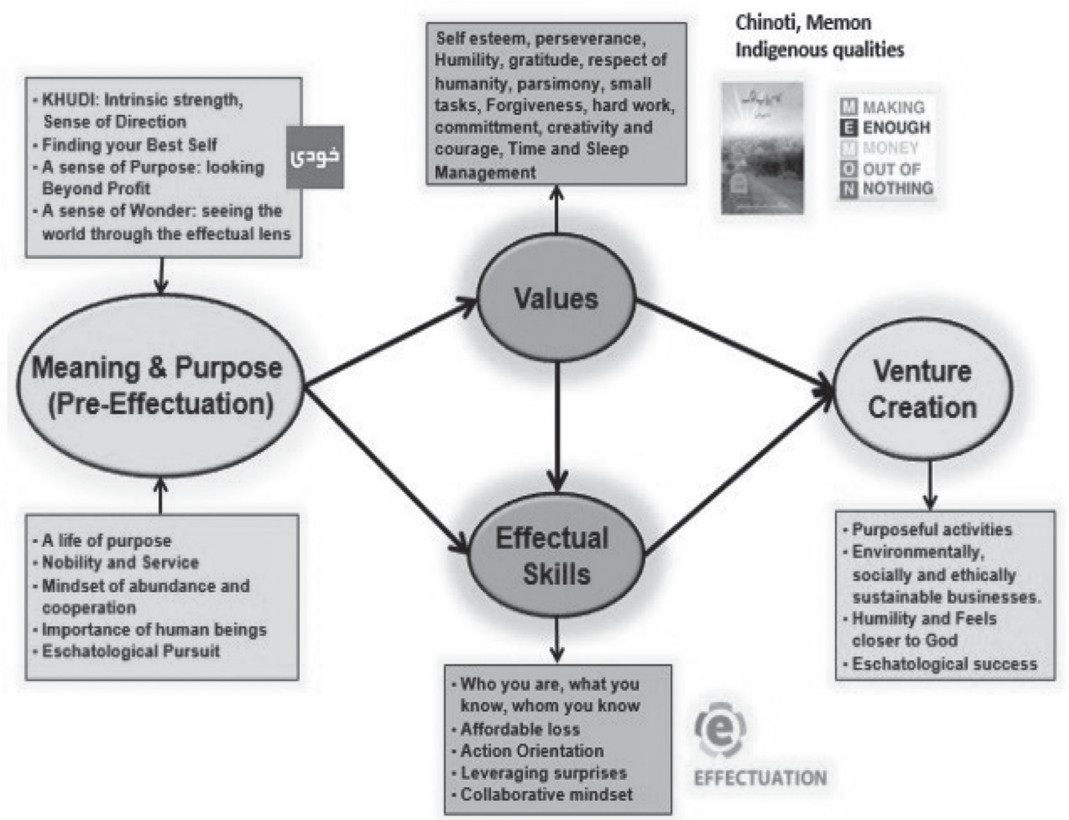
Exhibit 4: IBA-CED MEC Women Entrepreneurship Model



Source: Developed by CED team

IBA-CED developed an indigenous Women Entrepreneurship Model that resonates with the culturally sensitive Pakistani context.

Exhibit 5: The Entrepreneurship E+ Model



Source: Developed by CED team

Chapter Three

Global Entrepreneurship Strategy

Starbucks International Enters Kuwait

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Peter Raven, Seattle University, Seattle
Nasser Al-Mutair, Eastern Washington University, Spokane

Learning Objectives

1. *Evaluate* opportunities in a foreign country.
2. *Understand* various issues to consider when entering a foreign country.
3. *Understand* business culture, customs, and regulations in a foreign country.
4. *Learn* about the Gulf States and their differences and similarities.
5. *Learn* appropriate market entry strategies and methods.
6. *Learn* appropriate business models, such as licensing, franchising, joint ventures, wholly owned subsidiary, etc.

Key Words

Middle East
Gulf states
Oman, and UAE
Gulf War
Strategic Alliance
Franchise
Business model
Starbucks

Abstract

This case describes the situation surrounding the entrance of Starbucks International Coffee into the Kuwait marketplace. It requires students to consider relevant small business and entrepreneurship issues in determining an appropriate response. These topics include international joint ventures, culture, gender issues, marketing channels, and cross-cultural management issues.

Introduction

After a long and tiring flight from Seattle to Kuwait via London, the Kuwaiti Airlines jetliner finally lands, and Mr. Howard Behar mentally prepares to meet with Mr. Nasser Al-Mutair. This meeting has been anxiously anticipated by both parties.

Nasser is a young businessman recently graduated with a degree in marketing from a regional university in the State of Washington. This is where he became familiar with Starbucks Coffee and learned of Mr. Behar, the president of Starbucks International Coffee Company.

Nasser had so enjoyed the Starbucks specialty coffees as a student and had observed how many Americans and other international students also loved to drink this popular coffee. Knowing the fondness that Arab people have for coffee, Nasser thought that a specialty coffee shop might be successful in Kuwait, which has seen an increasing number of Americans and other foreigners since the Gulf War. As a marketing student, however, Nasser realized the importance of planning, obtaining information, and getting expert opinions. This plan would cause for international franchising. According to the Balance (Delaney, 2017), international franchising is a strategic way to reduce dependence on domestic demand and grow new, future revenue and profit centers worldwide. Nasser personally invited Mr. Behar to visit with him in Kuwait City so that Mr. Behar could see the sites Nasser had selected and to discuss this possible expansion in person. While the deal was far from complete, Nasser was very confident that his plan would succeed, but was anxious to hear Mr. Behar's opinion.

In fact, Nasser had to persuade not only Mr. Behar that his idea was sound but also his uncle, Abdul Al-Mutair. Abdul Al-Mutair had long been a prominent financial leader in Kuwait, primarily involved with importing consumer products and trading. He had recently become interested in the service industry. With the increasing number of foreigners living in Kuwait, even for relatively short periods of time, he realized that traditional restaurants were inadequate to meet their desires. After Nasser had returned from the United States with his newly acquired degree, he and his uncle had long talks about what they might do together. Nasser had some interesting ideas and might be a good person to explore new ventures. Abdul Al-Mutair was considering financing Nasser's venture if it seemed feasible and profitable.

Mr. Behar was anxious to meet with Nasser and also very curious. He had never been to the Middle East and was uncertain what he would find there. He had had little time to learn about the country or culture, but he had certainly heard about Kuwait and had seen pictures of it during the Gulf War. In addition, Mr. Behar was very interested in expanding his international operations. His main concerns included the image of Starbucks International and profitability. Although curious, he had a number of misgivings about expansion into the Middle East.

As Mr. Behar stepped out of the plane, Nasser met him and escorted him rapidly through customs and the unfamiliar airport. After a brief tour of the city in a chauffeured Mercedes limousine, they arrived at a small restaurant near the center of town for some refreshments. Behar was taken with the unique beauty of Kuwait City.

The restaurant was a rather small, nondescript locale. They began to talk about the trip and other small talk, when Mr. Behar suddenly said, "I really would like to try some of your traditional coffee." Nasser said, "Yes, we have excellent Arabian coffee. This restaurant also serves French Press and Turkish coffees. You should try some Turkish coffee. It will be different from coffees you've had in other places." Mr. Behar said, "Yes. It's been a long time since I have had Turkish coffee." Nasser ordered some for both of them.

While waiting for his coffee, Mr. Behar was able to observe the restaurant which reminded him of some of the restaurants in Italy where Mr. Howard Schultz, president of Starbucks, first got the idea for Starbucks coffee shops. The coffee was soon served. He had forgotten how good this coffee was and how it resembled straight espresso in texture and strength. He thought to himself, this is either a very good sign for our coffee-shops—the Kuwaitis already like richer, stronger coffee, or it could be a bad sign in that they might not want another choice. He listened attentively as Nasser spoke, "We love our Turkish and Arab coffees, but I know many of the Kuwaitis who have spent time in the United States, especially the Pacific Northwest, miss their espressos and would like a variety of coffee choices." Mr. Behar and Nasser continued talking for some time. However, they realized that a decision would have to be made quickly, as Mr. Behar had to be in Europe the next day, where he was opening five new stores.

Kuwait and the Middle East

Geography

Kuwait is located in the Northeast corner of the Arabian Gulf. To the south and southeast it shares a border with Saudi Arabia. To the north and west is Iraq. The distance between the northern southern borders is about 200 km (124 miles) and between the eastern and western borders about 170 km (106 miles). The total area of the State of Kuwait is 17,818 km^2 (6,969 miles). Kuwait is situated in a section of one of the driest, least-hospitable deserts on Earth. Its shore includes Kuwait Bay, an important harbor on the Persian Gulf. In the eighteenth century, Bedouin internally established it an exchange post. The name "Kuwait" is derived from the Arabic, meaning humble of the Hindustani kūt ("fortification"). Since the emirate's royal family, Āl Ṣabāḥ, officially settled a sheikhdom in 1756, the nation's fortunes have been connected to international business. In time and with aggregated riches, the little stronghold developed to become Kuwait City, a cutting-edge city blending high rises and mosques. Kuwait City has a large portion of the nation's populace, which makes Kuwait one of the world's most-urbanized nations (Ochsenwald, Anthony, Sadek, & Crystal, 2020).

Most of Kuwait's mainland is flat, sandy desert that slopes gradually to the sea. The Kuwait mainland has no mountains, rivers or other natural features. Historically, it was a crossing for nomadic tribes and caravans.

The weather is characterized by long, hot, dry summers and short, warm winters. Sometimes there is quite a bit of rain. In the summer, there are many dust storms and the humidity increases dramatically.

There has always been a strong connection between Kuwait and the sea. This relationship has shaped the character of the Kuwaitis. The main source of income came from the sea in earlier times, and the sea is still a great source of pride and activity. Many people, including young people, still spend much time fishing. In the evenings, many people can be found on the beaches.

Population

The total population of Kuwait is about 2.1 million. If the current rate of growth remains the same, it will be approximately 3 million by the year 2000. A large percentage of the population are non-Kuwaitis. Since the Gulf War, the country's demographic patterns have been changing. Foreign nationals make up about 55% of Kuwait's population. The largest group are from Pakistan and India. There are about 6,200 Americans in Kuwait, mostly military personnel. They compose the largest Western community. The current population of Kuwait is 4,261,638 as of Tuesday, May 12, 2020, based on Worldometer United Nations statistical data (Worldometer, 2020).

Economy

In the last 5 to 10 years, an increasing number of companies have realized the opportunities that exist in the Persian Gulf markets. This region has often been described as an area in which there are many profitable opportunities for the following reasons:

- High purchasing power.
- Heavy reliance on imported products.
- Massive consumer demand due to the fast-growing population.

Thus, the economic profile of the region suggests increasing opportunities. Although analysts expect that the Middle East will become an extremely important area for business, part of the growth will depend upon peace in the Middle East. For example, Israel has not been able to fully participate in the Middle East market, since Arab countries have traditionally not done business with Israel. Whether the Middle East becomes a unified market depends largely on future political agreements.

Many people believe that tourism will continue to grow in the Middle East because Kuwait City has numerous attractions which include excellent museums, a corniche ornamented with combed beaches and extravagant restaurants, modern shopping complexes and marinas, long and lazy retreats, and new beach resorts (Visit-Kuwait.com, 2020). Tourism has not been highly developed outside the Middle East. Although tourism has continued to increase at an average of 6.5% per year since 1983, most of the tourists to the Middle East are also from the Middle East. In 1992, for example, just 27% of the tourists were from the Americas or Europe. The most popular tourist place by far is Egypt, with Israel and Bahrain the next most popular places for people to visit.

The Middle East is attracting the attention of such developers as Howard Johnson's Motor Inns, which has just built a 115-room Hotel in Dubai, United Arab Emirates (UAE). The chain is planning to do more building in the Middle East in the next few years. Also, in the last several years, many fast-food franchised restaurants have opened in Persian Gulf countries. Some examples include Kentucky Fried Chicken, McDonald's, Baskin-Robbins, Hardee's, Wendy's, Popeye's Fried Chicken, and so forth. Entry into Kuwait might facilitate entry into some of these other countries in the Middle East.

Transportation

Kuwait has a cheap and efficient transportation system with local and intercity buses that operate round the clock. Taxis charge a flat rate between the city and airport. Local taxis without meters are available for getting around. To hire a car, one must have an International Driving Permit (Visit-Kuwait.com, 2020).

Strategic Alliances

One popular way to become involved in business in the United States is through franchising. While franchises are also a popular way of entering some international markets, strategic alliances are increasingly utilized. In fact, strategic alliances are often required by some countries, rather than other modes of entry, as they involve local firms directly in the business. U.S. commercial analysts have conducted a study on the Egyptian and Kuwaiti markets to discover opportunities for American companies. Their findings suggest that these markets would grow to an estimated $51 million in 1992, and are expected to increase from 10% to 20% a year on average over the following 3 years. Revenues from foreign retail stores in Kuwait totaled about $8 million in 1993 and are expected to rise at an average annual rate of 25% through 1996.

Many of Kuwait's residents have large disposable incomes and are likely to buy American products. While most U.S. firms currently operating are fast-food restaurants, other opportunities are developing. Kuwaitis are eager to meet with foreign companies. One characteristic of the Kuwaiti market that U.S. businesses should be aware of is that Kuwaiti tastes tend to change, switching from traditional to what is new and trendy. Kuwaitis travel frequently and are aware of the latest fashions in Europe and the United States. As a result, some businesses go out of vogue after about 10 years on average. While its economy is still recovering from the war, average annual growth for all franchise areas is expected to reach 25% through 1996, but could reach as high as 60% for some franchises.

As indicated earlier, the most common type of franchise is fast-food, but there are opportunities in other areas, as well. Based on a recent market research study, some other areas of potential for franchisers in Kuwait include:

- Automotive repair and service.
- Recreation. Travel, sports hobbies.
- Beauty and health aids.
- Carpet dyeing and cleaning.
- Children's entertainment services and educational products and services.
- Printing and copying centers.
- Coffee shops.
- Florist shops.

Although the competition in the Kuwaiti market is tough, American companies could do well because a large number of Kuwaitis have studied in the United States and are familiar with U.S. firms. Despite this, Japan has surpassed the United States in the past year as the leading exporter to Kuwait.

Franchises and strategic alliances mainly compete in two ways: through advertising campaigns in the local media and local TV stations; or through promotions, offering free meals for a certain number of purchases or free children's gifts. Kuwait has four main shopping areas, located in Salmiya, Kuwait City Center, Hawalli, and Fahaheel.

Kuwait has a free market with few restrictions on imports. Customs duties are 4% across the board. Standards and label requirements apply to some imports. One study advises foreign companies to visit the country to become familiar with the size of the market and its characteristics. In general, to conduct business in Kuwait, every foreign firm should have a local agent, distributor, or representative.

The Coffee Shop Market

In the United States, there are hundreds of coffee shops, drive-ins, and restaurants that offer specialty coffees. One of the most successful brands of coffee has been Starbucks. Its success in the United States may translate to success in Kuwait, if everything is done correctly. Many people in Kuwait drink coffee on a regular basis. In fact, it is considered a high act of hospitality to serve coffee to guests. One of the most popular coffee drinks in Kuwait is Turkish coffee, which is similar to straight espresso coffee served in the Pacific Northwest.

Starbucks Coffee

Starbucks Coffee is a chain of coffee specialty stores that began in 1971 as one small shop in Seattle's Pike Place Market. In the past 9 years, it has gone through rapid growth, expanding from 11 stores in 1987 to a total of 500 today.

Mr. Howard Schultz had been a buyer for Starbucks Coffee since the early 1980s. On a coffee-buying trip to Milan, Italy, he noticed that crowds of people gathered each day in coffee bars to drink their specialty coffees. Schultz wondered if the same thing could happen elsewhere. Back in Seattle, he attempted to persuade his bosses to try the coffee bar idea and go beyond just selling coffee beans to restaurants. They refused. Schultz raised $1.7 million dollars and opened his own cafe in downtown Seattle. The first coffee he served was Starbucks. In less than a year, he had opened two more stores Subsequently, he bought out Starbucks from his former employers for $4 million.

Specialty coffees have slowly taken business away from the traditional canned coffees. The high-quality coffee bean industry created $717 million in sales in 1990, with a 13.5% share of the coffee market. By 1991, the penetration was even deeper. Gourmet sales had reached $800 million and their market share rose to 17.7%. In the meantime, coffee shops grew at a rapid rate. By 1992, Seattle had 150 coffee bars.

Starbucks's mission statement reads, "To establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow." Some of the principles of the company are treating everyone with respect and dignity, buying the best available coffees, developing loyal customers, contributing to the environment, and making a profit.

While this hardly makes the company unique, what does make the company special is that it seems to understand the connection between delivering a great cup of coffee and treating their employees with respect. One training manager suggests that the quality of everything comes down to the employee experience. The company's culture is built on very strict standards for how coffee should be prepared and delivered, combined with an empowering attitude toward the employees who deliver the coffee to the customers.

Starbucks is opening 150 stores a year in new markets across the United States. Almost 2 million Americans visit Starbucks coffee shops each week. During 1995, it planned to open 200 new stores and to expand overseas. However, growth is beginning to slow in the American market, due to intense competition. Also, higher coffee prices have hurt the domestic industry. In 1994, Starbucks earned approximately $13 million. International expansion is a strategic plan and occurs through Starbucks International, of which Mr. Howard Behar is president. Starbucks International policy requires strategic alliances in its development of international markets.

Many people believe that Starbucks is the model for growth in a small company. When sales start to take off, many small companies have problems and begin to fail. But it is said that Schultz has placed top quality and experienced managers from larger chains into Starbucks and has invested heavily in personnel, information systems, and facilities. The company is constantly checking its image, its interior design, and locations. Starbucks believes that site selection is a key to success. The real estate division begins working up to 9 months before a store is opened. They collect large amounts of information on the income, education, and coffee-buying habits in the new market.

Schultz feels the market is far from saturated. Slow growth in established stores is not a concern. In September of 1994, Starbucks bought its first acquisition, The Coffee Connection, Inc. of Boston, Massachusetts. In 1995, Starbucks planned to team up with foreign partners to open stores in Europe and Asia. However, it is possible that the Starbucks "chic" may not be popular overseas. Starbucks has a joint venture with Pepsi to bottle its iced coffees.

To summarize, Starbucks has a strong reputation for quality because of the following:

- The company goes to extreme lengths to buy the very finest arabica coffees available on world markets, regardless of price.
- The company's freshness and quality are legendary. Beans that are held in bins for more than a week are donated to charity.
- Every piece of coffee-brewing equipment that is sold has been tested and evaluated.
- Each Starbucks employee is extensively trained to ensure that customers receive knowledgeable service.

During the last 20 years, consumer interest in fine coffees has increased greatly. All over the country, people who used to be content with canned commercial blends are now searching for fresher, more flavorful alternatives. Whole bean coffee is now sold in kitchen shops, delicatessens, grocery stores and super-markets. Coffee lovers have learned, however, that buying whole beans does not guarantee great coffee. The freshness standards set at Starbucks in 1971 are still being used today. Over the years, Starbucks has grown to become one of the largest purchasers of high-quality arabica coffees in the United States. They also have in-store coffee bars that have set the international standards for espresso, cappuccino, and drip coffee. Starbucks outlets span the globe (MacLellan, 2019). In this pandemic situation, Starbucks closed access to their cafés altogether for 2 weeks and limited their services to drive-thru only (Williams, 2020).

Most of the specialty drinks use espresso, which is a brewing method, a blend of beans, a roast color, and a beverage. Espresso is a rapid method of brewing which uses pressure, not gravity to brew. Starbucks Espresso is a unique blend of Central American and Indonesian coffees which yields a thick, caramel-sweet, and highly aromatic espresso.

A Decision

As Nasser takes Mr. Behar to his hotel for the evening, each has many thoughts and ideas to consider. Tomorrow promises to be a pivotal day, as a meeting is scheduled with Nasser's uncle, Abdul Al-Mutair. Nasser knows that Abdul will ask some very penetrating questions and will expect direct, well thought-out answers. Howard Behar also has mixed feelings and is anxious to get Mr. Abdul Al-Mutair's perspective. He suspects that, with the right contract, a Kuwaiti operation would be very successful. Tomorrow will be Mr. Behar's last day in Kuwait, as he must leave in the late afternoon for his flight to Frankfurt.

Discussion Questions

1. What questions should Mr. Behar ask Mr. Abdul Al-Mutair tomorrow?
2. What questions would you anticipate Mr. Abdul Al-Mutair ask Behar, and Nasser?
3. Should Nasser and his uncle invest in a Starbucks International joint venture in Kuwait? Why or why not?
4. What further information would you like to obtain before making the decision for Nasser and his uncle? Where and how will you obtain this information?
5. Assuming the decision is to proceed, what information is needed to select a location? How will this information be obtained? Why is it important?
6. What specifics should Behar insist on in a contract with the Al-Mutairs? Why?
7. Assuming all parties agree to a joint venture, how should the coffee shop differ from those in the United States in order to satisfy the needs of Kuwaitis?
8. What type of marketing strategy should be adopted?

Teaching Guide

This case is fictitious but was developed from personal experiences and information. It incorporates a potentially real situation and business opportunity. This case has a number of possible uses. The case can be used to explore the introduction of an innovation into a foreign country. While students might be familiar with the product, Starbucks Coffee, and the mode of distribution through coffee houses, the context and culture within which the case takes place is unique. The case can also be used to simulate expansion into a foreign market through strategic alliances. Several decisions must be made with less than complete information. This is frequently the case in foreign markets. Thus, critical analysis must occur with very limited information.

The case can best be used in international marketing and management courses, or in a marketing channels course. It would make an excellent supplement to a marketing management/strategy course, in that it brings a great deal of uncertainty into the decision-making process.

Instructors might suggest that students supplement the case with information obtained from other sources. In fact, the case scenario is a good background for information that can be obtained from the Internet. For example, students might be assigned individually, or in groups, to determine the feasibility of such an endeavor, target market share, potential profit, competition, legal concerns, and other areas of interest.

Answers to End of Case Questions

1. What questions should Mr. Behar ask Mr. Abdul Al-Mutair tomorrow?
   Possible questions include: What potential does Mr. Al-Mutair see for expansion into other cities in Kuwait and the Persian Gulf? What financial arrangements would be required? What should a coffee shop serve? Whom should they target?
2. What questions would you anticipate Mr. Abdul Al-Mutair ask Behar, and Nasser?
   To Behar: Why are you interested in Kuwait? What experience have you had in entering new markets, especially foreign markets? What benefits will Kuwaitis derive from this venture?
   To Nasser: Have you considered the amount of effort required to make this project work? Are willing and able to make this venture work?
3. Should Nasser and his uncle invest in a Starbucks franchise in Kuwait? Why or why not?
   Students will have different responses to this question, but in any case, should develop sufficient justification for their positions. Starbucks International could enter the Kuwaiti market. The population has a large discretionary income. Serving and drinking coffee is an important social custom, so the product would be easily accepted. The Kuwaitis already have a taste for strongly flavored coffees. Plus, Kuwaitis like American products, and many have been exposed not only to European style coffee shops but American as well.
4. What further information would you like to obtain before making the decision for Nasser and his uncle? Where and how will you obtain this information?
   Critical information needed includes potential market size (i.e., number of coffee drinkers, amount spent in coffee houses); profile of target market

(demographics, psychographics, social class, income, etc.); possible locations; and others.
Other information: potential markets outside Kuwait City and in other Persian Gulf countries; potential competitors; other uses of resources; and so on.

5. Assuming the decision is to proceed, what information is needed to select a location? How will this information be obtained? Why is it important?
   Site location is critical for Starbucks International, as for any retail operation. The right location, along with other factors, will help assure its success. Starbucks International considers site location especially important, judging by its use of a special department for this purpose. Specific criteria for site selection have obviously been developed by Starbucks International. While students may not have access to the specifics, such factors as foot traffic, vehicle traffic, and proximity to other shopping outlets should be considered. Obtaining this information may be more problematic, but secondary sources may be available or it might be necessary to conduct primary research at several potential sites.
6. What specifics should Behar insist on in a contract with the Al-Mutairs? Why?
   Students will have various answers, but should include something about repatriation of profits, fees, and currency considerations, including foreign exchange rates, inflation, and government controls. Other specifics should include method of conflict resolution, legal jurisdiction (probably Kuwait), expansion policy, quality assurance program, and authority and responsibilities of both parties.
7. Assuming all parties agree to a joint venture, how should the coffee shop differ from those in the United States in order to satisfy the needs of Kuwaitis?
   Students can be quite innovative in answering this question. Cultural differences might influence shop design. For example, the shop should be much larger than is usually found in the United States. There should be two different sections, one where smoking can take place. This might be a place where young men like to gather, as is often the case in restaurants in the Middle East, then another section where women or families could gather and be comfortable. The Kuwaiti society has become much more open as far as single men and women socializing, but there should be the option of choosing a more separate location for men. The "American" aspects of the shop could be emphasized. The shop could be very different from competitors to emphasize differentiation. The shop may have two sections, a coffee-drinking area and a coffee bean/coffee equipment purchasing area.
8. What type of marketing strategy should be adopted?
   Students should be encouraged to be innovative and imaginative in answering this question. A positioning strategy emphasizing exclusivity, for example, should incorporate consistent pricing and promotional strategies, while shop design could emphasize "high-class" Americana. Product offerings should probably be relatively limited in the beginning, until Kuwaiti tastes and preferences are ascertained. However, there probably should be some strategy for introduction of new products. In any case, there should be justification for any strategy selected.

Epilogue and Update 2020

Since this case was written in 1996, a number of changes have occurred. Starbucks did enter the Kuwait market and has six stores in Kuwait in 2001 and now has 151 stores (MacLellan, 2019). Global expansion has also increased with 3,881 stores now open, 643 of which are outside North America (*Business Wire*, February 1, 2001). Also, since expanding to Kuwait, Starbucks has introduced Crystal Tower store, the opening of the first store with a Reserve coffee bar. (Starbucks, 2017). Other changes from Starbucks includes the recent expansion of Starbucks products being sold in grocery stores (CNBC, 2016). The CEO of Starbucks, Kevin Johnson, believes for Starbucks to survive, merchants need to create unique and immersive in-store experiences (*The New York Times*, 2017). Johnson said Starbucks's store base was 18% in Kuwait as of 2018, and the organization moved into 10 additional urban communities in the first quarter of 2018. Johnson additionally discussed the organization's growth with 2,000 shops in China, and its new virtual store on Alibaba, which gives Starbucks access to 600 million shoppers (MacLellan, 2019).

Starbucks Coffee International opened its first store in Kuwait on February 9, 1999, at the Souk Sharq, Gulf Road, Sharq. It is operated in partnership with M.H. Alshaya Co. W.L.L., with whom Starbucks Coffee International has a multijurisdictional licensing arrangement (*Business Wire*, May 31, 2000). Kuwait serves as the gateway into the rest of Middle East countries as, together, the two companies already have planned to open stores in Saudi Arabia, Oman, Bahrain, United Arab Emirates, Qatar, and Lebanon ("Starbucks Opens Another Store," 1999).

As quoted at the time, "Starbucks Coffee International and M.H. Alshaya Co. W.L.L. announced today plans to expand into the Gulf Cooperation Council (GCC) countries with the opening of the first Starbucks retail location in Kuwait at the Souk Sharq, Gulf Road, Sharq," said Howard Behar, president of Starbucks Coffee International. "We are excited with our opening in Kuwait as it will serve as our gateway into the GCC countries. It will also create wonderful expansion opportunities for us to the rest of the Middle East," he added. "Starbucks is also proud to have found a great partner who not only has expertise in the region's marketplace but shares our business principles and people values.

"The people of Kuwait will wholeheartedly embrace the unique specialty coffee experience of Starbucks as the company offers the best of class in everything it does," said Mr. Mohammed Alshaya, CEO Retail Division of M.H. Alshaya Co. W.L.L. "Starbucks will be a success in Kuwait as it stands for uncompromising commitment to people, quality coffee and innovative products."

M.H. Alshaya Co. W.L.L. is one of the largest and most successful operators of leading global retail brands in the Middle East. It is a family-owned business recognized for its leadership role in real estate development, hotel management, warehousing, car dealerships, food services, and retail operations ("Starbucks Coffee Company Opens," 1999).

About M. H. Alshaya Co. W.L.L

Alshaya has become a byword for trading and commerce excellence in the Arabian Gulf. Since its foundation in 1890, they have become a major player within a variety of sectors, initially in the Kingdom of Saudi Arabia and Kuwait, and, more recently, throughout the Middle East. Today, they have over 4,000 employees; of these, more than 2,100 work within the retail division (Alshaya, n.d.). The company is a part of the commercial real estate management industry. Mohamad Humoud Alshaya Co.W.L.L has five total employees across all its locations and generates $321,530 in sales (USD). There are three companies in the Mohamad Humoud Alshaya Co.W.L.L corporate family (Alshaya Company News, n.d.)

Alshaya Retail operates more than 20 international retail brands throughout the Middle East—the Kingdom of Saudi Arabia, Kuwait, the United Arab Emirates, Bahrain, Qatar, Oman, and Lebanon. These include many of the world's leading clothing, health and beauty, fashion, and restaurant names, all carefully chosen to bring the highest brand and label quality to the region's premier retail locations. Alshaya Retail represents a number of lines, including The Body Shop, Mothercare, Liz Claiborne, Laura Ashley, Clinique, Esteé Lauder, and Starbucks, and currently operates over 200 stores in seven countries.

Kuwait and Saudi Arabia each has over 60 outlets, with more than 30 in the UAE and a significant presence in Bahrain, Qatar, Oman, and Lebanon. They are also looking at retail opportunities in Egypt, Jordan, and Syria.

Starbucks Coffee International, and M.H. Alshaya Co. W.L.L., celebrated the opening of the first Starbucks retail store in Qatar on August 1, 2000. Qatar represents the fourth country in the Middle East that Starbucks has entered. Following the signing of a multijurisdictional licensing agreement with M.H. Alshaya Co. W.L.L. of Kuwait, the first Starbucks store was opened in Kuwait on February 9, 1999. In Lebanon, the first Starbucks store was opened in Beirut on November 29, 1999, while Dubai celebrated the opening of the first Starbucks store on May 31, 2000. "The Middle East is an exciting market for Starbucks," said Peter Maslen, former president of Starbucks Coffee International. "In the Middle East market, our partner, M.H. Alshaya Co. W.L.L., has been instrumental in the phenomenal reception we have received in Kuwait, Lebanon and Dubai. We plan to expand into Saudi Arabia and Bahrain by the end of the year" (Alshaya Company News, n.d.).

"The opening of our first retail store in Qatar is a celebration of Starbucks uncompromising commitment to people, quality coffee and innovative products," said Mr. Mohammed Alshaya, CEO of M.H. Alshaya Co. W.L.L. "The coffee culture in Qatar will be greatly invigorated with Starbucks entry as the market leader in the country." M.H. Alshaya Co. W.L.L. is one of the largest and most successful operators of leading global retail brands in the Middle East. Its affiliate company Dareen International Co. (Qatar) W.L.L. will operate Starbucks stores in Qatar (Alshaya Company News, n.d.).

Starbucks Coffee France EURL, a wholly owned subsidiary of Starbucks Coffee International, and Dareen International Co. L.L.C., an affiliate company of M.H. Alshaya Co. W.L.L., opened the first Starbucks retail store in Dubai City, Dubai. Also, through a multijurisdictional licensing agreement with M.H. Alshaya Co. W.L.L., Starbucks has stores in Kuwait and Lebanon (Cuevas & Johnson, n.d.).

Starbucks Coffee International is a wholly owned subsidiary of Starbucks Coffee Company, the leading retailer, roaster, and brand of specialty coffee in the world. In addition to the Republic of Korea, Starbucks has retail locations in Japan, Hawaii, Singapore, Philippines, Taiwan, Thailand, the UK, New Zealand, Malaysia, Beijing, Kuwait, Lebanon, the United Arab Emirates (Dubai), Qatar, Hong Kong, Shanghai, Australia, Saudi Arabia, and Bahrain.

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Relevant Videos

*Howard Schultz on Starbucks' quest for healthy growth
http://www.mckinsey.com/Videos/video?vid=2340984655001&plyrid=2399849255001

*Starbucks's Schultz on Growth Strategy, Asian Markets
https://www.youtube.com/watch?v=7dINtUGKkUI

*Howard Schultz on Global Reach and Local Relevance at Starbucks
https://www.youtube.com/watch?v=tTbjDoLQQKw

*Howard Schultz: No Brand Has Accomplished What Starbucks Has in China
https://www.youtube.com/watch?v=G-pO6ubvxek

Howard Schultz- Starbucks' CEO Talks About His Business
https://www.youtube.com/watch?v=0g0VhF4wBo4

The Man Behind Starbucks Reveals How He Changed the World
https://www.youtube.com/watch?v=LnA7n9qSB7E

Howard Schultz on Leadership
https://www.youtube.com/watch?v=K1WmackWSQY

*How Starbucks Built a Global Brand, UCLA
https://www.youtube.com/watch?v=_kAiEO6jP48

*The arrival of Starbucks in South Africa: Howard Schultz
https://www.youtube.com/watch?v=-rz-Q2AUql8

* indicates international content

The Journey of Doorstep Entrepreneurship: A Case on Jaipur Rugs

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Learning Objectives

1. To evaluate socio economic scenario of a developing country.
2. To study social entrepreneurship and entrepreneurial skills.
3. To business model development and marketing strategy formulation.
4. To recommend a course of action.

Key Words

Developing Economy
Entrepreneurship
Business Model Innovation
Social Development
Global Design

Abstract

The carpet industry is considered one of the oldest trades in the world. In the twenty first century, carpets are used for aesthetic and functional properties. The postindependence era in India has witnessed an export-led growth for carpets. The export prospect of carpets depends on overseas demand and domestic supply potential.

Jaipur Rugs *was founded in 1978, when N. K. Chaudhary borrowed a sum of 5,000 Rupees from his father and began his journey with only nine artisans and two looms. Mr. Chaudhary studied India's carpet industry, which lacked innovation, technology, and connectivity to global design trends and efficient production processes.lacked innovation, technology, connectivity to global design trends, and efficient production processes.*

Over the years, Mr. Chaudhary's humble beginning transformed Jaipur Rugs into a global conscious brand that connected 40,000 artisans from 600 villages of India with the clientele across 40 countries of the world who subscribe to a common philosophy of responsible manufacturing. Jaipur Rugs is a family business that combines the pursuit of profit with the spreading of kindness in a way that benefits all stakeholders. The carpets are an important segment of the economy as the industry employs 2 million workers and artisans, most of them are women from rural India (Sindwani, 2019).

The Carpet Industry

The carpet industry is considered one of the oldest trades in the world. It is evident that woven forms of floor coverings were present during the Neolithic Age, that is, about 7000 BC. First theories suggest that carpets were used to protect people from adverse weather conditions. Other theories suggest that they were traded for ornamental purposes by the rich and influential. Historically, Afghanistan, Armenia, China, India, Persia, Turkey, Spain, Bulgaria, France, and England were known for their carpets. Many antique Persian style carpets were easily recognized for their rich weave and decorations.

Carpets from Middle Eastern countries, like Egypt, were fabricated with better quality and in higher quantities. With their unique elegance, these carpets were traded to places in the Far East. Chinese carpet designs included a beautiful mix of flowers as well as abstract geometrical figures that were curvilinear in nature. Turkish carpets were inspired by local culture and tradition.

In the twenty first century, carpets are used for aesthetic and functional properties. In addition to covering floors and improving interior design of a home or office, rugs and carpets serve as a protective layer for floors. In regions with predominantly cold climates, carpets are used to keep the floor from getting too cold. Carpets come in a variety of different weaves: woven, needle felt, knotted, tufted, and so on. In terms of materials, they could be made of silk, wool or a wool blend, viscose, nylon, polypropylene, polyester, or acrylic.

The rise of the carpet industry in India can be accredited to the Mughal Dynasty. It introduced Persian and Turkish weavers to the country to produce carpets for palaces. With the downfall of this Dynasty, the practice of carpet weaving was negatively affected. However, it gained momentum in the form of independent units during the post-British period. Now the industry is glowing with utmost glory from the states of Rajasthan, Kashmir, Punjab, Uttar Pradesh, Andhra Pradesh, and Himachal Pradesh. For centuries, the Indian carpet industry was considered a significant revenue generator and employment provider. Indian carpets were rich with a wide range of patterns, styles and designs on their bristled surfaces.

The postindependence era in India has witnessed an export-led growth for carpets. The export prospect of carpets depends on overseas demand and domestic supply potential. Employing over 2 million weavers, it is an old and well-established decentralized sector. However, despite being one of the world's largest producers and exporters of carpets, India is witnessing an unfortunate downfall in the demand for handmade carpets. In comparison to carpet exports worth around 3 crores in 1947–1948 and 11 crores in 1970–1971, India registered a manifold increase and exceeded Rs 3,600 crores in 2006–2007.

An article by Indian Brand Equity Foundation states that India accounts for 61% of the global loom age, 22% of the global spindle age, 12% of the worlds production of textile fibers & yarn and 25% share in the total world trade of cotton yarn. Exports of carpets have increased from $654.32 million USD in 2004–2005 to $930.69 million USD in 2006–2007, showing a growth rate of 42.23%. During April–October 2007, carpet exports totaled $404.74 million USD. In 2013–2014, the total value of hand-made carpet exports was $1,037 million USD. This made India the world leader in carpet exports with 36% of global market share. Indian handmade carpets are exported to over 100 nations and the United States accounts for the largest share. For instance, around 40% of the total carpet exports in 2011–2012 were to the United States. Indian handcrafted carpets and floor coverings, which are globally popular, has stagnated in the last 5 years. India exports almost 90% of its total carpet production, which equals $1.8 billion in foreign revenue every year (Sindwani, 2019).

Indian carpets have a special place in developed countries, which account for 88% to 90% of Indian carpet exports. The United States and Germany, the two largest and most established markets for carpets, account for 76% of India's exports. Indian carpets are famous worldwide for their magnificent designs and heart-winning workmanship. Hand-knotted woolen carpets, tufted woolen carpets, chain stitch rugs, pure silk carpets, staple/synthetic carpets, and handmade woolen durries are just some of the floor-covering types that have a large market demand in the Europe and the United States.

India is a developing economy and the Indian carpet industry is very labor intensive, with a large focus on exports. Apart from generating foreign exchange, the industry provides employment to many people. Most of the carpet manufacturing in India takes place in the northern part of the country in the towns of Bhadohi, Agra, Jaipur, Srinagar, and Danapur.

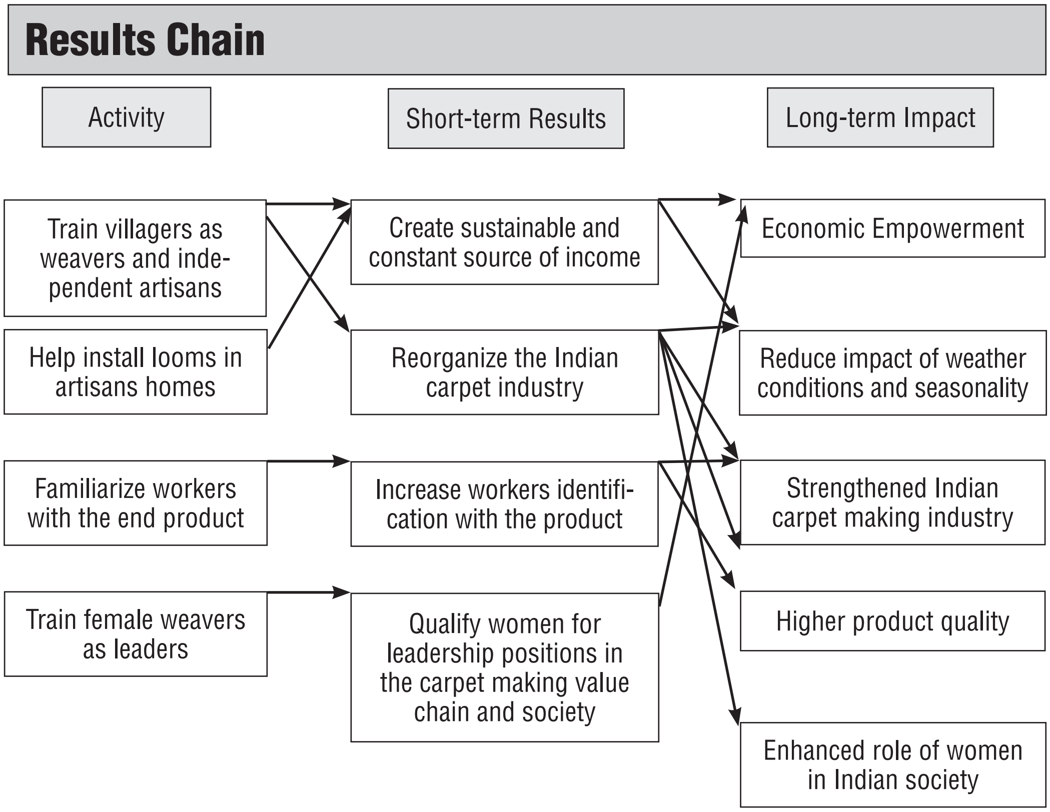
Jaipur Rugs

"Let goodness, fairness, and most importantly, love prevail in business; profits will inevitably follow." —NK Chaudhary

Jaipur Rugs was founded in 1978, when N. K. Chaudhary borrowed a sum of 5,000 Rupees from his father and began his journey with only nine artisans and two looms. While working in his father's shoe shop as a young man, he decided to combine his love of beautiful patterns and craftsmanship with his quest for social justice and form his own enterprise. Mr. Chaudhary studied India's carpet industry, which lacked innovation, technology, and connectivity to global design trends and efficient production processes. He found that the carpet industry in India was infected with atrocious practices like child labor and infringement by multiple middlemen, and that weavers were treated as society outcasts and untouchables. Their hand-knotted carpets, however, were sold at phenomenal prices around the globe. This led to the mushrooming of multiple middlemen, who intended to usurp the deserved dues of the weavers.

Mr. Chaudhary seethed with agitation and impatience towards these practices and he harbored within him a deep desire to change the lives of talented weavers. Thus, with his newfound knowledge of the trade, he set up shop to rescue the art of traditional hand-woven rugs from the brink of extinction. He started to work with the concept of 'Cultural sustainability' way before academic literature highlighted its growing importance. Mr. Chaudhary had the passion to get the Indian weavers recognized as artisans and started his business on the principles of Equity, Empathy and Dignity.

Working around the clock to establish his fledgling business, Mr. Chaudhary traveled miles on his bicycle to procure the raw materials, ate with the weavers near the looms, and spent nights at the production center. He learned a lot from the company's weavers and by the end of the third year, he had 10 additional looms and more artisans. Over the years, Mr. Chaudhary's humble beginning transformed Jaipur Rugs into a global conscious brand that connected 40,000 artisans from 600 villages of India with the clientele across 40 countries of the world who subscribe to a common philosophy of responsible manufacturing. Jaipur is a family business that combines the pursuit of profit with the spreading of kindness in a way that benefits all stakeholders.



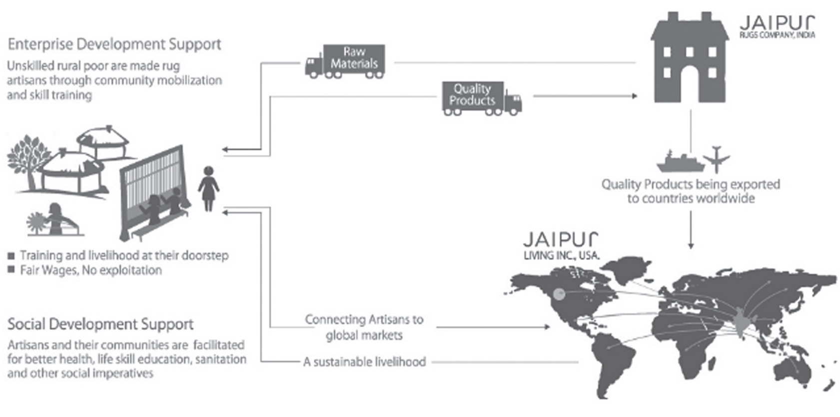
Jaipur Rugs's supply chain follows a disruptive model where the raw materials for carpets are delivered to the homes of the weavers. Chaudhary understood that bringing change to the supply chain of the carpet industry meant he had to strengthen its weakest link, the weaver community. Thus, a system was set in place to oversee production via rigorous quality control processes, collecting, distributing and marketing finished products across the globe. Jaipur Rugs's model brings this share of the profits directly to weavers, who receive a minimum of $70 USD per month (compared to US$6 for seasonal work in agriculture). Mr. Chaudhary continued to expand the business, because he put in place a "supportive & nurturing, home based creative unit" instead of a machine-driven emotionless production line.

With a sales and marketing entity **Jaipur Living Inc.**, headquartered in Atlanta, GA, Jaipur Rugs has grown to become one of the leading providers of hand-woven rugs from India. JLI expanded the company's offerings to include flat weaves, naturals, transitional and modern collections to serve the U.S. customers. Through their vertically integrated business structure, Jaipur Rugs controls products from conception to delivery. This method allows the group to offer an exceptionally high quality and consistent product while employing tens of thousands of rural handcrafts people. Jaipur Rugs won Best Collection, Best Modern Design, Deluxe and Best Modern Design Superior in Domotex's 2020 Carpet Design Awards (Home Textile Today, 2020).

There are three major areas of innovation in the company:

1. Business Model Innovation—Successful and profitable vertical integration is made possible by enrolling and empowering women as local managers right in the rural communities where products are being made to manage quality control and production.
2. Social Innovation—empowering women into these roles as right people for the job made good business sense since they have the experience, expertise, and connections to the community. In the process, this innovation can shift powerful cultural norms.
3. Community Innovation—Jaipur Rugs offers a whole-spectrum experience to all their stakeholders.

For example, Jaipur Rugs provides opportunities for customers to learn about their weavers who make the products, for the weavers to see photographs of the finished product in the customer's home, and bring the customers for a rural immersion. These innovations generate financial, social, and community prosperity for everyone in the system and their families for a positive impact on society. The inclusive socioeconomic business of Jaipur Rugs is addressing the key global concerns of poverty, unemployment, gender equity, sustainability, livelihood generation, and inclusive growth. The company also works to boost rural India's economy by developing new generations of artisans, quintessentially reviving the traditional craft of rug weaving, eliminating middlemen and directing the flow of benefits to artisans



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Jaipur Rugs Foundation is the service arm of Jaipur Rugs Group, which stays connected to the company's grassroots. It was registered in 2004 under the Rajasthan Public Trust Act with the aim of integrating rural people into its value chain by training them to become home-based artisans and giving them a market for their products. Through the foundation, potential weavers are trained in weaving hand-knotted carpets using manually operated looms. Now, ready for work, the artisans are independent weavers with the freedom to work for Jaipur Rugs or any other rug company.

Thus, the overall work mandate of the Jaipur Rugs Foundation is to empower the marginalized communities, especially women, living in the un-served and underserved areas. This is achieved by developing their skills, capacities and providing them with a sustainable livelihoods option. Such weaving of lives is done through two intertwined verticals: "entrepreneurship development" and "social development." The entrepreneurship development vertical focuses on the economic well-being of the artisan and their communities through skill development and livelihood support. The social development vertical focuses on their social well-being through interventions, awareness generation and linkages. The foundation connects them with literacy and financial education, health care and artisan cards, enabling certified artisans in India to access additional social services. These two complement each other and facilitate the artisans to advance in their development trajectories. The sense of personal worth and recognition worked magically as more and more women artisans were fascinated with this transformation process and decided to be part of this journey. This created a model of "Inclusive Growth" where the women artisans gained financial and emotional stability. Chaudhary believes that "He made the weavers—The weavers made Jaipur Rugs."

In August 2011, Jaipur Rugs joined the Business Call to Action with a pledge to provide sustainable livelihoods for 6,000 underprivileged women and deliver skills training to 10,000 of the poorest people in rural India. Surpassing these goals by 2015, the company went on to provide management and leadership training to 1,700 women so they could assume managerial positions with the company. In 2016, Jaipur Rugs renewed its Business Call to Action commitment of supporting the global sustainable development goals such as no poverty, gender equality and responsible production and consumption. With the conviction that this is the beginning of a new era for business, Mr. Chaudhary states that, "I am not the owner of this business. The real owners are people who put in their hard work to produce beautiful carpets which are liked by customers around the world."

Often called the "Gandhi of the Indian carpet industry," N. K. Chaudhary says, "Everyone has the power to transform the world; the key is to search within and discover your power- the power to heal mankind through business."

Jaipur Rugs' Progressive Business Practices

> *"Let goodness, fairness and most importantly, love prevail in business; profits will inevitably follow." —N. K. Chaudhary*

> *"Business as an agent of doing greater good, most importantly, business as an instrument for Human Healing." —NK Chaudhary*

Jaipur Rugs's business model is artisan centricity and customer centricity, which is propagated through a culture of openness and learning.

1. Shifting mindsets through first-hand experience

- Bringing awareness amongst employees and workers through observation and exposure.
- Bridging gaps through first-hand knowledge in a decentralized business model across vast geographical locations.

Business Practice:

- Sensing journey—Jaipur Head office to weaving villages (1-day engagement program)
- Weavers Engagement Program—Weavers from villages to Jaipur Head Office and carpet finishing facilities.
- Rural Field Immersion Program—Immersion from Head Office to Village (3-day deeper engagement program)
- Sensing Journey—US Head Office to Jaipur Head Office and weaving villages (The engagement program is called Back to the roots)
- End Customers' visit to weaving villages

2. Listening carefully to the Voices of Frontline

- Deep listening to issues faced by the frontline on the field
- A key growth driver of Jaipur Rugs, built over the years through constant listening of the grassroots people

Business Practice:

- Jaipur Rugs Foundation—formed in 2004 (NKC's link with the weavers was institutionalized as the business scaled)
  - Socioeconomic development of artisan communities
  - Capacity building of artisan communities (weaving and spinning)
  - Mentoring and coaching of grassroots leaders through constant listening
- Conference calls—a revolutionary practice that has resulted in resolving grassroots issues with the organizational growth
  - This program gave voices to the unheard people at the grassroots level
  - A two-way feedback mechanism: head office and frontline

3. Creating Grassroots Leadership: developing leaders from ordinary people

- Creating village level leaders for quality manufacturing and timely delivery in a decentralized network of 600+ villages
- Naturally evolving local leaders as company grew from 2 to 20 looms to 2,000 to 7,000 looms

Business Practice:

- Young Women Social Entrepreneurship Development Program (An example is the case of Archana, which is mentioned in the following section.)
  - First time village level leadership of women in the carpet industry
  - Women monitoring women weavers: Bunkar Sakhi program
    Artisans are trained and empowered to eventually take over as quality control officers and this aspiration, to move up in the hierarchy, acts as a constant motivation for the artisans.
- Developing leaders in newly developed weaving belts
  - Developing new generation of artisans, trainers, and leaders through skill development in highly marginalized communities
- Transforming non-contributing family members of marginalized communities into responsible family members and leaders of Jaipur Rugs
- Eventually these leaders take ownership of their own areas (an example is the case of Zareena, which is mentioned in the following section)

4. Innovating to Bridge Industry Gaps

- Disruptive solutions to industry problems that set new standards in the carpet industry
- Seen since the inception of Jaipur Rugs till date
- Unique supply chain of Jaipur Rugs is also a result of this business practice

Business Practice:

- Artisan Originals—lifting the weaver's mindset beyond wage worker.
  - Transformation of relationship with the art of weaving—from work to art
  - Mindset shift—bringing connection to the work like in the older days, when the weaver was fully connected to what they were doing
  - Customers get the complete information where the rugs came from and the information of the weaver and their inspiration
- Customer-Weaver Postcard Program
  - Connecting the two ends: the weaver and the consumer through postcards that bring an emotional connection beyond the rug as a mere commodity
  - Customer is not only sensitized that it is not a machine-made product but also gets a perspective about the artisan community thriving through this art
- Delhi Retail Experiential Store

  Jaipur Rugs plans to continue pursuing its path of sustainable growth. In addition to its existing sales channels, the company aims to increase sales in the domestic market, a strategy supported by the opening of a showroom in New Delhi.

  - Live demonstrations and storytelling to the engage and educate the consumers beyond the idea of rug as a mere commodity
- Involvement of women in *Gultaraash* process

Social Impact of Jaipur Rugs

Story 1: Archana Devi, Bunkar Sakhi, Mahasingh Ka Bas, Rajasthan

© Jaipur Rugs

Archana Devi, Mahasingh Ka Bas, Rajasthan

Archana Devi was one of the participants of Young Women Social Entrepreneurship Development Program (YWSEDP)—Phase 1 in 2014. After the program, she went through the leadership program—"Bunkar Sakhi Program" aimed at empowering women weavers. These Bunkar Sakhis are the women weavers who check the quality of carpets made by fellow women weavers in their villages. One of the Bunkar Sakhis, Archana from Mahasingh Ka Bas Village says, "I can do anything in the world." If we look at her progress in last 3 years, her confidence in expressing herself in front of people has grown tremendously. She has no fear in talking to her reporting branch manager and the founder of the organization. Today, she manages the quality of 35 looms in Mahasingh Ka Bas Village near by Jaipur. The organization has found that because of Archana, many women were inspired to become Bunkar Sakhis and today we have a total of 7 Bunkar Sakhis—adding a new cadre of women leaders at the grassroots villages of Jaipur Rugs.

In her family, there are a total of 8 members including herself, her husband, 3 daughters, and 2 sons. Before becoming a Bunkar Sakhi in 2014, she had been weaving carpets for 15 years. When asked why she started weaving since childhood, she said, "I did not like going to school, though my family members used to force me to go to school. I was afraid of our strict school teachers. I decided to continue weaving because I loved weaving."

Before YWSEDP in 2014, she was working with contractor for Rs, 50 per day from 2000 to 2007. After that she started working with Jaipur Rugs and the company started paying Rs 60 to 70 per day per person. Gradually, the rate increased as per design, and in the year 2014, each weaver started earning Rs of 200 per day for specific design and quality. She used to work 20 days in a month. Thus, she would earn Rs. 4,000 on average in a month. If there were any urgent orders, she would work for 25 days a month and used to earn Rs. 5,000 occasionally on urgent orders. When she attended YWSEDP, she was selected as a Bunkar Sakhi and trained in August 2014, and she has been employed full time since October 2014 and her initial salary was Rs. 5,400. Thus, there was a significant increase of Rs. 1,400 per month in her income. When she joined as Bunkar Sakhi, her husband did not have a job. On Archana's request, her husband also got a job in store a department in Branch. Today, Archana's monthly income is Rs. 6,000 and her husband's income is Rs. 6,500.

Story 2: Zareena, Weaver, Kubakala Center, Mirzapur

Zareena is one of the tufted weavers from Kubakala village in Mirzapur district of Uttar Pradesh, India. People in this village mostly engage in breaking stones for construction and seasonal farming work. The girls and women in this village apparently did not have any employment opportunities other than farming. Jaipur Rugs Foundation intervened in this village and offered skill development training for tufted carpets in the year 2014. Zareena was one of the girls who were surveyed by the Jaipur Rugs Foundation team. After having the burden of debt on the family due to the marriage expenses and health expenses of her sisters, Zareena realized that she needed to support her family financially.

Zareena is a girl who really loves her family. She is always calm and faces life with a positive attitude. When she learned weaving, she thought that she can earn money and learn a skill that could help her become independent. With this dream of independence, she started learning weaving at the center that opened in her village and asked her mother to stop selling bangles in the market as she started earning money and supporting the family. Initially, her parents did not allow her to go to the center as it was far from her house, but she continued weaving with determination.

© Jaipur Rugs

Zareena, Kubakala, Mirzapur, Uttar Pradesh

Today, she earns Rs.3000-4000 per month after completing household works in the home. She wants to support her father and help reduce the debt that her father owes. Zareena is happy that she has become independent by working in her own village. When she was asked about her dream in life, she said, "We should face life as it comes with all the problems and happiness. Nobody knows about their life. I just want to see my parents happy. My parents are happy with my weaving work. Whatever is in my destiny will happen to me."

Impact of Coronavirus on carpet industry:

India Carpet Expo is one of the largest carpets shows in Asia. It was scheduled to be held from March 28-31, 2020, in New Delhi. Carpet stands dropped out at about the same number of purchasers due to the Coronavirus danger. According to the Carpet Export Promotion Council, over 200 buyers from across the world had already registered for the expo. Most of them were from the United States who buy Indian carpets in bulk. Cancellation of this event resulted in a loss of about US$50 million to the exporters of Uttar Pradesh alone (Srivastava, 2020).

Discussion Questions

1. What is GEM approach? Discuss its various components.
2. How technology and innovation can help an organization to grow and expand? Critically evaluate a developing country like India with reference to technology and innovation.
3. What is high level or low level entrepreneurial activity? How would you classify Jaipur Rugs?
4. What methods and approaches help a firm to become international in operation?
5. Find some critical areas of Jaipur Rugs that need improvement as per you. Suggest appropriate strategies for the same.
6. What are the contributions of an enterprise like Jaipur Rugs to a society and a nation?

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Relevant Videos

India's Culture and Cuisine
https://www.youtube.com/watch?v=7thQHD81gIA

An introduction to Indian business culture
https://www.youtube.com/watch?v=VV7oVfT65dI

How to Follow Proper Business Etiquette in India
https://www.youtube.com/watch?v=u4dmfmerw0c

India Carpet Expo - 2017, New Delhi, 27-30 March 2017
https://www.youtube.com/watch?v=DyPzJySDc74

Indian carpet making demonstration - New Delhi, India (Aug. 9, 2013)
https://www.youtube.com/watch?v=Sg3BUlFB6Z8

Chapter Four

Global Business Plan

Dr. Shingle Goes International, A Roofer's Dream

Dianne H.B. Welsh
The University of North Carolina at Greensboro

Learning Objectives

1. *Analyze* how new products are identified in a market.
2. *Understand* the importance of product engineering in new product development.
3. *Evaluate* intellectual property issues.
4. *Evaluate* the marketability of the product worldwide.
5. *Analyze* what distribution channels may be utilized for this new product.
6. *Evaluate* how safety improvement could be marketed.

Key Words

Innovation
New Product Development
Roofing Industry

Abstract

Developing a new product is no small task. In Cincinnati, Ohio, PJS's CEO Jake Smith faces the many issues that arise from new product development in a worldwide marketplace. PJS is a consolidation of three separate business entities, which Jake Smith founded. He is a consummate entrepreneur. The case involves an entrepreneurship student that is being mentored by the founding entrepreneur when the student has an idea for a new product that could have worldwide appeal and benefits for those in the roofing industry, making their job easier and safer. Factors that damage a roof (The Roofing Company, 2020) include the following: unsuitable roofing materials, wind and hail, incompetent installation, lack of ventilation, not enough insulation, and age.

Dilemma

Jake Smith met Erin Rogers, an entrepreneurship student when Jake agreed to act as a business mentor to Erin for one of his entrepreneurship classes. Erin and Jake made multiple visits to roofing sites that Jake managed. While observing the shingle installation process, Erin became aware of the need for a better way of handling new shingles prior to their installation. To install a new roof, first the old shingles are removed and felt paper is stapled to the roof deck. Then the new shingles are delivered to the roof and the shingles must be taken from their thick paper encasing. The shingles can either be placed in a pile next to the roofer who will actually be nailing the shingles to the roof or a second roofer can hand the nailing roofer the shingles.

Both methods of obtaining shingles for the nailing roofer are areas of concern. The first process, setting the bundle of shingles next to the nailing roofer, presents several different challenges. The placement of shingles on a steeply pitched roof may prove to be hazardous. A high-sloping roof will most often cause a roofer to install roof jacks (typically thick-gauged steel brackets that hold planks in position) in order to keep the bundle of shingles in place. To install roof jacks, the roofer must first install a third or fifth coarse of shingles. He or she then lifts up the previously installed shingles and slides the roof jack up under the course. Then the roofer nails the roof jack to the deck. The installation of roof jacks can be dangerous and time consuming. The top hazards of getting on a roof include, based on data from OSHA, stability, ladder security and how it is placed, weather, holes in the roof, edge alertness, lack of training or improper training, pitch or steepness, split levels of roof, and height (Simplified Safety, n.d.).

A roof that does not require roof jacks to keep the shingles from falling may also prove dangerous. Depending on the slope of the roof, the shingles may still have the possibility of sliding out of the nailer's reach, causing other roofers to trip. The sliding shingles may also increase installation time because the nailer has to retrieve fallen shingles.

The second process, the handing of shingles to the nailing roofer, increases the level of risk and cost to management. The increase of risk comes from having an excess number of workers on the roof. On an average-sized roof, individuals have a limited work area.

Management incurs the cost of an extra worker's time as well as the time it takes to manage another employee. The costs associated with the extra worker also include extra safety equipment for the additional worker, benefits costs, and possible legal issues that may arise.

According to the National Safety Council in 2015, 2000 U.S. workers surveyed found that 33% "believe productivity is of higher importance in their workplace than safety." But 60% of those in the construction industry "felt safety was less of a priority than finishing tasks (Macdonald, 2019).

Erin explained to Jake that he saw an opportunity to make the roofing process safer, lessen the need for two workers, and provide a promotional opportunity for shingle manufacturers.

His new product, Dr. Shingle, is an innovative approach to keeping shingles from slipping down the roof. Dr. Shingle also eliminates the need for a second worker to hold the extra shingles. Fewer people on the roof decrease the chance of injury. Shingle manufacturers could use Dr. Shingle in their marketing by personalizing the product with their company's name and giving it out with their shingles to demonstrate their concern for roofers' safety. It could have worldwide applicability.

Dr. Shingle is an "L"-shaped bracket. The long part of the "L" is 36 inches. On the back of the long side is a piece of nonslip foam rubber. The short side of the "L" is eight inches. The back of the long side is laid on the roof; the shingles lie flat on this side with their bottom edges against the short side.

Safety is important in any construction job. Dr. Shingle will not only increase safety but also decrease labor costs. One thing to consider, however, is that many roofing operations are strongly unionized. Even though the union supports the increase in safety, it may be concerned about potential job losses.

Increased productivity could offset some of the adverse impact on labor. If roofers are compensated based on the area roofed per day, this increased productivity may result in higher wages per roofer.

A helpful and innovative product is only a small part of capitalizing on a business opportunity. The product must also reach the market (which involves targeting the audience, proving the product's usability and benefits to this audience, finding a distribution channel, and branding the product).

Market research showed that there were 150,000 roofers in the United States in 1998. Tests by actual roofers showed the product was valuable. Their comments included, "Dr. Shingle allows me to work alone," "That product really helps me save time and money."

Finding a distribution channel could be more difficult. Dr. Shingle could be sold in stores or sold to shingle distributors (to be used as a promotional item when certain amounts of shingles are purchased).

Discussion Questions

1. How does one identify a new product opportunity? Does Dr. Shingle seem to be a viable product to introduce? Why or why not?
2. How can the market be identified for Dr. Shingle? Could Dr. Shingle have a significant impact on the roofing industry? What are the challenges of introducing a product of this caliber into a mature and traditional industry?
3. What determines whether or not a patent will be pursued? If this is the first product of its kind, should a patent be considered immediately? Are there any drawbacks to seeking a patent/provisional patent?
4. Based on the chapter discussion of positive attributes for successful products, what positive attributes does Dr. Shingle possess?
5. Based on the chapter discussion of fatal flaws of new products, what potentially fatal flaws (if any) do Dr. Shingle possess? What are they and how can they be overcome?

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Relevant Videos

Roof Top Safety Anchor
https://www.youtube.com/watch?v=Q_zxiiCgreY

HUGS Guardrail system
https://www.youtube.com/watch?v=zZZfUpja0BA

Steep Assist
https://www.youtube.com/watch?v=7pVJs7GmqtM

Counterweight Non-Penetrating Roof Anchor
https://www.youtube.com/watch?v=6R2VyRJBF4Q

Leading Edge Work: Prevention Video (v-Tool): Falls in Construction
https://www.youtube.com/watch?v=G991LcaZQd8

ALFIYAH—ONE OF THOUSANDS: AN ENTREPRENEURIAL JOURNEY

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Key Words

Women entrepreneurship, Entrepreneurial skills, Opportunity recognition, Strategic growth options, Entrepreneurial marketing.

Abstract

The case reflects on the life of a passionate woman entrepreneur, Shumaila Hadi, who set up an online Abaya venture by the name of ALFIYAH. The case shows the amalgamation of various entrepreneurial qualities like passion, hard work, commitment, and resource parsimony that led to the formation of this venture. ALFIYAH was a start-up that was only one-year-old when it became the preferred choice among consumers looking for good-quality abayas in Karachi. The brand offered an exquisite collection of aesthetically vivid designs of Abayas, fashioned with the finest of fabrics with no compromise on quality and affordability of price. The case describes the entrepreneurial journey embarked upon by Shumaila who, by leveraging her passion, creativity, and family networks, was able to take the brand to new heights of success. The case further examines the vision Shumaila had of expanding her business and taking it to the next level.

The case is extremely valuable because of the scarcity of literature available on women entrepreneurs in Pakistan. This case highlights the success and growth of a women-led online business sphere in Pakistan.

Shumaila Hadi sat in the small studio of ALFIYAH, located in Karachi. She was surrounded by unpacked boxes of new pieces of abaya fabric ready to be designed for the upcoming launch of her new collection. Shumaila looked around and started reflecting on the entrepreneurial journey she had gone through since she participated in the four-month entrepreneurship program held at Institute of Business Administration (IBA), Karachi. The women entrepreneurship program helped her to gain the basic business fundamentals and boosted her self-confidence that was required to make the leap and to start her own small online abaya venture, by the name of ALFIYAH. The brand aimed to offer an exquisite collection of aesthetically vivid designs of abayas, fashioned with the finest of fabrics with no compromise on quality and affordability of price.

Shumaila was satisfied by the progress that her online abaya business had made so far. She had managed to make her mark among the dozens of abaya businesses in the metropolis, Karachi. With almost no background in entrepreneurship, building up an abaya brand was no easy job for Shumaila. She had to work through thick and thin but had successfully managed to sustain her business by leveraging her inner passion and family support. All her efforts paid off when the online venture gained a brand identity and that too among the top brands on the market.

After taking the women entrepreneurship course, Shumaila was clear on the major strategic objectives that she required to focus on to achieve further growth. She started reflecting on a telephone call she had received few weeks ago, from Kashif Rizvi, who was residing in Scotland. Kashif was working in collaboration with Sara Chaudhary, a leading TV Artist. They both wanted to start a Lahore-Based abaya brand by the name of "Al Haya," for which Sara Chaudhary would be the brand ambassador. It was a long phone conversation in which Kashif asked Shumaila a lot of questions regarding her business insights, and exposure to the latest fashion trends in the market. Two options were put on the table: First, they both could form a partnership to launch the new abaya brand in Lahore, for which Kashif was ready to invest with Shumaila. The second option was that Shumaila could act only as a supplier, that is, designing quality abayas for the new brand "Al Haya." She was contemplating on her next step.

Shumaila Hadi, the Entrepreneur

Shumaila Hadi was born and raised in Saudi Arabia.[1] Her stay in the Middle East developed a sense of their lifestyle and culture within her. After few years, she moved back to Pakistan in order to complete her B.Com. Shumaila never opted for a corporate job, as the monotonous routine was something she could not follow. Being a zealous young individual, she liked to live on edges as opposed to proper planning, and predictably, she wanted to fill her life with creativity and innovation; therefore, the entrepreneurial spirit within Shumaila lay dormant at best. Soon, she got married and became a mother of four children. As a homemaker, Shumaila felt bored and was constantly on the lookout for something meaningful, one that could give her an identity of her own and also keep her busy. In her quest of exploring new opportunities and avenues, apart from her household chores, Shumaila enrolled herself in short courses related to glass painting, art and craft, and interior designing.

As part of her innate artistic sense and passion, Shumaila also started to design formal and bridal dresses. She initially sold few dresses to her in-laws living in the United States, and received a frenzied reaction from her acquaintances. Her life took a turn when, on the suggestion of a family member, Shumaila decided to formalize these activities and start her own online formal clothing brand, by the name of Ipek—a Turkish word meaning silk **(see Exhibit 1)**. As Shumaila progressed in her work, she realized that her artistic inclination was a key motivating factor in this business. She had always been rather creative and artistic; whether it was glass painting, designing her clothes, or decorating the home, she had always accomplished her tasks with an artistic flair. With this motivation, Shumaila got herself enrolled in a one-year long diploma course in fashion designing. She recalled with great zeal,

1. A sovereign Arab state in Western Asia constituting the bulk of the Arabian Peninsula.

While embarking on this journey, I knew that the foremost thing I needed to do was to update my skill set. I just did not want to be another of the long list of dress designers operating in the market; I wanted to have my own uniqueness. This training enabled me to design my own unique dresses; hence, all the designs I posted on Facebook were not replicated from Google, but a product of my own mind.

But, without any business background, Shumaila still felt a gap in her entrepreneurial learning. She realized that in order to develop her venture she had to learn the basic business fundamentals, develop networks, and keep on polishing her skills in order to cope with the changing market trends.

Seizing an Educational Opportunity

In summer 2015, flipping the pages of newspaper, Shumaila came across an ad of WomenX—a four-month women entrepreneurship certificate course being offered at the Institute of Business Administration (IBA), Karachi. Shumaila felt that this was a great opportunity that could aid her in taking her online business to the next level. However, her mind was filled with self-doubt as she kept on wondering if she possessed the aptitude to fully grasp the material and apply it effectively. What if other women in the audience looked down upon her? Nonetheless, Shumaila decided not to forego this opportunity and she got herself enrolled in the new program.

Within few days, Shumaila got an interview call. During the interview, she was asked to share her current business idea and her purpose of attending the certificate course. With a fragile confidence, Shumaila answered and smoothly went through the interview process. When the results were announced, to her surprise, she got selected for the program. Shumaila was invited for the orientation ceremony of the program at the institute, 5 miles from her neighborhood. Thursday morning, Shumaila headed for the information session. At about 10:00 a.m., as she reached the seminar hall, she saw more than 40 women already lined up in a queue, waiting to get their names registered. Inside, the seminar hall was decorated with colorful banners, streamers, and balloons, which had brought the hall to life. Smiling greeters welcomed every participant as if they were honored guests. By 10:30 a.m., all 60 chairs had been filled. Shumaila felt lucky to have a seat as she watched more women and their guests enter and huddle into the space along the walls. Every woman participant was given a workbook and a course pack detailing the content to be taught during the program.

The program manager built the crowd's anticipation as he described the agenda and dynamically set the stage for the whole day session. He invited participants to share their stories of doing business as female microentrepreneurs. The volunteered participants described their successes and challenges without reservation. The program highlighted that the obstacles to women entrepreneurship continue to be unabated and were seemingly more social and cultural rather than legal. In most of the societies world over it was assumed that the primary responsibility of women was child care and taking care of the family, and there were various challenges faced by women when they attempted to blend work and family obligations. But rather than viewing this responsibility as an impediment for kindling a woman's motives, aspirations, and commitment towards her future business goals, WomenX would promote women entrepreneurship in a manner that would resonate with the culturally sensitive way of doing business in a Pakistani context. It would empower a Pakistani woman to work with a family-centered approach, by teaching them how to do business while leveraging their family networks.

Learning, Sharing, and a Room Full of Like-Minded Women Entrepreneurs

WomenX was a four-month long rigorous course based upon a unique teaching pedagogy highlighting the "Indigenous Women Entrepreneurship Model," developed at the institute and backed up by strong academic research. The model was specially designed to facilitate Pakistani women to become nation builders by leveraging their innate entrepreneurial capabilities, hobbies, passion, and family networks, to start a business venture with a vision of contributing back to the society. The first few weeks of the course mainly revolved around building an entrepreneurial mindset among the women entrepreneurs. Emphasis was laid on how to use one's slack resources and family networks to start a business venture.

Weekly teaching sessions were conducted that entailed a series of modules including business modeling and start-up canvas, experiential exercises (like guest speaker sessions and field visits), indigenous case studies on Pakistani women entrepreneurs, and motivational exercises to enhance self-confidence. In addition, the curriculum exposed the participants to functional knowledge of effectual-based marketing, accounting, finance, human capabilities, and operations management. Moreover, interesting activities to develop purposeful vision and workshops on optimizing time utilization by time management and sleep management techniques were also a part of the program. Participants were trained on using the qualities of resource parsimony, bootstrapping, working in an uncertain environment, and raising money from inaccessible and hidden sources.

This educational opportunity became an open platform for all women entrepreneurs to learn and share ideas with each other. All the participants also had the option to sign up to request assistance from a mentor, who would help them implement the program's lessons in their businesses.

Shumaila Makes the Leap

Shumaila proactively participated in all the activities held in the program. She entered WomenX while she was already running her online formal clothing brand, Ipek, on a small scale. Still, the entrepreneurial mindset developed in the first few classes enabled Shumaila to identify new business opportunities and avenues to grow. Reflecting upon the journey of the course, she narrated, *On my subsequent visits during the course, I noticed that I was the only one wearing abaya[2] in the whole room. Also, when we were asked about the type of business we are pursuing, I was surprised to see the number of hands raised on the option of formal clothing but almost none for designing abayas. At the end of every session, people used to compliment me on the good quality abayas I used to wear. Those compliments unleashed a new opportunity in front of me.*

This made it apparent to Shumaila that this product was unique on its own. Hence, with the help of few professionals within IBA faculty, Shumaila conducted a research within Pakistan, and came across a glaring reality that the environment of Pakistan only supported specific types of fabric, which a person could easily wear, like cotton, a light, breathable fabric. Moreover, Shumaila started reflecting on the lack of motivation within women to wear abayas in Pakistan as the existing local brands offered a very expensive package or the designs they offered had no essence of innovation. In addition, Pakistan was witnessing an unflagging demand for abayas, but there were only a handful of brands offering a quality product. Shumaila's own shopping experience used to leave her unsatisfied with the quality being offered. She sensed that there was a need to bridge the gap between consumer expectation and the product they received.

Spending a greater portion of her life in the Middle East had already developed in her the know-how about the unique designs and trends preferred among the women in the Middle East. However, Shumaila perceived that Pakistani market had a lot more potential as it was rich in handicrafts and embroidery, which were hardly seen in the Middle East. Yet there were various unique designs, like screen printing and embroidery, that had not been introduced in abayas up till now. She started thinking on the idea to leverage this uniqueness, and to develop an abaya brand with indigenous innovative designs. Thus, Shumaila recognized this as an opportunity and took a turn from her business of formal dresses toward starting her own abaya brand, by the name of ALFIYAH–an Arabic word meaning One of Thousands.

Industry Profile—the Market for home-based Abayas

A casual glance at the prevalent situation in the world depicted the technological breakthroughs being made in every realm of life. This had a massive impact on industries, which led them toward innovative and efficient methods of production. Along these lines came an unprecedented advancement in the fashion industry, which made a path leading to abaya industry. Throughout the years, it became a need of the hour for women in the Middle East to wear abayas. Many stores opened and competition burst between rivals. As the Islamic countries, like the UAE, were experiencing phenomenal growth in their abaya industry, it also paved a path for the entrepreneurs across the globe. Soon, a number of home-based abaya designers sprouted in many Islamic countries, including Pakistan (**Exhibit 2** shows few of the online home-based abaya brands).

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2. A simple, loose overgarment worn by some women in parts of the Muslim world.

New Beginnings

Initially, Shumaila invested around PKR50,000-60,000, to design her first collection. She started with high-end abayas; but as she was dealing in occasional sales, the brand was unable to gain high consumer attention. She made a bit of a profit at that time, and recovered 50% to 60% of the initial investment, but the sales remained stagnant. This developed a concern within her. Shumaila's time at WomenX became the platform for business grooming, which helped her to hone her entrepreneurial skills, marketing and financial skills, and networking. Moreover, it enabled her to learn and understand the whole process of operating a business. The research she conducted during the course revealed the high preference of women of wearing economically priced abayas. Hence, this acquired business knowledge and mentoring support helped Shumaila to fundamentally reposition her business approach, that is, to offer exquisite collection of aesthetically vivid innovative designs without compromising on the quality and affordability of price.

After this repositioning, the brand successfully managed to enhance the perceived quality of ALFIYAH in the eyes of the end consumers, and within a span of few months, the business started surging up. In the initial months, Shumaila used the Facebook page of Ipek, her existing formal clothing brand, to advertise the products of her new brand. Later, as more orders started pouring in, she separated the platforms of both of her brands, and made another page for ALFIYAH. Initially, Shumaila unofficially kept running the brand on a small scale, while her major customers were made within her family and friends. Being part of a social club also gave her an edge in spreading word of mouth in the nearby areas.

After establishing her presence on a Facebook page, Shumaila started thinking of ways to develop a strong brand identity of ALFIYAH by designing an eye-catching logo for the brand. She thought that this would help her to develop a consistent brand familiarity, which would henceforth be used in all the branding materials including the website, Facebook page, packaging material, and so on. In order to minimize her cost, Shumaila sought help from her son's friend, who had proficiency in Arabic calligraphy. By leveraging her networks, she got the logo designed from him free of cost (**Exhibit 3** shows the new logo designed for ALFIYAH).

In addition, before joining WomenX, Shumaila had limited knowledge about different facets of operating a business, due to which, she used to overlook the minor details of finance; focusing on the basic costing only and ignoring the calculation of the major overheads. Learning to track her earnings and expenses better had been a particular goal achieved by Shumaila. She started maintaining a diary to note down all the accounting activities, including costs and procurement details. As Shumaila reminisced,

> *I did my B. Com. years ago, but because of this platform and the follow-up work that I did with my mentors for a few weeks, I was able to understand all the subtle aspects of doing a business.*

Simultaneously, in order to enhance her understanding, networking opportunities, and the possibility of raising finance, Shumaila attended few workshops at SMEDA, a governmental organization heavily involved in the promotion of women entrepreneurship within Pakistan. Somewhere in her heart, Shumaila knew that how much more she had gained from this course than simply better bookkeeping methods, as every opportunity she found here opened up a new door of understanding and led her to explore new possibilities. Moreover, Shumaila directly got involved in the business and handled most of the affairs herself. She was a lifestyle entrepreneur, as the whole business was designed according to her lifestyle. Since ALFIYAH was a woman-run business, all the activities were managed alongside homemaking. Shumaila ran it with wisdom, paused it when needed, restarted when best. This way she kept a balance between life and work, that is, the practice of moderation.

ALFIYAH's Entrepreneurial Marketing Strategy

Product

ALFIYAH focused on providing new exquisite collection of aesthetically vivid designs of abayas, fashioned with the finest of fabrics. Seeing the indigenized options available in Pakistan, the brand offered a collection that included *banarsi* fabric designs and silk cheetah print designs, depicting the indigenous style of embroidery made and used exclusively in Pakistan (**Exhibit 4** shows the products offered by ALFIYAH). The customers also had the option to customize their abayas with the required details such as pockets, zips, and special lengths. With time, the brand evolved its product lines by using the product development strategy, and introduced various new products for the existing target market, which included embellished scarves line and handcrafted prayer beads (*Tasbih*). These items augmented the main purpose of the business, that is, to develop modest, sophisticated attire for a Muslim female with elegance as a priority (**Exhibit 5** shows the product development by the brand).

In addition, Shumaila sensed another opportunity in the market when she observed that there were thousands of women going on a pilgrimage[3] every year. These women pilgrims were supposed to be dressed modest yet in comfortable clothes so that they could easily perform their rituals. Catering to the need of this specific target audience, ALFIYAH designed finest quality abayas and launched new designs using mixed fabric material as the use of pure fabric might suffocate and exhaust them under the hot weather conditions.

Place

The brand started its working through social media and had been consistently using social media to run and grow. It was a very cost-effective way, through which Shumaila uplifted her brand. Initially, Facebook worked as an online shop for her business, which marketed its collections, connected customers to the

3. A journey to a shrine or other location of importance as regards a person's beliefs and faith.

brand, and helped to deliver value and satisfaction. Moreover, to improve the selling process and the overall web presentation of ALFIYAH, Shumaila decided to launch the brand's website in near future.

Promotion

Shumaila never did drastic marketing of her brand; majorly, it was just on the basis of word of mouth that her venture reached new heights of success. It was the value and quality delivered that helped build and retain customers. In the pursuit of growing her business, Shumaila started devising cost-effective ways of doing marketing. With time, she came up with innovative promotional strategies using parsimonious and creative ways to build a strong online brand image of ALFIYAH.

Social Marketing Platform

In December 2015, Shumaila contacted Daraz, the biggest online shopping mall in Pakistan, and started advertising her products through their platform. Later, she got in contact with Buyon.pk and struck a similar deal. This gave ALFIYAH greater exposure and played a major role in the upbringing of the brand. However, Shumaila had to pay 30% of the sales revenue to Daraz, to advertise her products. According to her view, advertising through Daraz was more beneficial for her brand rather than advertising through her own website. As Daraz already was advertising on a large international scale, and to match that level for a startup like ALFIYAH, heavy investments were a must. As Shumaila stated,

> *A lot of investment is needed if you want to advertise on such a drastic level. Giving Daraz 30% of our sales amount is manageable compared to the marketing that they are doing for me. It is well worth the money spent on it.*

Exhibitions

Shumaila also started exhibiting her products in different exhibitions held across the city. This helped in increasing the brand's sales and at the same time helped Shumaila to learn about the changing market trends and fashion. During WomenX, Shumaila got a sponsorship to visit Dubai for a conference. On the advice of her mentor, she used that opportunity to attend a clothing exhibition that took place at the same time. There she got a chance to meet some potential vendors, explore the Dubai market, and see the type of demand and latest trends being followed for abayas. Shumaila took advantage of the Dubai platform to officially launch her abaya brand, ALFIYAH, at Grand Excelsior Hotel Bur Dubai (**Exhibit 6** shows the brand's official launch in Dubai). She launched ALFIYAH as a new product line under her already established online clothing venture, Ipek. At the Dubai exhibition, for the first time she had a real-time interaction with her customers. She considered this as a great achievement, as previously all the shoots that happened at Daraz were not in her presence.

Social Media Marketing

ALFIYAH's Facebook page managed to garner a lot of attention from the customers. However, the challenge was to actively manage the page by updating content, responding to customers' queries, and keeping the customers engaged. This proved to be a challenge for Shumaila. According to her, there was one major hindrance that could stifle her progress, that is, social media marketing. As she quoted,

> *I can't be jack of all. Designing is my field but when it comes to social media marketing, I don't have much know-how about it. I post updates in months, and find it very difficult to use this means of communication to spread my message across.*

Shumaila was highly cognizant about the fact that if competitors like Daraz were actively marketing their designs, and she was lacking in this trait, it could be a big barrier for her growth. Therefore, she was thinking to outsource the marketing functions of her venture but at the moment she did not extend her focus to the area where she had to invest in heavily. So for now, Shumaila sought help from her children or relatives, who could facilitate her in these matters.

Special Discount offers

ALFIYAH also offered special discount offers on Muslim festivals, like Ramadan, Eid, and pilgrimage trips to help encourage repurchases in the brand (**Exhibit 7** shows discount offers offered by ALFIYAH on Facebook page).

Way Forward

It was November 2017 and Shumaila was reflecting upon the progress of ALFIYAH so far. After going through the rigorous women entrepreneurship training at IBA, she subsequently realized the need to reach her full potential. The same platform opened new networking opportunities for her paving a path toward growth. A friend at WomenX recommended Shumaila's abaya brand to her friend, Kashif Rizvi. Kashif was working in collaboration with Sara Chaudhary to launch an abaya brand in Lahore, by the name of "Al Haya." He approached Shumaila, as they were in need of a designer to look after their supply. While reflecting on the phone call from Kashif, deep inside her heart Shumaila knew that she would have to make key decisions to achieve the level of growth that she aspired to reach.

There were two options offered by Kashif. First, Shumaila could opt for a partnership with Kashif on the Lahore-based brand "Al Haya." In this, he also recommended opening up a physical store in Karachi for their brand. This option will be a major move for ALFIYAH toward the next level, but opting for partnership means a compromise on the liberty of her own ideas in terms of designing. The other option was that Shumaila could only act as a supplier, that is, supplying newly designed abayas for the new brand. This option would have led to an increase in number of orders, thus leading to an increase in revenues. Also, collaboration with a famous artist, Sara Chaudhary, would have helped Shumaila to establish a strong presence in the market. However, the downside of this option was that working for Sara Chaudhary's brand would lead to lower brand awareness for ALFIYAH. Shumaila was contemplating on her next move.

Exhibit 1: Products offered by Ipek

Source: Pictures provided by the owner

Exhibit 2: The Competitor's Profile

Dibaaj

Dibaaj is a popular brand name for stylish, modest clothing for Muslim women, designed by Maha Sajid. With their edgy cuts and flowing fabrics, their clothes define true elegance. Even better is how their versatile clothes can be transformed into three to seven styles by being tied in different ways. They can also be worn as jalabiyas, dresses, gowns, and simple wrap-overs.

ABAA

Hareem Zahid started her business of abayas after doing an entrepreneurship course at IBA. As she narrated, "ABAA is not just a venture, or a home-based business that is there to make money. ABAA is a story of passion, dedication and unwavering strength of its team, to make a difference to the world, translated into a brand, that exists to serve the modest women and those who wish to choose modesty in future."

Abaya Collection

An online based abaya venture, with the mission of "The range of clothing you find among Muslims is a sign of great diversity among the Muslim community. Abaya Collection is here to give you that diversity."

Hijaab Boutique

An online based abaya venture, with the mission of "providing fashionable, modern and elegant abayas for the modern Muslimah."

Exhibit 3: ALFIYAH's Newly Designed Logo

Source: Provided by the Owner

Exhibit 4: Products Offered by ALFIYAH

Source: Pictures provided by the owner

Exhibit 5: Product Development by ALFIYAH

Figure 1: New Collection of Embellished Scarves Line

Source: Pictures provided by the Owner

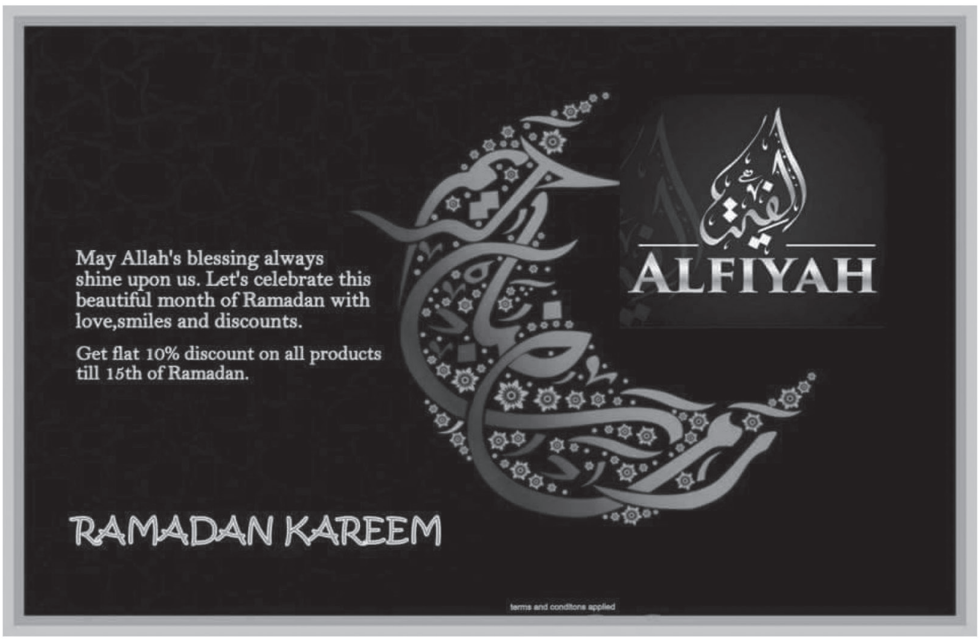
Figure 2: Handcrafted Prayer Beads (*tasbih*)

Source: Pictures provided by the Owner

Exhibit 6: ALFIYAH's Official Launch in Dubai

Source: Picture provided by the Owner

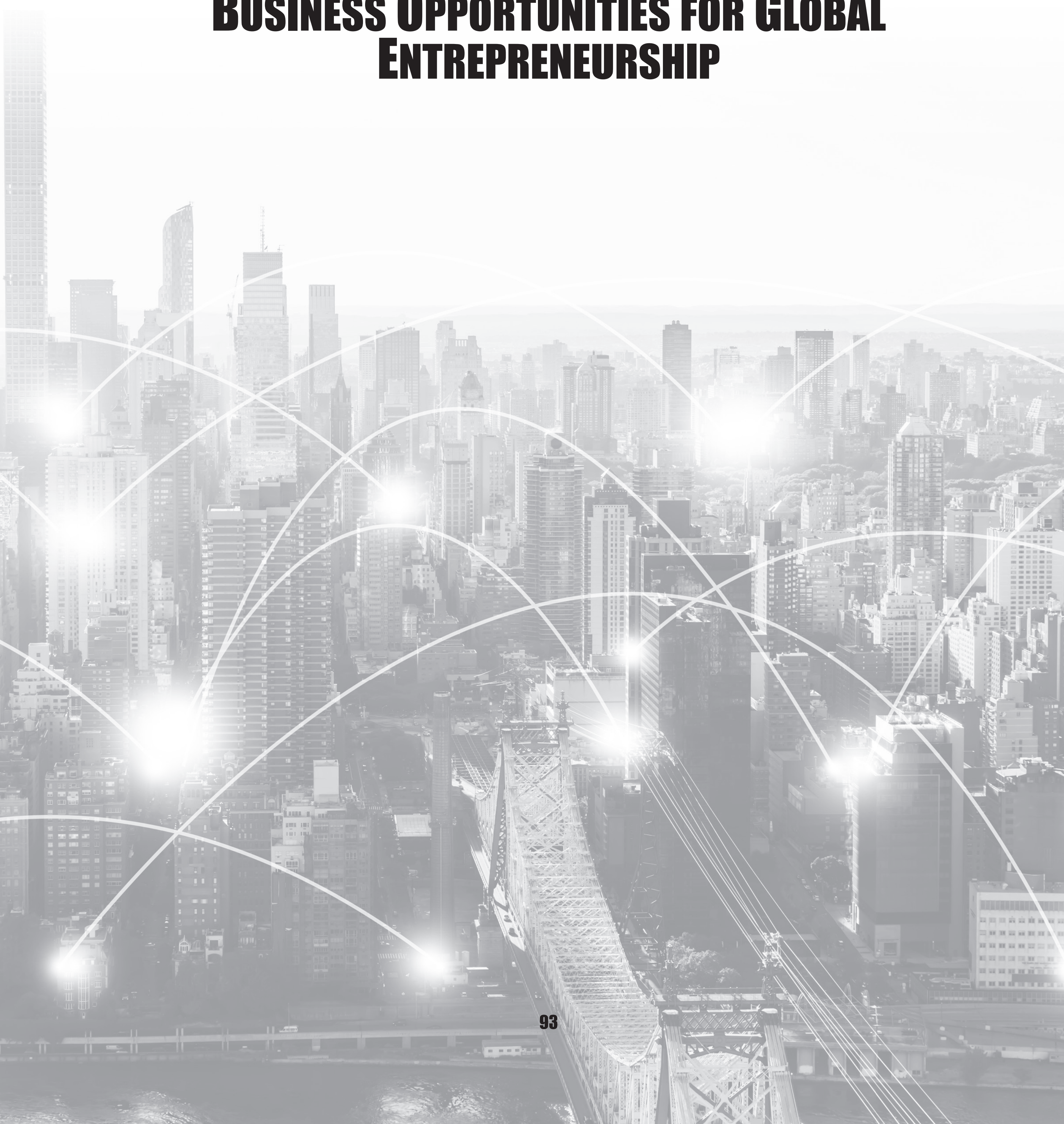
Exhibit 7: Discount Offers Offered by ALFIYAH



Source: provided by the Owner

Chapter Five

Business Opportunities for Global Entrepreneurship



Growing Global Pains at Growth Cycle Strategies, Inc.

Dianne H.B. Welsh
The University of North Carolina at Greensboro

Learning Objectives

1. *Analyze* how to achieve market penetration for a small business with limited resources.
2. *Evaluate* how to determine the target market for a company.
3. *Understand* the challenges of market penetration for a small company.
4. *Evaluate* the most effective sales methods that are available for the company.
5. *Evaluate* the most effective growth strategies for a small business in the marketing area.

Key Words

Growth
Marketing Issues
Small Business

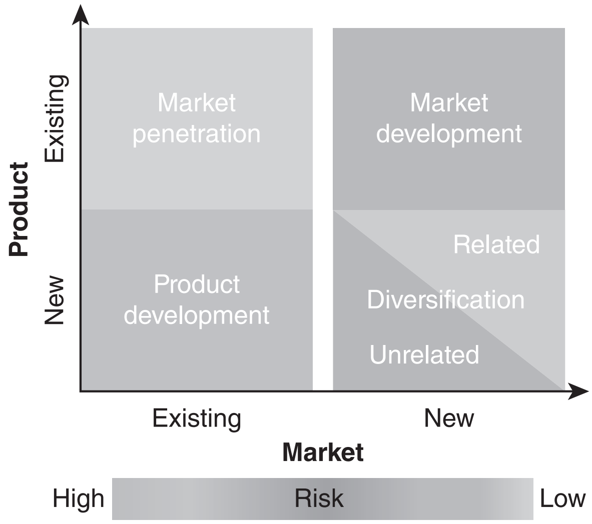
Abstract

This case discusses a small, growing marketing consulting firm that works primarily with product managers to become more strategic. Life Style Strategies targets industrial and high-tech firms with sales volumes of $25 million or more annually. Firms with lower revenue levels will not typically employ product managers. To continue to expand, the company must expand its company base from 30 clients. The firm has established goals to complete 24 training seminars and 12 consulting jobs per year. The dilemma for the company is how to best strategically grow the entrepreneurial company and keep its culture and client base? Should they target entrepreneurial companies that have gone global?

Dilemma

In general, there are strategies that help a business to grow. These strategies include penetrating the market, developing the market, expansion of the product, and diverseness and accession (KCB, 2020). Growth Cycle Strategies is a firm that helps maximize the role of product managers for other firms through two means. First, the firm trains product managers to perform their roles as strategists. Second, the firm consults with those who manage product managers to help them understand how to realize a better return on their investment from their employees. A variety of industries are realizing that training for product managers is crucial to success.

Jack Elliott and Joe Brooks have, over 3 years of being in business, built a base of approximately 30 clients. Growth Cycle Strategies has earned a high level of customer satisfaction in its consulting and training engagements. The partners' experience in the area of product development and their ability to share their knowledge effectively with the product managers of their clients makes their service unique and valuable.



The backgrounds of the partners of Growth Cycle Strategies combine knowledge of technical detail with sales ability; however, both confided that sales were the least favorite part of their job.

The company target is industrial and high-tech firms with sales volumes of $25 million or more annually. Firms with lower revenue levels will not typically employ product managers. Growth Cycle Strategies targets industrial firms rather than consumer goods firms because this is the area where its partners' expertise lies.

Decision makers within the target market tend to vary widely. That is, the firm has worked with marketing managers, directors of product management, and vice presidents of sales and presidents of companies.

For the company to continue to succeed, Growth Cycle Strategies must continue to grow its client base. The firm currently conducts one training seminar per month and completes one consulting project every 2 to 3 months. The firm has established goals to complete 24 training seminars and 12 consulting jobs per year.

Jack and Joe handle the marketing efforts of the company, which takes about one third of their time. Growth Cycle Strategies has a website that gets about 1,000 hits per month (without being linked to other sites). The firm tried a direct mail campaign last April and had a response rate of 1.5%, which was good for direct mail; however, the quality of the leads was poor. Often the individual responding was not the appropriate decision maker within the company. Now the focus is on building a referral network via existing satisfied clients. A $100 gift certificate to Amazon.com for any referral that generates business has resulted in a number of new accounts. When the firm connects with a prospective client's decision maker (regarding that company's training budget), "we have no problem selling (our service)," says Jack.

As Growth Cycle Strategies continues to grow, Jack and Joe will have less time to devote to marketing and will need to concentrate on servicing their clients. Jack and Joe acknowledge that it may be time to add someone to the company in some capacity. In order to serve the client well and maintain Growth Cycle Strategies's high level of customer satisfaction, they considered hiring a person with a product development background whom they could train to handle a portion of their responsibilities, including sales/marketing and consulting/training. The dilemma of Growth Cycle Strategies is how to grow the company effectively.

The position of the business inside its industry life cycle is controlled by eight factors. These factors include business development rate, market development potential, the breadth of product offerings, competition, distribution of market share among competitors, client loyalty, obstructions to entry, and technology (Channon, McGee, & Sammut-Bonnici, 2015).

COVID-19 has had a major impact on businesses in general and specifically on the business life cycle. Big scale quarantine, travel limitations, and social-separating measures have contributed to a sharp fall in buyer and business spending (Craven, Mysore, & Wislon, 2020). All these factors are contributing to lowered consumer confidence and buying. Although the outbreak is predicted to be under control in many places of the world by late in the second quarter (Craven et al., 2020), the self-reinforcing dynamics of a recession have kicked in and are predicted to prolong the economic slump until the end of the third quarter and beyond into 2021. Shoppers remain at home, organizations lose income and lay off specialists, and joblessness levels are rising to unprecedented levels not seen since the Great Depression. Business speculation contracts and corporate bankruptcies have increased, squeezing the banking and financial systems (Craven et al., 2020). How the pandemic outcomes will have a long-term effect on the life cycle of businesses remains to be seen.

Discussion Questions

1. What is the current target market and what research needs to be undertaken regarding this target market? Should a global market be included? How does the company go about attracting these firms?
2. Why isn't the firm reaching the targeted volume of sales now?
3. Is the current marketing strategy sufficient to increase the volume of sales? Why or why not?
4. What are ways of maximizing the current client base?
5. What are the advantages and disadvantages of hiring an additional sales person or direct sales force?
6. Can the company grow and maintain its current staffing structure?
7. What would you recommend the company do to achieve its goal of growing the business?

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Relevant Videos

7 Small Business Marketing Strategies Top small business marketing strategies:
https://www.youtube.com/watch?v=674OfDJwIAI

Inbound marketing Houston . B2B Marketing . Houston SEO . Industrial Marketing:
https://www.youtube.com/watch?v=tvTX6XyKAmo

B2B marketing in a digital world:
https://www.youtube.com/watch?v=-nTkBhsUIRQ

Small business growth:
https://www.youtube.com/watch?v=Q0rUKthhTVM

How to Attract Customers to Your Small Business | SB Startup 1.0:
https://www.youtube.com/watch?v=6rQ-U6zDNDE

Flex: Foreign Direct Investment Decisions in Central Europe

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Learning Objectives

1. To examine multiple factors that influence the decision of a business on where to locate its operations, particularly the role of government incentives.
2. To discuss the potential conflicts of interest that may arise between a business and the location it chooses to start up or expand operations.
3. To assess the implications of the decision by a business to relocate away from (or disestablish or diminish) operations in a particular location, from the perspectives of both the business and a variety of other stakeholders.
4. To evaluate the impact of social responsibility on entrepreneurial decisions.
5. To debate the merits and drawbacks of government incentives in attempting to attract foreign investment or to boost local entrepreneurship.

Key Words

Foreign Direct Investment (FDI)
Divestment
Eastern Europe
Government Incentives
Community Impacts

Abstract

This case describes the investment, establishment, and divestment of a major international electronics manufacturer in the Czech Republic and its impacts on local government policies and popular perceptions. As one of the world's largest original equipment manufacturers (OEM) of electronics, Flex has won numerous awards for quality and is a key supplier to many famous brand names. Among its manufacturing operations in over 30 countries, one example stands out as more interesting and intricate than the rest. This case describes how Flex (formerly known as Flextronics) invested in and subsequently divested from a major factory in Brno, Czech Republic, with a focus on government incentives and community involvement, contrasting attitudes and perceptions of the parties involved. Entrepreneurship decisions undertaken by the national and local governments, a major foreign multinational enterprise, and local firms resulted in changes that led to questions about the viability of early decisions and what should replace the firm after it departs.

The key events described here took place primarily between 2000 and 2002, when Flextronics developed their production site in the Czech Republic. Awareness of both the contextual background predating the case and the many subsequent consequences and options still affecting the area two decades later is essential to understand the long-term aspects of commitment (by all parties) to entrepreneurial ventures, particularly when they involve volatile foreign direct investment.

Czech Republic

The geographic center of Europe is not located in Germany or Austria, but in the small country called Czech Republic, which premiered on world maps in 1993 after the dissolution of the former Czechoslovakia. In November 1989, Czechoslovakia experienced the so-called Velvet Revolution that initiated democratic development and a graceful exit from under the direct influence of the former Soviet Union. The Czech Republic borders on Germany, Poland, Austria, and the Slovak Republic—half its neighbors were in the European Union at the time of the case, but the Czech Republic was not. Ten million Czechs reside on 78,860 km^2 area, speak Czech (a Slavic language similar to Polish or Slovak), are the biggest per capita beer consumers in the world, and honor their history and traditions. The capital Prague is the natural centre of the country, with 1.2 million inhabitants. The Czech Republic is a member of the United Nations, North Atlantic Treaty Organization (NATO), and Organization for Economic Cooperation and Development (OECD), among many other international associations. Economically, at the time of the key events of this case, the country was in transition from a centrally planned economy to a market model. Privatization of some key industrial giants had already been accomplished. Development of selected economic indicators leading up to the investment by Flex is documented in Table 5.1.

The Czech Republic is strategically located on the border between classical West and emerging East European markets. The extensive transport infrastruc-

TABLE 5.1 **Economic Indicators of the Czech Republic**

	1997	1998	1999	2000
GDP per capita (USD, PPP)	13,200	13,300	13,700	13,800
Budget balance (% GDP)	–1.4	–1.4	–2.4	–3.4
Long-term interest rates (%)	10.53	12.12	7.57	6.77
Trade balance (% GDP)	–9.2	–4.6	–3.5	–6.1
Average inflation rate (%)	8.5	10.7	2.1	3.9
Unemployment rate (end of period, %)	5.23	7.48	9.37	8.78
Average monthly gross wage (USD)	NA	361	366	350
Average exchange rate CZK/USD	31.71	32.27	34.60	38.59
Average exchange rate CZK/EUR	35.80	36.16	36.68	35.61

Source: CzechInvest (2003).

ture and geographical position highlight the country's role as a crossroads of major European transit corridors. For example, there are more railway lines per square kilometer than in any other country except Luxembourg, and the motorway network is among the densest in Central and Eastern Europe.

Investment Incentives

CzechInvest was founded in 1992 by, and reported to, the Ministry of Industry and Trade of the Czech Republic. The major goal of this governmental agency was to attract new investors. The organization drove its business through several domestic and seven international representative offices—two in the United States, and one each in Belgium, Germany, France, Great Britain, and Japan. One of the major concerns of CzechInvest was that foreign investors preferred to place their new facilities in neighboring transition economies, especially in Hungary, where investment incentives were introduced as early as 1993.

The first incentives package, setting the minimum investment threshold at USD 25 million, was approved by the Czech Government in April 1998 (Decree No. 298/98). In December 1998, the minimum investment level was reduced to USD 10 million (Decree No. 844/98). In February 2000, the Czech Parliament approved a new Act on Investment Incentives, effective May 2000, which replaced the foregoing decrees and reduced the minimum investment amount to CZK 175 million (approx. USD 5 million) for specified geographic areas experiencing high unemployment.

The Czech scheme consisted of public support incentives typical in OECD countries. Tax relief on corporate tax for 10 years was granted to newly established companies, while partial relief from corporate tax for 5 years was offered to existing legal entities. Job-creation grants varied across industries and regions according to government strategy, which was strongly influenced by unemployment levels. In 2000, the national unemployment rate reached 8.8%, a rather moderate figure for the region. Grants for retraining staff and for further education of potential employees were offered for up to 5 years of a new investor's operation. The final point of the incentive scheme was provision of low-cost land. Overall the subsidy for start-up business activities could last up to 10 years and cover up to 50% of investment costs.

The City of Brno

Brno is the second largest city in the Czech Republic, with 380,000 inhabitants, and is located in the southeast of the country, near Austria and Slovakia. The city constitutes the centre of the province of Moravia, one of the historic lands of the Czech people. The earliest known settlement in the area of Brno, by homo erectus, has been dated to earlier than 400,000 BC. The town's key architectural feature, its medieval castle, traces its origins to 1021 AD. Two rivers, the Svratka and Svitava, flow through the town.

Masaryk University, with more than 20,000 students and the second largest in the country, was founded in 1919, and its nine faculties comprise a wide range of areas including law, medicine, science, arts, education, economics, informatics, social studies, and sport education. More relevant to the investment and entrepreneurial focus of this case is the Brno University of Technology, with 15,000 students in civil engineering, mechanical engineering, electrical engineering and communication, business and management, fine arts, chemistry, and information technology. The Brno University of Technology was established in 1899 by a decree of Austro-Hungarian Emperor Franz Joseph I. The capability of Czech engineers is believed to be a crucial factor for attracting foreign investors. To complete the picture, there are several other smaller tertiary education institutions—Mendel University of Agriculture and Forestry (6,000 students), Veterinary and Pharmaceutical University (2,000), Janacek Academy of Musical Arts (500), and Brno Military Academy (1,000).

At the time of this case, focused around the year 2000, there were 25 banks in the city, including branches of foreign banking houses. More than 500 advocates (lawyers) and 11 legal advisory firms operated in the area at that time. All the necessary services were available to Western standards. Although the local international airport dispatched 110,000 passengers in 2000, it was more common to land at the much larger and better-connected Prague or Vienna airports, each about 2 hours drive from Brno. The city lies on the highway between Prague and Bratislava (capital of neighboring Slovakia). Brno has many leisure facilities, ranging from its own opera house to large sport grounds. A dozen important museums can be found in the city, along with twelve theatres. The Tugendhat Villa, designed by the architect Mies van der Rohe, is a unique example of the "international" style of modern architecture from the 1920s, designated by UNESCO as a world cultural heritage site. The city annually hosts a large international fireworks competition at the end of May/beginning of June.

Brno's long industrial history produced local capabilities that are especially favorable toward machinery and electronics. At the end of the 1990s, the city decided to attract new businesses and enlarge its existing industrial districts. Two potential locations, called Industrial Zone Černovická Terasa and Czech Technology Park, were established. In 1999, the Industrial Zone Černovická Terasa was ready to accommodate its first investors, for whom it was hoped the unemployment figure in the Brno region (9.4% at that time) would appear rather attractive. The whole area was the property of the City of Brno, which bought out 50 hectares from private owners for 260 million Czech koruna. In total 179 hectares of flat terrain were available for new greenfield investment sites. The locality had good access to major highways, a rail line, and the airport. For the total tender, including the technical network on the land, the City treasury paid roughly half a billion Czech koruna, expecting to recoup this investment within 10 years.

Company Background

Flex was founded as Flextronics in 1969 in Newark, California by married entrepreneurs Joe and Barbara Ann McKenzie to provide manufacturing services to electronics companies in Silicon Valley. In 1980 Flextronics was bought by a group of private investors, who transformed the company into a contract manufacturer, assembling for instance Hayes Modems or early servers for Sun Micro-systems. By the late 1980s, the company had grown to USD 200 million annual revenues.

A Singapore manufacturing facility was set up in 1981, the company went public in 1987, and in 1990 returned to private ownership through a leveraged buyout, shifting its operational headquarters to Singapore although the corporate office remained in San Jose. (In 1994 it went public a second time, and remained public throughout the time of this case.) Major clients included Microsoft, Hewlett Packard, IBM, Ericsson, Cisco, and Philips. The company positioned itself in low labor cost territories with an emphasis on minimal time delays and transit costs during production. In 1998 revenues reached USD 1 billion; a year later, 2 billion; and the following year 4.3 billion. Globally, the company employed more than 36,000 mostly blue-collar workers. In 2000, the firm was just about to launch production of Microsoft's first game console, the Xbox. In April that year, Flextronics completed the acquisition of DII group, adding 50,000 workers in a variety of assembly operations. Multek, the semiconductor design division of DII, was the pearl in this deal. At the end of 2000, Flextronics ran more than 100 facilities in 28 countries.

Building the Czech Plant

In 1998, Flextronics established a factory in the former facilities of the Tesla* Brno company, where they employed 1,100 people (*note: This had nothing to do with the current Tesla, Inc., company founded in 2003 by Elon Musk and others; both are named after the famous inventor Nikola Tesla, who lived from 1856 to 1943). In May 2000, a delegation from the City with the Lord Mayor of Brno Petr Duchoň traveled to the larger premises of Flextronics in Nyiregyháza, Hungary, to witness deep cooperation between a city and Flextronics in progress. Members of the delegation were impressed by the responsible and mutually beneficial relationship between the local community and the company.

Flextronics officially announced construction of a new plant in Brno, with the foundation stone laid on 28 June 2000; in it, U.S. ambassador to the Czech Republic John Shattuck embedded a metal casket with newspapers of the day, factory construction plans, and Czech and American coins. At the accompanying press conference, Flextronics made public the development of a new industrial park located at Černovická Terasa, proposing an investment of up to USD 20 million and employment for 3,000 local workers. The city representatives, company senior managers, and the U.S. ambassador faced the cameras and revealed enthusiastic plans about prosperous local communities and a new partnership of local and global know-how. Flextronics believed the final investment could reach up to USD 100 million during the following 5 years.

After negotiations with CzechInvest, Flextronics was awarded government subsidies for creating new jobs and a tax allowance, totaling 100 million Czech koruna (USD 3.5 million). The contract between the company and the government stated that Flextronics would invest no less than USD 10 million within the following 3 years. More than 40% of the overall investment had to be spent for machinery and technology. Another commitment comprised training a minimum of 225 people.

Furthermore, the City of Brno provided 7 hectares of land for the symbolic price of 1 Czech koruna and rented additional properties free of charge, providing 45 hectares of land in the industrial zone. Official valuation carried out by the competition authority (Czech Office for the Protection of Competition) reported that the 7 hectares would be priced at 291 million Czech koruna (USD 8 million) and the annual letting fee for the additional land would be 29 million Czech koruna (USD 800,000). In return, the contract between Flextronics and the City of Brno guaranteed creation of 3,000 job opportunities by 2005 and maintaining of such employment levels until 2010.

The construction of an 18,500 m^2 hall started immediately in July 2000 and was finished at the end of October 2000. Production started ceremonially on 6 November 2000. Continuous operation required that each worker undertake three 12 hour shifts per week. An average employee had a high school education, while 10% had a university degree (echoing the percent of the total population with that level of qualification). 5% of staff attended free English classes offered by the company. Flextronics's annual report for the fiscal year ended March 2001 comments: "We also anticipate incurring significant capital expenditures and operating lease commitments in order to support our anticipated expansions of our … regional manufacturing facilities in the Czech Republic" (Flextronics, 2001, p. 30). Due to high demand, the company added temporary jobs and the total employment peaked in 2001 with 2,500 workers. In April 2001, Flextronics offered two-year scholarships for up to 15 prospective students at Brno tertiary education institutions.

A new 17,000 m^2 hall was built within 105 days and started producing electronic components in December 2001. Total investments exceeded 400 million Czech koruna. Everything seemed to be a big success. In March 2002, Flextronics actively participated in the big national job fair held at six major technical universities throughout the country, trying to recruit the best university graduates. Production lines ran at full capacity. The company had been regularly reported to be among the most benevolent employers in the region.

Take Off

The annual report for fiscal year 2002 contains a scant four pages—including the front cover consisting of a single photograph, and the back cover featuring only contact details. The introductory paragraph of the CEO's Letter to Our Shareholders notified them that

> *The 2002 fiscal year was one that saw many changes at Flextronics. It will come as no surprise to our shareholders that the year was a tough one, for our company, our industry, and especially for our customers. Revenue in the industry dropped for the first time since we became a public company in 1994, and profits even more so. Margins came under pressure, and we were forced to engage in major cutbacks to our business. Despite this extremely difficult environment, we were able to grow our revenues, add a number of important customers, and focus our efforts on a number of initiatives, which will make the company much stronger when the inevitable upturn arrives. We call this period "the end of the beginning" as Flextronics transi-*

tions from its contract manufacturing roots to offering a full range of mature services adding even more value to our customers.

Flextronics (2002, p. 2)

From the beginning of 2002, Brno's factory started to continually reduce its staff. When the Labour Office registered 200 to 300 new applicants—former Flextronics workers—for unemployment benefits, warning lights began to flash. In the middle of May 2002, it was made public that a part of the Hungarian activities would be shifted to China, as a joint decision of Microsoft and Flextronics. Hungarian Internet-based daily Világgazdaság indicated that relocated production of Xbox game consoles would cut some twelve hundred jobs in Hungary. A few days later, Flextronics made public its decision to cut 550 jobs in the Czech plant by the end of August. The reason—global recession in the industry.

In a shock announcement, Flextronics's managing director for European operations Jutta Devenish announced on July 11, 2002 that the Brno plant would be entirely closed. One thousand employees lost their jobs virtually in the blink of eye. The shutdown was declared to be a part of European consolidation. Activities were believed to be transferred to Hungary and mostly to China. This decision by the American–Singaporean company immediately received a high degree of publicity in the Czech media. The first foreign investor to be awarded government incentives was leaving the country. Headlines asked: Did Flextronics meet all the requirements stated in the contracts with the Czech government and with the City of Brno? Did they provide as many jobs and for as long a time as promised?

Flextronics's managing director for the Czech Republic and Hungary Hugh Kelly specified that the workers would be laid off in December. In Brno, the research laboratory with some 34 staff would continue in operation. It was the biggest single dismissal of workers in the history of Brno. The city fell into shadow.

A few days later, the Czech Ministry of Industry and Trade released its preliminary findings. Deputy Minister Václav Petříček determined that Flextronics had fulfilled all the obligations arising from the memorandum. Ministerial officials were on the way to carry out a detailed investigation on the premises. City representatives contributed to the media discussion with a press release: Market rent for the land would be 55 million Czech koruna. The city would consider legal action to make Flextronics pay appropriate compensation.

In August, the City of Brno renounced the contract on the 7 hectares of land purchased by Flextronics to prevent the possible sale of that land by the company. On September 26, 2002 the Czech Office for the Protection of Competition initiated its official investigation of Flextronics International Ltd. in suspicion of not fulfilling the condition for public support. Legal machinery took the helm. The situation became even more difficult when the public learned in November that Flextronics had negotiated in the Ukraine to establish new foreign direct investment there in exchange for government incentives.

Final Bill

In December 2002, the company attracted the attention of European media once more. The Multek division of Flextronics International Ltd. decided to close factories in Irvine (California) and in Kumla (Sweden) to further reduce operational costs. Multek sites supplying the European market remained located in Böblingen (Germany) and Doumen (China). Restructuring costs were estimated at less than USD 100 million.

In early 2003, the City of Brno and Flextronics finally agreed on mutual compensation. Flextronics accepted an obligation to pay 38 million Czech koruna to the City of Brno. The company retained title to the land under the production site. The City of Brno gained the company parking, entrance building, access roads, and infrastructure.

The company's proxy statement for fiscal year 2003 revealed expected results: Cumulative shareholder return dropped by half within one year (see Table 5.2).

In April 2003, the former production site of Flextronics found its new use. The American giant Honeywell signed a contract with Flextronics renting the facilities for 7 years. Honeywell established a new manufacturing and R&D center for the aerospace industry and for automated fire and security systems for buildings. Honeywell bought the land under the factory and announced a project for further site development. The company was already known in the country for its research and development facilities, located in Prague since 1993. The Prague technological laboratory was the first such R&D facility established by the company outside the United States. Honeywell moved some of its manufacturing lines to Brno from West European locations, allowing "Go-East-mania" to reveal its friendly side. The mutual deed of release between Flextronics and the City of Brno made it possible for the Czech competition authority to officially cease its investigation on 6 May 2003.

Foreign Direct Investment in the Czech Republic Since 2003

Since 2003, the investment roadmap has changed significantly both in the Czech Republic and worldwide. The Czech Republic entered the European Union in 2004, together with Hungary, Poland, Slovakia, and Slovenia; the Baltic states of Estonia, Latvia, and Lithuania; and the Mediterranean islands of Malta and Cy-

TABLE 5.2 **Comparison of 5-Year Cumulative Return (Million USD)**

	1998	1999	2000	2001	2002	2003
Flextronics International Ltd.	100.00	236.18	652.39	277.86	338.06	161.53
S&P 500	100.00	118.46	139.72	109.43	109.69	82.53
Peer Group	100.00	219.52	426.86	215.46	154.44	67.76

The table compares the cumulative total shareholder return on ordinary shares, the Standard & Poor's 500 Stock Index, and a peer group that includes Benchmark Electronics, Inc., Celestica, Inc., Jabil Circuit, Inc., Sanmina-SCI Corporation, and Solectron Corporation. Data as of March 31.

Source: Flextronics (2003), p. 18.

prus, followed by Bulgaria and Romania in 2007 and Croatia in 2013. Accession to the European Union created opportunities for free movement of goods across national borders but within one common market. However, it also resulted in the economic conditions of newcomers gradually converging with those in Western Europe. With rising labor costs, the new member countries lost some of their appeal to host low-skilled and low-technology manufacturing sites, which have been shifting further eastward (to Central Asian countries such as Kazakhstan).

Entry to the European Union also meant that investment incentives have been decreasing and governments became more cautious about awarding large incentives to insecure investment projects. Similarly, there has been a lesson drawn from the less-than-successful Flextronics example. Since 2003, there was no further divestment by any company until the global economic slowdown hit world markets in 2008.

For example, Hitachi began constructing its factory for plasma televisions in the industrial park Triangle located 60 km northwest of Prague near the city of Žatec in 2006. Investment incentives granted by the central government reached 252 million Czech koruna—160 million for creating new jobs, 23 million for staff training, and 69 million worth of land. The company's investment peaked at 1.733 billion Czech koruna, with a projected total of more than 2,500 jobs. However, the company was forced to announce closure of the factory due to deteriorating demand in March 2009. The company declared it would pay back all of the investment incentives and meet all its obligations to the Czech government. However, all 800 employees lost their means of earning a living.

Another casualty of the global crisis was a smaller plant in Brno's industrial zone Černovická Terasa. Ohmori Technos—a Japanese parts supplier for air conditioning units—pulled out of the country in April 2009. The benefits from their investment of 440 million Czech koruna were not entirely lost as most of their plant and some 100 employees transferred to Daikin (an air conditioning units producer with facilities nearby). Within weeks, Ohmori repaid all the investment incentives it had received, in excess of 200 million Czech koruna.

Since the era of Flextronics, the city of Brno shifted its focus and successfully attracted more (but smaller and younger) entrepreneurial firms from all over the world to its industrial zone. Companies producing plastics, precision machinery, and telecommunication technologies have been operating from the zone, employing in total over 2,000 staff. The former lord mayor of Brno, Petr Duchoň, served as a parliamentarian in the European Parliament between 2004 and 2009, running unsuccessfully for the Czech Senate in the meantime. Brno emerged as the economic centre for that part of the country, gaining a reputation as a welcoming home for innovators, entrepreneurs, and investors. Even Amazon negotiated about building a distribution center in the industrial zone of Černovická Terasa in 2014, but the city of Brno, led by Lord Mayor Roman Onderka, was not in favor.

Flextronics returned to the Czech Republic on a much smaller scale in 2006, offering warehousing services to its major client Hewlett Packard from the industrial zone in the city of Pardubice, 100 km east of Prague. This facility later expanded by adding production of keyboards and plastic components for the automotive industry. In 2020, the facility in Pardubice employed some 240 people.

The company renamed itself Flex in 2015 (Flex, 2015). Flex continues to grow and thrive, investing in multiple locations around the world and being recently recognized among America's Best Employers (#361) and World's Best Employers (#373) by Forbes. Its 2019 Annual Report states that "In 1969, Joe and Barbara Ann McKenzie started a family business hand soldering electronic parts onto printed circuit boards to help Silicon Valley startups meet their dynamic capacity needs. ... The McKenzies dreamed of revolutionizing the way electronic products were manufactured, not only in Silicon Valley, but all around the world. Fifty years later, we may have shortened the company name from Flextronics to Flex, but our list of achievements and milestones over the past five decades is nothing short of remarkable. Today, we have a broad portfolio of diverse customers, including some of the best-known global brands such as Cisco, Ford, IBM, Johnson & Johnson and Microsoft. … Flex led the transition from contract manufacturing to value-added Electronic Manufacturing Services (EMS). Our top customers come from more than a dozen different industries, providing us with a unique perspective on many of the fastest growing companies, by industry and by geography" (Flex, 2019, p. 2).

Teaching Note

Case Overview

This case induces students to think about the responsibilities of entrepreneurs to local communities, particularly as they grow larger and can have a significant influence on a given location. This involves consideration of social and ethical responsibilities, beyond merely legal factors. As a secondary theme, the case leads to examination of the role of governments (at the national and local levels) in attracting investment, particularly with incentives, and how perceptions of what is an ideal investment change over time.

Relevant Courses

This case targets a range of classes, depending on which learning objectives and discussion questions are selected as the focus. It can be used to promote discussion in course on entrepreneurship and business growth, internationalization of business, the role of government policy in regional economic development, ethics and corporate social responsibility, and business communication (particularly intercultural or international business communication).

Data Sources

This case study is based entirely on public information sources. Neither of the authors has been affiliated with any of the companies, people, or authorities cited in the text.

Analysis

The case revolves around one local "greenfield" investment decision, to establish a new plant in a new location, by a large multinational that grew rapidly from a small entrepreneurial base. As such, it promotes consideration of the greater local impact of ethical considerations as an organization grows. From a second perspective, it examines efforts by local and national governments to attract foreign investment and encourages discussion of whether supporting local entrepreneurs might produce a different set of outcomes.

Discussion Questions

1. **Why do businesses such as Flextronics move "East"? Summarize the key arguments. Consider the role of labor costs for wealth creation in the "West" and the implications this has for the location decisions of entrepreneurs in various types of industry and for different business activities.**
   This question refers directly to the decision by businesses to move East within Europe, but could also be legitimately interpreted as referring to a move to the Far East (East/Southeast Asia), or indeed to any "developing" country. The principal reasons for such a move revolve around comparative advantages present in the location; some of these may already be present (such as low wages, plentiful workers, or natural raw materials), while others may be intentionally developed by local governments or businesses (including highly skilled labor, infrastructure targeted at business, or incentives such as tax holidays, land grants, or subsidized education schemes).
   The second part of the question requests comparison of the "West" with the "East." As this topic can be quite controversial, it should engender lively discussion. One perspective (among many) is that the "West" must maintain a continuous lead in innovation and entrepreneurship in order to maintain its relatively higher standard of living. Another perspective holds that developing countries will, by developing rapidly, eventually catch up with the developed ones and challenge them more directly in terms of business, leading to changes in the preferred activities of companies in developed countries. A third perspective maintains that some developing countries unfairly subsidize their local businesses (from entrepreneurs through state-owned corporations), through tax incentives, tariffs, subsidized energy or resource prices, depressed wages, and suppressed currency values. Consideration of these issues brings an added ethical dimension into the decision process of entrepreneurs debating where to locate or expand their operations.
   Variation by type of industry is common—for example, manufacturing assembly operations are typically outsourced to East and Southeast Asia, while service operations (such as call centers or X-ray reading) are typically outsourced to India (with a great many competitors offering alternative services from multiple different language bases, e.g., Morocco for French and Spanish, or Libya for Italian).
   Some localities focus on particular types of industries or activities in which they have historic competitive advantages—for example, in this case, the town had historical capabilities in engineering-related industries, and continued to promote these via focused educational facilities; its efforts to attract investors targeted its existing capabilities. An established reputation for excellence in a particular field is in itself a major drawcard for a region.

2. **What are the ethical concerns about the decision to shut down Flextronics's plant in Brno? Are those different from the legal obligations of the firm? Define the stakeholders involved in the decision and their perspectives on the situation.**
   Some of the ethical concerns relate to the labor force—people (with families and mortgages) who were promised employment and now find themselves without a source of income in tough economic times. Another set of ethical considerations revolves around whether the agreements between the company, city, and national government were met as a matter of principal. These are distinct from whether all of the terms and conditions of the legal contracts were met—the latter being far easier to ascertain (and even that took nearly a year to finalize). One could hypothecate over the ethical aspects of decision making under uncertainty—Did Flextronics anticipate that it would be abandoning its new Czech facility so soon, and when did it realize this? Why did it invest there if it anticipated moves further East in short order? Would it have kept the incentives had it not been convinced to partly reverse them by the government? Overall, the legal situation appears quite clear—the company did what it was required to do. Ethically, it appears to have behaved pretty much as could be reasonably expected under the circumstances—but this doesn't necessarily satisfy everyone, particularly in an intercultural situation where expectations can be quite different and many implicit obligations or arrangements may never have been formalized into a written contract, or even voiced explicitly by either party.
   Both the ethical and legal concerns about the shutdown decision can be seen from (at least) two perspectives—that of the company and that of the government (representing the local community). Each of the stakeholders will have a different perspective, promoting their own interests. Flextronics will attempt to maximize profit (while avoiding any serious damage to its corporate reputation). The local community will be interested primarily in jobs followed by tax revenues, but also have concerns about worker treatment in general, reputation of the town as it might be affected by the reputation of the company, environmental impacts of the operations, and overall the fairness of the deal, since it is the local community's money that is being utilized by the government to attract and support Flextronics. The city government, representing the local community but also concerned with maintaining itself in power, partly balances the concerns of the community and company, in that both must be satisfied for the company to remain, and the government would prefer that it does (for prestige as well as tax revenues and higher employment statistics). The national government of the Czech Republic would also be affected by the tax and employment situations, but doubtless has concerns about the major psychological impact of losing its first incentivized foreign investor—a damaging blow to the country's reputation as an attractive FDI target, although various macroeconomic factors (such as recession in the industry and globally depressed demand) could always receive part of the blame (outside factors don't entirely explain why it was the Czech plant, rather than some others, that was shut).
3. **Discuss the importance of government incentives for entrepreneurs. Are there any grant schemes or programs available for entrepreneurs in your country, or specifically in your region? In which sectors or areas? (Why is your government focusing on these particular sectors or areas?)**
   Government is typically the only source of incentives available for entrepreneurs and potential investors, although sometimes there are local charitable foundations, large corporate donors, civic associations, industry groups, or such that may offer support of various types. A lot of debate concerns the value and importance of

government incentives for business—whether new or established, foreign or local, large or small—and whether such incentives are ethical, anticompetitive, financially worthwhile, and so on. Many local businesses and taxpayers object to their funds being used to subsidize strangers or startups, some of which may be competitors; however, there are often other locals who are highly supportive of using taxpayer funds to attract new business (entrepreneurial locals or foreign multinationals, or anything in between, as long as they offer jobs and future contributions to the tax base). Sometimes a local community's business environment is systemically enhanced by the addition of a new competitor (for example, in telecommunications infrastructure), or through complementarity with existing businesses to strengthen a local industrial cluster. The importance of government incentives cannot be underestimated—there are many popular examples of the strong impact of such policies (such as foreign automobile manufacturers establishing factories in particular locations in the United States in response to local government incentives, or the selection of Paris by the Walt Disney Company to locate its European Disneyland park). For both this aspect and the remainder of the question, local media and government agencies should be consulted.

4. **Why do smaller entrepreneurs receive relatively smaller subsidies? Is such a policy wrong? (Why or why not?)**
   There is of course no universal answer to this question—its purpose is to provoke debate about relative risks, scale, potential, and who exactly "deserves" to be subsidized. Smaller entrepreneurs tend to experience great difficulty obtaining financing, particularly in comparison with large multinationals (who may not need the incentive at all; it may simply be a matter of choosing the best deal among many competing offers of sweeteners to bring the company to a particular location). Smaller entrepreneurs tend to be a riskier investment for governments (or anyone else). They may also have smaller requirements for funding or assistance. Further, they may be tied to a particular location already, so incentives may not be needed to lure them to the location—just ensure that they survive or have sufficient capacity to grow. Throwing huge amounts of money at unproven entrepreneurs is not a course of action that would be advocated even in entrepreneurship classes—something more is needed to warrant substantial funding support.

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Relevant Videos

The UK: The Number 1 Destination for Inward Investment (FDI) in Europe:
https://www.youtube.com/watch?v=R0UT6TGstEI

Conference: "The best FDI practices in Central and South Eastern Europe", June 5th, 2017:
https://www.youtube.com/watch?v=q2iUljSDpRI

Tutorial 1 - How to influence the EU decision-making process:
https://www.youtube.com/watch?v=ySXaFsu9BD4

Tutorial 2 - The Common Fisheries Policy:
https://www.youtube.com/watch?v=oT5hkgsTQVg

CSR Europe: Stimulating an Entrepreneurial Mindset and Promoting Entrepreneurship Education:
https://www.youtube.com/watch?v=4HnwK6SSoFA

IngPro Ltd: Grow in Central Europe:
https://www.youtube.com/watch?v=8du4TShByLk

Part Two

Specialized Topics

Chapter SIx

EXPORTING

UNAGRO Corporation: Nothing Is Impossible![1]

Flavia Barbery and Janet L. Rovenpor, Manhattan College

Learning Objectives

1. *Compare* the alternatives facing a general manager who must decide whether or not to sell two factories, sell one factory in order to save the second factory, or implement a third, innovative solution.
2. *Identify* the internal factors (e.g., company values, talented managers) and external factors (e.g., support from parent company, the imposition of new quality standards by the EU) that led to the successful restructuring of a company.
3. *Appreciate* how popular management techniques, such as the Balanced Scorecard and Goal Setting, can be implemented in companies in developing nations who employ workers from indigenous populations.
4. *Describe* the forces that enable innovation to occur within a large, diversified company.
5. *Explain* the importance of "strategic fit." All the parts of an organization—its strategy, corporate entrepreneurship goals, organizational culture, human resources, technology, and governance structure—need to be aligned in order to maximize potential and achieve goals.
6. *Understand* what is meant by "intrapreneurship" and how it is related to innovation.
7. *Realize* how exporting can be an important strategy for the international development of an entrepreneurial business.

Key Words

Amazonas SA
Bolivia
Brazil nuts
Exporting
Manutata SA

Abstract

Union Agroindustrial de Cañeros S.A. (UNAGRO) is a large diversified company based in Santa Cruz, Bolivia. It operates a number of plants dedicated to the processing of sugarcane, Brazil nuts, grain, pork, and wood. This case study focuses on the restructuring of one of UNAGRO's plants, Manutata, that is responsible

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[1] We wish to thank the following individuals for their generous time and assistance: Mr. Clover Paz, General Manager of UNAGRO; Mr. Napoleon Montaño, Manager of Human Resources of UNAGRO; Mr. Marcelo Paz, General Manager of Manutata; Mr. Alejahdro Paz, Manager of Production of Manutata; Jose Padilla, Commercial Manager of Manutata; Karen Toledo, Quality Manager of Manutata; Pricila Mariaca, General Accountant of Manutata; Lucia Cordano, Manager of Human Resources of Manutata; and Rosendo Barbery, Executive Vice President of Business Development of UNAGRO. Without their input, this case study would not have been possible.

for processing and exporting Brazil nuts. In order to keep the plant open, Clover Paz, the general manager, implemented a new human resource management system and a new nut processing technology. Improvements in the quality of the product has enabled Manutata to become a leading Bolivian exporter of Brazil nuts.

A Critical Decision

Union Agroindustrial de Cañeros S.A. (UNAGRO) was founded in 1972 by a group of farmers in Santa Cruz, Bolivia. With Roberto Barbery at the helm, as the company's visionary leader, the farmers planned to build and operate a plant dedicated to sugar and sugar alcohol production. The startup of UNAGRO was a unique undertaking. Barbery was able to convince 1,200 peasants to pool their resources and invest in the company. England's Lloyds Bank Limited provided the rest of the financing, which was guaranteed by the Bolivian government. Barbery's primary concern was to establish a just and fair working relationship between owners of sugarcane factories and farmers. A few government-owned factories in Santa Cruz had been criticized for exploiting the farmers who supplied the raw sugarcane. UNAGRO received an international award in 2019 for their work. (UNAGRO, 2019). New opportunities opened up for UNAGRO in 2019 when it formed a strategic alliance with other sugar mill operators in Bermejo, Bolivia to produce ethanol as an additive to gasoline. It thereby joined a government-supported program intended to introduce the production of biofuels at a national level ("Strategic Cooperation," 2019).

UNAGRO opened its first sugar and sugar alcohol refinery in 1977. From the beginning, the plant's managers showed concern for its employees, many of whom were also shareholders. They refused to follow a common industry practice in which laborers in the sugarcane fields were required to stay awake for 24 hours until a truck came to pick up the cut sugarcane if they wanted to receive fair wages. The company offered employees medical insurance. Its shareholders were able to lift themselves out of poverty and send their children to good schools so that they could enter professional occupations.

Roberto Barbery was UNAGRO's first president, a position he held until 1994. Under his guidance, UNAGRO became a large agricultural firm supplying products to customers on a national and international scale. In 1985, it merged with Kholvy S.A. and Jihussa Agropecuaria Y De Servicios S.A. In 1989, UNAGRO opened Amazonas S.A. and in 1995, it acquired Manutata S.A. Both plants were dedicated to the harvesting, processing and exporting of Brazil nuts. UNAGRO soon diversified into the cultivation of grain, the processing of pork, and the production of wood (**see Exhibit 1**).

UNAGRO has a democratic governance structure. Every year, there is a meeting to review the company's performance to which shareholders are invited. Every 2 years, elections are held in which a slate of candidates (and their alternates in case the officials are not able to fulfill their responsibilities) is presented to shareholders for voting. The shareholders select 10 representatives and ten alternates to serve on UNAGRO's board of directors. In turn, the board of directors elect the president, vice president, and treasurer.

Manutata's Organizational Chart: Before 1998

UNAGRO S.A. (1974)	KHOLVY S.A. (1985)	JIHUSSA AGROPEC-UARIA Y DE SERVICOS S.A. (1985)	AMAZONAS S.A. (1989)	CHANE S.A. (1993)	MANUTATA S.A. (1995)	MACONS LTDA. (1998)	UPON SOFTWARE S.A. (2003)	SAMCO S.A. (2006)	G&B Enterprise Import and Export S.A. (2008)
A sugar factory that produces high quality sugar and alcohol. It also produces energy for its own factory; the rest is sold to an electricity company, CRE (Cooperative Rural of Electrification).	A retailer that provides massive product in a national scale.	Responsible for grain cultivation and pork processing.	A factory that harvests, transports, processes, and exports Brazil nuts. It is run by the same managers as Manutata and uses the same processing technologies.	The company specialized in the cultivation, harvest, and transport of sugar cane as well as grains.	A factory that harvests, transports, processes, and exports Brazil nuts. The processing system was designed by employees. The facility is 100% environmentally friendly.	In charge of the collection, sawing, drying, and commercialization of wood.	Specialized in production and commercialization of computer programs as well as providing companies with computer consultant services.	A new business concept that provides security services and covers fires, theft, and medical emergencies through the digital monitoring of businesses and residences.	A company that produces and commercializes snacks and chocolates with Brazil nuts.

EXHIBIT 1 UNAGRO Corporation's Businesses

The Asian financial crisis in 1997 affected the Bolivian economy. The country's banks tightened their lending practices and denied UNAGRO's request for a loan. The timing could not have been worse. UNAGRO was still paying down debt it had incurred to finance the acquisition of Manutata and to purchase new equipment for a major plant renovation at Amazonas.

Luis Barbery, the chief executive of UNAGRO in 1997, scheduled an emergency meeting with Clover Paz, the general manager of Manutata and Amazonas, to discuss the company's financial difficulties. Because UNAGRO's ability to raise capital had been curtailed, it would no longer be able to provide the same level of funding that Manutata and Amazonas had enjoyed in the past.

At the meeting, Luis Barbery mentioned that decision-making at all UNAGRO companies would be decentralized. In the particular case of Amazonas and Manutata, Clover Paz would assume responsibility for deciding on a future course of action. Clover had three options: (1) sell the two factories, (2) sell one factory and use the funds raised from the sale to invest in the second factory, and (3) develop an alternative solution.

Paz made the difficult decision to close Amazonas and to focus his efforts on restructuring Manutata. He vowed that he would "do things differently." Paz was eager to implement some new ideas about management that he had been working on. Before the financial crisis in Bolivia, he had taken courses at INCAE University in Costa Rica. He was introduced briefly to such management techniques as the balanced scorecard and goal setting. The course inspired him to study these topics in greater detail on his own. On behalf of Manutata, Paz took out a loan for $25,000 at an interest rate of 6% from a private lender. He was now ready to get to work.

A Brief History of Manutata

In 1988, Roberto Barbery, the founder of UNAGRO, hired Clover Paz, a 23-year-old mechanical engineer. Paz's first assignment was to implement a new irrigation system for the company. His second assignment was to travel to Riberalta to study the feasibility of expanding UNAGRO's businesses into prospecting for gold deposits. The city of Riberalta is situated at the intersection of two rivers, the Beni and the Madre de Dios, in the northeastern region of Bolivia. The rivers are a rich source of minerals. Early explorers even believed that El Dorado, the legendary City of Gold, could be found nearby.

Barbery accompanied Paz on the visit. He had seen Paz's potential and viewed this as a way to develop the young engineer's management skills. At a local hotel where the gentlemen were staying, the talk of the townspeople was not about precious metals but about hard-shelled fruits. The Brazil nut grew on trees from the Lecythidaceae family found in the region's pristine forests. The nut was rich in magnesium, thiamine, and selenium. It could be pressed into oils. Added to fresh butter, cream, and vanilla, the Brazil nut became an important ingredient in a popular Ben and Jerry's ice cream flavor called "Rainforest Crunch."

Barbery and Paz recognized that UNAGRO had an opportunity to diversify into the harvesting and processing of Brazil nuts. A case for Brazil nuts could be made easily in front of other executives back in Santa Cruz. UNAGRO's expertise was in agricultural products; it had little knowledge of the gold exploration and mining industry. Moreover, a feasibility study on the exportation of Brazil nuts showed that the industry was headed toward profitability. In 1989, UNAGRO opened its first plant, Amazonas S.A., to harvest and process Brazil nuts. Seeing an increase in demand in the market for Brazil nuts, UNAGRO acquired a second plant, Manutata, S.A. in 1995.

The word, Manutata, in the indigenous dialect spoken in the region, means "father of the rivers." The phrase has significance for the company's employees. A "river" is associated with "water," which is necessary for all life. Manutata gives employees "water" from two rivers. It acts like a "father." Manutata plays a supportive and nurturing role in the lives of its employees. Employees, who are trying to escape from poverty, view their wages as a way to improve their standard of living.

Manutata's Mission, Vision, and Values

Clover Paz became the general manager of Manutata in 1998. With the assistance of other senior managers, he created a new mission and vision for the company. Manutata's mission is "to become a leader in the Brazil nuts' industry, marketing the nuts as an ecologically nutritive and rejuvenating product throughout the world." It is dedicated to bringing pride and recognition to the region, Riberalta and to the country, Bolivia. The company's vision is "to provide its clients with a high quality product, delivered through the outstanding efforts of a motivated workforce that generated economic growth, which would enable Manutata to become an international market leader." The company believes in responsible planning and strives to take into account the client's experience and the overall well-being of society. They are proud to have "a successful company with successful people" (Manutata, 2020).

Human capital is Manutata's most important asset. In an interview, Clover Paz stated, "Companies do not triumph, people triumph; working together means winning together. The way to achieve success is helping others to achieve success." All employees are treated equally. The only difference is that every employee has a different function. In an effort to erase distinctions between line and staff, employees are encouraged to look into each other's faces when speaking as opposed to looking down at the floor, a habit consistent with Bolivian culture. Employees have invented nicknames, such as "Inge," to address Manutata's general manager. Employees are even allowed to enter their manager's office and interrupt meetings if they have an important concern that needs immediate attention. Sometimes, the manager makes the employee part of the meeting.

Employees are put in charge of the physical space in which they occupy in the factory. They are expected to keep it meticulously clean. There are strict rules and procedures that need to be followed. Employees are tested every month on what they know and do not know about the processing and marketing of Brazil nuts. Leaders of the work teams rotate every month in order to give all members a chance to develop their skills and meet with senior managers to discuss their team's successes and failures.

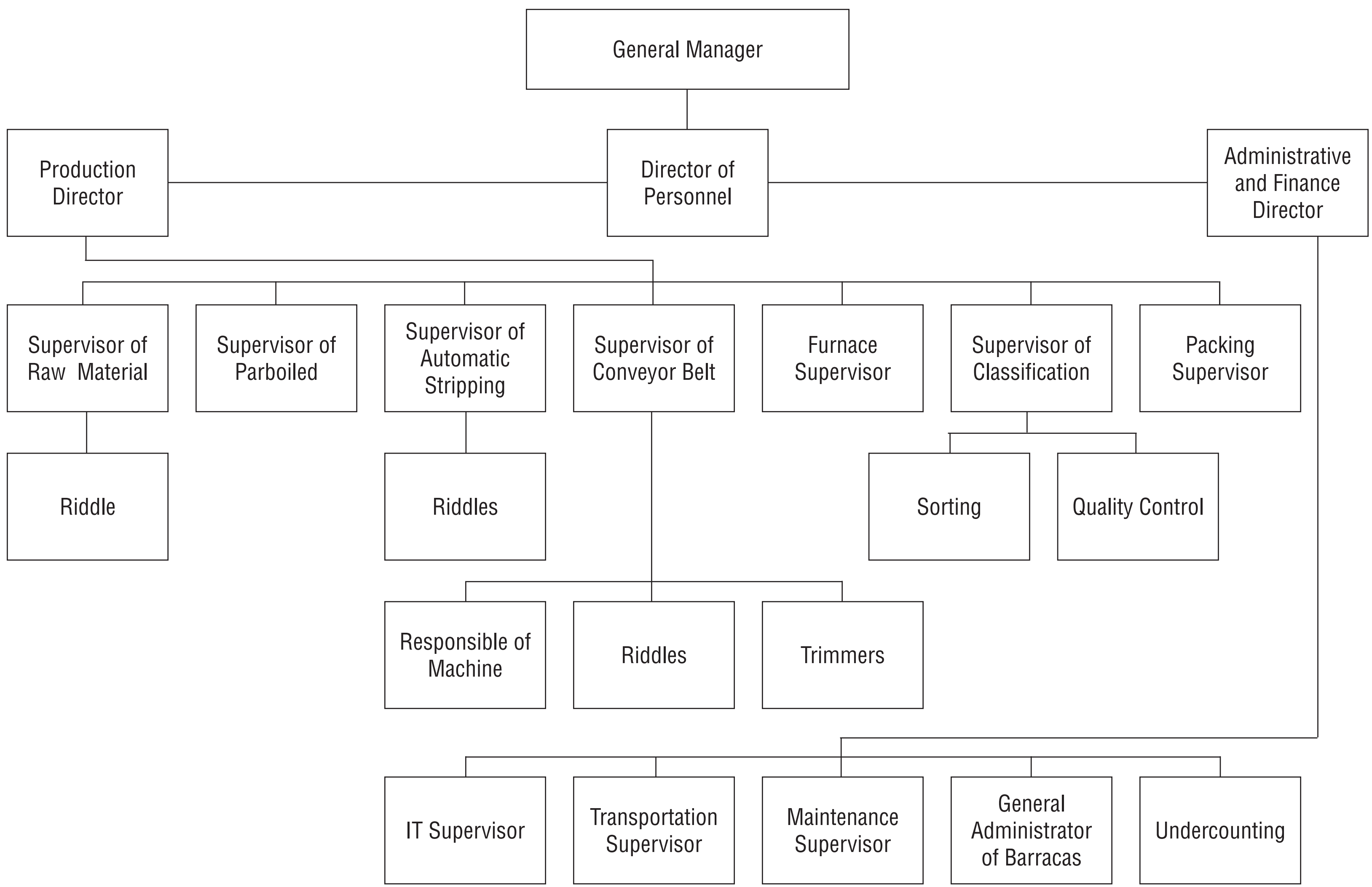


EXHIBIT 2 Manutata's Organizational Chart: Before 1998

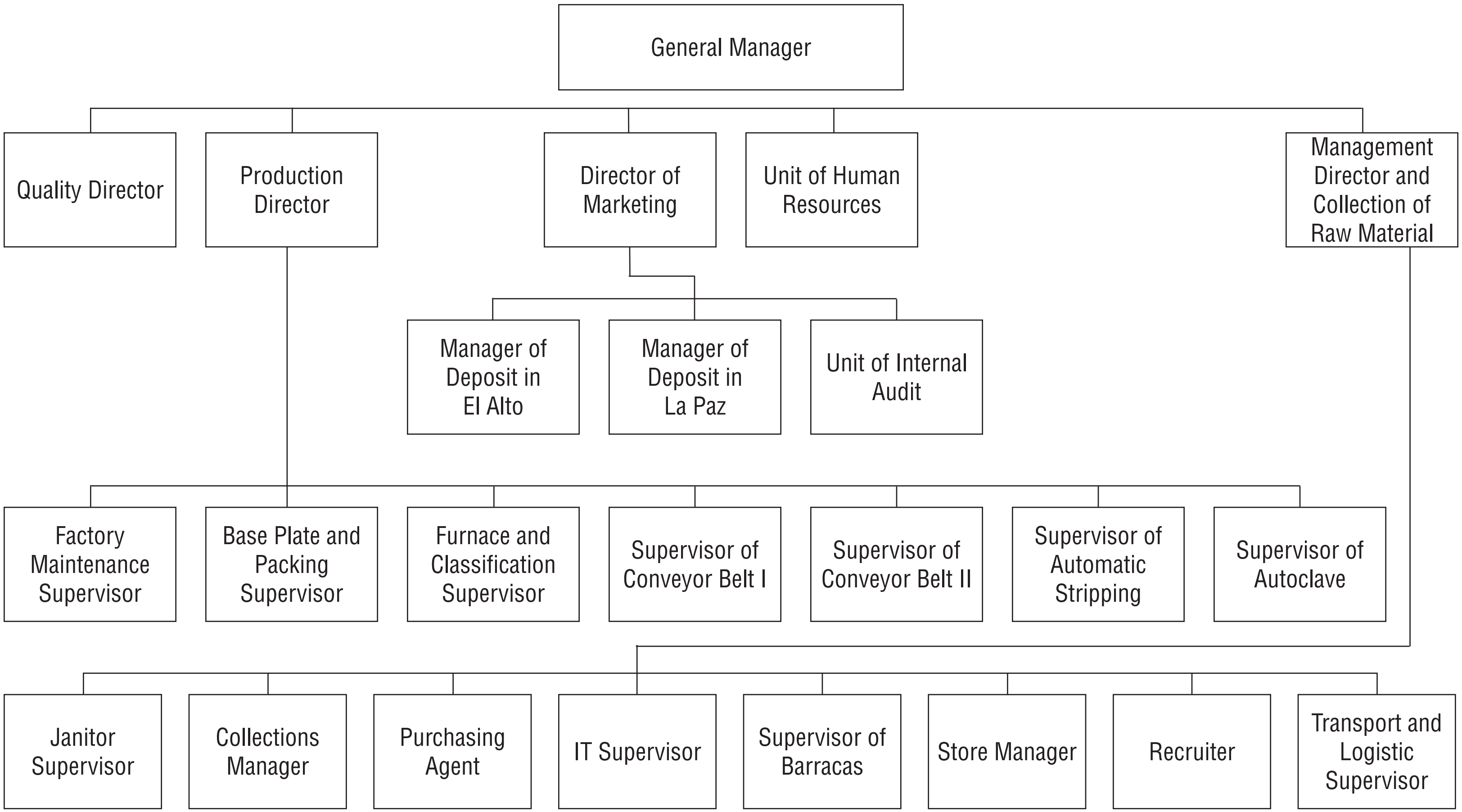


EXHIBIT 3 Manutata's Organizational Structure: After 1998

Employees are not penalized for mistakes but are expected to use them as opportunity to identify and eliminate the causes for the mistakes, thereby making the company stronger.

As Clover Paz said, "There are no bad troops, there are bad officials. Every person wants to be successful and if they do not contribute it is because the organizational culture does not let them contribute."

To support the new mission and goals, Paz put in place a new organizational structure (**see Exhibits 2–3**).

Human Resource Management

In 1998, Manutata did not have a human resources department. A director of personnel was responsible for all administrative functions, including payroll, employee contracts, and labor relations. Napoleon Montaño, a psychologist, was hired and charged with developing a human resource management department. He established formal policies regarding the selection, hiring, training, and orientation of new employees. He implemented a new motivation system in which monetary and nonmonetary rewards for excellent performance were made available to employees.

Montaño reflected on why the new motivational program at Manutata was so successful. He said, "Between 80-90% of companies fail to implement sound incentive systems. Many companies in Bolivia had a head start on us but they did not realize how important it is to get employees to embrace the new techniques. Employees must be included in strategic planning and learn about how the balanced scorecard will help them achieve their own personal goals. They need to clearly understand what is expected of them. The only way to do this is to make sure objectives are measurable and understandable.

Employees must have the objectives in the foremost of their minds every day when they are at work. This is critical for the launch of a new incentive system."

Goal Setting and the Use of Incentives

Manutata's incentive program was divided into two parts: Macro or general objectives referred to the company as a whole; micro or individual objectives were associated with an employee's position within the company. Both are interrelated and of equal importance. When every employee achieved his or her micro objectives, the company, as a whole, would achieve its macro objectives.

Macro objectives consisted of reducing costs, increasing sales, and improving productivity. They are consistent with the company's mission but could change over time. The way to reach the objectives is through development of strategies. The objectives have to be clear and be understood by all employees. The starting point for an objective is higher or equal to the one reached so far.

Micro objectives relate to an employee's position, knowledge, and hygiene. Employees are trained to become their own internal auditors. They understand the steps required to deliver a high-quality product. Every month, objectives are set. Often, the macro objective is to increase production. A related micro objective for an individual employee might have been to ensure that humidity in the plant ranged between 13% and 16%. Another related micro objective might have been to keep misclassifications of nuts by quality at the end of the conveyor belt run to under 2%.

Incentives are proportional to whether or not the objectives have been reached. They are based on individual and team performance. A percentage of wages is added to an employee's pay at the end of the month. The extra earnings could double an employee's pay for the month. Employees who reach their objectives, and who are considered among the best employees at Manutata, win a year-end trip to Santa Cruz, Cobija, Rurrenabaque, or some other place in Bolivia.

To support the achievement of the macro and micro objectives, Manutata holds two different types of monthly meetings. In one meeting, managers give employees feedback on their performance that month. Human resource specialists, with the help of sector heads, create plans for improvement for those employees that do not perform as well as expected. Employees work in self-directed teams, and the leaders are responsible for coordinating the completion of tasks.

Another monthly meeting usually takes place outside the factory where employees could be in touch with nature. Employees from each sector have the opportunity to inform the audience of recent achievements, needs, and opportunities. Employees give presentations and run the work sessions, not their managers. This gives employees an opportunity to develop their management skills. Sometimes, to prepare for the meetings, employees are given training ahead of time in the art of public speaking. Managers and area managers are people who listened, not people who directed. Employees showcase quality tools (e.g., Pareto analysis) that they know their sector has put to good use. Everyone in the meetings learn something new and participants help each other find solutions to problems. At the end of the meetings, participants enjoy a barbeque and play sports.

The rollout of the new incentive system has not always been smooth. One of the managers realized that employees did not seem to understand the objectives that were given to them. The reason was that several employees could not read or write. The managers learned that because employees could not fill out the forms required to become eligible for a monetary reward, they lost out on extra incentives. Instead of firing the employees, the manager decided that the company would teach them basic skills. In 2004, an "Alphabetization" program located in a nearby learning center was started to teach employees to read and write. Employees receive their full pay even when they are in class. Manutata pays all the required course fees. By 2010, at least 10 students had graduated from the school.

Many of Manutata's employees come from an indigenous population. They were not initially equipped with a basic understanding of workplace conventions. Employees took soap home from the factory restrooms thinking that it was like picking fruit from a tree. They jumped over the shoe cleaning equipment because they did not know what it was used for and they wore their uniforms at home as well as at work. Managers at Manutata took it upon themselves to provide basic skills training to its employees. Alongside the new incentive system, a series of comprehensive training and educational programs were launched. Some employees were deaf. Courses in sign language were given so that other employees could communicate with their deaf coworkers. Additional courses in home economics (to help families save for future needs) and family planning (to prevent unwanted pregnancies and drug abuse; to understand and manage different stages in a child's development) were also offered.

Once employees understood and got accustomed to the new incentive system, they began to earn a lot of extra money. Their purchasing power increased and many bought household items and motorcycles. Several employees expressed an interest in working on Sundays. They often tried to offer their coworkers free meals in return for their Sunday shift at the factory. If they had the choice, they would work from Sunday to Sunday. Managers felt that a focus on money and possessions was not healthy. Employees should seek an appropriate work–life balance. They are encouraged to exercise on a regular basis, spend time with their families, seek out cultural activities, and develop their spiritual sides. Manutata has launched athletic, cultural, and family programs.

Once a year, production at Manutata is halted. Employees take a scenic 5-km walk in the Amazon. The message of the march is to demonstrate that the company is not just concerned with making profits. Managers are willing to give up output in order for employees to get some exercise and appreciate the beauty of their natural surroundings.

Training and Quality of Life Programs

On-the-job training is made a priority at Manutata. The company provides 2,400 hours of training per year. Employees take courses in quality management tools (e.g., the cascade system, cause and effect, and cobweb). They could also choose courses that teach them how to become a leader or how to manage their relationships with coworkers and acquaintances in social situations.

Each employee is provided with a food safety manual filled with simple explanations and diagrams describing the quality certification system (i.e., HACCP), the steps in the processing of Brazil nuts, and the requirements for maintaining a clean work environment. The manual even points out the proper way to wash hands before and after starting to work. A company-provided uniform has to be worn correctly before entering the factory and removed at the end of the workday. Policies promoting excellent hygiene are to be meticulously followed by highly qualified employees. All employees, not just those who worked in the plant, are required to know the manual perfectly.

Managerial employees are also trained constantly. If funding was available, they take classes abroad like the senior management program or the human resources program offered at the INCAE University. After finishing a program abroad, employees are supposed to come back and teach what they have learnt to the group.

Not everything at Manutata is hard work. There is time to relax and have fun as well. Sport and recreational activities are held during the year. These include internal soccer tournaments, volleyball championships, and marathons. UNAGRO's Olympic games for Manutata's employees and also for employees at the other companies are the most popular. The games are held in Santa Cruz City. It is possible for employees to meet one another for the first time even though they would have communicated with one another on the phone for business purposes.

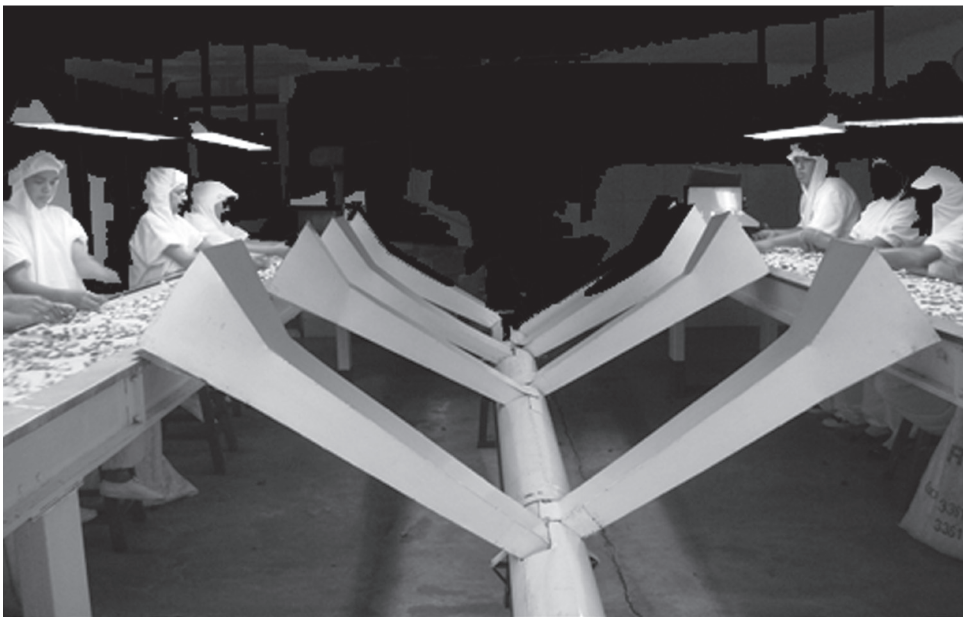
Manutata celebrate special days like Mother's Day, Father's Day, Labor Day, and the company's anniversary. The children of Manutata employees also have their own celebrations where they get presents and play games. They visit the factory and learn about the jobs their parents hold. They could join the company's cinema club. Once a month, employees who have their birthdays that month are recognized.

The Processing of Brazil Nuts

The original Manutata plant relied on a manual peeling process for the nuts. The process was time-consuming and inefficient. As soon as the plant was acquired by UNAGRO, managers went to work to implement a new technology first developed by Amazonas. The extensive factory renovations have increased productivity and the quality of the product, making its exportation to other countries possible (**see Exhibits 4 and 5**).

Here is how Manutata's processing system works. In the first phase, state forest owners or "barracas" gather the Brazil nut fruit that have fallen to the ground in the Amazon. They are packed in bags of 60 kg and transported on barges that moved along the river or on trucks that traveled on roads down to Manutata's factory. As soon as the bags arrived, they are weighed. The Brazil nuts are then dried in rotating cylindrical machines and placed in special containers for preservation.

In the second phase, the shelled nuts are spread out on conveyor belts for classification by size. An autoclave thermal system, which applies steam pressure to the shelled nuts, starts the third phase of processing. The pressure needs to be adjusted for small batches, depending on the size of the nuts in each batch. This phase is critical in order to prevent the proliferation of pathogens. The use of



Courtesy of UNAGRO

EXHIBIT 4 Classification of Brazil Nuts According to Quality

Courtesy of UNAGRO

EXHIBIT 5 Brazil Nuts Pass through Ultraviolet Light to Ascertain Aflatoxin Levels

high temperature and the subsequent injection of cold water facilitate the separation of the seed from its shell.

The fourth phase involves the final peeling and classification of the nuts. Specially designed mechanical equipment breaks the shell via impact. A strong air stream, circulating inside a cyclone, enables the separation of the fruit from its shell. The unshelled nuts travels along sterile conveyor belts and are classified according to their quality by highly trained employees (See Exhibit 6). Unshelled first-class Brazil nuts are whole, healthy and of uniform color. Unshelled second-class nuts are healthy but chipped, cracked, or slightly discolored. Unshelled third-class nuts are healthy but broken. Unshelled fourth-class nuts are broken into pieces and have black dots or ulcers; they are discarded.

The fifth phase consists of the thermal dehydration process, which reduces the humidity within first, second, and third quality Brazil nuts from 25% to between 2.2% and 3.2%. Dehydration times depend on the humidity of the nuts before they enter the dehydration chamber.

The last phase is called final classification and packaging. The nuts are subjected to rigorous inspection by specialized personnel in a sterile environment. They are weighed using a precision electronic scale and packed in flat polyester bags that have been treated with aluminum and polyethylene to ensure the preservation of the product. Each 44-pound bag is placed inside a cardboard box and readied for export from Bolivia to the rest of the world.

The final product could be consumed for up to 2 years after processing. Manutata makes good use of waste materials that accumulate during processing. The discarded shells become fuel used to produce steam.

First Quality: whole Brazil nuts, with uniform color, healthy, without physical damage	
Extra Large	90 Units per pound
Large	90–110 Units per pound
Medium	110–130 Units per pound
Small	140–160 Units per pound
Midget	160–180 Units per pound
Tiny	180–220 Units per pound
Super Tiny	220 Units per pound
Second Quality: lightly chipped Brazil nuts that presented small stripes, breakage, physical defects on the surface or not of characteristic color.	
No size classification (no more than 1/10 of the original size).	
Third Quality: Size ranges	
Broken Normal	Broken Brazil nuts, healthy without any specific size
Broken Especial	Manually cut Brazil nuts in (50% broken)
Broken 5	Manually cut Brazil nuts in (70% broken)
Broken 6	Manually cut Brazil nuts in (85% broken)
Fourth Quality:	
Chia	Brazil nuts or pieces of Brazil nuts that presented black dots or ulcers and were discarded.
Note: a unit is equal to one seed	

EXHIBIT 6 Classification of Brazil Nuts

In 2002, Manutata introduced Hazardous Analysis and Critical Control Points (HAACCP standards). These standards were developed by the Food and Drug Administration and the U.S. Department of Agriculture to identify potential food safety hazards. In 2007, Manutata was granted HACCP certification. It also obtained Kosher and Organic certifications.

Productivity and Export Statistics

Besides improving the way in which Brazil nuts are processed, Manutata also has significantly expanded the market. It exports nuts to the United States, Holland, England, Italy, Germany, South Africa, Qatar, Russia, Greece, Spain, Canada, Norway, Colombia, Australia, Poland, Israel, Belgium, and the United Arab Emirates. In recognition of its achievements, the Bolivian Chamber of Commerce granted an award to Manutata in 2008.

Manutata's restructuring in 1998 was so successful, that Clover Paz was able to reopen Amazonas approximately one year later. Exhibit 7 shows that the total exports of Brazil nuts (in metric tons) attributed to Manutata and Amazonas combined increased from 1,050.37 in 1999 to 3,989.22 in 2009. Clover Paz noted that operating costs decreased from 46 cents per pound to 39 cents per pound over the same time period, despite the rise in wages and company contributions to the incentive program. Because of its new management system and equipment overhaul, Manutata is able to extract greater quantities of first-class nuts from the raw materials, which has resulted in higher profits. Employees are better trained, make fewer

	1999	2000	2001	2002	2003	2004
Total Exports in Boxes of 44 lbs. (in thousands)	52,518	59,985	84,492	92,192	129,871	167,345
Operating Costs US$/lb. (in cents)	46	43	42	41	41	40
Total Exports in Metric Tons	1,050.37	1,199.70	1,689.85	1,843.85	2,597.42	3,346.90

	2005	2006	2007	2008	2009
Total Exports in Boxes of 44 lbs. (in thousands)	162,755	139,465	151,029	242,683	199,461
Operating Costs US$/lb. (in cents)	40	43	40	39	39
Total Exports in Metric Tons	3,255.10	2,789.30	3,020.58	4,853.66	3,989.22

Note: 2008 was a banner year for Brazil nuts due to their abundance and high yield. Manutata/Amazonas were also able to purchase raw materials from Brazil and Peru.

Source: Company documents

EXHIBIT 7 Export Statistics for Manutata and Amazonas

errors, and have access to automated processes. Costs are kept low by generating power for the steam using the discarded hard shells of the Brazil nuts.

Social Responsibility at Manutata

Managers believe that not just Manutata employees and UNAGRO shareholders should benefit from the company's profitability. The residents of Riberalta should also be benefitted. Manutata sponsors sports teams, such as the first division soccer team of Riberalta and men and women's volleyball teams. It supports an alcohol rehabilitation center, a nursing home, and an association for the deaf. At the end of the harvesting season, Manutata donates medicine not used by the forest workers to a local hospital. It also gives funds to pave roads and build schools.

The Market for Brazil Nuts

In the mid- to late 1990s, the international edible nut market consisted of Brazil nuts, groundnuts, cashew nuts, desiccated coconut, hazelnuts, almonds, walnuts, macadamia nuts, and pistachios. This industry generated approximately $2.5 billion in revenues, of which the Brazil nuts accounted for just 2%. Groundnuts and hazelnuts accounted for 50% of the market. The world supply of Brazil nuts varied between 17,000 and 20,200 tons of shelled kernels per year. The countries that exported this product were Brazil, Peru, and Bolivia (Bojanic, 2001).

The Brazil nut has many attractive features compared to other NTFPs (non-timber forest production). The Brazil nut benefits from a high value per unit of weight, low perishability, strong international demand, and the ability to generate a considerable amount of employment (employing nearly half of the workforce in the Riberalta region). In addition, the extraction of the nuts does not have a negative environmental impact on the forests (Zuidema as cited in Bojanic, 2001).

Although the supply of Brazil nuts fluctuates with good and poor harvesting seasons in the forests, demand is relatively stable with a slight tendency to increase. Almost all Brazil nuts are destined for international markets; domestic consumption is low, ranging from 3% to 5% of shipments (Bojanic, 2001). European countries, mainly Great Britain, Germany, and the Netherlands, import 50% of the production, 40% is transported to the Unites States, and the remaining 10% went to Australia, South Africa, Russia, Qatar, Canada, Israel, Unites States, United Arab Emirates, and some Latin American countries.

Brazil nut producers were affected by a 1998 European Union (EU) requirement that lowered the levels of aflatoxin permissible in the nuts from 20 parts per billion to 4 parts per billion (Rienstra, 2004). Aflatoxin is a carcinogenic chemical produced by molds that grow on protein-rich foods. To meet the challenge, producers are required to upgrade their equipment (e.g., replace contamination-prone wooden benches for plastic or metal counters); institute strict quality control procedures (e.g., employees should wear facemasks and hairnets); release child laborers from employment (many factory workers were women who brought their children to help); and train production personnel to keep logs and use European standards when determining whether or not a nut is edible (Coslovsky, 2007).

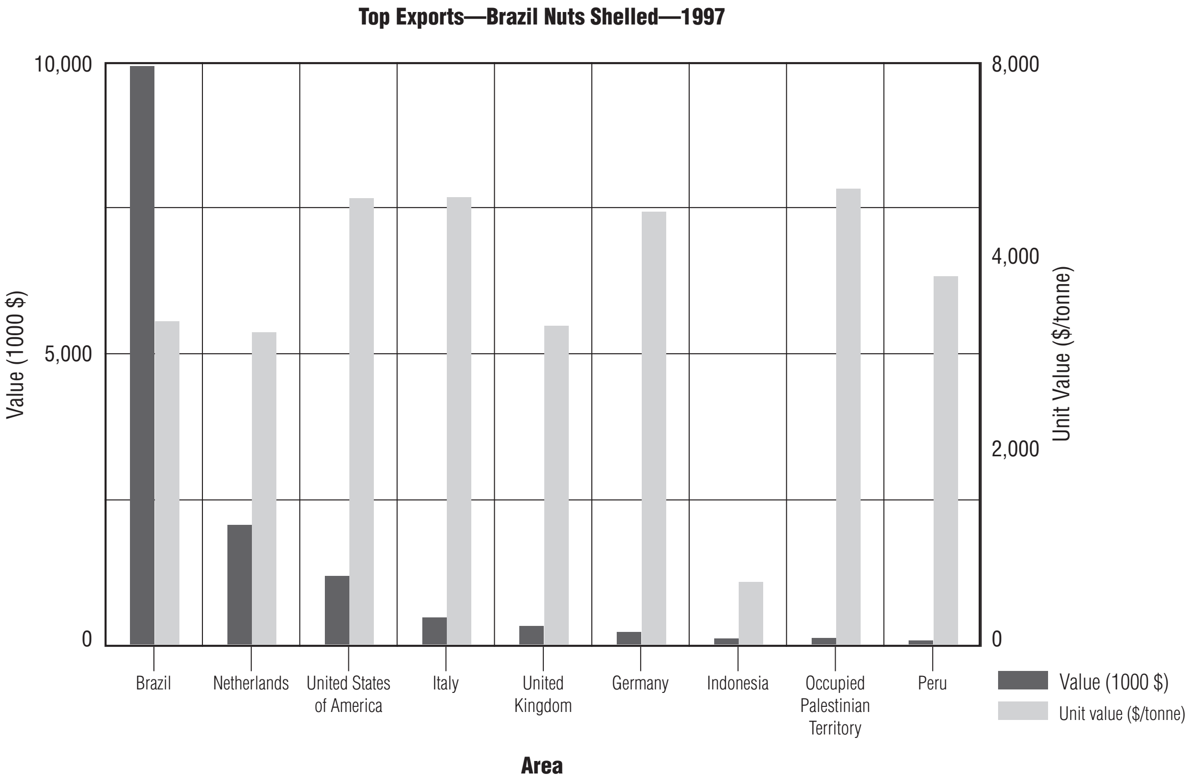
The EU requirement has created turmoil in the Brazil nut industry and has changed the competitive landscape. Before the requirement, Brazil was the leading exporter of Brazil nuts; after the requirement, Bolivia has assumed the leadership position (see Exhibit 8). Bolivia has eventually gained control of 80% of the market for Brazil nuts (Rienstra, 2004). Bolivian firms are successful because they have decided to cooperate with one another and share knowledge regarding production methods. They support a business association, headed by a professional food engineer, that runs a central testing lab, bring in foreign experts on aflatoxin, and provide training to local processors in HACCP certification (Coslovsky, 2007).

Overview of Brazil Nut Worldwide Market

The following is a detailed overview of the global Brazil nut market, including: top producing and exporting countries, real-time market prices, local product varieties, seasonality, and production and export volumes.

Country	Rank	Production Volume	Production Share	1-Year Growth in Production	Production Price	Last Reported Year	1-Year Change in Production Price	Export Value in 2018	Share in Export	1-Year Growth in Value	Trend Since 2018	Wholesale Price(USD)	Last Month
Bolivia	1	51.06K	42.8%	+5.9%	$0.00		+0.0%	$220.04M	47.3%	-1.0%			
Brazil	2	42.33K	35.5%	+4.2%	$414.10	2001	+36.5%	$60.14M	12.9%	+298.0%			
Ivory Coast	3	19.73K	16.5%	+6.0%	$0.00		+0.0%	$24.29K	0.0%	-80.9%			
Peru	4	6.19K	5.2%	+6.0%	$1,514.60	1991	+0.0%	$66.23M	14.2%	+34.2%			

Source: Tridge Brazil Nut (https://www.tridge.com/intelligences/brazil-nut)



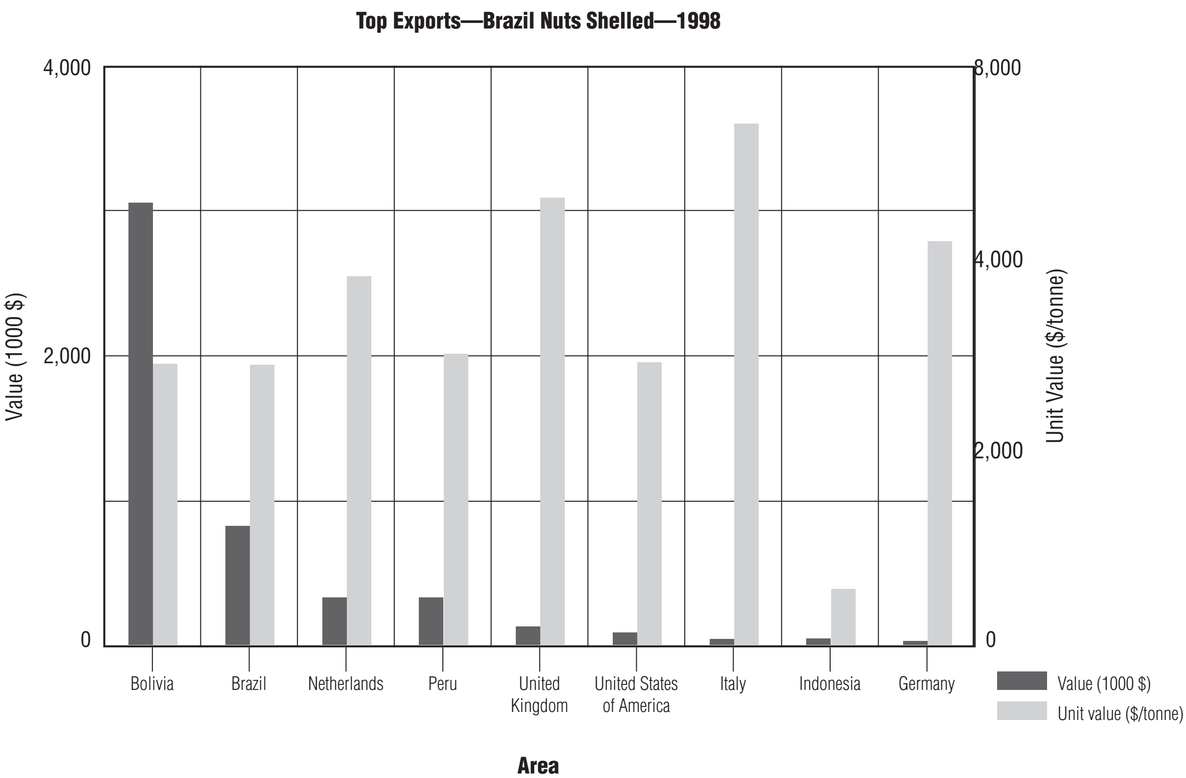


EXHIBIT 8 Top 9 Exporters of Shelled Brazil Nuts, Selected Years

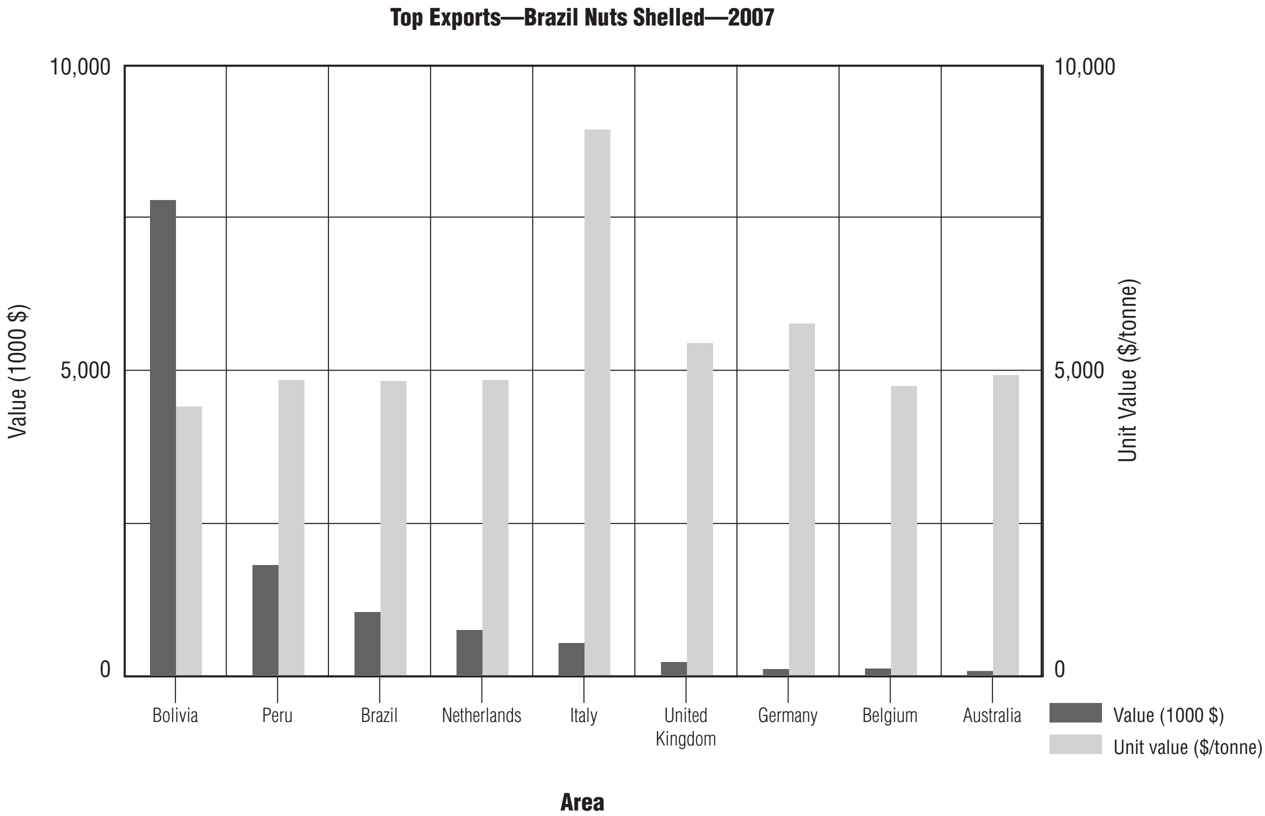


EXHIBIT 8 Top 9 Exporters of Shelled Brazil Nuts, Selected Years

Source: Food and Agriculture Organization (http://faostat.fao.org)

Discussion Questions

1. Do you think Clover Paz made the right decision to close Amazonas and invest in Manutata in 1997 when UNAGRO's request for a bank loan was denied? What were Paz's alternatives?
2. An "intrapreneur" is a person who creates something new inside an existing company rather than through the route of establishing a new venture (Baron & Shane, 2008). What were the factors that allowed entrepreneurial activities to flourish within Manututa?
3. Yeoh and Jeong (as cited in Chang, 2000) stated that innovation involves seeking creative or unusual solutions to problems and needs. This includes product innovation, development of new markets, and new processes and technologies for performing organizational functions in a corporate entrepreneurial environment. To what extent did UNAGRO and Manutata exhibit the characteristics of innovativeness and entrepreneurship?
4. Compare and contrast Manutata's organizational structure before and after 1998. Do you think the new structure was an improvement over the old structure? Why or why not?
5. What were the reasons for why Manutata was able to successfully export Brazil nuts to other countries? Why were Manutata's exporting activities important to the Bolivian economy?

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Relevant Videos

What Is Intrapreneurship?
https://www.youtube.com/watch?v=dzd6AXM6JY4

UNAGRO AVP July 11 RELEASE 4:
https://www.youtube.com/watch?v=TFhQpyyQQfg

UNAGRO AVP:
https://www.youtube.com/watch?v=QOMIF_ueO7E

Bolivia: Economy Has Improved Significantly During Morales' Administration:
https://www.youtube.com/watch?v=bgOKeuXsaBk

Bolivia's Economic Growth:
https://www.youtube.com/watch?v=WWwdKKEGxkE

Condor Trekking Bolivia - Social Enterprise Tourism - Five Point Five:
https://www.youtube.com/watch?v=iKu6FjWWlkM

TESY: Exporting in an Uncertain Environment

Mark Potts, J.D.
Saginaw Valley State University

Learning Objectives

1. *Discuss* the credit risk facing firms who export.
2. *Analyze* mechanisms to manage the currency risk associated with exporting.
3. *Discuss* the political risk facing firms who export.
4. *Evaluate* how to select the appropriate distribution channel for export.
5. *Discuss* whether a company should enter a foreign market directly or indirectly.

Key Words

Direct exporting
Pegged
Credit risk
Economic risk
Political risk

Abstract

TESY is a successful Bulgarian company that has recently transitioned from being a distributor of space heaters to a local producer and distributor. To grow the business, TESY must export. However, management faces decisions on how to manage credit, political, and foreign exchange risks. They must also decide to which markets they will export and what distribution channel to choose.

The Dilemma

TESY, a successful Bulgarian startup company, looks to grow beyond its domestic market. TESY successfully transitioned from being a distributor of foreign space heaters to a local producer and distributor. The company is working to obtain the international quality certificate ISO 9001/2000 for the production of space heaters. However, TESY is quickly outgrowing its domestic market. TESY management knows that if they can produce in Bulgaria and sell abroad, their profit margins will be better than that of their competitors. Due to technical specifications, only European markets are on the table. However, TESY management has its concerns.

A large export business means much of the company's cash flow will be tied up in "accounts receivable" abroad. TESY management is worried about foreign exchange fluctuations and about collecting payment in foreign countries. If the company is unable to collect in 30 or 90 days, the value of the Bulgarian Lev (the Bulgarian currency) may fluctuate greatly against foreign currencies. This could lead to significant losses. TESY is also aware of political risks in some export market countries as Central and Eastern Europe transform after the fall of the Soviet Union. As part of their export strategy, TESY management must decide to which markets they will export, and what distribution channel to choose. What markets and channels should TESY consider? How should it manage its risk?

Company Background

TESY is a brand name of Ficosota Syntez. Ficosota Syntez was founded while Bulgaria began its transition from a command to a free market economy. In addition to space heaters, Ficosota Syntez produces detergents, home products, and personal care products. By this time, TESY has become a successful distributor of Italy's De'Longhi space heaters in the Bulgarian market. The company acquired a Bulgarian factory, built during communist rule, that produced heating appliances. TESY has begun work toward obtaining the international quality certification ISO 9001/2000. TESY prides itself in the ergonomic design of its products, quality control, and commitment to research and development.

TESY personnel have experience with markets in Russia, the other former Soviet Republics, and countries in Central and Eastern Europe. Growing up in communist Bulgaria, these were the languages management learned, countries to which they were allowed to travel, and their country's trading partners. The markets in Central and Eastern Europe are also similar to the domestic Bulgaria market; they are not fully developed and lack the sophistication of more developed markets. While TESY management has limited knowledge and experience of Western European markets, they have a competitive advantage in production costs as compared to their Western European competitors. Asian firms use a currency pegged to the dollar and are not competing in the European market. The cost and quality of their products do not make them competitive. TESY is not considering other markets, since different technical specifications are required.

Within Central and Eastern Europe, TESY also has a competitive advantage in transportation costs. For example, road transport from Shumen, Bulgaria, to Bucharest, Romania, is 187 km (116 miles). De'Longhi, based out of Treviso, Italy, would face a distance of 1,549 km (963 miles) from Treviso to Bucharest. However, the Central and Eastern European strategy brings political risk because of its weak legal systems and its location in a region that is undergoing economic and political transition. Western Europe presents much less political risk, but management is concerned about the legal fees associated with collecting accounts receivable.

TESY must decide on its distribution channel. One option is indirect exporting. Using a third party to coordinate entry on TESY's behalf would limit the company's risk. TESY may also seek to use an export management company or find a retail chain willing to sell its products abroad. However, TESY knows selling wholesale to a retail chain would mean a lower profit margin than would selling directly to consumers. Accordingly, TESY is also considering establishing subsidiaries abroad to sell its products directly. If the company does this, it will need staff with country-specific language skills and time to build a reputation. Obtaining brand awareness abroad is a further challenge.

Due to European Union (EU) product and safety standards, TESY believes that if it can meet the standards of one EU country, it will have the capability to meet the standards in all EU markets. It is widely believed that EU standards exceed non-EU regulatory standards. Since EU standards are higher than those in the rest of Europe, TESY will likely be able to export easily to Central and Eastern Europe. These countries are also looking to harmonize their standards with EU regulation in anticipation of their accession to the European Union.

Regional and Economic Context

After growth in recent years, Bulgaria is experiencing economic turmoil. This is largely due to government inaction on structural reforms and privatization. The severe depreciation of the national currency has led to extreme inflation. This has led the Bulgarian government to seek loans from the International Monetary Fund and peg its currency (the Bulgarian Lev). International observers question the Bulgarian government's political will to make tough choices regarding interest rates and spending in order to preserve the currency's integrity. The Bulgarian public is uncertain about the government's policies and worry about their falling standard of living.

In this time of uncertainty, many have chosen to heat using space heaters. Europe largely relies on natural gas from Russia for heating. It is widely believed that Russia uses the price and supply of its gas for political purposes. TESY's space heaters are electric. The cost of heating with an electric space heater can often be cheaper than using natural gas based sources. Furthermore, consumers value the fact that heat is not dependent upon the supply of foreign gas, but rather upon the domestic production of electricity. The cost and certainty of using space heaters makes them an attractive method of home and work place heating. The market for space heaters is strong throughout Europe, but especially in Central and Eastern Europe.

TABLE 6.1 **Market Analysis Summary by Ranking: 1 (highest) to 5 (lowest)**

COUNTRY	MARKET SIZE	QUALITY EXPECTATIONS	POTENTIAL GROSS MARGIN*	TRANSPORTATION ADVANTAGE
Ireland	5	2	3	5
Germany	2	1	1	3
Spain	3	3	2	4
Romania	4	4	5	1
Russia	1	5	4	2

*Potential gross margin equals sales revenue at the competitive local price, less the cost of goods and transportation. It does not include the reduction in revenues associated with different types of distribution channels.

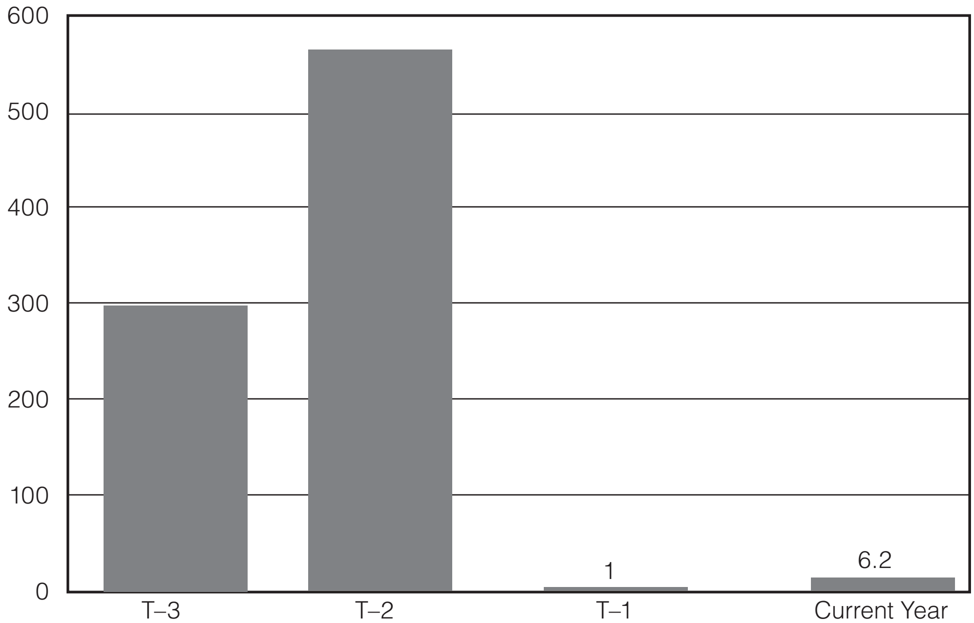
Bulgarian Economic Data

TABLE 6.2

Currency Fluctuation in Current Year and Prior 3 Years*

	T–3	T–2	T–1	CURRENT YEAR (T)
Bulgarian Lev vs. Euro Target	.0116	.0115	.0010	.0009
Bulgarian Lev vs. Russian Ruble	38.7599	3.8602	.0060	.0135
Bulgarian Lev vs. U.S. Dollar	.0077	.0007	.0006	.0005

TABLE 6.3 **Bulgarian Inflation Rate (CPI), eoy% in Current Year and Prior 3 Years***



*Data taken from Oleynik's (2004) "Bulgaria Business Intelligence Report" and OANDA—Forex Trading and Exchange Rates Services

Discussion Questions

1. What are the credit risks facing TESY and how should the company manage those risks?
2. What are the foreign-exchange risks facing TESY and how should the company manage those risks?
3. What are the political risks facing TESY and how should the company manage those risks?
4. How does TESY decide where to export?
5. Should TESY decide to export directly or indirectly?

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Relevant Videos

https://www.youtube.com/watch?v=uXT4qv9YhZY

10 reasons to set up your company in Bulgaria:
https://www.youtube.com/watch?v=2k5jQvVh9Fg

Did you know? - Bulgaria - Bulgarian Business Culture video:
https://www.youtube.com/watch?v=tGXP7YraUJQ

Imports, Exports, and Exchange Rates: Crash Course Economics #15:
https://www.youtube.com/watch?v=geoe-6NBy10

CAN AUSTRALIA HANDLE THE HEAT? THE CASE OF DUFF INC. EXPANDING INTERNATIONALLY

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Learning Objectives

This case is a real-life situation involving a food manufacturer in the United States attempting to expand their international business to Australia. The objective is for the student to learn how to expand a company internationally. The student will learn about the company's history and their ambition to expand internationally. There will be problems laid out that the student must examine and determine the best course of action. These problems arise from the past attempts of expanding internationally into Australia. There are also current-day problems that must be analyzed to determine the best mode of entry back into the market. By the end of this case, the student will have a full understanding of Duff Inc.'s first attempt at expanding into Australia and some ideas on how to try again but succeed.

On completion of this case, students will be able:

1. To analyze product expansion to another country.
2. To identify major obstacles and courses of action.
3. To evaluate strategies for international expansion in other countries.

Key Words

Australia	Food Manufacturing	Spiciness
Culture	History	Competitive Advantages

Abstract

The following case is Duff Inc., a small privately owned company, attempting to spread their business internationally. The case will lay out their first attempt at expanding internationally through their broker in the Australia market while contending for the market against competitors locally and international. World Essentials handles international and military sales for Duff Inc. They were responsible for handling the sales between the locals and having the orders placed for fulfillment with Duff Inc.

Background

Duff Inc. is a privately owned manufacturer headquartered Durham, NC, the United States that was established in 1947. Duff Inc. is in the food industry; they produce brands such as Hott n' Spicyy Hot Sauce and Nature's Plant Salsa. Under these brands, there are over 30 different sauces and tortilla strips with multiple variations of sizes. Duff Inc. has a manufacturing plant for their Hott n' Spicyy sauces and Nature's Plant Salsa located in Durham, NC and uses Ruger's Foods based out of Connecticut for production and distribution of the Nature's Plant Salsa tortilla chips. Nature's Plant Salsa products were acquired by Duff Inc. in 2002. The distribution from both companies reaches across the United States but has a better grasp on the business on the eastern side. The size of Duff Inc. ranges from 50 to 120 employees; this includes 10 external sales representatives across the United States and temporary employees in-house. The sales representatives have multiple brokers under their watch that help with selling the products to customers and consumers. The reach for the brokers expands over national, retail, foodservice, military, and industrial accounts. At the end of 2010, foodservice sales alone for Duff Inc. reached over $16 million worth of sales. The company saw this as a good sign and a decision was made to attempt to expand the products overseas.

In 2010, international business in this industry was as competitive as ever. Big names that had expanded internationally previously were picking up new markets (Economywatch.com, 2010). Companies such as Kraft Foods®, General Mills®, and Heinz® were in the European markets and had helped account for over $126 billion of revenue for the industry in 2008 (Economywatch.com, 2010). Duff Inc. analyzed the international companies and ran trial runs with working food trade shows internationally in countries such as Australia, Canada, Finland, and China. These were planned out in order to range the interests of not only international businesses but the consumers. Duff Inc. wanted to see if their products drew interest in these selective markets. Due to cultural differences, such as language and ingredients, the company realized they would need to produce new labels in order to appeal to the customer's eye.

The broker that was employed by Duff Inc. to carry out the attempted international expansion was World Essentials. World Essentials had previously worked with Duff Inc. on their military business, but one of the areas they succeeded in was the international markets. The broker would be able to allow Duff Inc. products into these markets in order to present to the customers. If the agreement between both parties happened, then Duff products would be exported to the market. The target market in this case is Australia. In 2011, Australia's GDP was $926.2 billion USD, making it one of the world's strongest developed economies (Guyer, 2014). At the time the population in Australia was 23 million people with the GDP derived from services (71.3%), industrial (24.9%), and agricultural and food processing (3.8%). In 2009-2010, the food and beverage industry had a total of $93 billion USD. $10.3 billion USD was of imports from the United States. Duff Inc. saw this as a good sign for a possible expansion.

Can Australia handle the heat?

The Case

When a business plans to expand internationally, they need to take in that not all nations are like their host nation, which means nothing is the same. It is imperative that when expanding internationally all research be examined. This would decrease the possibility of setbacks that could cost the business more than profit, but increase opportunities (Viselike, 2010). If an exporter is experiencing the same setbacks as the business is then they may start to believe the business is not worth the risk of doing business with and cut all ties with them. This would result in loss of opportunity for the business to the point other exporters could see this and decide to not offer their services due to loss in profit. This was something Duff Inc. could not afford to do when they made the decision to expand internationally.

Their target after extensive research would be Australia. After looking into the different modes of entry, the vice president of sales decided the best option would be to export the product from the United States to Australia. Exporting would be at the start of this expansion the easiest and most cost-efficient mode of entry at the time for the company. Indirect exporting would allow Duff Inc. to take the pressure off themselves and puts the responsibility on the broker (Osland, Taylor, & Zou, 2001). This would be carried out through an exporter in Miami, Florida, that the broker World Essentials and the North Carolina Department of Agriculture (https://www.ncagr.gov/markets/international/NCAgExportStatistics.htm) recommended. Using the NC Agriculture Department, it allowed the process of exporting to be simple and easy for Duff. This was due to NC Agriculture Department pushing through the necessary documents the broker and exporter needed. Australia was also the perfect subject for exporting products due to the United States and Australia Free Trade Agreement (Embassy.gov, 2019). Australia and the United States went into this agreement back in January 2005. The agreement has eliminated many tariffs that would cause issues with trade, imports, and exports. This continues to benefit both countries as it is driving up their businesses and increasing profits; Australia has seen growth from this partnership.

Hot Sauce in Australia is a big phenomenon; there are many local companies and even mom-and-pop businesses that produce and sell their own hot sauces. The culture loved having heat to their food. It gave the food a sense of life. Along with the locals there are international companies such as U.S.-based Frank's Red Hot® and Tabasco® that have reached the Australia's market. The vice president of sales, and at the time the director of marketing, made the decision it was time for Hott n' Spicyy to break into this market along with a couple of other countries as well. They wanted to supply Australia with the heat the locals wanted but also a good flavor to their food. After marketing research was conducted over a period of 3 months by the brokers in Australia, it was time for the plan of action to begin. The marketing team at Duff Inc. put together new labels that fell within Australia's government regulations on how the ingredient decks should be labeled and measured. These labels would go on live production on a small range of products produced by Duff Inc. Once these products were produced and ready to go, they were transported to the exporter in Florida and shipped out on a cargo ship for the port in South Wales, Australia. From there, it went to a distributor that was lined up to hold and distribute the products once they arrived in Australia. This distributor was accountable for delivering the products to the customer. The way the ordering process went was the customer would order the product from the distributor, and once the distributor hits a low level of the product, they would place an order with the broker, who would then send it to Duff Inc. for processing. The order would typically take around 4 weeks to arrive in Australia. This was due to a 2 week turnaround on production, then shipping the products to the exporter and finally shipping it across sea to Australia.

The first month of business with Australia showed to be promising. Samples of product with the new labels were air freighted to the brokers to show off at the local trade shows in Sydney and South Wales. The product was getting into the hands of the consumers and they were loving the taste of the sauce. Orders were flowing into the distributor and sauces were going out! In the retail stores, the retail products were averaging $7.69 AUD per bottle. The gallon products were $17.72 AUD. These prices were higher than the average cost due to the fact Duff needed to make a profit off the expansion. Exporting was not necessarily cheap to have a cargo ship sailing across the world. At the end of the second month, Duff Inc. saw that they had sold over US$5,000 worth of products, which was over half of what they projected. World Essentials was making commission off each sale at a rate of 4% per order placed from the distributor. It was a win-win for both sides. At the end of 2011, World Essentials had made over US$1 million worth of sales internationally with the big bulk coming from Australia. However, after the first quarter of 2012, the VP of sales started noticing something different.

Sales were down from what the projection was saying. After discussing with the broker, they just figured it was a slow time for sales in the United States with it breaking away from winter and heading into spring. The team decided to continue with the current marketing plan from the year before, thinking if they did more trade shows, then the consumer would be interested again. The only problem was things did not improve the sales; they got worse. Sales continued to decrease and less orders were coming in from the distributor. The reason the distributor was not placing orders was because they had plenty of stock to get through their months. This trend continued for the remainder of the year until a decision was made between the VP of sales, director of marketing, and now the controller within the company. The decision was to pull out of the Australia market.

Dilemma

The dilemma for the company was they lost the interest of the consumer. This came from multiple situations throughout the year Duff Inc. was in Australia. The customer is always looking for something new, whether it is a new service or, in this case, a new product. Duff Inc. came into Australia with a limited range of products. The way to drive new business is to introduce new products. With bringing new products to the customers hands, it could open new doors as opportunities could arise for a new product in retailers. It would be important for Duff to bring into Australia one of their other products that is not well known in the market and show it off in the food shows. Sharing this product is the best way to get new business (Rampton, 2015). Sharing the new product could have been accomplished in a few ways. There could have been contests held where the winner receives a free bottle of product to sample. Or Duff would offer a limited time coupon for the customer to buy the new product. These are very good marketing tools to engage the customer.

The loss in sales also pertained to Duff Inc. not staying up to date with the culture in Australia. The general idea behind the marketing plan was closely related to the current plan that was used domestically. There was the assumption that if it works at home then it must work away too. The knew the idea of the marketing plan had been successful in the United States and assumed that since Australia acted like the United States the same sales tactics could be applied there. What Duff Inc. failed to do was realize that doing the extensive research and educating themselves on Australia's way of life would result in a better performance (Simon-Moya, Revuelto-Taboada, & Guerrero, 2013). Duff Inc. should have extended their research and planning on how to best handle the business once they broke into the Australian market. What they need to understand is no market is the same even though they may show similarities. Ultimately, with the lack of education, Duff Inc. went into this market unprepared. Problems arise once a business enters a new market and part of the process is adapting while being innovative. It is what separates the old from the new.

Epilogue

Over the last few years after the events with Australia, Duff Inc. has gone on to become one of the top contenders in the United States for the condiments. Various products have been introduced to the market. Over the last year, Duff Inc. has made over a $25 million profit in Foodservice alone. Military sales have increased thanks to exposure as well, with a $5 million profit. International sales have been steady; Duff had to pull out of some other markets over the last several years. Currently, they are in Finland and Sweden. This is through exporting from the facility in the United States to a distributor in Finland who dispenses the products to the customer. There have been other opportunities for international expansion. Currently, Morocco is buying one variety of products at a full container load per order. This business is exported through Miami via cargo ship to the Moroccan buyers. There is still an opportunity for Duff Inc. to return to Australia. Several food trades shows have shown that the customer has an interest in Hott n' Spicyy Hot Sauce along with Nature's Plant Salsa. Some potential customers have requested samples in order to draw the attention of the consumer. The Australian market has grown since Duff's first attempt at expanding internationally. They have shown growth in their sauce and condiment market. The market is expected to grow annually 2.4% in 2019 (Statista.com, 2019). The average cost per unit is US$4.75 and expected to grow. Only time will tell if the Duff products will make their way back to the land down under, but one thing is for sure, this time they will not fail.

NOTE: Duff Inc. is a fictional company. The financial figures mentioned above are estimations and not based on actual data.

Discussion Questions

1) What did Duff Inc. fail to do in their first go at international expansion? How might have that changed the outcome?
2) How important is it to have a business plan when expanding internationally?
3) What other mode of entry could Duff Inc. use to make its way into Australian market?

Answers to Discussion Questions

1) There are many things Duff Inc. failed to do when they expanded internationally. They got too comfortable because of the growing sales; they were confident they did not need to change anything. What they should have realized was they need to have updated marketing research for their target after a certain period in order to keep up with the trends (Yankelovich, 2006). With a food product, it is important to always research the trends going on in the target even if the product has been there for 10 years. Tastes evolve and hot sauce may not be one of those tastes now. It is important to broaden the use of market segmentation as it allows the researchers to learn more. Had Duff used this tool, then they would have seen what could have been the reason for their sales going down, whether it be taste changes, cost, or a new competitor.
2) A business plan is crucial for a business to function if they plan to make a profit, let alone if they want to explore the international world. Every company should always have a business plan for each new venture they embark on, whether it be a new product/service or expansion. In this case, it is international expansion. The business plan would help Duff Inc. grasp the concept of what they are trying to accomplish. (Wroblewski, 2019). When the company understands what direction they want to go then this plan serves as their path to getting there. It allows the company to go into detail on how they will get to their goal. This involves financials that the investors or, in this case, the senior level officers of Duff Inc. review to make sure this is a wise move.
3) Even though exporting is one of the easiest ways, despite the fact that there is not an easy way to do it, to expand business internationally, they could go down another route once they establish their products a little better. That route would be the Greenfield Venture entry mode. This would allow Duff to build a subsidiary down in Australia. It would be costly at first, but it also eliminates exporting costs of shipping products down to Australia (Business Leadership Management, 2013). The advantage to utilizing Greenfield Venture is it takes off the uncertainty a customer may have when buying from a company in another country. With having a plant in Australia, it allows the fresh product to get to the customer's hand in no time. Another benefit to building a plant would be Australia is an agricultural country and would be able to supply several raw materials to produce Hott n' Spicyy Hot Sauce. Some items may need to be imported, but it would still be cost-efficient.

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Videos

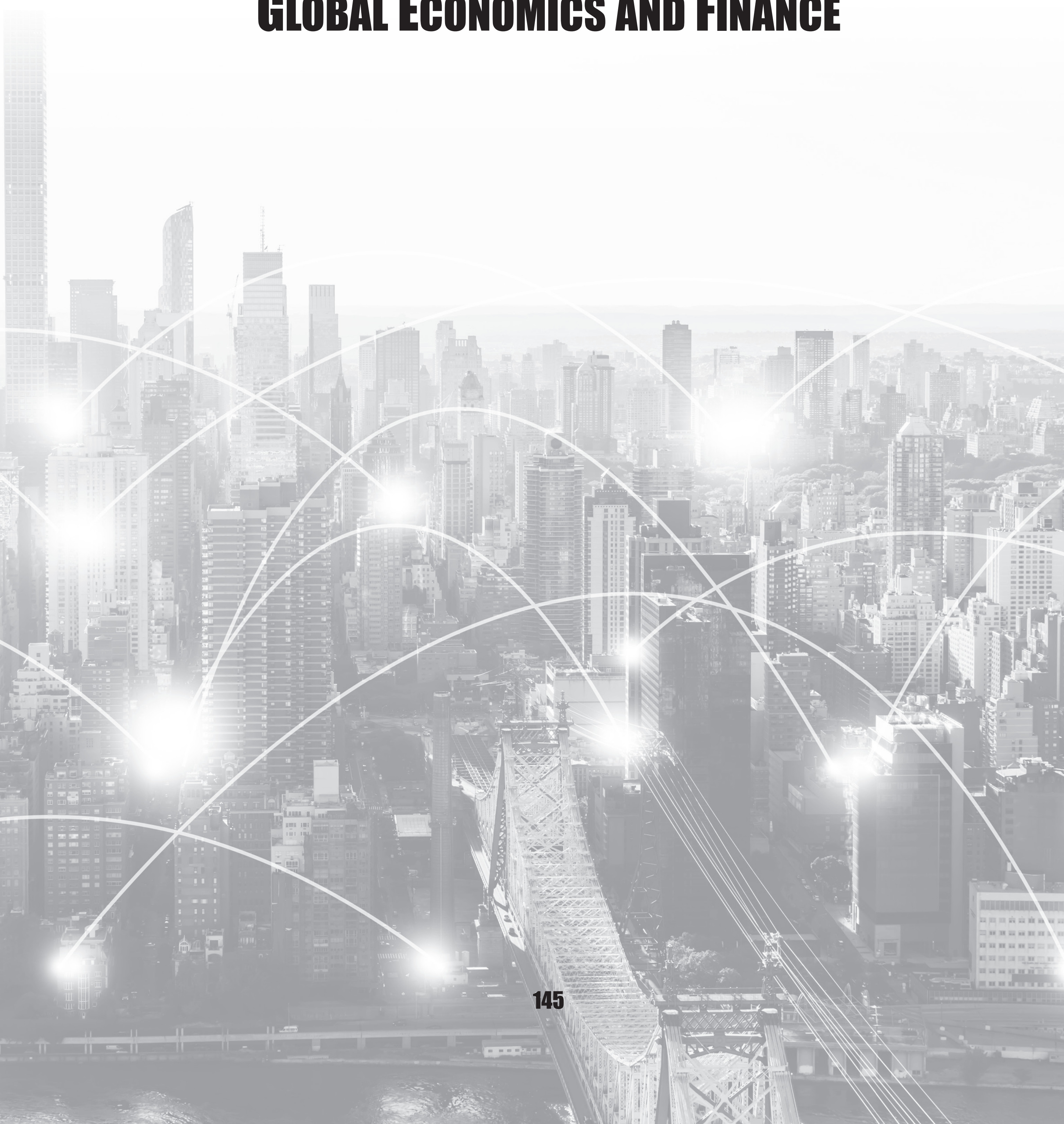
Exporting to Australia—www.trade.gov/videos/export-destinations-australia-091917.mp4

Why consumer behavior is vital for success in Marketing—https://youtu.be/PSLpdM6EYTQ

Initiating International expansion—www.coursera.org/lecture/entrepreneurship-strategy/initiating-international-expansion-O5FRx

Chapter Seven

Global Economics and Finance



Owens Sawmill: A Family Business Facing a Social Responsibility Dilemma

Dianne H.B. Welsh, The University of North Carolina at Greensboro
David Rawlings

Learning Objectives

1. *Explain* the importance of Human Resource Management and how a family business should align its Human Resource strategy with is overall business strategy.
2. *Discuss* the basic concepts and functional areas, including training, compensation and benefits, safety, and performance management as it relates to the case.
3. *Assess* the legal and social responsibility implications of this family business case.
4. *Analyze* the current issues facing the Owens' as it relates to their business' profitability.
5. *Describe* the current human resource trends in the workplace and the projection of future developments as it relates to the Owens' ability to compete in the lumber industry.
6. *Identify* the environmental and safety issues, including government regulations and sustainability, on small business viability.
7. *Identify* the effect of technology innovations on small business viability in the short- and long-term, particularly in regard to the lumber industry.
8. *Evaluate* how the strength of Human Resources at all levels affects the ability for a business to compete in the worldwide marketplace.
9. *Discriminate* between Human Resource Management from the perspective of an employee.

Key Words

Ethics
Family Business
Social Responsibility

Abstract

This is a real case involving a Small to Medium Sized Enterprise (SME)that produces southern hardwood finished lumber. The family business faces a social responsibility dilemma in terms of displaced workers and limited job opportunities in the surrounding labor market if they purchase a new saw that would modernize production, improve profitability, and eliminate 50 percent of their labor costs. The most logical employment for these workers would be a cutter, loader, or hauler of logs, which have been determined to be some of the most dangerous jobs in the United States. This case requires students to examine the decision-making process of a small family business in small, cohesive community, and the ramifications of these decisions, as well as issues concerning technology and production improvements, displaced workers, social responsibilities, and the rights and responsibilities of employers and employees.

From *The New England Journal of Entrepreneurship,* 10(1), by Dianne H.B. Welsh and D. Rawlings.

The Dilemma

A small, family-owned sawmill is seeking to improve profitability. Scott and Beth Owens have the opportunity to purchase a new saw that is capable of cutting the same amount of wood in one shift as the current saw can cut in two shifts. Additionally, as employees become more proficient with its use, productivity will drastically improve. They must quickly decide whether to purchase a new saw or continue using the old saw because they have a short window of opportunity to sell the old saw, which will bring additional revenue. Normally, this type of saw is difficult to sell. Even though saws have been being used for a huge number of years, branching out to fill explicit specialties as the times, innovation, and materials required. The present "total" tool collection will incorporate an assortment of saws, from adapting saws to hacksaws to any of various particular table saws, and once in a while incorporates more than one saw of a given type (Chris, 2020). Capital investments are difficult to recoup in this industry because the investment costs must be spread out over far fewer units of production than other types of sawmills ("Economic Choice," 2001).

If the new saw is bought, it allows Owens Sawmill to reach or exceed its usual two-shift production in only one shift. Therefore, the second shift will be eliminated. The most likely opportunities for those that work on the second shift will be out in the field as a cutter, loader, and hauler of logs. This job has been determined by safety officials to be the most dangerous job in the United States. The fatality rate for this position is the highest of any position, twenty-six times greater than the national average (Christie, 2003). According to the DOL (Department of Labor) statistics the workers died in this profession are 30 from 2011 to 2017 (Halverson, 2019). While the Owens are legally obligated to provide a safe environment for their employees, do they have a social responsibility?

Personal Background

Owens Sawmill was founded and is currently owned by Scott Owens and his wife, Beth of Arlington, Kentucky. Both are very involved in the day-to-day operations and share making decisions. These two forms the upper management of Owens Sawmill.

Scott was born in Spokane, Washington, where his mother raised the family while his father, Tom Owens, worked in Alaska. Scott played on his high school basketball team and graduated in 1980, at the age of 17. After graduation, he joined his dad in Ketchikan, Alaska. His father was on one of the first teams that went into the Alaskan wilderness to initiate the construction of the road systems. Scott's job was to drill and blast rock to clear land for road construction. Scott's job was seasonal, so he returned to Washington State when operations shutdown during the winter months where he attended community college for one quarter and decided it wasn't for him.

By 1982, his father had moved to Kentucky and Scott joined him to operate a farm. He soon met his future wife, Beth in the same town. Beth was the only girl in a family with three boys. Beth's family owns a horse farm that specializes in quarter horses. She attended community college and completed an associate degree while working part-time at a local hospital and volunteering at Hospice. Scott soon realized that agricultural employment did not pay well, so he returned to Alaska in 1983 to work on road construction. When he returned to Kentucky that winter, he had saved enough money to build a home for him and his wife. In 1988, Scott's father started logging so Scott bought a truck and a loader and was cutting, loading, and hauling the logs to the mills with his Dad. Scott soon realized that there was more profit to be made by cutting the logs into lumber himself rather than just delivering the logs to another lumber mill. Owens Sawmill was born.

Scott and Beth received a government loan in 1989 for $30,000 at 5% interest with the requirement that he hire four employees. They also borrowed $30,000 from a local bank and purchased a mill and land in Arlington, Kentucky where they erected a building where the business still operates from. Scott ran the daily logging operations, while Beth performed the bookkeeping and administrative functions. After 6 months, they realized that not enough lumber was being cut to pay their expenses. Therefore, a second shift was implemented and four additional employees were hired so they could double production without increasing their fixed costs, such as insurance and loan payments. As production increased, the company paid off their loans and became profitable. In 1992, they formed an S Corp. for tax purposes and to reduce their personal liability.

The Owens expanded their operation over time by purchasing large tracts of forest land. Scott deploys his cutting crew to the tracts of land where there is demand for a specific type of wood. His crew cuts, loads, and transports the logs to the mill. Most of the same employees also work in the sawmill producing the finished lumber, which is then sold. The average tenure of the Owens Sawmill employees is 10 years, ranging from 5 to 17 years. The Owens are contemplating starting a family and they would like to hire at least part-time help to assist Beth with the bookkeeping and office management duties. Beth enjoys her interaction with the employees and their families and considers this part of her life's purpose. Scott is 43 years old and Beth is 35 years old. Their current savings totals around $50,000 and they have under $5,000 in their retirement accounts. But in the end, they purchased the new saw and there is no use because most of the Owens Sawmill employees failed a drug test and they were fired. The owner had only a couple of employees remaining and hence shut down the business. They now run an Amish sawmill.

Industry Background

The National Hardwood Lumber Association releases a weekly *Hardwood Market Report* that separates hardwood lumber into three price categories: Northern Hardwoods, Southern Hardwoods, and Appalachian Hardwoods. The Kentucky area has Southern Hardwood. A red oak log that is 12 ft long and has a small end circumference of 24 in will have a total of 300 feet of usable lumber. A sawmill will purchase this log for about $0.70 per foot, which makes it worth about $210. From this $210, the money is split evenly between the landowner and the logger. This same 300 ft log will result in about 420 ft of lumber due to the scaling methods used. The lumber will then be separated into grades that determine the prices paid for the lumber. In addition to the fundamental timber definitions, there are two sorts of wood from which to pick: hardwood and softwood. The terms have basically nothing to do with the genuine hardness of the wood. There are sure attributes that are normal in all wood types.

Hardwoods are the deciduous trees that lose their leaves in the fall. In spite of the fact that there's a plenteous assortment, just 200 are abundant and flexible enough for carpentry. Hardwood trees are for the most part slower developing, making the wood denser than softwoods. These woods have an all the more fascinating grain design, which makes them famous for carpenters. Much like our skin, hardwoods have minuscule pores on a superficial level. The size of these pores decides the grain example and surface. Along these lines, hardwoods are grouped by pore openings as either shut grained (littler pores), like cherry and maple, or ring permeable (bigger pores), like oak, debris, or poplar (Brain, 2020).

It is estimated that the new technologically advanced saw would increase productivity by 25%, which would result in approximately $30,000 more profit per year. The core of the employee base would remain intact if the technologically advanced saw was purchased. The job loss will be minimal, ranging from four to six displaced employees. The highest performing employees with the best accident records and the longest tenure would be retained. The laid-off employees may be offered employment in the future if Owens Sawmill keeps to its strategic long-term expansion plan.

Discussion Questions

1. What factors will affect Owens' decision about the new saw?
2. What, if any, are the Owens' responsibilities concerning the hazardous jobs at the Sawmill?
3. Should potential unemployment time for permanent employees during the installation of the new saw be a concern to Owens Sawmill?
4. Should the sawmill consider expanding operations into areas that are safer for employees? If so, what are some potential entrepreneurial opportunities?
5. What decision-making process should Scott and Beth Owens use when making their decision(s)?
6. What decision should Scott and Beth Owens make?

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Bee Harry's: Business as a Service for Humanity

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Key Words

Entrepreneurial mindset
Effectuation theory of Entrepreneurship
Women Entrepreneurship
Entrepreneurial skills
Opportunity recognition

Abstract

The case describes the journey of a passionate and dedicated woman entrepreneur, Yasmeen Ghayas, who had set up a small home-based mineral water plant by the name of Bee Harry's. With the vision to solve a prevalent issue of kidney disease, the brand offered a sodium-free solution and was able to serve a handful of 900 households in Karachi. The case starts with opportunity recognition, evaluation, and the journey embarked upon by Yasmeen, who worked passionately to make the brand reach new heights of success.

Background

On her way back home on a cloudy evening in November 2016, Yasmeen Ghayas, the owner of Bee Harry's, recalled the wonderful day that she had spent at the graduation ceremony of WomenX, a four-month entrepreneurship certificate course that she had attended at the Institute of Business Administration, Karachi.

Yasmeen reflected on her entrepreneurial journey, which was a journey of pursuing her passion and serving humanity by running a small-scale business. The journey started with the identification of a major need that was found in her immediate family members, that is, her father, brother, and uncle, who were suffering from a polycystic kidney disease. Patients suffering from this disease needed sodium-free water. Therefore, Yasmeen converted this idea into an opportunity, 10 years ago and was now serving a handful of 900 households in Karachi.

She was satisfied by the progress that her mineral water business had made so far. She had managed to create a place among the dozens of mineral water businesses in the metropolis, Karachi. Yasmeen never thought of outsourcing her business, as she believed in growing organically and tried to implement that at every stage of her business. The 10 years that she had spent on building the business had not been a bed of roses. She had to work through thick and thin to keep running her business with the help of her husband, Ghayas, her children and son-in-law. Together, they had managed to take the startup that was single-handedly initiated by Yasmeen in her home, to a growing mineral water business within Karachi.

After taking the women entrepreneurship course, Yasmeen was clear on the major strategic objectives that she required to achieve further growth. She was thinking to either shift to an industrial area, at a large scale, or to remain at the same place and grow her business slowly and steadily. She was contemplating her next step.

Yasmeen Ghayas, the Entrepreneur

Since inception, Yasmeen had an entrepreneurial mindset and was always looking for opportunities to learn and grow. When she completed her matriculation, she did not want to spend the 6 months of her vacations sitting idle. Soon, she found herself enrolled in a beautician's course. After the completion of her course, she established a Salon in her home and started marketing it by visiting marriage hall owners and convinced them to send in customers. Soon, she had enough customers and was earning really well. Sadly, due to some family pressures and cultural taboos, she had to shut down the business.

After getting married in 1982 to a marine engineer, Yasmeen had a lot of spare time while her husband was on ship for months. Out of despair and loneliness, initially she used to cry at home, but then she thought of doing something productive. A friend of hers, who was also married to a marine engineer and had a lot of spare time to utilize, partnered up with Yasmeen on a clothing venture, by the name of Shameen's Boutique. The name was a combination of Yasmeen and Shagufta, the two business partners. The boutique ran from 1986 to 1989 and came to an abrupt end when Shagufta migrated to the United States and Yasmeen found that she could not handle the business alone.

In 1992, Largess (a newly formed hotel) was launched in her neighborhood that held monthly exhibitions for local artists. In the quest to do "something," Yasmeen registered a stall in their very first exhibition without deciding what she will be putting up. She had always been good with dry flower arrangements and decided to make some pieces for the exhibition. She got an amazing response and all her products were sold in just 2 days. However, when the second exhibition was held, she was astonished to see that many people had copied and imitated her designs. In the break time, Yasmeen went downstairs to a newly launched Pizza Hut to grab a bite for lunch. During her lunch she observed the dull interior of the Pizza Hut, and mustered courage to talk to the manager. She suggested him to make the interior lively, and gave her card to the manager and invited him to visit her stall upstairs. The manager was greatly impressed by her work and requested her to help him in interior decoration.

Yasmeen narrated,

> *The best quality of an entrepreneur is to think beyond his own business. My approach was not self-centered, as instead of telling him that how great is*

my decoration skills; I thought to fill the gap I found in his branch of Pizza Hut. This in turn paved a path-way for my own business.

Soon Yasmeen got a call to decorate their Clifton branch as well, and this led to the launch of her interior decoration venture called Autumn Beauty. Later, she was called for the decoration of the Lahore branch as well. But that was where Yasmeen decided not to pursue this business any further, as she believed it would have led her to neglect the household responsibilities. Autumn Beauty ran from 1992 to 1997 and Yasmeen regretted that she was not able to turn her hobby and passion into a business.

Industry Profile—Market for Mineral Water

The water business is one of the most lucrative and profitable enterprises worldwide due to the fact that every human being on earth wants to have safe pure water on a daily basis to stay alive. During the past thirty years, the demand of bottled water accelerated all over the world. Bottled water sector, despite its excessively high price compared to tap water, was measured as one of the most powerful sectors of all the food and beverage trade as its consumption increases by an average of 12% every year.

Pakistan has witnessed a mushrooming growth in the bottled water industry over the past few years (See Exhibit 1). The poor quality of tap water is considered to be the main driver of demand for bottled water by people who can afford to buy it. As per Pakistan Standards and Quality Control Authority, there are 109 valid CM License units engaged in this business in Pakistan. In summer time, this number increases up to 115. The table depicts the provincewise list of licensed bottled drinking water units in Pakistan (See Exhibit 2).

An Early Setback

The same passion of doing a business drove Yasmeen to invest in pharmaceutical industry, as her son-in-law was already working in this field. She had assets, but limited funds for investment so she took a loan from bank, by keeping her house on mortgage. She ran this pharmaceutical distribution business, in collaboration with her son-in-law's company, Saviour Pharma. Her son-in-law marketed the product and Yasmeen took care of the distribution. When Vioxx scandal occurred it created havoc in the international pharmaceutical industry. It caused a severe blow to Yasmeen's operation, as her company also invested PKR 8 million to stock the product, Vioxx. The Ministry of Health issued orders for the product to be destroyed to ensure it was not being sold again. Yasmeen burnt down her stock in presence of the officials from the ministry. Later, she realized that she should not have opted for a loan, as it was against the principles of her religion. It was that "bank loan" due to which she was unable to quit from the business till now, because her husband firmly believed,

> *"We can't quit the business world, as from where we have lost our resources; we will gain it from that place only."*

Yasmeen's son-in-law became her beacon of support as he also had suffered by the same situation. Her son-in-law asked her if she could invest some capital in marketing other products, but the experience had left her wounded and she refused. Yasmeen's funds got stuck with Saviour Pharma but keeping the family values alive, she internally settled the matter. She had two options, either to quit or dwell more into the pharmaceutical industry. She knew she could do nothing, as she believed the industry used the distributors and marketers like puppet. Also, quitting was the last thing she would do because she had developed a passion for business that she did not want to forego. Therefore, they decided to get back on their feet.

As Yasmeen narrated,

> *We did not panic. If we would have panicked, we could have never been able to survive the blow.*

The Turning Point

The nature was trying to work in favor of Yasmeen. Soon a sample product of Australian baby water was sent to Saviour Pharma, but they did not have funds to market it. The product was designed specifically for babies to reduce bloating and gastric pain. She had a light bulb moment and decided to use all her leftover funds and manufacture a similar product for the local market. Holding a bachelor's degree in commerce, she did not have a strong hold in chemistry and thus she took out the periodic table from her school-going daughter's chemistry book, and started learning about different compositions of chemicals. Yasmeen proved that one does not need to have a master's degree to pursue and establish a venture. She did different experiments in her own lab to produce her required chemical and after a couple of experiments she succeeded in producing a formula in the in-house lab that was ideal for infants. The mineral water process had seven stages (See Exhibit 3 and 3 A).

Here started a five-month journey, where Yasmeen's eldest daughter helped her mother out and Ghayas, her husband, helped her in setting up the plant in the ground floor of their house (See Exhibit 4). Both of them were bird in hand for her. During this time, a plant was being set up and a marketing plan was also being devised simultaneously. Yasmeen approached various NGOs and one of them was so impressed by the potential of the product that they agreed to buy the whole lot, and was ready to market it.

Once a sample was developed, they presented it to the panel PSQA (Pakistan Standard and Quality Control Authority). The panel comprised representatives of water giants that discussed the pros and cons of the product. Sadly, the product was not licensed on the grounds of being a totally new product that was never researched before in Pakistan. Yasmeen was told by the panel that it will take 3 to

4 years to research the product and to test its viability and adverse effects on the children, if any. Another problem that came along with this was that the NGO who agreed to market their product was now asking for the funds they invested in its marketing, which was around PKR 5 million.

That was the day when Yasmeen felt that she was enveloped in a storm of problems and she could not see any ray of hope. In the state of despair, she cried the whole night. She knew that there is only one being to whom she can turn to. She begged in front of God Almighty, admitting all the mistakes she made in her way to business, and asked Him to forgive her and show her the right path. Soon her prayers were accepted, and she found a way to come out of this maze of problems. Next morning, Yasmeen called the NGO and told them that she did not get permission to make this product and now she wanted to surrender it in their name and they could start its production from anywhere else. The NGO was very satisfied with this deal and they took back the claim which they made on her.

New Beginnings

Now as the plant had already been established in Yasmeen's house, she wanted to utilize it. Therefore, on the advice of her husband, she decided to produce normal mineral water. As a marine engineer, Ghayas had ample of experience of turning salt water into drinking water and knew the chemical processes involved in it. Thus, Bee Harry's was born in October 2006. As Yasmeen belonged to a Bihari family (a name given to a group of people who live in the Indian state of Bihar), she took advantage of her background by naming her brand Bee Harry's. And at the same time, there was a Western touch in the name, thus targeting the upper-class segment as well. The brand name gave her community support to an extent that she did not have to invest a lot in marketing. Surprisingly, Yasmeen was able to make around 1,000 customers, only on the basis of word-of-mouth marketing.

As compared to her competitors, Yasmeen was not able to do drastic marketing on a very large scale as she had limitation of funds. Still, she never viewed companies, like Nestlé, as a competitor for her own brand. Reflecting on this unique philosophy, she narrated,

> *Unlike my brand, Nestlé has enough money to run TV ads like, 'come towards water'. But how can I view it to be my competitor as their ads are also inducing a larger segment of the society towards healthy water, which is the same vision of my own brand.*

Bee Harry's Journey

Bee Harry's started with 100 bottles and a Master truck that was bought on lease. The first customer of the company was Yasmeen's brother. They started supplying water along the RCT highway that ran from Hub to Gwadar to Khuzdar.

The business soared and it turned out that one bottle in every three bottles in that area was of Bee Harry's. Soon, the business was delivering 400 cartons daily.

In 2008, Yasmeen had two options to start her work with, either as NRBs or as RBs (Refilling of Bottles). NRBs had a benefit as it helped in maintaining cash flow statement easily, while in RBs, refilling of water cost a lot, which in turn increased the cost of water per customer. So she pursued NRBs, which was easy to handle as she had disposable bottles, which were easy to dispatch to the customer. The areas that she covered were Hub, Bella, Gwadar, and the whole RCT highway. She had contracted with the distributors in each area for the whole season, March to October.

The first problem that Yasmeen faced in her business was the increase in diesel prices from PKR 37 per L to PKR 65 per L, which resulted in an increased cost of distribution, almost doubled. Then she had three options to choose from: to finish the contract with the distributor, or to increase the prices of her product, or to suffer the loss for the next 3 months. During this phase, promoters were introduced for the first time in water marketing. These promoters paid for the bottles and distributed on their own. Yasmeen met Sajad Lari who became their promoter for the next 4 years. After a while, it came to her knowledge that Sajad was refilling the bottles midway through the distribution routes to cut transportation costs. After a number of complaints received by her customer care department, Yasmeen knew she had to take an action. Despite the fact that Sajad was bringing in a lot of customers and had some unclear dues on his end, Yasmeen withdrew the contract and asked him for reprinting of the bottle. This resulted in a dropdown from 900 customers to 500 customers, but Yasmeen had to make sure her brand was not associated with unethical practices. She did not want to maintain soaring sales, but a respect for her brand.

Service to Humanity

Yasmeen firmly believed that the ultimate vision of every entrepreneur should be to become a faithful steward, a person who existed to achieve a bigger purpose in life, that is, to carry the responsibility of serving and positively influencing the lives of the people. As Yasmeen narrated,

> *A true entrepreneur is the one who thinks beyond his business, who finds the need in society and convert it into an opportunity, which in turn benefits him and the society both. Becoming a successful entrepreneur is not as easy as establishing a profitable business.*

The major reason of embarking upon a mineral water venture was Yasmeen wanted to cater to patients of polycystic kidney disease that had plagued the lives of her own family members, and numerous others in the society. She knew that the patients suffering from the disease were required to drink a sodium-free water and thus through Bee Harry's Yasmeen developed a sodium-free formula.

Moreover, when Yasmeen printed her first brochure of Bee Harry's, instead of mentioning only the per liter price of water she mentioned the whole process of mineral water, as opposed to other companies like Nestlé, which never told the process of making the water in their advertisements. But Yasmeen was working with a vision to help and spread the awareness among the people how Bee Harry's was producing sodium-free water with special care (See Exhibit 5). Yasmeen reflected,

> *When we help others, God starts helping us. I never asked anyone to buy my product; instead I told them the benefits of the product, including its process, and let the customers decide themselves. Eventually those people end up buying my product. To think about others is a long-term process for most of thebusinesses, but for me it is the short cut, because it's hard to ask someone to do something for us, but it's very easy to do favors for others, which eventually in the long-run benefit us only.*

Training: Developing Entrepreneurs within

Yasmeen was zealous about controlling not only the quality of the product but the quality of the people who operated the venture. In the initial days, Yasmeen had only one driver, but as the operations grew, she appointed more labor. She treated all of them as her own family members. She appointed a helper boy of age around 10, and trained him in such a manner that he was able to control the distribution cycle completely on his own. Majority of the labor Yasmeen had was illiterate, and initially they were not able to write the names of the customers. They used to recognize a certain customer through their home location, but later, Yasmeen trained them in writing and reading skills; therefore, now they could easily handle the information related to each customer. Instead of hiring people from outside, Yasmeen trained and assigned the responsibilities to her own workers, developing entrepreneurs within her own team.

One of her employees stated,

> *I use to work somewhere, as a rent based delivery driver. Now, for the last 4 years, I am working with Miss Yasmeen as her permanent driver. She assigned few areas to me where I have to cater the customers. For this, she gave me special training about how to approach a customer and taught me the main features about the product so that I can easily communicate it to the customers. I made relentless efforts to make as many customers as I can. I started off with 10 customers and now I supply Bee Harry's to around 100 customers.*

Equality

Yasmeen never differentiated among her workers, as she herself believed in equality and taught the same lesson to the people working under her. As she narrated, *When I bought a Hino truck, I hired a driver with an HTV license. He acted as if he was superior among all the other drivers. When I got to know this, I called him and told him that driving a Hino is not something to boast about. I drove that truck in front of him and taught him the lesson of equality.*

Taking Small Steps to Accomplish a Bigger Vision

Yasmeen's father cultivated a belief in her that an entrepreneur should have a bigger vision but she or he should take small steps to accomplish that vision. Her father himself used to work in a tire shop, where he slowly and gradually learned the skills and developed his expertise, which later on induced him to open up his own tire shop. It was her father's legacy that taught Yasmeen the lesson to develop her expertise in the mineral water business and to contribute to the society by creating a sodium-free formula. Yasmeen reminisced,

I wish that no citizen of Pakistan remains idle. Each individual has a unique skill and potential, which can be used to ethically contribute in any economic activity which is environmentally, and socially sustainable.

Honesty and Transparency

Yasmeen had a great concern about the prevalent unethical practices being practiced by various startup businesses. In order to keep her dealings honest and transparent, she used to give commercial rent of her home as she was operating her business in a residential area. Moreover, abiding by the government laws, she placed a commercial electricity meter and paid commercial tax. Yasmeen narrated,

Abiding by the ethics and values is the secret to gain customer confidence and to take the business to new heights of success.

Envisioning the Future

It was December 2016; Yasmeen was reflecting upon the progress of Bee Harry's so far. Her business was running quite successfully. At the moment, Bee Harry's was catering to approximately 1,000 customers per week. While reflecting back on her journey, somewhere in her heart Yasmeen knew that she would have to make key decisions pertaining to the strategic issues to achieve the level of growth that she aspired to reach.

She contemplated two options for future growth. First, she could opt to increase the size of her venture, and move to an industrial area where she would have a larger plant of water with a capacity up to 72,000 gallons. This would mean that Yasmeen could market her product at a larger scale and would have enough resources to cater to a large number of customers. The problem with this option was that it required her husband's full support and a large amount of investment. The second option that she could opt for was to stay at the same place, with same plant capacity, and to work slowly and gradually. This neither would require her husband's support nor any major investment, but this option will restrict her industrial growth. At the moment, she is contemplating her next move.

Exhibit 1: Industry Analysis

Nestlé Pakistan

Nestlé Pakistan is one of the known brands of Pakistan. It has multiple products, and one of its products is water bottles, which is one of the largest selling water bottle brands across Pakistan.

Aquafina

Aquafina is a brand of purified bottled water products produced by PepsiCo, consisting of both unflavored and flavored water. It was first distributed in Wichita, Kansas in 1994, before becoming more widely sold across the United States, Spain, Canada, Lebanon, Turkey, the GCC countries, Iran, Egypt, Vietnam, Pakistan, and India to compete with The Coca-Cola company.

Aqua Safe Pakistan:

Aqua Safe was founded in 1986 by the chief executive and the chairman of the company Muhammad Wasif, as a sole proprietor of the firm. At the moment, Aqua Safe has got on its payroll more than 100 employees including project managers, general managers, managers, secretarial and supervisory staff, technicians and helpers working in their different departments and factory.

Exhibit 2: Provincewise Distribution of Bottled Water Units

Province	No. of units
Sindh	82
Punjab	23
Baluchistan	1
KPK	3
Total	109
Sources: Pakistan Standards and Quality Control Authority, Ministry of Science and Technology, Government of Pakistan	

Exhibit 3: The Mineral Water Process

Sand Filtration
Sand filtration is a frequently used, robust method to remove suspended solids from water.

Activated Carbon Filtration
Activated carbon filtration is a specialized filtration that removes chlorine and dissolved organic contamination.

Fine Micron Filtration
This is a high-efficiency water filtration system for the removal of suspended solids down to sub-micro level (very, very small) range.

Reverse Osmosis
This process will allow the removal of practices as small as ions from a solution. Reverse osmosis is used to purify water to remove salts and all other minerals; thus, pure water having no salts/minerals is obtained (H2O obtained).

Mineralization
The necessary minerals are then added to the water through calculated dosing system to achieve the required minerals as set by the standards of PSQCA/WHO.

Ultraviolet Treatment
Ultraviolet (VU) treatment is the disinfection process of passing water by a special light source. The special light source emits UV waves that kill harmful microorganisms.

Ozonation
Ozonation is a cutting-edge water treatment process that destroys bacteria and other microorganisms through infusion of ozone, a gas produced by subjecting oxygen molecules to high electrical voltage.

Exhibit 3 A: Water treatment Process

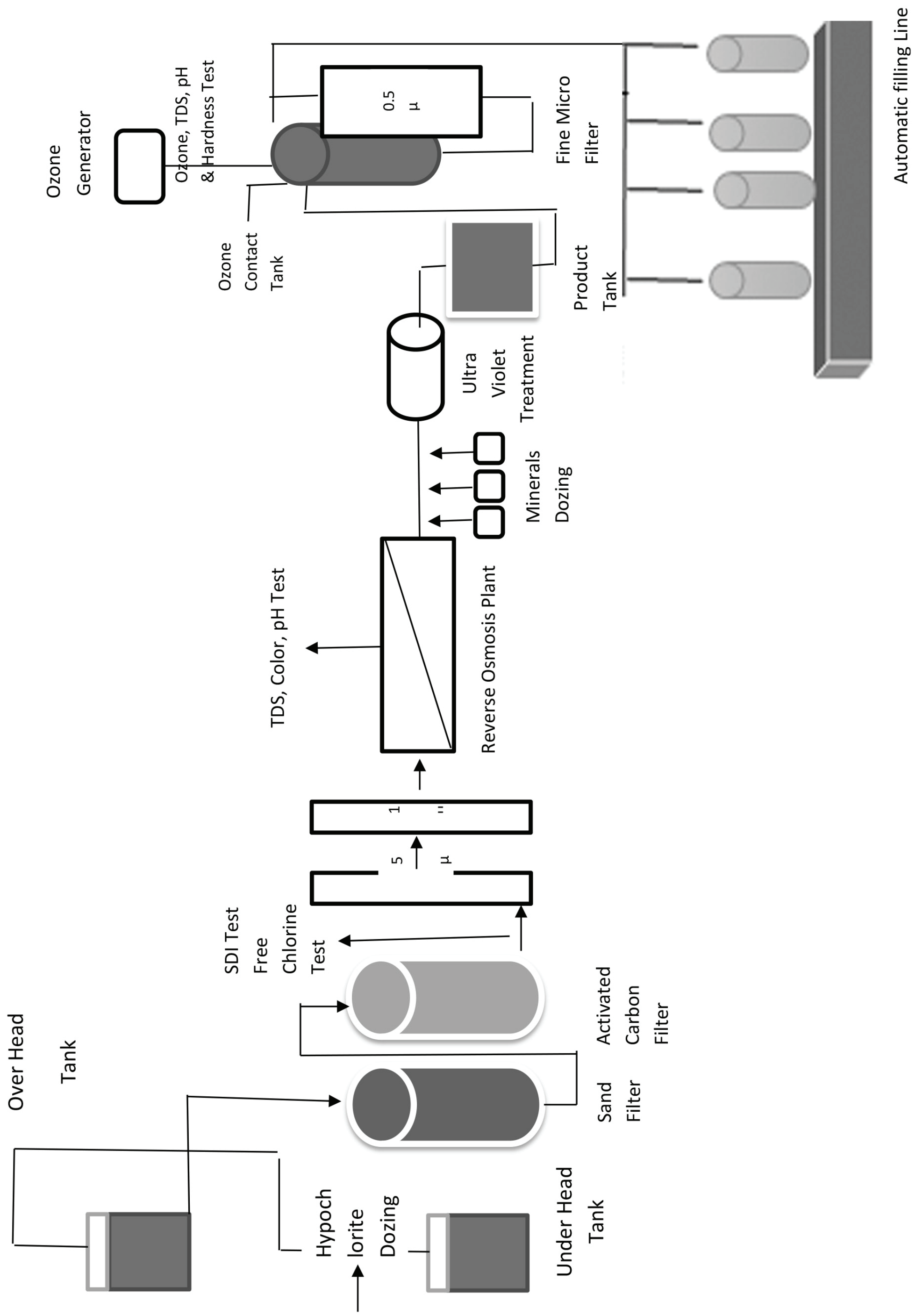
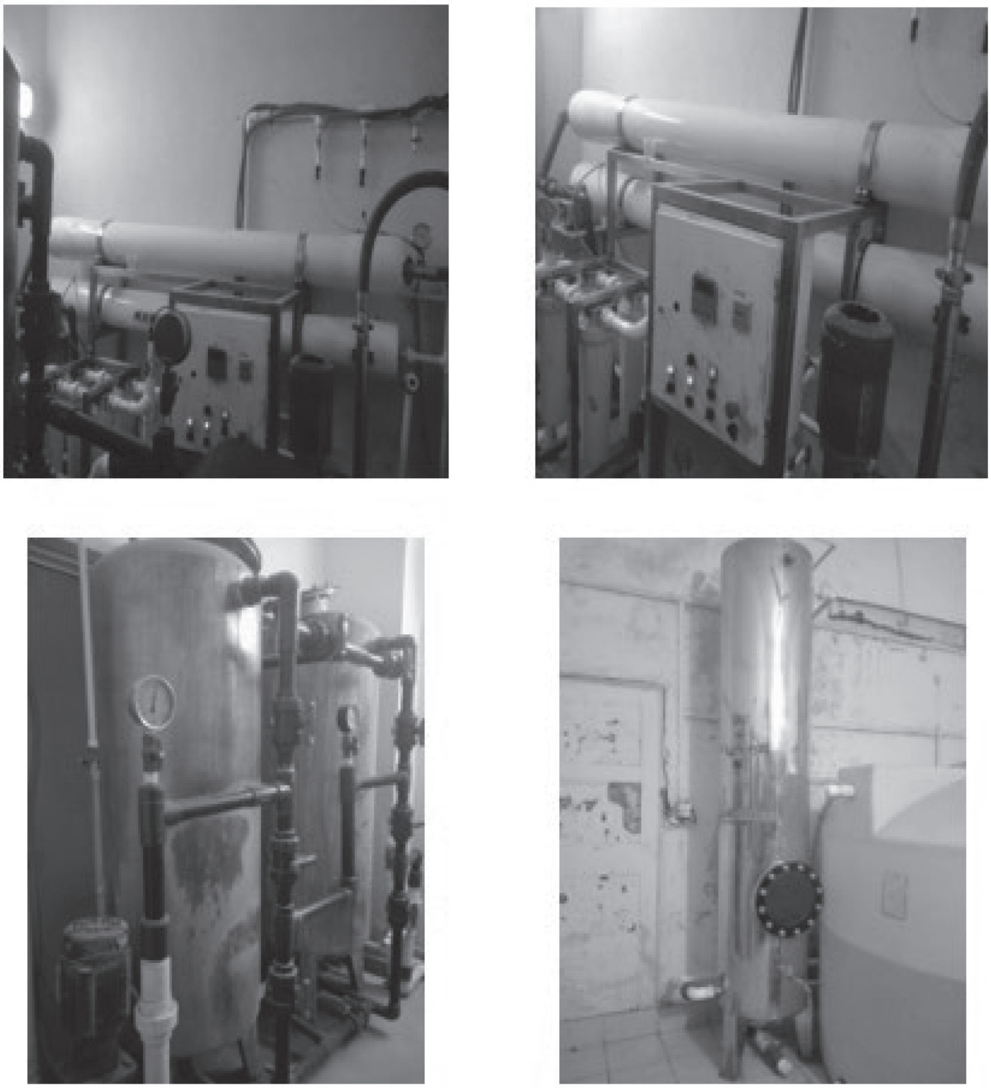


Exhibit 4: Water Plant Facility at the Basement of Yasmeen's House

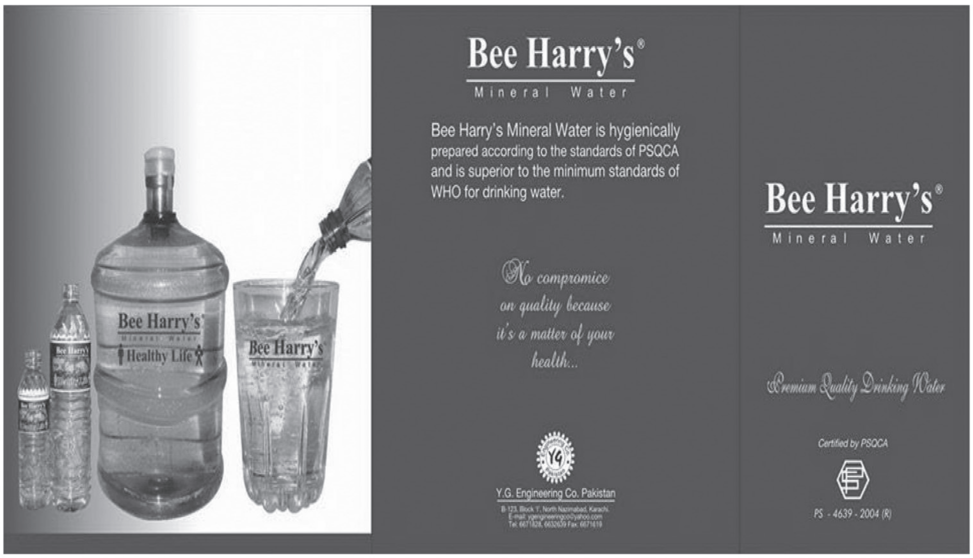


Source: Provided by the Owner

Exhibit 5: Water storage Tank

Source: Provided by the Owner

Exhibit 6: Bee Harry's Brochure



Source: Provided by the Owner

Saving Soap and Saving Lives

Brandon Carroll

Learning Objectives

1. To study the successes of an entrepreneurial nonprofit/benefit corporation operating in emerging and developing economies around the world.
2. To identify key problems and solutions employed by the company.
3. To discover the driving factors of nonprofit/benefit corporation business leaders.
4. To look for similarities between for-profit entrepreneurs and nonprofit entrepreneurs.

Keywords

Entrepreneur
Nonprofit
International Business
Social Entrepreneurship
Benefit Corporation
Corporate Social Responsibility
CSR

Abstract

This case will look briefly at the background and mission of Clean the World (CTW), an entrepreneurial nonprofit organization whose mission is to recycle and redistribute soap in order to save lives and reduce environmental waste. A nonprofit/benefit corporation was specifically chosen because of the interest surrounding what, if any, similarities exist between for-profit and nonprofit entrepreneurs. In studying CTW's, main programs, method of funding, and common problems this case will examine how they have achieved success. Furthermore, several factors that drive nonprofit and benefit corporation entrepreneurs are identified. Lastly, this case sheds some light on commonalities shared between nonprofit entrepreneurs and for-profit entrepreneurs.

Main Section/Dilemma

History and Background

We do not often think of soap as a necessary life or death item. That distinction typically is associated with things like food, water, and shelter. For thousands of people, however, it is. In developed parts of the world, we take soap for granted. It is everywhere. Many individuals keep a bar in each shower and some more near each sink in the house. We carry sanitizer, and when it is not available to us, we can usually find some from a dispenser. Collectively, our hands have likely never been cleaner in history. All this access to soap is a wonderful thing. We prevent the spread of germs, harmful bacteria, and illness every time we wash our hands. Clean hands are a major preventative factor in the fight against the spread of illness (Centers for Disease Control and Prevention [CDC], n.d.). In some parts of the world, however, soap is not so easy to come by, making it far more difficult for people in those areas to stay healthy. This affects impoverished and young children the most. In 2017, the World Health Organization (WHO, 2018) "estimated 6.3 million children under the age of 15 years died" and "more than half of these early child deaths are due to conditions that could be prevented or treated with access to simple, affordable interventions," like washing hands.

Back in 2009, CTW founder Shawn Seipler spent most weeks traveling for work. While on one particular trip, he got to thinking about the twice-used bar of soap in the bathroom. He asked the hotel staff what they did with all the partially used soaps, shampoos, and conditioners after guests checked out, and to his surprise he found that they simply threw them away (Toropin, 2017). In fact, over 2 million bars of soap are thrown out daily from U.S. hotels (Thompson, 2019). Besides being a huge amount of waste entering the landfill each day, the real motivator for Shawn came after he learned how much benefit soap could bring to marginalized populations. "At the time, over 9,000 children were dying every day from pneumonia and diarrheal diseases that could be prevented with access to soap, handwashing, and the right hygiene education" (Thompson, 2019, p. 1). Opportunity recognition is key (Ketchen, Short, & Combs, 2011) and like many other entrepreneurs, Shawn saw the potential opportunity here and quickly began laying the groundwork for what would eventually become CTW and their underlying mission (CTW, n.d.-a):

- Collect, recycle, and redistribute used hotel amenities
- Prevent and reduce hygiene-related deaths and illnesses by providing access to soap and hygiene-related education to in-need communities.

The need was indeed great, and this mission quickly took the organization into the international space. Just after its inception in 2009, CTW embarked on its first international distribution trip to help in the relief effort for earthquake victims in Haiti. In the next sections, we will examine how CTW accomplishes their goals, see what drove the founders to pursue this enterprise, issues experienced along the way, and hopefully find some similarities between nonprofit and for-profit entrepreneurs.

How and Why Clean the World Works

To better understand how CTW works, here is a brief explanation of their premiere program, the so-called Hospitality Recycling Program. First, they collect used soap and amenity items from all their partners. These items are recycled at one of CTW's recycling facilities and turned into new bars of soap and packaged hygiene kits. After that, the items are distributed out to an at-risk location.

Delivering soap is only part of the work and CTW strives to not simply deliver soap and leave (Thompson, 2019). In addition to providing soap, CTW conducts hygiene related education programs, called "WASH" (Water, Sanitation, and Hygiene) and "Soap in Schools"; the former seeking to not only educate but also provide access to clean water and basic sanitation needs in at-risk areas (United Nations International Children's Emergency Fund [UNICEF], 2016).

Besides the obvious desire to help those in need, CTW is driven by several factors that constantly push them to excel in their mission. Nonprofit entrepreneurs are, like their for-profit counterparts, driven by a number of different factors (Nissan, Castaño, & Carrasco, 2010). CTW has been driven to success by finding opportunities, innovating in key areas, creatively funding their programs, and carefully applying good business practices. Seeking innovative solutions to new opportunities is a cornerstone of entrepreneurial activity and a major driving factor of both nonprofit and for-profit entrepreneurs (Nissan et al., 2010).

A key component of CTW's program and where Shawn Seipler first saw opportunity is the company's Hospitality Recycling Program. Through this program, participating hotels agree to collect used soaps and other amenity items and ship them to one of CTW's recycling facilities. Not only does this help to remove thousands of pounds of waste from landfills each year, but provides the soap that CTW volunteers repurpose into brand new bars. In fact, a portion of the funding CTW receives comes from the hotel's participation. Partner hotels pay a small, per room, fee to become a CTW partner (Toropin, 2017). In return, partners are given all the materials they need to collect and send amenity items to CTW. More importantly, participating hotels are able to advertise their participation, displaying corporate social responsibility (CSR). In my interview with CTW, they were quick to point out the importance of CSR to participating hotels, "Corporate Social Responsibility (CSR) is increasingly important and has become more demanded by consumers for local and leading corporations" (Thompson, 2019, p. 3). Many of CTW's partners also happen to be large, publicly traded MNEs, so everything they do (good or bad) is available for public scrutiny. This is likely to increase the probability they will want to participate in CSR programs (Rodriguez, Siegel, Eden, & Hillman, 2006). This program has done quite well for CTW. They have approximately 5,000 participating hotels in the United States, which makes it possible for CTW to produce over 7 million bars of soap a year for distribution to at-risk communities across the globe (Meltzer, 2017).

I've touched briefly on how CTW raises funds for the organization through the per room fees it charges to participating hotels. In addition they fundraise and take standard donations. In 2015, they joined forces with another nonprofit organization with a similar mission, Global Soap. This partnership expanded their reach, capabilities, and funding potential (CTW, 2015). This is another important driving factor for nonprofit entrepreneurs, "the sustainability of its organization requires diversification of the funding streams (often including the creation of earned income streams or partnership with a for profit) due to the changes in the relationships of nonprofits with their public and private founders" (Nissan et al., 2010, p. 305). Sustaining the work and continuing the mission is important to CTW. They want to continue to help people, so finding new funding streams becomes a large driving factor for nonprofits. In this case, you have a partnership made between CTW and Global Soap, allowing the collective organization to increase funding potential and combine strengths.

Issues and Dilemmas

Saving the world one pair of washed hands at a time is a noble effort; however, it is not without its complications. In their decade of existence, CTW has worked in 127 different countries providing soap, hygiene education, and other humanitarian aid (CTW, n.d.-a). Through their experience, they have come across several recurring dilemmas that require unique attention depending on the country they are occurring in. The first, most significant challenge they work through surrounds the logistics required to move all their relief materials into underdeveloped or developing areas. "Each time Clean the World ships supplies into a country, we must research and comply with local shipping costs and standards, such as the provision of detailed packing lists [or] high tariff payments on each container" (Thompson, 2019, p. 1). This represents huge challenge for the organization, given they have had to work in so many different countries, each with their own set of laws governing importation of goods. One can only imagine the painstaking process required to properly research compliance requirements for each country. Fortunately, there are a vast number of resources available to exporters so they can easily learn the intricacies of compliance in their target countries. In addition to educating themselves, CTW mitigates risk when shipping by always making sure they have solid contacts within the target country, or by partnering with other nonprofits who have established contacts within the target country (Thompson, 2019). Past these more standard issues surrounding international freight logistics, CTW's target countries offer up additional logistical hurdles. Since the target countries are often developing nations or, as in their first international project in Haiti, dealing with the aftermath of natural disaster, there are often logistical issues created by the lack of established, stable infrastructure (Welsh & Carraher, 2018). This could range from poor road conditions to unreliable communication networks and is especially prevalent in rural areas (Prahalad & Hammond, 2002). Furthermore, given the number of nations and different populations served by CTW, they have had to adapt to wildly varying infrastructure situations that differ by country. While difficult to plan around, CTW does what it can to mitigate the possibility of problems where it can. Anytime it makes sense, instead of importing goods for a project, they will source the materials locally, benefiting both them (through savings in shipping/duty costs and by minimizing risk) and the local economy (Thompson, 2019). This also ties into issues surrounding other political and institutional issues, like corruption or animosity toward foreign firms, that could be more present in emerging and developing economies (Welsh & Carraher, 2018). Corrupt, or untrustworthy customs agents, for example, could result in CTW losing an entire container of goods (Thompson, 2019).

Another constant dilemma CTW faces in each country they work in, even when that country is the United States, are the various challenges associated with working across culture. Taking care that local culture and customs are taken into account, is of major importance for CTW, as it should be. As with their approach to handling logistical problems, CTW does their research first. Before embarking on a new project, they learn everything they can about local customs, taboos, health policies, and overall need of the target population (Thompson, 2019). This approach not only grants them the knowledge base they need to succeed, but it also goes a long way to building much needed trust with local population and community leaders. One of CTW's programs, "Soap in Schools," is an example of this. Without the aid of local officials, this program would not be possible. For success, cultural understanding is important, but not the only piece of the puzzle. CTW also employs local managers to run their WASH programs at the local level helping to legitimize their operation, giving the locals a familiar face to work with, and helping minimize the liability of foreignness (Thompson, 2019).

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Epilogue (What happened in current time)

Today, CTW is continuing to help the world learn about good hygiene and is still distributing soap as fast as they can make it. They have helped over 10 million at-risk people across 126 countries (CTW, n.d., About Clean the World section). In 2015, they expanded their reach and education offerings by partnering with Global Soap (now operating under the CTW umbrella). This development added the WASH (Water Sanitation Hygiene) educational program to their suite of services and allowed CTW and Global Soap to combine their strengths. "Clean the World now manages all the collection and recycling of soap and plastic bottles, while Global Soap focuses on soap distribution and hygiene education" (CTW, 2015). Although highly successful, their work is far from over. While they continue their original mission, they have developed some additional programs that further their initial cause and make an impact on others. Their microlending program, for example, gives women in WASH program areas capital needed to run their own soap-making businesses (CTW, n.d.-b).

Discussion Questions

1. What was one way that CTW found success?
2. What unique challenges do nonprofit entrepreneurs face that for-profit entrepreneurs can potentially avoid? The chosen example does not necessarily have to be taken from this case.

Answers to Discussion Questions

1. One primary way that CTW finds success is through their diligent research. Despite having worked in 126 different nations, they always carefully prepare for new projects by learning everything they possibly can about a country. This country-level research is an important part of the formula for success. It aids CTW in entering each country successfully by helping to avoid pitfalls surrounding the legal and political environment, customs regulations, health policies, and so on. It lets CTW know how best to plan for potential issues like infrastructure deficiencies, or potentially corrupt governments. The research does not stop at the country level, however; they are also careful to study local population's culture including customs and taboos. This research helps CTW decide how best to effectively work with a target group, and what combination of aid and educational outreach might be most beneficial. Additionally, it helps them build trust with local populations and officials.

2A. Working across so many different cultures and countries in a short amount of time. CTW has only been around for a decade, but in that time, they have had to be extraordinarily adaptable to different environments. While any entrepreneur who takes their business into another country will face similar issues as CTW, most will not have to face these issues as often.

B. Funding. Nonprofit entrepreneurs have additional issues with funding that for-profit entrepreneurs do not face. A for-profit enterprise might need capital funding at the beginning, but they can earn future money by selling wares or services. NPOs, on the other hand, do not sell anything for a profit, so their quest for funding is essentially never ending. CTW does sell access to their Hospitality Recycling Program, but not for a profit. These funds largely pay for the recycling program. They constantly rely on fundraising and donations to further their business.

Videos (3-5) with live links

www.youtube.com/watch?v=u-MQZkkHW-k

www.youtube.com/watch?v=ZK-FCioS50M

www.youtube.com/watch?v=adbthtM7sfM

Follow along with Kat Coiner-Collier, director of housekeeping at Aloft Charlotte as she volunteers for a soap drop in Honduras.

www.wbur.org/hereandnow/2017/06/09/recycle-hotel-soap

This is a link to WBUR Boston's interview with the founder of CTW. WBUR is an NPR affiliate, so this interview aired in many other markets. Audio and transcript only, no video.

PowerPoint Slides: See Appendix 1

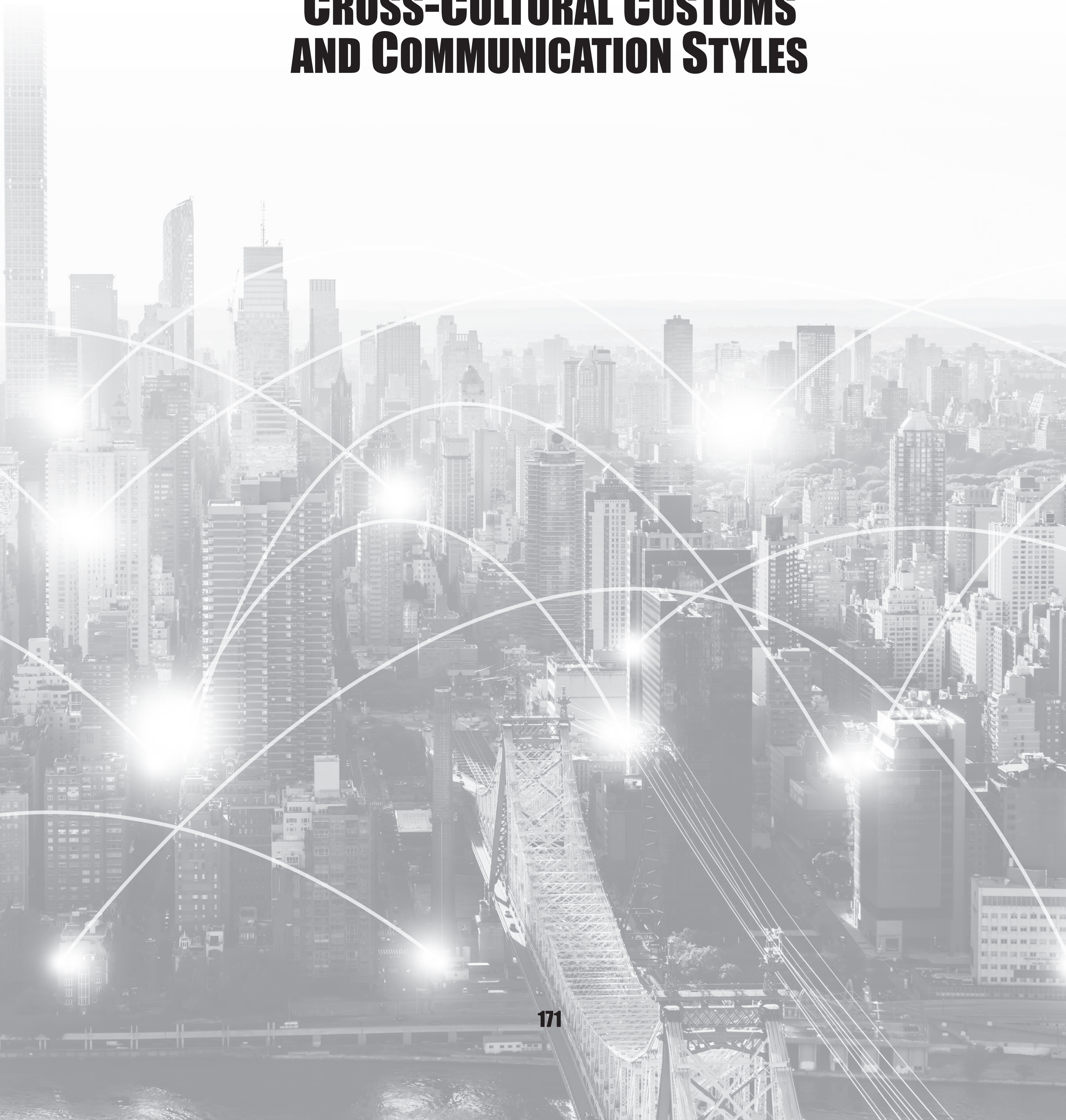
About the Author (1 paragraph)

Brandon Carroll is a first-year graduate student at UNC Greensboro, studying international business. His interest in this field stems from his years of work as a professional in the international logistics industry.

Additional Files: See Appendix 2 (interview Q&A)

Chapter Eight

Cross-Cultural Customs and Communication Styles



Al-Bahar and Jacorossi Engineering and Contracting: A Study of the Effect of Kuwaiti and Italian Culture on Entrepreneurial Leadership After the Iraqi Invasion

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Abdulrahman Al-Bahar, Kuwait City

Learning Objectives

1. *Analyze* the implications of cultural differences on human resources.
2. *Analyze* the impact on human resources and companies after war.
3. *Analyze* how family businesses are different based on country and cultures.
4. *Analyze* how family businesses can have a positive impact on human resource issues.
5. *Determine* decision-making capabilities of companies during conflict.

Key Words

Cultural Differences
Family Business
Human Resources
Joint Ventures

Abstract

This case encompasses cross-cultural, entrepreneurial leadership, human resources, and crisis management issues that a joint venture dealt with after their employees experienced an invasion in a war zone. The Al-Bahar and Jacorossi Engineering and Contracting Company was formed in 1993 and is a privately held shareholding company. The Al-Bahar family of Kuwait owns 51% of the stock, and Jacorossi Imprese of Italy owns 49% of the stock. The company mainly contracts out maintenance of work pertaining to mechanical, electrical, instrumentation, fire, pumps, pipes, and high-voltage signs. This joint stock company was formed for the purpose of contracting engineering activities in the oil sector, power sector, and industrial infrastructure by combining the experience and expertise of these two companies. Global entrepreneurship issues are discussed.

Background

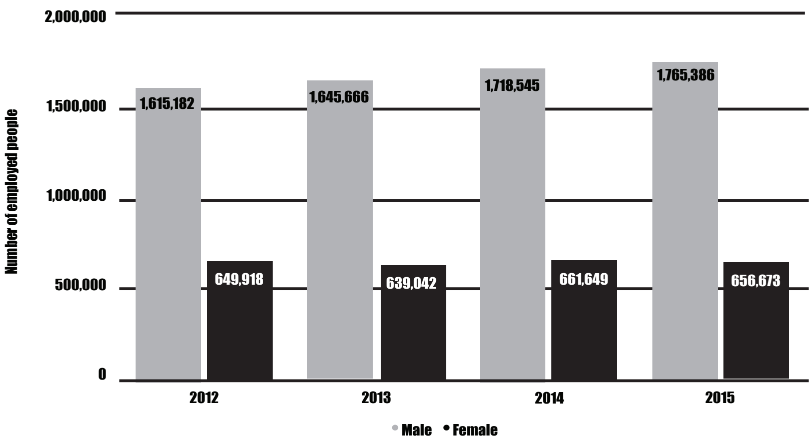
Kuwait is a tiny country that is located in the Northeast corner of the Arabian Gulf. It is bordered by Saudi Arabia and Iraq. The total population of Kuwait in 2006 was 2,765,300, with 1,653,700 men and 1,111,600 women. Based on an annual population growth rate between 2000 and 2005 of 3.73%, the population is predicted to grow to 3, 201, and 546 by 2010 (United Nations, 2006) Currently, the population is 4.7 million, which is 0.05% of the total world population (Worldometer, 2020). A large percentage of the population are non-Kuwaitis. The main language is Arabic, although English is widely used in business.

Kuwait covers an area of 17,818 sq km, most of which is flat desert except for the Al-Jahrāʾ oasis, at the western edge of Kuwait Bay, and a couple of man-made beachfront zones in the southeastern part of the country. Kuwaiti region incorporates nine seaward islands, the biggest of which are the uninhabited islands, Būbiyān and Al-Warbah. The island of Faylakah, which is situated close to the passage of Kuwait Bay, has been populated since prehistoric times (Anthony, Crystal, William, & Sadek, 2020). There are only two notable areas of high ground in the country, Mina Al Zor and Muttla Ridge , and the Ahmadi Range. Kuwait coastal waters cover 2,200 sq miles, and the coastline stretches 290 km.

According to the 1985 census, 59.5% of Kuwaiti men and 13.8% of Kuwaiti women were employed in the workforce. In 1993, only 20.1% of the workforce was made up of Kuwaiti men, although the number of women working has remained about the same. The government employed 90% of the Kuwaiti workforce in 1993. About 91.7% of non-Kuwaiti men and 42.7% of non-Kuwaiti women were part of the labor force. According to the most recent compilation of data by the Kuwait Institute of Banking Studies (2007), the total Kuwaiti and non-Kuwaiti labor force is 1,962,955. Kuwaiti men comprise 10.1% of the total labor force, while Kuwaiti women make up 7.25%. Eighty-three point 6% are employed by the government. Of the total labor force in 2006, non-Kuwaitis make up 1,621,770 or 82.62%. Non-Kuwaiti males are 79.86% and non-Kuwaiti women are 20.14% of the total non-Kuwaiti labor force. Many foreign workers come from countries such as Pakistan, India, and Philippines for the main purpose of finding employment.

> *Wages are considered the most important distribution channel for effecting social justice in the State of Kuwait since 90% of the Kuwaiti labor force, both men and women, worked in the administrative positions in the state and public sectors till the end of 1994 (Kuwaiti Ministry of Planning, 1995, p. 14).*

The following table shows the number of people by gender employed in Kuwait from 2012 to 2015.



Source: Statista (2020) (statista.com/statistics/647326/kuwait-number-of-employed-people-bygender/)

Many women have continued to be employed primarily as teachers, doctors, nurses, and secretaries. Many have gone into other professions as well. Families have developed their own private businesses. Through government programs or family assistance, many Kuwaitis have developed profitable businesses in the last 20 years.

Kuwait is interesting because it is a combination of a welfare state, private enterprise, and a state-run economy. The government controls the oil production and resources of Kuwait. This is the source of the great wealth that has come to the country. However, with this wealth, the government has helped many privately owned businesses become prosperous, it has brought many opportunities to private business, and it has allowed a great increase in the standard of living for all people living in Kuwait.

> *The philosophy of modernization and building a contemporary state developed into a philosophy that aims at promoting the citizens' standard of living due to the increase in oil revenues and the local developments.*
>
> *Kuwaiti Ministry of Planning (1995, p. 31)*

One of the most important policies of the Kuwaiti government is the continuous advancement in programs of education, culture, information, social care, and religious service that is tied to maintaining the unity of the family.

Kuwait is classified among the group of richest countries in the world. The gross domestic product (GDP) per capita was estimated at $23,100, up from $16,420 in 2004 (U.S. Central Intelligence Agency, 2007). The gross domestic product (GDP) in Kuwait from 1984 to 2018, with projections to 2021, indicates the total estimation of everything being equal and products created inside a nation in any given year. Gross domestic product is a significant marker of a nation's economic power (Plecher, 2020). In 2018, Kuwait's GDP added up to around 301.17 billion worldwide dollars (Statista, 2020). This increase is due primarily to high oil prices that have helped build Kuwait's budget and trade surpluses and consequently have had a positive effect on the average Kuwaitis' standard of living. Although there are many very wealthy families in Kuwait, there are no very poor families as compared to other parts of the world. The government provides all families with a nice home, and a garage. These homes have three bedrooms or more. All education is paid for by the Kuwaiti government, which includes a free college education. Non-Kuwaitis can also receive free education if they maintain a high grade point average in high school. Because of this there is a strong middle class. However, there is a higher ratio of millionaires as compared to other countries.

Employment Security

The Kuwaiti laws governing labor are valid whether or not you have a written contract. Some of the main points of the law are as follows. A contract between employer and employee can be verbal, but it is preferable to have it in writing. It must be written in Arabic. The normal working week is 48 hours, usually 6 days at 8 hours per day. Overtime is paid at a rate of time and a half of the normal rate, with two times the normal rate on holidays. In addition to official holidays, all workers are entitled to 14 days of vacation after 1 year of employment. The normal work days for public sector workers are Saturday through Wednesday, Thursday and Friday are days off. For the private sector, the work week is Saturday through Wednesday, with a half day on Thursdays. The banking sector employees work Sunday through Thursday.

There is no set minimum wage. Female employees must receive equal pay. Trade unions are allowed, but only one can be formed per establishment and only one for each profession will be recognized. Because all expatriates must be sponsored by a Kuwaiti national or company, theoretically, there should be no unemployment. All unemployed Kuwaitis must register at the Ministry of Social Affairs and Labor where employment assistance is available. A person who intends to be employed in Kuwait must have a work permit and a no objection certificate (NOC). The first is issued by the Ministry of Social Affairs and Labor, and at that time, the Ministry of the Interior must be applied to for the NOC and entry permit. In order to obtain a residence permit, the sponsor must complete a form issued by the Ministry of the Interior. The persons will then be fingerprinted and undergo a medical check. Once residence procedures are completed, the person must then register for a civil identification card, which should be carried at all times. According to a study by Adel and Alqatan (2019), inside Kuwait a solid pervasiveness of social variables that shape sexual orientation, jobs, and philosophies exists. Sexual orientation isolation and hence pay disparities are an unmistakable result of this segmentation in Kuwait (Adel & Alqatan, 2019). Additionally, this segmentation is connected to long working hours, the lopsided burden of residential and care problems among men and women, along with optional administrative practices for salary determination, employment, and advancements (Adel & Alqatan, 2019).

Joint Stock Companies

These are known as Kuwaiti private shareholding companies (KSCs). It is necessary to obtain a decree from the Ministry of Commerce authorizing the incorporation of a KSC. The shareholders are issued with negotiable shares of equal value, and their liability is limited to the nominal value of their shareholding. Public subscription is permitted. Fifty-one percent of the share capital must be Kuwaiti-owned. The accounts of a joint stock company must be independently audited. Copies of the company's accounts must be filed with the official commercial register.

Al-Bahar & Jacorossi Engineering & Contracting Company (KSC)

The Al-Bahar and Jacorossi Engineering and Contracting Company was formed in 1993 and is a privately held shareholding company. The Al-Bahar family owns 51% of the stock, and Jacorossi Imprese of Italy owns 49% of the stock. The chairman of the joint venture is Fahad Al-Bahar. The vice president is Adel Al-Bahar. Fahad Al-Bahar is Adel Al-Bahar's uncle. A foreign company can own no more than 49% of the stock in a Kuwaiti operation. The company mainly contracts out maintenance of work pertaining to mechanical, electrical, instrumentation, fire, pumps, pipes, and high-voltage signs. This joint stock company was formed for the purpose of contracting engineering activities in the oil sector, power sector, and industrial infrastructure by combining the experience and expertise of these two companies.

Fahad Al Bahar & Sons Trading Company has been in existence in Kuwait since 1988 as a general trading and contracting company. It is familiar with all the local government laws, procedures, and systems. This knowledge is essential for any company operating in Kuwait. The company also has experience in import and export of industrial and consumer goods.

The Jacorossi Imprese Company (formerly known as Petrochemical International Instrument Company) has been in existence in Italy since 1953 as an engineering and contracting company. It deals primarily with service construction and maintenance work in the following industries: oil, power, and petrochemicals. Its field is mainly in mechanical, electrical, instrumentation, and telecommunications works. The company has vast experience completing infrastructure projects in Italy, as well as countries in Northern Europe, South America, the Middle East, and North Africa. Additionally, the company has done a great deal of business in the Middle Eastern countries of Saudi Arabia, Oman, United Arab Emirates, Iran, Iraq, and Bahrain. In the 1980s, the company wanted to establish a presence in Kuwait to expand their operations in the Persian Gulf. Kuwait had become a major force in the oil industry, and it is a very profitable market. PIICO started their Kuwait operations under the umbrella of the Al-Bahar International Group who acted as their agent. The company is still known as the PIICO Company.

While fulfilling a maintenance contract with the Mina Al Ahmadi Refinery, the Iraqi Invasion occurred. The Al-Bahar-PIICO Company suffered great losses due to the war. All the equipment and vehicles of the association was stolen by the Iraqis. The employee camp for the project was destroyed, including central kitchen equipment, air-conditioning equipment, and furniture. It was valued at 1.5 million. The Al-Bahar-PIICO Association faced this ordeal with courage and a sense of responsibility to its employees. In August 1990, shifts of 20 people were working twelve hours a day and were paid by the Association without a guaranteed payment from the oil company that owns Mina. The stockholders agreed to keep everyone employed. The Al-Bahar-PIICO company met in London. A liaison office was established in Bombay to prepare for a quick return after the country was liberated. Eventually, all 103 employees were moved to sites immediately after the liberation and returned to their duties.

Due to the destruction caused to the infrastructure during the Iraqi War, there was a great need for skilled labor for reconstruction. PIICO had just changed their name to Jacorossi Imprese. The Al-Bahar Company decided to form a joint engineering and contracting company. Not only were the services of the joint venture greatly in demand, but forming a joint venture would offer the company advantages that it was unable to obtain when Al-Bahar was acting as

Jacorossi's agent. The joint venture would legally be a local company, and the company could receive support of up to 10% from the government.

Under Kuwaiti law, the government will supplement the financial contract of a Kuwaiti company by up to 10% of the cost during contract negotiations. For example, several companies, including foreign companies, might be bidding on a contract. If a foreign company underbids the Kuwaiti company by as much as 10%, the Kuwaiti government will supplement the 10% bid and the Kuwaiti company will get the contract. On the other hand, if the Kuwaiti company bid 15% higher than the foreign interest company, the foreign company would be awarded the contract because it is more than a 10% differential.

The Al-Bahar and Jacorossi Imprese Companies realized that they had been losing several bids because Al-Bahar was only acting as an agent and the bids for contracts were not seen as local bids. By forming a joint venture, the Al-Bahar Jacorossi Imprese Company would be able to win more government contracts. Also, the company would not have to pay a 4% import tax required on any materials coming into the country. This would save the company millions.

Some of the projects that have been successfully completed or are in the process of being completed are:

1. Maintenance and repair of electrical installation in Shuaiba Power Station owned by Ministry of Electricity and Water;
2. Maintenance and repair of electrical installations in an oil field owned by the Kuwait Oil Company;
3. Construction of mechanical, piping, and electrical installations of the Ethylene Glycol Project owned by Equate Petrochemical Company;
4. Operation and maintenance of control room in Kuwait International Airport for Directorate General of Civil Aviation;
5. Revamping and modernization of an oil refinery at the Mina Al Ahmadi plant owned by the Kuwait National Petroleum Company;
6. Construction of new control room with computerized and electronic controls owned by the Kuwait National Petroleum Company; and
7. Design, engineering, construction and commission of mechanical, electrical and instrumentation installations for water treatment plants at Az-Zour and West Doha power and water stations owned by Ministry of Electricity and Power.

The company employs around 1,400 personnel. Employees range from laborers and technicians to highly qualified engineers with master's degrees. The company serves oil-related industries, as well as utilities. The company has ongoing contracts with the Kuwait National Petroleum Company to revamp the Mina Al Ahmadi Refinery, the Kuwait Oil Company for electrical maintenance at different locations, Ministry of Water and Electricity for water treatment, and a number of petrochemical industries for piping works.

Starting an international company outside of a parent country is full of challenges. There are many obstacles to overcome. One major obstacle is relocating key personnel. One of the biggest problems faced by Italian employees who moved to Kuwait to work was trying to adapt to the very different climate and culture. Most expatriates confirm that it takes a minimum of 6 months to adjust. The summer months are extremely hot and dry, reaching 120 °F, and those Kuwaitis who can travel outside the country during that time do so. For individuals who are not used to this heat, adjusting to traveling and being outside is difficult. That is why Kuwaiti companies often have hours in the summertime where the workers go home for several hours during the afternoon, which is the hottest time of the day and then return to work around 6:00 and work until 8:00 p.m. in the evening when the temperatures are a bit cooler.

Of course, customs are very different in Kuwait, which is especially evident in religious traditions. For example, the Italian workers have a hard time being in Kuwait during Christmas. Most Kuwaiti citizens do not celebrate Christmas because the country is predominantly Islamic. There are usually no company holiday parties at Christmas, although in the last few years, the Al-Bahar/Jacorossi Company has held a Christmas party for the Italian workers. But there are still no community celebrations.

Another adjustment that has to be made is during the month of Ramadan, which is the Islamic traditional thirty-day period of fasting and increased religious observance. During this time, Muslims often keep shorter hours and leave for prayer breaks. Kuwaiti companies accommodate the observance of holy rituals. However, other workers, such as the Italians, who are predominantly Roman Catholic, are not working shorter hours. This could lead to some conflict in the workplace. However, Al-Bahar/Jacorossi have prepared the foreign workers, explaining the importance of the holiday and why accommodations are made for the Muslim employees.

Kuwait has become much more open, with men and women gathering together for dinners and meetings. Before the 1960s, men and women were traditionally separated. However, for social gatherings such as parties, it is still common that men and women socialize separately, but this, of course, is not required. However, Italian men and women are used to celebrating together. This has made for interesting situations in the workplace when social events occur. It is difficult to simulate both cultures.

Kuwait is an Arab nation and the business culture mirrors this in its conventional qualities. While Kuwait is not as traditional as a portion of its neighboring nations, Islam has a huge impact on Kuwaiti society, including business. It is a smart thought for internationals working together in Kuwait to acclimate themselves with Islamic practices and Arab culture. Doing so will empower them to establish decent connections and encourage great business associations with their Kuwaiti partners.

It is likewise helpful to realize that business exchanges and dynamics in Kuwait can take quite a while (Kuwait Visa, n.d.).

English is the second language for most Kuwaitis and Italians, so language is not a major barrier; however, minor differences in usage sometimes occur. There are many cultural similarities between the Italians and Kuwaitis. Some of the common characteristics are that both are quick decision makers. They both talk loudly with lots of hand gestures. Many Kuwaitis believe it is easier to do business with the Americans because they are more straightforward in their business dealings. Both Italians and Arabs do not talk in a straightforward manner, and so it takes longer to close a deal. Americans are more flexible. Americans would rather get business out of the way and then socialize. The British stop to have their afternoon tea, and usually are much more rigid concerning their schedules.

Discussion Questions

1. What kind of training could the Italians receive before coming to Kuwait that would help them be better prepared for cultural differences?
2. What are the obligations of the company in this situation?
3. What more could the company do to support its employees?
4. Do you agree with Mr. Al-Sulaiman that management should not become too personally involved with personal problems of employees? Why or why not?
5. The company created an Employee Assistance Program (EAP). What are the benefits of this kind of program?
6. What are some other employee issues where an EAP might be appropriate?
7. Is the Al-Bahar/Jacorossi Engineering Company doing enough for the Italian employees? Kuwaiti employees? Why or why not? Are there any other suggestions you could make?

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HR Cultural Diversity:
https://www.youtube.com/watch?v=JujMw_Z0ne8

The Importance of Home Business in Kuwait:
https://www.youtube.com/watch?v=10EJ_QDsCWc

How To Start Your Business in Kuwait?
https://www.youtube.com/watch?v=xS2SPsGz3wI

Did you know? - Italy - Italian Business Culture video:
https://www.youtube.com/watch?v=6BR99GzrVDo

Business culture in Italy:
https://www.youtube.com/watch?v=LBHZ6mZnGv0

Invasion of Kuwait – Explained:
https://www.youtube.com/watch?v=dphDS6OS1lc

Badriya's Short Career in Saudi Arabia

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Mohammed Al-Boluhad (former student), Eastern Washington University

Learning Objectives

1. *Identify* a clear case of a hiring decision based on gender.
2. *Respond* to the actions of the company.
3. *Analyze* the effect of government regulations and its impact on this case.
4. *Analyze* the responsibilities of employees and the employers.
5. *Analyze* the effects of tradition, religion and culture on the law.
6. *Determine* if these regulations should be adjusted, and if so, how.

Key Words

Gender
Government Regulations
Hiring Decisions
Saudi Arabia

Abstract

This case describes a hiring decision based on gender in Saudi Arabia. It requires students to consider relevant issues in determining an appropriate managerial response. These issues include government policies; legal compliance; gender issues; employee commitment and job satisfaction; employer and employee rights and responsibilities; and tradition, religion, and culture.

Badriya's Short Career in Saudi Arabia

Badriya Al-Khaleed was a young woman from Saudi Arabia when she came to America. She was married, and her husband was working at the Saudi Arabian Embassy in Washington, D.C. At the time, they had no children. She was accepted for admission to Georgetown University's computer science program. She first took a year of intense English language courses. After a year of these courses, she began attending Georgetown. Her husband was very supportive. She was highly successful in her course work, and enjoyed working with the high technology systems available in the United States.

Badriya graduated with honors in 1985 with her undergraduate degree and completed a master's degree in computer science in 1987. Badriya's chosen area of study was quite unusual for a woman from Saudi Arabia. The traditional areas of study for women are literature and the social sciences. Majors in psychology or the medical professions are also common. The university system is also very different in Saudi Arabia. The only university where men and women can attend together is at King Saud Medical University. The rest of the universities are separated by gender and offer mostly traditional programs. While education is highly regarded for men and women, women are usually not encouraged to go beyond a bachelor's degree. Not surprisingly, when Badriya came to America, she experienced culture shock by attending classes with men and participating fully. She also learned that employment opportunities that are available for women in the United States as compared to Saudi Arabia were measurably different.

Saudi women are required to play an essential role in the Kingdom of Saudi Arabia's (KSA's) advancement plans now. The Vision 2030 document states that the number of Saudi women holding administrative positions has expanded during the previous decade, with the Kingdom as of late authorizing new changes toward enhancing its record of female strengthening and sexual orientation uniformity (World Bank, 2020). The World Bank report, "Women, Business, and the Law 2020" ranks Saudi Arabia as the top overall reformer in 2019. Saudi Arabia actualized notable changes to improve women's financial support. The measures included the freedom of travel and movement for women beyond 21 years of age (World Bank, 2020).

In 1990, Badriya and her husband returned to Saudi Arabia. Her husband worked for the government. Badriya wanted to find a good job to utilize her skills and education. She was immediately hired by King Saud University to teach computer programming. She did not really like teaching. She wanted to work for a company as a computer analyst, programmer, or consultant.

After teaching for a few years, she read about a job opening at a petrochemical company as a computer analyst and program designer. She applied for the job. However, Saudi Arabian law forbids women to work for public companies. She thought there a high probability that she would not get the job, but she applied anyway. She was hoping that they might make an exception because of her extraordinary qualifications. She wanted to make a significant contribution to this company's success. She was told she was by far the most qualified applicant, but the company hired a man anyway.

Badriya was upset and frustrated. She wrote a letter to the editor of the largest newspaper. She asked the government to make its regulations more flexible and wanted to know why the government would not allow women with such education and experience to work and contribute to the country. No reply appeared in print.

She still is at King Saud University, where she now is the chair of Computer Science Department. She has gained managerial experience in addition to her technical skills and education. Yet she continues to be overlooked simply because she is a woman.

Women Empowerment in Saudi Arabia

Over the last 5 years, legislation has been successful to get Saudi women into the workforce. The assortment and profundity of the changes are noteworthy and show how to systematically deal with switching perhaps the most minimal world force participation rate per capita in the world. For instance, in mid-2018, the Saudi government declared plans to set up 233 new childcare places in the Kingdom for those unable or unwilling to depend on grandparents or residential partners as their primary source of childcare. The legislature additionally offers over $200 per month of childcare sponsorships to working women.

The restriction on women driving has been eliminated, removing a major obstacle for women working. And it is likely that the relaxation of travel restrictions is the precursor to the elimination of the male guardianship system. Also, changes to work laws to and to the guardianship framework during the most recent 5 years have wiped out the prerequisite for women to get their guardian's approval to work, permitting women to make unilateral labor force participation decisions. The legislature has additionally applied Saudization quotas, expecting organizations to utilize a quota of Saudi residents. This makes openings for employment for Saudi women, particularly in the areas that are moderately occupied by women (i.e., the retail sector; Ubaydli, 2019).

Background

The Religion of Islam:

> *Al-Qur'an, the revealed book of Islam, declares that man and woman proceed from the same stock, they are the members of the same species, they are born of the same parents. Man and woman are spouses of each other, companions and helpmates. Besides restoring her human dignity, Islam bestowed on the woman innumerable rights in every field of human life.*
>
> *Ashraf (xii)*

Ibn Hazm said, "Woman is entitled to possess houses, gardens and estates, engage in business, guarantee other parties; give away whole or part of her dower to whom she wants without objection from the part of her father or husband" (Bahnassawi, p. 17). Muslim women are not obliged to change their names to their husbands after marriage. A woman's obedience is not to a man but to Allah and the Prophet.

Islam grants both men and women equal rights to refute the legitimacy and constitutionality of laws, regulations, and orders. Islam gives women the right to assent in marriage. No marriage is considered valid if the woman does not give her consent.

Islam grants women equality. Women stand at par with men on almost every plane of similarity: spiritual, moral, and intellectual. In true Islam, Muslim women are equal to men in all aspects of Islam except in one: "As mothers, women are superior to men by as much as a ratio of three to one" (Siddique, p. 135). In Faith, spirituality, prayer, fasting, zakat, hajj, or jihad women are the equals of men. Muslim women are encouraged to acquire education and knowledge, and be courageous in objecting to men's opinions if they are incorrect. The Prophet Mohammed said, "The acquisition of knowledge is incumbent upon ever Muslim man and every Muslim woman." Because Islam makes no differentiation between either of the two sexes, it considers them both intellectually equal. "Women are the twin-halves of men" (Bahnassawi, p. 62).

People in Islam have both material and spiritual attributes. People have two measurements in Islam; one measurement is the most elevated one, the spirit of God, and the other is the lowest, mud. People are free to choose and act in such a manner to remain anyplace inside their measurement, between the most elevated and lowest levels. People are not all equal, but they are brothers and sisters. They are the only creatures of God who can carry the mission of God in this world and have knowledge. Men and women are completely equal in Islam. Human beings have the highest rank of all creatures of God (Kia, 2019).

In general, these are some of the rights given to women through Islam. However, this does not mean that Islamic women always enjoy these rights. Part of the problem arises in Muslim families where there is no distinction is made between actual Islamic principles and how they are implemented. Additionally, many tribal legacies have been included in family cultures that do not reflect Islamic beliefs. Muslim men today often ignore the fact that the Islam grants women equal rights and independent identities.

Discussion Questions

1. How will Badriya's job satisfaction and commitment be affected by not getting the private sector job and having to continue to teach?
2. Could the administrators at King Saud University do anything in the workplace to improve Badriya's job satisfaction and commitment?
3. What factors might affect the company's decision in this case?
4. What could the Saudi Arabian government do to try to improve their regulations regarding employment of women?
5. Do you think the Saudi Arabian employment laws are fair?

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Relevant Videos

Women Driving Ban Lifted: What Is Happening In Saudi Arabia?
https://www.youtube.com/watch?v=HogwoOSNgI0

10 Tips on Arab Culture for Successful Business in the Middle East:
https://www.youtube.com/watch?v=U9XoD9V9Bvg

Do's and Don'ts: Doing Business with Arab Business People:
https://www.youtube.com/watch?v=UIA9X67IC7c

Saudi Arabia: Government and Religion:
https://www.youtube.com/watch?v=KC6gzsV6cU8

Chapter Nine

Providing Students with a Worldview: A Competency-Based System for International Entrepreneurship, Education, and Development

THE HIT AND RUN EXPATRIATE EMPLOYEES

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Ibrahim Al-Fahim, Al-Fahim General Trading Company, Sharjah

Learning Objectives

1. *Explain* the importance of human resource policies and procedures within a firm, including government compliance.
2. *Discuss* the basic definition of an expatriate and how human resource policies and procedures are impacted.
3. *Assess* the ethical responsibility implications of the main players in this case.
4. *Analyze* the current legal issues facing Mr. Kamal, the owner of the Zag Company, in relation to Saudi Arabian law.
5. *Describe* how workforce employee commitment and job satisfaction could be affected by this situation among expatriates and non-expatriate employees.
6. *Identify* employer and employee rights and responsibilities.
7. *Discuss* the impact of this situation on the personal relationship between the two companies.
8. *Determine* what responsibilities the owner of Zag has to the company, the government, the general manager, and the other employees of Salam Wholesalers.

Key Words

Expatriate Employees
Government Regulation
Saudi Arabia

Abstract

This case describes an expatriate employee in Saudi Arabia. It requires students to consider relevant issues in determining an appropriate managerial response. These issues include government policy regarding compliance with the law, expatriates, employee commitment and job satisfaction, employer and employee rights and responsibilities, and personal relationships between companies.

The Hit and Run Expatriate Employees

Salam Wholesalers is a trading company that handles consumer personal goods, such as sunglasses, cosmetics, colognes, and various sundries. Two salesmen, Badr and Jalil, got a better job offer and they decided to leave Salam Wholesalers. These two employees were from Egypt. They did not tell the government they were changing employment, nor did they request written permission.

Subsequently, their former general manager, Mr. Hadad, found out that they were working for a competitor. They had defrauded Salam Wholesalers, and broke Saudi Arabian law. Therefore, they would be sent back to Egypt. Mr. Kamal, the owner of Zag Company, enjoyed a good relationship with the owner of Salam Wholesalers. This was even though they were direct competitors. After the Zag Company found out that Mr. Hadad acted against former employees, Mr. Kamal called Mr. Hashim. He asked him to give them written permission to work for their company. They were excellent salesmen and Mr. Kamal did not want to lose them.

Salam Wholesalers has invested a great deal of time and money to train the salesmen. In addition, they had incurred relocation expenses as well as other expenses. Salam Wholesalers had trained them well by providing them with on-the-job training and experience. Within 6 months from their point of hire, Badr and Jalil found a better opportunity and left. It is important to understand that Saudi Arabian companies traditionally do not pay expatriate employees as well as natural born citizens. Oftentimes, once expatriate employees acquire on-the-job experience, they want to change jobs because they can earn more money at another firm.

When the Zag Company found out the Mr. Hadad, the general manager, had taken legal action and informed the government, Mr. Kamal tried to convince Mr. Hashim to reverse the actions of his general manager. The owner of Salam Wholesalers felt he needed to support his general manager. He did not want these two expatriate employees to break the law and have other employees see that they could get away with it. Mr. Hashim had a major dilemma to solve.

There are two types of work contracts in Saudi Arabia. The first type is a term contract, which consists of fixed-term contracts and indefinite term contracts. The second type is project-based contracts. Article 55 of the Labor Law states that a fixed term contract terminates upon the expiration of its term (STA Law Firm, 2019).

Foreign workers can only get a fixed term contract. If there is no specification of the term mentioned in the employment contract, it automatically ends when the expatriates' work permit expires (STA Law Firm, 2019) The law also states that when an expatriate leaves a firm for any reason, the person cannot work for another firm unless they have written permission from their former employer. The person is prohibited from working for another Saudi Arabian firm for 3 years. It is permissible to resign and return to their home country.

Note: Fictional names have been used in this case.

Discussion Questions

1. How would Mr. Hadad's commitment and job satisfaction level be affected if the owner reverses Mr. Hadad's actions?
2. How would job satisfaction be affected if the owner of Salam Wholesalers complies with the wishes of the owner of the Zag Company?
3. What factors might affect the commitment level of these two employees?
4. What could the Saudi Arabian government do to try to prevent expatriate employees from wanting to leave the company that originally hires them? Is there anything the firm could do?
5. Do you think the Saudi Arabian three-year law is fair?

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Harter, J.K., Schmidt, F.L., & Hayes, T.L. (2018). Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: A meta-analysis. *Journal of Applied Psychology, 87*(2), 268-27.

Muhammad, H.R., & Muhammad, S.M., (2017). Impact of human resource (HR) practices on organizational performance: Moderating role of Islamic principles. *International Journal of Islamic and Middle Eastern Finance and Management*, *10*(2).

Relevant Videos

The Impact of Saudization Policy on HR Practices in Retail Sector in Saudi Arabia:
https://www.youtube.com/watch?v=XLV6JYPfZvM

What is EXPATRIATE? What does EXPATRIATE mean? EXPATRIATE meaning, definition & explanation:
https://www.youtube.com/watch?v=aLvzWni2Tz0

Dependent's Fee on Expatriate Workers in Saudi Arabia:
https://www.youtube.com/watch?v=WtTCz2Y3HtA

WHERE MEDICAL INTERVENTION MEETS NATURE AND NURTURE

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ENT/BUS 606 International Entrepreneurship
Dr. Dianne H. B. Welsh, 19 April 2020

Learning Objectives

1. To compare other companies who offer similar services, price of pet cloning, and payment plans.
2. To determine if current regulations, statues, and laws governing pet cloning should be revised.
3. To describe services offered, procedures, and processes used in pet cloning.
4. To discuss the relationship between humans and animals.
5. To discuss difference of views.
6. To examine the associated benefits and risks of pet cloning.

Key Words

International Market
Pet Cloning
Cloning
Regulation
Genetic Preservation
Social Responsibility
Biotechnology Industry
Plan
Pets
Ethics

Abstract

This case describes ViaGen Pets (www.viagenpets.com), originally a leading developer of cloning in the livestock industry, is now the only U.S.-based company that offers multiple services besides cloning for livestock, horses, dogs, and cats. Originally, ViaGen, an agricultural animal biotech firm, had no plans of commercially cloning pets when launching in 2002. By 2015, it launched ViaGen Pets specifically to tailor to pet parents (worldwide) with top-of-the-line genetic preservation and cloning services. With these services available, the issues surrounding moral and ethical values, affordability and availability, and the economic repercussions cloning brings have become prominent. It requires students to consider relevant issues in determining appropriate associated benefits and risks, current governing regulations, medical intervention replacement of nature versus nurture, social responsibility, and the morale this medical research and process brings to people worldwide and, specifically, to grieving families who have lost family pets. Topics within this case study include government policies, laws, regulations, and statues, associated medical benefits and medical risks of pet cloning, the economic benefits or risks of pet cloning at its high price, current partnerships, and animal activists' views and their work to halt animal cloning.

The Dilemma

ViaGen, Inc., specifically ViaGen Pets, is currently the only U.S.-based company that will commercially clone pets (cats and dogs). The same technology used to clone Dolly the sheep (https://dolly.roslin.ed.ac.uk/facts/the-life-of-dolly/index.html) back in 1996 is what is being used to genetically copy and clone a pet; this process is called somatic cell nuclear transfer (Wilmut, Bai, & Taylor, 2015). The issue with cloning includes the following. First, the cloned pet is not incubated in a lab, a petri dish, or some high-tech encapsulation; real, live dogs and cats are being used as incubators (surrogates) during the gestational period. Second, what are the health implications for keeping dogs and cats in a sterilized, docile state pumped full of hormones to include the number of times they are put under anesthesia while medical procedures are performed on them? Third, multiple animals are needed for the greatest chance of just one cloning success. What happens to the animals when transplants are not successful, when birthed with deformities, or born too soon and can't be given to the clients? Fourth, there is a worldwide problem of overpopulation of stray or unwanted dogs and cats. Animal shelters, both kill and no-kill, are overcrowded and there is a lack of homes available for animals of all breeds (Baron, 2018). The amount of money that is spent on cloning one dog (US$50,000) or one cat (US$35,000) while millions are euthanized yearly in shelters due to lack of homes and overpopulation is an argument enough for dismissing pet cloning (ViaGen Prices, 2020, p. 1). Owners are cloning and expecting to take home an exact replica of their prior pet, which is unrealistic. Twins may look identical (and if fraternal twins, they will not), but their personalities, characteristics, and souls are definitely never the same (Brogan, 2018). These ethical concerns are well-documented in the scientific literature on cloning. An article by the scientific journal *Nature*, published February 14, 2002, openly acknowledged, that they can only do a rough estimate on the efficiency of cloning cats using the nuclear transfer method and, I quote, "87 cloned embryos were transferred into eight recipients, resulting in one failed pregnancy and one live clone" (Mohler, 2005). Due to the vast differences in the canine reproductive system and process, dogs were considered to be more problematic or "trickier." In 2005, it took 1,000 different embryos and 123 different surrogates to be successful at cloning the first set of dogs (Brogan, 2018).

Human and Animal Relationship/Bond

The human and animal relationship bond is a very strong and deeply rooted one; some would even say that it's stronger than most human-to-human relationships and bonds. Whether having experienced this bond personally, read a book that mentioned it, or seen it in a movie, it's not a novel thing to the American people who consider their pets as a member of the family. Human–animal interaction can be defined as simply as any interaction or any situation that encompasses the two (Kirkham, 2020). The American Veterinary Medical Association (AVMA) officially recognizes the human–animal interaction. The association states, "(1) the existence of the human-animal bond and its importance to client and community health", (2) "that the human-animal bond has existed for thousands of years", and (3) "that the human-animal bond has major significance for veterinary medicine, because, as veterinary medicine serves society, it fulfills both human and animal needs" (AVMA, 2002, p. 1).

Theory and practical application show that the bond between owners and their pets has a drastic effect and rather extreme importance on the level of care the pets receive. Owners that have the strongest bonds with their animals are shown to likely be more receptive of health care options that are recommended by their veterinarian and are more likely to seek regular veterinarian care (Knesl, Hart, Fine, & Cooper, 2019). The positive nature of the human–animal bond goes back thousands of years and can be felt intuitively and is quite apparent in the American household regarding pets. As of 2018, 60% of American households have domesticated pets. This does not account for those with animals far too large to be within the home. These relationships yield both health and psychological benefits rooted from positive interactions between humans and animals. This bond is mutually beneficial and a dynamic relationship with an unbreakable bond is formed, which is influenced by surrounding behaviors that are essential to the health and well-being of both human and animal. These benefits include but are not limited to emotional, psychological, and also help with the physical interactions of people as well as other animals (Fine & Weaver, 2018). Figure 1 references the breakdown from multiple entities comprising pet ownership in 2018 and 2019.

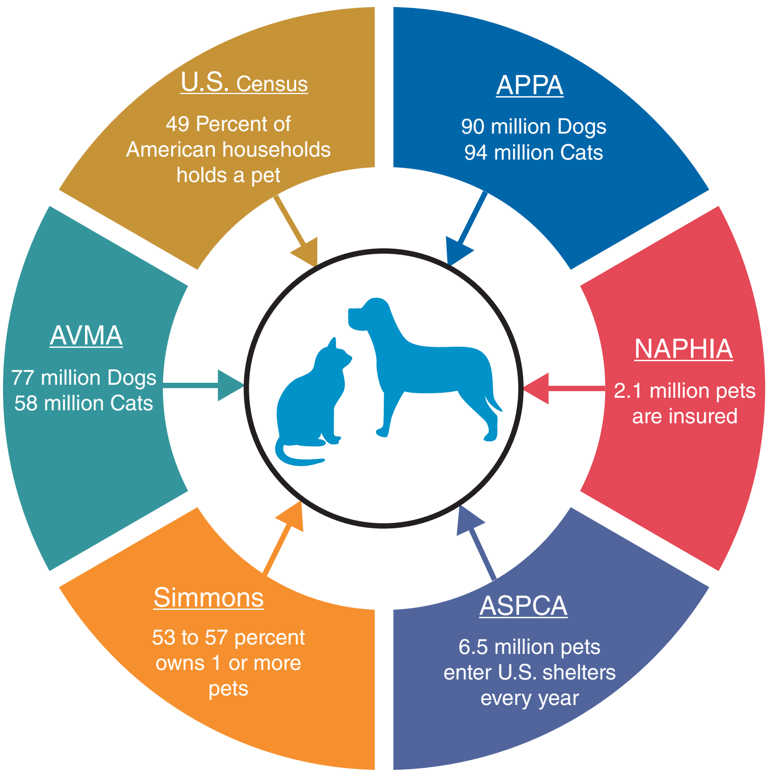

Figure 1: Pet Ownership 2018 and 2019 (Statistics, 2019)

The Simmons National Consumer Study data suggests that 53% to 57% of American households include one or more pets. The American Veterinary Medical Association (AVMA) reports that U.S. pets include a makeup of 77 million dogs and 58 million cats. The U.S. Census Bureau's American Housing Survey last reported 49% of all American households contain at least one pet. The American Pet Production Association reports 68% of all American household have one pet, which includes 90 million dogs and 94 million cats, The North American Pet Health Insurance Association (NAPHIA) reports that of the 12 pet insurance companies available to choose from, 2.1 million pets are insured. Lastly, the American Association for the Prevention of Cruelty to Animals (ASPCA) reports that there is an average of 6.5 million animals that are relinquished shelters annually due to being "unwanted pets." The breakdown of those 6.5 million include 3.3 million dogs and 3.2 million cats (Statistics, 2019). It is estimated that 3.2 million adoptions annually occur, and 1.5 million animals annually are euthanized (Statistics, 2019). The ASPCA also facilitates around 710,000 pet–owner reunions annually (Statistics, 2019).

The Industry

On July 5th, 1996, the first cloned mammal from an adult cell, "Dolly" the sheep, was born. She began as a cell that was extracted from a mammary gland. The announcement of "Dolly" in February of 1997 caused a mass media frenzy and opened the floodgates of ethical and moral questions. Only a few short months after "Dolly" was born, an anonymous donation of over two million dollars was given to Texas A&M University to fund the "Missyplicity Project." The name of this project reflects the main goal of cloning the "perfect" pet from the donor's pet "Missy." A privately owned DNA (cellular) storage facility (and cloning service) named Genetic Savings & Clone (GSC) was headed by the same directors as the Missyplicity Project (Rothfels, 2002). After opening its doors in 2000, Genetic Savings & Clone 6 years later announced its closure in 2006, cloning fees were refunded and referred any client who wanted to have their pet's genetic material frozen to the Texas-based company ViaGen, Inc. Billionaire John Sperling, founder of the University of Phoenix, was disclosed as the anonymous donor from earlier. Sperling had hoped to be able to clone his pet dog "Missy," which was never accomplished. GSC reported it successfully cloned five cats, only two of which were paid for by pet owners. They closed their doors in 2006 due to lack of business after dropping their cloning price from US$50,000 to US$32,000 per cloned cat. Unfortunately, the company was never successful in cloning dogs (Elias, 2006). Before its closure, GSC had merged with Genomic FX, which later came to be known ViaGen in 2002. In 2003, ViaGen purchased ProLinia out of Athens, Georgia. This doubled ViaGen's cloning capacity and gained rights to cloning technologies developed years prior by the Roslin Institute of Edinburgh, Scotland. This is where "Dolly" the sheep was cloned and taken care of. Based in Austin, TX, ViaGen, Inc, purchased the Roslin Patent (the "Dolly" Patent) and the IP for cloning. ViaGen, Inc. worked independently from another company called Trans Ova Genetic. It wasn't until 2007 when they joined forces to create "Bovance." "Bovance" was a joint venture partnership that provided U.S. clients with cloned bovine. In addition to this joint venture, ViaGen also provided cloning services to other livestock species, such as pigs and horses. In the latter part of 2012, Trans Ova Genetics purchased ViaGen. ViaGen was now a subsidiary of Trans Ova Genetics. In 2014, Intrexon bought both Trans Ova Genetics and its subsidiary ViaGen, Inc. In 2015, ViaGen branched off and launched ViaGen Pets which has the purpose of "specifically to serve pet parents worldwide with our world class genetic preservation and cloning services (www.viagenpets.com)." ViaGen Pets was proudly welcomed as they celebrated the births of their first cloned puppy and kitten in 2016 for clients (ViaGen Pets, 2017).

ViaGen, Inc. currently has three patents: (1) Production of Cloned Offspring from Cooled Carcass, Publication Date: January 3, 2013, Filed: May 29, 2012, Abstract: "Genetic material is derived from animals post-mortem, and used in nuclear transfer processes to produce cloned embryos and live cloned animals having genetic make-ups identical to the post mortem animals. The method has particular applicability to the management and breeding of livestock, to the productions of animals having desired genetic traits, and to the integration of those genetic traits into selective breeding operations" (Justia, 2020, p. 1); (2) Methods of Embryo Transfer, Publication Date: April, 13, 2006, Filed: September 28, 2005, Abstract: "Methods for the efficient productions of cloned porcine fetuses/piglets following the productions of cloned embryos, including culture of the embryos for extended period prior to transfer of the embryos into the uterus of the recipient. Transfer can be accomplished surgically or through less-invasive laparoscopic or non-surgical transfer" (Justia, 2020, p. 1), and (3) Method for assigning an individual to a population of origin based on multilocus genotype, Date of Patent: August 3, 2004, Filed: November 9, 2000, Abstract: "This invention provides methods of assigning an individual to a population of origin based on statistical analyses of the individual's genotype and the genetic architecture of the underlying populations from which the individual may have originated" (Justia, 2020, p. 1).

The Market for Cloned Pets

Is cloning here to stay? Even if the EU and other regions (Canada, the United States, Europe, Asia-Pacific, South America, Middle East, and Africa) decide to suspend or currently outlaw any somatic cell nuclear transfer (SCNT), the technology, the science behind it, and the medical advances that could come from it are just too valuable for it to be discarded permanently. The success rate ranges somewhere between a low 10% and 20%, and that's only an increase of two percent from the previous decade (of course species dependent), but it is a majority overview of the cloning success (AC, 2011).

Key players within the industry are (1) Sinogene Pet Cloning (https://sinogene.org) (China based company), (2) Sooam Biotech (http://en.sooam.com/dogcn/sub01.html) (Korea based company), (3) ViaGen Pets (U.S.-based company), (4) Boyalife (Chinese global pharmaceutical company), and (5) My

Friend Again (subsidiary of Sooam Biotech). The pet cloning market is divided into two categories: (1) deceased pet cloning and (2) alive pet cloning. By application type, the pet cloning market is divided into three categories: dog, cats, and others. The regions currently covered by pet cloning: (1) North America (Canada and the United States), (2) Europe, (3) Asia-Pacific, (4) South America, and (5) Middle East and Africa (MarketWatch, 2020).

A new poll (2018) has shown that U.S. Americans are now more accepting of animal cloning. About 40% now approve of cloning. This is up from 31% in 2010 and 29% in 2002. The percentage of acceptance for human cloning is still low at 17% (see Figure 2; McCarthy, 2018).

Of these countries, the United States is the most supportive of animal cloning. The United States has ranked number one consistently for many years in leading the industry in pet care (see Figure 3; Euromonitor, 2020).

Geography	Category	Data Type	Unit	Currency Conversion	Current Constant	2017	2018	2019	2020
USA	Pet Care	Retail Value RSP	USD million	Fixed 2020 ex rates	Current Prices	47,781.7	50,100.3	53,436.2	56,409.7
China	Pet Care	Retail Value RSP	USD million	Fixed 2020 ex rates	Current Prices	5,819.5	7,142.6	8,696.7	10,459.7
Brazil	Pet Care	Retail Value RSP	USD million	Fixed 2020 ex rates	Current Prices	4,466.4	5,016.8	5,529.6	6,201.5
United Kingdom	Pet Care	Retail Value RSP	USD million	Fixed 2020 ex rates	Current Prices	5,897.8	5,961.4	6,040.2	6,135.2
Germany	Pet Care	Retail Value RSP	USD million	Fixed 2020 ex rates	Current Prices	5,436.9	5,504.9	5,614.5	5,721.8
France	Pet Care	Retail Value RSP	USD million	Fixed 2020 ex rates	Current Prices	5,156.2	5,280.3	5,409.8	5,550.2
Japan	Pet Care	Retail Value RSP	USD million	Fixed 2020 ex rates	Current Prices	5,365.4	5,429.9	5,482.7	5,532.2

Figure 3: Euromonitor Passport: Ranking of Countries in Pet Care (Euromonitor Passport Database, 2020)

In conclusion, the market for pet cloning is growing, slowly. The rate of acceptance growth is averaging an increase of 0.687% annually. While China and Korea also have companies that provide cloning service, the United States still continuously ranks number one in overall pet care. With a low success rate that also grows slowly, until the success rate is ranked higher and the number of failed attempts decreases, I do not foresee a surge of the American population being overly accepting of animal cloning.

Epilogue

ViaGen currently has three corporate family connections comprised under the umbrella of ViaGen Inc.: ViaGen Livestock, ViaGen Equine, and ViaGen Pets. With a reported 26 employees, ViaGen, Inc. has generated 2.61 million in sales (USD; Dun & Bradstreet, 2020). Currently, all genetic preservation and cloning services for all (nonprimate) mammals falls under the umbrella of ViaGen Inc., which has multiple services that are available commercially. ViaGen Pets currently has a partnered network with over 300 veterinary clinics and hospitals nationwide across the United States. Current cloning prices (which must be paid in full within two equal installments) are US$85,000 for total horse cloning, US$50,000 for total dog cloning, and US$35,000 for total cat cloning; other services such as genetic preservation or express tissue banking vary in price (ViaGen Pet, 2020).

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Discussion Questions

1. What is the process for cloning my dog or cat?
2. Does genetic preservation or cloning involve any form of genetic modification?
3. s a cloned pet physically and behaviorally identical to the original donor pet?
4. How does pet cloning work?
5. What are the ethical and moral arguments for and against cloning?
6. What are the nonmonetary costs of cloning? Do you think cloning will go down in price in the future? Why or why not? (Student: opinion-based answer).
7. Class exercise: Divide the class into two groups, each taking one side of the argument, for or against cloning.

Videos (3-5) with live links

www.youtube.com/watch?v=8WM5ZH_8x2w
www.youtube.com/watch?v=Ag2INCnJ4eg
www.youtube.com/watch?v=UNYsWRWbQpc
www.youtube.com/watch?v=zRQFhhP9TQE
www.youtube.com/watch?v=DmHYUvmiXQI

About the Author

Samantha J. Taylor was born in Florida in 1989 and raised in rural western Maryland where she resided until joining the U.S. Army in January 2011 after earning her associate of applied science degree in criminal justice from Allegany College of Maryland in 2010. While serving honorably in the U.S. Army, Samantha earned her bachelor of arts degree in criminal justice in 2016 and soon thereafter started to work toward her bachelor of arts degree in Spanish language and literature. Samantha currently works for the U.S. Army as a civilian federal employee and resides in the State of Kentucky with her active duty military husband, their three dogs, and one cat, and are expecting a baby boy in August of 2020 . She is currently working toward the completion of her master of science degree in the field of international business and in her free time enjoys relaxing with her family and DIY projects/crafts.

Chapter Ten

Global Franchising and Other Forms of Entrepreneurship

Franchise Relations in the Gulf Region: The Case of the Elegant Shoplifter

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Learning Objectives

1. *Evaluate* the cultural norms and legal issues involved in breaking the law in Kuwait.
2. *Evaluate* the ethical issues in the case.
3. *Analyze* the best method for law enforcement to work with women in a predominately Islamic country.
4. *Analyze* the rights and responsibilities of the company taking into account local law and cultural and religious rights.
5. *Evaluate* the best method to utilize trained security in a predominately Islamic country.

Key Words

Automobile dealership
Culture
Kuwait
Shoplifting

Executive Summary

This case is a real-life situation, which occurred in Kuwait. Mohammed Al-Alezemi, one of the employees, witnessed the incident at the Mercedes Benz Spare Parts Showroom. He described it to his manager, who is one of the authors of this case. The case involves a woman shoplifting from a retail franchise showroom in Kuwait. Shoplifting is on the rise in the Gulf Region and has become a major problem for retailers. The reader must consider the given issue to make a decision about how shoplifting by a woman would be handled by management; what are the rights and responsibilities of the companies taking into account local law and cultural and religious rights; and the utilization of trained security. The role of culture, nationality, religion, and its effect on management and human resources is discussed. It is important for franchisors to understand these differences before they enter this vast region with an abundance of middle-class consumers. Human resource issues are dictated by the culture including work area procedures, ethics, policies, law enforcement methods, management and employee areas of responsibility, and religious practices and norms in the workplace.

Abstract

The following case concerns a spare parts shoplifter in a Mercedes Benz retail franchise. The reader must determine the suitable managerial and salesperson's actions, while considering legal implications, security, and cultural and gender issues. The influences of culture, nationality, and religion in the Gulf Region and how these influences affect management are discussed.

Introduction

Before entering the Middle East, franchisors and their headquarters staff must first understand the differences between their culture and the countries in this area. While there is a natural tendency to generalize the overall culture of this region, there exists unique differences from country to country. It is important for the franchisor to examine these differences, as it will affect the relationships between the franchisor and franchisee, as well as consumer behavior and attitudes that ultimately effect the success of the franchise. It is important for franchisor to have an idea of the advantages and drawbacks identified with expansion. This will allow everyone to understand the consumer reactionary patterns better and survey why the market has advanced into its present state of development and is ripe for diversification. Lower-level capital investment coupled with a progressively conspicuous brand closeness and customer dedication is one of the most important factors in investing into a productive establishment (Freifer, 2020). The franchisor may have to adjust their systems, products, and human resource policies to reflect these mores.

The Gulf Region

Culture. Residents of the Gulf Region are not strangers to contradiction and conflict. Idiosyncrasies, both ancient and modern, have shaped this region. Since the discovery of oil in the Gulf Region in the 1970s, the region has been in transition. The subsequent increases in revenue have resulted in drastic changes and significant industrialization within these countries (Abbasi & Hollman, 1993; Ali, 1990; Ali & Al-Shakhis, 1986). Contact with Western countries and corporations improved the standard of living in the Gulf Region through better education, improved health care, greater mobility, and increased communication (Ali, 1990; Ali & Al-Shakhis, 1986). Western thought often conflicts with Arab culture and religion. Industrialization, while welcome, complicates the duties of managers who strive to achieve modern results while maintaining their traditional values. This duality is not new to the people of the Gulf Region. Contradiction is an inherent part of Islamic culture. For centuries, Muslims have upheld religious ideals that conflict with political routine (Ali, 1990, 1993).

Nationality. In addition to religion, nationality probably has the next most significant effect on the Gulf Region. Saudi Arabians tend to be more conformist and have high structure needs compared to other Gulf Region residents. Predominately authoritarian management is the norm in organizations in Saudi Arabia. Kuwaitis are more tribalistic; they are submissive to authority and tradition. In addition, the Kuwaiti people have had more exposure to new ideas and Western culture than their counterparts from other Gulf Region nations (Ali, 1988). Kuwaiti organizations were the first to hire managers based on education rather than family connections (Yasin & Stahl, 1990). The Iraqi and Qatari hold more existential values and lean toward consultative management styles (Ali, 1988, 1989a). A pseudoconsultative management style is dominant in Kuwait. Managers in this region seem to value an appearance of consensus and consultation, but often make decisions without considering the discussions they facilitate (Ali, 1989b). Gulf Region managers under 30 years of age prefer more participatory management techniques regardless of nationality (Ali, 1989b; Yasin & Stahl, 1990).

Management. Islamic culture shapes the region, and therefore the organizations that operate there. Passages in the Quran, the Islamic holy book, specifically address business transactions from spending habits to financial and management concepts. Different interpretations of the Quran are yet another source of contradiction and are the basis of differences in the culture (Ali, 1990).

Management style is one contradiction, which finds roots in differing Muslim sects. Authoritarian management is predominant in large organizations while consultative methods prevail in other arenas. Some Islamic sects prefer consultative methods of management, which is more consistent with tribalistic traditions (Ali, 1989; Ali & Al-Shakhis, 1986), while others prefer religious interpretations that promote authoritarian styles and encourage absolute authority of rulers (Ali, 1990). Early colonial possession of the region also sets a precedent of authoritarian management (Abbasi & Hollman, 1993; Ali, 1990). These patterns find additional roots in the fundamental precepts of the Islamic religion, which encourage respect of elderly family members and stress a father's authority within a family. Family members usually hold management and other key positions within organizations (Abbasi & Hollman, 1993). Additionally, family members often collect regular pay but are not required to work (Ali, 1990). Tribal-family traditions can further reinforce authoritarian management styles but often support consultative management techniques as well (Ali, 1989, 1990). Tradition dictates that a sheik follows rather than leads tribal-family opinions (Ali, 1993). Furthermore, consultative methods are proven to be more effective with multicultural workforces such as those that predominate in the Gulf Region (Enshassi & Burgess, 1991). However, management style in organizations located in the Gulf Region is in transition. Younger managers who have been educated at Western universities or those who work primarily with foreign corporations use participate management. They tend to encourage decentralization and teamwork. Participatory management is not alien to the Gulf Region, but is more common among managers who work with Western organizations (Ali, 1993).

Tribal-family relations and religion affect other aspects of management. Managers from the Gulf Region tend to disregard rules and procedures as manmade prefects (Ali, 1993). They prefer flexibility, but are by no means risk-takers. Tribal-family norms and values encourage conformity and discourage creativity (Ali, 1990, 1993). Stability is highly valued in Islamic culture (Ali, 1990). Managers from the Gulf Region are rarely innovative; they prefer implementing someone else's plan to developing creative strategies (Ali, 1989, 1990). Other characteristics of Gulf Region managers include a tendency to avoid delegation and an inherent belief that centralization encourages respect (Ali, 1989). Understanding the culture, nationality, and management styles of this region is important for franchisors as it can affect all aspects of the franchising system, from product offerings and training.

The Country

Kuwait is a country the area of 6,880 sq. miles, with a population of 1.9 million in 2000. Over 1.2 million live in the capital city (Russell, 2000). Currently, the population is 4.7 million, which is 0.05% of the total world population (Worldometer, 2020). The neighboring countries are Saudi Arabia to the south and Iraq to the north. Kuwait covers an area of 17,818 sq km, most of which is flat desert except for Al-Jahra oasis, on the western side of Kuwait Bay, and a couple of rich areas in the southeastern and beachfront zones. The Kuwaiti region incorporates nine seaward islands, the biggest of which are the uninhabited Būbiyān and Al-Warbah islands. The island of Faylakah, which is situated close to the passage of Kuwait Bay, has been populated since prehistoric times (Anthony et al., 2020). The official language is Arabic, but English and Persian are very common. The country became independent of England in 1961. The government structure consists of the emir as the chief executive of government and assisted by a prime minister and twenty men that are members of the royal family that serve on the council of ministers. An elected national assembly makes recommendations and serves as a forum for discussion.

On August 2, 1990, Iraq invaded Kuwait. Seven months later, the war was over due to the United States, the UK, and other allies supporting the Kuwaiti troops. After the 1991 Gulf War, it took 200 days and a massive response of some 10,000 engineers, firefighters, equipment operators, and support personnel from around the world to extinguish the fires at the oil wells (Wolk, 2020). Today, there are few signs that the country has ever been invaded. The 700-plus oil wells that were torched by Iraqi troops have all been repaired. Almost everything has been rebuilt. For the most part, Kuwait City, the capital, is a picture of wealth (North, 2000). Kuwait has the fourth-largest oil reserves in the world, plus an estimated $45 billion in public savings invested abroad (Lynch, 1999). The people of Kuwait depend heavily on the income from oil. However, of the Persian Gulf states, Kuwait is the best positioned finally. It is commonplace to see Jaguars, Range Rovers, and Mercedes on the road. Upscale shopping malls offer Swiss watches, Italian suits, and other luxuries.

The Case

Al-Bisher, Inc. owns the Mercedes Benz franchise in Kuwait. The two largest dealerships are located in Kuwait City and Shuwaikh, Kuwait. The case in question describes events at the Mercedes spare parts dealership and showroom in Shuwaikh. Shuwaikh is a large port city, approximately 3.2 million square meters, which has just been modernized. Many new buildings have been built in the last few years, and the port has been enlarged greatly. This means that there are many more visitors and business people coming to Kuwait through the port of Shuwaikh. There are about 57,000 people living in this city. The most important business port in Kuwait is Shuwaikh port, which currently faces numerous issues, such as traffic jams on the inner streets and streets encircling the port, causing delays in trucks stacked with merchandise attempting to unload at the port and fill the empty containers waiting at the port (Al Rukaibi, Al Kheder, & Al Mashan, 2020).

The Mercedes Benz dealership is located in a large building on Al-Fares Street, with five other automobile dealerships located in the same neighborhood. The building is modern, with large glass windows, and is blue and gray. The salesforce consists of 14 men, ranging from 25 to 55 years of age, and two managers, Mr. Mahmood and Mr. Fahimi. All salesmen and managers are required to wear gray suits with blue ties, colors deemed to represent the Mercedes brand.

As the inventory of the spare parts retail showroom in Shuwaikh had been experiencing shortages of expensive accessories, the management instructed the salesmen to be alert regarding suspicious customers. The specific instructions were if the sales people saw anyone who seemed to be acting strangely, who appeared nervous or asked for unusual requests, then they should be reported to management. In Kuwait, security alarm facilities are usually installed in the jewelry shops, but closed-circuit television systems are not typically used in Kuwait, except in banks, as shoplifting and other forms of theft have traditionally been rare. However, after the liberation of Kuwait from the Iraqi forces, shoplifting incidents and even armed robberies are on the increase.

One day Nora, an elegant-looking lady and regular visitor of the spare parts and accessories facility at the Mercedes showroom, visited with her child, aged about 5 years. She asked to look at a number of accessories, including some models of a Becker car stereo, one of the most often sought-after consumer brands. The salesman brought the stereos and displayed them as she had requested. The showroom was unusually busy, and the salesmen were having a difficult time attending all the customers. Mr. Mahmood, who was the supervisor on duty, was also unavailable because he was managing the showroom. The lady examined the stereo, and then requested the salesman, Mr. Ahmed, to bring out some other parts, which required him to leave the counter for a short period of time. The other salesmen were busy attending to numerous other customers. However, Mr. Mahmood, while completing his routine customer checks, spotted Nora slipping the car stereo into her large bag. Mr. D'Souza, a salesman, also noticed the incident. He was warned by his manager to be on alert for potential shoplifters.

After selecting some minor spare parts for her stereo, the woman approached the register to pay the bill. Mr. Mahmood followed her to the cash counter to see if she was paying for the stereo and was surprised to note that she did not even mention the item to the clerk.

Mr. Mahmood confronted her, saying he knew she had a stereo in her bag, but she vehemently denied it. When Mr. Mahmood insisted that he check her bag, the woman started shouting at him and told him that he had no right to check a woman's personal bag. At this point, Mr. D'Souza came and told her that he too had noticed her slipping the stereo into her bag, but Nora, the suspected shoplifter, was adamant and refused to allow her bag to be checked. The security officer hired by Mercedes was also present but was not able to do anything because in Islamic countries, the law does not allow a male to freely talk to a woman or to touch her belongings. This law is respected and followed in Kuwait. Breaking this law is a crime and a person can be arrested. However, the seriousness of the situation caused the cashier, Mr. Fadel, to call the police.

As the commotion grew, the other customers gathered around the area, some taking the woman's side and others just observing the commotion. Some of the customers were yelling that the woman in question was not a thief. Soon, the police arrived on the scene, and after hearing both sides of the story, decided to have the woman's bag checked.

The stereo was found in her bag. Nora strongly defended her innocence. She implied that her child without her knowledge might have put the stereo in her bag. The testimony of Mr. Mahmood and Mr. D'Souza that they had seen the woman slipping the stereo in her bag was sufficient for the police to take her to the police station. Upon interrogation, it was revealed that she had regularly been lifting valuable items, which she took back with her to Pakistan, her home country. She could get a very good price for the items in Pakistan. Knowing Islamic religious laws, women are aware they usually cannot be stopped, checked, and held by authorities very easily. It is relatively easy to shoplift at shopping malls, and other retail outlets. These shoplifters leave the country when their visa expires with their booty, which will fetch them large amounts of money in their home countries.

The police proceeded to search her house and recovered a variety of expensive items, such as jewelry and small electronic devices like the stereo. They were packed in suitcases, as the woman was going to leave for her country in a couple of days. She was immediately arrested and booked for larceny. She later was found guilty, served her sentence in jail, and permanently extradited from Kuwait.

Relevant Issues

There are a number of questions that are relevant for the reader to know the answers to that could affect franchising and the relationship between the franchisor and franchisee. They are embedded throughout the case. The most obvious is the laws governing contact with women. Should the existing law pertaining to women perpetrators be changed in any way? Should a female police officer be used when a woman is accused of a crime in Kuwait? Kuwait is an Islamic country where the culture is very well established and understood. Islamic law is the only governing law and civil law interfaces with Islamic law. Cultural norms are respected. However, there is a new generation that believes in equal treatment of women. Women, in general, are more educated than in the past. Many possess higher education degrees. A liberation movement is underway. A department in the police force could be established where female police officers could answer calls dealing with women criminal suspects. This would open up new professions for women in Kuwait.

Could the staff have adopted another approach in dealing with the shoplifter? Is there any training that the franchise headquarters provides to the franchisee and their employees? The staff of the showroom, after having seen the woman slipping the stereo in her bag, should have responded in a manner that would not have exposed the woman in public. Mr. Mahmood, the supervisor, could have, along with Mr. Ahmed, the salesman, and a female employee of the showroom, taken her to his office and asked her to remove the stereo. This would be a reasonable solution in Kuwait given the social and cultural norms in relation to the religious values of country. Then the pride of the woman would not have been hurt and she would have given him the stereo. Also, the salesmen have to be trained not to leave expensive items with customers who are unattended. If the dealership were busy, then the customer would have to wait. Perhaps a customer number waiting system could be devised. The showroom could track the number of customers by the hour to determine the busiest times of the day. They could add more sales representatives during these times. Also, the dealership might want to consider the employment of female sales representatives since the number of female shoppers in Kuwait is rising. Although in this case the franchise does not provide specific training on shoplifting, it might be wise to develop a training video that could address the issue specifically for the Middle East, given the cultural and religious norms. The video could be made available to all franchises to assist in employee training.

A question also arises in the case concerning visas. Three-day visas are granted almost automatically. Many Kuwaitis have close relatives in nearby countries that enjoy visiting. It is estimated that only 40 percent of the population are native Kuwaitis (Russell, 2000). Should the residency laws be changed to allow only eligible foreign employees with a substantial salary level to bring their families and make the visa requirements stricter to better screen those entering the country? Currently, the authorities allow all working visa holders to bring their families to Kuwait, regardless of financial status. Because of the good financial standing in Kuwait, many foreign workers and their families are hoping to live in Kuwait to raise their standard of living. Many come from poor countries like India, Pakistan, and Bangladesh. The residency law that has permitted every foreign employee to bring his family regardless of financial status is creating social problems, such as robberies, thefts, shoplifting, and many other antisocial activities to a degree previously not encountered—factors that this country was unaware of before. Kuwait enjoys a good economy. Many expatriates are employed in Kuwait because of the high standard of living. Unfortunately, many of the jobs are low paying in a country that is among the 10 wealthiest in the world. This creates two social societies, the rich and poor, which can lead people to find antisocial ways to survive and to support families here. If the law is amended to allow only people who can afford to shoulder the financial responsibilities of a family, it will decrease the antisocial acts, but could also have other, unintended consequences. For instance, many of these expatriates work in service jobs, such as retail franchise outlets. This could cause a labor shortage and related human resource problems for franchises.

Discussion Questions

1. Should the existing law pertaining to women perpetrators be changed in any way? Should female police force be used for female perpetrators accused of crimes in Kuwait?
2. Should the residency laws be changed to allow only eligible foreign employees with a substantial salary level to bring their families? Currently, the authorities allow all working visa holders to bring their families to Kuwait, regardless of financial status. Because of the good financial standing in Kuwait, many foreign workers and their families are hoping to live in Kuwait to raise their standard of living. Many come from poor countries like India.
3. Could the staff have adopted a different approach in dealing with the shoplifter?

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Relevant Video

What Is Sharia Law:
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Sharia law debate creates fireworks on Q&A:
https://www.youtube.com/watch?v=Xn6WKOJDzuI

What is Sharia Law and its Principles? | Dr. Jasser Auda:
https://www.youtube.com/watch?v=odmySqc9Qa8

All about Kuwait:
https://www.youtube.com/watch?v=rkwab9vXBUg

To Market, To Market: An Independent Luxury Hotel's Battle for Survival

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Learning Objectives

1. *Evaluate* global entrepreneurial opportunities and threats.
2. *Analyze* the current national and international marketing strategies.
3. *Apply* models from marketing strategy and/or strategic management.
4. *Perform* a competitive analysis of the hotel and its niche position.
5. *Recommend* a course of action.

Key Words

Corporate entrepreneurship
Franchising
Global entrepreneurship
International distribution channels
Marketing
Strategic management

Abstract

The case was developed to give students the opportunity to evaluate global entrepreneurship marketing strategies that an independent luxury hotel could employ in order to achieve maximum market penetration and profitability. In view of the strong competition from international branded hotel chains and the changes that were taking place in the external environment, the management of the Nassauer Hof Hotel felt that new "out of the box" thinking was required in order to ensure the viability of their property. Key issues include increasing occupancy and brand awareness, becoming more effective against the competition of large established hotel chains, and reaching the global marketplace. In addition, the management proposed that the hotel's offerings and services be examined to determine competitiveness and overall guest appeal.

The Dilemma

Karl Nueser, 52, managing director and partner of the Nassauer Hof Hotel[1] in Wiesbaden, Germany, had just returned from the hotel's semiannual marketing strategy review meeting. During the April 2005 meeting, Karl and his executive team had discussed the challenges the hotel was facing in terms of increased competition and reduced occupancy.

[1] Nassauer Hof Hotel: http://www.nassauer-hof.de

During his 23 years as general manager of the independent five-star hotel, Karl and his team had been able to respond successfully to many economic, political, competitive, and lifestyle changes in the business environment. Now, however, Karl felt uneasy. Although the hotel's restaurants and catering operations were doing well, the property had been steadily losing market share in terms of room occupancy, which had slipped from 58% in 2000 to 54% in 2005. During the meeting, Karl had reviewed a list of the leading international and European four- and five- star hotel chains with his team.

"Most of the four-star hotel groups already have properties in our region," Karl had commented, "But it's only a matter of time before the five-star chains will also be entering our market—that will be a real challenge for us! In fact, as you know, the Rocco Forte Hotel which is part of a five-star European chain is already under construction in Frankfurt."

Although German law did not allow businesses to exchange operating statistics,[2] Karl had heard from several of his department heads who had previously worked at competing chain hotels in the area that their occupancy rates were 5% to 10% higher than the Nassauer Hof's. As an independent hotel, it was becoming increasingly difficult to achieve the desired level of occupancy and to reach overseas markets in a cost-effective manner. "Rooms are the most important profit center for a hotel," Karl mused. "Is it time for us to consider implementing some radical change?"

During the meeting, Karl and his team had identified several potential strategies: franchise the hotel with a global luxury brand, convert some of the guest rooms into leased apartments, make adjustments to their marketing strategy such as joining an additional international hotel marketing consortia, develop new promotional strategies to reach more of the potential target market segments, and/or develop an entrepreneurial incentive program for the hotel's department heads. What would be the best alternative for the hotel to improve its occupancy and profitability? How could the hotel most effectively attract new markets in order to strengthen the property's viability and compete with the international chains?

Background

The history of Wiesbaden dated from at least 85 AD when the Romans constructed a fortified bridgehead across the Rhine River. The Romans selected the site due to its centrality and the abundance of thermal springs. The Nassauer Hof Hotel was built at the center of the springs in 1813. In 1923, wealthy German industrialist Hugo Stinnes acquired the hotel and expanded its amenities to rival those of the finest hotels of the world. In 1945, WWII bombing raids destroyed the hotel. The only remains of its previous splendor were ruins of the building's external walls.

The Stinnes Group rebuilt the hotel in 1950, taking great care to incorporate the old structure into the new building. The architect's goal was "to create a tasteful synthesis of the past and the future."[3] The hotel was a commercial success, and the owning group continued to fund further extensions and modernizations.

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[2] Under German law (*Gesetz gegen Wettbewerbsbeschrankungen*), companies are not permitted to exchange information such as pricing, business volume, and occupancy. See http://www.bundesrecht.juris.de1/gwb_/html

[3] Press Information: Hotel Nassauer Hof, "View Through a Kaleidoscope of History" p. 3.

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In 2001, a private real estate investment fund with 50 limited partners, one of whom was Karl, purchased the hotel. Karl and a partner then formed a management company and obtained a 20-year management contract with the real estate investment fund for the hotel. The management company owned the hotel's operating inventory and received a yearly management fee from the investment fund based on revenues and profit.

Hotel Facilities

According to its promotional material, the Nassauer Hof Hotel offers an extensive array of exquisite facilities and services to the discerning upscale guest. Its 139 guestrooms and 30 suites are equipped with state-of-the-art technology and are individually decorated and furnished. The rooftop Spa & Wellness Center provide a scenic view of Wiesbaden. The center's indoor pool is fed by the hotel's own thermal springs. Its extensive fitness, treatment, and massage facilities and

Guest Rooms:
- 139 guest rooms, 29 suites, 1 Presidential suite
- Every guest room is individually furnished with fax and modem connections
- Marble bathrooms

Spa & Wellness Center:
- Rooftop swimming pool with its own thermal water well
- State-of-the-art Estée Lauder beauty center (10 massage and beauty treatment rooms, sauna and solarium)

Restaurants:
- Gourmet restaurant ("Die Ente") featuring European/Asian "fusion" cuisine (80 inside seats, 40 outside) with its own bar and wine cellar
- Casual elegant bistro restaurant (30 seats)
- All day restaurant ("Orangerie") featuring traditional German and regional specialties (120 inside seats, 60 outside)
- Lobby lounge serving drinks and afternoon tea (25 seats)
- Split level evening cocktail bar with pianist (60 seats)
- 24-hour room service

Other Services:
- Eight conference rooms (10 to 300 persons)
- Around the clock concierge service
- Business Center
- In-house parking (100 cars)
- Security systems (fire and smoke detection, sprinklers, electronic door locks, video surveillance, in-room safes)

Source: Company records

EXHIBIT .1 Hotel Facilities

[4] U.S. $2,048 at the May 2005 exchange rate of 1 Euro = $1.28

Departments	*Full Time	Apprentices
Manager's Office	2	
Administration		
Accounting, F & B Control	4	
Purchasing	2	
Marketing	3	
Human Resources	2	
Maintenance	1	
Food & Beverage Department		
Administration	3	
Main kitchen	19	8
Gourmet Restaurant (*Die Ente*)	11	2
Service staff	12	2
Restaurant (*Orangerie*)		
Service staff	14	3
Bar staff	3	
Pianist	1	
Banquet & Room Service	7	5
Rooms Division		
Front Office & Reservations	8	2
Concierge, Bellmen & Doormen	12	
Housekeeping & Laundry	20	
Spa & Wellness Center	18	
TOTAL	**142**	**22**

* Includes managers, supervisors and staff
Source: Company records

EXHIBIT 2 Hotel Nassauer Hof Staffing Guide

the Estée Lauder Beauty Center serve 180 local club members in addition to hotel guests. Local membership to the Spa & Wellness Center cost €1,600 per year . See Exhibit 1 for a description of the hotel's facilities.

The hotel's food and beverage offering was of the highest standard and its restaurants enjoyed a strong local following. The gourmet restaurant, "Die Ente," had received a one-star Guide Michelin[5] rating for the past 26 years and, as a result, had often been written up in the national and international press. The hotel prided itself on the highest level of personal service. There was one maid for every 12 occupied rooms. The hotel had a very low level of staff turnover. All of the concierge and front office staff were multilingual. See Exhibit 2 for a breakdown of the hotel's staff and Exhibit 3 for an executive management organization chart.

Karl was well known and respected within the hospitality and regional community. A number of local and national hotel association boards had elected him to membership. He was a member of several service organizations such as Rotary and served for 12 years on the main board of the Chamber of Commerce in Wiesbaden. Through the hotel, he was involved in sponsoring many charitable and local community events.

[5] The Michelin Guide: http://www.viamichelin.com

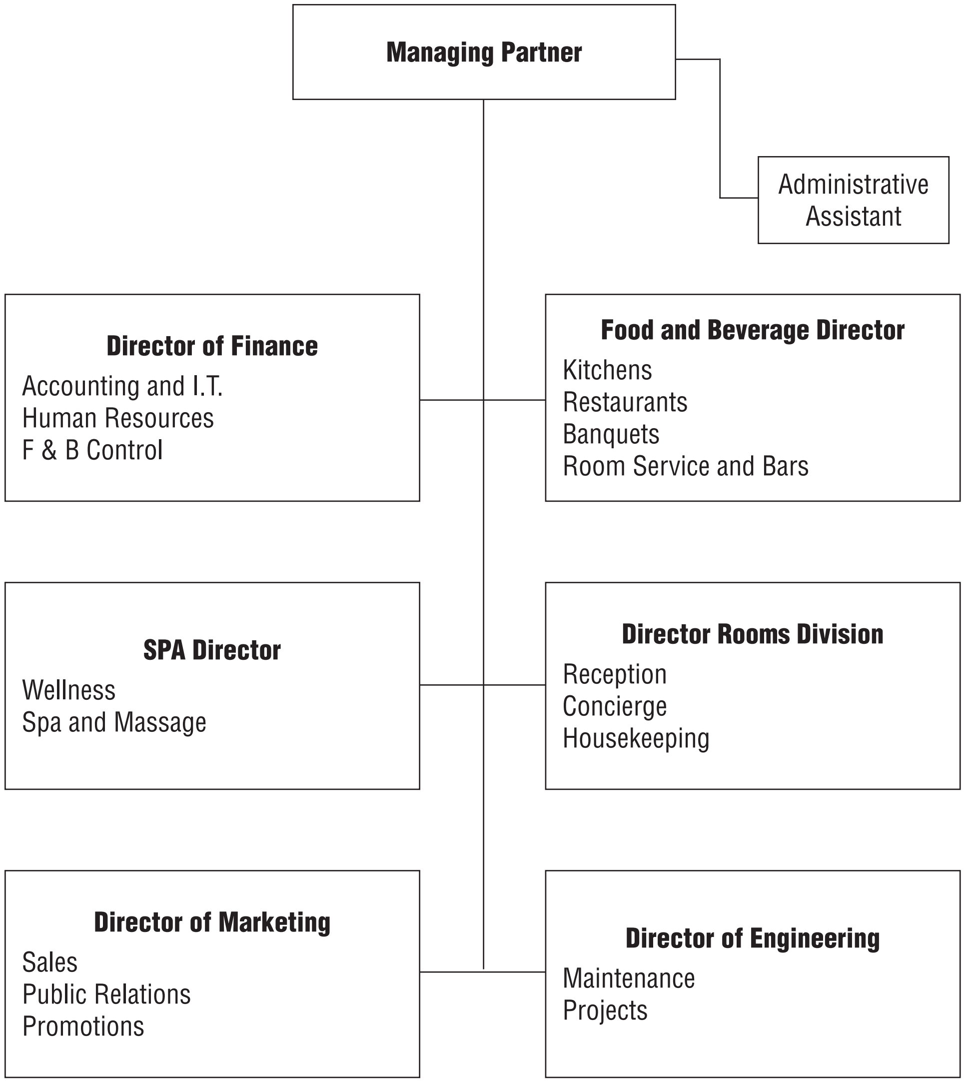

EXHIBIT 3 Hotel Nassauer Hof Executive Management Team Organization Chart

The Wiesbaden Area

The Nassauer Hof Hotel is situated in the center of Wiesbaden, an elegant upscale spa and convention town with international flair. Public parks, the state theater and opera house, and the casino, which is located across the street, enhanced the hotel. The hotel is located on the main shopping avenue, which is lined by beautiful trees and upscale boutiques. Wiesbaden, located in the heart of the Rhine-Main region, one of Europe's largest commercial centers, has a population of 290,000. Fourteen ministries and German federal offices together with numerous trade associations make their headquarters in Wiesbaden, the state capital of Hesse. The city also serves as a gateway to the famous Rhineland with its historic vineyards and castles.[6] See Exhibit 4 for a map of the center of Wiesbaden.

The picturesque town of Wiesbaden, with its abundance of parks and greenery, is a favorite location for the rich and famous to reside. Wiesbaden is an upscale "bedroom community" of Frankfurt. Villa and apartment residences are among the most expensive in Germany. Wiesbaden is also the home of Europe's renowned "German Diagnostic Clinic",[7] modeled after the famous Mayo Clinic in Rochester, Minnesota. Guests from around the world make use of the preventative checkups the clinic offered.

Wiesbaden is located 45 minutes from Frankfurt, the financial capital of Germany, which houses many of the leading international banks and financial institutions. Visitors came to Frankfurt for exhibitions and conventions at the "Messe," one of Europe's premier convention and exhibition centers, which is well known for its annual book, car, and high-tech fairs.

Frankfurt is one of the largest air and rail transportation hubs in Europe.[8] Speed rail connections between the city of Frankfurt and Wiesbaden leaves on an hourly basis. The trip takes 47 minutes each way. Guests arriving at the Frankfurt airport can take a train (the S-Bahn) directly from the airport to Wiesbaden. The express train takes 25 minutes.

Wiesbaden and the surrounding area offers many picturesque hikes, quality golf courses, historical sites, and world-class museums. The nearby city of Mainz and the Rheingau present innumerable adventures for wine and culinary lovers. The Rhine River with its famous villages and castles feature some of the most well-known vineyards in the world, such as Schloss Johannisberg, Schloss Vollrads, and Kloster Eberbach. In addition, Wiesbaden and the surrounding towns stage annual cultural festivals that are internationally renowned. Many of these take place in the opera and concert halls located opposite the hotel in Wiesbaden.

The Nassauer Hof's central location and its scenic setting makes it the location of choice for upscale business conferences, social events, and a frequent choice of wealthy tourists arriving at the Frankfurt International Airport. See Exhibit 5 for Wiesbaden tourism statistics.

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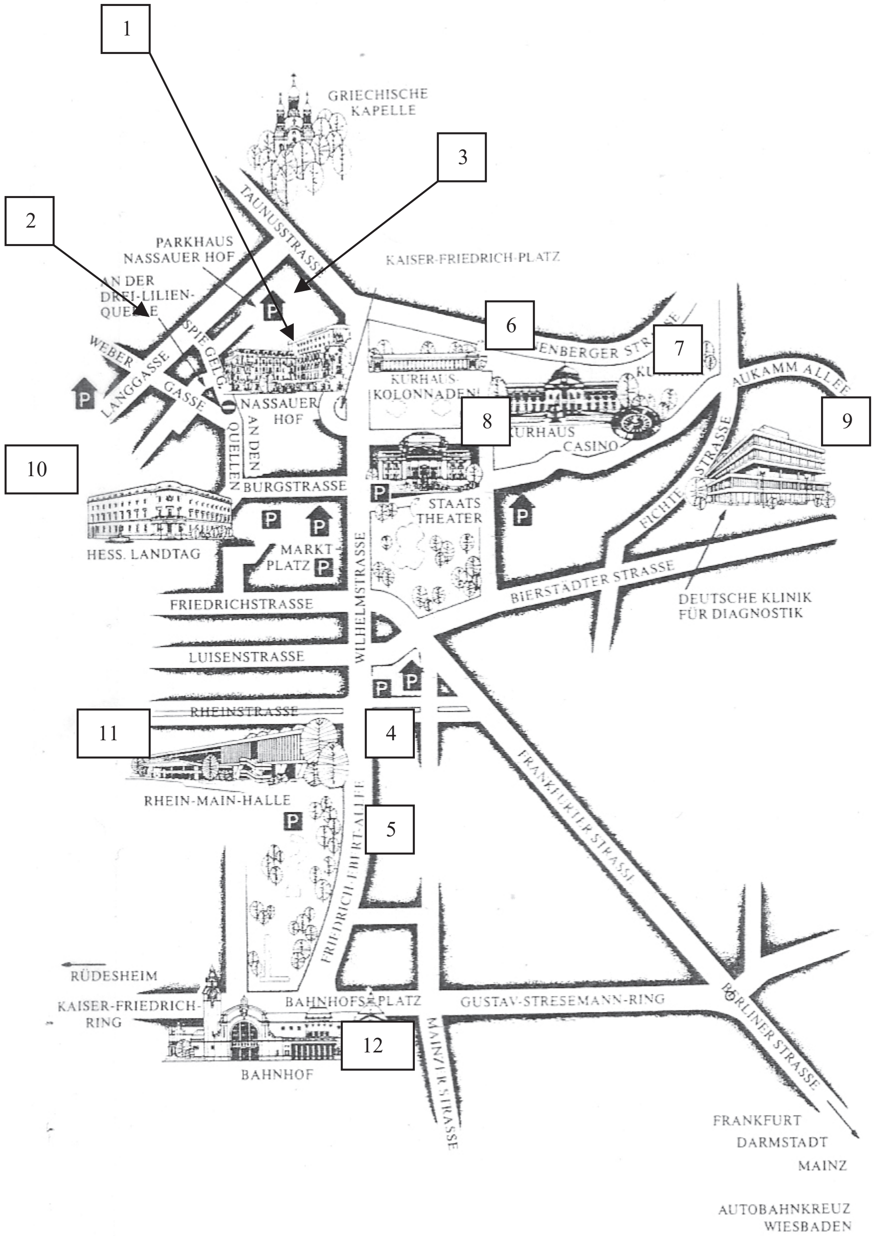
6 See http://english.wiesbaden.de/index.php for a map of Wiesbaden and more information about the city.

7 Deutsche Klinik für Diagnostik (DKD): http://www.rhoen-klinikum-ag.com

8 See http://frankfurt.de/sis/English.html for a map of Frankfurt and more information about the city, and http://downloads.raileurope.com/map_europe/europe.html for an overview map of Europe



Entfernungen zu

Frankfurt Flughafen : 28.5 km
Frankfurt Messe : 39 km

Total Number of Rooms	6,319
Arrivals	437,064
Total Room Nights	967,088
Average Stay	2.2 nights
Bed Occupancy	41.9%
Room Occupancy	53.2%

Source: Hessisches Statistisches Landesamt

EXHIBIT 5 Wiesbaden Tourism Statistics (2004)

The Marketing Environment

The Nassauer Hof's clientele used to be predominantly German. During the previous 20 years, however, the hotel had experienced a radical shift from 78% German in the 1980s to 52% in 2004. The primary reasons for this shift were increased globalization of the business environment and influx of Japanese, former Soviet Union, and Middle Eastern visitors to the Rhine-Main region. However, Karl envisioned that, just as these markets had become important to the hotel, markets such as China and India that were virtually nonexistent at present could also become important. *But how will we be able to effectively reach these markets?* he wondered.

In 2004, business travelers from Germany and overseas represented 62% of the hotel's customer base (see Exhibit 6). Individual business travelers and those attending corporate or association meetings were the major business customers. In addition, the hotel obtained corporate bookings from individuals attending national and international trade fairs and conventions staged either at the nearby Wiesbaden Convention Center or at the large exhibition center in Frankfurt, the Messe.

In 2004, business travelers from Germany and overseas represented 62 percent of the hotel's customer base (see Figure 10.5). Individual business travelers and those attending corporate or association meetings were the major business

PROFILE		ORIGIN	
Business travel	62%	German	52%
Conference	30%	Other	48%
Individual business	70%	North American	38%
Individual (tourist, spa, culture)	23%	Middle East	12%
		Former Soviet Union	8%
Group	10%	Other Pacific Rim	4%
Diagnostic Clinic	5%	Japanese	5%
		Other EU	28%
		Other	5%

Source: Company records

EXHIBIT 6 Nassauer Hof Guest Profile and Origin (2004) customers. In addition, the hotel obtained corporate bookings from individuals attending national and international trade fairs and conventions staged either at the nearby Wiesbaden Convention Center or at the large exhibition center in Frankfurt, the Messe.

Independent German hotels used to dominate the Wiesbaden region. The two most prominent of these properties, both luxury hotels, were the Schlosshotel Kronberg and the Hotel Hessischer Hof. However, during the previous 20 years the competitive environment had changed with many new or rebranded global hotel chains entering the market. See Exhibit 7 for a list of the luxury hotels in the region.

With the growth of the global marketplace, it had become increasingly difficult for an independent hotel to promote its image in far-away countries through traditional distribution channels such as travel agents, toll-free central reservation numbers, and tour and travel operators. Individual guests traveling to Europe from abroad made their decisions in their country of origin, increasingly using the web as an information gathering and booking tool. GDS and web-based reservations systems like Orbitz and Travelocity gave branded hotel chains superior positions on their sites.

In addition to hotels, global distribution systems (GDS), such as Galileo, Sabre, Amadeus, and Worldspan, were linked to car rental and airline companies, thereby providing a one-stop reservation network. Other distribution channel intermediaries, such as international tour operators, wholesalers, and corporate travel

CITY	HOTEL	# OF ROOMS	RACK RATE (EUROS)[1]
Wiesbaden	Radisson Schwarzer Bock*	142	125
	Dorint-Sofitel	298	140
	Crowne Plaza Hotel	233	95
	Ramada Wiesbaden	207	90
Kronberg	Schlosshotel Kronberg	58	145
Mainz	Hilton Mainz City	280	190
	Hyatt Regency Mainz	268	175
Frankfurt	Hotel Frankfurter Hof	321	185
	Hotel Hessischer Hof	185	265
	Arabella Sheraton	378	210
	Hilton Frankfurt	342	270
	Intercontinental Hotel	805	210
	Marriott	508	195
	Maritim	543	240
	Le Meridien Park Hotel*	300	210
	Moevenpick Hotel (to open: 2006)	243	245
	Dorint-Sofitel	155	135
	Villa Kennedy—Forte (to open: 2006)	163	280

*Re-flagged from independent to chain brand
[1]Rack Rate = quoted rate for standard king room
Source: Company marketing sources

EXHIBIT 7 The Regional 4-5 Star Hotel Market (within 16 miles of the Nassauer Hof Hotel) planners, increasingly preferred to work with one central contact at an established chain in order to plan group bookings that included destinations in many different countries. Similarly, corporations were increasingly negotiating preferred rate agreements for all of their company travel with large international hotel chains.

Promotion

The Nassauer Hof Hotel had a well-established reputation as one of the finest luxury hotels in Europe. This reputation was a result of its high quality of service, outstanding facilities and the highest level of food and beverage offerings. While there was no single worldwide ranking organization, extensive and very detailed criteria had to be met for a top rating by Mobil (5 Star), Leading Hotels of the World, and others.[9] The Nassauer Hof met all the criteria for a 5 Star luxury hotel rating.

In 2005, the hotel spent 2% of its total revenue to support marketing activities, including expenditures for membership in Leading Hotels of the World. Comparable 4 to 5 star international hotels in Germany typically spent between 3.5% and 4.0%. The Nassauer Hof employed a marketing staff of three executives who focused on participation in trade fairs and direct sales calls to high-potential accounts in the Frankfurt/Wiesbaden region. In addition, the hotel staged food and beverage marketing promotions in key cities at other international 5-star hotels that were members of Leading Hotels. Travel agents and VIP customers living in the host city attended these promotions. The hotel widely distributed its brochure, which showed public spaces, sample rooms, and glimpses of the nearby attractions, in particular the fountains and plaza across the avenue and in front of the Kurhaus, the location of the gambling casino. The hotel's website, www.nassauer-hof.de, also showed examples of rooms from each category, as well as offering meeting and function room details, in German and English. Room prices had increased with inflation. See Exhibit 8 for occupancy and room rate information and Exhibit 9 for financial statements.

YEAR	OCCUPANCY	AVERAGE RATE	CURRENCY CONVERSION*
2000	58%	DM 310	1 DM=$0.46
2001	57%	DM 318	1 DM=$0.46
2002	56%	DM 325	1 DM=$0.52
2003	55%	EU 187	1 Euro=$1.23
2004	53%	EU 190	1 Euro=$1.31
2005	54%	EU 192	1 Euro=$1.29

*As of 12/31, except for 2005 which is April 30.
Source: Company records

EXHIBIT 8 Nassauer Hof Hotel Occupancy and Average Room Rate

[9] See http://www.mobiltravelguide.com/mtg/index.jsp?menu+mobil_start&bodytid=1031 for a detailed description of the Mobil Travel Guide Lodging Star Definitions

			2001 EURO	2001 %	2002 EURO	2002 %	2003 EURO	2003 %	2004 EURO	2004 %
Room	Sales		5,877.0	100.0	5,370.0	100.0	5,212.5	100.0	5,175.4	100.0
	Payroll		941.0	16.0	855.0	15.9	832.7	16.0	802.3	15.5
	Other expenses		954.0	16.2	750.0	14.0	646.3	12.4	608.5	11.8
	Dept. Profit		**3,982.0**	**67.8**	**3,765.0**	**70.1**	**3,733.5**	**71.6**	**3,564.6**	**72.7**
Food & Beverage	Sales	Food	2,475.9	55.7	2,094.7	56.4	2,010.9	55.7	2,111.5	55.2
		Bevg.	1,493.5	33.6	1,177.3	31.7	1,216.7	33.7	1,212.6	31.7
		Other	475.6	10.7	442.0	11.9	382.7	10.6	501.0	13.1
		Total	**4,445.0**	**100.0**	**3,714.0**	**100.0**	**3,610.3**	**100.0**	**3,825.1**	**100.0**
	Costs	Food	794.8	32.1	676.6	32.3	697.8	34.7	711.6	33.7
		Bevg.	276.3	18.5	213.1	18.1	227.5	18.7	266.8	22.0
		Other	9.0	1.9	7.1	1.6	5.0	1.3	8.0	1.6
		Total	**1,080.1**	**24.3**	**896.8**	**24.1**	**930.3**	**25.8**	**986.4**	**25.8**
	Payroll		2,163.0	48.7	1,874.0	50.5	1,767.4	49.0	1,789.8	48.3
	Other expenses		679.0	15.3	561.0	15.1	452.2	12.5	454.3	12.3
	Dept. Profit		**522.9**	**11.7**	**382.2**	**10.3**	**460.4**	**12.7**	**594.6**	**13.6**
Ente Restaurant	Sales	Food	1,355.0	51.7	1,190.0	49.3	1,019.4	51.7	1,045.6	53.5
		Bevg.	1,135.0	43.3	1,025.0	42.5	780.9	39.6	776.3	39.8
		Other	131.0	5.0	198.0	8.2	171.6	8.7	130.0	6.7
		Total	**2,621.0**	**100.0**	**2,413.0**	**100.0**	**1,971.9**	**100.0**	**1,951.9**	**100.0**
	Costs	Food	453.0	33.4	357.0	30.0	346.2	34.0	340.2	32.5
		Bevg.	338.0	29.8	288.0	28.1	213.9	27.4	197.9	25.5
		Other	8.0	6.1	7.0	3.5	5.3	3.1	9.8	7.5
		Total	**799.0**	**30.5**	**652.0**	**27.0**	**565.4**	**28.7**	**547.9**	**28.1**
	Payroll		1,225.0	46.7	1,119.0	46.4	1,001.0	50.8	975.8	50.0
	Other expenses		348.0	13.3	292.0	12.1	240.7	12.2	286.6	14.7
	Dept. Profit		**249.0**	**9.5**	**350.0**	**14.5**	**164.8**	**8.3**	**141.6**	**7.2**
Telephone	Sales		290.0	100.0	201.0	100.0	252.7	100.0	108.8	100.0
	Payroll		62.0	21.4	60.0	29.9	34.9	13.8	0.0	0.0
	Other expenses		57.0	19.7	48.0	23.8	58.1	23.0	39.0	35.8
	Dept. Profit		**171.0**	**58.9**	**93.0**	**46.3**	**159.7**	**63.2**	**69.8**	**64.2**
Garage	Sales		313.0	100.0	306.0	100.0	256.9	100.0	255.4	100.0
	Payroll		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Other expenses		6.0	1.9	4.0	1.3	8.5	3.3	4.9	1.9
	Dept. Profit		**307.0**	**98.1**	**302.0**	**98.7**	**248.4**	**96.7**	**250.5**	**98.1**

EXHIBIT 9 Hotel Nassauer Hof Income Statement (Fiscal year-end: December 31). All values are in 000 Euros.

One challenge that the marketing and reservation departments frequently faced was guests and travel agents asking for special rates. Karl's position on price discounts had consistently been that, "Quality has its price—you can't purchase a Porsche for the price of a Volkswagen." The only price reductions that the Nassauer Hof had traditionally given were based on the total number of room nights generated by a travel agency or a company or by individual long-term guests. There was no standard rate, as each discount was negotiated individually, but the range was 10% to 20% depending on seasonality and the volume of business gen-

		2001		2002		2003		2004	
		EURO	%	EURO	%	EURO	%	EURO	%
Spa	Sales	234.0	100.0	253.0	100.0	261.0	100.0	376.0	100.0
	Payroll	176.0	75.2	178.0	70.4	178.6	68.4	197.0	52.4
	Other expenses	55.0	23.5	63.0	24.9	68.9	26.4	102.1	27.2
	Dept. Profit	**3.0**	**1.3**	**12.0**	**4.7**	**13.5**	**5.2**	**76.9**	**20.4**
Beauty Center	Sales	352.0	100.0	402.0	100.0	353.4	100.0	398.5	100.0
	Payroll	181.0	51.4	182.0	45.3	174.2	49.3	214.4	53.8
	Other expenses	95.0	27.0	86.0	21.4	88.1	24.9	115.7	29.0
	Dept. Profit	**76.0**	**21.6**	**134.0**	**33.3**	**91.1**	**25.8**	**68.4**	**17.2**
Other Income (wines & other)	Sales	86.0	100.0	180.0	100.0	184.3	100.0	171.6	100.0
	Payroll	51.0	59.3	50.0	27.8	33.9	18.4	39.2	22.8
	Other expenses	35.0	40.7	108.0	60.0	90.8	49.3	91.4	53.3
	Dept. Profit	**0.0**	**0.0**	**22.0**	**12.2**	**59.6**	**32.3**	**41.0**	**23.9**
Store rentals	**Dept. Profit**	**271.0**	**1.9**	**270.0**	**2.1**	**278.8**	**2.3**	**221.2**	**1.8**
Admin. & General	Payroll	781.0	5.4	761.0	5.8	737.7	6.0	714.4	5.9
	Other expenses	486.0	3.4	437.0	3.3	429.6	3.5	411.4	3.4
	Total	**1,267.0**	**8.7**	**1,198.0**	**9.1**	**1,167.3**	**9.4**	**1,125.8**	**9.3**
Marketing	Payroll	115.0	0.8	139.0	1.1	93.1	0.8	68.4	0.6
	Other expenses	208.0	1.4	205.0	1.6	149.6	1.2	120.1	1.0
	Total	**323.0**	**2.2**	**344.0**	**2.6**	**242.7**	**2.0**	**188.5**	**1.5**
Energy	**Total**	**376.0**	**2.6**	**363.0**	**2.8**	**435.3**	**3.5**	**457.1**	**3.8**
Repair & Maintenance	Payroll	226.0	1.6	236.0	1.8	199.4	1.6	177.1	1.5
	Other expenses	413.0	2.9	306.0	2.3	298.0	2.4	279.4	2.3
	Total	**639.0**	**4.4**	**542.0**	**4.1**	**497.4**	**4.0**	**456.5**	**3.8**
Total Undistributed Expenses		**2,605.0**	**18.0**	**2,447.0**	**18.7**	**2,342.7**	**18.9**	**2,227.9**	**18.3**
Profit (EBITDA)		**2,976.9**	**20.5**	**2,883.2**	**22.0**	**2,867.1**	**23.2**	**2,800.7**	**22.3**
Total Sales (incl. Store rentals)		14,489.0	100.0	13,109.0	100.0	12,381.8	100.0	12,483.9	100.0
Total Payroll Costs		5,921.0	40.9	5,454.0	41.6	5,052.9	40.8	4,978.4	39.9

Source: Company records

erated. "We are fortunate to have some guests who stay for an extended period of time," Karl commented. "Although this reduces our average rate, these guests increase our occupancy and consume other hotel services." The very limited willingness to reduce prices may be a challenge to increase demand and achieve significantly higher occupancy rates (Forgacs, 2017; Gallego & Topaloglu, 2019).

Creating a mental connection between Frankfurt and Wiesbaden had been a second challenge. International travelers were often not aware that Wiesbaden was located on the outskirts of Frankfurt. An investment banker who had been a guest at the Nassauer Hof for the previous 18 years stated that

> *Wiesbaden and the Nassauer Hof Hotel have to be one of the best kept secrets! It's a jewel of a hotel. I first heard about the hotel from a fellow banking friend who told*

me to stay at the Nassauer Hof rather than in a commercial hotel at the airport or in busy downtown Frankfurt. The personal service and the almost resort-like setting are well worth the short commute. I not only know Karl and the key staff, but also many of the other guests who stay there regularly. It almost feels like a club.

Promotion for the spa and restaurants was primarily through word of mouth in the local community. The Nassauer Hof cosponsored local events such as an annual golf tournament at a prestigious local course. The hotel also provided complimentary rooms and hosted receptions in connection with local cultural and civic charity events. The restaurant was part of promotions for the city conducted by the Chamber of Commerce, and took part in the Strassenfest, the yearly street festival attended by thousands of local residents and visitors. "Die Ente's" Michelin guide rating also drew food enthusiasts from a wide region.

Competition from Hotel Chains

As Karl had noted during the meeting with his executive team, most of the 4-star hotel chains already had properties in the region. He anticipated that many of the 5-star hotel chains would probably also eventually enter the regional market (see Exhibit 10). These chains used several different growth strategies in expanding their market presence: developing new properties, converting existing properties, and merging with or acquiring existing brands. Because hotel development was very capital intensive and risky, most major hotel chains adopted asset-light strategies and expanded internationally primarily through management contracts or

INTERNATIONAL MULTI- AND SINGLE-BRANDED HOTEL CHAINS WITH 4- AND 5-STAR PROPERTIES[10]

Hyatt Hotels—217 hotels and resorts
*Marriott Hotels and Resorts—2,700 hotels
*Starwood Hotels and Resorts (Sheraton, Westin and LeMeridien)—780 hotels
*Hilton Hotels—2,388 hotels
Wyndham Hotels and Resorts (Ramada and other brands)—6,300 hotels
*Carlson Hotels Worldwide (Radisson, Regent and other brands)—900 hotels
Four Seasons Hotels and Resorts—71 hotels
Ritz-Carlton—62 hotels
Fairmont – Raffles Hotels and Resorts—87 hotels
Mandarin Oriental—21 hotels

EUROPEAN-BASED 4- AND 5-STAR HOTEL CHAINS

*Accor Hotels (Sofitel and other brands)—4,000 hotels
*InterContinental Hotels Group (Crowne Plaza and other brands)—3,500
*Kempinski Hotels—26 hotels
*Mövenpick Hotels—80 hotels
*Rocco Forte Hotels—15 hotels
Sol-Melia—350 hotels
*Steigenberger Hotels (member of Worldhotels consortium)—77 hotels

*Companies with competitive hotels within 30 miles of the Nassauer Hof Hotel
Source: Company Web sites

EXHIBIT 10 European and International Hotel Chains franchising, as opposed to building and financing new hotels themselves (Okumus, Altinay, Chathoth, & Koseoglu, 2019). With a management contract, a developer/owner would build or buy a hotel and hire a hotel chain to operate the property. The chain would receive a management fee from the owner based on a percentage of revenue. Most management agreements are long-term and may provide an incentive fee based on the achievement of agreed upon goals (Walker, 2019).

With a franchise agreement, on the other hand, the developer/owner would employ its own management team and pay a royalty fee to a hotel chain in exchange for the use of their franchise system. The franchise system provided a formula for successfully operating a hotel or other business by offering an established recognizable brand and a uniform product and service concept. Multi-brand hotel companies that employed franchising as one of their growth strategies, such as Hilton, Marriott, Wyndham, Regent, and Sheraton, received a royalty payment from their franchisees based on a percentage of total sales that varied between 3% and 6%, and a marketing contribution that varied between 1.5% and 3.0% of room revenue. The franchisor also provided a central reservation system, sales support, and global marketing representation. Hotels operated under a franchise system were typically independently owned and managed (International Franchise Association, 2020; Rosenberg International Franchise Center, 2020; Walker, 2019). However, not all established international hotel chains would enter into franchise agreements but would insist on operating control. The Ritz-Carlton, Four Seasons, and Mandarin Oriental chains fell into this category. Typical franchise fees and capital expenditures may be found in Exhibit 11.

SCHEDULE 1: INITIAL FRANCHISE FEE & PROJECTED CAPITAL EXPENDITURE	
Initial franchise license fee	$ 58,000
Computer system	$150,000
Signage	$ 30,000
Printed material and photography	$ 40,000
Guest room FF&E	$550,000
TOTAL:	$828,000

SCHEDULE 2: ANNUAL FRANCHISE FEES	
5% of gross room sales	$335,000
2% of food and beverage sales	$147,000
Marketing fund contribution (1% of gross room sales)	$ 67,000
Participation in preferred guest program (1% of gross room sales)	$ 67,000
Central reservation fee	$ 18,000
Annual software updates	$ 10,000
Monthly guest satisfaction reports	$ 6,000
Global Distribution System (GDS) & internet booking fees	$ 35,000
Annual training course fee	$ 12,000
TOTAL:	$697,000

Source: Abstracted from 2005 Uniform Franchise Offering Circular (UFOC) of U.S.-based international upscale hotel chains

EXHIBI 11 Typical Hotel Projected Franchise Fees and Capital Expenditures

Marketing Consortia of Independent Hotels

Independent hotels often joined marketing consortia in order to compete with hotel chains and reach the global marketplace. These consortia generally provided a central reservation network, a membership website and a listing of members' hotels in global distribution systems (GDS) that allowed travel agents to book reservations for hotels, airlines and rental cars online. In addition, hotel marketing consortia operated sales and marketing offices in the leading capital cities of the world in order to generate business for their member hotels.

The best-known upscale hotel marketing consortia were:

- The Leading Hotels of the World: a prestigious luxury hotel organization representing more than 420 hotels, resorts and spas worldwide (www.lhw.com);
- Preferred Hotels & Resorts: a global brand of independently owned luxury hotels and resorts representing more than 120 hotels (www.lhw.com);
- Worldhotels: an international marketing consortium of 485 hotels representing 70 countries in three quality segments: Deluxe Collection (170 hotels), First Class Collection (230 hotels) and Comfort Collection (85 hotels) (www.worldhotels.com);
- Small Luxury Hotels of the World: a collection of more than 300 independently owned exclusive hotels located in over 50 countries (www.slh.com); and
- Relais & Châteaux: an exclusive international association of 440 small independently owned restaurants and luxury hotels (which must have a gourmet restaurant) (www.relaischateaux.com).

The Leading Hotels of the World

Since the 1950s, the Nassauer Hof Hotel has been a member of The Leading Hotels of the World (Leading).[10] Leading was founded during the 1920s in order to promote individually owned independent luxury hotels:

Excellence in the art of hotel keeping is the cornerstone of the Leading Hotels of the World brand. It is our most cherished and protected value. Hotels seeking membership with The Leading Hotels of the World or The Leading Small Hotels of the World must apply for admission, as the organization does not solicit new members. All Leading Hotels must operate in a manner consistent with the standards that are generally understood and accepted within the industry as "five-star" or "superior deluxe."[11]

Membership in Leading gave the Nassauer Hof access to the organization's worldwide reservation centers, which were located in more than 20 offices in the most important cities of North America, Africa, the Middle East, Asia, India, Australia, South America, and Europe. These sales offices generated referrals for its member hotels. In addition, Leading staged periodic trade fairs and participated in the most important travel exhibitions around the world. These exhibi-

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[10] Leading Hotels of the World: http://www.lhw.com/corporateinfo.aspx

[11] "Become a Leading Hotel," Leading Hotels of the World: http://www.lhw.com/corporateinfo.aspx

tions targeted wholesale travel purchasers (such as travel agents and group wholesalers) or the retail market (the individual customer). According to an article in *Travel & Leisure* (August 2004), 114 of the 500 greatest hotels in the world were members of Leading.

Leading also produced an annual catalogue featuring its member hotels, which these hotels displayed in every guest room. In addition, the organization provided a comprehensive web page that included information about the member hotels, a reservation link, vacation planning assistance and special offers. A corporate information link provided information concerning membership in Leading and listed the organization's joint ventures with other brands and travel partners. Leading was also listed in the major global distribution systems (GDS) of the travel industry. Although the Nassauer Hof had no customer loyalty or frequent guest plan of its own, its guests were able to earn benefits through Leading's reward program.

The Nassauer Hof paid a yearly fee of €110,000[12] for membership in Leading and an additional EU 17 for each reservation generated. In 2004, Leading generated 15% of Nassauer Hof's reservations. Although Leading had been doing a good job for the hotel, Karl believed he was losing market share compared to branded chain hotels, especially from overseas markets. "Should we join an additional marketing organization?" Karl wondered.

Selektion Deutscher Luxushotels

The Nassauer Hof, together with five other German luxury hotels, had also created a marketing cooperative, Selektion Deutscher Luxushotels,[13] with the purpose of conducting cross-marketing activities. The other member hotels were located in Hamburg, Bremen, Cologne, Baden-Baden, and Munich (see Exhibit 12). The occupancy at member hotels varied from 50% to 85% with the Mandarin Oriental Hotel in Munich achieving the highest occupancy. Each of the hotels promoted the other five hotels during local and regional sales calls to their own corporate and travel clients. The cooperative developed a high-quality brochure that described the product and service offerings of the six member properties and maintained a joint website. The members shared jointly in the cost of producing the brochure and maintaining the website. The Nassauer Hof's share was €2,500 per year. Karl Nueser stated that "The cooperative has been extremely effective in leveraging the development of market leads and the cross referral of clients to the other members."

Guestroom Conversion

Another option for the hotel would be to convert rooms on the top floor into rental apartments or condominiums. The term condominium hotel referred to buildings

[12] In Mid-May 2005, 1 euro = $1.28 U.S; 110,000 Euros = $140,800.

[13] Selektion Deutscher Luxushotels: www.selektion-deutscher-luxushotels.de

CITY	NAME OF HOTEL	NUMBER OF ROOMS/SUITES
Baden-Baden	Brenner's Park Hotel & Spa	92
Bremen	Park Hotel Bremen	177
Cologne	Excelsior Hotel Ernst	152
Hamburg	Raffles Hotel Vier Jahreszeiten	156
Munich	Mandarin Oriental Hotel	73
Wiesbaden	Nassauer Hof Hotel	169

Source: Brochures from the listed hotels

EXHIBIT 12 Marketing Cooperative: Selektion Deutscher Luxushotels

where individuals owned suites and either occupied them or allowed the hotel to rent them.[14] Some hotels rented apartments for occupancy on a long-term basis.[15] Many older hotels had a few guests who lived permanently in the hotel.[16] Apartments in luxury hotels usually commanded a substantial premium due to the amenities and services offered by the hotel and the prestige attached to the hotel brand. Some New York City hotels, such as the Waldorf Astoria and the Loewe's Regent Hotel, rented a number of their suites on a long-term basis.

The executive team thought that some of the hotel's frequent visitors or corporations might be interested in having their own exclusive space that would still receive the hotel's services. However, they felt that there was more of a market to rent apartments than to sell them. No local competitors offered long-term rentals. The team estimated that the 34 existing rooms and suites on the top floor could become 20 upscale one- and two-bedroom apartments. Corporations with out-of-town head offices requiring frequent visits to the greater Frankfurt area would find it convenient and cost-effective to have a permanent suite, which would also function as space for meetings and entertaining. Usually the CEO and senior executives would be the primary users of such a suite. Wealthy elderly individuals and empty nesters, who had sold their main residence in Wiesbaden, might also be interested in renting, especially since the hotel would provide full-service amenities and security. Karl estimated that these apartments could achieve 85% occupancy by the end of the first year.

Karl commented,

> *Over the years, I've had several companies and private individuals ask me if they could rent a suite here at the hotel on a long-term basis. I've always declined in the*

[14] Schlentrich, Udo (2010), "Condominium" in *International Encyclopedia of Hospitality Management,* edited by Abraham Pizam, Elsevier Butterworth Heinemann, Burlington, MA, p. 94.

[15] Many famous people lived in hotels for extended periods of time, including Marilyn Monroe (Hollywood Roosevelt Hotel for two years), Coco Chanel (Ritz Hotel in Paris for 37 years), Elizabeth Taylor (Hotel Bel-Air), Oscar Wilde (L'Hotel in Paris), Mark Twain (lived in several hotels including the Occidental Hotel in San Francisco), Ernest Hemingway (lived in the Hotel Ambos Mundos in Cuba for several years) (Teatralny, 2019).

[16] Eloise, from the popular children's book series by Kay Thompson (first appearing in Eloise, New York: Simon & Schuster, 1955), lived at the Plaza Hotel in New York City.

past as it would have required that we reconfigure the structure of the suites and install kitchens. In addition, I think we would need to have a different entrance for more permanent residents who would be coming into the hotel with grocery bags.

The team figured that the cost of converting the guestrooms into apartments would be approximately €1.5 million (see Exhibit 13). They projected that these full-service apartments would rent for €8,000 to €12,000 per month (see Exhibit 14), a 15% premium over typical rents in the center city area. They also believed the annual income from apartment rental would generate a departmental profit margin of 80%, compared with the department profit of 72% on hotel rooms (see Exhibit 9). Although GUESTS might spend less per day by making use of the apartment's kitchen or dining elsewhere in the area, they also would be more likely to entertain friends at the hotel and purchase services such as spa memberships. One of the elevators near the garage could be adapted for apartment guest's use. "Let's weigh the benefits and risks," Karl commented, "Maybe this is a strategy we should consider."

The Future

Karl thought about the meeting he had just had with his executive staff. The team had accomplished so much, but now was not the time for resting on one's laurels. *Should the hotel enter into a franchise agreement with a global brand like Hilton International, InterContinental, Marriott, Starwood or Fairmont Hotels & Resorts?* Karl wondered. *Or maybe we should expand our existing marketing agreement with The*

NAME (SIZE) OF APARTMENT	# OF APARTMENTS	CONVERSION COST	TOTAL COST PER APARTMENT
Standard 1 Bedroom (80 square meters)	12	65,000 Euros	780,000 Euros
Large 1 Bedroom (120 square meters)	4	75,000 Euros	300,000 Euros
Deluxe 2 Bedrooms (160 square meters)	4	90,000 Euros	360,000 Euros
		TOTAL:	1,440,000 Euros

Notes:
Conversion costs include planning fees and architectural expenses
One garage space per apartment is included in rental price.

Source: Company records

EXHIBIT 13 Conversion of Guest Rooms to Apartments

12 Standard 1 Bedroom Apartments	@ 8,000 Euros per month
4 Large 1 Bedroom Apartments	@ 10,000 Euros per month
4 Deluxe 2 bedroom Apartments	@ 12,000 Euros per month

Source: Company records

EXHIBIT 14 Nassauer Hof Projected Apartment Income

Leading Hotels of the World by joining an additional marketing consortium such as Worldhotels, Relais & Châteaux, or Preferred Hotels & Resorts? Maybe it's time for some "out-of-the-box" thinking. Is the franchise option a viable one, or should we stay independent and try to find ways to reach new markets? Is there any advantage in downsizing by converting some guest rooms into rental apartments? Or should we just accept lower occupancy rates as one of the challenges of our market niche? Karl reflected ruefully, *I know of so many other independent hotels that have the same problem we have.*

For Advanced Reading:

Schlentrich, U. A. (1996). Business travel marketing. In A. V. Seaton & M. M. Bennett (Eds.), *Marketing tourism products: Concepts, issues, cases* (pp. 318–349). London, UK: International Thomson Press. (Questions 2, 3, 4)

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IM Exhibit 1 Projected Rental Apartment Revenue

TOTAL POTENTIAL YEARLY RENTAL REVENUE AT 100% OCCUPANCY		
12 Apartments at €8,000 per month	=	€1,152,000 per year
4 Apartments at €10,000 per month	=	€480,000 per year
4 Apartments at €12,000 per month	=	€576,000 per year
TOTAL		€2,208,000 per year
PROJECTED ANNUAL RENTAL REVENUE		
Projected Revenue at 60% occupancy	=	€1,324,800 per year
Projected Revenue at 85% occupancy	=	€1,876,800 per year
Projected Revenue at 95% occupancy	=	2,097,600 per year
PROJECTED THREE-YEAR ANNUAL EBIDTA PROFIT (80% OF RENTAL REVENUE)		
EBITDA Profit at 60%	=	€1,059,840 per year
EBITDA Profit at 85%	=	€1,501,440 per year
EBITDA Profit at 95%	=	€1,678,080 per year

BREAKEVEN ANALYSIS FOR THE COSTS OF CONVERTING HOTEL ROOMS TO APARTMENTS (FROM CASE EXHIBITS 14 AND 15)

Apartment Size	#	Conversion Cost/apt. (in euros)	Monthly Rental/apt. (in euros)	Breakeven (%)
a) Standard 1 Bedroom	12	65,000	8,000	67.7
b) Large 1 Bedroom	4	75,000	10,000	62.5
c) Deluxe 2 Bedrooms	4	90,000	12,000	62.5

a) Total cost to convert all 12 standard 1 bedroom apartments: €780,000. At 8,000 per month, the number of months needed to pay back the conversion costs is 97.5 months (out of a possible 144 months), or 67.7% occupancy during the first year (8.125 mo./apt).

b) Total cost to convert all 4 large 1 bedroom apartments: €300,000. At 10,000 €per month, the number of months to pay back on conversion costs is 30 months, out of a possible 48, or 62.5% occupancy during the first year (7.5 months/apt.).
c) Total cost to convert all 4 deluxe apartments: €360,000. At €12,000 per month, the number of months to breakeven on conversion costs is 30 months, out of a possible 48, or 62.5% occupancy during the first year (7.5 months/apt.).

Note 1: Projections do not take into consideration revenue generated by additional food and beverage sales, rental of additional garage space, and spending by guests of renters.

IM Exhibit 2: Impact of Apartments on Hotel Room Rentals

1) If top floor rooms are more desirable:
   Assume that all 34 rooms are occupied at the average room rate:
   34 rooms x 1€92/day each x 365 days = €2,382,720 total revenue.
   34 rooms at €139.6 margin/day x 365 days = €1,732,436 departmental gross margin.
   This is the maximum potential operating loss from conversion to apartments.
2) Apartments, if 85% occupancy achieved, will generate annual rental income of €1,876,800 (from IM Exhibit 1) and EBITDA of €1,501,440.
   The income from apartments is less than the income from renting the 34 hotel rooms. However, this assumes that NONE of the guests who would have occupied a top floor hotel room are willing to accept a room elsewhere in the hotel.
   If ALL will accept a different room, there will be no loss of room nights or revenue from room nights, in addition to the gains from having the apartments leased (paid for, every day).
3) If the occupancy on the top floor had been 54%, the average for the hotel, yearly income from these hotel rooms would be 1,286,659 (€2,382,702 x .54), and yearly margin would be €935,515 €1,732,436 x .54). The income from converting to apartments, at 85% apartment occupancy, is greater than the potential lost revenue, even if none of the hotel guests will accept a room on a lower floor.
   The truth is somewhere between these two extremes: lower than 100% occupancy, and some guests (hopefully, most) who will accept a room on a lower floor.

Summary of impact:

A) Assuming NO rebooking by former top floor guests and no increase in costs from 2004)

EBITDA (2004)	€2,800,700
- loss of profit from 34 hotel rooms at 54% occupancy	€5,423,238 (54% x €139/day x 365 days)
+ revenues from apartments at 85% occupancy	€1,501,400
Total:	–€1,121,138

B) Assuming ALL top floor guests will accept other rooms:

	EBITDA (2004)	€2,899,700
-	loss of profit from hotel rooms	0
+	revenues from apartments at 85% occupancy	€1,501,400
	Total:	€4,302,100 (+ 154%)

Discussion Questions

1. Why did Karl Nueser believe that a reevaluation of the overall marketing strategy of the Nassauer Hof Hotel was necessary? Do you agree?
2. Develop a SWOT analysis assessing the Nassauer Hof Hotel in its present competitive environment.
3. What is the Nassauer Hof Hotel's competitive advantage?
4. Identify the primary market segments of the Nassauer Hof Hotel.
5. Evaluate the present marketing mix of the Nassauer Hof Hotel.
6. Which of the strategies proposed by the management team do you recommend that Karl Nueser adopt? Explain.

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Relevant Videos

10 Amazing Things About Germany!
https://www.youtube.com/watch?v=sTFNvbGQp7k

How to pitch startup presentations #entrepreneurship #Germany:
https://www.youtube.com/watch?v=kMKH3rgnDNo

Turning Entrepreneurial Failure into Opportunity | Made in Germany - Interview, Part 2:
https://www.youtube.com/watch?v=Y5USEVGg_oo

Hotel Nassauer Hof:
https://www.youtube.com/watch?v=vUCNCzYqlBE

Market researchers observe where we look | Made in German:
https://www.youtube.com/watch?v=Hatmm84sqm0

Investigative Report Presentation - Marketing in Germany:
https://www.youtube.com/watch?v=3GilgkDQcEY

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6/10/2020

KUDU: CROSSING THE SAUDI BORDER

Pablo Collazzo, Danube University
Bassem Nasri, Prince Mohammad Bin Fahd University
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Local Chain, Modern Look

It was in 1988 when Yusuf and two of his classmates started the now 5000+ employee Kudu, an open-kitchen concept fast-food restaurant. Based in Riyadh, Saudi Arabia, Kudu serves burgers, hot dogs, sandwiches, and breakfast meals. With over 300 branches spread throughout the Middle East, Kudu grew to become the leading brand name in fast food, exceeding both local and international franchisees. Yusuf eventually decided to leave his full-time job to focus on Kudu, later becoming its chairman and CEO. The company also owns Aal-Khafeef, another local Arabian pizza (*Manousheh*) concept, with a few dozen outlets open, and is franchisee of two Lebanese restaurant chains, with several outlets and an ambitious expansion plan.

Kudu claims to provide a wide variety of "appealing, made-to-order meals, with quality and freshness that sets the standards in the quick-service restaurant (QSR) segment," as posited on its website. Meals are cooked in open kitchens, in front of the customer. Witnessing every step of the cooking process, as well as the devotion to cleanliness on both sides of the counter, assures customers of the quality and freshness of their meals. Kudu open designs also create a dynamic atmosphere and enhance friendly interactions with customers. "On any given day, our appeal is reflected in the diversity of our customers; men and women, young and old, students and executives, friends and families, coming to enjoy breakfast, lunch, or dinner. At Kudu, there's something for everyone, anytime," states Yusuf. Openness and transparency in operations and management have been the driving forces behind 30+ years of success. Since 1988, its "open-kitchen concept" has given the company a unique edge over competitors. "We believe, more than ever, that fresh food just tastes better. We are proud of our open-kitchen concept, which creates a truly unique eating experience for everyone," added Yusuf.

Through regional, integrated marketing campaigns, and a commitment to quality, Kudu has built a strong brand and a coveted international reputation. The company has been featured in Forbes magazine, as one of the most recog-

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Professors Pablo Collazzo, Bassem Nasri, and Dianne Welsh developed this case from published sources and interviews with industry participants, whose identitiy has been disguised for confidentiality reasons. Cases are developed solely as the basis for class discussion and are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

nized Middle Eastern brands, the “Best Sandwich” by a leading local daily English newspaper, and “The Best Food Corporation” by the Municipality of Dubai. Yusuf himself has been awarded the “Best CEO in Saudi Arabia” for retail and restaurants multiple times.

Struggling the Way

The emergence of Kudu was greeted with fierce competition by well-known international QSR franchises, most of which operate in Saudi Arabia through franchise partners. The company responded with unrelenting efforts to offer a unique, truly local dining experience, from layout to menus, building up a competitive edge by delivering on the needs and preferences of its domestic market. The QSR industry is dominated by “me-too” strategies, leading to recurrent price wars, as players tend to end up with undifferentiated value propositions—fast deliveries with tight lead times in largely standardized operations, and a perceived trade-off between price and quality, with the former at the expense of the latter.

As Kudu has a diversified menu, it had to open multiple competition fronts, including pizzas, fried chicken, hamburgers, and sandwiches. Yusuf recalls one day working along the other two founders in the food court of one of Riyadh’s prominent malls, watching people running back and forth between Burger King and MacDonald’s, largely ignoring Kudu. That was their moment of truth, as the trio realized they had to do something—something big, a make-it-or-break-it move. They went all in for taste and freshness. “You are not going to win on price against players with endless pockets and resources, so we decided for taste—but local taste, mixing flavours and ingredients recognized and appreciated by locals, reflecting our culture and traditions, which no one else knows and understands better than us,” reflects Yusuf. And it paid off, big time—all the while avoiding price competition, a winner takes all game that Kudu was almost certainly bound to lose. Kudu capitalized on its swiftness and adaptability, against global players who were bound by the franchisor’s standard operations, and minimal customizability. Now, that very same mall branch of the early start-up time is one of the largest revenue-generating stores across Saudi Arabia.

Foreign QSR franchises are textbook fast-food machines—meals are supplied half-prepared, turning the store into an “assembly” plant, which largely explains their hard-to-beat delivery times. Instead, Kudu does it the old-fashioned way—meals are cooked on the spot, out of a broad selection of local ingredients, all made-to-order in an open-kitchen setting. The result: tastier dishes, crafted by locals, for locals. A value proposition largely aimed at the conscious, culturally sensitive consumer, Kudu has so far missed out on children, particularly those 10 and younger, who are still lured into the more playful settings and menu offers of the likes of Burger King and McDonald’s. “When you walk into a food court and run into a family table, you are likely to see kids with ‘happy meals’ from our burger chain competitors, while adults enjoy a Kudu sandwich,” attests Yusuf, with a bittersweet smile, as he acknowledges that winning the youngest audience remains an uphill battle.

Kudu promises unrivalled freshness and quality standards. Assurance begins with food ingredients. Deliveries are made fresh every morning, for meats and vegetables—indeed for every single ingredient. Kudu's deed begins with the open kitchen, as clients somehow share the cooking experience. The company stands by its commitment "to build the freshest sandwich, carefully wrapped in front of our customers, who can expect freshness in every step of the way," a pledge that stands out on Kudu's website.

Scaling up ... fast

Kudu's race against leading imported franchises is not only about food trays but also for the market of franchisees. As in any race, speed is key. While organic growth is certainly not about speed, franchising would allow you to sprint up your pace. Franchising is the arrangement between two parties, the franchisor and the franchisee, the former granting the latter the right to utilize its business processes to produce and market a good or service, or simply use its trademark. The franchisor collects a one-time payable fee, as well as a percentage of sales from the franchisee. As straightforward as it sounds, it doesn't come hasslefree. The founding team's out-of-the-box thinking showed up once again. Instead of charging the likely prohibiting entry fees tagged by foreign rivals, Kudu lowered the down payment and initial investment—while most Western franchises require anywhere between US$1 and 2 million in start-up costs, Kudu averages US$0.5 million, with an equally lower entry fee and share of pretax profits, depending on the choice of module. The company has adopted a variety of choice, with four different shop modules, so as to meet a wider range of budgets. They do single, multiple, and master franchising.

Kudu considers its franchise program a promise to share its passion for quality and customer service. The company provides its franchisees with extensive tools, training, and guidance, readily available (both cloud-based and personal), to help them deliver on Kudu's motto—customer-centered taste and freshness.

Culture and Competitiveness

Culture has played a central role in Kudu's competitive advantage since the early days. Reflecting culture in layout and menus has set the company apart. But talking of culture begs the question: Whose? For instance, in China, consumers view someone who patronizes McDonald's as a distinctly "civilized" person. American diners are not direct competitors to traditional Chinese restaurants, and international franchisors may be more successful by emphasizing the difference and "Westernness" of their product offerings. "Foreign Franchises are much respected here: they enjoy a presence in the local customer's mind, and Kudu learnt a lot from them. The Middle Eastern consumer has always been impressed by foreign brands, choosing them over local ones. So far so good, until the border of the Middle East is crossed," pointed out Yusuf. Unlike the popular saying that goes "when in Rome do as Romans do," the recipe to succeed in franchising suggests the foreign entrant should remain faithful to its identity, and reflect its home culture. "After all, wasn't this what global players did when they came here? Flipping the equation makes it more obvious: Saudis would have hardly accepted a global brand who enters our market with a local kebsa, mandi, jareesh, or any offering of the typical local specialities," claimed Yusuf. Kudu intends to bank on the general belief that the local customer is curious about imported cultures. Unless the foreign entrant brings in different choices relative to local offerings, the franchise is bound to fail. You cannot offer burgers, roasted chicken, pizza, subs, and cold cuts in the home turf of a famous Western QSR. Starting in cosmopolitan Dubai, Kudu has Arabized its menus, turning pizzas into *Manóusheh*, and burgers are made of meat marinated with typical Saudi spices. Not only should the open kitchen convey a Saudi cooking experience, but traditional Middle Eastern aromas also should drive traffic in.

As a matter of fact, Middle Eastern franchises that deviated from the "reflect your local culture" recipe did not take hold in several European markets, and had to close many of their outlets. This outcome was attributed to heavy competition by dependent shops that succeeded in offering original local tastes presented in a Middle Eastern cultural setting. Infamous failures include the case of a UAE eatery that intended to mimic Subway's business model. Other "local undercover" Lebanese franchises that offered international cuisines failed in American and European markets until they radically redesigned their menus to introduce Middle Eastern specialties, and adapted their restaurant layout and environment to convey a traditional Middle Eastern image.

More Challenges and Exit

For the Middle Eastern franchisor, venturing beyond the region came with additional challenges. Notably, the lack of a reliable regulatory framework leaves franchises vulnerable when it comes to the legal and intellectual protection of intangibles, such as local culture. Conversely, foreign jurisdictions provide ample coverage on franchising, so global players have the upper hand on shielding their resources, including intangibles. Yusuf took good note of the weakness of the franchise legal infrastructure and international franchise affiliations in the region, and realized that this has put Middle Eastern businesses at legal risk when expanding abroad by franchising. Indeed, sometimes local entrepreneurs choose to register their brands in the United States, the UK, or France, and come back home as a foreign brand, so as to enjoy better regulatory protection!

Kudu scaled its franchising network at a remarkable pace, yet it soon became apparent that a better balance between home growth and international expansion was needed. At that point, going public emerged as a tentative way forward. However, the founding team was hesitant to give in to the increased disclosure that comes with an IPO. Plus, they certainly wanted to avoid the challenges of fragmented ownership, dilution, and related side effects that would jeopardize its controlling stake. And if they were to give up control, they wanted to secure a premium price an IPO can simply not guarantee. In another lucky twist, as they were struggling to come to an agreement, they were approached by UAE-based Abraaj and American TPG, private equity firms increasingly active in the region, with a buyout proposal hard to turn down. A deal was eventually reached, leaving the founding team with a minority stake in the company. The transaction also left some questions unanswered, particularly whether exiting when at the verge of global success is a wise choice for promising businesses from emerging markets. Recent evidence suggests the answer is likely "yes," as Kudu's choice was replicated in the high-profile buyouts of local online retailer Souk.com by Amazon and ride-hailing Careem by Uber.

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Chapter Eleven

Global International Alternative Modes of Entry for Entrepreneurial Firms

Crystal Lustry: An Entrepreneurial Company's Entry into the World's Biggest and Most Competitive Market

Jay Gronlund and J. Mark Munoz

Learning Objectives

1. *Prerequisites for successful market entry*—to recognize and prioritize the most important requirements for successful penetration, as the basis for deciding whether/how to research and allocate resources.
2. *Internal capabilities*—to realistically examine a company's strengths and vulnerabilities for such an expansion, ideally to leverage certain assets to create a convincing value proposition and to address key limitations.
3. *Entrepreneurial style vs. market needs*—to understand the advantages of quick, intuitive initiatives, matched with the risks and local knowledge one must consider in preparation.
4. *Market potential*—to outline the parameters for an overall assessment of possible sales, which will also define the maximum universe size balanced with a conservative approach that is focused and niche oriented, plus a realistic review of production capabilities, now and ramped-up, for the possibility of extensive volume.
5. *Local partnerships*—to describe clear, realistic criteria for selecting a local partner, cultivating a trustful working relationship, and respecting insights that reflect the local market conditions and business practices.
6. *Penetration and distribution strategy*—with intense competition and limited ways to reach consumers, to determine the key considerations when assessing various distribution channels in light of the resources of a company.

Key Words

Entrepreneurial firm
Global entrepreneurship
Internationalization
International market entry

Abstract

Crystal Lustry is a medium-sized Czech entrepreneurial firm that sought to make a market entry in one of the world's biggest and most competitive market—the United States. Attempting to do business in uncharted territory, the company faced several market entry challenges. In this case, typical internationalization pitfalls of entrepreneurial firms are discussed. Drawing from the lessons, strategies for the success of global entrepreneurs are offered.

Crystal Making—A Rich Heritage

Glass making in the Bohemian region of the Czech Republic started centuries ago. Actually the tradition of craftsmanship in this region goes back to 400 AD, mainly for making jewelry out of metals. The natural resources have contributed to this artistic tradition, with the nearby Jezera Mountains providing rock crystal, sand, and limestone for glass making, plus ample wood supplies for fire and rivers for power.

In the 18th and 19th centuries, Bohemia became the recognized center for the finest glass and crystal in the world. In 1856, the world's first high school for glass making was established here, and then in 1880, Europe's first school for designers of fashion jewelry was started. In 1895, Daniel Swarovski left Bohemia for Austria, where he founded his famous crystal company.

Company Background

Crystal Lustry is a Czech company focused on crystal making. It was established in Jablonec (in northern Bohemia) after World War II, when it absorbed several local glass cutting factories, some with a rich history in this crystal making craft. For example, one local factory had been making crystal chandeliers since 1724.

During the next 45 years, Crystal Lustry built on these age-old traditions and developed innovative glass melting and glass cutting techniques, mainly to create fine crystal for three different product lines: chandeliers, fashion jewelry, and crystal figurines. Crystal Lustry today has worldwide distribution of its fashion jewelry gems, mainly as a component for jewelry making. However, the distribution of its chandeliers and figurines remained concentrated mainly in Europe. In total, there are 11 production plants in the Czech Republic with 5,000 employees in total.

Crystal Lustry started to expand this third line of small crystal figurines in the early 1990s. In 1995, Crystal Lustry selected an importer located in New York, The Blue Star Crystal Company, to build retail distribution of its line of crystal figurines throughout the U.S. Blue Star positioned this Crystal Lustry line as "Lead-Free Crystal Figures" to be more distinctive, assuming that consumers would be attracted to its apparent environmental benefits.

The U.S. Situation

Initial efforts to gain broad distribution in retail jewelry stores and other outlets throughout the United States did not fare well. There was also some confusion about the merits of its positioning as an environmentally safe product. Early in 1999, Crystal Lustry's management started to consider alternative approaches for penetrating the U.S. market with this line of crystal figurines. A New York based consulting firm was hired to assess the overall potential for this business, and to recommend a new strategic direction for establishing a presence here.

This market assessment project concluded that the potential of the general "Gifts and Decorative Accessories" market was huge (total of $47.4 billion at retail prices), certainly large enough to sustain a profitable, niche business. Within this category, the segment of collectables (including figurines) accounted for a healthy 23% of total sales.

The distribution of this gift/accessory industry was very fragmented, however, with most of the sales generated by small specialty (i.e., "Ma and Pa" shops) stores—57%. The next largest distribution channel was via direct response or direct marketing (21%), which offered a more controllable strategic option for Crystal Lustry.

Competition

The main competition for this Crystal Lustry line of figurines was Swarovski, the Austrian based crystal company founded in 1895. Swarovski is a formidable competitor, with an excellent image and reputation for high-quality crystal and distribution throughout the world. This includes both retail outlets and "collectible" membership clubs purchasing crystal figurines via direct marketing solicitations.

The pricing for Swarovski crystal figurines was quite high for most collectibles, but given its widely recognized reputation, not unaffordable for most of these consumers. Generally, the Swarovski crystal figurines were priced about one-third higher than comparable figurines from Crystal Lustry.

The Collectible Consumer

The typical consumer of collectible items generally have two basic passions: a high appreciation for fine, high-quality art (based on their perception) and also a strong interest for a *limited* supply of such art items that will hopefully grow in value in the future. Many of these collectible consumers buy more than one type of product, and almost always display such items in their homes. Importantly, once these consumers are satisfied with their first purchase, they usually want to acquire more items in that particular product line.

The Crystal Lustry Management

The strength of Crystal Lustry has always been as a manufacturer of high-quality crystal products. During the Communist times (1945–1990) Crystal Lustry never had a need to develop its marketing skills since the Soviet Union and nearby East European countries provided a ready market for their crystal products.

The current president of Crystal Lustry, Jaroslav Hejl, took over from his father and founder in 1985. He was 55 and had high ambitions of making Crystal Lustry a global player in the world of crystal. He had two sons who were educated at the University of Buffalo, and were being groomed to eventually manage the business on a broader scale. While his sons had some exposure to different cultures, Jaroslav's management style was still somewhat autocratic, controlling, budget obsessed, and sometimes "hip-shooting," typical of the cold war era when ruthless negotiating and steady manufacturing were key to success.

Jaroslav was very impressed with, even overwhelmed by, the relatively large market potential of the U.S. gifts and accessories category and wanted to dive right into this market immediately. However, the New York based consulting firm convinced him to first prepare a comprehensive market entry assessment that would detail all the positioning, marketing, and local infrastructure needs for such a cross border expansion.

The Market Launch

Jaroslav rejected recommendations to do any kind of research on how these Crystal Lustry figures should be positioned, priced, named, packaged, marketed, and so on. Instead, he relied on the subjective opinions of its new consulting partners in New York. The local team accepted this with the caveat that Crystal Lustry take a step-by-step development approach, with introductory programs to be tested in the market place. However, the enormity of the U.S. market continued to blind such sound advice and Jaroslav rejected this suggestion.

With no money to support a marketing or awareness-building campaign and growing signs that the appeal of collectibles was waning, the New York consultants recommended that these Crystal figurines be positioned mainly as novel gifts with the added benefit of becoming a collectable due to limited production of each type. Only a few unique figurines would be highlighted to provide a clearer focus, and the pricing would be about 20% lower than Swarovsky. Packaging, font style, graphics, and logos were all improved. The limited print advertising would leverage the heritage of this Czech craft, using the headline "Introducing Crystal Lustry—Handcrafted Czech Crystal."

A key component of the market entry recommendation was to discontinue its focus on distributing and supporting sales via retail stores. It simply did not have the resources or know-how to make this distribution channel work for them. Instead, it was recommended to use a more controllable channel, direct marketing, in two ways: free standing inserts (FSI's) in Sunday newspaper supplements in certain regions in the United States and a direct mail campaign offering a catalog and purchase invitation to a select list of consumers of collectible items.

Both methods were measureable and improvements could be made from each campaign. The FSIs would reach a huge audience, so only a small response rate (0.05%) would be enough to generate sufficient revenues. The more targeted direct mailing campaign required a higher response (1.0%) to payout, but this goal was still estimated to be feasible.

What Happened—Market Launch Results

The initial response for both direct marketing campaigns failed to reach their targets. Without any allocation for follow-up research, the New York consulting team could only speculate on the reasons why. Their preliminary conclusions were that:

- The demand for collectables and especially crystal figurines were softer than estimated (declining sales of Swarovsky figurines later confirmed this)

- The medium of FSIs and its audience were not a good match for the high quality, specialty image of these crystal figurines.
- Building an attractive brand identity and awareness takes time, ideally with initial research, small scale testing and continued updating and improving for a gradual roll-out approach.

The reaction by Jaroslav was impulsive. He immediately closed down the warehouse and fulfillment operation in Philadelphia, withdrew all inventory, and fired the New York consulting firm.

Sales of Crystal Lustry figurines continued to soften, reflecting major changes in the retail market, traditional direct sales and distribution channels, and the emergence of online marketing. These crystal figurines were no longer viewed as valuable collectibles, although the Czech heritage and handcrafted features were still popular.

Crystal Lustry decided to reposition its line of crystal products, to take advantage of a growing trend of DIY hand crafting at home. Its line of figurines was reduced to fewer and smaller, related items (e.g., family of cats and other animals) that could be personally arranged and shown on glass platforms. It also introduced a line of crystal glue kits with a variety of crystal beads and tiny figurines for making one's own jewelry—necklaces, bracelets, earrings, rings, and so on.

Its main points of difference from Swarovski remained its centuries-old Bohemian origin, its history for fine crystal making, and its traditional craftsmanship skills.

Case Overview

This international expansion experience is typical for many foreign entrepreneurial companies from smaller markets abroad. Entrepreneurship plays an important role in the internationalization process (Jones, 1999). Entrepreneurs recognize the enormous size of the U.S. market, and even though they may just try to carve out a niche, the challenges and difficulties for gaining market penetration and awareness/trial can still be daunting, even overwhelming. For the student who might consider a cross-border expansion sometime, there are several lessons to be learned from this case study—for example, careful preparation, transparent and trusted collaboration with local partners, making "baby steps" into the market, conducting in-market research, testing critical issues, contingency planning, and patience.

Relevant Courses

This Crystal Lustry case study offers important lessons for almost any kind of business development theme, especially for entrepreneurs and those interested in global expansion. In particular, it is highly relevant for a foreign small firm trying to establish a foothold in the U.S. market. The experiences of Crystal Lustry would be appropriate material for college and graduate students who are studying entrepreneurship, international business, global marketing, and/or strategic planning.

Data Sources

Information was obtained from the Crystal Lustry company, based in the Czech Republic. The company was a former client of one of the authors. While all the facts are accurate, the real name of the company has been changed for confidentiality and privacy purposes.

Analysis

This case involves a relatively small company with an outdated "cold war" mentality for business (e.g. not market driven). It was initially overwhelmed with the magnitude of the possible opportunities, yet not realistic nor diligent about determining what the true prerequisites for success for U.S. penetration actually are. The overall lesson is that good research, testing, an open mind, and constant learning and adapting are critical for improving the chances for eventual success.

Discussion Questions

1. What are the key assumptions behind foreign market potential assessment? On a macro level, the total sales volume of these categories ($10.5 billion for collectables) and distribution channels ($2.3 billion via direct response) are overpowering, especially compared to the market size in most other countries. On the other hand, this category is extremely complicated and fragmented by distribution channel, product type, retail outlet, competition, consumer tastes, geography, and so on. In light of the limited resources of Crystal Lustry, there are several critical assumptions that must be clearly defined to arrive at a realistic projection of achievable sales volume and how such a market niche should be developed. Internationalization is firm's external move toward foreign shores (Welch & Luostarinen, 1988). It often refers to income generation or operational expansion outside of the company's domestic market (Elango, 2004). Identifying which markets are suitable and the appropriate way to enter those markets are key internationalization considerations (Johanson & Vahlne, 1990). In this case, a well-conceived market potential assessment is critical.
2. As a niche player, how should Crystal Lustry be positioned? Good positioning should always start with a valid analysis of the target customer and what she or he is looking for in a collectable and/or gift. For such a product, there is no functional benefit, only emotional or experiential. It is important for Crystal Lustry to differentiate themselves and ask questions such as, (1) How should such relevant benefits be defined, in response to the customer needs and that is different from competition (e.g., Swarovski)? (2) What kind of product features or company attributes should be highlighted to make this emotional benefit/promise more credible? and (3) What would be the personality of the ideal brand? Guillen and Garcia-Canal (2009) noted the importance of ethnic branding and taking note of popular brand types in foreign locations. Tapping into a niche in foreign markets can provide a competitive advantage (Hamel & Prahalad, 1985). In Crystal Lustry's efforts toward global entrepreneurship in foreign markets, finding the right niche market and product differentiator is key.
3. With limited resources, what kind of research should be conducted? A true entrepreneur is usually resourceful, risk-taking, and smart (Morris & Kuratko, 2001). However, he/she should be prudent enough to know that your "gut" can often be wrong, especially when entering a foreign market, but is also savvy enough to get feedback that is cost effective and at least directional and representative. Research should be issue driven too. Global entrepreneurs need to ask themselves—what are the most profound ques-

tions that must be researched and how can they be found? In the case of Crystal Lustry, how could accurate information on users or potential consumers of crystal figurines as well as the industry be best acquired? The proper acquisition of research information helps define which markets are best for entry and expansion (Barkema, Bell, & Pennings, 1996). Global entrepreneurial firms need to leverage limited resources to acquire the best possible information when making a foreign market entry.

4. What should global entrepreneurial firms consider when reviewing possible distribution channels? Gaining adequate distribution and/or being able to reach consumers directly will make or break a market entry launch. It is often difficult and complicated. Local adaptation is often necessary (Plunley, 2000). The extent to which local conditions are favorable such as law and order, infrastructure, tax, exchange rates, and similar factors encourages firm internationalization and investment (Kuemmerle, 1999). There are several distribution options to consider, all requiring some kind of local presence, whether this is with a special office in the United States, a partnership, or using some kind of sales brokership or distributorship. There are pros and cons for each approach, and all options require the investment in time, manpower, and funding. Getting distribution right is critical for global entrepreneurial firms. Enhancement in distribution systems boosts internationalization (McDougall & Oviatt, 2000).
5. With these lessons, how should global entrepreneurs approach this market entry? The Crystal Lustry case suggests that global entrepreneurs need to take a hard look at themselves when contemplating foreign market entry. They should fully understand their strengths and weaknesses. Global entrepreneurial firms have to diagnose the potential of their product lines, define key issues, research and test issues, and finally come up with a comprehensive market entry plan with contingency options. There are specific ways firms can heighten chances of foreign market entry success. For instance, networks can facilitate international market entry (Lechner & Dowling, 2003). Companies with trustworthy contacts on-ground benefit from support in their business development efforts. Mode of market entry is an important strategic decision for internationalizing firms (Shane, 1994), and should be given due attention and extensive deliberation. A well-planned entry can make a big difference. Companies that make sequential market entry tend to do better than those that enter markets in an unplanned or unsystematic manner (Barkema et al., 1996). Foreign-based entrepreneurial firms contemplating on entering the U.S. market, which is among the biggest and most competitive, should be prepared to engage in a long-term, all-out commercial war and not a short business battle.

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Relevant Videos

Czech Business Etiquette:
https://www.youtube.com/watch?v=Dc9B6Q_CUhc

Chemistry Experiment: Making Crystals:
https://www.youtube.com/watch?v=71bvKydh5gk

Welcome to Czech Republic:
https://www.youtube.com/watch?v=CUnN8WwYF0U

10 FACTS ABOUT CZECH REPUBLIC | GoFacts:
https://www.youtube.com/watch?v=8LvF7R8WCYE

Fuel Jet Pro's Market Entry Strategy for China[1]

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Learning Objectives

1. *Explain* the benefits and risks of alternative forms of direct market entry.
2. *Discuss* the basic strengths and weaknesses of joint ventures and direct foreign investment using evidence from the case.
3. *Assess* and quantify the sources of risk in the alternative foreign market entry strategies.
4. *Describe* procedures and processes that a firm can use to maintain unity during a potentially divisive decision process.
5. *Evaluate* potential economic gains from alternative entry strategies.

Key Words

Market entry strategy
Equity joint venture
Foreign direct investment
Country risks
MNC

Abstract

Fuel Jet Pro (FJP) is a U.S.-based designer and manufacturer of automotive fuel injection systems. Like many firms in the auto industry, they have seen the growth of the China auto market but have been slow to enter it. FJP's managers are divided as to whether it is still worth trying to enter China and if so, of two entry strategies that they should pursue. The first alternative was to develop a joint venture with a Chinese firm, the second was to build and operate their own factory in China. If FJP decides to have a local presence in China, they want one that can help them compete in China and worldwide.

1. Portions of this case have been doctored to protect the proprietary interests of the involved firms.

The Dilemma

Fuel Jet Pro, Inc. (FJP) is a designer and manufacturer of automotive fuel injection systems. FJP's primary business has been in specialty high-performance fuel injectors. The need to become global has become increasingly clear to FJP, and in autos, that meant being in China. Since 2009, China has been the world's largest automotive manufacturer and market (Wong, 2020). While FJP was cautious and missed an earlier window to enter China, it is clear to FJP management that they can no longer remain competitive and ignore China. The China market represents two distinct opportunities: local sales to an increasing Chinese consumer market, and exports from China to other countries.

FJP needed to explore three clear alternatives. The first alternative was to not enter China but try to supply China and the world from its U.S. base. The second was to develop a joint venture with a Chinese firm. The third is to establish a Wholly Owned Foreign Enterprise (WOFE) in China to build and operate their own factory. When the management team began to discuss these alternatives, it was clear that FJP's managers did not agree on a common strategy.

One group, that included an outside consultant argued strongly for an equity joint venture. A joint venture required FJP to raise less than half the equity it would need to operate independently, and a Chinese partner could help defend the company's intellectual property (IP).

Some FJP executives disagreed. One executive was concerned that FJP might be creating a competitor. After all, the Chinese could opt out of the venture in 5 years and leave with a thorough knowledge of FJP's products and processes. Further, they could begin exporting to the United States, Europe, and Japan, giving FJP a real run for their money. The research and development group were the most adamant in their opposition to the joint venture. They held concerns that China would not honor FJP's intellectual property. The patented technologies and trade secrets could easily spill over to other Chinese firms. The research and development group proposed that FJP should build its own factory, hire, and train Chinese workers to staff it. However, some managers including the outside consultant, are skeptical.

Is it worth entering China, or could they just export from the States? If so, what entry strategy should FJP choose? Since the management team is divided, how should the CEO unite the management team behind the decided entry strategy?

Company Background and Structure

As their name implies, FJP's product injects gas into a cylinder where it is ignited by a spark to drive pistons. Their products have been used in high-end specialty vehicles (e.g., prototype alternative energy concept cars and luxury autos). The domestic injector market was changing rapidly. Biodiesel and ethanol had given FJP an entirely new set of competitors.

Fuel Jet Pro began operations in the mid-1980s. The U.S. auto industry was under considerable pressure from the Environmental Protection Agency (EPA) to reduce emissions. Controlling fuel–air mix with injectors helped greatly in that process. While fuel injectors had been around for decades, the German firm Bosch introduced electronically controlled injectors in 1982. These new controls systems allowed for more sophisticated controls.

FJP began linking injectors to an auto's onboard computer system, radically increasing their intelligence. At first, only luxury cars could justify onboard computer systems; as the market matured, even the smallest cars used them. As the technology evolved, injection systems for small cars became a commodity product; to compete, suppliers needed to have the lowest price. As a smaller player in a large market, FJP focused on affluent users in the United States and Europe.

By 2020, the luxury market had evolved into a three-tiered market. At the lower end, autos from $45,000 to $70,000 had become more standardized, with few opportunities to make above-normal profits. High-end carmakers were working hard to differentiate their cars in one of two ways. One group developed high-end luxury cars that essentially included "all the options," they were a good opportunity for FJP who produced a high-quality product with value pricing. More recently, a newer and more profitable segment had emerged, custom and prototype cars.

In California, a large number of firms emerged that customized cars to specific customer needs.

These custom cars were more than just redecorated autos; they often had chassis from one car, with engines from another and custom interior and exterior features. The small volume, high-priced custom market was a near perfect fit with FJP's expertise.

Elsewhere, car designers were feeling pressure to improve fuel economy and environmental performance. One approach was the creation of all-electric cars. These had made some in-roads, but the glut of oil on the world markets was keeping fuel prices at the pump very affordable. Even hybrid cars required injectors.

At the same time, a new alternative fuels industry was developing. The fuels included ethanol-based systems like E-85 and biodiesel systems. Biodiesel was particularly interesting to FJP. Makers were efficiently brewing ethanol from sugar beets and blending with oils ranging from used frying oil from fast food chains to corn and soybean oils. The resulting fuel was environmentally friendly and renewable but required better injection technology. The Europeans had developed ultra clean biofuels that were starting to become attractive to China, giving European brands higher name recognition. Car designers were ordering multiple configurations of expensive injector systems to text new fuels.

The Structure of the China Market

Like most auto suppliers, FJP was keenly aware of developments in China. The rising Chinese middle class had grown to over 400 million people. These consumers wanted to demonstrate their new status by driving autos rather than using mass transit. To be price competitive, the bulk of these cars needed to be built in China.

At the time, some experts felt that the peak growth period may be over. China had reduced subsidies for auto sales, adding to the cost of car ownership. In 2018–2019, automakers saw 13 straight months of year-over-year declines in local sales (though some firms made up for this by exporting from China). Later entrants with falling vehicle sales foreshadowed industry consolidation, as smaller firms merged to survive.

This 2019 decline was followed by the Wuhan COVID-19 outbreak that essentially shut down the country. While China was one of the first countries to return to work, the pandemic had significantly lowered growth expectations.

Despite these trends, FJP execs saw opportunities. The rising upper class of the China market represented a potential 10 million advanced cars. Further, China needed to move to renewable resources and make a dent in their serious air pollution problems; they were going to want advanced injection systems in their cars.

FJP understood that there was a growing economic nationalism in China and the United States; Chinese consumers wanted to buy advanced products from Chinese firms. This makes supplying China from the outside or through a WFOE less realistic or effective. Further, the 2019 mini-trade war with China had dampened economic growth (Yu, 2020). There was growing political support for a "made in China" movement. Taken together, these forces required a product that was made by Chinese, either through a venture or a local manufacturing site.

After reviewing market opportunities with their consultant, FJPs management team had become enamored with the Chinese markets. While the market had slowed, China's growth rate was still higher than that of the United States, which was essentially flat. They were also concerned that their European competitors would gain a permanent advantage in Asia if FJP could not establish a presence. As a result of the trade imbalance, many Chinese businesses were sitting on large sums of U.S. dollars that they needed to spend or invest. Since the Chinese were looking for investment opportunities, it would be relatively easy to find capital.

There were other benefits as well: the joint venture would give them local partners who understood the China market, and more importantly, who had relationships with Chinese political leaders at the local and regional levels. No one understood the Chinese market as well as the Chinese; having local partners met that they would have access to local opinions when it came time to create the next generation of products. The joint venture was also time-efficient with projections of getting products to market within a year.

A subgroup of the management team argued passionately for FJP to open its own manufacturing plant in China using a WFOE. Though often expensive to establish, WFOEs offered some unique advantages. While still having to adhere to local law, WFOEs minimized interference from local investors and gave greater control of HR decisions. WFOEs were also easier to terminate than a joint venture, which pleased some managers who saw FJP's late entry as overly risky. Once a WFOE was established and licensed, FJP would still need to find land, hire a contractor, build a factory and hire and train workers. The most optimistic person on the team suggested this could be done in 18 to 24 months; the most pessimistic said 36 to 42 months.

Intellectual Property and China

China is responsible for the largest amount of theft of intellectual property in the world. While distrust of rule of law in China is common, the Chinese Communist Party, which unitarily rules China, has made becoming the world's leader in manufacturing a top priority. FJP is currently a leader in its technology, but the frontier is constantly expanding, and Chinese competitors are quickly catching up.

There are differences of opinion in FJP on how to handle the protection of FJP intellectual property. Some managers and the outside consultant believe in a more nuanced view of intellectual property protection in China. This group believed FJP would be in a stronger position to protect its IP by building a meaningful and trusting relationship with a strong Chinese partner. The Chinese partner would not only understand the Chinese system but have the all-important relationships for doing business in China. That partner would be better positioned than FJP would be alone to defend their common IP interests in a competitive and seemingly opaque Chinese system.

The opposing group presents a more conventional and hard line view. For them, it is clear that the Chinese Community Party's strategy of China becoming the global number one in manufacturing is a nationalistic one. They are deeply skeptical that they will find a partner whom they can trust to put the company's interest ahead of the Chinese one. Accordingly, they strongly support the WFOE approach, which offers better IP protection than exporting with no local presence at all.

The shifting state of the global economy and the unclear future of how the market for fossil fueled, biofueled, and electric vehicles will evolve complicated FJP's decision making. Given this information and the challenges of the China market, FJP's team set a deadline to make their decision: Enter China via a joint venture, enter as a foreign enterprise, or export and give up on the idea of a local presence in the China market.

Discussion Questions

1. What factors should Fuel Jet Pro consider in making this decision?
2. What are the potential benefits and risks of building and operating their own production facility?
3. What are the benefits and risks of developing a joint venture?
4. Based on your analysis, which entry strategy should FJP choose?
5. Since the management team is divided, how should the CEO unite the management team behind the decided entry strategy?

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Relevant Videos

Electronic Fuel Injection System Working:
https://www.youtube.com/watch?v=xG1w3l41lmQ

20 Tips on Chinese Culture for Successful Business:
https://www.youtube.com/watch?v=H6g7tUcoF3I

China was top destination for foreign direct investment last year, topping U.S.:
https://www.youtube.com/watch?v=41uQkOrV3jI

Part Three

Area Studies

Chapter Twelve

Entrepreneurship and Security: The State of Entrepreneurship in Eastern Europe

The Early Days of "Perestroika": First-Hand Impressions[1]

Dianne H. B. Welsh

Learning Objectives

1. *Evaluate* the economic, social and political issues around a major change in government.
2. *Analyze* the leadership style present during the time of Perestroika.
3. *Evaluate* how international entrepreneurship played a role in the change of government.

Key Words

Economy
Revolution
Soviet Union

Abstract

This case describes the early days of the economic and social revolution in the former Soviet Union. The Soviet economy was in desperate need of stimulation when Mikhail Gorbachev outlined his blueprint for Perestroika in June of 1987. He described it as "a radical reform of economic management." In terms of international management, Perestroika's notion of cooperatives and factory independence are of particular interest. As an alternative to the rigid and cumbersome giant called the state system, private-sector, cooperatives were allowed to flourish. The reason behind this move included the need to further the competition that existed, increase entrepreneurship, and most of all, to increase services to increasingly disgruntled consumers. The case has implications for other emerging economies that time has shown repeat the same scenario.

Background

The Soviet economy was in desperate need of stimulation when Mikhail Gorbachev outlined his blueprint for Perestroika in June of 1987. He described it as "a radical reform of economic management." Mr. Gorbachev first used three slogans to characterize his reform plans: Uskorenie, Perestroika, and Glasnost. Perestroika, which means restructuring, and Glasnost, defined as openness, are now known to everyone. Uskorenie, which means acceleration, was dropped as it became increasingly evident it was impossible to accomplish. When Gorbachev began to change the Soviet Union thirty-five years ago, his changes were aimed mechanical, monetary, and political changes. However, in a short period of time

1. This case was especially prepared for this book by Dianne H.B. Welsh, University of North Carolina at Greensboro

he realized that the Soviet framework could not be improved and required Perestroika, something more than chance. Generally, he attempted to open the political and financial divisions to development while keeping the decision system intact. In this manner, he implemented some controlled political advancement, a few media opportunities, called Glasnost, some constrained monetary opportunities, and the "new reasoning," or another way to deal with external relations. These means were sometimes conflicting. These logical inconsistencies, in the end, ultimately led the USSR to self-destruct (Minakov, 2020). The soviet leader's goal was to stimulate the economy through dramatic restructuring. This goal was translated into specific new directives in agriculture, alcohol consumption, banking, cooperatives, factory independence, foreign trade, and prices.

How this new Soviet system of Perestroika began can be characterized by first-hand impressions at the Leningrad airport. After the plane touched down about a mile outside the terminal, visitors were taxied by bus where uniformed officers escorted them into well-formed lines to await customs agents. This one and one-half hour process gave one plenty of time to observe the surroundings. Cameras were perched from all corners. The light marble parquet floor with black dividers looked very dull. The woman mopping it had only dirty water in her bucket. It seemed that the country had been out of any kind of soap for over six months. On the other side of the customs check was the luggage conveyor. The belt was badly worn and was missing parts. The luggage conveyor was much like the cars on the roads, in bad disrepair with bald tires. One or two suitcases appeared from behind the door in ten-minute intervals. After the tour group retrieved their luggage, they were directed into another line to declare possessions, and then they waited for an Intourist (USSR Official Tourist Agency) bus to take them to a hotel. Upon reaching the hotel, four hours had lapsed since the landing.

Much like the tourists' arrival just described, Perestroika's progress moved very slow and clumsily in the Soviet economy. For instance, purchasers had to wait four to five years in advance to buy an automobile. The purchase price was equivalent to more than one and one-half times the annual salary of the average worker. Banks would not loan money for the purchase of a car. The major car manufacturer Lada produced 1,700,000 cars per year, far short of the demand. Used cars were often sold at a much higher price than that of new ones because of availability.

Although In tourist profits were phenomenal, practically no service orientation existed. Since all foreigners had to book arrangements through them, choices rarely existed. Tourists were sold tickets to ballets, plays, operas, or museums primarily on a first-come, first-serve basis. Guides were quick to learn to take whatever was available with no questions asked, otherwise they were likely to have to entertain their flock of tourists themselves for the day or be stuck in the hotel room. Favorite Soviet words seemed to be "impossible" and "never."

Perestroika and Glasnost led to the largest political changes of the twentieth century, changes that introduced a period of significant, authentic change. In Eastern Europe, this led to crucial changes in the connection between the state, society, and the person. Mikhail Gorbachev's changes were intended to handle the difficulties of a deteriorating Soviet economy and society. The unintended outcomes led to the fall of the Soviet Union and caused, in Vladimir Putin's opinion, the "best geopolitical calamity of the twentieth century"(Tikhomirov, Geschichtswissenschaft, & Bielefeld, 2020). Others around the world see it as just the opposite.

In terms of international management, Perestroika's notion of cooperatives and factory independence are of particular interest. As an alternative to the rigid and cumbersome giant called the state system, private-sector cooperatives were allowed to flourish. The reason behind this move included the need to further the competition that existed, increase entrepreneurship, and most of all, to increase services to increasingly disgruntled consumers. Demand for services was constantly growing. The sale of consumer goods such as household appliances, clothing, and shoes was increasing. Although the availability of services more than tripled in the last 15 years, with the number of enterprises providing services nearing the 300,000 mark, supply still lagged far behind demand.

Far too many people were employed in factories and on farms, and not nearly enough in services. Perestroika had to somehow shift millions of people from overmanned factories into its underdeveloped service industries. The managers of factories had traditionally focused on maximizing output, rather than maximizing profit. The more they produced, the more the system rewarded them by a bigger bonus, even if it involved using inputs (such as materials and labor) unprofitably. Labor was cheap and the factories tended to hoard labor. Extra workers were needed for "storming" periods at the end of the month or year when there was a rush to meet target plans. Soviet managers were well aware that they would be rewarded on the tonnage of tractors produced rather than on the number or quality of those produced. In reality, many plant managers and their employees actually preferred the old system, because it guaranteed superfluous jobs, rewarded inefficiency, and held no one personally accountable.

The 1987 Law on State Enterprise was aimed at giving factories more independence. Although the law has since then reimposed state control on some food and household items, especially those needed by children and pensioners, factory managers under Perestroika were allowed considerably greater control over production and wages, thereby reducing state bureaucratic power and control. Under the old system, all factories received specific orders from the government central planners. Under the new system, state orders were used only for key industrial products. Factories producing other goods, especially consumer items, were increasingly allowed to make their own decisions regarding what to produce and where to sell it. However, two important links were missing from the law. One was a price mechanism that reflected the real demand for goods so managers would have an idea what to produce and in what quantity to satisfy customers. The other missing link was that the new law failed to put an end to state control over the supply of raw materials.

The Law of State Enterprise decentralized control by introducing a measure of worker self-management. This followed the Leninist philosophy of power in the hands of the people. Workers were given the right to elect their managers and had a say in the way their firms spent the money they earned. By the late 1980s, the USSR State Committee on Statistics reported that one out of every five directors and one out of every ten managers had been elected by the workforce instead of appointed from above. About the same time, the first report of the recently founded Center for the Study of Public Opinion was published. The findings of a survey of managers and workers found that 20 percent of the workers and 35 percent of the "business executives" responded negatively to the idea of electing managers. The main argument against electing managers was that the principle of one-person management (unity of command) would be violated, and that managers could be replaced without sufficient grounds. This was felt to have an adverse impact on discipline, labor productivity, and pay. Between 65 and 80 percent of the respondents said there was a real danger of "replacing a serious matter with playing at democracy."

Years of educating people in one ideology certainly did not give way to the development of new thinking overnight. The ever-widening democratization in the political sphere did have a considerable effect on the activities of all managers. For example, managers had to be taught participative forms of supervision to adjust to this change. Yet not only managers had to be retrained—but workers also had to be oriented to this new way of thinking. Democratization of the workplace was believed to be permanent. A recent survey conducted by the Institute of World Economy and International Relations of the Academy of Sciences showed that 60 percent of the top executives of 1,000 large Soviet enterprises believe that in the future their enterprises must function solely as public corporations. Perestroika demanded a new type of manager for this political and economic thinking—energetic, entrepreneurial, and democratic.

The Soviet developed a multidimensional strategy for providing this badly needed management development. It included education abroad, executive education programs, and private management-consulting firms. At the elite level was the Academy of the National Economy, founded in 1978 in Moscow. It had two objectives. The first was to upgrade existing top managers. Five hundred managers a year went through three months of coursework. The greater objective was to train future managers. This involved 100 candidates a year on a two-year, four-term postgraduate course. Most of those going through this course were about 40 years old and served as senior managers or engineers, heads of departments from national ministries, or deputy ministers from Republic ministries. Probably nine out of ten Soviet Managers today are graduate engineers with a few gaining an added administrative qualification. The professionals who formed the new thinking about Perestroika and Glasnost have been studied by sociologist Robert D. English (Christensen, 2020).

According to the head of the Academy of the National Economy, Yevgeni K. Smirnitski, the Academy conducted an intense program that included seminars, role playing, computer gaming, and private consultation with economic reformers. Much of this training was open to the press and was charged with heated debates. Participants were urged to speak openly about their concerns, including the top-down changes that were being enacted. A popular topic for discussion was how to balance workers' demands for higher wages and benefits against increased pressure from government to operate the plant profitably. Other topics included: decentralized planning, participatory management, property rights, international trade, economic theory, computer technology, and scientific management.

A survey conducted by the Institute of World Economy asked 1,000 Soviet managers to list, in order of importance, their greatest training needs. More than 30 percent answered human resources management. Other responses included essentials of western management (23%), international marketing (17%), and accounting and finance (15%). The survey reflected the urgent need to activate the human factor by concentrating on the management of the human side of Soviet organizations.

On the manager as well as the worker level, Gorbachev's Perestroika introduced a wide range of financial incentives as motivators. These included piece-rate incentives, lump-sum payments, and group incentives—all tied to the productivity gains. Both Khrushchev and Brezhnev had tried to introduce such incentives into the Soviet economy. However, incentive payments were of little value to managers and workers because no high quality, desirable, goods were available on which to spend this extra money. Gorbachev was the first leader in Soviet history to recognize the importance that high-quality consumer goods and services could have as a driving force of economic reform. Unfortunately, the reforms led to improvements in quantity, but not quality, of Soviet goods and services. Some analysts forecasted that there would be a short-term decrease in industrial output because of trying to improve product quality. At the organizational level (in both manufacturing and service industries), job enrichment and additional worker training were badly needed to enhance the level of quality.

The Soviet managers under Perestroika tended to be pragmatic, nonideological, and ambitious. Many did not remember World War II, and they were small when Joseph Stalin died, so they did not directly experience frighteningly oppressive political and economic conditions. Young Soviets wanted a better lifestyle. They were aware of Western consumerism and lifestyles and they liked it. As a result, the Soviet value system began changing. Gorbachev's reforms were based on offering incentives to feed these new values. A restructuring of socialism was off and running, not just a transformation into a for-profit economic system. Personal responsibility for the USSR's progress had to involve all its citizens. Freedom per se was not the topic at hand—but economic independence. Such independence could only be attained through planned management of the human side of society in general and organizations. This was deemed to have the ultimate effect on the bottom-line results of Perestroika.

Is Mikhail Gorbachev the reason for the downfall of Soviet Union? Mikhail Gorbachev is the figure that clarified the breakdown of the Soviet Union and the finish of the Cold War. However, it is worth analyzing whether the breakdown would have happened had Gorbachev not been General Secretary of the Communist Party of the Soviet Union (CPSU), in the leadership position to influence radical change (Negroponte, 2019). Basic factors that gradually weakened the Soviet Union, just as four significant choices that Gorbachev personally made with honorable objectives, led to negative consequences.

First, the Soviet economy had stagnated for many years. The monetary structure required that 60% of capital investment support the production of fuel and raw materials, 20% dedicated to the military, which left only 20% for business development and consumer goods (Negroponte, 2019). Second, the Soviets had consistently dreaded the predominance of U.S. military innovation and atomic weapon frameworks. In 1981, President Reagan's decision to fabricate a ballistic missile destroying rocket framework, known as Star Wars, exacerbated this dread and significantly increased the Soviet expense of keeping up with the new U.S. weapon framework (Negroponte, 2019). Third, patriotism in Eastern Europe and the USSR itself had gotten progressively skeptical, losing their ideological fearlessness (Negroponte, 2019). Fourth, Soviet distributions of assets into Eastern Europe and the Trans-Caucuses led to increasingly higher expenses, as Soviet military spending and money invested in inefficient production lines redirected financial reserves that could be spent at home (Negroponte, 2019).

Discussion Questions

1. What is the present status of Gorbachev's Perestroika? How would you describe his leadership approach? What lessons could be learned from Perestroika in managing a modern MNC?
2. As a Soviet manager, how would you communicate to workers the importance of product quality? Which should come first, the production of world-class consumer goods or the use of high-quality consumer goods, to encourage the production of improved-quality Soviet products?
3. What incentives might motivate Soviet employees in addition to financial ones? Would there be differences for managers and workers?
4. From the information in the case, how would you evaluate the way that the Soviets developed their managers under Perestroika? Based on their stated needs and what you think they currently need, what would be the content of an ideal training program?

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Relevant Videos

Glasnost and Perestroika:
https://www.youtube.com/watch?v=S9XtYPy4kM8

The Fall Of The Soviet Union:
https://www.youtube.com/watch?v=zadkWw702_M

NM2201 Russian Business Etiquette:
https://www.youtube.com/watch?v=0lduIIe5r9Y

Russian Business Culture:
https://www.youtube.com/watch?v=zFCxjST0vtw

Doing business in Russia: What business leaders need to know?:
https://www.youtube.com/watch?v=gD0GYyF6Szg

A ROMANIAN ENTREPRENEUR'S SUCCESS—FLORIN TALPES—ON THE HYPERCOMPETITIVE CYBER SECURITY GLOBAL MARKET

Mariana Dragusin and Raluca Mariana Grosu
The Bucharest University of Economic Studies, Romania

Learning Objectives

1. To understand and identify the main challenges that an entrepreneur must face when going global with his company.
2. To understand the entrepreneurial opportunities associated with the fast-growing cybersecurity global market.
3. To understand and identify the additional barriers to overcome by an entrepreneur with a centralized economy background/education.
4. To identify capital competencies corresponding to an entrepreneurial mindset.
5. To understand and identify types of entrepreneurial strategies used by the entrepreneur in the case study.

Key Words

Global entrepreneur
Entrepreneurial opportunity
Intellectual property rights protection
Worldwide distribution channels
Resource-Based Theory (RBT)
Cyber security global market
Antivirus software
Rebranding
Industrial Organization (IO)

Abstract

Targeting the global cybermarket is a very ambitious and courageous goal for an entrepreneur, especially when coming from a former communist country. Becoming one of the top five leaders of such a dynamic market might seem an unrealistic dream, but it was one that came true for the Romanian visionary entrepreneur Florin Talpes. The case briefly reveals his inspiring story: the transformation of a talented math teacher and researcher, from a former centralized economy country, with no business knowledge, nor programming background, into a well-known successful high-tech entrepreneur.

Dilemma

According to the PwC Central and Eastern Europe's Private Business Survey 2019, Romanian entrepreneurs are the most advanced in the use of digital technologies compared to other countries in Central and Eastern Europe (Barbu, 2019). After decades of extreme Communist regime and centralized economy, the Romanian revolution, at the end of 1989, opened unexpected new horizons. It was a tipping point for Florin Talpes and his wife, two mathematicians with a prior relatively short work experience as teachers and then dedicated researchers at the Bucharest Central Institute of Informatics, who decided to follow a different professional path, only one month after the historic event. Confident in their expertise, they quit their stable jobs to take the path of entrepreneurship, an uncertain and unknown one for them, at the time. Mariuca Talpes, cofounder of Bitdefender and CEO of Intuitext, currently is working on an ambitious plan to help education in Romania make a gigantic leap in the next 15 years (Mailat, 2019).

The story of the first small company, set up with other colleagues, was short lived. After only 6 months the couple founded Softwin (name inspired by their twin children), a company specialized in developing IT services and solutions, and got their first project with a French company, by pure chance (Dirtu & Rosca, 2014). The expansion on the French, German, and Swiss IT rising markets brought their firm not only new opportunities but a major challenge too: that of the delivered floppy disks infested with unknown viruses, from Bulgaria. The "answer" was the development of the company's first antivirus, called Antivirus eXpert, "attached" to the ordered by clients' software.

It was mid-1990 and on a nascent cybersecurity market, the main "star" was the American frequently updatable Norton Antivirus. It took one year to Florin Talpes to realize that shifting the company's focus from software and outsourcing toward security solutions is necessary, in compliance with an emerging major market trend. The change was accompanied by supporting actions, at different levels of the organization. One of the actions was to "build" improved versions of antivirus, under the name AVX, able of self-updating, scanning, and monitoring of all downloaded by the user files. AVX became the first antivirus product with personal firewall features included and solutions for all instant message applications. Another important "move" was the purchase of the "avx.com" online domain, in order to penetrate the U.S. market. Owning that online domain was considered enough to cover the intellectual property rights. Shortly after launching the 6th generation of AVX antivirus—a copyright protected product, the company was warned of trademark infringement by a large American electronic components company. The high costs following the law suit forced Mr. Talpes to give up all his claims. He realized that adequate intellectual property protection across borders is crucial for his business.

The "lesson" learned "pushed" him to operate a major shift of the original business model. This is how Bitdefender became the Softwin's spin-off, dedicated to developing advanced solutions for cybersecurity and grew along with its fast-paced market. The new venture's main product, actually the rebranded and improved antivirus—Bitdefender—reached the market in 2001. Not the best timing considering the global ".com" bubble crash (2000-2002). However, the new company managed to slowly become present on important markets, the United States, Japan, and Australia included, using worldwide distribution channels. A growing team of creative and dedicated IT pioneers continuously and carefully improved and diversified the company's products, for all the targeted segments: end consumers (family included), businesses, and specialists in the field. Florin Talpes's firm launched the first commercial antivirus for the server version of Linux Samba 3 (2003), the antispam technology (2004) and introduced the HiVE technology (2005) and Active Virus Control (2009), to name only a few older examples. Another solution offered by the company for data center security is the Bitdefender Hypervisor Introspection (HVI), in partnership with Citrix. It uniquely fortifies datacenter infrastructure against zero-day, kernel-level exploits and other advanced targeted attack techniques through live memory introspection at the hypervisor level (Jackson, 2019).

But in order to reach over 500 million users all over the world (Bitdefender, 2020), as of 2020, to be ranked among the first three global vendors of Windows antimalware application (Williams, 2020), or to get in 2019, for the fourth time the highest prize "Product of the Year" for having reached the Advanced+ level in all seven tests, a prize awarded by the most renowned testing platform (AV-Comparatives, 2020), "exceptional, innovative products" are not enough! They had to be backed by exceptional, effective, and interrelated strategies in all functional business areas—human resources, research and development, selling, marketing, legal, and financial—developed and refined in each stage of the business.

Florin Talpes was always aware that attracting and keeping experts is essential for a business, acting in a hypercompetitive environment. In an industry where top IT specialists are rare and in a country with high "brain drain" to more advanced economies, retaining the best people is a real challenge. The team at Bitdefender has been formed by meticulously selecting Romanian and foreign professionals of different ages. Florin Talpes is attentively investing in his team members' professional and personal development. The human resource department is considered one of the core ones, with complex responsibilities, in recruiting, motivating, and stimulating employees to be innovative and in creating a friendly environment for them.

One of the most difficult tasks for Florin Talpes as entrepreneur was to find the appropriate legal, marketing, and selling experts, in a country with a history of over 40 years of centralized economy, in which most of the related concepts were unknown. Finally, the company targeted directly the U.S. pool of specialists, highly skilled in those domains. In the recent years, the marketing and selling activities have been gradually relocated to Romania, along with the development of national specialists. They are all responsible for the intricate transactions all over the world, since 95% of the company today's activity is oriented toward the international market.

Last but not least, the visionary entrepreneur—Florin Talpes—is also giving back to the community he belongs to, through involvement in meaningful educational and corporate social responsibility programs. Bitdefender has offered free security solutions to over 16,000 NGOs in 106 countries, and in 2020, to all health care organizations worldwide to support their efforts against COVID-19 pandemic (Vasiliu, 2020). In the future, the worldwide big data market is projected to grow from $42 billion (2018) to $103 billion (2027). This indicates that cybersecurity defense systems need to become more sophisticated in order to cope with high amounts of data. Having notified the market against security dangers for near two decades, Bitdefender's future direction and objective are basic: to give amazing assurance in terms of quality in the regularly risky and new world of the Internet (Jackson, 2019).

Discussion Questions

1. Is cybersecurity a viable area for business in the 21st century? Why or why not?
2. What are the main challenges that a company has to face when going global? Are there, in your perception, additional drawbacks for an entrepreneur from a former centralized economy country?
3. What were the psychological capital competencies that contributed to the development of Florin Talpes's global mindset?
4. What specific elements of the "industry organization type" approach and that of the "resource-based theory (RBT)," to entrepreneurial strategy, can be identified in this case study?
5. Do you think a patent is always required for a software-related invention/innovation? Comment on the way Florin Talpes solved the problem of his AVX product on the U.S. market.

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Relevant Videos

Bitdefender Cybersecurity Spotlight: What is Ransomware?
https://www.youtube.com/watch?v=WZ6Zkqp-iJk

Bitdefender Internet Security 2017 Review
https://www.youtube.com/watch?v=qPLTn2osHI0

Global cybersecurity market will be worth $170 billion in 2020 – report
https://www.youtube.com/watch?v=r5jx6d7xRIM

Chapter Thirteen

Latin America

Kurotel Medical Longevity Center and Spa: Setting a Global Standard of Excellence[1]

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Learning Objectives

1. To analyze conditions in the global spa industry and determine future opportunities.
2. To determine Kurotel's current strategy by selecting one of Michael Porter's generic strategies: cost leadership, differentiation, cost focus, or differentiation focus.
3. To identify the challenges facing the Silveira family regarding their spa's rapid diversification of services and possible expansion overseas.
4. To describe the human resource needs in a business that continuously strives to exceed customer expectations.
5. To assess possible conflicts of interests between the need to treat clients for medical problems and the desire on the part of clients to enhance their appearances.
6. To discuss how relationships between family members could have a positive or a negative impact on the viability of a small business.
7. To compare the services offered by Kurotel with the services provided by other global competitors such as Canyon Ranch (the United States) and Baden-Baden (Germany).

Key Words

Brazil
Family business
Global spa industry
International expansion
Kur Method
Kurotel

Abstract

Dr. Luis Carlos Silveira and his wife, Neusa, were the founders of the Kurotel Medical Longevity Center and Spa in Gramado, Brazil. They developed a unique approach to providing guests with high-quality care and opportunities for both exercise and relaxation. The world-renowned spa catered to the whole person, making sure treatment plans included exercise, dietary menus, hydrotherapy, phytotherapy, spirituality, and emotional balance. The Silveiras became interested in opening another spa in a new location. In this case study, students are asked to determine appropriate countries and international entry options for the launch of a second spa.

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[1] We wish to thank Hannelore Leavy, executive director of the Day Spa Association and International Medical Spa Association and Adriane Kinzel, international liaison for Kurotel Longevity Center and Spa, for their assistance. We also thank our students, Flavia Barbery, Jasmine Brown, Katlyn Reh, and Elizabeth Ryles, for their research on the global spa industry.

The Opportunity

The founders of a world-renowned spa, Kurotel, would like to pursue growth opportunities in international markets. Dr. Luis Carlos Silveira and his wife, Neusa, opened the spa in Gramado, Brazil in 1982. The couple's approach toward well-being and happiness was unique at the time. They developed a new concept in which they would offer preventative medical services before clients became ill. Most modern-day medical services treated patients after they had become weak with disease and complained of illness-related symptoms. The Silveiras were interested in operating a five-star hotel, not a hospital, to promote long-lasting health among its guests.

From a small wellness center, with only 10 apartments and a handful of employees, Kurotel grew to a 6,000 square foot complex with 35 apartments/suites and 130 employees, including physicians, dentists, nutritionists, psychologists, fitness experts, biochemists, beauty therapists, and nurses. It built a stress control center, cosmetics factory, pharmacy, and state-of-the-art medical clinic. An additional 14,165 sq. ft water station and spa, the largest facility dedicated to water therapies in South America, was opened in 2009. It is equipped with a pool (treated with ozone and water jets), organic bistro, 18 wet rooms, and 18 treatment rooms. In 2010, Kurotel received an average of 200 guests a month.

Kurotel won many prestigious awards. For several consecutive years, it was voted as Best Spa in Brazil by readers of Viagem e Turismo; it was honored with the Spa Finder Crystal Award for the best spa on the South American continent; it was cited as the South America Leading Spa Resort by World Travel Awards; it was listed as one of the 100 best spas in the world by Bernard Burt and Pamela Price. In 2007, 2008, 2009, and 2010, Kurotel received the prestigious *Condé Nast Johansens Award for the Most Excellence Spa in South America.* It appeared on a list of the 50 most incredible spa breaks in the world for 2020 ("50 of the World's," 2020).

How could the Silveiras leverage their 28 years of experience managing and operating such an outstanding spa? The couple, along with their four daughters—Mariela, Evelise, Rochele, and Barbara, has been invited to speak about their philosophy and methods all over the world. They are regarded as experts with considerable knowledge of national and international markets. Expansion into overseas markets presented an exciting opportunity to take advantage of the Kurotel brand and to fulfill the founders' dream of promoting health and happiness to as many clients as possible in as many locations as possible.

The challenges facing the Silveiras were many. Should they open up a spa in another South American country? Would they be better off launching a spa in the United States or Europe? Once the founders decided on the most appropriate country, they would need to consider the best international entry option. Should they license their brand to another company in the host country? Would it be beneficial to seek a joint venture partner or to go solo? Finally, the Silveiras would need to make sure that the managers of the new spa were well trained and adhered to Kurotel's founding principles and high-quality standards.

The Kur Method

In 1971, Luis Carlos and Neusa Silveira, newly graduated from medical school, began to study a system for healing that was first discovered by a Bavarian priest, Sebastian Kneipp, in the 19th century. The system, which was named the Kneipp Cure, included five basic regimens: exercise, nutrition, herbalism, spirituality, and hydrotherapy. Kneipp himself became one of the founders of the naturopathic medicine movement (Hoheb, 2009b).

The Silveiras developed the Kur Philosophy as a modern application of the Kneipp Cure. Instead of herbalism, they use phytotherapy. They also added emotional balance to the original five components of the Kneipp Cure. As Rochele Silveira, COO and one of the four daughters of the founders, explained, "The Kur Method offers a new perspective on life which facilitates our patients to reflect on their lifestyle, leave a sedentary way of life behind and repair the damage from unhealthy choices. The Kur Method encourages harmonization of body, mind and spirit by controlling stress levels, relaxing and adopting new habits and attitudes that promote wellbeing" (Hoheb, 2009b).

Kurotel's mission is "Better Health, Greater Life" (see Exhibit 1). It is committed to treating the guest as a whole with 24 hour attention to preventative health, using traditional methods such as hydrotherapy combined with the latest

Mission

BETTER HEATH, MORE LIFE—Kurotel promotes and stimulates people to be committed to a healthier lifestyle, predictive and preventive medicine, resulting in positive choices. We give due value to life in quantitative (longevity) and qualitative (vitality and well-being) senses. The health comprehension is global, in bio-psycho-social environments.

Values

Pioneerism: Kurotel looks forward to the adoption of new ideas. It is a pioneer in innovation in its market segment.

Liability: Our actions are based upon the conviction of offering and prescribing the best for our customers and other interested people.

Refinement: We excel in perfection of what we do; mainly in the differentiated treatments we offer our clients.

Respect for the Client: At Kurotel we do not impose limits. There are, of course, therapeutical prescriptions, which respect the clients' right to freedom and privacy.

Customization: Every customer is unique and he/she must receive customized attention.

Dedication: We persevere in doing well what we believe in.

Source: http://www.kurotel.com.br

EXHIBIT 1 Kurotel's Mission and Values cutting-edge technologies. An interdisciplinary team comprising physicians, physiotherapists, nutritionists, psychologists, biochemists and beauty specialists care for guests. The ratio of professionals to client is 3.5 to 1, ensuring an individual, personalized experience. Kurotel offers many programs for weight loss, stress management, smoking cessation, optimal aging, healthy longevity and postpartum and executive health. Morning activities such as hiking, aerobics, and stretching are offered. Afternoons are reserved for customized training and relaxation.

A Brief History of Kurotel

The Kurotel wellness center opened in 1982. The name "Kurotel," which combines the German word for "kur" (which means "cure") with "hotel," is a tribute to the origins of the spa's philosophy. The main building is inspired by Portuguese colonial homes and is situated among the hydrangea blooms in the city of Gramado, in the state of Rio Grande do Sul (see Exhibit 2). The city is famous for its beautiful mountainside and lush natural surroundings. The purpose of the facility is to operate as a pampering spa, state-of-the-art medical center, and luxurious resort (Hoheb, 2009a).

In 1983, the Silveiras opened the Kur Pharmacy in order to produce phytotherapeutic pills and dietary supplements. In 1984, the couple launched Kur Cosmetics to make the products that were used in Kurotel's therapies. A biochemist worked with a pharmaceutical company to test and develop a line of creams, lotions, and aromatic compounds. Guests could purchase products for use at home. In 1985, a stress control center, which also offered psychological services, opened.

In 1997, Kurotel added a spa complex in order to provide aesthetic and beauty treatments in addition to its health services. In 2000, it started a Kinder Kur plan designed especially for mothers and their newborn infants. In 2001, it added a longevity center and spa with a medical team providing geriatric, genetics, and preventive medical services. In 2009, Kurotel opened the Kur Water Stations and Spa. Dr. Luis Silveira said, "[it] was designed to benefit guests of all ages and fitness levels. Water therapies can increase balance, coordination, stability, muscular strength and flexibility while protecting joints from strain or injury" (Hoheb, 2009a). The spa also became a place where clients could practice mindfulness, recover from cancer treatments, and overcome sleep-related disorders.

In 2018, Kurotel underwent major renovations and facility upgrades, constructing a new wing with 20 apartments and purchasing new gym equipment and state-of-the-art equipment for the medical clinic and spa ("Harmonious Healthcare," 2020).

The Management of Kurotel

Dr. Luis Silveira and his wife, Neusa, serve as cochairs of Kurotel's board of directors. Neusa has a graduate degree in social work from the Catholic University of Pelotas. The couple's four daughters are involved in the management of Kurotel. They are all board members and serve different functions. They oversee everything from logistics and operations to fiscal management and the hiring of personnel.

Dr. Mariela Silveira is a research physician at Kurotel. She received her medical degree from the Brazilian Lutheran University. She also has a postdoctorate degree in nutrology from Sao Paulo University and an advanced certification in acupuncture. Mariela is a spokesperson at international spa conventions for Kurotel's predictive and preventive medicine. She is also the director of the day spa. Rochele Silveira is a marketing executive and director of Kur Cosmetics. Barbara Silveira is the director of the Kur Pharmacy, and Evelise Silveira, holding a doctorate in geriatrics and disease prevention, is the medical director of Kurotel.

The Client

Kurotel is the spa of choice for motion picture stars, businesspeople, and politicians. Its target clientele is high-income individuals. Clients tend to be married and are between the ages of 40 and 70 years. There are more women than men. The clientele is mostly from South America, but Kurotel also receives visitors from North America, Europe, South Africa, and Asia. A weeklong spa package would usually cost US$ 4,400 per person (see Exhibit 3 for a price list). It includes lodging, pool and fitness access, daily nutritional guidance, medical assessments, daily vital signs checkup, daily group exercise classes, consultation with a beauty therapist, and more. It is also possible to use just the day spa or half-day spa. Kurotel has its own magazine, which is sent to over 13,000 guests four times a year.

Upon arrival at Kurotel, a guest registers and is directed to the nurse station where his or her weight and blood pressure are taken. After the first medical consultation to discuss recent illnesses, surgeries and overall health conditions, the physician might recommend blood tests for cholesterol and glucose unless the guest has brought recent lab results (see Exhibit 4 for a list of requested exams). Genetic testing is available to determine the best treatment available in case a client shows a predisposition to an underlying disease (Sabo, 2020). The staff member prepares a holistic treatment plan along with the guest who is an active participant in the process. The plan includes activities, treatments, and dietary guidelines.

A medical-nutritionist team has been assembled at the spa and charged with developing the Kur Longevity Diet (KLD) since 2005. It is based on the dietary habits of the world's longest living people and consists of low calorie-dense food and low glycemic index/rate food. The diet combines the best ingredients used in food preparation in countries from around the globe, including omega 3 fatty fish from Okinawa, Japan; soy and green tea from Asia; grapes from San Marino, Italy; olive oil from Crete, Greece; and Brazil nut from Brazil. The chef makes light use of oils, butter, salt, honey, and caffeinated tea. The restaurant does not serve dairy products, coffee, food with trans fatty acids, alcohol, juices, soft drinks, sugar, or refined grains. Since 2020, Kurotel has become the world's first Kosher spa, enabling it to offer cuisine to its Jewish clientele (Ribeiro, 2020).

Throughout the Kurotel property, careful attention is paid to soothing lights and colors schemes. Guest rooms are kept impeccably clean with neutral colors and natural light coming in from large windows. Music is important, too. The founders of Kurotel are known for surprising guests with popular singers, such as the Brazilian artists Eliana Pittman and Danilo Caymmi.


Courtesy of Kurotel Medical Longevity Center and Spa

Accolades from satisfied clients abound. One blogger on the Global Spa and Wellness website, described how she was made to feel "exceptionally special" the moment she arrived at Kurotel. Adriane Kinzel, Kurotel's International Liaison, greeted her personally. There had been a delay in the arrival of the guest's flight, but she was so impressed that an entire schedule had already been developed for her that she immediately got immersed in the spa's treatments. Another guest from England said, "I've been to many places in the world and Kurotel is the place where I've found the peace that I didn't find anywhere else. My life has changed here. I'm a stronger, better and more relaxed person, with a positive view on life. I lost 12 kg and won new self-confidence" ("Kurotel 5-Time Winner," 2009).

Sustainability

Kurotel follows sustainable and responsible practices to protect the environment. It uses a cistern to collect and treat rainwater for local reuse. Since exact portions of food are served to guests, there is little waste. Whatever is left over from the restaurant undergoes a composting process and is returned to the soil in an outdoor garden. To consume less energy, rooms have motion sensors to control room lighting.

The Global Spa Industry

Consumers from around the world have become increasingly interested in health, wellness, and the enhancement of mind, body, and spirit. The core spa industry caters to them by offering a wide variety of services, including massages, facials, body treatments, salon services, water-based treatments, health assessments, and retail products for home use. As a result, the number of spas, as well as total industry revenues, has increased rapidly over the years. In 2007, there were an estimated 71, 672 spas operating in the global economy, with spa revenues totaling \$46.8 billion and spa employment reaching 1.2 million persons ("Global Spa Summit," 2008).

The core spa industry is divided into five categories, which are Day/Club/Salon Spas, Destination Spas and Health Resorts, Hotel/Resort Spas, Medical

Spas, and other Spas. In day/club/salon spas, trained professionals offer massages, facials, and body treatments during daily operating hours in private treatment rooms ("Global Spa Summit," 2008). A club spa offers its services in a facility primarily dedicated to fitness and exercise; a salon spa provides its treatments in conjunction with beauty services (hair, makeup, and nails). Destination spas/health resorts offer a full-immersion spa experience for all guests with overnight stays and prepaid meal plans ("Global Spa Summit," 2008). They run fitness programs, weight loss programs, and educational classes.

Spas at hotels/resorts cater to tourists and businesspeople. They complement a hotel stay with a wide range of other activities (e.g., golf and skiing) at a resort ("Global Spa Summit," 2008). Services are paid for on an á la carte basis. Medical spas require the oversight of a licensed health care professional. Services include Botox injections and laser treatments. The "other spa" category includes mobile spas, cruise ship spas, and mineral/hot spring spas ("Global Spa Summit," 2008). Day/club/salon spas represent the majority of spas around the world, accounting for 63% of all spa facilities. However, hotel, resort, destination, and health spas command higher average revenues than day/club/salon spas ("Global Spa Summit," 2008).

Taken together, spas in three regions—Europe, North America, and Asia-Pacific—account for over 90% of total spa industry revenues (see Exhibit 5). The five largest spa revenue-generating countries are the United States, Japan, Germany, France, and Italy, accounting for 55% of industry revenues worldwide. German medical insurance providers cover Kur therapies prescribed by physicians. Patients can visit a center for three weeks, every three years ("Spa," 2010). In the Asia-Pacific region, spas are considered relatively new but have increased at a rapid rate. This specific region is dominated by large hotels and resorts, which cater to international tourists.

Latin America-Caribbean is the fourth largest region in the world in terms of spa revenues ($2.5 billion in 2007) and in terms of spa numbers (5,435 spas). Latin American-Caribbean countries are strongly focused on a beauty culture, which explains the higher revenues generated by day/club/salon compared to hotel/resort spas. Even poor women feel entitled to cosmetic surgery; the government medical insurance in Brazil will pay for it (Edmonds, 2007). In contrast, the hotel/resort spa sector dominates the industry in the Middle East and North Africa region ("Global Spa Summit," 2008).

Spas in each geographic region have their own unique characteristics. The European spa industry has well-established traditions involving bathing and wellness. These date back to ancient Roman times. Natural and water-based solutions are used for therapeutic, curative, and preventive treatments ("Global Spa Summit," 2008). Three popular spas, which have been recently refurbished and renovated, include Bath in England (a UNESCO World Heritage site), Spa in Belgium, and Marienbad in the Czech Republic (Carlin, 2007). The North American spa industry is one of the most innovative. New business concepts, such as mobile spas, sea spas, and discount spa chains, have been introduced in the marketplace. The Canyon Ranch spas in Tucson, Arizona and Lenox, Massachusetts attract affluent guests who spend an average of $900 a day and have access to massages, nutrition consultations, diagnostic blood tests, and bone scans (McGinn, 2007).

Photos courtesy of Kurotel Medical Longevity Center and Spa


A. Kurotel's Natural Suite


B. Kurotel's Fitness Center


C. Kurotel's Medical Team


D. Kurotel's Owners

EXHIBIT 2 Photographs of the Kurotel Medical Longevity Center and Spa.

In Asia-Pacific, many spas have evolved from Japanese "onsens," Indian Ayurveda centers, and Thai and Chinese massage therapies. Thailand was recently called "Asia's spa capital" (Emmons, 2009). From just one spa in 1992, the country had 585 spas in 2009. Guests can visit urban spas, holistic medical centers, luxurious destination spas and island wellness centers (Emmons, 2009). Many spas in the Middle East–North Africa region are offshoots of "hammams," or Turkish baths. Because of poverty in many African nations, spas are found mostly in upscale tourist destinations ("Global Spa Summit," 2008).

In March 2020, many spas around the world were forced to shut down due to the COVID-19 pandemic. The International Spa Association (ISPA) worked with its many members to develop guidelines regarding how spas and wellness facilities could reopen safely. ISPA's president, Lynne McNees, stated, "The spa industry is once again showing its commitment to a stronger future through this cooperative effort. ISPA looks forward to putting these tools into the hands of those who can use them to safely, confidently welcome guests back into their spas when the time comes. We know that guests' peace of mind will be critical to the reopening process, so a big part of this effort is strengthening the already rigorous sanitation standards practiced within the industry, offering guidance on communicating those standards to guests and protecting spa employees" ("International Spa," 2020).

EXHIBIT 3 Kurotel's Price List
Recommended stay: 1 week, Minimum stay: half-week

ROOMS	SINGLE	DOUBLE	SINGLE	DOUBLE
Colonial	4,400	8,355	5,055	9,955
Suite with balcony & Kur Chalet	5,938	10,400	6,827	11,961
Special Suite with balcony	6,294	11,011	7,238	12,661
Natural Suite	7,777	12,622	8,944	14,516
Royal Suite	9,405	14,888	10,816	17,122

Notes:

Rates for weeklong stays are in U.S. dollars and range from 4,400 to 17,122 + 10 percent (tax service), depending on room type. Rates for half-week stays are charged at 50 percent of the weeklong stays. Rates for double occupancy are quoted per two guests in a room.

Check payment forms. We request a 30 percent deposit in 48 hours to guarantee the reservation.

Cancellation policy: cancellation with funds returned will only be accepted with 12 days prior notice. Changing dates with 7 days prior notice. Any other cases no funds will be returned.

Ground Transfers—We can arrange the transfers back and forth to Porto Alegre Airport, upon request. These costs are not included in the package.

Source: Company documents

Kur Lifestyle Plan

Clients over 12 years old

- Complete haemogram, sodium, potassium, glucose, uric acid, triglycerides, total cholesterol and fractions, urine test. Validity of 3 months.
- TSH–Validity of 3 months—For those who monitor the thyroid dysfunction, it is important to be able to compare current results to previous results.

Clients over 30 years old

- Ergometric (ECG) Test—Validity of 6 months: Through this test, is possible to investigate if there are any heart disorders that could represent risk during physical exercises. It is extremely important for your safety.

Clients with diabetes (Any age)

- Glycated Hemoglobin—Validity of 3 months

Clients with hepatic disorders (Any age)

- Transaminase GOT and GPT—Validity of 3 months

Note: After the clinical evaluation the physician may ask you for other exams, if necessary. If you have radiological lab results, please bring them with you, they are important for the treatment prescription.

Source: Company documents

EXHIBIT 4 Requested Exams

EXHIBIT 5 **Global Spa Facilities by Region, 2007**

	ESTIMATED TOTAL NUMBER OF SPAS	ESTIMATED TOTAL SPA REVENUES (US$ BILLIONS)	ESTIMATED TOTAL SPA EMPLOYMENT
Europe	22,607	$18.4	441,727
Asia-Pacific	21,566	$11.4	363,648
North America	20,662	$13.5	307,229
Middle East-North Africa	1,014	$0.7	20,938
Latin American-Caribbean	5,435	$2.5	82,694
Africa	389	$0.3	7,273
Total	**71,672**	**$46.8**	**1,223,510**

Source: Global Spa Summit, Global Spa Economy 2007. (2008, May). Prepared by SRI International.

Teaching Note

Case Overview

This case helps students appreciate the hard work and dedication required to start a successful and innovative business. The founders of a longevity center and spa provide superior customer service and would now like to expand beyond their national borders. They must carefully consider their alternatives so as to maintain their spa's first-class reputation and high quality as they grow.

Relevant Courses

This case addresses an important decision facing the Silveiras regarding entry into international markets. It is appropriate for college-level courses in small business, entrepreneurship, and international management. Topics include family business, strategy, managerial decision making, and international expansion.

Data Sources

Information was obtained from Adriane Kinzel, International Liaison for Kurotel. Library and website sources were also used.

Analysis

The case deals with a small business's decision to stay local or expand geographically while maintaining high-quality services.

Discussion Questions

1. How is Kurotel as a business defined now and how does that definition factor into plans for international expansion for the Silveiras?
2. Understanding what the company is—what are the differential advantages of the Kurotel methods?
3. How should Kurotel continue to expand to reach more of the global population with its message of better health habits?
4. How should the ownership/management structure be constructed—knowing that the original spa's success may have been due to its organic development on site with family ownership and supervision?
5. What are the entrepreneurial implications of the Kurotel business for the Silveiras?

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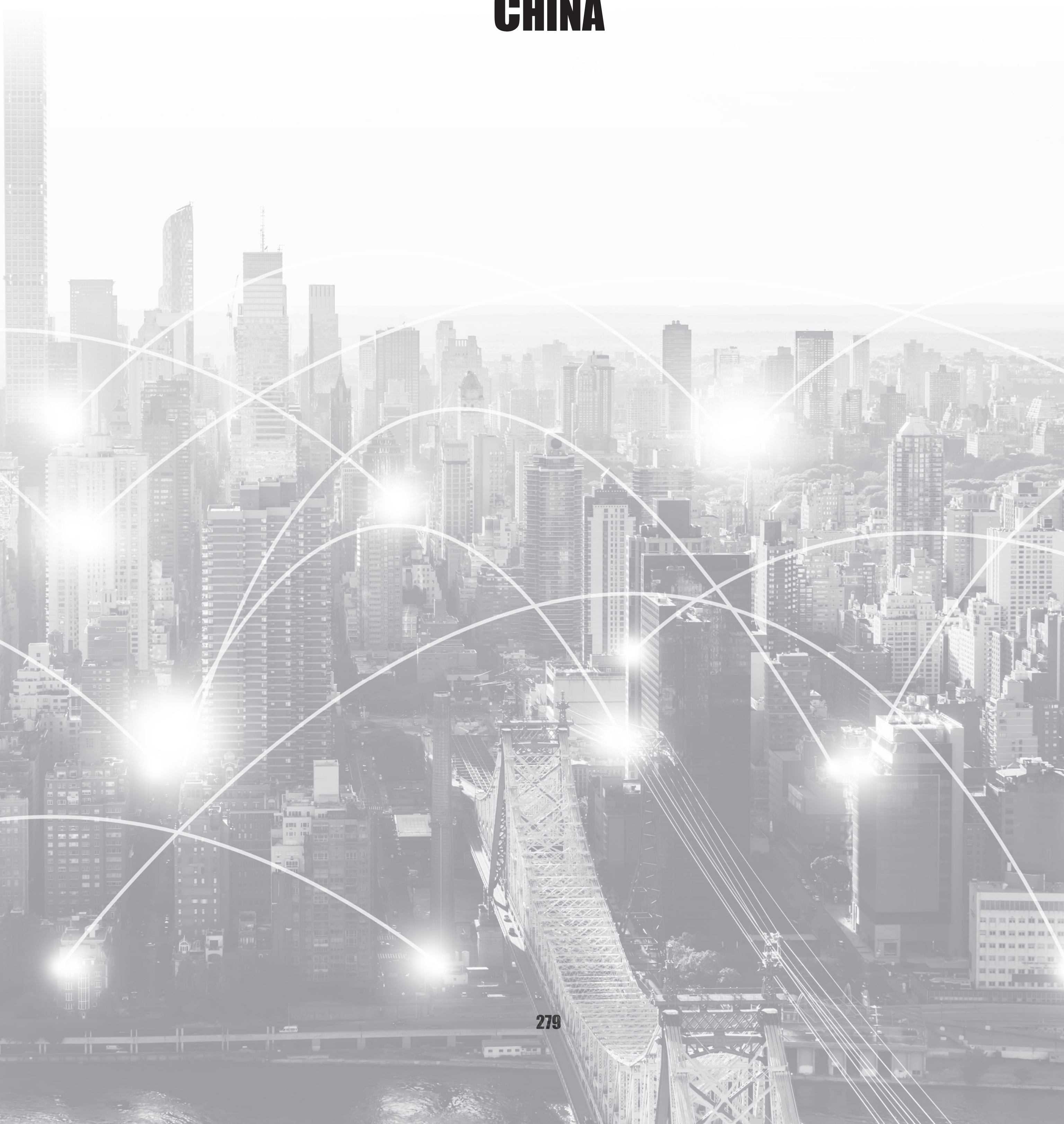
Chapter Fourteen

China



Corporate Entrepreneurship of Foreign Multinationals in China: A Comparison of Motorola and Nokia in the Cellular Phone Industry

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Learning Objectives

1. *Analyze* the environmental conditions affecting corporate entrepreneurship of foreign multinationals in China.
2. *Demonstrate* an understanding of the competitive environment in the Chinese technology industries.

Key Words

Code division multiple access (CDMA)
GSM (Global System for Mobile Communications)
Diffusion of an innovation
Internet

Abstract

This case examines corporate entrepreneurial environment in the Chinese technology industry and compares corporate entrepreneurial strategies of two foreign multinationals in the cellular phone industry in China: Motorola and Nokia. The case focuses on the early stage of cellular phone diffusion. It also sheds light on many unusual and idiosyncratic features of corporate entrepreneurial environment in China, especially in the high technology industry, and illustrates various constraints and opportunities that foreign multinationals face.

Introduction

"We're going to be number one in the second half of this year. We would want to maintain that position and probably grow from that," said Colin Giles, general manager of Nokia's mobile phone division (CNETAsia, 2003). He was referring to China, the biggest mobile market in the world, in mid-2003. Nokia, the world's biggest handset maker, was losing its grip in China for a long time. In 2003, Nokia wrestled against its competitors in China by rolling out 15 new models (CNETAsia, 2003). It also launched CDMA phones in the Chinese market in August 2003. Motorola's chief operating officer, Mike Zafirovski, said Motorola would respond by accelerating its plan to introduce fourteen new phones designed for the Chinese market, by entering in the "third and fourth tier" cities and by increasing the R&D budget in China by 30% (Charny, 2003).

TABLE 14.1 **Market Shares of Major Players in the Global and the Chinese Mobile Market**

WORLD		CHINA		
VENDOR	MARKET SHARE (2003 Q1, %)	VENDOR	MARKET SHARE (2002 Q3, %)	MARKET SHARE (2003 Q1, %)
Nokia	35.5	Motorola	28.9	20.6
Motorola	15.5	Nokia	25.7	16.7
Samsung	12.3	TLC	7.4	11.4
Siemens	7.4	Samsung	6.8	
LG	5.2	Siemens	5.1	
Other	24.1			

Source: International Data Corporation (IDC) for the global data. Data for the Chinese market are from various sources.

China, together with the United States, Japan, and South Korea, was one of the few major handset markets that Nokia lagged behind its competitors. Motorola and Nokia historically dominated the Chinese handset market and still occupied the top two slots in the early 2000s (Table 14.1) but were experiencing tough competition from local handset makers as well as those from Japan, Korea, and Taiwan. What is more, the Chinese government had set a target to increase the combined shares of its domestic handset makers to 85% by 2006 (Merritt, 2003). In 2017, Nokia came back with a new phone—Nokia 6 launched exclusively in China. It had 230,000 preorders, which did not qualify it for entry into "the mainstream market" (Jing, 2017). Di Jin, research manager of IDC China, said that "Nokia 6's pre-order performance was not in the same league as Apple or Samsung Electronics, whose smartphones can easily get millions of pre-orders on the first day of launch" (Jing, 2017).

In November 2019, Lenovo released the first foldable smart phone at the Lenovo Innovation and Technology Conference. During its release, the company announced that this phone was not coming to China anytime soon. However, in 2020, the executive vice president of the Lenovo group and president of Lenovo's China operations, said that the foldable smart phone would be launched in Chinese market in the second quarter of 2020 (Jeet, 2020).

Motorola and Nokia in China

Oviatt and McDougall (2005) define international entrepreneurship as "… the discovery, enactment, evaluation and exploitation of opportunities across national borders to create future goods and services." Entrepreneurial firms such as Motorola and Nokia are tapping the global market for growth. Nokia opened its first office in China in 1985 and sold the first NMT450 (Nordic Mobile Telephones/450) analog cell phone system in 1986 (Chinanex.com, 2003b). It started selling GSM[1] digital phones in 1991 (Törnroos, 2003). Motorola, on the other hand, entered the Chinese market in 1987, 2 years after Nokia, by setting up an office in Beijing. In 1992, it established Motorola (China) Electronics Ltd. in Tianjin and began production of beep pagers, mobile phones, two-way radios; wireless communications facilities; and semiconductor, automobile, and electronics facilities.[2] Being the first company to introduce pager in China, "Motorola" means pagers for most Chinese.[3] In the early 1990s, China became a lucrative market for Motorola as Chinese consumers heavily bought its pagers for convenience as well as a symbol of social status.

Both companies have been selling CDMA[4] phones in the Chinese market. In December 2001, Motorola introduced its first CDMA phone, V8060, in the Chinese Market. During the trial of China Unicom's CDMA network, V8060 was found to be the preferred choice of 80% of customers.[5] By early 2003, Motorola had captured about a third of the CDMA handset market. In March 2003, Nokia announced that it would begin production of CDMA handsets. Nokia launched its first phone running on the CDMA standard in August 2003 and became the second foreign company making CDMA handsets. Its CDMA phone 2280 was specifically designed for China Unicom.

By 2001, the investment Motorola and Nokia in China amounted US$3.4 billion and US$2 billion, respectively. In 2000, Motorola became the largest foreign investor in China by overtaking General Motors (UltraChina.com, 2000). Its cumulative investment is expected to reach US$10 billion by 2006.[6]

By early 2003, Nokia had 22 local offices, five joint ventures (JVs), two research centers, and a reseller network with 900 outlets in China. In March 2003, the company announced that it would form a new JV for handset production, which would replace four handset JVs—two in Beijing, one in Guangdong, and the other in Jiangsu. The new JV will be the largest handset manufacturer in terms of combined production and exports (Chinanex.com, 2003b). Capitel, one of Nokia's JV partners in China, however, is seeking to expand its own branded handset business, which has made the JV relationship weak (Dean, 2003). In December 2001, Nokia also opened a "Xing Wang (StarNet) International Industrial Park" with a Chinese partner. The US$1.2 billion Park will also be used to manufacture handsets and other products by Nokia's part suppliers (Chinanex.com, 2003b). Similarly, Motorola's operations in China consist of one wholly owned factory, one holding company, eight JVs, 18 R&D facilities, and 26 sales offices (Chinanex.com, 2003a). In 1998, Motorola

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[1] Global System for Mobile phone communications (GSM) was the first commercially available digital standard mainly used in Europe and Asia.
[2] See www.motorolacareers.com/moto.cfm?cntry=China .
[3] See www.welcome-to-china.com/biz/gen/7bp.htm .
[4] CDMA (Code Division Multiple Access) technology allows to carry many conversations over one frequency. It does so by sending all communications in groups of bits mixed altogether and tagging each group, belonging to a specific communication, with a different code. CDMA is mainly used in North America (see http://cellphones.about.com/library/glossary/bldef_cdma.htm).
[5] See www.motorola.com.cn/en/news/2002/01/0107_02.asp.
[6] See www.china.org.cn/english/2001/Nov/21765.htm.

moved its North Asia headquarters from Hong Kong to Beijing. Although Motorola is facing problem in its relationship with a Chinese JV partner, Eastcom, it has the advantage of maintaining a wholly owned subsidiary (Dean, 2003).

Motorola and Nokia are also among China's biggest exporters. Motorola (China) Electronics was China's fifth-largest exporter in 2001 with exports of US$1.61 billion. Its export in 2002 increased to US$3.6 billion. Similarly, Nokia's JVs in Beijing and Dongguan were in seventh and eighth place with exports of US$1.02 billion and $832 million respectively.

Motorola began to build a nationwide distribution network in 1997. By 2000, the company had over 300 hand-picked agents. Motorola has also divided China into several regions with different developing strategies.[7] In selected Chinese cities, Nokia cut distribution costs by directly supplying handsets to large regional distributors and retail outlets (Bolton & Wei, 2003). Some players in the Chinese handset market, however, have even more efficient distribution systems. For instance, Bird, a local handset manufacturer, has branches in every Chinese province to sell directly into retailers (Dean, 2003). Nokia's distribution system, however, has been designed for GSM handsets. Analysts argue that CDMA handsets require different distribution channels than GSM phones (Dean, 2003).

Motorola and Nokia have designed phones with Chinese appeal. For instance, Motorola's Accompli, which was manufactured in China, was the first handset with Chinese character recognition.[8] Similarly, Nokia's 6108, a pen-based GSM handset designed for the Chinese market, allows users to write messages in Chinese on an input tablet concealed beneath a flip. It was designed by Nokia's Beijing R&D centre (PMN, 2003). In mid-2003, Nokia also announced that it would introduce two entry-level handsets—1100 and 2300—and a cheaper-to-operate network in countries like India, China, Russia, Thailand, Brazil, Indonesia, Vietnam, and Philippines.

According to a survey conducted with Chinese university students by ChinaHR.com in early 2003, Motorola ranked 7th among the most popular employers.[9] The same study ranked Nokia at the 15th place. Motorola also has a good reputation among local consumers and the government. In 1999, *Fortune* magazine named Motorola as the second most admired foreign company in China. According to Christopher B. Galvin, chair and CEO, Motorola's aim is "not to be the biggest but the best foreign investor in China" (UltraChina.com, 2000). The company, for instance, has formed alliances with local state-owned enterprises in the production of semiconductors. In 1999, it purchased US$1 billion worth of equipment with 730 local enterprises. Motorola has over 75% of managers that are Chinese and 40% of the managers are female. The company has also helped to establish 27 Motorola Hope Primary Schools and donated US$ 1 million to eight institutions of higher learning. All the profits earned in its local operations in recent years have been reinvested back in local establishments (UltraChina.com, 2000).

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[7] See Motorola to Improve Sales Network, Sci-Edu, November 25, 2000, http://fpeng.peopledaily.com.cn/200011/25/eng20001125_56097.html.

[8] See Motorola Accompli 008 Product Review, 25-Mar-2001, http://www.mobiletechnews.com/info/2001/03/25/070116.html

[9] See http://www.rieti.go.jp/en/china/03040201.html.

Since April 2014, as chief executive officer of Nokia, Rajeev Suri has been the main impetus behind Nokia's ongoing change, including its acquisition of Alcatel-Lucent. Its effective venture into big business vertical markets, the formation of an independent programming business, and the arrival of the Nokia brand to cell phones are some of his major milestones. In his past job as CEO of Nokia Solutions and Networks, he likewise orchestrated a total turnaround, with an estimated worth from €1 billion to more than €10 billion (Nokia, n.d.). However, in 2020, investors are punishing Nokia for a botched first-phase rollout of 5G, losing about a third of their share worth. It is now weighing strategic options (Ryan & Seal, 2020).

The Chinese Mobile Market

The combined fixed and mobile connections in China increased from 6.8 million in 1990 to 472 million by mid-2003. An estimate of Pyramid Research suggests that the number increased to 950 million or a penetration rate of 75% by 2008. Mobile network is growing much faster than the fixed network (Figure 14.1). The number of mobile subscribers in China increased from 18 thousand in 1990 to 234.5 million by mid-2003. In 2003 alone, an estimated 52 million mobile phones were added in China compared to 33 million fixed phones. The number of mobile phone users in China passed the fixed phone users in 2003. Estimates suggest that China accounted for US$ 8.4 billion (Liu, 2003) of the US$ 60 billion global mobile market in 2003 (Kahn, 2003).

Figure 14.2 compares the growth of Chinese mobile market vis-à-vis those of Japan and the United States. The Chinese mobile market became the biggest in Asia by overtaking Japan in 2000 and became the world's biggest in 2001. Mobile penetration in China is, however, much lower than both countries (Figure 14.3).

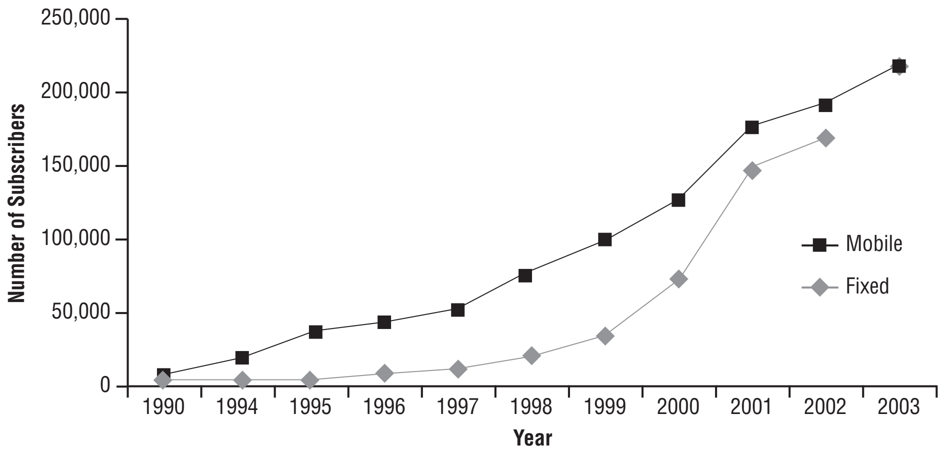

FIGURE 14.1 A Comparison of Mobile and Fixed Network Growth in China

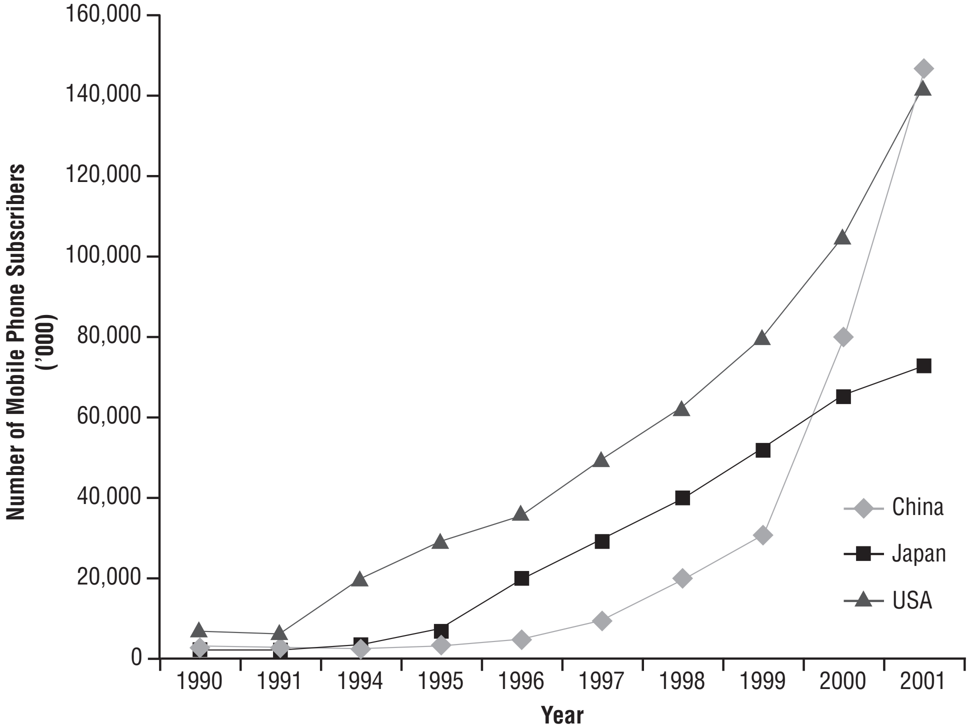

FIGURE 14.2 Growth of Mobile Subscribers in China, Japan, and the U.S.

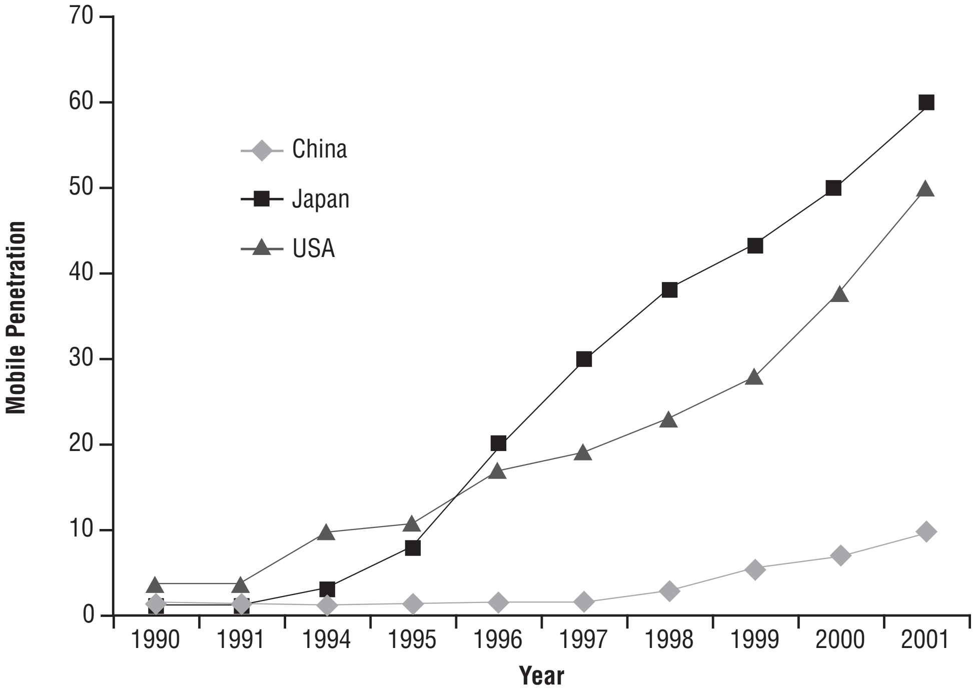

FIGURE 14.3 Penetration Rates of Mobile Phones in China, Japan and the U.S.

Although GSM standard dominates the Chinese market, CDMA is growing more rapidly. The Chinese CDMA market has also become highly competitive. There are 19 players licensed to make CDMA handsets (Dean, 2003). Even before its launch in January 2001, there were 500,000 people registered to get CDMA connection. By the end of 2002, the number crossed 7 million. By April 2003, China Unicom's CDMA network had 9 million customers, which is expected to reach 20 million by the end of 2003. CDMA network's second-phase of construction is expected to ensure the China Unicom's capacity to 30 million subscribers and the network is expected to upgrade from 2G to 2.5G.[10]

R&D and technology related factors such as R&D investment, technology diffusion, patent system and standards, technological cooperation between firms, broadband access, and university–industry interface affect corporate entrepreneurial performance (Ahmad and Hoffmann, 2008). In this regard, China has also emerged as a center of global mobile innovations. The time division—synchronous code division multiple access (TD-SCDMA) technology developed by China's Datang Mobile and German Siemens received approval from the International Telecommunications Union (ITU) as a 3G[11] standard. TD-SCDMA is a competitor to the U.S. CDMA2000 system and Europe's WCDMA. Estimates suggest that following its launch, TD-SCDMA would capture 30% of the Chinese market and 10% outside China (Einhor, 2003).

Fierce competition in mobile sector has resulted in low connection as well as subscription fees for mobile services. Monthly subscription rates as well as connection charges for mobile services in China are lower than the average of lower-middle income countries as well as the world (Table 14.2). The average connection fee declined from US$600 in 1994 (Tsuchiyama, 1999) to US$60 in 1999. Fixed line connection, on the other hand, is more expensive than both the averages. Similarly, when handsets were first introduced in China in 1994, the average price was US$850, which decreased to about US$200 in 1999 (Tsuchiyama, 1999). The increased competition between China Unicom and China Mobile has resulted in heavy subsidies in CDMA handset as well. The average subsidy per CDMA handset is estimated to be between US$ 193 and US$ 300.[12]

Various multilateral trade agreements under the World Trade Organization (WTO) regime have further facilitated the diffusion of mobile technology in China. Under General Agreements on Trades in Services (GATS) commitments of the WTO, China has promised to eliminate restrictions on foreign ownership in telecom services. Under the Information Technology Agreement (ITA), China is required to eliminate tariffs on key IT products. The average tariffs on ITA products were reduced from 12.5% in 2001 to 3.4% in 2002; and tariffs on 83% of ITA products were eliminated by January 2002. Before China's accession to the WTO, tariff rates were 12% for cellular phones, 18% for batteries and 20%

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[10] Second generation (2G) refers to digital wireless standards that concentrated on improving voice quality, coverage, and capacity. It was originally designed to support voice. 2.5G builds upon the 2G standards by providing increased bit rates and bringing limited data capability.

[11] Third generation (3G) mobile technology will provide wide-area coverage at 384 kbps and local area coverage up to 2 Mbps and thus supplements standardized 2G and 2.5G services with wideband services.

[12] See China Becomes World's Leading Mobile Phone Market! www.fiducia-china.com/News/2002/2102-1625.html.

TABLE 14.2 **A Comparison of Fixed and Mobile Charges in China and the World**

	CHINA	LOWER-MIDDLE INCOME COUNTRIES AVERAGE	WORLD AVERAGE
Mobile network (1999)			
Connection ($)	60	90	86
Monthly subscription ($)	6.04	20.99	21.40
Tariff per minute (peak) ($)	0.05	0.25	0.27
Tariff per minute (off-peak) ($)	0.05	0.18	0.18
100 minute basket ($)	10.87	39.69	38.15
Fixed network (1998)			
Residential connection ($)	226	133	109
Business connection ($)	226	212	155
Residential monthly subscription ($)	1.9	4.8	6.9
Business monthly subscription ($)	2.9	8.8	11.5
Cost of 3 minute local call ($)	0.01	0.05	0.09
Subscription as a % of GDP per capita	3.1	3.8	7.5

Source: ITU (1999).

for pagers (Leopold, 2000). In January 2003, China eliminated handset import tariffs.

Since 2012, China has remained the world's largest market on smartphone. In 2019, smartphone shipments in China came to more than 366 million units, representing around 27% of the complete volume of worldwide cell phone shipments. The quantity of smartphone clients in China is anticipated to reach about 0.78 billion by 2020, while the current cell phone memberships as of September 2019 have just reached about 1.6 billion in China. The smartphone administration in China is given by three residential media transmission arrange administrators, to be specific China Mobile, China Unicom, and China Telecom (Wong, 2020).

Chinese Consumers

The demand for cellular phones is also related to psychological "stock of habits" of Chinese consumers. In the mid-1980s, for instance, the penetration rates of consumer durables in China were about the same as South Korea, Japan, and then USSR (Sklair, 1994). In terms of the technology achievement index constructed by the UNDP (2001), China's rank 45 (out of 72 economies considered) puts it in the group of "dynamic adopters" of new technologies and ahead of several countries with higher per capita GDP than China.

Mobile phones have also fulfilled rapidly increasing telecom demand in China. Liberalization since the early 1980s led to a greater freedom for Chinese to move around and to work away from hometowns. Compounded by the arrival of offshore

[13] In the first half of 2003, the revenue of China's telecommunications industry amounted US$ 220 billion up 12.1 percent from the same period in 2002.

investors and an increasing number of tourists, telecom demand rose rapidly.[13] While mobile phones are supplements to fixed phones in developed economies, they are substitutes for fixed telephones for low-income economies such as China (ITU, 1997). According to the Wireless World Forum, mobile phones have now become the de facto tools of communication among Chinese youth.

Analysts have predicted that purchases of upgraded handsets by China's existing mobile-phone users will soon exceed sales to first-time buyers. China Unicom's CDMA technology is targeted to quality conscious consumers. The 2.5G CDMA technology has higher voice quality, is safer for users because of low radiation, provides high security, and has a data transmission rate of up to 10 times faster than 2G networks.

Chinese consumers also seem to place more emphasis on social status and mobile phone's association with social status has thus helped accelerate its diffusion. For instance, the really small wireless phones initially did not sell well in China because they were "too inconspicuous"—and did not offer adequate opportunity to show off. The public attitude toward small wireless devices has, however, changed in recent years.

During COVID-19 pandemic, Chinese consumers have dropped their plans to buy new smartphones including the latest 5G models. According to the survey by Strategy Analytics among 1,300 consumers, 37% have delayed buying a new smartphone while 32% put off adopting 5G (Williams, 2020).

Chinese Government and the Environment for Corporate Entrepreneurship

While some argue that the Chinese government has exercised its power over its firms in a "chaotic way," which has hindered corporate entrepreneurship in the country (Gilboy, 2004), the state seems to have played an important role in stimulating entrepreneurship in the cellular telephone industry. In general, observers have noted that the government's policies are friendly to entrepreneurs as long as they structure their strategies to integrate governmental agenda (Pei, 2006). In China, the base of regime legitimacy is shifting from Marx-Leninism to economic growth (Chen, 2002; Zhao, 2000). Chinese leaders have set economic growth as the top priority (Zhao, 2000). China arguably has "inbuilt" and "government-fostered" mechanisms to promote entrepreneurship (Monro, 2007). Forecaster Gerald Celente put the issue this way: "China is invigorated with a sense of entrepreneurship that is supported by its government, while in the United States, such a spirit is on the decline" (*USA Today*, 2006).

The Chinese government also has the ambition of providing every household with a telephone. To achieve this objective, top priority was given to build R&D capacity in mobile telephony in the late 1990s and corporate entrepreneurship was encouraged in this sector (Niitamo, 2000). During the 1990s, China spent US$10 billion to build a national mobile network (Goodman, 2003).

We might detour briefly to point out that there are various forms of capitalism. Baumöl, Litan, and Schramm (2007) have proposed four prevalent forms of capitalism and demonstrated how each form contributes to economic growth: (i) entrepreneurial, (ii) big firm, (iii) state directed, and (iv) oligarchic. Specifically, some developing countries such as China have found state-guided capitalism as a way to promote entrepreneurship and achieve economic growth.

The heavy investment was supplemented by a series of programs designed to accelerate telecom development. They include extensive reengineering of and intense competition in the mobile sector. China Unicom was formed in 1994 which competes with China Telecom, then-monopoly Chinese Telecom Company. Unicom is licensed for mobile, paging, data, Internet, and long-distance (James, 2001). The two companies are involved in a price war in the cellular market (Wilhelm, 2000). China Mobile, China Unicom, and a number of Internet service and content providers are also forced to adapt to the rigorous disclosure requirements of the NYSE, NASDAQ, and Hong Kong's Growth Enterprise Market and to cut off redundant workers (McDaniels & Waterman, 2000).

Nokia: A Profile

A forest industry enterprise was established in 1865 in south-western Finland by mining engineer Fredrik Idestam.[14] Finnish Rubber Works, founded in 1898, and Finnish Cable Works, founded in 1912 were merged together with Idestam's enterprise in 1967 to form Nokia. In the early 1980s, Nokia acquired Swedish companies Mobira, Salora, Televa, and Luxor, and strengthened its position in the telecom and consumer electronics markets. In 1987, Nokia acquired the consumer electronics operations and part of the component business of the German Standard Elektrik Lorenz and Oceanic, a French consumer electronics company. In the same year, Nokia also purchased Maillefer, a Swiss cable machinery company. By acquiring Ericsson's data systems division in the late 1980s, Nokia became the largest Scandinavian IT company. In 1989, Nokia expanded its cable industry into Continental Europe by acquiring the Dutch cable company NKF. Since the beginning of the 1990s, Nokia has concentrated on its core business, telecom, by divesting its information technology and basic industry operations

By early 2003, Nokia was making about 40 different models of cell phones (Pringle, 2003). According to the senior vice president of Nokia's Asia-Pacific Nokia envisages an "MIS (mobile information society) which will be based on three cornerstones—digitalization, mobility, and the Internet" (Litchfield, 2000). In 2002, Nokia ranked sixth among the most valuable brands in the world with estimated brand equity of US$30 billion.

By the end of 2002, Nokia had established 17 production facilities in 9 different countries and R&D facilities in 14 different countries. Such facilities allow it to switch rapidly from one product to another. For instance, following a last-minute delay to a new color-screen model in summer 2002, Nokia bridged the gap by lowering the production of an existing phone by 50% in its factories in Finland, Germany, and China (Pringle, 2003).

In 2005, Nokia began portable TV testing in Finland with content gave by the open telecaster Yle. The administrations depend on the DVB-H standard.

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[14] See www.nokia.com/nokia/0,8764,32884,00.html.

Nokia likewise collaborated with Arqiva and O2 to test in the UK in September 2005 (Nokia, 2020).

In June 2006, Nokia and Siemens declared the development of another organization, Nokia Siemens Networks, which blended exercises identifying with the creation of broadcast communications gear and systems. In July 2013, Nokia purchased Siemens 2.2 billion euros (Nokia, 2020) to transform it into a wholly owned subsidiary called Nokia Solutions and Networks, before being renamed Nokia Networks. On April 25, 2014, Microsoft Corporation completed the acquisition of Nokia's Devices and Services division, which became Microsoft Mobile (Nokia, 2020).

In 2017, the estimation of the Nokia brand rose 147 spots to 188th spot contrasted with 2016 in the Brand Finance positioning. Its ascent has been ascribed to its social insurance portfolio and new phones created by HMD Global (Nokia, 2020).

A recent report uncovered that Nokia telephones performed obviously superior to that of rivals Samsung, LG, Xiaomi, and Huawei in refreshing to the most recent adaptation of Android. The investigation, led by Counterpoint Research, found that 96% of Nokia telephones have been sent or refreshed to the most recent form of Android since Pie's release in 2018. Nokia's rivals were found generally in the range 80% off (Nokia, 2020).

On March 2, 2020, Nokia declared Pekka Lundmark as the new CEO and President who takes over from Rajeev Suri. (Nokia, 2020).

Motorola: A Profile

Galvin Manufacturing Corporation founded in Chicago in 1928 changed its name to Motorola, Inc in 1947. Its first product, a "battery eliminator," allowed users to operate radios directly from household current thereby eliminating the needs of batteries supplied with early models of radios. In the 1930s, the company moved into car radios under the brand name "Motorola." In the 1940s, it also started government work and opened a research laboratory in Phoenix, Arizona, to explore solid-state electronics. By the late 1960s, Motorola became a world leader in military, space, and commercial communications; had built its first semiconductor facility; and was a growing manufacturer of consumer electronics.

Motorola expanded into international markets in the 1960s and also began shifting its focus away from consumer electronics. In the mid-1970s, it sold its color television receiver business to focus on high-tech markets in commercial, industrial and government.

By the late 1980s, Motorola became a major supplier of cellular phones. Cell phone business, however, accounts for a smaller proportion of its total business compared to Nokia (Table 14.3). Moreover, its operating profit for the cell phone business is declining (Table 14.4). The company deployed the world's first commercial CDMA network in Hong Kong in 1995. By early 2003, Motorola had been awarded with over 100 CDMA contracts and was the largest CDMA equipment supplier in the Asia.[15]

After its merger with General Instrument Corporation, Motorola strengthened its position in cable modems and set-top terminals. Motorola also delivers embedded chip system level and end-to-end network communication solutions.[16] In 2002, Motorola ranked 74th among the most valuables brands in the world with an estimated brand equity of US$ 3.4 billion. Motorola has now launched a new budget smartphone that expects to concentrate on one thing Indian customers lean toward the most—battery life. It's known as the Moto G8 Power Lite and as the Power moniker proposes, it has a huge 5,000 mAh battery (Mukherjee, 2020).

TABLE 14.3 A Comparison of Motorola and Nokia's Global and Chinese Businesses

	NOKIA	MOTOROLA
Global		
Sales (2002, U.S.$, billion)	30.8	27.3
No. of employees (2002)	52,000	55,000
Cell phone's share in the overall business (2003)	80	43
China		
Sales (2002, U.S.$ billion)	3	5.7
No. of employees (2002)	5,000	13,000
Cumulative investment (2001, U.S.$, billion)	2	3.4

Source: Author's research from various published sources.

TABLE 14.4 Profit and Loss Statements of Motorola and Nokia

	NOKIA		MOTOROLA	
	2003 Q3	2002 Q3	2003 Q3	2002 Q3
Overall				
Revenue (U.S.$, billion)	8.00	7.13	6.8	6.47
Operating profit (U.S.$, million)	1388.68	1204.25		
Operating profit margin (%)	17.3	16.9		
Net profit (U.S.$, million)	960	711	116	111
Cell Phone Business				
Revenue (U.S.$, million)	6547.30	5564.82	2900	2700
Operating profit (U.S.$, million)	1464.40	1233.90	147	241
Operating profit as a % of revenue	22.4	22.2	5	8.9

Data for Nokia are from http://www.nordicwirelesswatch.com/wireless/story.html?story_id=3365.
The values in Euros are converted into U.S. dollar with exchange rates at the end of the respective periods. Other sources for Nokia data include Dallas Business Journal (2003), Hines (2003).
Data for Motorola are from Drucker (2003) and Gray (2003).

[15] ~~See www.motoro~~la.com.cn/en/news/2002/01/0107_02.asp.

[16] See www.motorola.com/content/0,,115-110,00.html.

Concluding Comments

Market conditions related factors such as competition, access to the domestic and foreign markets greatly influence firms' entrepreneurial performance (Ahmad & Hoffmann, 2008). In this regard, for technology multinationals such as Motorola and Nokia, rapid growth of emerging markets such as China and India have undoubtedly provided important opportunities.

In prior theoretical and empirical research, scholars have noted that contexts and environment play important roles in determining entrepreneurial behavior (FORA, 2006; Tan, 2002). The operating environment for entrepreneurs is arguably more complex in emerging economies such as in India and China than in developed economies (Stewart, May, & Kalia, 2008). In prior research, scholars have also found that entrepreneurs scan more frequently developing countries than in developed countries due to the complexity of the environment in the former group (Stewart, May, & Kalia, 2008). One complexity in China is related to the state-guided capitalism as a way to promote entrepreneurship and achieve economic growth. This case illustrated how Motorola and Nokia had to deal with this and various other complexities in the Chinese cellular market.

Discussion Questions

1. Consider an emerging market other than China and compare it with China in terms of various characteristics for corporate entrepreneurship in technology sectors?
   Let's consider India. India and China have many similar characteristics. They have big markets for technology products such as cellular phones and are growing rapidly. However, China and India differ in important ways. A major difference concerns the form of capitalism. Among the four forms of capitalism discussed earlier, China has found state-guided capitalism as a way to promote entrepreneurship and achieve economic growth. India's capitalism, on the other hand, is arguably of oligarchic form.
2. How do emerging markets such as China differ from industrialized countries such as the United States in terms of the environment for corporate entrepreneurship in technology sectors?
   Emerging markets are growing more rapidly and thus are attractive for corporate entrepreneurship in technology sectors. The operating environment for entrepreneurs is more complex in emerging economies such as China than in developed economies. Entrepreneurs need to scan developing countries more carefully due to the complexity of the environment. Emerging markets also differ in terms of the prevalent forms of capitalism. Most tend to be characterized by a state directed (e.g., China) or an oligarchic (e.g., India) form of capitalism. Most industrialized countries, on the other hand, tend to have entrepreneurial (e.g., the United States) or a big firm (e.g., Japan) type of capitalism.
3. Why and how has the Chinese government promoted corporate entrepreneurship in the cellular technology sectors?
   Observers have noted that the Chinese government's policies are friendly to entrepreneurs as long as they structure their strategies to integrate governmental agenda. In China, the base of regime legitimacy is shifting from Marx-Leninism to economic growth. Chinese leaders have set economic growth as the top priority. For these reasons, China has "inbuilt" and "government-fostered" mechanisms to promote entrepreneurship.

Chinese government gave a top priority to build R&D capacity in mobile telephony in the late 1990s and corporate entrepreneurship was encouraged in this sector. During the 1990s, China spent US$10 billion to build a national mobile network. The heavy investment was supplemented by a series of programs designed to accelerate telecom development. They include extensive reengineering of and intense competition in the mobile sector. A number of technology companies were also forced to adapt to the rigorous disclosure requirements of the NYSE, NASDAQ, and Hong Kong's Growth Enterprise Market and to cut off redundant workers.

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What Works in Beijing, Doesn't Work in Beijing? The Use of Pay for Performance in China

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Learning Objectives

1. To enhance the student's understanding of international operations. The case offers students with a complex view of multinational operations and requires them to consider the interplay between cultural distance (e.g., differences in values) and organizational context (domestic versus foreign ownership).
2. To enhance the student's ability to critically examine whether Western HR practices can (or cannot) be used in non-Western countries.

Key Words

Collectivistic culture
Individualistic culture
Iron rice bowl
Pay-for-performance system

Abstract

Diana Princely and her Chicago-based HRM team were under pressure to enhance their organization's new facility in Beijing, China. After gathering information on changes in China's economy, working environments, and compensation systems, it was decided to introduce merit-based rewards. Despite China's collectivistic culture, the team found evidence that such merit-based systems had been successful in Chinese domestic organizations and were increasingly being used in such organizations. However, one year after recommending the use of a pay-for-performance system at the Beijing facility, Diana and her team were still trying to determine why the system had failed.

Although at first blush this situation appears to be a relatively straightforward case of cultural distance (i.e., value differences), it is much more complex. This case involves the interplay of cultural distance and organizational context (i.e., domestic versus foreign). Previous research has demonstrated the effectiveness of pay-for-performance systems in domestic firms in China. The decision-making team in the case, however, lacked any empirical evidence regarding the use of pay-for-performance systems in foreign-owned firms in China. Recent research (e.g., Du & Choi, 2010) found that the use of pay-for performance systems in China was influenced not only by the country's collectivistic culture but also by whether the workers were employed by a domestic or a foreign organization. Drawing from the fascinating study completed by Du and Choi, it can be surmised that PowerMax's use of a pay-for-performance system in Beijing may have failed because the workers did not trust their foreign managers and owners. The highly complex pay-for-performance system may have highlighted the value incongruence between

the Chinese workers and the foreign owners. The system may have been perceived by the Chinese workers as unfair, making the workers question the link between performance and rewards. What has worked in the past in China does not necessarily work anymore—especially when it comes to compensation issues. The expectations of workers in China have been changing.

Diana Princely looked out of her office window at the panoramic view of the Chicago skyline, wondering how she and her talented team had made such a serious miscalculation. One year ago today, her firm had introduced a pay-for performance system at their Beijing facility. Diana, the vice president of human resource management (HRM) for international operations at PowerMax Multinational, still wasn't sure why the well-established practice of pay-for-performance had failed so miserably.

The implementation of the system was the result of numerous strategic planning sessions in which her HR team had discussed possible ways to enhance the performance of the employees at the new Beijing facility. Although neither Diana nor any member of her team had yet to travel to the new facility, as a long-tenured HR professional, she was well aware of the old adage: what works in Chicago—or New York or Phoenix—doesn't always work in Beijing—or Bombay or Cairo. At her request, three of her team, James Kowalski, Sally McCafferty, and Jamal LeBron, each provided a briefing about the changes in China's economy, work environment, and compensation systems.

James described how in less than two decades, China had transformed herself from a developing nation to the fourth-largest economy on the planet. In the next decade, it is predicted that China will become the second-largest economy in the world. Many well-known multinational corporations (MNCs), including Motorola, Hewlett-Packard, and Delphi Corporation, were among the first foreign organizations to invest and conduct business in China. While many MNCs have reaped numerous benefits from the great opportunities to be found in China, others have faced great obstacles and some have even terminated their operations in China.

James also described troubling incidents in which the Chinese government was accused of unfairly assisting domestic organizations in negotiations and disputes with foreign companies. Under the Chinese system, individuals involved in business disputes can be detained for up to 12 months without any formal charges. Once detained, these individuals are typically cut off from any direct communication with their friends and members of their employing organization (Carraher, 2019). For example, in 2004, Apex Digital accused Changhong, a state-owned company and China's largest TV manufacturer, of owing them $470 million. Changhong used its influence to have David Ji, a partner in Apex Digital, detained. During his detainment, Ji was interrogated as well as threatened with bodily injury, life in prison, and execution. Seven months after his detainment, Ji was formally arrested. It was not until after Apex and Changhong reached a partial agreement that Ji was released on bail.[1]

[1] For more details on this case, see Kahn (2005).

Following James's discussion of the economy, Sally detailed changes in China's work environment. Prior to the economic reforms in the 1990s, a career in China was viewed as the means by which individuals contributed to the welfare of society. Young Chinese didn't choose jobs based on what interested them but were placed in jobs as dictated by the needs of the state. Workers were provided with an "iron rice bowl," whereby lifetime employment was guaranteed by the state or the employing firm.

In contrast to the highly individualistic culture of the United States in which emphasis is placed on individual choice and personal achievement, in China's collectivistic culture, people place greater value on the welfare of the group, family relationships, and personal enlightenment. The importance of family and political connections in the Chinese work environment is evident in the concept of guanxi. Guanxi is the granting of favors to others with the expectation that they will be returned in a different form in the future. Guanxi goes far beyond the Western concept of network building. In the practice of guanxi, trust is an essential ingredient, and this trust usually takes a great deal of time to cultivate and cement. Because of the importance of guanxi, nepotism and political party affiliations often influenced an employee's compensation and organizational advancement opportunities. Individuals with important connections were usually richly rewarded regardless of work commitment or performance.

While political and family connections are still important in China, individuals in today's workforce are no longer guaranteed lifetime employment. Pay-for-performance systems were introduced in China to help reduce workers' dependency on lifetime employment. This more market-driven economy has resulted in Chinese workers becoming more proactive in managing their careers. For example, individuals working in state-owned enterprises, which offer stronger employment protection than other firms, often lament their relative lack of job mobility.

After Sally's discussion of guanxi and the changing work environment in China, Jamal detailed changes in compensation practices. Traditionally, Chinese workers' compensation was linked to factors such as seniority, status, and education, rather than performance. Unlike in the United States where workers tend to value equity norms and merit-based reward systems, employees in collectivist cultures like China tend to value equality norms and rewards based on group membership. Furthermore, not only is China a collectivistic culture, but the culture is based on Confucian principles and the ideology of communism. All of these influences suggest that Chinese workers would find pay-for-performance systems to be incongruent with their values.

Since the Chinese government's 1978 economic reforms, however, the country's wage system has dramatically changed. Despite China's collectivist culture, a growing number of public and private Chinese firms have successfully introduced merit-based systems. The use of bonuses has become a common practice in domestic organizations in China, even in state-owned enterprises. A 1996 study of 10 state-owned enterprises found that the majority of these organizations compensated workers using a basic wage, with additional pay for the acquisition of technical skills and meeting productivity goals (Warner, 1996). In China, the use of piecework pay and bonuses as a percentage of total wages rose from 3.1% in 1978 to 28.4% in 2019. A 2002 study reported that 40% of the total pay of urban Chinese employees was based on pay-for-performance systems, which is similar to the current percent of total pay (Chiu, Luk, & Tang, 2002; Sun, 2019).

Diana and her team examined the information provided in the briefings. They discussed the options available to enhance the performance of the workers at the Beijing facility. While production levels in Beijing were good, the level of productivity had yet to meet projections. The grapevine had it that some PowerMax executives were already advocating the closing of the Beijing facility. Under pressure to quickly find a solution, Diana and her team recommended the use of the company's pay-for-performance system in PowerMax's Beijing facility.

Discussion Questions

1. Diana Princely and her team had examined changes in China's economy, work environment, and compensation systems, finding that domestic firms in China had successfully introduced pay-for-performance systems. Why did PowerMax's implementation of pay-for-performance systems in their Beijing operations fail?
2. What could PowerMax have done differently in their decision making and introduction of the pay-for-performance system to increase the likelihood of success?
3. What would you do differently than PowerMax had done in order to be successful in opening a similar type of business in China? What type of business might you desire to open in China?

Additional Readings

Note: Professors using this case may find the following list of references, especially the Du and Choi article, useful.

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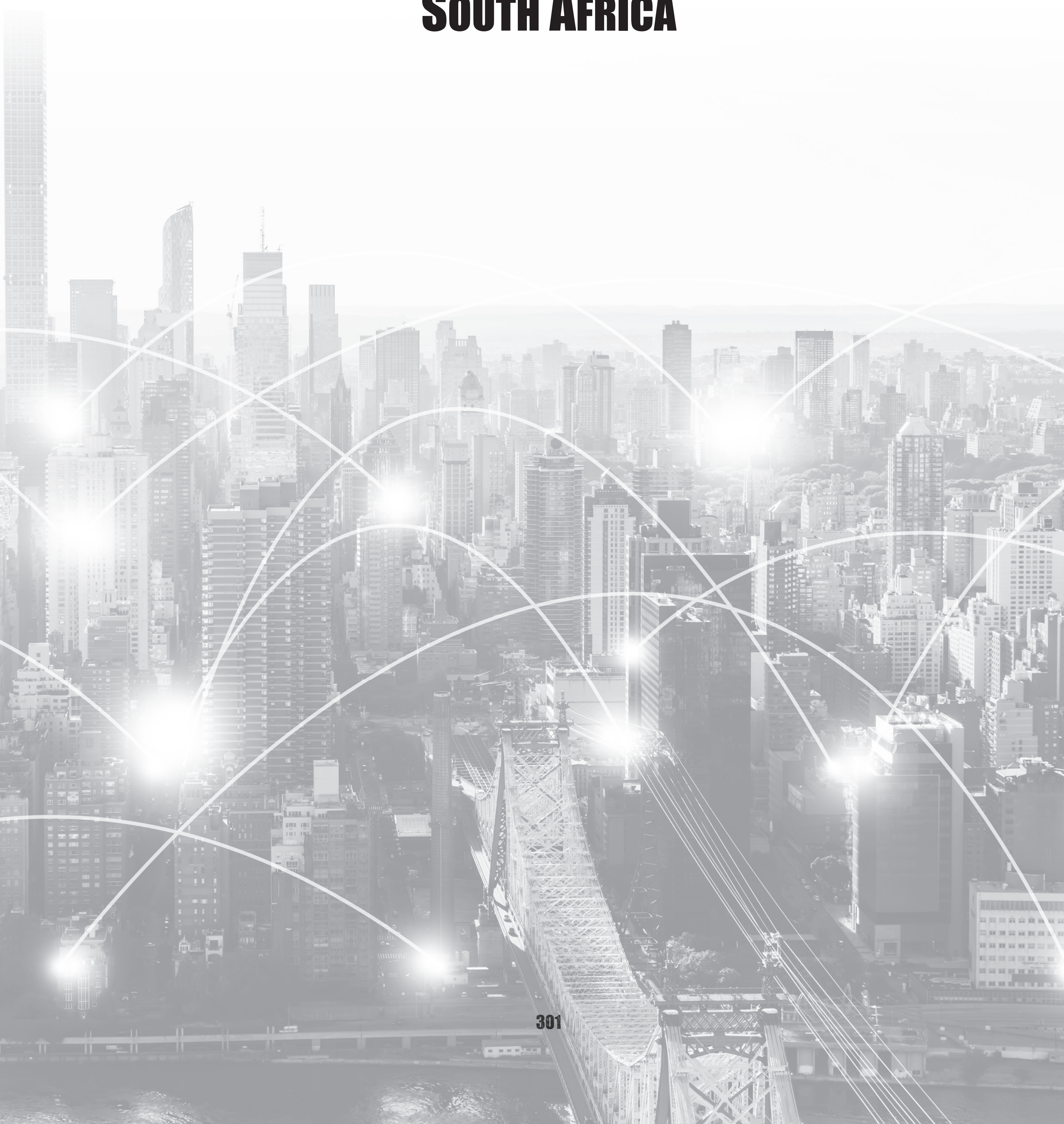
Chapter Fifteen

SOUTH AFRICA



University of Venda Case Study Improving Student Teaching and Learning Experience as well as Student Safety and Security Through the Application of Artificial Intelligence

Abstract

- *The University of Venda, situated in Thohoyandou in the scenic Vhembe district of the Limpopo Province of South Africa was established in 1982.*
- *Univen is one of only two universities in the world that is located in a UNESCO designated Biosphere. The university comprises eight schools, School of Agriculture, School of Education, School of Human and Social Sciences, School of Health Sciences, School of Law, School of Management Sciences, School of Environmental Sciences, and the School of Mathematical and Natural Sciences.*
- *To date, the university has established itself as a national asset through its niche on problem oriented, project-based curriculum with a strength in nurturing underprepared students and has therefore become an important player in the South African higher education landscape, contributing significantly to the human resources and development needs of the country and region.*
- *In 2018, the University of Venda became the first university in South Africa to pilot the use of artificial intelligence for access control.*
- *From the results achieved the university will now fully roll out multiple applications of AI across campus, availing the first Intelligent University in South Africa.*

Introduction

The University of Venda (Univen) is a South African comprehensive rural-based university, located in Thohoyandou in the Limpopo province.

Univen encompasses a digitally transformative culture that embraces innovative learning not confined to classrooms. The university is gearing its students for the fourth industrial revolution and constitutes a technology roadmap to be the first education provider in Africa to deliver an Intelligent Campus.

Transformation Requirements

In addition to offering a digitally transformative learning environment that fosters economic empowerment for the South African economy, Univen also aimed to address challenges experienced at the campus through the technology roadmap established. As a rural-based tertiary education provider, the university experienced unauthorized access to the campus, placing both staff and students at risk. Student pass rates and a lack of credible data to address student administration, student experience, and student performance also proved challenging, as 99% of students received funding through government grants.

To tackle the issues experienced, Univen partnered with Mint Group to utilize the benefits of artificial intelligence (AI) on the Azure platform to enable:

- Strict student access control through facial recognition across the university.
- Student classroom attendance tracking and verification across the campus.
- Sentiment analysis within classrooms to correlate sentiment to student performance and assess the effectiveness of instructional methods.
- Content on demand via online channels for anywhere, any place education.
- Attendance tracking to relate attendance numbers to student pass rates.
- Data-driven insights on student life to guide decisions.

Solution Approach

As this was the first project of its kind on the African continent, the university decided to follow a risk management approach and appointed Mint Group to implement a pilot program at the university to test the viability of the Intelligent Campus and determine to what extend AI would be able to address the challenges experienced and empower the University to meet its overall objectives.

The pilot program was based on the Mint Vision Application—a platform that extends organizations' existing systems and processes with highly advanced computer vision as well as face-and-voice recognition functionality.

For the hardware requirements, Mint Group partnered with a human capital management IT provider as the hardware solutions provider. To ensure the empowerment of local Exempted Micro-Enterprises, Mint also partnered with an IT access management provider, which assisted with the hardware requirements.

Further, to facilitate and drive community empowerment, it was agreed to engage locals in the Venda community to assist with the physical implementation of the Univen transformation project comprising construction work to enable access control.

After running the pilot program, artificial intelligence proved a viable solution for Univen to address the challenges experienced and meet the transformation objectives set out in the university's roadmap. The results from the pilot program also led to further insights, which helped the university adjust its technology roadmap for improved results.

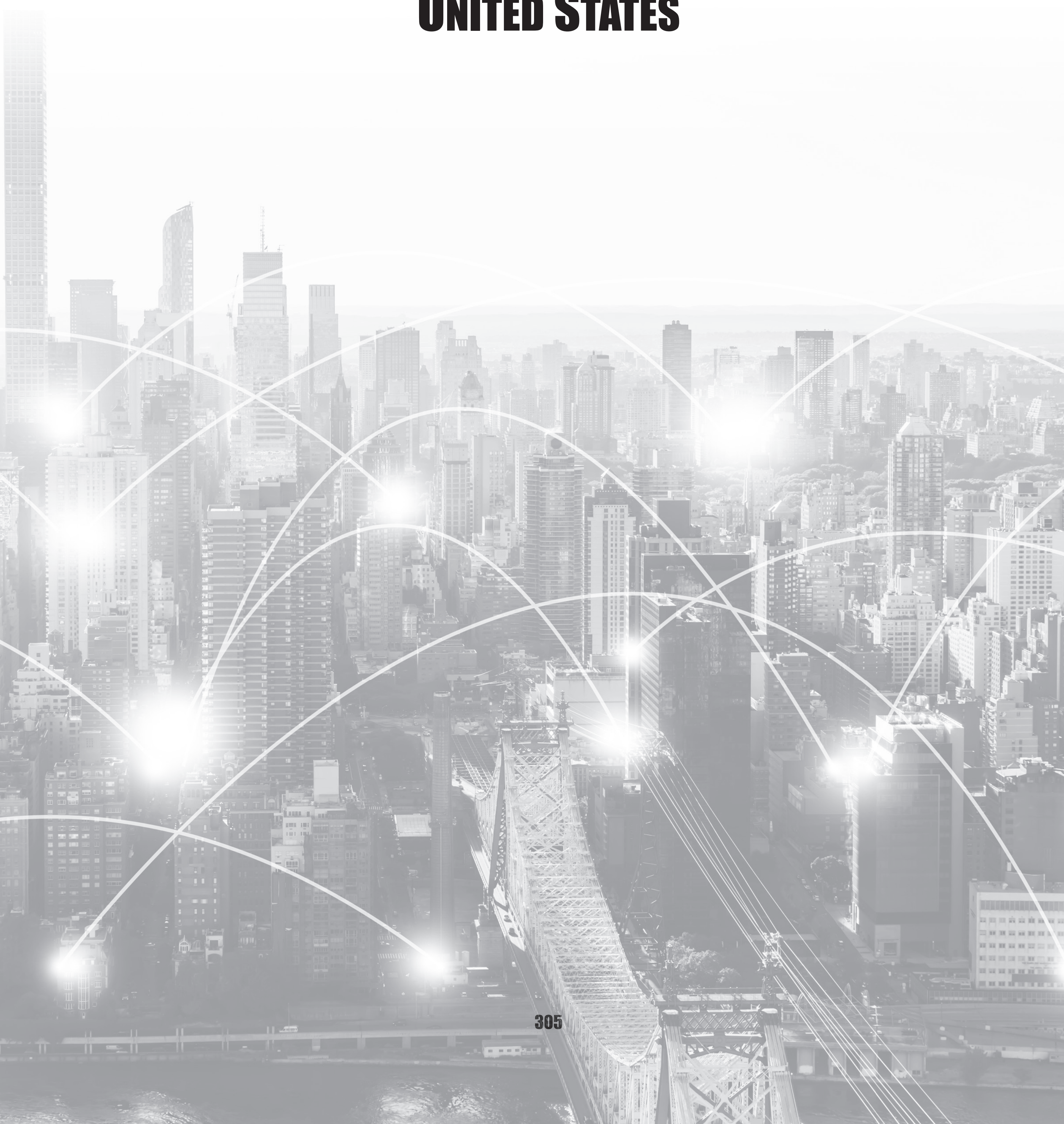
Solution Benefits

Following a successful pilot program of the Mint Vision Network Application at Univen, the AI system is now rolled out to the entire university as a first step toward digital transformation which will:

- Enable facial recognition and access control of 17,000 students per day.
- Monitor classrooms with up to four cameras in each class scanning student faces once every minute for classroom attendance and sentiment.
- Help bringing security breach incidences down to 0% throughout the campus including student residences.
- Enable improved allocation of staff.
- Reveal data-driven insights that can serve as the basis for future roadmap strategies, such as predictive drop-out detection and so on, which will further increase pass rates and assist with government grant allocation.
- Establish the university as a leader in the field of Intelligent Education;
- Empower communities surrounding the university.

Chapter Sixteen

UNITED STATES



The $800 Truck

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Learning Objectives

1. To provide students with a realistic example of one type of employee theft;
2. To show the need for an organization's documentation of employee/customer transactions as well as some form of checks on the system;
3. To emphasize the importance of organizational policies dealing with employee misconduct;
4. To demonstrate the need for an organization's disciplinary procedure and due process;
5. To provide a context for the discussion of other relevant management issues such as the provision of references and unemployment compensation for former employees

Case Overview

This case describes an example of suspected employee theft. It requires students to consider relevant issues in determining an appropriate managerial response. These issues include: Social issues, company policies defining employee theft and subsequent disciplinary procedures, documentation of employee/customer transactions, availability of grievance procedures, due process, employment-at-will doctrine, and employment references.

Courses and Levels

This case addresses students enrolled in either an introduction to management class, a survey course in HR management, or social responsibility class for global entrepreneurship. Relevant topics include: rules, policies and procedures, ethics, employee theft, disciplinary procedures, grievance procedures, and the employment-at-will doctrine, particularly as they apply to small businesses.

Don and Mary Samuels, the owners of the Chevrolet automobile dealership, had to make a decision about a case of suspected employee theft in their small, but prosperous business. At issue is the "lost" down payment made by Jack Treen, the purchaser of a new ¾ ton truck. The payment was presumably made to John Wilson, one of the two bonded Finance and Insurance Managers.

The Chevrolet dealership was adjacent to the Toyota dealership which was also owned by Don and Mary Samuels. They had owned the Chevrolet dealership for the past ten years and the Toyota dealership for the past twenty years. The dealerships were part of "auto row" in the downtown area of a city of

150,000 people. Approximately 250,000 people inhabited the total metropolitan area. Dealerships to the east and west included: Cadillac, Oldsmobile, Mazda, Lincoln-Mercury, Honda, and most recently, Saturn. The total number of employees at both dealerships was about 70, with 40 employed at Chevrolet. Eight sales representatives covered new and used Chevrolet sales. The truck department and attendant sales offices were located across the street form the main Chevrolet showroom which housed the Finance and Insurance Department.

Harry Lions, a new car salesman, was concluding a new Chevy truck deal with Jack Treen, a customer he had been working with all day that had a five year old ½ ton truck and 70,000 miles to trade-in. He had presented, demonstrated, negotiated, met objections, and had reached an agreement with Jack on the trade-in value of his used vehicle and the negotiated price of a new ¾ ton truck. Harry then introduced Jack to John Wilson, an F & I Manage and went home. John was to complete the financial arrangements, vehicle transfer documentations, and insurance requirements. As part of the transaction, Jack agreed to pay $800 in cash to complete the deal.* The paperwork needed to finance the truck was completed in about an hour. To conclude the transaction, the customer laid 8 one-hundred dollar bills on the F & I Manager's desk. John completed the paperwork without any mention of the $800. As Jack signed the finance agreement, he said that he noticed John, the F & I Manager, push the $800 into a stack of papers on his desk. The customer left without a receipt. Jack drove his new truck home that night and the lights were soon turned out in the dealership.

About a month later, Jack called the accounting department and said there was a mistake on his statement – they had forgotten to subtract the $800 down payment. May Henderson, the accounting department manager, said she had no record of the payment but would check with the F&I Manager. John stated that no down payment was given. Harry had left before the deal was closed and had no knowledge of what had transpired. Further, he didn't follow up on the deal with a phone call the week after the delivery to see if the vehicle was satisfactory, as is dealership's policy. The first he had hear of the $800 deposit occurred when the accounting department learned of it from Jack.

Jack voluntarily provided an affidavit (a sworn statement) that he had given John $800 in cash. He also provided a bank slip showing a withdrawal of $800 on the date that he took possession of the truck. John Wilson, in a verbal statement, denied ever receiving any money. He quit soon after the incident under pressure. The bonding company would not get involved unless Don and Mary Samuels filed a criminal complaint for stealing through the county prosecutor's office.

*Down payments are not required in all automotive transactions. It is dependent upon financial history and if there is a trade-in vehicle.

Discussion Questions

1. How does management determine who was telling the truth?
2 If you were Mr. Samuels, would you have filed criminal charges
   a. against the F & I Manager?
   b. against the customer?
   Justify your decision.
3. Does the dealership owner have "just cause" to dismiss the F & I Manager? If so, on what basis?
4. Would you pursue disciplinary action against Harry for failure to make a follow up phone call to Mr. Treen?
5. Could the F& I Manager collect unemployment compensation? (You may have to check with the State Employment Service for accurate information).
6. What should the manager/owner say if a potential employer of the F & I Manager called for a reference?
7. What policies and procedures applicable to financial transactions should a company have in place? Could you suggest some controls on your system?
8. What could the dealership have done to prevent this type of a problem from occurring?
9. What evidence is there that Mr. Wilson stole the money?

Analysis

This case deals with "suspected" employee theft. Because there is no actual evidence which recorded the financial transaction, the manager must rely on other strategies to discover the truth.

Student discussions should mention such important issues as: a) John Wilson, the F & I Manager, did not offer the customer a receipt for this payment. Jack Treen, the customer, did not request any such form; b) Harry Lions, the salesman, failed to make a follow up telephone call, a violation of company policy; c) Jack provided an affidavit; d) Jack provided a bank slip showing a withdrawal of $800. The date on the slip matched the date that he took possession of the truck; e) John denied taking any money and subsequently quit his job.

The case requires students to take the following actions:

1. identify case of employee theft;
2. respond to the statements of the F & I Manager;
3. respond to the evidence provided by the customer;
4. execute the appropriate managerial response;
5. determine appropriate managerial behavior toward the former employee;
6. evaluate current policies and procedures which relate to this situation.

Suggested Readings

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Epilogue

The dealership accepted Jack Treen's statement and wrote off the $800 as a loss.

Don Samuels found out sometime later that John Wilson began working for the downtown Ford dealership two weeks after the incident. The Chevrolet dealership never received a telephone call asking for a reference. He retained the same job title.

THE NEW GUY

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Abstract

This case describes a medical disability. It requires students to consider relevant issues in determining an appropriate managerial response. These issues include: company policy regarding disabilities, reasonable accommodation for disabilities, compliance with the provisions of the Americans with Disabilities Act, union involvement, and the employment-at-will doctrine.

Key Words

Discrimination Disability Employment-at-Will

Case Overview

This case describes a medical disability. It requires students to consider relevant issues in determining an appropriate managerial response. These issues include: a company policy regarding disabilities, reasonable accommodations for disabilities, compliance with the Equal Employment Opportunity Commission's Guideline for implementing the provision of the Americans with Disabilities Act (ADA) the takes effect on July 16, 1992, union involvement, and the employment-at-will doctrine.

Relevant Courses

This case is aimed at addressing a real life situation that commonly occurs. The ADA applies to employers with 25 or more employees working at least 20 weeks a year beginning July, 1992; and those with 15-24 employees beginning July, 1994. This act will have widespread implications on the policies and procedures within a firm. Students need to be aware of the changes that must take place to comply, and what is lawful from an employer as well as an employee perspective. Relevant topics include: policies, procedures, disciplinary actions, management-union relations employment-at-will, grievance procedures during probationary employment, reasonable accommodation under the ADA, performance of essential functions, selection testing, and prohibition of medical exams before the point-of-hire under the ADA.

Steven, prepared for a new venture, had just moved to Denver. At 21, he had just graduated from college and was eager to get started in the "real world". One of his first activities upon his arrival to the city in August of 1992 was to sign up with an employment agency. Since he was in a new city with no professional contacts, he thought the agency was his most reasonable option.

The first job he was referred to was a route salesperson for the Ajax Co., an industrial linen supply company. Ajax employed approximately 50 people at this site. The company is unionized. The job opening was for a driver but other job duties included: delivering clean supplies of linens, picking up bundles of soiled materials from route sites, and unloading these at Ajax.

Steven was hired for this position. Upon his hire, Steven notified his supervisor that he had diabetes. His supervisor had no reservations about the disease. In fact, he was familiar with it because his friend also had diabetes. Steven did not, however, mention this to his partner with whom he rode in the truck.

Because of the strenuous e nature of the job, Steven had some problems maintaining his blood sugar levels. *On one occasion, Steven had a "reaction" and his partner suspected him of using drugs. At that point, the supervisor informed his partner of Steven's medical condition.

On a second occasion, Steven experienced a more severe "reaction" which resulted in unconsciousness. His employer sent for an ambulance to ensure proper medical treatment. Upon Steven's return to work, his supervisor called him in and told him that he'd have to let him go. The supervisor was very upset during this meeting.

Steven did not file a grievance with the union officials. He was still in his probationary employment period and was not yet a union member.

*Exercise can cause blood sugar levels to drop, resulting in dizziness, sweating, and mental confusion. This can be prevented by eating a snack or by adjusting medication.

Note: Fictional names have been used in the case.

Data Sources

This information was obtained from one of the author's husband who had the incident occur. The incident occurred prior to the passage of the ADA. The date was changed to make it more relevant.

Discussion Questions

1. Was the employment agency negligent in not asking about physical problems affecting one's ability to do the Job? Did Steven have a "duty" to voluntarily reveal this?
2. Should the Ajax Co. have required a medical exam before the "point-of-hire"?
3. Should Steven have told his partner about the problem immediately? Should the supervisor have told Steven's partner immediately?
4. Did the company discriminate? Why or why not?
5. The Americans with Disabilities Act (ADA) defines the disabled as someone who has "physical or mental impairment that substantially limits on or more of the major life activities of such an individual." Does this Act have any relevance to this case? Why or why not?
6. If the Americans with Disabilities Act applies to this case, what responsibilities did the Ajax Co. have with regard to accommodating Steven?
7. Is there any way that this dismissal could have been prevented?
8. Would the sequence of events have been different if Steven was a union member?
9. Is Colorado a "right to work" state? How would this effect what happened?

Analysis

The case requires students to take the following actions:

1. identify a clear case of medical disability;
2. respond to the action of Ajax Co. in terms of legality;
3. analyze the effect of the ADA and its implications for the case;
4. analyze the coverage of probationary employees under union contracts;
5. determine whether or not Steven has a case to pursue a discrimination complaint..

Suggested Readings

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Epilogue

In this case, Steven's experience with the company ended with his termination. There was no union involvement and no further contact with the employer. Following the incident, Steven was hired by a company in the hospitality industry.

THE CHRISTMAS CLUB

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Case Overview

This case describes an incident of employee theft. It requires students to consider relevant issues in determining an appropriate managerial response. These issues include: a company's policies regarding theft, its disciplinary procedures , union involvement, and the employment-at-will doctrine

Relevant Courses

This case is designed to provide students with a realistic situation in which some form of disciplinary action is required. The focus is on the importance of having company policies and procedures in place so that the manager knows how to respond to such behavior. Because of these issues, the case can be used in an introductory management class or human resources class. Pertinent topics include:policies, procedures, and rules, disciplinary procedures, management/union relations, employment-at will doctrine, grievance procedures, and social responsibility.

(A)

Mr. Wagner, seeing Jack, the spark plugs and the exchange of money, had to decide on an appropriate course of action.

"Fat Jack", as his co-workers named him, came to work each day with his black lunch pail packed with sandwiches and goodies in hand. He always punched in by 8:00 and stayed until 5:00. He wore the industrial blue shirt and pants supplied by the parts department. He was by all accounts what you would consider a good employee. He never missed a day of work, was always on time, and was straightforward and helpful to customers. He was a union man, married with two children, overweight, balding, and in his 40s. He had worked for the parts department of the retail auto dealership for six years. Originally, he tried his hand in retail sales but couldn't cut it. He then applied for an opening in parts delivery and had worked his way up to junior counter clerk. The parts department consisted of 4 employees: a manager, two counter clerks, and a delivery person.

Jack was basically satisfied with the conditions of his employment. The auto dealership was the only unionized business of its type in town. Consequently, the pay was above average. The work group also thought highly of the owner and manager, David Wagner. They appreciated his firm, but fair, approach to business matters.

It was close to Christmas when the manager noticed Jack going across the street to a wholesale auto parts warehouse distributor (parts jobber in trade terms) during his lunch hour. He was looking for Jack to see if he would be willing to switch his lunchtime with the other counter clerk for the next week. The two counter clerks rotated their lunch hour so that there would always be coverage at the counter for sales. The manager wondered to himself why Jack would be going to the warehouse when he could get wholesale cost on parts through work. Over the next week, the manager observed Jack repeating his noon· walk to the parts jobber every lunch hour. He became more and more suspicious. He decided to follow Jack. When he walked into the parts jobber, Jack was opening his lunch pail and dumping spark plugs onto the counter. The man behind the counter was in the process of handing over cash to Jack.

(B)

Approximately ten days after the incident was resolved, Mr. Wagner received a phone call. He recognized the caller, Wes Addison, as the manager of a local business. Mr. Addison stated that Jack, a former employee of the auto dealership, had just applied for a job. Mr. Addison then began to ask questions of Mr. Wagner regarding Jack's work history and suitability for employment.

Data Sources

The information was obtained from the owner of the auto dealership.

Discussion Questions

1. If you were the employer, how would you respond?
2. How is this case related to employment-at-will?
3. Did the employer have an obligation to go through the union's progressive discipline steps as outlined in the contract?
4. Should criminal charges have been filed against Jack? Against the parts jobber? Would there be any ramifications from the business community?
5. Should a definition of theft be spelled out in company policies? Give an example of how such a policy should read.
6. Do you think most unions would side with the employer or with the union member in this case?
7. Did Jack have a right to unemployment compensation?
8. What do you think the general attitude of Jack's co-workers was? Did they side with Jack or with their employer?
9. Does "lunch pail" theft really matter? How prevalent is it in organizations today?
10. Is the concept of equity applicable in this situation? If so, how?
11. Should the employer recommend Jack to another employer? What role does social responsibility play in this instance?

Analysis

The case requires students to take the following actions:

1. identify a case of employee theft
2. respond to the situation in a fair and legal manner, also taking into account the union contract
3. document the situation as protection against a potential grievance
4. determine whether or not to pursue criminal charges
5. decide how to respond to inquiries of employers regarding Jack.

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Epilogue

Jack was immediately discharged. The union asked for a hearing, which was held within a week. The union did not pursue a reinstatement. The employer did not file any criminal charges. His personnel file said he was "discharged for cause", so the state refused unemployment benefits. Jack was hired two weeks later as a deliveryman for a dairy company.

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