



University
of Victoria

PETER B. GUSTAVSON
School of Business

The world looks different from here.



Transportation in Venice: Liam McDonough

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**BACHELOR OF COMMERCE
BEST BUSINESS RESEARCH PAPERS**

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Note from the Editor

Business education is changing. Technology is becoming increasingly central to education worldwide (e.g., the growing popularity of massive open online courses); academia is working closely with the industry to better prepare students for future careers; finally, institution-industry partnership in research endeavours is becoming critical for both parties. While all these changes are important, it is the process of rapid internationalization that is truly transforming the global business education. According to the University of Oxford's report, *International Trends in Higher Education* (2015), there are more than five million students worldwide completing all or part of their degree outside their home country. Here at Gustavson, we are proud that more than 91% of our Bachelor of Commerce (BCom) decided to participate in an international exchange program next Fall. To inspire our outgoing students and to honour the effort of those who already completed their exchange term, we present **Best Business Research Papers Volume 10**.

While on exchange, our students attend classes at a partner university and develop their professional and personal networks, but most importantly, they explore foreign cultures and foreign business practices. Those who desire to hone their research skills, get a chance to write a business case study as a part of the *International Business Research (COM70)* course. In this 10th anniversary edition, we proudly present our 10 most interesting research papers prepared by Gustavson undergraduate students. Past papers have covered issues such as money laundering, aging workforce and human resources management strategies, corporate social responsibility and craft beer manufacturing, and many more. This year our students describe linkages between CSR strategies and the corporate image, terrorism and its effect on the tourism industry, and discuss the impact of political systems and culture on doing business in Europe. Regardless of the topic, these **best-in-class** papers highlight the experience our students gain through significant and thoughtful research with a focus on business around the world. We also hope that these excellent papers inspire more students to participate in the exchange program and to engage in international business research.

Finally, we would like to take this opportunity to congratulate Mark Speakman on receiving the **Jamie Cassel's Undergraduate Research Awards** (JCURA) this year. Mark is only the second business student to win in the history of the award and we could not be more proud of him and his achievement. Mark researched Foxconn's, the Chinese electronics giant, manufacturing plant and labour practices during his exchange term in the Czech Republic. His article is currently under review at the *Arbutus Review*.

The UVic Gustavson School of Business is proud to present these best research papers from our 2016-2017 COM 470 students. As always, this would not be possible without the hard work of a group of dedicated individuals. Thank you to the International Programs team of Dr. A.R. Elangovan, Director; Brian Leacock, Associate Director; Jane Collins, Manager, International Exchange; Allen Sun, International Recruitment Officer and China Specialist; Sheri Love, IP Development Officer; Elsa Yan, Exchange Student Advisor; Christina Hernandez, International Student Advisor; Giordi Giacomelli, IP Assistant; as well as Audrey Audebert, BCom Advising Officer and Shannon Perdigao, Academic Projects Officer. On behalf of everyone involved, we hope you enjoy Volume 10 of the BCOM Best Business Research Papers.



Mike Szymanski and the Editorial Team

COM 470 International Business Research Instructor
Editor, *Best Business Research Papers, Volume 10*

International Business Research Experience

My international experience in France was phenomenal, for the fact that I had the pleasure to discover France's culture, learn the language and experience the famous gastronomy. Experiencing France's famed aspects was incredible, but what defined my exchange, in both a good and bad way, was the presence of terrorism within the country. It certainly distilled a constant level of fear during my time, which was stressful; however, it also presented me with the great opportunity to explore and gain a better perspective about the issues surrounding immigration, politics and terrorism to better understand their cause and impacts within France.

Reilly Baldwin

Going on exchange is an excellent opportunity to not only study in a new environment and experience cultures, but also to broaden your perspective about business and see things differently. Conducting international research about Atomic empowered me to apply business concepts I learned at Gustavson and while on exchange to real challenges faced in the ski industry and other industries in Austria, Canada and globally. This was a wonderful opportunity to dive deeper and further my understanding of business in Austria while examining solutions and responses for a relevant issue going forward.

Taylor Cain

After having lived abroad in Europe, as well as in South America, I wanted my Gustavson Exchange experience to be different from anything I had exposed myself to before. Hong Kong provided me the opportunity to explore yet another way of thinking and of life, this time within the context of my business degree and my passion for international affairs. Being able to immerse myself into the business environment through my research as well as into the day-to-day culture opened my eyes to how culture and our environments impact the way in which corporations conduct business. My biggest take-away was learning and applying this knowledge about the socio-cultural and political environments that surrounds societies and the way in which corporations are able to succeed in these differing environments.

Hayley Fairbanks

Anyone who knows me knows that I hate being given a detailed project topic and asked to follow strict criteria. Not only do I hate it, I am bad at it. So when I heard that there was a course where you could write a paper on exchange about any business topic you wanted, I was excited to put my energy into something with endless possibilities. Writing this paper involved two things that I am pretty good at: writing with little direction given, and hitting the pavement, annoying unsuspecting victims. Tilburg was a great experience and I will always remember the hospitality of Smartwares Group.

Will Goldbeck

My exchange experience coupled with the COM 470 Research Paper provided me with an incredible opportunity to build on and expand my international experience. Working on my COM 470 paper allowed me to develop and build a stronger insight into Hong Kong, and more specifically, China through an academic lens of creative license and independent research that I otherwise would not have experienced. The independent research gave me the opportunity to strongly improve and develop my research and writing skills in a setting that was both fascinating and challenging. Overall, the course paired with the international experience was an interesting and rewarding experience.

Lukas Larsson

When I left for exchange, my intention was to avoid writing the COM 470 research paper. However, for various reasons I ended up writing it, and cannot emphasize enough how glad I am that I did. Was it challenging? Absolutely. Frustrating at times? Undoubtedly. But despite this, the good far outweighed the bad. I spoke with some incredible people, became infinitely more comfortable doing research, and learned so much about the Czech Republic that I otherwise would not have. Overall, I truly feel that writing the COM 470 research paper gave me a more complete exchange experience.

Chris McEachran-Law

I was lucky enough to go on exchange to NOVA School of Business and Economics in Lisbon, Portugal. The connections and experiences that I had on exchange were incredible and I know that I will always have fond memories of those four months. The depth of knowledge that I gained by doing international research enhanced my experience because I was able to see, and think critically about, the business phenomenon that I was researching. I can honestly say that I will never be able to open a bottle of wine without thinking about my research on corks and my exchange experience as a whole!

Natalie McIver

Having the opportunity to research siestas was an engaging experience, complemented by the fact that I was living in Spain at the time. I found that though many of us know the general concept of siestas, we do not truly understand the cultural background of them, and how they are now effecting the way global business is conducted. This research paper was an excellent avenue for me to gain a better understanding of the country I was living in, while combining and utilizing my past education.

Jenna Sargent

My international exchange experience provided many unique opportunities to engage with different cultures and put my international studies to use. One of my greatest takeaways from living and studying in Austria and travelling to other countries was learning how to communicate with and adapt to different cultures on a regular basis. While on exchange I got the opportunity to research the effects of conscription on educational and career advancement among youth; a topic that was very relevant in my exchange country of Austria, being one of the last European countries with conscription. Being immersed in these different cultures allowed me to conduct quality primary research that would have been impossible in Canada. This experience was very valuable and I would definitely recommend international study and research to others!

Charlene Smith

Being able to research an incredible economic phenomenon while in Germany was a great compliment to my exchange. It truly deepened my understanding of some of the success factors of this country. Writing this paper helped answer questions that I had regarding the make-up of the German economy. Not only that, but it allowed me to engage and learn about cultural differences that affect business decision making - which is great for the IB specialization. Curiosity drove me to some leaders in this particular field of research who provided incredible insight when I contacted them. I would highly recommend engaging in this process as it provided the opportunity for great learning.

Patrick Webb

Terrorism Takes a Toll on Tourism

The Effects of Terrorism on France's Tourism and the Country's National Airline: Air France

Reilly Baldwin

The objective of this research paper is to analyze how the rise of numerous terrorist attacks in France have affected France's tourism industry, specifically how it has affected France's national airline company Air France. This paper will describe France's tourism industry as a background to provide context for its current state. The change in the industry's success will be highlighted by a timeline of the recent terrorist attacks and how the country has been affected. Furthermore, Air France's current success after the attacks will be examined in comparison to how they were succeeding before the terrorist attacks. Finally, Air France's ability to respond to the effects of the attacks and a future projection is compared to the American airline company US Airways after 9/11.

The last time I saw Paris, her heart was warm and gay, I heard the laughter of her heart in every street café.

Oscar Hammerstein II

INTRODUCTION

Sitting there, in a café in the foreign city of Paris, I was far from the life I knew – my family, my friends, and the Canadian ways of living. The French language surrounded my ears, the smell of fresh butter croissants filled my nose, and cigarette smoke filled my lungs. Different as it may have been, the experience was thrilling. Paris, the city of light. I felt alive and part of something big. That's the magic of Paris.

My initial days in France were just as I had remembered the country when I visited Paris six years ago. However, as I walked down the Champs Élysées this time, it wasn't the mass of tourists that caught my attention, but rather something much different: the armed French police – a result of increased security due to the high threat of terrorism within the country. Their presence was daunting and certainly changed the traditional dynamic and chic environment of Paris. There were metal detectors and guards everywhere near city landmarks, large military SUV's roamed the streets, and if I went into a grocery store with my knapsack, it had to be checked and even stored in a locker outside the entrance of the store. When the time came to decide on a phenomenon that was affecting France, terrorism came immediately to mind. If terrorism was affecting my experience on exchange, the effects terrorism must be having on businesses must be significant.

FRANCE'S TOURISM INDUSTRY

With France's rich history dating back to the invasion of the Vikings, then the ruling of the numerous Louis', with the famous Marie Antoinette and Napoléon, and France's involvement in various wars; notably World War One and Two, France has always been recognized on a global scale. Combine this with France's unique architecture, its world renowned cheese and wine, and its famous attractions such as the Eiffel Tower and the Chateau de Versailles, there is no wonder why France, especially Paris, is the world's number one tourist destination. With all it can offer, it can easily defend its title every year.

Annually, France is visited by over 83 million people, with people arriving from all around the world such as North American, Asia, India, and Europe (French Embassy, 2015). In 2015, European and North Americans remained the primary visitors; however, Chinese tourists visiting France rose to 2.2 million and visitors from India rose to 500,000 (French Embassy, 2015).

Paris welcomed over 99.8 million travellers through its airports in 2015, with 65.8 million going through the primary Aéroport-Paris Charles de Gaulle (Tourism in Paris, 2015). Of the people choosing to make Paris their

destination, 4.4 billion euros were generated by Parisian hotels (Tourism in Paris, 2015). During foreigners' time discovering Paris, they on average spend 155 euros per day on expenditures (Tourism in Paris, 2015). Tourist spending is one of the largest contributors to France's economy, representing seven percent of France's GDP. In addition to providing a steady stream of revenue for the country, tourism represents a 12.4% share of tourism-related salaried employment in Paris and the Greater Paris region. This accounts for approximately 400,000 jobs (Tourism in Paris, 2015). In return to promote, maintain and operate tourist attractions, France ranks as the six biggest spender for international tourism, spending \$42.4 US billion (Tourism in Paris, 2015).

When analyzing activities cited by leisure tourists as reasons for visiting Paris in 2014, discovering the city came in as the number one reason (54.6%), number two being visiting museums and monuments (46.3%), and gastronomy represented a primary reason by 9.6% visitors (Tourism in Paris, 2015). France has built up a strong reputation as a cultural destination; however, France's image as the top travel destination has recently blacked in the wake of the series of on-going terrorist attacks.

TERRORISM STRIKES TOURISM

In the past 2 years, it has become far too frequent to see France's tricolored flag raised and projected on monuments to declare solidarity as a country and to show empathy for the victims of terrorism attacks. France has been suffering from an extreme period of violence and radical attacks like nothing the country has seen in years. France's involvement with the US-coalition to air strike the Islamic State (IS) and France's western liberalism views can be seen in the eyes of the Islamic State as an atheist power trying to impose such ideas on their Islamic society (Burke, 2016); a few reasons why many speculate France is in the Islamic State's target. Regardless of the reason for being a primary target of IS attacks, France has been relentlessly affected by the series of attacks. The following table is a timeline of the main terrorist attacks affecting France:

Timeline Of Attacks

January 7-9, 2015

Charlie Hebdo Massacre

After the publication of numerous controversial cartoons which satirically depicted the Prophet Muhammad, two gunman killed a total of 12 people: eight journalists, a visitor in to the Charlie Hebdo's office, two police officers, and a caretaker during the three day crises.

November 13, 2015

Paris Attacks

The worst terrorist attack on Europe in a decade, when a series of explosives placed in numerous restaurants, the Bataclan concert hall and the Stade de France go off. 130 people were killed and hundreds were injured.

November 14, 2015

State of Emergency

In response to the attacks in Paris, President Francois Hollande announced a state of emergency in France, and implemented border control checks at all entry points.

November 21, 2015

Brussels goes on lockdown

With the main suspects of the Paris attacks being Belgian extremist, the city is placed in lockdown to carry out over 19 raids to arrests those involved with the Paris explosive. Fear and security is extremely high in both France and Belgium.

November 23, 2015

An explosive vest is found in Paris that contains the same type of explosive used in the Paris attacks.

March 22, 2016

Brussels Airport Bombing

Twin blast hit the main terminal in the Brussels airport, with another explosion going off at the Maelbeek metro station, killing a total of 32 people and injuring 340 people from around the world.

July 14, 2016Bastille Day Attack

An Islamic extremist crashed a 19 tonne truck through barriers and into crowds of Nice celebrating France's independence. More than 300 people were hurt and 84 confirmed dead.

July 26, 2016Priest Beheaded

In the northern city of Rouen, France, two gunmen claiming to be from the Islamic State entered the church and took the priest and four other people hostages. They beheaded the priest before being shot dead by police.

November 20, 2016

Seven ISIS members were arrested in Strasbourg and Marseille, France. The group was nervously awaiting a weapons delivery to carry out an attack in Paris and potential Strasbourg, one of the largest Christmas markets in Europe.

Sources: BBC News, (2016), Chazan & Banks, (2016), Dearden, (2016)

Terrorism Effects On France's Tourism

After numerous tragic terrorist attacks in the past two years, especially the Paris terrorist bombing of November 13th, 2015 that killed 130 people; Paris known as The City of Light, has been not looking so bright. The terrorist attacks have had a large impact on the tourism industry, decreasing the number of visitors and economic growth of France. In the first half of 2016, tourism dropped 6.4% in the central French area of Île-de-France, which amounts to one million fewer visitors and an economical loss of €750 million.

The attacks have spread anxiety among travelers about the possibility of another attack, resulting in a large decrease in the number of tourist visiting Paris. The fallout of tourist from the attacks have caused many Parisians hotels' occupancy rate to fall to a slim 32% in the second half of July 2015 compared to 77% the previous year (Chazan & Banks, 2016). The same effect hit hotels in Nice in the two weeks following the Bastille Day attack, with hotels suffering a 45% decrease in revenue (Chazan & Banks, 2016).

At Mont-Saint-Michel, a castle located on an accessible island and known for being a top tourist destination for its beauty and uniqueness, business was so poor after the November 13th Paris attack that the Sodetour Group, the chain owning most of the local hotels and restaurants on Mont-Saint-Michel, saw a decrease of 70% for most of their businesses (Alderman, 2016). The chief executive of the Sodetour Group explained he had to send a third of his 230 employees home for four months and temporarily shut half of the five hotels and four restaurants. Business has slowly picked up; however, 17 positions have been eliminated and businesses on the island are now only hiring new employees on temporary contracts to mitigate in case of a future attack.

By the end the of August 2016, the after-shock of both the Paris and Nice attack seemed to be fading, allowing businesses profits to revive and receive higher amounts of visitors again. Unfortunately, France's steady environment was shaken once more by the killing of a priest near Rouen, located in lower Normandy, an attack carried out by militants claiming allegiance to the Islamic State. The attack may have only killed one man, not as a dramatic scene as the previous attacks; however, the fact that Rouen is a small French town that may people could most not likely place on a map is what had a further impact on tourism. This small-town attack demonstrated to the public how an attack could happen anywhere.

Across the globe, other countries are suffering from security problems, yet France is the center of attention as it has never been associated with violence or terrorism in the minds of tourists. A security guard, Salim Toorabally, who was at the Stade de France the night three suicide bombs detonated expressed his reaction: "I didn't think that we were being attacked by suicide bombers. I would never have thought that we were going to see this type of attack in France" (Rubin, 2016).

Even after the Charlie Hebdo attack, the country and its tourism industry bounced back rapidly. But the recent attacks are different – they are not targeted attacks like Charlie Hedbo or historic war attacks. The attacks in 2015 and 2016 are aimed at the general public to kill random people, at random times and in random locations.

TERRORISM EFFECTS ON AIR FRANCE

There is no denying the fear of being a victim of a random terrorist attacks in France has taken a toll on France’s tourism. Hotels, restaurants, and museums have all seen a decrease in business over the past months. In addition, another industry that has been affected by the effects of terrorism is France’s aviation industry; specifically, Air France, who has recently experienced a downturn in the company’s performance. Air France is the French Flag carrier and one of the largest airline’s worldwide.

History of Air France

On October 7, 1933, five French airlines, Air Union, Air Orient, Société Générale de Transport Aérien, CIDNA, and Aéropostale, all came together to create one aligned airline – Air France. During this time, Air France was in the commercial aviation industry with a specific focus on mail transportation. The airline continued to expand and add new destinations, such as an Atlantic crossing, until all flights were suspended when the Second World War started. When the war ended, Air France flights resumed with the company became nationalized in 1945 (History, 2015).

The aviation industry then hit a massive boom with the creation of first jet planes in 1950. Air France started operating the first Caravelles and Boeing 707s, which increased demand and sales substantially. The increase in flights, passengers, and number of planes compelled Air France to relocate its headquarters from Orly to Paris-Charles de Gaulle 1 in 1974 (History, 2015). To accommodate for the ever-growing demand, Paris-Charles de Gaulle 2 was built in 1982 (History, 2015).

A period of intense competition was next created when the idea of accessible worldwide travel became the dream for both passengers and airlines. Air France differentiated itself by positioning its brand as a high-quality brand with great comfort, detailed in-flight service, and the “chic” way to travel. In the 1990s, acting upon the need to offer diverse networks of flight destinations, Air France took over and merged with a variety of French airlines to ultimately expand their medium-haul and long-haul flights (History, 2015). However, the integration with many French airlines was not sufficient due to the “open skies” agreement between France and the United States; where airlines needed to offer an increasing number of international destinations.

This lead to the creation of the SkyTeam alliance, an alliance by Air France and a dozen of different airlines from most major countries and continents. Then in 2004, Air France took their growth one step further and merged with KLM Royal Dutch Airlines to become the largest European airline group (Air France KLM – Corporate, 2015). Both airlines operate under their individual name, brand, operations, and from their respective hubs Paris-Charles de Gaulle Airport and Amsterdam Airport Schiphol, but share a network of flight paths.

Air France’s Position Before The Attacks

According to the International Air Transport Association, the global airline industry was projected to produce a high net profit of \$19.7 billion in 2014 (Davies, 2013). This was due to the decrease in fuel prices and the adoption of new, larger, and better planes from Boeing and Airbus. Such conditions did allow Air France to see company benefits.

Before the notable attacks began in 2015, Air France’s revenue in 2014 was €24.9 billion with €5.41 billion of debt (Figure 1). The company was pleased with their financial revenue, however numerous aspects made the environment a difficult year to achieve stronger profitability. Air France’s brand has been traditional recognized as luxury airline, through great comfort and quality customer service, with it being especially popular among the business travelers. However, the emerging success of budget airlines such as Ryanair Holdings PLC and easyJet

PLC in Europe began affecting Air France’s market share. Air France responded in two ways. The first was to launch a new marketing campaign with the tag line “France is in the Air”, where exceptionally chic, funky and artistic advertisements convey France as a lively, creative and open destination (Figure 2). The campaign was extremely successful, as airlines traditionally have a customary and conservative marketing style; however, Air France adopted a special and bold position to differentiate its quality of service from the budget airlines. Frédéric Gagey, the CEO of Air France states:

“2014 is the year of Air France’s commercial offensive. With the move upmarket of our products and services, the launch of new destinations, new ambition in terms of digital services as well as greater availability of our Mini fares.”

(Pursuitist, 2015)

The second strategic response to compete with the budget airlines was the implementation of a cost reduction plan to develop the company’s low cost sector. The plan consists of positioning the airline to be more cost competitive to be able to reduce ticket prices and offer more discounts fares (Landauro, 2016). Air France’s evolving market position is demonstrated in following Position Map.

Air France was successful at cutting costs, which is demonstrated by key figures in the company’s annual financial report (Figure 3). However, the implemented cost reduction plan unfortunately created tensions between cabin crews, because a method of cost cutting was by changing work conditions and eliminating thousands of jobs. As a result, pilots and crew members striked, causing a €425 million loss in revenue due to passengers not being transported (Landauro, 2016).

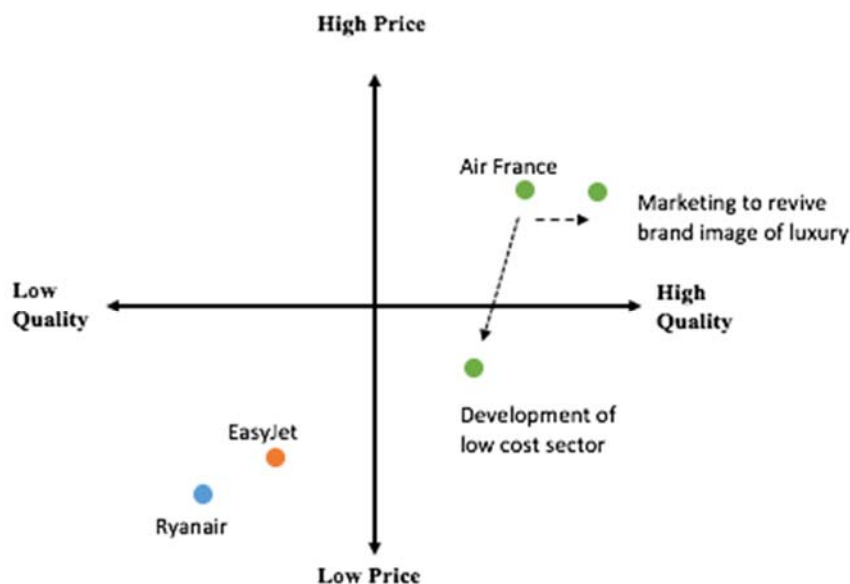


Figure 1. Position Map. Created by Reilly Baldwin. Information gathered from: (Thomas, 2015) (Pursuitist, 2014)

In 2014, Air France was producing positive revenues, but was also dealing with the threat of emerging competition and numerous employee and management disputes.

Development of a New Threat

From the beginning, Air France's strategy has been to *"Bring Europe closer, carry the world to Europe and welcome the world in Europe"* (History, 2015). Air France has strong strategies in place to increase their efficiencies in all areas of their value chain, to continue building alliances and to progress their commitment to high class customer service. However, their financial report for the first half of 2016 (January – June 2016), Air France identified the following risks to the company's current development in 2016 and going into 2017:

Terrorist attacks, threats of attack, geopolitical instability

The on-going situation of geopolitical instability and terrorist attacks in many countries could have a negative impact on both the Group's "passenger" traffic and, consequently, its revenues, and on the level of operating expenses.

Source: First half financial report, (2016).

For Air France to state this in their financial report to investors and stakeholders is significant. It sounds an alarm bell that passenger revenues are at risk due to terrorism. The question then becomes how has terrorism affected Air France?

Effects of terrorism on Air France

The numerous on-going terrorist attacks across France, and even Europe as a whole, certainly have had various impacts on the country. Air France, a national prided company, was no exception to the crippling effects of terrorism within France. The attacks have caused not only financial problems, but also a decrease in the company's on time flight performance as quality of flight services and timing have been disturbed by the threat of attacks. The attacks have been primarily targeted at locations within French cities, however numerous exterior terrorist threats forced Air France to make emergency landings, divert flights or all together cancel flights. This has only increased the fear of flying and specifically flying to or from France. Because of the following timeline of threats or attacks, Air France has had to increase their level of security, adopt new terrorist mitigation procedures for employees, and implement new advertising campaigns to avoid losing passenger.

December 2015

Air France flight from Mauritius to Paris was diverted to Kenya to make an emergency landing after a suspected bomb was found. Fortunately, the CEO of Air France declared the object found in the aircraft's bathroom to be only a fake bomb made of cardboard, paper and a household timer (The Latest, 2015).

December, 2015

On Tuesday, an Air France flight traveling from San Francisco to Paris was diverted to Montreal, Canada, after reports of an anonymous threat. All 231 passengers and 15 crew disembarked the plane to be subjected to a security check, before getting back on and continuing their journey several hours later. (Westcott, 2016)

January 2016

French ambassador to Burkina Faso says Air France flight from Paris to Ouagadougou diverted as a result of hotel attack (Breaking News, 2016).

March 2016

Brussels Airport was shut down following the terrorist attacks in the city in March 2016, and remained closed for the following days. Due to the fear and the closing of the airport, Air France allowed passengers who had a ticket to or from Brussels in the weeks following the attack to postpone their trip for no extra charge if it was within a certain timeframe, or those guest who want to postpone their trip by months,

wished to change their origin or destination or no longer want to travel at all were eligible for a non-refundable voucher valid for one year on Air France, or one of Air France's subsidiaries (Vora, 2016).

March 2016

Air France: Nothing found after anonymous threat forces evacuation of NYC-bound flight at Paris Charles de Gaulle (Breaking News, 2016).

The result of terrorism being felt outside of France has caused not only logistical issues for their flying destinations within France, but also the logistics and Air France's image for international flights have become affected. "The terrorist attacks that have happened in Europe, but especially in France, are of course hurting France as a destination," Air France-KLM chief financial officer Pierre-François Riolacci said (Westcott, 2016).

Air France, just like France as a destination, has become positioned in many passenger's minds as a risky form of transportation due to the persistent threats of terrorism. The inconsistent performance of the airline due to the growing number of threats of attacks has distilled fear among the travelling population; consequently, passengers booking with Air France have declined.

Financial Effects

In 2015, the attacks on France started becoming more frequent, violent and prevalent in the global news of current events. However, it was the November 13th, 2016 Paris terrorist attacks which killed 130 people that really brought France to the center of the world's attention and brought to light the reality of the horrifying presence of terrorism within France. In the wake of the Paris attacks, all airports were temporarily closed with flights being grounded for the following days. The result for Air France was a considerable loss of revenue from tickets sales being cancelled due to the grounding flights and further having travelers cancel their tickets to France for the weeks following the attack. Air France declared it suffered a \$54 million loss (Westcott, 2016). After a national period of mourning, life started to resume itself as usual; however, business in the aviation industry was not so prosperous. Before the attacks, Air France stated its level of passenger were higher than in the same period last year; but even if flights had resumed, the fear of an attack left seats vacant. By using the measure of seats sold called the "load factor", Air France determined the number of seats sold in 2016 had fallen behind the number of seats sold in 2015 (Rothman, 2015). It was down by 0.9 percentage from the year earlier in the November 14 to November 30 period (Rothman, 2015).

The Paris attacks directly affected the French airline's ticket sales and the company projected the effect of such a large terrorist attack would continue to affect ticket sales into the following year. Air France's chief financial officer added however, that the effect of the attack will be "very limited" and "current booking trends are in line with a progressive recovery" (Westcott, 2016). Air France's projections may have been accurate but their predictions did not include the effects of any possible further attacks occurring. Sadly, any recovery Air France had made after the Paris attack was halted when terror struck again only seven months later in Nice, France. On July 14, 2016 – Bastille Day, a 19-ton truck purposely ran over and killed 84 people. The image of France was only darkening with each attack, resulting in a consistent difficulty for Air France to sell seat tickets. Chief Financial officer, Pierre-Francois Riolacci, explained how "bookings for July and August were slow, and forced ticket prices down by 10% or more to fill seats" (Wall, 2016).

Both the Paris and Nice attacks were covered in the media internationally, informing the public about the terrorist crisis France was undergoing. Subsequently, the majority of dominant countries issued travel alerts to exercise a high degree of caution when travelling to France and to be "vigilant when attending large holiday events, visiting tourist sites, using public transportation, and frequenting places of worship, restaurants, hotels, etc." (Travel Advice and Advisories for France, 2016).

The growing levels of media covering the terrorist attacks have reached millions of people worldwide and have scared tourist away from France; causing a decrease in Air France’s ticket sales. In Air France’s most recent Financial Report for the first half of 2016 (January – June), the total passenger network revenues amounted to €9,413 million, which was down by 2.6% from 2015. Table 1 represent a breakdown of the Passenger Network activity by region:

| | Load Factor (in %) | | Number of Passengers (in million) | | Scheduled passenger revenues (in euro million) | |
|--------------------------|-----------------------|---------------------|--------------------------------------|---------------------|---|---------------------|
| | 2016 | Change from 2015 | 2016 | Change from 2015 | 2016 | Change from 2015 |
| Asia/Pacific | 86.10% | 0.4 | 2,873 | -4.3 | 1,426 | -8.60% |
| North America | 86.80% | -0.7 | 3,525 | 1.8 | 1,830 | -0.70% |
| Latin America | 87.10% | 1.0 | 1,513 | 3.8 | 764 | -8.00% |

Table 1. The breakdown of the Passenger Network activity by region.
Created by Reilly Baldwin. Source: First half financial report, (2016, p.16).

From the table above, it is noticeable that the number of passengers travelling did not actually largely decrease, demonstrated by the increase in number of passengers and the load factor. However, revenue from sales decreased. Therefore, Air France was able to fill their planes but only at the cost of largely reducing ticket prices to entice hesitant travelers with cheaper flights. Air France also reduced the number of full-freighter aircraft flights, which reduces the percentage needed to maintain a strong load-factor because there are physically less seats to sell. The largest change in passenger revenue from the previous year came from the Asia/Pacific market. Air France’s chief financial officer (CFO) describes how it is the Japanese market, one of the biggest tour groups to visit Paris, who represent the massive drop in ticket sales for the Asian market (Rothman, 2015). For the Japanese who are known for their high uncertainly avoidance according to Hofstede’s theory of culture dimensions, the threat of terrorism has only further scared them away from traveling. Interestingly, Air France still received a large number of Chinese tourist booking trips, as the media in China does not provide the same in depth coverage of the attacks compared to the news releases in Japan (Rothman, 2015). North America was additionally affected, represented by North American’s being Air France’s target market with the greatest negative load factor change from the previous year.

It would be rationale to conclude that a large decrease in number of passengers would result from the on-going threat of terrorism. Yet, whether due to Air France’s accurate marketing of cheaper flights or other external reasons, the number of passengers flying has not decreased but revenues did decrease because of the discounting and lowering of ticket prices. Though revenues decrease, for both Air France’s sector of passenger network and the company’s total revenue, total operating expenses decreased by 7.3 % to €10.30 billion (First half financial report, 2016). This has allowed the company to produce a positive income from operating activities – income was –€154 million in 2015 but has been improved to €119 million in 2016 (First half financial report, 2016). Dominate cost saving activities are represented by the following two expenses:

- Aircraft Fuel: the first half of the year’s fuel expenses totaled to €2.26 billion versus the €3.14 billion it cost the previous year in June 30, 2015. The fuel bill declined by 28.0% due to Air France’s improved fuel efficiency which saved €79 million, and the decrease of market fuel price to save €858 million.
- Landing fees and air route charges for the use of airspace and airports decreased to €914 million compared to €941 million in June 30, 2015. The fees decreased by 2.1% because of changes in passenger related activity, such as the use of fewer full-freighter aircraft due to less passenger demand.

Source: First half financial report, (2016)

Relative to a decrease in operating expenses, Air France has been able to maintain a stable economic position and continue to offer reliable business due to the company's ability to decrease their level of debt. In 2012, Air France launched "Transform 2015", a company transformation plan to reduce cost in efforts to reduce debt. It was questioned if Air France's target level of debt reduction would be reached after the Paris attack; however, Air France's CFO affirmed Air France's goal of cutting net debt to €4.4 billion won't be impacted (Rothman, 2015). The plan was highly reflected in the company's 2016 financial position, where the sum of net debt stood at €4.3 billion, aligned with the plan's target. This represents a deduction by a third of the total debt over four years (First half financial report, 2016).

The effects of the terrorist attacks certainly put a strain on Air France's profitability; however, the attacks additionally catalyzed further tension between Air France and its cabin crew. Air France is unfortunately notorious for consistent labor disputes, with strikes occurring yearly. Therefore, as Air France started making cross-department cuts to accommodate for the increased economic constraints from lack of ticket revenue and to ensure the debt target from the "Transform 2015" plan would be met, pilots and air craft crew became discontent with their work conditions. Due to the disputes regarding employment contracts, cabin crew refused to work and started striking in early June 2015, which caused 30% of domestic and medium-haul sized flights, and 10% of long-haul flights to be cancelled (Mcpartland, 2015). The CFO of Air France highlighted how the June 2015 pilot strike costed €500 million (Rothman & Fouquet, 2015).

What can be interpreted from Air France's financial analysis is how the effects of terrorism on Air France's profitability have short-term effects in relation to each terrorist attack, but have not had a dominant effect in reducing the company's overall profitability. In July 2016, Air France posted the year's first half revenue at €11.82 billion (First half financial report, 2016), where if the second half of 2016 produces similar results (11.82 billion x2 = 23.64 billion) would put Air France in a very similar financial position as they were in 2014 before the rise of terrorism. Revenue in 2014 was €24.9 billion (Full Year 2014 Results, 2015). Air France reported a decrease in revenue in 2016, however the effects of terrorism are not solely the cause of the decrease. The volatile environment of changing currencies, fuel cost, aircraft fees, and employee relations have a much larger influence on Air France's profitability.

AIR FRANCE'S FUTURE: A COMPARISON TO US AIRWAYS

France has been suffering from a series of extreme and violent attacks unlike any of the developed and economically stable countries have seen since 9/11. This led many to fear that the terrifying effects of 9/11 on American airlines could happen in Europe as well. Air France being affected by terrorism can be thought to be compared to the US's aviation industry after the 9/11 terrorist attack. However, the downfall of major US airlines, notably US Airways, does not provide an adequate project for what could happen to Air France, as the two airlines had different financial and industry environment stabilities before the attacks.

As previously stated from the analysis of Air France's position before the attacks, Air France was relatively stable. But on the contrary, US Airways was already headed for a financial disaster even before 9/11 occurred because of extreme debt and long established organizational problems. In 2000, US Airways had approximately \$7.3 billion of debt but only turned a profit of \$37 million, compared to Air France who had a profit of €24.9 billion before the attack (Isidore, 2000). In addition to financial problems, US Airways' organizational structure was extremely fragile due to the failure to evolve traditional airline practices to meet the new 20th century consumer demands (Isidore, 2006). This lead US Airways to struggle to keep cost low and provide desirable work conditions for employees. Therefore, when 9/11 struck, US Airways was affected deeply by the attack. For weeks, they were losing \$3 million a day from the closure of airports and the cancellation of thousands of tickets (Carey, 2003). Therefore, without a previously large profit to keep them operating during the after math of the attack, there was no surprise when US Airways filed for Chapter 11 bankruptcy in 2002 and then again in 2004 (Carey, 2003). Airline

consultant experts have stated that 9/11 was a catalyst for US airlines changes. US Airways was either going to have to make changes to their fundamental structures or face failure, and 9/11 initiated those changes.

It can be projected that Air France will not suffer as badly and for as long as US Airways. This is due to Air France's stronger financial stability; more revenue and the reduction by a third in net debt over four years that has enabled the Air France to remain viable. It is unlikely the airline will have to file for bankruptcy as did US Airways. Air France also has a more beneficial aviation environment, such as lower fuel cost and improved airport security, and the airline has the consistent advantage of France's long-standing history of being one of the most desirable tourist destinations. In addition, Air France has the aid from the French government, who has introduced a promotional plan aimed at reassuring visitors about the beauty and levels of safety in Paris. The French government will be spending approximately €10 million to help restore the image of the European nation following several high-profile terror attacks (McHuge, 2016). Even more, the return of visitor seems already to be increasing, with tourist revenue for hotels and restaurants rising again. According to a US based tour group who saw a large decrease in bookings after the November 13, 2015 attack, the tour group has stated their France bookings for 2017 are back on track (McHuge, 2016).

CONCLUSION

The repetitive occurrence of terrorist attacks in France have undoubtedly take a toll on France in various ways. The image of France is no longer only associated with romance, gastronomy, and luxury, but now the country now has the addition of violence and risk to their image due to terrorism. With each new attack, the level of tourist visiting France decreases, taking a toll France's national airline Air France. Air France has seen a fall in tickets sales and number of passengers following after each attack; however, these decreases are only temporary and have only had a small effect on Air France's overall profit. Other factors such as industry instability and human resources problems have had larger effects than terrorism on the company. As a comparison to US Airways, Air France is faring much more strongly after the terrorist attacks, credited to higher profits and lower expenses to manage the decrease in revenues, and a better company practices such as the successful launch of new marketing campaign "France is in the Air". Overall, Air France has been able to respond and manage the company's impact in the wake of the series of terrorist attacks, while France as a nation has come together to show strength, openness and love to help recover from the dark terrorist attacks. Long live "*Liberté, Égalité, Fraternité*".

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APPENDIX

Figure 1: Air France Full Year 2014 Results

Full Year 2014 Results

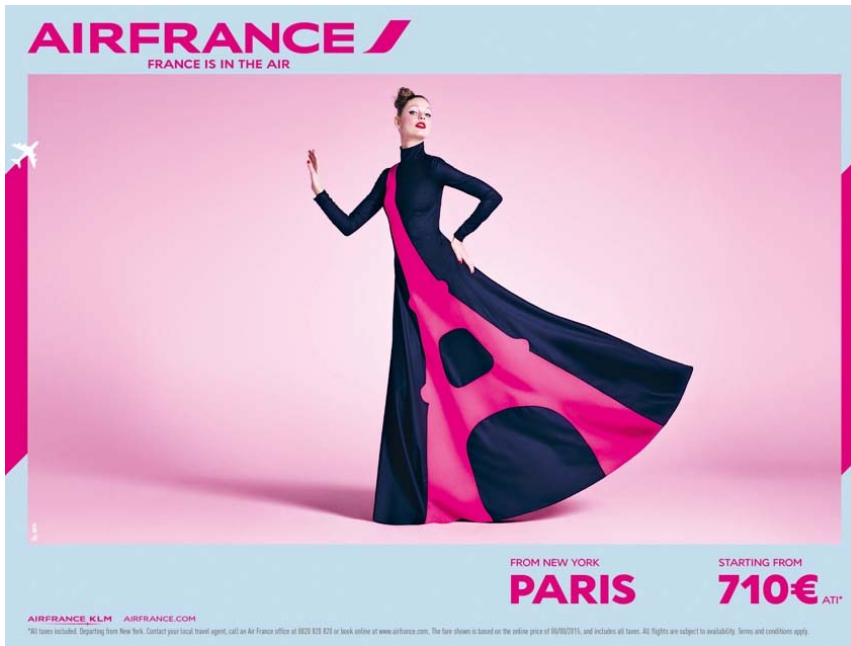
Full Year 2014 Results

- Revenues of 24.9 billion euros, stable (+0.3%) like-for-like¹
- EBITDA² of 1,589 million euros, down 266 million euros
- EBITDA of 2,014 million euros excluding the impact of the Air France pilot strike, up 159 million euros
- Operating result of -129 million euros, up 275 million euros like-for-like
- Third year of unit cost² reduction, down 1.3% like-for-like
- Net result, group share of -198 million euros, improvement of more than 1.6 billion euros
- Adjusted net result, group share² of -535 million euros
- Net debt² of 5.41 billion euros, up 59 million euros compared to 31 December 2013

Source: Full Year 2014 Results

Figure 2: "France is in the Air" marketing campaign





Source: Pursuitist

Figure 3: Air France's 2016 Operation Expenses

Operating expenses

Operating expenses decreased by 7.3 % to €10.30 billion. For capacity measured in EASK (equivalent available seat-kilometers) up by 0.3%, the unit cost per EASK decreased by 1.2% on a constant currency, fuel price and pension expense basis (see page 30 for the detailed unit cost calculation).

At €7.0 billion, **external expenses** decreased by 10.9% (€7.9 billion one year earlier).

The breakdown in operating expenses was as follows:

| (In € million) | June 30, 2016 | June 30, 2015 restated | Change (in %) |
|--|---------------|---------------------------|---------------|
| Aircraft fuel | 2,263 | 3,141 | -28.0 |
| Chartering costs | 215 | 217 | -0.9 |
| Landing fees and air route charges | 914 | 941 | -2.9 |
| Catering | 215 | 223 | -3.6 |
| Handling charges and other operating costs | 750 | 741 | 1.2 |
| Aircraft maintenance costs | 1,246 | 1,160 | 7.4 |
| Commercial and distribution costs | 463 | 465 | -0.4 |
| Other external expenses | 953 | 987 | -3.4 |
| Total | 7,019 | 7,875 | -10.9 |

The main changes were as follows:

- Aircraft fuel: first half fuel expenses amounted to €2.26 billion versus €3.14 billion at June 30, 2015. The fuel bill declined by 28.0% thanks to improved fuel efficiency (-€79 million) and especially a €858 million decrease in the price after hedging, despite a negative foreign exchange effect of €49 million.

Source: First half financial report, (2016).

Innovation in a Shifting Landscape

Atomic's Innovative Approach to Skiing and Its Application to Global Business Challenges

Taylor Cain

The objective of this case study is to analyze the responses organizations can employ to manage changes in the external environment that directly impact the growth and survival of their value proposition. This analysis focuses on the ski industry as a tangible example of environmental, economic, and cultural attributes that provide challenges and opportunities to stakeholders of the industry. Though challenges can be attributed to different external factors and locations, this analysis examines the interconnectedness of challenges threatening the continued growth of the ski industry moving forward. Further analysis of these challenges is investigated through Atomic, a ski manufacturer based in Austria with a history of an innovative approach to change management. The ski manufacturer's innovative approach to problem solving is evaluated through frameworks to provide further analysis of internal factors and how it influences its unique task environment to respond to challenges. The study of Atomic's internal factors and unique task environment aim to provide a backdrop for outlining the importance of intent in using innovation to manage business processes when facing external challenges, which can be applied on a larger scale. The findings from the analysis of Atomic are further applied to the challenges facing the organization going forward and to the approach needed by other organizations facing similar challenges in a wide array of industries. Methods for the analysis include conducting research through industry journals, environmental studies, industry studies, and company resources such as financial and sustainability reports.

INTRODUCTION

Businesses require flexibility and adaptability in the modern business environment, especially when their value proposition is interconnected with the natural environment. Research indicates that implementing sustainable development into company strategy has taken an important position in business and that organizations are employing "sustainability as a matter of optimization" (Luglietti, Rosa, Terzi, & Taisch, 2016). To achieve this, organizations make use of their entire stakeholder group including product designers, product and service engineers, management, the supply chain, and the customer group (Luglietti, Rosa, Terzi, & Taisch, 2016). This is particularly important for organizations that manufacture products that are tightly integrated with other industry services and specific environmental conditions. Additionally, further complexity is added when the industry services connected to the manufacturer's products are experiencing growth and have a significant connection to culture. Therefore, it is necessary to analyze the challenges and opportunities faced by organizations, and the responses possible through managing the innovation process to remain competitive in these conditions. Throughout this case study, the complexity experienced by industries facing challenges and opportunities related to sustainability, economic growth, and cultural aspects will be analyzed in further detail. The topic will be examined through the lens of the ski industry with a particular focus on Atomic, a ski manufacturer based in Altenmarkt, Austria (Amer Sports, n.d.). This case study begins with background information regarding environmental issues facing adventure tourism and the ski industry; economic opportunity and the tension between environmental issues facing the ski industry; and the connection between ski culture and environmental and economic aspects of the industry. This case study will next introduce and discuss the history of Atomic and innovation frameworks demonstrating how it has used innovation to respond to these challenges. This case study will conclude with a discussion regarding an analysis of external forces specific to Atomic's environment and what it must consider going forward. The concluding section will also outline considerations for other organizations that can be adopted for sustainable development in the changing global business landscape.

BACKGROUND

Environment – Adventure Tourism

When discussing the ski industry, it is important to analyze the relationship between the environment and business, as the sport is dependent on specific environmental conditions. In addition to being considered an extreme sport, skiing is considered a component of adventure tourism. Adventure tourism is defined as tourism activities that both involve a certain degree of risk through participation and usually occur in the natural environment (Giddy & Webb, 2016). In fact, the “environment not only provides the setting for the adventure activities, but also could bear the brunt of human impact upon it” (Giddy & Webb, 2016). This is an important point to consider for businesses involved in adventure tourism, as the maintenance of environmental conditions impact the activities that take place. This is also a point of interest for manufacturers of equipment, as changing environmental conditions impact the performance of equipment.

Furthermore, a study conducted by Brymer and Gray determined that participating in adventure tourism impacts the participants’ likelihood to live sustainably (Giddy & Webb, 2016). Also, one study examining adventure tourism along the Cape South Coast of South Africa found that motivation for participating in adventure tourism is complex and includes the opportunity to interact with the setting in certain ways (Giddy & Webb, 2016). These findings present opportunities for businesses closely connected with nature to provide experiences aligning with these values. However, this also presents the challenge of continuously improving and adapting service packages and equipment design to both protect the environment, and allow for more interaction during activities.

Environment – Ski Industry

Facing environmental challenges that coincide with adventure tourism, ski tourism organizations have implemented adaptive procedures to manage these changes. Some of these measures include locating resorts at higher elevations, building infrastructure for all-season resorts, and adding activities other than winter sports to their service mix (Dawson & Scott, 2016). These procedures demonstrate challenges the ski industry faces directly in responding to reduced amounts of snow available. However, even with “technological advances in snowmaking machinery and application, and the modernization of business plans, even the most sophisticated adaptation strategies still cannot shelter ski areas from the current and expected impacts of climate change” (Dawson & Scott, 2016). Clearly, this presents a significant problem to organizations in the ski industry regarding sustainable development going forward.

Also, one study examined the reliability of snow and its impact on ski tourism in multiple countries. It determined that under a two-degree Celsius increase in temperature, the percentage of ski areas with reliable amounts of snow included in the study (six hundred and sixty-six areas in Europe) is reduced from ninety-one percent in 2007 climate conditions to sixty-one percent with the increase in temperature (Dawson & Scott, 2016). This presents a challenge for all organizations involved in the ski industry, as the activity itself is threatened by changing environmental conditions.

Additionally, research conducted regarding climate change shows that there is increased likelihood that the ski industry will continue to contract, as it has done in the past. This impacts organizations in manufacturing ski equipment and the provision of skiing, as the ski activity providers, such as resorts, will need to cut costs in other areas in response to higher operating costs associated with the activity (Dawson & Scott, 2013).

Economy

While environmental changes pose new threats to the ski industry, the industry itself continues to recognize economic growth and increased opportunity. In Europe, there are over 60 million skiers (Maida, 2016). Analysts at Technavio forecast the global market for ski equipment to continue to grow, reaching and surpassing 5.7 billion U.S. dollars by the year 2020 (Maida, 2016). Moreover, Governments around the world are increasing efforts to promote skiing as the ski industry makes significant direct contributions to economies in countries. For example, in South Korea, the “government invested USD 10 billion in the development of infrastructure for winter sports,

which includes ski slopes” (Maida, 2016). This investment also includes the development of infrastructure for new, attractive forms of skiing, including night skiing, which is recognized as a way to drive growth in the ski industry (Maida, 2016). Clearly, governments are working hard to market skiing and capitalize on the growth the industry is seeing to attract skiers to visit their countries. This directly impacts the ski manufacturing segment as well, as large amounts “of this segment’s growth is driven by the increasing participation of people in skiing as the ski is the most important equipment for skiing” (Technavio, 2016). However, maintaining this growth when faced with environmental issues that threaten to counter the growth in demand create challenges for all members of the ski industry.

Moreover, the ski industry has a significant impact on the economy in certain countries, such as Austria. One report describes that the tourism industry in Austria contributes 4.9% directly to the country’s gross domestic product (Steiger, 2012). Additionally, tourism is expected to grow at a rate of 1% in Austria until 2030 (Steiger, 2012). Combined with environmental challenges, this is significant, as “[s]ome communities are entirely dependent on the winter season” (Steiger, 2012). Moreover, the Austrian Tourist Agency developed scenarios that were expected to impact Austrian tourism beginning in 2015 and extending beyond for years to come. These scenarios describe possible outcomes of winter tourism in Austria. Possible outcomes include an income gap resulting in polarized tourism packages with high and low quality; a contracting market resulting in increased costs for people to go skiing; an external force of high energy prices resulting in more care from participants and consumers about the impact of their actions; and new technology being developed that allows the winter tourism market to be retained (Steiger, 2012). The environmental changes being seen that directly impact the ski industry will create challenges that organizations must understand to respond to and determine ways to build on the economic potential of the industry. Analysis of these issues and their responses is more important than ever, with economic and environmental factors directly linked to preserving and developing both ski culture and the local culture in regions.

Culture

Both ski culture and the culture within regions are tightly interconnected with the environmental and economic impacts facing the ski industry, and understanding the systemic reach of the challenges is important to determining solutions. In terms of ski culture, the changing climate impacting stakeholders of the ski industry through shortened ski seasons have resulted in an increase in visits to indoor ski hills (Technavio, 2016). This highlights a global cultural change in the ski industry due to environmental challenges faced, resulting in considerations for members of the industry in providing services to skiers.

In terms of local ski culture, providers of services and equipment must make considerations to respond to shifting trends outside of their control. In Austria, the participation has seen a decline in tourists in the youngest age group “from 87% in 1991 to 63% in 2000” (Steiger, 2012). This describes a sociocultural trend that cannot be fully controlled by providers in the ski industry. However, it is important to be aware of trends similar to this, as they demonstrate a connection to environmental and economic challenges being faced, shown by research that describes a plausible explanation for this trend being increased costs of skiing. Moreover, this extends beyond cultural issues to impact the environmental and economic issues faced, as the ski industry and ski tourism is described as key to “Austria’s rural and peripheral areas and their socio-cultural and economic wellbeing, and relevant for the entire Austrian economy” (Steiger, 2012). This outlines the importance of the consideration of these issues for all members involved in providing products and services, as the customer of ski product packages changes, demand for product packages change, and the environment products are used in changes. The next section will focus on Atomic, a ski manufacturer with a history of innovative solutions to changes in the ski industry and considerations for these challenges based on their organizational attributes and application of external factors to business processes.

ATOMIC – COMPANY HISTORY

Atomic ski is an Austrian manufacturer of ski equipment founded in 1955 by Alois Rohrmoser (Amer Sports, n.d.). Throughout the second half of the twentieth century, Atomic became known as a leader in ski equipment development through its innovative approach to manufacturing. For example, in 1988, Atomic was looking to improve skis used in powder snow (Masia, 2005). Skiing in “powder is the most exalted experience in skiing. But for the uninitiated, skiing powder can feel like stirring cement” (Bastone, 2010). To improve the user experience for powder skiing, an Engineer at Atomic, Rupert Huber, made the connection between the way snowboards, which were being produced by the organization at this point, seemed to float over the powder. To meet the needs of powder skiers, Huber created skis by adapting a ski design based on the attributes of a snowboard. Atomic turned this idea into the Powder Plus ski, thus completing the innovation process by commercializing the first superfat powder ski. Although the market for this ski was described as limited, attributes of this ski would also assist in the innovative processes for the company in the future. Through monitoring developments in the ski equipment industry and adapting them to their own product lines, Atomic was able to continue their success through the early 1990’s and build on their innovation. In 1992, former Bulgarian ski team racer Ivan Petkov approached Atomic to design a new carving ski with improved stability. When Petkov eventually left Atomic to go to a rival manufacturer to produce his idea, Atomic took notice of the changes in design and created their own line (Masia, 2005). Therefore, Atomic’s approach to knowledge management and leading product design to meet the needs of skiers allowed it to rise as a leader in manufacturing ski equipment.

In the lead up to the 1990’s, the winter sports equipment sector in Austria consisted of many small factories (Mulligan, 2003). However, the ski equipment sector in Austria faced significant economic difficulties during the 1990’s, resulting in the government sponsoring consolidation projects to restructure and move production of all equipment brands to a reduced amount of very large production sites. Atomic received loans to allow the company to survive, but issues regarding “costs and quality at the company’s main factory...plus ill-starred forays into tennis, apparel and in-line skates led Atomic to default in 1994” (Mulligan, 2003). Nonetheless, this situation would not be the end of Atomic and its innovative approach to ski manufacturing. In 1994, Amer Group in Helsinki added Atomic to its portfolio for \$140 million dollars (Mulligan, 2003). After the completion of the takeover, Michael Schineis was appointed as the leader of Atomic, and restructured the company by removing distribution contracts that were incurring unnecessarily high costs and implementing a strategy of distribution to locations in Europe directly from the factory instead (Mulligan, 2003). This would place Atomic back on the path to success very quickly as it used the factory’s location to Atomic’s advantage, reducing distribution costs through a method that would be difficult for manufacturers in Canada or the United States because of larger distances between locations. This would contribute to reinstating the organization as an innovative leader in the ski manufacturing industry.

According to Mulligan, “the key to restoring Atomic may have been in its founder’s ambitious product development” (Mulligan, 2003). Referring to the Atomic Superfat Powder Ski, this innovation allowed the company to use an attribute of the ski to meet the current needs of consumers later on in the decade. In 1996, Atomic used the control over extreme conditions on the slopes provided by the Atomic Superfat Powder Ski to create and release parabolic skis for its customer base. The ski was highly successful and ultimately continued as a leader from its inception in the market in 1996 up through the early 2000’s (Mulligan, 2003). In addition to its products, other aspects of Atomic allowed it to recover from challenges it faced in its industry to retain this position, including internal factors and the unique task environment of the organization.

ATOMIC – INTERNAL FACTORS

The internal factors framework describes how change is managed within an organization to provide an innovative approach to its environment. This approach to management of change creates “idea generation and the development of new products or processes within organizations” (Dawson & Adriopoulos, 2014). The internal factors framework includes people, administrative structures, core business change, and technology. The people factor describes the impact that individuals and groups within the organization have on the innovative processes

of the firm. Core business change refers to changes in the core product the organization offers (Dawson & Adriopoulos, 2014). Administrative structure outlines the formal structure and regulations that coordinate innovative activities and general work activities. Ultimately, technology outlines the system of work and how it combines with the equipment to produce the product (Dawson & Adriopoulos, 2014). These factors work together to allow organizations to implement change in the organization. Through a dedicated approach to each factor, companies can optimize their resources and social capital to encourage more creativity and implement this creativity through innovative processes. Moreover, it is important to note that while internal factors are connected to each other, they also coincide with factors in the external environment. Internal factors for Atomic are described in the figure below to analyze how formal innovation processes in the organization allow for responses to challenges faced.

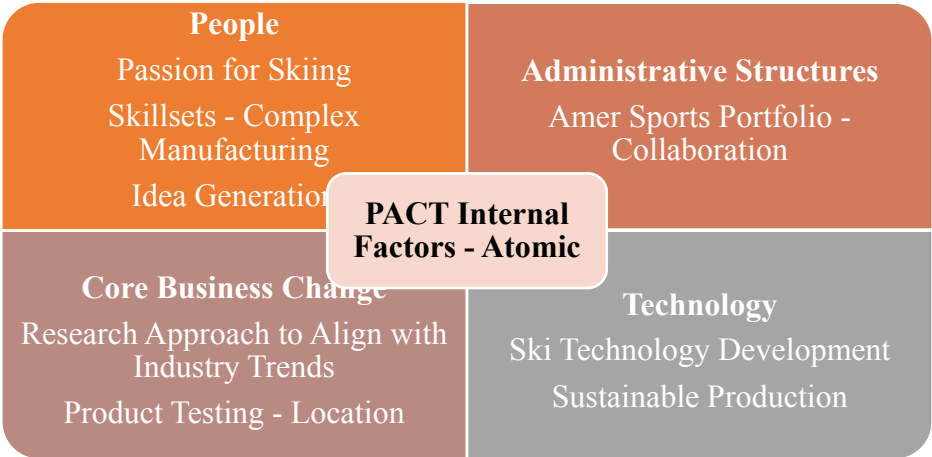


Figure 1: Internal innovation factors specific to Atomic.

People

The management of human resources at Atomic demonstrates a unique approach to managing internal factors to respond to a changing external environment. A key component of the human resources strategy at Atomic is the shared passion for skiing among members of the organization. Schineis claimed that each member working at the Atomic factory participates in skiing (Mulligan, 2003). Additionally, Atomic describes that their products demonstrate a fusion of expertise about skiing and the passion of employees for skiing (Atomic, n.d.). This internal approach shows that the company places high value on understanding the culture of the sport and the culture in the region it is based. This gives the organization a strong understanding and connection to the forces that cause the ski industry to shift. Moreover, another key part of their approach to human resources exists in Atomic’s parent organization: Amer Sports. In 2007, Teresa Leavitt was hired by Amer Sports to be Director of Human Resources. In addition to over twelve years of experience in Human Resources, Leavitt brought her experience “as a former owner of an adventure ski guide business” as well (Heitkemper, 2007). Both experience in professional areas (i.e. human resources) and the industry (i.e. ski industry) is a key part of the strategy towards people in the organization, providing innovation through shared passion and expertise.

In addition to the approach towards people from the perspective of a passion for skiing, the technical skillsets of employees is critical to responding to challenges in the industry. For Atomic, it is important that employees are highly skilled. The need for highly developed skillsets stems from the fact that the skis are produced through a process of layering and molding plastic, laminate, and wood. Moreover, even “[s]imple skis require 10 layers; high-quality racing skis contain as many as 50” (Mulligan, 2003). To meet the requirements of the equipment design, skilled employees are needed. This approach to human resources provides skilled employees with the ability to produce equipment, allowing customers to use the equipment to meet their performance needs and interact with the natural environment while skiing.

Ultimately, the approach Atomic employs towards idea generation within the organization demonstrates its approach to protecting the natural environment and culture its equipment is used in. Amer Sports describes that at the Winter Sports Manufacturing Facility in Altenmarkt, an initiative was implemented named the “Call of Ideas” (Amer Sports, n.d.). This initiative was put in place to generate new ideas within the organization to respond to greenhouse gas emissions. Moreover, these ideas have demonstrated full completion of this innovative process through their implementation in the factory through changes made to manufacturing and operating processes. Therefore, innovative internal programs involving employees at Atomic provides responses to industry challenges through creating and adjusting internal processes to meet the needs of the external environment.

Administrative Structures

The purchase of Atomic by Amer Sports and addition to its portfolio outlines how administrative structure allows for implementing changes to build on innovation to respond to external challenges. After Amer Sports purchased Atomic, the administrative structure created opportunity for collaboration with other organizations in the Amer Sports portfolio. This allowed for improved innovative processes through the ability to share technology between organizations in the portfolio. In particular, the partnership between Atomic and Wilson resulted in “shared technology” (Mulligan, 2003). One product developed through this partnership was a carbon fiber component originally used in tennis equipment produced by Wilson and then applied to snowboards produced by Atomic. Additionally, skis produced by Atomic have included “aerodynamic dimples on the upper surface similar to those on a Wilson golf ball” (Mulligan, 2003). These partnerships have given Atomic access to a wealth of innovative opportunity, allowing for equipment design to meet customer needs and capitalize on growth in the ski tourism market.

Core Business Change

Atomic Ski has adopted a research approach towards its products that allows for further innovation through alignment with industry trends. For example, Atomic was involved in assisting with funding for a study conducted at the University of Salzburg published in 2011 (Müller, Gimpl, Poetzelsberger, Finkenzeller, & Scheiber, 2011). This study aimed to determine the impact that skiing has on older individuals regarding health. Additionally, one article in the New York Times profiled a seventy-one-year-old skier who was using Atomic skis as part of his equipment for continued participation in the sport (Tuff, 2006). Undoubtedly, Atomic analyzes trends and is taking a proactive approach to taking advantage of trends through its equipment design. With the average age of skiers regarding ski tourism becoming older, it is critical that Atomic analyzes ways to meet the needs of its changing customer base. Researching ways to shape changes to the core product offerings is a method Atomic generates innovative responses to challenges in the industry.

Moreover, another aspect of Core Business Change present at Atomic is the product testing that occurs because of the company headquarters location. Amer Sports describes that the Atomic headquarters are located in the Alps, “where snow is always within reach and where every day new ideas are put to the test” (Atomic, n.d.). This focus on product testing as a way of core business change is further highlighted through the continuous development of the Vantage line, which “was a tester favorite for years thanks to innovative shaping, but this year was overhauled with new materials” (Peruzzi, 2016). Strategically positioning the organization in terms of location is beneficial to allowing for a continuous development approach, allowing it to adapt quickly to changes in environmental, economic, and cultural aspects related to skiing. Additionally, in the United States division of Atomic, an employee ski day is organized annually, where an entire van of prototypes is brought for employees to try out (Laliberte & Mowry, 2003). This involves employees in the product development process and also allows them to use their knowledge as participants in the ski industry to test innovative solutions for customers.

Technology

Moreover, the technology and equipment used by Atomic in its products and to create products demonstrate its innovative responses in the changing conditions of the ski industry. With the Vantage ski, Atomic recognized an

issue that consumers faced in terms of variations in snow-type, and solved it by designing this ski to be seventy-percent cambered. This resulted in a ski that allows the consumer to transition from snow packs found off the trail to tighter packed snow on the trail with more smoothness (Peruzzi, 2016)). This demonstrates versatility allowing Atomic to improve its value proposition and provide a better ski experience for customers in the industry.

Besides, the sustainable methods in place for production at Atomic demonstrate internal measures for responding to challenges. For example, Atomic is an associate of the Climate Alliance (Amer Sports, n.d.). The climate alliance requires its members to commit to cutting their carbon emissions by ten percent every five years (Climate Alliance, n.d). This demonstrates a strong connection the organization has to the culture and geographic regions in which it operates. This connection is further demonstrated by the fact that Altenmarkt, the location of their Austrian headquarters, is a listed region in the Climate Alliance. Through this measure, Atomic is actively working to improve conditions impacting skiing and preserve the culture in the regions it operates in.

ATOMIC – UNIQUE TASK ENVIRONMENT

The unique task environment encompasses “a range of factors unique to the environment of a particular organization or business” (Dawson & Adriopoulos, 2014). The unique task environment focuses on the external factors of the organization that are engrained in organizational functions. Additionally, the unique task environment impacts an organization’s capability for achieving goals and objectives (Business Dictionary, n.d.). The key attributes of an organization’s unique task environment include the customers, labour market, competitors, and suppliers. The customers are the primary stakeholder group that purchases the products from the organization. The labour market describes the market for recruiting and selecting employees unique to the organization (Dawson & Adriopoulos, 2014). Competitors include the approach to direct competition. Suppliers include the organization’s supply chain and how those relationships are managed. For Atomic Ski, this is a critical part of its ability to use innovation as a focal point in its strategy to respond to changing pressures.

Customers

Atomic’s focus on providing its customers with solutions aligned with meeting customer needs demonstrate the organization’s innovative approach to managing stakeholder relationships to respond to changes in the ski industry. One element of this approach is the customer solution packages that Atomic offers its stakeholders. One product, the Atomic Hawx, is an example of this innovation providing customers with a solution to improve ski experiences. The Atomic Hawx is a boot that restores “the balance of power for alpine booters” (Steiner, 2016). This boot provides alpine skiers with an advantage because it is designed to retain stiffness for tight turns, but is much lighter than the typical alpine boot. This allows skiers to retain their energy, so they can enjoy the tight turns the boot allows for, rather than being too tired by the time they climb to the top to begin the run. Therefore, Atomic was able to recognize a problem and provide its stakeholders with a solution in response.



Figure 2: Atomic task environment impacting business process innovation

Additionally, after the organization was purchased by its current parent company Amer Sports, they adopted a focus that “boosted sales by pushing package deals” (Mulligan, 2003). This meant that Atomic would sell skis with the bindings already attached, allowing them to meet customer needs and grow their market share in bindings to fifteen percent of the global market (Mulligan, 2003). Through this approach, Atomic adapted its strategy to use innovation to solve customer needs, allowing it to provide its customers with equipment to allow for improved interactions with current alpine ski trends.

Labour Market

Another external aspect that is deeply connected with Atomic’s innovative approach to ski manufacturing is the labour market it interacts with to recruit and select employees meeting its organizational needs. A major attribute of the organization’s labour market is its seasonal approach to labour, which aligns with ski culture. The Atomic manufacturing plant located in Altenmarkt manufactures products in July, August, and September (Mulligan, 2003). This is significant as it allows the company to focus on summer employment, which in turn allows its employees to work at ski resorts during the winter (Mulligan, 2003). With this approach to the labour market, Atomic can reduce its labour costs through seasonal employees while simultaneously providing its employees with a break to pursue their passion for skiing. This approach allows Atomic to use ski culture to its advantage through the seasonal approach to labour to shape and influence the organization’s own employee market. This approach also allows Atomic employees to spend time contributing to local ski culture in the regions in which the organization operates.

Competitors

Atomic’s approach to monitoring its competitors and trends demonstrates the company’s innovative approach to its external environment and applying this knowledge in response. Through the Atomic Vantage 100 CTI ski, the company used its knowledge of the industry to differentiate itself from its competitors. Atomic’s Vantage 100 CTI ski is described as skiing “as well as any ski we tested, and better than most, for up to \$350 less” (Peruzzi, 2016). This approach to the industry showed Atomic’s drive to create its own segment to meet customer needs. Through this approach, Atomic added a ski to the market with a different value proposition, generating value across different categories to provide customers with more choice, rather than competing solely in the premium ski market (Peruzzi, 2016). This example demonstrates how Atomic has retained its position as a leader in the ski industry by strategically analyzing the external forces at play, and looking for ways to both differentiate through creating markets, and meeting the needs of existing markets.

Suppliers

When it comes to relationships with suppliers, the management of corporate social responsibility in the supply chain is an important value attributable to Atomic in solving problems in its business environment. Amer Sports group expects its suppliers to uphold the International Labour Organization Standards and the United Nations Declaration on Human Rights. Moreover, Amer Sports actually has its own supplier compliance policy that applies to the suppliers of Atomic. Therefore, to be a member of the supply chain, an organization that subcontracts must conduct audits and meet industry expectations as well as “Amer Sports’ expectations in regards to health, safety, and environmental and social responsibility” (Amer Sports, n.d.). Clearly, managing the Atomic supply chain is a key attribute in managing the unique task environment to protect the environment and maintain sustainable development of the organization.

DISCUSSION

Challenges and Needs to Remain Competitive

The innovative approach employed by Atomic towards ski manufacturing has resulted in great success responding to challenges faced by the company in the past and present. With shifting external forces presenting significant challenges in the future, the internal strengths of the organization and its unique task environment must be analyzed further to generate responses.

From a political perspective, regional development plans by governments where Atomic products are used will create opportunities and challenges the organization must respond to. With changing environmental conditions, “municipal, state and federal decision-makers [will look to] establish sustainable development plans and future management strategies” (Dawson & Scott, 2013). Atomic can ensure proper alignment with these trends through its approach to researching to manage core business change and its approach to monitoring trends of competitors and factors in its unique task environment.



Figure 3: External factors presenting opportunities and challenges to Atomic

Economically, using the organization’s product innovation and collaborative capabilities under the administrative structure of the organization to respond to growth trends in the ski industry will be key. Currently, there is a large amount of product variety in the industry driven by the many different consumers’ demands in the industry (Corrocher & Guerzoni, 2009). This economic trend aligns with Atomic’s approach to product development and customer solution offerings. However, recognizing these changes on an ongoing basis is critical to continuously adapting products to meet the growing demands from customers.

From a socio-cultural perspective, changing trends in ski culture and local culture provide Atomic with the opportunity to use its internal approach to people and its approach to the labour market in its unique task environment to its advantage. With an employment schedule allowing for closer connection to ski culture in regions around the factory, employees develop a stronger understanding of trends in the industry and ski regions. Combined with employee passion for skiing, this gives the company more cultural knowledge to use in innovating products.

In terms of technological factors, the use of sustainability-based initiatives in production of Atomic products provides an advantage going forward as they contribute to protecting the environment their product is used in. An innovative approach towards protecting regions for using ski products is crucial in implementing sustainable technology for creating products and adding technology to products to meet the changing environmental conditions.

Additionally, the organization's approach to managing and influencing supplier relationships in its unique task environment provides lessons to draw from in meeting legal requirements. By holding its suppliers accountable for their practices, it ensures that the organization can manage its legal requirements on a global scale. The formal guidelines for suppliers allow Atomic to ensure that its stakeholders are helping it continue to innovate in a manner that can be sustained. Additionally, the organization will need to use its knowledge management approach to industry trends by monitoring regulations around competitions its skis are used in. In 2011, the International Ski Federation implemented a mandate in giant slalom ski requiring ski specifications to improve safety (Mutrie, 2011). By continuing to use its approach to core business change through researching trends, Atomic can continue to respond to the challenge.

Finally, with shifting environmental conditions expected, Atomic will need to continue its involvement in initiatives protecting ski regions and improving manufacturing processes to allow for the continued growth and adaptation of skiing to new conditions. These attributes of Atomic can be applied further to other organizations in different industries facing similar issues as well, demonstrating the importance of a strategic approach to managing business processes and relationships to respond to external opportunities and challenges.

Innovative Process Considerations for Other Companies

When companies face a shifting business environment impacted by continuous change to external factors, it is critical to adopt a strategic approach to preparing for both the present and the future. By viewing Atomic through the lens of its internal environment and unique task environment, further analysis of how each attribute is impacting its responses to changing conditions in the ski industry can be seen. In the case of all companies, "drivers for change occur in the external environment (external to the organization), the task environment (that is unique to each company) and within organizations (internal factors)" (Dawson & Adriopoulos, 2014). By determining how these attributes combine to form the organization's unique value proposition, organizations can prepare an approach that ensures all attributes contribute to the goals of the company. Although organizations cannot control all elements of the external environment, they can shape their processes to interact with the external environment in ways beneficial to their value proposition, as shown through Atomic's approach to using internal factors to manage its unique task environment and influence the external business environment. Ensuring that the internal attributes interact with the unique task environment to meet the needs of stakeholders through a change-focused framework creates a shared culture of continuous improvement. When determining how to drive innovation in an organization, adopting a framework emphasizing the connection between elements of internal change and influencing external change will allow the organization to determine what strategic elements of its value proposition it has to use in responding, and what elements must be developed. Adopting an innovative approach towards managing change will allow organizations to manage sustainable growth in the modern business environment.

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Role of Corporate Social Responsibility Strategies Affecting the Corporate Image

Mass Transit Railway (MTR) Corporation and TransCanada PipeLines Limited (TC) and Their Ability to Gain Social License to Operate

Hayley Mae Fairbanks

This paper provides a descriptive analysis of Mass Transit Railway Corporation (MTR) in Hong Kong, and TransCanada PipeLines Limited (TC) in Canada for their continued recognition as organizations that go above and beyond to meet stakeholder concerns with regards to material CSR initiatives. The discussion is centered upon MTR and TC's respective business-government-society models in order to set the foundation for further analysis of the specific CSR strategies common to both organizations. Given that MTR is a metro operator, and TC is an energy infrastructure company, the comparison of the two, while more difficult to apply, is conducted through an analysis of key initiatives central to both organizations' CSR strategies through the lens of the Global Reporting Initiative (GRI) reporting standards. This paper then examines the social environment in which they operate, given their differing economic and political jurisdictions, to examine whether organizations can use successful CSR strategies to gain widespread social license to operate, or whether their environment may hinder this.

BUSINESS AND CORPORATE SOCIAL RESPONSIBILITY

"With advancing technology, globalization of markets and twenty-four hour media, stakeholders are more demanding of companies than ever before, [...] making their voices heard in powerful and influential ways" (Ngai, 2016). A Hong Kong not-for-profit organization claims, "for many companies Corporate Social Responsibility (CSR) has become the new 'license to operate'" (Mahtani, 2007). With this rise, boards of directors and top managers today are increasingly being called upon to report on more than just their financial success to their shareholders, and share key material information on factors that affect their performance (Ngai, 2016). This is especially important given today's dynamic business environment, where customers, shareholders, and other stakeholders are asking organizations to discuss how their decisions and actions impact their communities.

Traditional reporting standards were primarily comprised of financials, wherein companies reported on what was deemed material by various governance measures. The reporting standards are shifting, and companies are seeing a growing demand for transparency in other aspects of their business, namely the social and environmental factors. A growing trend in reporting standards is the use of the Global Reporting Initiative's (GRI) standards to report on environmental, social, and corporate governance (ESG) factors relating to the company's performance (Sustainability Academy, 2012). The investment community in the United States has urged the Securities and Exchange Commission to "offer strong guidance to public company managements to expand disclosure and reporting to substantially address [...] ESG information" (Boerner, 2016).

With this framework in mind, organizations need a balance between economic, social, and environmental voices, in order to help raise material items to focus on for the sustainable and productive development of their business that we might continue to rely upon these institutions to raise our quality of life and provide our daily necessities.

The definition of Corporate Social Responsibility (CSR) refers to "companies achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment" (Ngai, 2016). With the rise in social media and instant information, some organizations are increasingly invested in ensuring that their corporate image is one that is attractive to their stakeholders. This essay will analyze the impact CSR has played in two specific organizations located in different social environments, given their differing political and economic

jurisdictions, Hong Kong and Canada. In particular, the essay will explore how the differing CSR role has impacted the ability to gain social license to operate in Mass Transit Railway (MTR) Corporation, Hong Kong and TransCanada PipeLines Limited (TC), Canada.

METHODOLOGY

On the global stage, two contrasting yet powerful economic organizations, namely MTR, Hong Kong, and TC, Canada, are leading organizations in their respective jurisdictions. Both are endowed with different resources, and each of these companies help to mobilize resources to allow them to be successful in their own regards. Yet, both companies are key organizations for the development of their respective economies, making them interesting cases to compare, despite the differences in socio-economic policy and industry they operate in. By examining some key challenges both companies face through their sustainability reporting through the Global Reporting Standards (GRI), we are able to grasp the way in which some companies thrive given their social landscape through the strategic implementation of CSR, while others struggle to gain social acceptance. This paper will first discuss the respective landscapes wherein MTR and TC operate, then the companies themselves before reflecting on the business-government-society model proposed by Steiner and Steiner to better understand the model in which each company operates. This paper will then address the stakeholder perspectives their CSR strategies to examine common challenges faced by both companies, ultimately allowing them to either utilize their CSR strategies to gain social license to operate, or not.

Hong Kong

At the heart of Asia, Hong Kong links East Asian markets, whilst connecting Asia to the rest of the world. Hong Kong has a population of 7.31 million people and a landmass of 2,755 square kilometres (Pang, 2016(a)). Despite its physical limitations and lack of natural resources, Hong Kong is recognized as the eight largest trading entity in the world (Trading Economics, 2016(b)). It is an international business hub, and as per the Index of Economic Freedom produced by the Heritage Foundation (2016(b)), has been recognized as the freest economy for the past twenty-two consecutive years. According to the 2016 Index of Economic Freedom, Hong Kong is also one of the world's most services-oriented economies, with service sectors accounting for more than ninety percent of its Gross Domestic Product (GDP) (Heritage Foundation, 2016(b)). Hong Kong's economy is largely centered upon human resources to provide professional services in order to drive the economy. With the changing political environment and changes in economic influences over time, Hong Kong residents have become very adept in resiliency and resourcefulness, being able to tackle many challenges in order to remain an economic powerhouse on the international stage (Pang, 2016(b)). Due to of its physical landscape as well as its economic one, Hong Kong is reliant on its ability to connect people to businesses and communities in which they commute, work, live, and shop, which helps drive its economy.

Canada

In contrast, Canada has a population of 35.9 million and a landmass of nearly nine million square kilometres (The Economist, 2016). According to Natural Resources Canada (NRCAN) (2016), "Canada is blessed with a vast wealth of natural resources, which contributes significantly to our national economy. Resource industries play a critical role in delivering jobs, growth, and prosperity for Canadians". A significant portion of Canada's GDP is generated through the development of resources, with resource-based sectors providing \$220 billion in exports as well as \$27 billion a year to the government (NRCAN, 2016). Additionally, the International Energy Agency (IEA) (2016) sees world energy demand on the rise, with demand increasing by thirty-two percent by 2040 globally. With this global trend, commodities continue to play a key role for the economy now and into the future. Canada's economy is a delicate one, rich in natural resources, however, dependent on its ability to get its resources to market so that it can continue to meet global needs, while also bolstering its own economy.

Furthermore, Canada is a leading supplier of fossil fuels to international markets, being one of the producers with the highest reputation for human rights protection and environmental stewardship as compared with other leading suppliers such as Saudi Arabia, Venezuela, and Nigeria (Levant, 2010). This comes with high responsibility

and many eyes are on Canada for being a role model in the sustainable development of fossil fuels, while also meeting the challenge of meeting a growing energy demand. To this effect, “as we transition to a less carbon-intensive energy mix, a shift is expected from coal-fired power generation to natural-gas-fired power facilities and emission-free generation sources such as nuclear, hydro, solar and wind” (TransCanada, 2016(c)). This means that more than ever, the responsible and sustainable development, transportation and usage of our resources is critical for our ability to continue to improve our quality of life in such a way that we can drive our economies, while minimizing the impacts of our activities on the environment.

Mass Transit Railway Corporation, Hong Kong

Taking advantage of Hong Kong’s role as the freest economy in the world and the eight largest trading entity, one corporation in particular stands out above the rest, connecting people to their work life, social life, and leisure activities. Mass Transit Railway (MTR) Corporation is this backbone. In addition to the underground subway system and bus network in Hong Kong, MTR also operates a dynamic retail and property management business (Padukone, 2013). The MTR has international subsidiaries in addition to its network in Hong Kong, and is “considered the gold standard for transit management worldwide” (Padukone, 2013). Given Hong Kong’s limited landmass, of which only about twenty-four percent has been developed, as well as competing demands for land use by different users, Hong Kong is no stranger to the complexities of urban density and development (Wallace & Ng, 2016). With the initial establishment of the MTR and a shortage of land for further urban development, much of the MTR system needed to be built underground in pre-existing rock structures, being not only an engineering but also an urban planning feat (Wallace & Ng, 2016). It is no wonder that Hong Kong, being one of the most densely populated cities in the world, is heavily dependent on the MTR system to facilitate movement in the city.

With the intricate and highly developed system, the MTR has become a lifeline for many Hong Kongers (Yeung, 2015). A key factor of the MTR’s success lies in its understanding of the underground being much more than just a means of transportation, but rather “essential to the well-being of [the] city’s population and economy” (Padukone, 2013). With the limitation of landmass, there are no suburbs for people to commute from by car, offering strong incentives for people to use the extensive network (Padukone, 2013). The MTR is able to capitalize on this, as it is a closed system. According to Padukone (2013), “MTR understands the monetary value of urban density – in other words what economists call ‘agglomeration’” (Padukone, 2013). This, put quite simply, means that organizations and people are dependent on the system, while the MTR system continues to develop and provide critical services to the customers it serves and the companies it hosts in its properties. “As the MTR has expanded, new communities have grown up around its tracks including properties and malls that seamlessly connect into the train network, becoming an integral part of urban lifestyle. This mobility has helped [...] Hong Kong become a globally-recognized hub for international trade and finance, and a multi-cultural gateway to Asia and the world” (MTR, 2014).

TransCanada PipeLines Limited, Canada

In Canada, TransCanada PipeLines Limited (TC) plays a similar role in the economy. TC is a “leader in the responsible development and reliable and safe operation of North American energy infrastructure” (TransCanada, 2016(a)). For over sixty years, TC has been safely and efficiently delivering energy to market (TransCanada, 2016(a)). According to Russ Girling, CEO of TransCanada for the Business Roundtable 2015 Sustainability Report (2015), “Energy touches our lives in countless ways. It heats our homes, powers our businesses and fuels our transportation; and despite significant achievements in efficiency and conservation, global demand continues to grow”. No other commodity in human history has done so much to aid human well-being and continually improve the quality of life, which is getting better and better (Epstein, 2014). Without fossil fuels, we wouldn’t be able to enjoy the quality of life we do today, and we would not have access to many products we need for life in the twenty-first century including cellphones, contact lenses, needles for vaccinations, and clothing, to name just a few.

In North America, there are more than 2.5 million miles of pipe of North American pipeline infrastructure that transport energy products every day for our use (Canadian Energy Pipeline Association, n.d.). TC is one of Canada's leading energy infrastructure companies, being relied upon by Canadians every day. TC is able "to [...] discover twenty percent of the continent's natural gas supply, transport one-fifth of Canada's crude oil exports, and generate enough electricity for eleven million homes, [of which one-third is generated through] emission-less sources" (Girling, 2015). TransCanada's Mainline, a cross-national natural gas pipeline, connects Canadians to energy every day. "For more than half a century, the Mainline has been a reliable workhorse that over winter peaks moved as much as seven billion cubic feet a day of natural gas from Western Canada – half of its total production today" (Cattaneo, 2012). TC is also one of the largest corporate taxpayers in the country, making it possible to reinvest that money into the economy to provide Canadians with access to healthcare, education, and other highly valued services (Hussain, 2014). TC, among other energy leaders, is continually seeking new ways to develop its extensive infrastructure in ways that help Canada to offset its need of imported oil, and secure its own energy future by getting Canadian oil to Canadian markets (Canadian Association of Petroleum Producers, 2015).

BUSINESS-GOVERNMENT-SOCIETY RELATIONSHIP

Both Hong Kong and Canada operate within the market capitalism model, which functions most efficiently with minimum government intervention (Steiner & Steiner, 2012). The market capitalism model is generally seen as a productive model and its influence is evident by the widespread use of its model across nations (Pang, 2016(b)). This business-government-society model helps companies to recognize material issues and be able to operate in ways that are socially responsible and become leaders of CSR initiatives within their economies to drive sustainable development (GRI, n.d.). Both MTR and TC operate exceptionally successful businesses, and are instrumental within their respective economies delivering on material items that are important to the communities in which they operate. This allows them to be successful within their own business models and responsible leaders of continual development for their shareholders and other stakeholders.

Where MTR Corporation is given free-reign by its government, TC is facing a government that increasingly has the power to approve or veto projects. This phenomenon is further demonstrated through the fact that while MTR is a monopolistic enterprise; TransCanada is at the mercy of a political and economic jurisdiction that is more prone to intervention than that of Hong Kong's (Heritage Foundation, 2016(a)).

A popular approach for Hong Kong's economic policy has been 'Positive Non-interventionism', coined by financial secretary Philip Haddon-Cave in the 1980's (Pang, 2016(b)). The policy implies that the Hong Kong government will carefully consider when to intervene, and only intervene when the economy is expected to greatly benefit, as it is argued that intervention impedes economic growth (Pang, 2016(b)). This has allowed MTR's business success and its role within the Hong Kong economy as critical to its continued development by connecting its key resource, people, to the businesses and communities in which they operate. Although the public voices are quite strong relating to MTR's operations and the Hong Kong government's role as a seventy-percent shareholder, the voices have not yet been strong enough as to cause social unrest or limit MTR's ability to operate efficiently. To this effect, MTR has developed extensive CSR Strategies that help to overcome any challenges they face in terms of material issues, granting them a social license to operate.

On the other hand, Canada's economic policy, while also historically against government intervention, and an advocate for open-market policies, has shown resiliency given recent challenges in domestic and international challenges (Heritage Foundation, 2016(a)). A notable concern as outlined in the 2016 Index of Economic Freedom, is the control of government spending, given a recent change in governmental policy under Prime Minister Justin Trudeau (Heritage Foundation, 2016(a)). Government intervention caused by the pressure of a politicized industry has led to the approval and denial of energy infrastructure projects, changing the traditional relationship between business, government, and society. This has made it increasingly more difficult for companies to achieve economic success that will help to drive the economy forward, although Canada continues to represent 2.5% of the world economy (Trading Economics, 2016(a)). This shift has stalemated several projects, most notably,

Keystone XL and possibly discussion on Energy East, due to a political conversation that is hindering the ability of the company to overcome this setback in social license to operate. This is not due to TransCanada's performance as a company, but rather the social environment in which it operates.

DISCUSSION

Stakeholder Perspectives and CSR Strategies

It is evident that both companies are instrumental in providing services to their respective countries, which helps to promote economic stimulation, social progress, and at the same time decrease their impact on the environment. Through MTR's Sustainability Report and TC's Corporate Social Responsibility Report, both companies and their stakeholders are able to discuss and examine material information that affects the way in which MTR and TC operate, as well as the communities they operate in. Giving voice to material information allows companies to showcase and report on key performance indicators set out by the Global Reporting Initiative (G4 Sustainability Reporting Guidelines), which is apparent in both company's respective reports (GRI, n.d.). These reports can further serve as a way to initiate a meaningful and productive dialogue that allows stakeholders and organizations to determine solutions for sustainable and responsible development. While MTR and TC operate in different political and economic jurisdictions and industries, they both report on material information regarding social benefits, public safety, and sustainability. These three areas were chosen, due to their importance for addressing key concerns from stakeholders on these issues, otherwise, neither MTR nor TC would be able to gain social license to operate.

MTR and Social Benefits

MTR reports on the ways in which they connect to and grow communities in Hong Kong. In their sustainability report, they focus on community involvement and development, education and culture, employment creation and skills development, and community investment (MTR, 2016). MTR recognizes that the strength of their business lies in their ability to connect people, businesses, and communities across Hong Kong (MTR, 2016). "With a vast network reaching most parts of Hong Kong, we leverage our skills, resources, and networks to contribute to the development of communities, enhance quality of life, and foster a thriving living and business environment" (MTR, 2016). MTR (2016) further recognizes that within a reliance on knowledge and service sectors, Hong Kong's competitiveness is reliant upon a productive and creative workforce. They are therefore co-creating programmes like "Youth Connect" to empower young people to gain skills to become the future leaders of Hong Kong (MTR, 2016).

While they are making strides toward enabling the workforce to remain a powerhouse on the international stage within a changing global economy, a critique of MTR includes the structure of the corporation itself. With the government being a majority shareholder with seventy percent shares in the company, and with the criticism of the government being so heavily involved in MTR's success given its historical role of positive non-interventionism, it seems to be the largest benefactor of MTR's business (Pang, 2016(b)). "It seems [that] the government's current policy is oriented more toward generating maximum returns for itself, rather than ensuring benefits for the public" (Yeung, 2015).

Furthermore, MTR's Annual Fare adjustment mechanism has been criticized since it was first implemented in 2007, wherein MTR held the right to review fare rates based on the macroeconomic environment (Yeung, 2015). MTR reviews rates each year and adjusts them accordingly based on labour cost and inflation, meaning that the rates have been increasing year over year. This cost is transferred to passengers who are struggling to pay the cost of inflation, although no significant improvements in operation have been observed (Nanik, 2016). According to Jonas Kan, head of Hong Kong Research at Daiwa Capital Markets, a positive solution for all stakeholders is not impossible given MTR's conflicting duty to maximize return and consider society's welfare, by creatively using the multibillion dollar dividend the government likely receives every year (Ng, 2016). A proposed solution could be having the government advocate for "a more efficient structure, rewarding passengers with lower fares, and even reducing the firm's reliance on profit sharing from property projects" (Yeung, 2015).

MTR and Public Safety

MTR's uncompromising "Safety First" corporate culture is the bedrock of its operations, allowing them to leverage their reputed expertise as "one of the world's safest public transit operators" (MTR, 2016). "While safety performance on our sites compares favourably with the industry average, we continue to seek opportunities to further improve safety practices across the Hong Kong construction industry" (MTR, 2016). In 2015, MTR faced civilian fatalities on its rail system due to uncontrollable factors, and reported three contractor fatalities on its construction sites and premises (MTR, 2016). Professor Paul Yip Siu-Fang, director of the Centre for Suicide Research and Prevention at the University of Hong Kong stated that "when the MTR [was] given the right to run these facilities, one of the regulations is that they have to provide a safe means of transport. The data and research suggest there is something that you can do to prevent [injuries and fatalities on the MTR]" (Lam, 2016). Professor Yip Siu-Fang further iterated that without action "there will be more accidents that are preventable" (Lam, 2016).

Accidents do not just mean fatalities including suicides, but also any risks to people and animals, especially children and seniors. MTR launched a new campaign in 2015 that aimed to educate patrons on appropriate escalator behaviour, which helped to decrease the number of incidents (MTR, 2016). Additionally, on many of the MTR's railway lines, there are installed glass doors that are meant to protect people from having direct access to the tracks, however, these are not installed everywhere (Lam, 2016). Despite delays, MTR is working on installing platform security doors between Sha Tin and Central (Lam, 2016).

MTR and Sustainability

MTR does significant planning around the sustainable development of its subway system and integration into communities. Studies by the United Nations (UN) show that growth of the world population will add approximately 2.5 billion persons, with ninety percent of the growth centered in Asia and Africa (UN, 2014). With "growing patronage combined with a maturing and expanding network", MTR must continue developing its system and ability to meet safety and service demands into the future (MTR, 2016). MTR (2016) recognizes the importance of continuing to connect and grow communities to reach underserved areas with an efficient system. Moreover, MTR works closely with its business partners and stakeholders to ensure they continue to develop their extensive network in the most environmentally sustainable manner possible (MTR, 2016).

A survey of fifty companies named MTR Corporation as one of the top three performers on the Hang Seng Index (HSI), which studies ESG policies, practices and performance (Welford, 2016). Although a high performer, MTR has been consistently over-budget and behind schedule on many of its projects. MTR posted a 37.5% year on year decline in net profit for the first two quarters of the year (Ng, 2016). Furthermore, it appears that these cost and schedule overruns in addition to service delays point to a bigger concern over quality control and MTR's rapid development (Ng, 2016). This further underlines the importance of MTR's ability to manage the sustainable development of its railway system, while maintaining its reputed high level of quality. With its corporate structure, "the Government's strategy is to continue using railway as the backbone in the development of Hong Kong's public transport network to meet growing demand" (MTR, 2016).

TransCanada and Social Benefits

TransCanada works closely with stakeholders to create a productive two-way communication, which also means providing accurate information, listening to and responding to inquiries in a timely manner (TransCanada, 2016(b)). According to TC (2016(b)), "the intent on spending time and energy on public disclosure to trusted third-party organizations is so they can view our company objectively and evaluate our performance against our peers, identifying the areas where we may need to improve". To this effect, TC is able to continually evaluate their own progress, and having third-party validation demonstrates transparency and helps to build trust (TransCanada, 2016(b)). In 2015, TransCanada was recognized in the one-hundredth percentile on the Dow Jones Sustainability Index for the North America and World Indices (TransCanada, 2016(b)). TransCanada does extensive work engaging its stakeholders and Indigenous peoples who are affected by their operations. In 2015 alone, TC

engaged 376 Indigenous communities in Canada and the U.S., and held 2,543 meetings as part of their commitment to meaningful engagement (TransCanada, 2016(b)).

Despite extensive engagement with key community and Indigenous leaders, communicating TC's extensive benefits to society has become a more contested issue in mainstream media. A small, yet pervasive view deems fossil fuels as negative, without recognizing the important role they play in our daily lives. A study done by Stedman (2016) showed that opposition groups used emotional messaging in order to evoke fear when discussing fossil fuels. Anti-pipeline groups tend to use the pipelines as the means to being able to halt development of fossil fuels by spreading misinformation about the industry and its operations (Canadian Energy Pipeline Association, 2015). Although these oppositional groups may not always share correct information, they do raise important questions on material issues, which point to areas TransCanada can continue to develop ways that it may better operate to continue to bolster our economy, as well as the quality of life many Canadians enjoy.

Overcoming these strong opposition voices is likely better demonstrated by third-party organizations and industry representatives rather than the companies themselves, as this messaging from companies is often seen as partisan, and is therefore not trusted or valued. Groups such as the International Energy Agency (IEA), Canadian Energy Pipeline Association (CEPA), Canadian Association of Petroleum Producers (CAPP), More2theStory, and others, help to provide key messages about the industry and can help to direct the conversation in a way that connects with the public, while allowing companies to focus on discussing their performance indicators to their stakeholders. To this effect, "transparent communication between the energy industry and all pertinent stakeholders is paramount" (Theodori & Jackson-Smith, 2010).

TransCanada and Public Safety

The public has a vested interest in the safe operation of TransCanada's infrastructure, and rightly so. TC's business relies on their ability to operate their pipelines and facilities safely and reliably (TransCanada, 2016(b)). TransCanada is a leader in the energy infrastructure industry, providing a safe alternative to other methods of transporting natural resources, namely by rail or by truck (TransCanada, 2016(b)). Furthermore, TC "participates in an initiative with the Canadian Energy Pipeline Association and the Interstate Natural Gas Association of America to work with industry and thought leaders to define, share and implement leading practices to improve performance in safety, environment, and socio-economics" (TransCanada, 2016(b)). In 2015, TC invested more than \$45 million on research and development on new technologies to ensure the continual development of its practices and the integrity of their infrastructure including in-line inspection, cathodic protection, leak detection, and coating technology (TransCanada, 2016(b)).

TC, like other pipeline companies, operates under financial regulation. It also makes business sense to invest in pipeline safety and integrity in order to continue operating efficiently and reliably. Therefore, if a pipeline company were to cut corners, they would not only need to take full ownership of any potential damage to people or the environment, but also for restoration and any remediation work that is required (Canadian Energy Pipeline Association, 2016). Furthermore, there are energy regulators, such as the Alberta Energy Regulator (AER), who work to ensure that Canada is one of the most regulated and safest industries in the world (Canadian Energy Pipeline Association, 2016). Pipeline companies must also attain approval for projects through the National Energy Board, and must meet numerous standards set out by the Canadian Standards Association related to design, construction, operation and maintenance of the infrastructure (Canadian Energy Pipeline Association, 2016).

TransCanada and Sustainability

Many of TransCanada's challenges regarding sustainability are, in fact, related to the sustainable development of Canada's energy industry and meeting a growing global demand. The sustainable development of the energy industry sometimes sees its role as being oppositional to climate change policies, while, in reality, sustainable development in industry should be synonymous with responsible CSR practices. According to TransCanada

(2016(b)), “while global demand for energy continues to grow, new climate change policies have accelerated the transition to cleaner energy alternatives, and the industry has been challenged by low oil and gas prices”. TC’s business remains stable and in a strong position for long-term success and continual growth due to their commitment to operating safely and sustainably (TransCanada, 2016(b)).

A highlight on TransCanada’s 2015 CSR Report (2016(b)) included TC being “named to the Climate Disclosure Leadership Index in 2015 by the CDP (formerly Carbon Disclosure Project) with a top score [...] for disclosing carbon emissions and their strategy to mitigate the business risks of climate change”. Furthermore, TC has invested more than \$141 million towards technology development to support internal and joint partnerships in research and development (TransCanada, 2016(b)). In 2016, TC received a gold-class distinction, ‘Industry Leader’ and ‘Industry Mover’ awards in RobecoSAM’s globally recognized Sustainability Yearbook (TransCanada, 2016(b)). TransCanada faces the challenge of continuing to meet growing global demand and their ability to get these products to international markets in sustainable and environmentally responsible manner such that we might continue to bolster our economies and enhance the quality of life in the communities we live in.

CORPORATE SOCIAL RESPONSIBILITY STRATEGIES

Mass Transit Railway Corporation

A Bloomberg interview (2016) with MTR’s CEO, Lincoln Leong, shows that the MTR business model in both rail and property has been influential for Hong Kong. MTR’s success is evident in that many world cities are replicating their business model across the globe (Bloomberg, 2016). MTR (2016) outlines six CSR pillars that are critical to their performance including; ensuring services of value to customers, engaging and building communities, developing people, promoting safe and ethical business practices, protecting the environment, and exercising MTR’s influence. These CSR pillars are all underpinned by MTR’s sustainable financial model, which is based upon MTR’s Community of Metros (CoMET) Benchmarking, wherein MTR consistently outperforms other Metro systems. Based on MTR’s Sustainability Report for 2015, it is evident that MTR is implementing key strategies aligned to their material focus areas to either meet or exceed expectations on key initiatives. “Delivering this long-term commitment requires us to strike the right balance in meeting [...] stakeholder interests; enabling future growth by [...] managing human, financial, and natural resources; and, enhancing [...] value by contributing positively to [our] communities” (MTR, 2016).

MTR is able to overcome key challenges in material issues by continuing to be a global leader with their business model comprised of the “rail plus property model” (MTR, 2016). Additionally, society, government, and businesses all understand the fundamental value the MTR rail and property business produces value for Hong Kong and its role on the international stage. The concerns raised by stakeholders, while important to direct awareness of the areas of the business in which MTR could improve operations, is in this sense, relatively negligible to the ability of MTR to gain social license to operate.

TransCanada PipeLines Limited

At TransCanada, CSR is an integral part of their business model, and a key part of their corporate values in transparency and acting with integrity (TransCanada, 2016(a)). A unique characteristic of TC’s CSR strategy includes recognizing safety as another key pillar. For TC, safety is not just a mere “priority”, which implies that other things may be prioritized above safety if it came down to it (TransCanada, 2016(a)). Furthermore, TC identifies ten material issues, which include the business activities that are important to the business and to their external stakeholders. This overlap of material items is what TC monitors closely, reports on performance indicators, and measures their progress. These material focus areas include; (safety) ensuring assets are safe and reliable, protecting communities, health and safety; (society) responsible stakeholder relations, indigenous peoples; (environment) ensuring environmental stewardship, protection and performance; (economy) financial performance, access to new markets, developing people, and ethical conduct (TransCanada, 2016(b)). This is engrained in TransCanada’s proactive approach to initiating an open and collaborative dialogue, which has

resulted in “more than half a century of sustainable business” wherein complex issues require balanced reflection upon safety, society, environment, and economics (Girling, 2015).

Within an industry that is seen to be divisive, a key challenge for TransCanada is the tug of war between having a productive dialogue and promoting energy literacy. TC’s CSR approach is founded upon transparency and is generally regarded within the industry as a company who operates with integrity, always strives to meet and often exceeds the stringent standards they set for themselves on top of regulations, and who is highly regarded as a member of the communities in which they operate (TransCanada, 2016(c)).

TransCanada operates a successful business delivering resources to thousands of Canadians daily. Its CSR strategy is an expression of their core values of integrity, responsibility, collaboration, and innovation (TransCanada, 2016(b)). Beyond its key stakeholders, TC is not always recognized in mainstream media and public discourse for being so influential in providing Canadians with the lifestyle they have come to expect. Despite any opposition, TC continues to bolster Canada’s economy, and reinvest the capital into safe operations, and also into healthcare, education, research, and the development of new technologies that could help to improve sustainability into the future (TransCanada, 2016(b)).

Comparison of CSR Strategies

Based on the above discussion, it is relevant to note that both MTR and TC have integrated their CSR strategies into their business models and the way in which they operate. Each company uses the material issues brought up by stakeholders in order to report on social benefits, public safety, and sustainability, allowing them to meet expectations and address concerns head on. MTR and TC listen closely to concerns on key CSR information, granting them, as organizations, the tools they need in order to gain social license to operate. Their focus on ESG factors further reinforces their use of the GRI Sustainability Reporting Standards, whilst allowing them to evaluate their CSR initiatives to align with key operations and focus on areas with material impacts on their business. However, businesses do not operate in a vacuum, and it is therefore relevant to examine the implementation of each organization’s CSR strategies within their respective socio-economic and political environments.

Upon further understanding of each system’s socio-economic and political environment through the lens of Steiner and Steiner’s (2012) business-government-society model, it appears that while the Hong Kong Special Administrative Region Government minimizes its intervention in MTR’s affairs, the Canadian government has a vocal perspective regarding TC’s business. Since the GRI sustainability standards are centered upon the key pillars of CSR – economic, social, and environmental – it is relevant to note that both MTR and TC incorporate these standards into their corporate reports (GRI, n.d.). However, although both companies have incorporated a high level of CSR initiatives to meet or exceed the GRI sustainability reporting standards, it appears that even the most highly thought of companies are subject to social judgment, either granting or refusing them social license to operate.

CONCLUSION

MTR and TC face many of the same societal concerns, wherein each company has developed their CSR strategy to focus on these material issues. Being able to report on direct initiatives has made them leaders in their respective industries and socio-economic jurisdictions as companies who operate transparently, with integrity, and with a high-level of service. MTR’s Sustainability Report and TC’s CSR Report both report on the world’s leading-edge standards to help guide them in their CSR strategies to address material concerns for both their business as well as their stakeholders. After examining MTR within its Hong Kong environment, and TC within its Canadian one, we can learn how similar approaches to CSR strategies and reporting can have very different outcomes given their socio-economic and political environments. The MTR appears to be given freedom in its decisions as an organization, with very little government intervention, allowing it to operate effectively, gain social license to operate, and at the same time, continue to drive Hong Kong’s economy. TransCanada appears to gain social license to operate in a more quiet sense of social acceptance, where shareholders and stakeholders notice that

the organization is a leader in the industry, as well as in the North American market. However, due to a divisive social and political dialogue, is seeing more of a challenge toward outright social license to operate insofar that the Canadian government intervenes in a vocal way, sometimes for, and sometimes against the industry, making it difficult to truly move Canada's economy forward, as we have seen more recently. To this effect, Mass Transit Railway Corporation and TransCanada Pipelines Limited, are both leaders of Corporate Social Responsibility in their respective industries, granting them the ability to gain social license to operate. However, given the differences in their socio-economic and political jurisdictions, it appears that where MTR is able to operate without intervention in order to help bolster Hong Kong's economy on the world stage, TransCanada is seeing increased opposition and intervention, making it more difficult to gain widespread social acceptance to drive the economy forward.

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The New Dutch East India Company

Smartwares Group

Will Goldbeck

Smartwares Group is a new entity that came from the 2016 merging of two Dutch companies, Smartwares, a home lighting and security device company, and Tri-Star, a conglomerate of several household consumer goods brands. Smartwares Group, headquartered in the Netherlands, is an internationally diverse company that incorporates offices across Europe, the Middle East and Asia to create a competitive advantage in an industry increasingly susceptible to new low cost entrants. To create this competitive advantage in the consumer goods industry, Smartwares Group positions their products across multiple price segments, develops them for specific regional tastes, and delivers them with an emphasis on superior service. This case study examines the overarching business processes that Smartwares Group uses to achieve these objectives consistently across different brands and products.

INTRODUCTION

I walked into the Smartwares Group building at the most anxious time of the most anxious year of the company's history. "Anxious." That is the word that I kept hearing from everyone I spoke to, who contrasted the word with smiling teeth and warm handshakes. Looking back, this was a fortunate development for an outsider, there to observe. Like judging an individual's character, the best time to find truth is during the worst of times, not the best. The Smartwares Group was entering the final quarter of their first year of a massive merger between Tri-Star, a home appliance conglomerate, and Smartwares, a lighting and electronic company. Both entities had long and successful histories of acquiring brands, increasing their market shares in ever expanding product categories, and being a reliable bet to turn a profit every year. Founded in 1977, Tri-Star tactically became a European giant of home cooking appliances by offering brands across price ranges, and acquiring popular country-specific brands. If one wished to trace back an origin through all the acquiring and merging of Smartwares, they would discover the humble beginnings of Ardomij BV in 1980. By 2005, five mergers had taken place, and Smartwares had a massive range of home lighting and security products, sold throughout Europe (Bergsma, 2016). Those successful battle stories meant little to those inside the Smartwares Group building when I walked in. Originally the home of Smartwares, the building located in the industrial neighborhood of Tilburg, Netherlands, was still reeling from being forced to accommodate another entire company in their home. The first thing I noticed when walking through the floors of the building was the seemingly random layout of the office spaces. In some areas, there were cubicles, in others large desks with a circle of employees at their work stations facing each other. Furniture was being moved in and out of rooms which gave the modern building, with nice floors and walls, a feeling of being unsettled, like it might have to pack up and move somewhere else tomorrow. This context made more sense to me when employees started using the word "anxious" in interviews. The last quarter of the year is always a busy time. Sales departments have to meet their annual targets, management wants to come under budget, and logistical departments are under pressure from retailers gearing up for the Christmas shopping season. However, most last quarters do not come off the tails of a merger. The building consisted of approximately half Tri-Star employees and half Smartwares employees. Many Tri-Star employees were far from home (Tri-Star was headquartered in another Dutch city), and had just seen many co-workers quit their jobs or get laid off after the merger. Because of this, 2016's fourth quarter had a lot more weight associated with it. It was a building with two groups of employees trying to keep their jobs.

Smartwares Group is an ideal international study because of their business process. They source their products in China, ship them to Rotterdam and then package them to retailers across Europe. The business cycle of a Smartwares Group product is the epitome of globalization, the phenomenon of "economic internationalization

and the spread of capitalist market relations” (Sorge, Noorderhaven, & Koen, 2015, p. 13). While the term globalization has gained traction as an emerging trend of the 20th and 21st centuries, the roots of globalization were established over 400 hundred years ago, by the Dutch ancestors of the employees at Smartwares Group. In 1602 the Dutch parliament established the Verenigde Oost-Indische Compagnie (VOC), or the Dutch East India Company as it is commonly called, by conglomerating numerous smaller companies into a corporation, effectively inventing limited liability (Igel, 2009, p. 540). The VOC’s business process during the 17th century bears a striking resemblance to the one practiced by the Smartwares Group in 2016; swallow up as many companies and brands as possible, source goods and resources in the Far East, ship them back to the Netherlands and sell them across Europe. When learning about the Smartwares Group business process for the first time I realized I was witnessing a current day VOC. No other business could be so Dutch and so global at the same time.

With the combined factors of a recent merger, essentially doubling the entity’s size, and the global business environment in which they operate, I wanted to know how it all came together. I wanted to know how this building of Dutch people could effectively source €250 million worth of product from China a year (Bergsma, 2016), and then take those products and appeal to so many different nationalities across Europe. To find an answer to this question, I had the privilege of conducting in depth interviews from employees who work across the business process of Smartwares Group. Due to the vast array of products across the company, it proved difficult to gain insight into every brand. I decided to focus on the product process of Tri-Star and Princess, the two biggest brands of Smartwares Group’s home appliance arm. What I discovered was that their success was built on a product design and sourcing process that built customized products, strict brand segregation that maximized market share, and lastly a unique commitment to business to business customer service.

THE SUPPLY PROCESS

Product Design and Creation

The Category Management Department at Smartwares Group has the most exciting office space of the building. Strewn about the floor and shelves are coffee grinders, blenders, vacuum cleaners and walkie talkies. Instead of typing away on MacBooks, Category Management employees are using soldering irons and screwdrivers. There are whiteboards full of sketches and mathematic calculations. This room is the key hive of activity for Smartwares Group. This is the room where a group of engineers and designers try to figure out what European consumers want to buy before it even exists. What motivates them is the knowledge that every other competing brand has a team somewhere with the same goal. Marlou Verhouven, a Junior Category Manager said, “We watch the current trends. If Philips does something, and it does well, we ask ourselves, ‘why didn’t we think of that?’” (Verhouven, 2016). Verhouven estimates that 80% of their products are bought from suppliers “off the shelf” from the factory, meaning that they do not need to make any drastic design or functional changes (Verhouven, 2016). It is the other 20% that the engineers and designers are working on. The scope of design on these products range from adding a function to an electric kettle that lets you adjust the water temperature, “We were thinking of people who like tea at 70 degrees” (Verhouven, 2016), to products made from scratch, like the Tortilla Chef, which are called “Tooling Projects” in house.

One key aspect of all product development at Smartwares Group is how the Category Management Department works hand in hand with the Sales Department. Traditionally, the Sales Department of a firm is expected to sell whatever they are given. They have little input on the product, which is the domain of designers and marketers, and the merits of the product have no bearing on whether the Sales Department is considered successful. At Smartwares Group, product development is based on what the salespeople think they can sell, instead of what the marketers want to sell. This strategy is based on the logic that no one else knows better what will sell than the people in direct contact with retailers. A big part of the value that the Sales Department brings to Category Management is from their regional specific sales divisions, which lets Category Managers get insight into the different demands of consumers across Europe. The value of a diverse Sales Team will be elaborated on in the Smartwares Advantage section.

The development of the Tortilla Chef is a great example of the Sales Department working in tandem with

Category Management to invent a new product (see Figure 1 in the appendix for its brochure page). This Tooling Project started when the Spain Sales team phoned Category Management, inquiring about the feasibility of an appliance specifically made to cook fresh tortillas. Other regional specific appliances had been successful before; panini makers, pizza makers and pita makers were all among Smartwares Group's consistently strong selling items. Spain Sales saw an opening in the market place for an affordable appliance that could cut dinner preparation time in half for Spaniards who eat tortillas daily. After some initial research, Category Management could not find any similar product offerings available, which meant that they would have to build one from scratch, which is called a "Tooling Project". The level of hands on engineering and design that goes into Tooling Projects is surprisingly robust. I told Verhouven that I assumed that Category Management would give the factory basic instructions, "We need a flat grill no wider than 30 centimeters and no longer than 50", and the factory would create something out of their existing templates. However, this is not the case at all. Tooling Projects require design from the ground up, including materials, electrical circuits and specific design measurements. Smartwares Group achieves a significant competitive advantage by investing in in-house design and engineering. By owning the specific product design and concept, Smartwares Group drastically increases their bargaining power as buyers. As described in Michael Porter's Five Forces model, "The buyer's power is significant in that buyers can force prices down, demand higher quality products or services, and, in essence, play competitors against one another" (Porter, 1998, as cited in Hill, 2012, page 813). Smartwares Group can go to a number of suppliers with the same blueprint and bargain for the best price, reducing their vulnerability to a price increase from any individual supplier. The Tortilla Chef is one of many Smartwares Group products that have patents filed on them (Verhouven, 2016). These patents represent the creativity and engineering that goes into the invention of a usable product, born from the idea of a salesperson.

Once a factory supplier in China is selected, a back and forth process occurs with the factory sending prototypes, and Category Management sending them back with adjustments. Throughout this entire process, the Sales Department is involved, looking at the prototypes and making suggestions. Verhouven made it clear to me that Sales has final authority over the product. Even after almost a year of design and working with suppliers, Sales determines at the end whether to go through with the product launch. This level of decision making power gives the Sales Department products that they truly believe in and are excited about, but it also leaves them with no excuses. A few months after the Tortilla Chef product launch, Category Management's confidence in the Sales Department's forecasts is modest at best. "Hopefully it will sell as well as Sales said, but we will see" mused Verhouven (2016).

Sourcing the Product

Although less exciting than Tooling Projects, Category Management's most crucial function is the day to day sourcing of the other 80% of products that Smartwares Group sells. This starts with a request from Sales to Category Management. "Sales will give us a request to source an item, usually for a specific region. For example, the French Sales Team could request a stainless steel coated blender" (Verhouven, 2016). Once a sales request is made, the Category Manager contacts a Chinese factory directly, one which they think could make the product. There are two questions that arose when it was revealed to me that the Category Manager in Tilburg would directly contact the supplier. For one thing, Smartwares has an office in China. Why not send the request to their Chinese co-workers and let them source the factory? "The category manager builds a product request in tandem with the sales team. They speak directly to English speaking representatives from the factory" (Verhouven, 2016). As discussed in the Product Design and Creation section, it is crucial for Sales and Category Management to be hands on during the sourcing process, to make sure every detail is accounted for. By talking directly to English speaking factory representatives, they cut out the middle man (Smartwares Group employees in China), and reduce the chance of a design misunderstanding. The other question was, how does Category Management know which factory to contact? Smartwares Group has approximately one hundred factories that it buys from (Verhouven, 2016). This is where the Chinese office comes into play. The Smartwares Group office in China is constantly prospecting factories for new potential suppliers. This legwork done in China, combined with the knowledge that Smartwares Group has on existing suppliers, narrows down which factories would be contacted

for a blender idea as opposed to the ones that would be contacted for a new electric iron.

Once the factory is chosen and the order is sent, the Smartwares Group Chinese office starts their primary task. The Smartwares Group office in China's main daily task is to expedite the supplier orders as much as possible. They are the 'boots on the ground' who can talk to a factory manager in the local dialect and apply pressure when needed. They can also receive an honest assessment of an order's status, which can be hard to get from Tilburg. "When we phone (a Chinese factory) and ask a question, they always say 'yes', no matter what. We do not know what is really going on" (Verhouver, 2016). Upon completion of the order, the department in China conducts product quality checks, ensuring the project meets Smartwares Group's AQL (Accepted Quality Level), before the product leaves for Rotterdam (Verhouver, 2016). Evaluating AQL is determined by a random selection of units of an order. Each unit is examined for marks and defects and then goes through a performance test. Once the test is completed, the results, (out of 200 units tested, 10 units have a scratch, 2 do not work, 4 have the wrong label), are inputted into an Excel sheet. To meet AQL, the results cannot exceed 1% major flaws (function or safety) and/or 2.5% minor flaws, scratches, labels, finish (Verhouver, 2016). AQL helps standardize all Smartwares Group products and minimizes the amount of flawed products that they sell. Doing the product inspection process in China also helps keep suppliers honest, something that would be very difficult without a Chinese team on location.

Negotiating with suppliers is a crucial part of the sourcing process at Smartwares Group. One of the driving objectives for the company is to increase payment terms with suppliers and reduce payment terms with customers, as Verhouver put it, "it is the game we are trying to play" (Verhouver, 2016). From a broad perspective, the longer the company has to pay for goods and the quicker they receive payment for those goods, the more capital they have to invest. A new supplier that has a week longer payment term could mean a massive increase in real profits for Smartwares Group. According to Verhouver, Smartwares Group evaluates three main factors when assessing a supplier in China: 1) Length and flexibility of payment term, 2) Competitiveness of prices and 3) Product quality (Verhouver, 2016). Before any contract with a supplier is agreed upon, a credit check is done on the factory, as well as a factory audit (Bergsma, 2016). This ensures that the new supplier is in good financial standing and their quality is up to par. Usually the quality of different factories is comparable, so payment term and price are often the deciding factors. After the initial order is submitted by Category Management, all subsequent contracts are made and negotiated by the Purchasing Department.

MARKETING AND BRAND IDENTITY

The product process up until this point may seem chaotic. The Sales Department dreams up a product and works with Category Management to create it, without any real underlying brand strategy. In the midst of product development and sourcing, Smartwares Group has a Marketing Department working on making sure that every product fits the carefully manicured image of its particular brand. I spoke extensively with the head of Tri-Star marketing, Vera Heuvelmans, on the identities of the different brands and how they are maintained. The Marketing Department has a clear a vision of the brand hierarchy that they want to present to consumers. Tri-Star products are all about performing the basic function of the appliance, and performing it reliably, without any frills. They are constructed from mostly plastic, with metal being used sparingly. Princess products are instantly distinguishable from their Tri-Star cousins (see Figure 2). They have modern sharp lines, digital displays and are generously plated with brushed stainless steel. When plastic is used, it has a pleasant matte finish that doesn't show scratches. Princess products are supposed to do more than a basic appliance would. For example, a Princess blender has more settings than a Tri-Star blender, and a Princess kettle can be adjusted for cooler water. But more importantly than added function, Princess products need to convey an image of quality engineering. They need to look right at home on a shelf with a Philips blender and a Siemens blender. It is crucial for Tri-Star to be clearly positioned below Princess, to prevent cannibalization of market share. Similarly, it is crucial for Princess to be positioned slightly below high-end brands, like Philips and Siemens, because Princess's advantage lies in giving consumers most of a high-end brand's functionality at a lower cost. This brand positioning balancing act is one of the Marketing Department's main jobs, and they face proposals that could challenge brand identity almost

daily. For instance, Heuvelmans talked about how retailers will often request a Tri-Star model with a higher quality finish or more functions (Heuvelmans, 2016). The opposite problem emerges from Princess retailers as well, as retailers will request cheaper products that still have the Princess name (Heuvelmans, 2016). In these situations, Heuvelmans must decide how far they are willing to compromise brand identity to satisfy a customer.

To prevent too many of these compromises, concentrated efforts are targeted at the retailer to influence how they stock and sell the product. Looking through the Tri-Star and Princess catalogues, there is a huge difference in the way they are advertised to retailers (see Figure 3). Tri-Star catalogues are packed full with as many items per page as possible. Products are displayed virtually the same way, with a basic picture of the unit along with its specifications. Princess catalogues present a whole different image. Products are interspersed with pictures of people enjoying glasses of wine, and key products take up a full page. Almost every product has colourful food and drink in and around the product. By actively positioning brands to retailers, instead of just having one standard catalogue with no style differences, Smartwares can influence retailers to sell and price their products in the proper market spaces.

Princess is the only brand at Smartwares Group that is actively marketed to final consumers. Each box has a coupon or contest entry form. Princess also has a deal with a Dutch game show, where appliances are given to the show, in exchange for the free exposure (Heuvelmans, 2016). No cash is exchanged. Marketing deals are also made with retailers. A discounted price will be given to the retailer in exchange for marketing displays in the store. “(Princess) is an A-/B+ brand in the eyes of the consumer. Because of this, retailers often prefer to market the A+ brands before (Princess). We have to negotiate trades to get exposure at retail locations” (Heuvelmans, 2016). These kind of marketing deals are convenient for Smartwares Group and the retailer. Because Smartwares Group does not sell directly to consumers, they are reluctant to spend any funds on advertising. The retailer enjoys selling Princess products, but would prefer to be known for brands like Philips or Siemens. By giving Princess some occasional exposure, the retailer receives a significant discount and Smartwares Group doesn’t have to part with any cash.

When asked if there is an overarching brand that guides Princess and Tri-Star, Heuvelmans responded, “Not really. They are very different. The way I need to work is very different from the way that (Princess’s marketer) needs to work” (Heuvelmans, 2016). According to Heuvelmans, because of Tri-Star’s success in the low-price SDA (Small Domestic Appliance) market, she is less worried about how pretty Tri-Star products appear in marketing materials, and more worried about completing every photoshoot and catalogue at the cheapest possible cost. In contrast, the Princess marketer prioritizes the style and imagery that is conveyed through the catalogue, and has a much bigger budget to work with. The Tri-Star and Princess brand strategies appear to be working. Tri-Star is Smartwares Group’s highest grossing brand, and combined with Princess they own approximately 70% of the SDA market share in the Netherlands (Heuvelmans, 2016).

While Tri-Star and Princess are Smartwares Group’s most widely available brands, sometimes launching a brand into a new region is not the optimal expansion method. Acquisitions have allowed Smartwares Group to increase their European SDA presence without having to convince a new market of Tri-Star and Princess quality. In 2013 Tri-Star acquired the brands Petra of Germany and Nova of Belgium (Bergsma, 2016). Instead of trying to win over Petra and Nova loyalists, Petra started selling Princess products under the Petra name and Nova began selling Tri-Star products under Nova (Heuvelmans, 2016). This expansion gave Smartwares a significant increase in SDA market share, and two reputable brand plates to its arsenal. The acquisition and maintenance of the Petra and Nova brands is another example of Smartwares Group knowing the marketplace, and strategically placing their products in targeted segments.

THE SMARTWARES ADVANTAGE

When learning about business to business firms in school, the importance of customer service is rarely discussed. Firms that sell to businesses are price takers who can only gain a competitive advantage through offering their

units at a lower cost than the competitor. However, throughout my discussions with Smartwares Group employees, a common thread could be linked through all of them. They were unwavering in their belief that Smartwares Group is successful because they are willing to provide exceptional service to retailers, service that their competitors cannot replicate. Additionally, Smartwares Group utilizes those service exchanges to position their individual brands across market segments. In discussions with employees, I started to refer to their service oriented brand as the “Smartwares Advantage”. This brand has been developed through an investment into a state of the art showroom, special order logistics, and region specific sales and sales support personnel.

Stepping into the new showroom at the Smartwares Group headquarters (see Figure 4), it is clear no expense was spared during the design and construction. The main foyer is divided into their four main brand sections, Smartwares, Home Wizard (a brand of home lighting that is compatible with smartphones), Tri-Star and Princess. Each section has elaborate faux home scenes, showcasing products in action. The attention to detail is impeccable, one kitchen scene even had real eggs on the counter. Beyond the scenes, each section has every available product laid out on shelves with full descriptions. The scenes and shelving are designed to reinforce the individual brand identities that the Marketing Department has developed. The Princess kitchen scenes are more modern and expensive looking than the plain, but clean Tri-Star kitchen scenes. One shelf in between the Tri-Star and Princess sections explicitly displayed the clear brand differences of Tri-Star and Princess. On the bottom shelf was Tri-Star, the middle shelf was Nova (a Belgian brand slightly below Princess in quality) and Princess was at the top. Above the shelf, big bold letters read, “GOOD, BETTER, BEST!” (See Figure 5). The showroom was obviously built to impress retail representatives, whether they were looking for brand or private label products. But it was also clearly an extension of the product brochures that Smartwares Group sends out to retailers. The showroom was built to put retailers in a Smartwares Group store space, turn them into consumers, and create an opportunity to position the company’s brands directly to them.

Another key to the “Smartwares Advantage” is an entire logistical department that specializes in product crises and unique orders. The main Smartwares Group warehouse is in a different part of Tilburg, and it processes the majority of deliveries across Europe. Attached to headquarters, however, is the “Special Order Warehouse” which handles emergency replacements for wrong orders or flawed products, marketing promotions and private label requests (Roestel, 2016). By being connected to headquarters, the Special Order Warehouse can easily communicate with Category Management, Marketing and Sales Support. This helps to solve order problems in real time, and lets staff physically go next door to get a visual on a product if necessary. Orders that are chosen for marketing promotions, where retailers provide a coupon in the box, can be quickly completed, or adjusted if the retailer wants to change a coupon before delivery. Lastly, the warehouse is also the destination for many private label orders. A big part of Smartwares Group’s business is private labeling (Heuvelmans, 2016). Private labeling is when a retailer sells a product from a third party under their brand name. An implication of private labeling is that the final consumer’s perception of the third party (i.e. Tri-Star or Princess) holds no value in negotiations with retailers, because the product will be re-labeled. It eliminates one of the Barriers to Entry in Michael Porter’s Five Forces Model, “product differentiation, or brand identification and customer loyalty” (Porter, 1998, as cited in Hill, 2012, page 812). Therefore, private labeling is a much more competitive market for suppliers like Smartwares Group, because the threat of new entrants is increased dramatically. As Vera Heuvelmans from the Marketing Department told me, “(Smartwares Group) is aware that retailers could go factory direct or to a different brand. To keep customers, (Smartwares Group) has to provide value to clients” (Heuvelmans, 2016). Smartwares Group realizes that the influence of consumer brand perception can be minimized with new entrants, and because of this they are devoted to a high level of service to private label clients. Private label requests are never too late or inconvenient for the Smartwares Group, as Heuvelmans summarized, “Whatever a customer wants or needs, they can get it from us” (Heuvelmans, 2016).

The final element that makes up the Smartwares Advantage is a nationally diverse Sales Department and Sales Support Department that provides insights into the specific tastes of the different European countries, and a level of familiar service to the retailers themselves. Regional sales teams are nothing new in business, but the Sales

Department at Smartwares Group is unique in two respects. Firstly, as mentioned earlier, the Sales Department, encompassing thirteen offices around Europe and the Middle East, has product authority and direct communication lines with Category Management, empowering them to shape regional product offerings (Verhouvern, 2016). Their cultural insight can be very valuable, not only as project catalysts, but also as product monitors, as the Category Managers and the Chinese factories may not be aware of different cultural tastes. Joep Van Hassel, the General Sales Support Manager told me, “The sales team knows what works and what doesn’t work in their culture. One time a Middle East salesperson helped us fix the colour scheme of an appliance, because the current colours may be offensive to certain people in their culture” (Hassel, 2016).

The second unique aspect of the Sales Department is that each regional Sales Team has their own Sales Support team consisting of employees of the same nationality, located at the Tilburg headquarters (Hassel, 2016). As a French, Spanish, German or Italian sales person working for a Dutch company, being able to deal with headquarters in your own language is a huge advantage. This lets Smartwares Group recruit the best sales people in any specific country without needing them to be fluent in Dutch or English, because they will work through the bilingual Sales Support Team. It also gives retailers across Europe a level of comfort knowing that when their salesperson is unavailable, Smartwares Group will still have a team full of native speakers ready to help.

The unique value that the Sales Department is expected to bring to Smartwares Group make Sales and Sales Support jobs “A Positions” for the company. An “A Position” is a job in a company that has two main characteristics. Firstly, the job’s responsibility must be of consequential importance to the success of the organization, and secondly the job must have a pool of available candidates with a wide variability of potential performance (Huselid, Beatty, & Becker, 2005, p. 112). Salespeople in the Sales Department are an A Position because their responsibility to identify and pursue product ideas for their region disproportionately affects the success of Smartwares Group. Salespeople’s ability to do their job affects the company’s ability to respond to regional demands. Additionally, the massive pool of sales professionals encompasses many different levels of education and experience. Sales Support is an A Position because the bilingual attribute is crucial for Smartwares Group, as the company needs to accommodate and communicate with international salespeople and retailers from headquarters. The position has a smaller pool of candidates due to the language requirements, but the variability is still wide due to the strong computer skills that Sales Support employees need to use the company’s CRM system.

A state of the art showroom, a special logistics department and a regional Sales Department are all substantial expenditures above what is necessary. These investments by Smartwares Group do not correlate with typical supplier cost minimization strategies. These ventures show that Smartwares Group is committed to a strategy of creating a competitive advantage by adding value above and beyond their product’s price. Due to the intangible nature of this added value, Smartwares Group’s competitive advantage can be sustained amongst the new entry of competitors.

CONCLUSION

The Dutch management style has been curated from centuries of having to reach consensus to survive. Unlike other European nations, the Netherlands lacked a strong noble governing power, which forced the opposing Catholic and Protestant provinces to work together to organize effective government (Sorge, Noorderhaven, & Koen, 2015, p. 89). Now, in 2016, Smartwares Group must work across borders to accommodate the tastes and cultures of the world. However, they do not view differing tastes and opinions as a hindrance, but as an opportunity for growth. The way that Smartwares Group utilizes diversity across their business process is a refreshing change from the way diversity is thought of in Canada, as a box that should be checked to appease political correctness.

No merger of any magnitude is an easy one, and there is a level of uncertainty that warrants the anxiety that I witnessed during my time at Smartwares Group. However, that anxiety is also a positive sign for the observer.

Anxious too, were the old Dutch provinces as they worked together to prevent floods. Anxiety means that Smartwares Group will find a way to stay competitive while barriers to entry lessen, Philips invests in new technologies, and countries leave the European Union. They will remain competitive by responding to regional tastes, maximizing market share through careful brand proliferation, offering various private label options, and providing all of this internationally with unmatched service. Along with the anxiety, I witnessed a belief and commitment in the Smartwares Group way of doing business; listen to the Sales Department, make the right product and focus on the customer. For the people of the Netherlands, anxiety and commitment are intertwined, not mutually exclusive. In the words of the late Andrew Grove, “Only the paranoid survive” (Ratcliffe, 2014).

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APPENDIX



Figure 1. The Tortilla Chef, notice the IP Protected logo in the top left



Figure 2. A Tri-Star (left) and a Princess coffee machine

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Figure 3. A Princess brochure (left) contrasted with a Tri-Star brochure



Figure 4. Entrance of the Smartwares Group's new showroom



Figure 5. The bottom shelf is Tri-Star, middle shelf is Nova and the top shelf is Princess

Analysis of the Global Mindset on Chinese Brands

Implications and Analysis of the Global and Western Mindsets on the Positioning of Chinese Premium Brands in the International Marketplace

Lukas Larsson

China has long been a global manufacturing powerhouse. Having endured a rapid industrialization process that included the boom in manufacturing consisting largely of low-end products, China has undergone substantial changes and is now home to a large number of high-end, premium brands and products. These products struggle to obtain the level of premium positioning in foreign markets that they possess within mainland China where they compete with global luxury brands. Unlike corporations such as Apple in China, the Chinese counterparts including Lenovo and Huawei often struggle globally. This paper examines the reasons and fallacies behind these issues through a variety of lenses, including consumer mindset, legal framework, national security, and governmental policy. In addition to the aforementioned corporations, the paper touches on the actions and positioning of state-owned and privately held Chinese corporations, including foreign joint ventures such as those with BMW and the Chinese National Offshore Oil Corporation. The aging demographic and changing policies in China and the influence this exerts on the future developments and positioning of these Chinese corporations on the international stage is also touched on. Summarily, this paper closely analyzes these factors in assessing the barriers that face luxury or high-end Chinese brands and products in an ever more globalized world.

INTRODUCTION

China has long been a global manufacturing powerhouse. Largely responsible for the incredible economic developments and growth within the country in the last 30 years, this economic strength has become one of China's premiere weaknesses as the country aims to transition its' economy away from a predominantly manufacturing based one towards one that encompasses a broader, more diversified range of services and products, especially those at the higher or luxury end of their segments. Home to countless high quality and luxury brands that have found success within their own borders, Chinese luxury brands struggle to shrug off the "made in China" stigmatism and with it, the belief that the products produced there are of poor quality. This has led to Chinese top-end brands struggling to establish and position themselves as premium products in Western markets. In stark contrast, premium Western brands have far less trouble entering China as luxury brands, especially as Chinese consumers are increasingly drawn towards Western products. To help paint this picture we will break down and analyze the successes, failures, techniques and methods employed by Chinese firms Lenovo and Huawei, as well as North American firms Apple and IBM. We will also touch on the societal and governmental opinions of Chinese expansionism relating to made in China products by analyzing the Chinese National Offshore Oil Corporation's actions, and the Chinese Government's policy towards corporations such as BMW entering China's domestic market.

In addition to the struggle of brand positioning, we will work to successfully illustrate the suspicion that America and others in the West often holds towards China and Chinese companies. The report will touch on the actions of the Congress of the United States of America with regards to blocking Huawei's entry into the telecom industry, the Chinese National Offshore Oil Corporation's (CNOOC) proposed acquisition of Unocal, and their bid for Nexen Inc. of Canada and the subsequent renegotiation that followed culminating in the acquisition of Nexen thereby satisfying the Chinese National Offshore Oil Corporation's desire for a high-end Western oil and gas corporation with strong upstream assets and global interests that are beneficial to enhancing CNOOC's financial statements. The report will touch on both the Chinese and American worldviews that are so deeply ingrained that changing them will take time and effort. The report will also explore and note some of the double standards China has created for itself in the global marketplace and how these standards negatively affect Chinese corporations looking to expand globally as premier high-end or luxury brands.

Lenovo provides an interesting base to begin our analysis of the situation as present in the increasingly globalized world that commerce operates in today. As a premier Chinese brand that has done better than most in positioning as a premium brand on the international stage, it still faces countless hurdles that are not typical of corporations with origins other than those faced by the Chinese. Lenovo has successfully created a high-end brand of computing hardware and software and has been engaged in high-profile takeovers including that of IBM's high-end laptop brand, ThinkPad. This deal was in conjunction with a smaller data server division. Events such as these have caused issues within America regarding the trust of Chinese corporations, the source of their financing and funding, and the varying governance and ownership structures within each one.

Similarly, Huawei is a prominent Chinese brand with massive global market share that is incredibly successful the world with one notable exception - The United States. Blocked from building telecom network systems by an Act of Congress (Rogers, 2012), Huawei has been unable to establish itself globally as a premium brand and even with the success it has attained thus far, it is often seen in a position behind that of global leaders Samsung and Apple. This view only exists outside of Huawei's home market of China. One of the major hurdles that currently faces Huawei when attempting to gain access to the American market is their corporate structure. With a more decentralized and atypical corporate structure from the American norm, this makes it difficult to pinpoint where ownership lies. Governed as more of a cooperative with employees owning almost 99% of the corporation via an "employee stock purchase plan" (Sevastopulo, 2014), Huawei's structure is foreign to many Americans which in turn increases apprehension and suspicion towards the corporation.

LENOVO AND IBM

Lenovo is a world-renowned brand that operates in the computing and technology industry. As a brand of Chinese origin, it has spent the better part of its multinational life breaking into the North American market. It has done so with more success than Huawei, especially with regards to the coveted American market, but the approach taken by Lenovo has been one that has been drastically different. Governed via a more typical corporate structure, it has drawn less concern from the Western authorities. Positioned in the West as more of a mid-level product, Lenovo has managed to achieve this positioning with the aid of a variety of factors. To better increase penetration in this market, Lenovo has taken the strategic step to acquire from IBM their personal computer division, notably the ThinkPad brand (Zhou, 2012). IBM is at the forefront of computing in North America and this acquisition is one that should foster growth and progress for Lenovo in the American market. This strategic move will allow Lenovo to springboard off of the name and goodwill that IBM already possesses in the American market, further establishing a strong brand presence and awareness as a company with global aspirations and presence rather than as a Chinese corporation simply operating in America. The acquisition has been lauded as a success for Lenovo by both pundits and the founder of Lenovo, Liu Chuanzhi who stated that "We benefited in three ways... We got the ThinkPad brand, IBM's more advanced PC manufacturing technology and the company's international resources, such as its global sales channels and operation teams. These three elements have shored up our sales revenue in the past several years" (Zhou, 2012). By working with and acquiring a US corporation in the normal course of business in full compliance and agreement with officials to ensure the deal was acceptable on both sides, Lenovo managed to further entrench their brand in the American market. As one of the global computing and technology players, Lenovo has found themselves as a staple in the consumer mindset. Positioned in America as a mid-level brand, Lenovo strives to meet their Chinese status as a premium brand and in recent years has taken steps towards this change. These actions have allowed Lenovo to further wriggle free of the negative connotations associated with the "made in China" label. When combined with the American public's relative trust of Lenovo compared to Huawei which is often attributed to a clearer governance structure, Lenovo is better poised to capitalize on this positioning in the market as the corporation grows and evolves in future years.

A component playing into this success often cited by industry analysts is surprisingly simple: the name, "Lenovo" is easily pronounced by English speakers whereas "Huawei" is foreign in all aspects (Thomson, 2013). Management of Huawei ultimately opted to retain the name as they believed it already had strong brand

recognition in the telecom equipment sector, and did not feel that altering or using an alternate consumer-centric name was necessary, even with the implications the name carried. The name has long been associated with the Chinese government which has caused concern in both Britain and America. The board of directors has not completely ruled out using a different name in the future for certain product lines (Thomson, 2013). This causes a direct impact on word-of-mouth advertising, and acts detrimentally towards global expansion plans outside of niche Chinese expatriate groups around the World. Corporations with names that have a strong Chinese or Asian connotation may find themselves at a distinct disadvantage in the North American market due to a deep subconscious distrusting mindset that may prevail.

MADE IN CHINA STIGMATISM

The “Made in China” label is both the greatest Chinese asset, yet simultaneously the most painful thorn in the nation's side. *This association coupled with common beliefs around state-support of China-based multinationals and the implications this has on the entrepreneurial and consumer-centric mindset of the West, Chinese Nationalism, and Sino-Western relationships, we have ample data to support the struggles of Chinese premium brands, whether just or not.* This is clearly demonstrated in “Brand and country-of-origin effect on consumers decisions to purchase luxury products” in Table 1, where the USA is shown to place a substantially larger importance on Country of Origin (CoO) and Country of Manufacture (CoM) than for instance, India (Godey et al., 2011; Table 1). Although the level is relatively low compared to other categories, it is still triple that of most developing nations. This belief that made in China is inherently bad is a very ethnocentric, biased assumption that hurts the performance and growth of premium Chinese multinationals in a global world economy. The most prevalent logical fallacy with this argument is actually quite simple and can be clearly illustrated using Apple as an example: Americans put a premium on Apple products, but when products that use the same components are manufactured in the same factory but are branded with a Chinese brand, i.e.: Huawei, these products are deemed to be of lower quality without any basis or proof of that assumption. Huawei actually produces a premium line of cellphones, the P8 and P9, which are regarded by some as ahead of Apple in terms of development and technology, especially in areas concerning components found in the iPhone 7 such as dual lenses in the camera, have actually been found in the P8 and P9 for some time (Apple, 2016; Huawei, 2016).

To counter this argument, it is important to mention that Apple’s ability to fetch higher prices stems from customer loyalty, build up goodwill, and services that are provided as an accessory to the product. Even if this is deemed true, both corporations offer warranties and both are oft regarded as having fantastic customer service and support. In particular, Huawei has adopted a “customer first” mentality (De Cremer and Tao, 2015). Apple has had their customer service receive many awards, including the 2014 JD Power award for customer service (Heisler, 2015). A very large differentiator in price may be derived from those outside of China unwilling to try or experiment with products that the individual has mentally categorized as lower quality. Both Americans and the Chinese have very nationalistic tendencies; to purchase and support a brand such as Huawei in the United States may also carry some degree of social stigmatism that may have adverse effects on the mindset of a consumer looking to upgrade their phone or move away from Apple. This would indirectly push the consumer to one of the few other major options in the American market such as Samsung.

HUAWEI AND APPLE

Huawei has spent considerable time and money expanding internationally, and did so rapidly with many successes in the majority of the markets they entered along the way. After the first international move partnering with a Hong Kong firm, Huawei quickly expanded into Asia, Africa, parts of Europe, and South America. In 2001, Huawei expanded into America, but, due to challenges of adapting to the American market, three years passed before Huawei managed to generate a sale in the country (Micheli & Carrillo, 2016). Huawei uses an atypical ownership and management structure that has it operating as a co-op wherein some 70% of the employees have a stake in the corporation, holding almost 99% of the total shares while the founder has only a small personal holding (Sevastopulo, 2014). This is one aspect leading to the American distrust of the corporation as it is a very Chinese method of ownership that pairs nicely with the collectivist culture of China. Huawei at present does not

consider America to be one of its stated top seven markets of importance, but has placed substantial investment into Mexico in order to foster expansion in the Americas (Micheli & Carrillo, 2016). Huawei is well positioned to expand into America when the time comes, but is under no certain pressure to do so as it continues to expand globally into other regions in Asia and Latin America at unprecedented rates.

The success of the expansion globally by Huawei so far is hotly debated. Those preaching success often point to Huawei's ranking as the third most popular global smartphone retailer with a market share of at last report, 9.3% in Quarter 2 of 2016 (IDC, 2016). Within China this stat is even stronger at 17.4% (Kang, 2016). These statistics, impressive as they are, show their weakness when compared to American brands expanding in the opposite directions of Huawei. For instance, within their home markets, Apple has a 43.6% market share compared to Huawei's 17.3% share (comScore, 2016; Ramli, 2016), a 26.3% difference. In China, Apple commands a formidable 10.8% market share compared to Huawei's virtually non-existent market share in America (Ramli, 2016), and globally, Apple is noticeably stronger than Huawei with a 11.7% share – though both pale in comparison to Samsung's impressive 22.8% (IDC, 2016). As a corporation, Huawei is undeniably successful and innovative. They have found success in virtually every market they have entered, but are still working to position themselves as a higher-end retailer in the technology consumer goods segment as they move away from their lower-end past.

The primary reason for Huawei's lack of American market share is the United States Government's distrust of Huawei and belief that they leave the country vulnerable to Chinese government spying should they allow the corporation to operate. As it currently stands, virtually all Huawei handsets purchased in the United States must be purchased online and shipped into the country. The typical Huawei business model includes retail stores and telecom infrastructure, something that they have been unable to implement in America. The United States, as a country where the majority of consumers purchase their phones through their service providers, is not as friendly to the online purchase and delivery business model as in China where this practice is commonplace. As Huawei has been banned by Congress from implementing any physical telecom infrastructure in the United States (Rogers, 2012), a movement away from this business structure is difficult and in the near future highly unlikely.

The immense distrust present, specifically in America, towards Huawei is portrayed excellently by De Cremer in "Huawei to the future": Cremer and Zhang effectively articulate some of the reasoning behind Huawei's struggle to enter the US market. When delving into the factors contributing to the suspicion behind Huawei they state that "the US has pushed Huawei to the periphery of its telecom market... fear of espionage and suspicion [of]... cheap loans from Chinese banks", as being a major contributing factor to America's unacceptance of the multinational (De Cremer, 2014, pp. 27).

Huawei is a corporation that invests in the United States, yet struggles to establish their premium brand positioning. With a large spend on research and development that often surpasses rival Apple, Huawei is strategically positioned yet struggles in the premium phone market in the United States. Huawei has established research and development centres around the world, including in the Silicon Valley (Guanqi, 2009, pg.1098), yet the perception of a low-quality Chinese brand persists, even after substantial American investments. Not only is low-quality a hurdle for Huawei, but they need to find a method to effectively build trust and transparency with both the American consumer, and more importantly, the American government to allow them to effectively break into the market. Partnering with a major American telecom provider rather than establishing their own telecom network and infrastructure could be a viable initial move into the market. However, the cheap financing Huawei has received from the Chinese government raises suspicion in some circles. If the Chinese government is so deeply intertwined with Huawei as some believe, putting American telecom infrastructure in Chinese hands would be an unfavourable political decision possibly akin to political suicide. These cheap loans are often interpreted by American businesses, public, and politicians as an unfair advantage that goes against the deeply held American belief of equal opportunity for all. Huawei has invested heavily in their Mexican research and development facility which allows them easier access to Central and South America, and could be a strong indicator of positioning to one day enter the American market.

CNOOC: BIDS FOR UNOCAL AND NEXEN, INC.

To further analyze this phenomenon in a Chinese-expansionist mindset as viewed by the West, an example can be found within the planned Chinese National Offshore Oil Corporation's (CNOOC) proposed Unocal deal that was eventually passed up and blocked in the United States, and the eventual closing of CNOOC's bid for Nexen, Inc. in Canada. The strategies taken by CNOOC in both of these situations were very different and resulted in substantially different outcomes. Another area that may be of interest is the moral philosophies of the West with regards to "supporting China" and the desire of young Chinese people to emulate the Western societies that they are so often enamored with.

To analyze the distrust created towards China by foreign entities when they believe the Chinese government to be 'aiding' private enterprises or interfering heavily in state-owned enterprises expanding internationally, we turn to markets often deemed important to international success, prosperity, or national sovereignty. To best support this argument and analysis, no case is better than the oil and energy industry and the failed CNOOC-Unocal deal and the successful CNOOC-Nexen deal. The differing actions of Congress in the United States and the Canadian House of Commons illustrate this mistrust. By winning over the public and acting transparently, the deal was ultimately sealed "with net benefit to Canada" as determined by Canada's Minister of Industry (Yee & Jones, 2012). This ensures that the Canadian public is best served and their interests are protected.

CNOOC is a state-owned enterprise in China and one of the nation's largest corporations. Multiple subsidiaries of the corporation are publicly traded, but the government of the People's Republic of China is the largest shareholder. CNOOC had planned to make a strategic investment decision in the United States to further expand their global holdings. This led to an analysis of potential buyout opportunities which eventually led to an offer and bidding war with Chevron to acquire Unocal. Unocal was of particular interest to CNOOC as they had substantial investments and holdings in Asia which is CNOOC's major market (Gheit, 2005). CNOOC eventually made multiple bids, with one as high as \$18.5 billion USD, but had to withdraw this bid as they determined Congress was likely to rule against the acquisition attempt for a number of reasons, including national security, Chinese government backing of CNOOC, and Unocal being in possession of proprietary technologies and information that the United States government deemed sensitive (White, 2005).

As the bid to acquire Unocal failed in the United States, the Chinese National Offshore Oil Corporation was still in pursuit of acquiring a large international asset, but this would not occur for a number of years. After a failed bid rejected by shareholders of Nexen Inc. in Canada, CNOOC would take some time to decide a new course of action. In 2012, CNOOC announced that it would be paying a substantial premium of 61% over market value per share for Canadian oil corporation Nexen Inc. (Yee, 2012). This announcement came with another from the Canadian government stating that they would conduct an assessment of the deal to ensure "that it is of net benefit to Canadians" and would review the deal in terms of security concerns and shareholder approval (Yee, 2012). Shareholder approval was rapidly obtained as the premium being paid was more than fair. The deal was investigated by both the Canadian authorities who approved it in December of 2012, and the American authorities, due to Nexen Inc.'s substantial American deals, approved the takeover bid in mid-February of 2013. The deal closed shortly thereafter, marking CNOOC's largest and most successful international buyout to date. Interestingly enough, CNOOC's foray into the Canadian oil and gas sector would open up the doors to further investment in the industry by other Chinese firms.

The Nexen takeover is evidence that different approaches to international expansion for Chinese multinationals can lead to substantially different outcomes. Both Unocal and Nexen, Inc. were similar sized corporations operating in different home markets. As CNOOC had had prior business dealings with Nexen Inc., and offered a substantial premium on the market price of Nexen Inc.'s traded shares, they managed to swing public opinion in their favour. This was a notable change especially given that CNOOC is a major state-owned and backed Chinese enterprise. Approaching the negotiation with a different mindset and tactic can evidently lead to the outcome desired by both parties within the negotiation.

Huawei has much to learn from CNOOC with potential for expansion into the American market. In opposition to their current desire to establish telecom hardware in the country, they may be able to engage in joint ventures in the United States. This is similar to the requirements of corporations seeking to enter China. An approach of this method would begin to build a foundation of trust from which Huawei could launch their bid to be seen as a premium and respected retailer in the Western consumer goods sphere. By building strong rapport with the Canadian government and industry, CNOOC was well poised to make an international expansion into Canada, and even within an industry often deemed to be nationally strategic success was found.

As CNOOC has expanded into Canada and other global markets it has positioned itself as a well-regarded Chinese enterprise, even with its' state backing. It is believed that CNOOC manages business affairs with minimal Chinese government interference which has led it to become a successfully operating corporation, as can be seen in "Chinese National Offshore Oil Corporation annual stock price, 2006-present" which indicates strong financials even amid a falling stock price, and limited apparent intervention from the government to prop this price higher (Table 2). CNOOC benefitted from the previous Canadian governments' intentions to progress Sino-Canadian relationships, but from this point forward, all future oil-sands projects involving foreign investment are banned unless government approval has been received. This is a strong indication of apprehension remaining among Western officials and within Western society, but it also portrays a desire to work with the Chinese corporations that are highly regarded.

Although potentially seen as unfair or disadvantaged, Huawei must start from a more disadvantaged point than other global competitors. As the world adapts to Chinese influence on a more global scale, Huawei may find that American Congress opens up to more Chinese entrances in sensitive markets. This would largely contribute to a redefined success level for Huawei globally. By analyzing the approaches taken by CNOOC, Huawei may find ways to expand more effectively into the United States.

GOVERNMENT POSITIONING

Drawing back to Lenovo's acquisition of IBM's ThinkPad division, it is imperative to bring attention towards specific actions taken by the American government with regards to national security and safety. Specifically, according to the Wall Street Journal, "After Lenovo acquired IBM's personal-computer business in 2005, the State Department banned use of the PCs on its classified networks in the U.S. and abroad" (Dou, 2015). By mandating a change to a different computer brand, the American government is reinforcing the notion that America and the West have a deep inherent distrust of the Chinese government and large Chinese corporations that often have, and do, maintain close ties with the communist government of the People's Republic of China. These examples illustrate the immense hurdles and challenges that Chinese brands have to overcome to be fairly regarded as premium products. The issue is one that is deeply ingrained in the minds of many Western consumers. Overcoming the hurdle of "made in China" will not happen overnight, and in some aspects, the mental barrier is justified. The Western Government's actions often influence consumer mindsets via activity such as Acts of Congress blocking corporations, implementation of tariffs or taxes, or news articles detailing how the government is moving to a new supplier or brand. Typically, this is often due to security fears. Consumers in the West do place some value on country of manufacture and origin, so the issue is one that cannot be oversimplified and solved with the flick of a wand. The Chinese corporations at the forefront of international expansion including Lenovo, Huawei, and CNOOC have begun to pave the way for a growing Chinese economy and premium level market for international Chinese brands. As China becomes the World's most powerful and largest economy, this path will become more well-trodden by corporations that can effectively leverage the knowledge these first mover corporations have accumulated.

Negative publicity in recent years has also lead to the West taking an unfavourable view of Chinese corporations for a variety of reasons that include human rights violations in the country (HRW, 2016). This could be interpreted as a misinformed, but not unsubstantiated view. For instance, Apple sources production and assembly of their phones to a large Chinese manufacturer named Foxconn. Foxconn has repeatedly fell into fire for their unfair

labour practices and injustices against their employees. The corporation also assembles the phones of many Chinese handset makers (CBS, 2012). *If the general public was more aware of the practices at hand regarding the Foxconn labour issues, Apple phones would not be priced at the premium they are and still manage to sell an absurd number of devices. The realization that Huawei and other brands all use many of the same suppliers would therefore make for a more level playing field.* Foxconn has come under fire for their practices leading to the deaths of two staff members as cited by The Wall Street Journal (Dou, 2016). The initial response to the issue involved installing “suicide nets” to catch those who try to jump and commit suicide within the factories. Recent changes have involved working on assistance programs that Apple has been involved in designing (Dou, 2016).

As much as these issues are prominent and critical in today’s World, they do not seem to impact the global perception of western corporations such as Apple, but they do appear to have large impacts when the corporation is a Chinese one expanding outwards. Apple receives incredible criticism at home over allegations such as these, but as the practice is standard within China, the brand does not receive the same level of negative attention or press within China as it does at home. This contradictory position may be why corporations such as Huawei who also use Foxconn have a larger issue expanding outwards when their labour practices may be seen as unfavourable in the West and they are based or owned in China.

CHANGES IN CHINA

As the general population in China ages, and the younger generation begin to take on more prominent roles in business and government, it will change the global business landscape. This younger generation in China has had substantially more exposure to Western cultural ideals and practices, and have a deeper understanding of how Western corporations approach businesses. This knowledge will allow the Chinese corporations to better expand within Western markets and position themselves how they should be positioned. With a generation more in tune with, and deeply interested in Western ways, businesses stand to benefit enormously. China often acts in a method that is seen as contradictory or in the spirit of “double-standards”. China expects to be able to expand globally and invest where it wants and when it sees fit, but American or other corporations looking to expand into China are forbidden from entering many markets that China enters themselves overseas such as oil and telecommunications. China requires foreign corporations looking to enter China to establish a joint venture with a local Chinese firm. If China took this approach to their investments elsewhere and had joint ventures with minority or equal stakes, they would likely been seen as more trustworthy and would begin to remove the stigmatism associated with Chinese government majority held operations having a majority say in foreign countries. Foreign businesses entering China are restricted to a 50% ownership stake. For example, BMW in their ventures into the Chinese market has partnered with a local corporation, Brilliance China, and the Shenyang government who own 45% and 5% respectively of BMW’s Chinese production joint venture (Richardson, 2002). In comparison to these regulations, Congress in America and the House of Commons in Canada often assesses deals, but they do not restrict ownership to 50% in all industries. If Chinese corporations want to be considered fair players on the global stage, easing of these restrictions to a level similar of the West could be interpreted as a move in the right direction, ultimately benefitting the Chinese businesses looking to set up shop as high end retailers. By easing restrictions as manufacturing and other perceived low-end industries continue to move out of China, the corporations are increasingly well positioned to drop the “made in China” stigmatism and become fully respected global high end brand names.

As one of the World’s premier economies, China has often struggled in the high-end sector, especially in the Western marketplace. By failing to position effectively, Chinese brands do not receive the prices or recognition for their goods that comparable Western corporations do. Lenovo as a Chinese brand has done an effective job avoiding these issues, and has successfully negotiated to acquire well-regarded American divisions including ThinkPad, while maintaining strong positioning in the Western markets. Some of this success can be attributed to the fact that Lenovo has a corporate structure more similar to what is typical in the West than Huawei, which has been shut out of the American market, resulting in Lenovo being more broadly trusted by both government and the public. The “made in China” label has been China’s greatest asset during its period of industrialization and

rapid economic growth, but it now acts as the anchor drawing China down, heavily weighing upon luxury, high-end brands.

Corporations such as Apple have effectively worked into the Chinese market, and have managed to capture a sizeable market share. Demand for luxury Western products in China is extremely high, and Apple has benefitted from this hugely, but still fails to grab top place for market share, though fares better in China than most Chinese corporations fare in America and other notable Western markets. Huawei has found moderate success in Europe, but barely has any semblance of brand name recognition in the United States or Canada. Huawei has placed significant investments in places such as Mexico, suggesting that it is attempting to be well poised to eventually enter the American market.

The United States government carries a substantial mistrust of corporations such as Huawei when they are attempting to expand into the country. Congress has blocked Huawei from establishing telecom infrastructure in the United States as they believe that the Chinese government is too deeply involved with Huawei, posing a security threat to America. In other examples, they have blocked Lenovo from obtaining critical information from IBM when they acquired their server and ThinkPad divisions citing national security.

CNOOC has provided many good examples for how to approach or not approach an acquisition target as a corporation backed by the Chinese government. CNOOC failed in its Unocal bid as the offer was interpreted by many as a hostile takeover. By taking an approach more accepted by public and government in Canada, CNOOC successfully acquired Nexen, Inc. As the younger Chinese move into more prominent business roles they will bring a wealth of understanding of Western society compared to the current generation, likely leading to a more accepting Western market for Chinese luxury products.

Many of China's regulations are contradictory to what they are trying to accomplish in the global world, and may be detrimental to what they are trying to do as premium brands. Overall, Chinese brands have struggled recently to position themselves globally as high-end brands, but they have made strides in the right direction, and the future is bright for Chinese high-end luxury goods as they begin to change perceptions and ultimately gain global acceptance.

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Hyundai Motor Manufacturing Czech and the Czech Republic

An Excellent Example of Foreign Direct Investment

Chris McEachran-Law

In many ways, the Czech Republic automotive industry has been and is one of the most productive and successful in the world. Hyundai Motor Corporation (HMC) is one of the largest and most successful auto manufacturers in the world. This paper seeks to explore these two phenomena in greater detail with particular focus on their newfound relationship and its environmental implications based on Hyundai's entry into the Czech auto manufacturing market in 2006. More specifically, this paper first provides an overview of the history and current state of the Czech Republic and Czech Economy, focusing on environmental concerns and challenges. Next, it discusses the Czech automotive industry with an emphasis on the domestic superpower Škoda Auto. What follows is a brief history of HMC and a detailed overview of Hyundai's organizational structure on the global level as well as the structure of Czech subsidiary Hyundai Motor Manufacturing Czech (HMMC). Subsequent sections provide an in-depth examination of HMMC's plant, and a comparison of Hyundai and Škoda. Both of these sections focus on the impact Hyundai has had on the Czech automotive industry and on the Czech Republic more generally (again, with particular attention to environmental issues). Finally, this paper summarizes the information presented and explains with concision why Hyundai Motor Manufacturing Czech is an excellent example of foreign direct investment (FDI) in the Czech Republic – especially as the country battles to become more environmentally friendly and sustainable in one of its most important industries.

OVERVIEW OF THE CZECH REPUBLIC AND CZECH ECONOMY

The Czech Republic (Czechoslovakia from 1918-1992) is located in Central Europe, sandwiched between Germany, Poland, Slovakia, and Austria. In 1948, shortly after the conclusion of the Second World War, Czechoslovakia fell to a Communist coup and was taken over by the Communist Party of Czechoslovakia. During communist regimes, innovation and risk-taking by individuals are generally not, and perhaps never, encouraged. The Czech regime was no different. It comes as no surprise, then, that the country emerged from communism lagging behind the western world in the areas of innovation, technology, research and development (R&D), and much more. On a similar note, production across Czech industries (such as auto manufacturing, mining, and various forms of engineering) was generally slower and more energy intensive. Not only was this inefficient economically, but it was also detrimental to the environment.

Along with communist countries such as Hungary, Poland, and East Germany, the Czech Republic was a blatant perpetrator of environmental destruction. As Florida State University professor Roy C. Herndon wrote, there was “an emphasis on production at the expense of the environment [which] led to severe degradation of air and water quality, coastal areas, soils, sediments, crops, and forestlands” (1999). Because of the length of the Communist Party's rule, even after the Velvet Revolution of 1989 that signaled the end of communism, the soon-to-be Czech Republic had a long way to go both economically and environmentally to catch up to the rest of non-communist Europe.

Following the end of communism in 1989, the government led by Vacláv Havel faced the challenging task of transitioning to a market economy. The major key to this transition was the process of privatization, which came in a few different forms. First, privately owned companies from the pre-communism era were simply returned to their original owners (restitution). Next, state-owned companies were mainly turned into joint-stock companies, meaning that large portions of them were sold to individual shareholders. However, the Czech Republic had a unique way of doing this called “voucher privatization”. As the European Commission (EC) puts it, “for 1000 CZK, every Czechoslovak citizen could buy a coupon book containing investment points, which could then be used to

bid in auctions for shares in state-owned companies undergoing privatisation” (“Privatisation of state-owned enterprises”, 2013). However, despite the country’s best efforts, the process was far from flawless and by the late 1990s, the Czech Republic faced stagnation as Figure 1 shows below.



Figure 1: Czech GDP over past 40 years.
Source: “Czech Republic GDP”, 2016

To combat this, the Czech government embraced outside investment by offering various incentives and benefits to foreign investors (Jenerálová, 2011). This was met with mixed results, as Czech GDP remained relatively stagnant until the early 2000s (Figure 1).

The majority of growth in the early to mid-2000s as seen above came as a direct result of the Czech Republic’s entry into the European Union (EU) on May 1, 2004. There are several reasons why EU membership directly and immediately improves economic conditions of new members. First, they provide access to EU structural funds aimed at helping fund less developed and less fortunate regions improve their economic conditions (Jenerálová, 2011). EU membership also eliminates all import and export duties between EU members and increases foreign investment inflows due to the freedom of movement of capital, people, and services outlined by the EU. To give an idea of just how beneficial joining the EU was, Czech GDP more than doubled over the first 5 years (Figure 1) of being an EU member. During that time, the country started to turn itself into one of the most successful industrial economies throughout Central and Eastern Europe.

In addition to the economic boost provided by EU membership, the Czech Republic by default also now had to comply with stricter environmental regulations (part of the conditions of joining the EU). Despite this theoretically important fact, the Czech Republic saw nominal progress as a result of these stricter regulations in the mid-2000s. Based on two detailed ranking systems of 16 EU countries developed by Maître de Conférences Amel Ben Rhouma, the Czech Republic ranked 15th and 16th respectively in the five consecutive years from 2002-2006. The “Sustainable Value” and “Sustainable Value Margin” factor in 19 different economic, environmental, and social indicators in an attempt to determine whether a given country used its resources to efficiently create value (Rhouma, 2010). (A detailed breakdown of how the rankings are calculated can be found on pages 22 and 23 of Rhouma’s article).

The Organisation for Economic Co-operation and Development (OECD) supports Rhouma’s notion, stating that the “Czech Republic...has one of the highest ratios of greenhouse gas emissions per unit of output in the OECD”

(“Green growth and sustainable development”, 2016). According to the OECD, this statistic holds true despite considerable improvement in the recent years – further emphasizing just how poor the country’s environmental performance has historically been.

An important step was realized in 2010 when the Czech Republic adopted the Strategic Framework for Sustainable Development, which broadly lays out sustainable objectives, specifically focusing on using energy more efficiently and increasing the use of green technologies. According to Robeco Sustainable Asset Management (RobecoSAM), the Czech Republic has made meaningful process overall in terms of environmental measures. In the last year alone, the Czech Republic made the most progress in environmental, social, and corporate governance (ESG) scores of any of the 22 developed countries evaluated, and 3rd out of 62 overall (“Country Sustainability Ranking Update”, 2016). This is particularly notable considering the three largest industries are engineering and machine engineering (primarily the auto industry), mining, and the chemical industry – all of which require copious amounts of energy.

During the period after joining the EU, the motor vehicle industry (motor vehicle industry, auto industry, and automotive industry will be used interchangeably in this paper) in particular received a significant boost from two new sources of FDI. The first was in 2005 when Toyota Peugeot Citroën Automobile (TPCA) opened a manufacturing plant in the Kolin region of the Czech Republic. The two companies (Toyota and Peugeot Citroën) together invested approximately €950 million EUR (26 billion CZK) in this venture. Shortly after that, Hyundai Motor Manufacturing Czech (HMMC) announced its arrival by building a plant in Nosovice, investing over €1 billion EUR. Before delving into the details of Hyundai’s entry, it helps to first look at a brief history of the Czech automotive industry and its main player, Škoda Auto.

HISTORY OF THE CZECH AUTOMOTIVE INDUSTRY

The Czech automotive industry has traditionally been a significant part of the Czech economy with origins from as long ago as 1895 when Václav Laurin & Václav Klement partnered to found a bicycle company under the name Laurin & Klement. In 1899, they began to build bikes that contained auxiliary engines, also called “Motocyclottes”. Six years later, the two created their first automobile, the Voiturette A. Due to its success, Laurin & Klement merged with Škodaworks Pilsen, thus marking the end of the brand Laurin & Klement and the beginning of Skoda Auto (“Company History”, n.d.).

Prior to the Second World War, other companies such as The Brno Arms Company, Praga, and Walter all entered the automobile industry. However, no company besides Skoda ever found any long-term success. The Brno Arms Company ceased production of vehicles following WWII, Praga made the switch to commercial trucks (no passenger vehicles), and Walter slowly switched over to engine production, producing its last automobile in 1951 (Purkrábek, 2012). Currently, Škoda is the only Czech company producing passenger vehicles in the Czech Republic. Because of this, it has enjoyed considerable success as the perennial leader in domestic car sales in the Czech Republic.

HISTORY OF ŠKODA AUTO

Škoda’s first car was produced in 1928, and numerous models including the Škoda Popular, Škoda Rapid, Škoda Favorit and Škoda Superb were introduced in the following years leading up to WWII. Despite sustaining considerable damage from the events of the Second World War, Škoda factories commenced production, introducing models such as the Tudor, Octavia, and Felicia. Of these models, the Superb and the Octavia are still in production today. Up until the Velvet Revolution of 1989, production was relatively limited due to the Czech communist regime. However, in conjunction with the shift towards a market economy, the Czech government sought a “strong foreign partner that would provide financing and know-how” (“Automotive Industry in the Czech Republic”, 2009) for Škoda. That partner would eventually turn out to be Volkswagen Group (previously comprised of Volkswagen, Audi, and SEAT). An often-overlooked factor in Volkswagen’s acquisition of Škoda is that the Czech government did not simply exchange ownership for the highest bid – they instead attached a

series of conditions to help the Czech Republic's switch from communism go more smoothly. For example, they required that all Czech Škoda employees kept their jobs and that Škoda be allowed to operate as a fully independent subsidiary with freedom to develop its own cars (O'Shaughnessy, 2007). While it is difficult to speculate where Škoda Auto would be today had the government selected the other bidder, Renault, it is clear that Škoda has and continues to enjoy considerable success as a subsidiary of Volkswagen.

Looking at the years following Volkswagen's acquisition, Škoda has flourished. With few exceptions, unit sales globally have increased every single year since 1994. Similar trends exist for Škoda in Europe and China respectively, its two biggest markets. Record sales of 1.06 million were recorded in 2015 ("Sales Results", n.d.), earning the company \$1.36 billion USD in operating profit and a net profit of \$1.19 billion USD ("Škoda Annual Report", 2015). In addition to the impressive sales and earnings figures, Škoda has also been recognized with numerous awards and accolades in recent years. In 2009, the Škoda Superb model won the international "Car of the Year" competition. Between 2007 and 2012, it won five "Best Manufacturer" awards from Auto Express, Top Gear, and Which? respectively. ("Which?" is the name of the UK car review company). Perhaps most impressive, however, is that Škoda has ranked among JD Power Customer Satisfaction Survey's top 10 car manufacturers in each of the last 20 years ("ŠKODA Awards", n.d.).

Finally, in terms of the market in the Czech Republic specifically, Škoda continues to hold a dominant position year after year. According to Petr Vanek, Director of the HMMC Public Relations Department, Škoda currently holds approximately 30% of the Czech market for new vehicles. According to Car Sales Base, the company holds a 4.3% market share in the European Union as a whole. However, despite this continued dominance, Škoda's market share has declined considerably over the past decade. The company held a near 50% market share for new vehicles in 2006 according to Vanek (Personal communication, 2016). To be clear, the reason for this has more to do with increase in the amount and quality of competition from other companies – specifically Toyota Peugeot Citroën and Hyundai – than it does with Škoda falling off (Škoda continues to earn impressive accolades despite their diminishing market share).

CURRENT STATE OF CZECH AUTOMOTIVE INDUSTRY

In 2015, motor vehicle production made up nearly 25% of the Czech Republic's industrial production and exports. It also provided approximately 7.5% of the Czech Republic's GDP. As of 2014, the automotive sector employed approximately 150,000 people and the country produced 118 vehicles per 1,000 inhabitants. That figure ranked them 2nd in the world in terms of vehicle production per capita behind only Slovakia, and well ahead of automotive superpower Germany producing approximately 70 vehicles per 1,000 inhabitants. In terms of global market share, the Czech Republic ranks 16th (Kozelsky & Novák, 2015). It is worth noting that the population of the Czech Republic is only about 10.5 million (compared to global market leaders such as China and the United States with populations of approximately 1.4 billion and 319 million respectively). The industry continues to grow steadily year after year, and that trend projects to continue according to Kozelsky and Novák of the EU Office of the Czech Republic (2015).

HISTORY OF HYUNDAI

Hyundai Motor Company is a well-known Korean automotive brand that currently sells cars in 193 countries. It has plants in 16 countries, sold 4.4 million vehicles in 2014, and is currently the fourth largest vehicle manufacturer in the world. Hyundai also currently owns approximately 34% of Kia Motors, another Korean automobile manufacturer. Kia sold nearly 3,000,000 vehicles in 2014, and has seen their sales figures grow steadily from 2011-2014 ("Kia Motors posts 0.3% rise in 2015 global sales", 2016). Hyundai's overall profit in 2014 was nearly \$6.4 billion USD (7,649 billion KRW) ("Financial Information", 2016). (All USD figures have been converted from the given KRW figures, therefore some variance should be expected based on rounding and varying conversion rates). Despite the current success, it was not always this way. Chung Ju-Yun originally founded Hyundai in 1947, as an engineering and construction company, but Hyundai Motor Company as it is known today was not established until 1967. By 1968, the construction of Hyundai's first plant – the Ulsan

assembly plant – was complete. In the same year, Hyundai began training with Ford Motor Company in the United States. As a result, the first car released – called the Cortina – was manufactured in conjunction with Ford. Hyundai soon decided to develop and manufacture their own car, which led them to hire a collection of top British car engineers in 1974. By 1975, Hyundai had created the Pony, the first Korean car in history.

During the early years, Hyundai was generally quite well received. In 1976, Hyundai's first vehicle, the Pony, was unveiled. Exports of the Pony to Ecuador commenced shortly after that, and it did not take long for the car to reach North America. Hyundai Motors Canada was incorporated in 1983, followed by Hyundai Motors America in 1985. The Pony Excel (also referred to as simply the Excel) was launched in 1985 as well, and exports to the U.S. began in 1986. Despite the initial success of the Excel – which was the best-selling export in the compact car category for three consecutive years – quality soon turned into an issue. Hyundai's popularity fell drastically as it became the butt of all sorts of jokes. In response to these concerns, Hyundai decided to make a change in its business model in pursuit of becoming a more high-end brand. The company made significant investments in research and development, design, quality, and manufacturing, which all ultimately led to a much-improved product. In addition to the actual tangible improvements, Hyundai also implemented a 10-year (160,000 km) warranty on all vehicles sold in the United States in 1998, making it the best vehicle manufacturer warranty in the country ("Hyundai, America", 2016). This not only showed commitment to quality, but also signaled to consumers that Hyundai really had made significant progress in terms of quality. At the same time, Hyundai also launched aggressive marketing campaigns and strove to banish their once poor image once and for all.

Throughout the 2000s, Hyundai made considerable progress as a brand. It became an official sponsor of the 2000 FIFA Euro Cup and the 2002 FIFA World Cup, helping bolster brand awareness on a truly global stage. After sponsoring the Euro Cup again in 2006, Hyundai became an official (and more permanent) partner of FIFA in 2007. The company also won multiple awards in numerous countries, including being selected as one of "Interbrand's 100 Best Global Brands" in both 2005 and 2006 and winning "North American Car of the Year" in 2009. While Hyundai continued to sponsor all FIFA World and Euro Cups, in 2009 the company went on to sponsor the Super Bowl, and has since become an official sponsor of the NFL ("General Information", 2016). These were all massive strides for a company once mocked by American talk show hosts Jay Leno and David Letterman on prime-time television for concerns over quality and value.

ORGANIZATIONAL STRUCTURE OF HYUNDAI GLOBALLY

Because Hyundai is such a large, multinational firm, the organizational structure is quite complex. Illustrated in this section is the central organizational structure of Hyundai Motor Company.

Globally, HMC consists of a board of nine directors, four of which are internal and five of which are external. As defined by Korean law, an "'inside director' refers to any ordinary director engaged in the day-to-day business of the company" and an "'outside director' refers to any director not engaged in the day-to-day business of the company" ("Corporate Law", 2016). Each director is currently serving a three-year term.

The internal directors consist of Chairman and CEO Mong Koo Chung, Vice Chairman Eui Sun Chung, and the two standing Presidents Won Hee Lee and Gap Han Yoon. Each of these four directors is categorized under the Management Division. As for the external directors, Se Bin Oh and Dong Kyu Lee are in the Law Division, Sun Il Nam is in the Strategy Division, Byung Kook Lee is in the Finance Division, and You Jae Yi is in the Marketing Division.

Hyundai holds subsidiaries with varying structures that span across six continents, but for this paper the highly relevant company is Czech subsidiary Hyundai Motor Manufacturing Czech.

ORGANIZATIONAL STRUCTURE OF HMMC

President Choi Dongwoo oversees HMMC as a whole. There are five division heads below him. Cho Jae Kyung is

the Head of Administration, Nam Sanghyun is the Head of Finance, Lee Jong Hoon is the Head of Production, Ki Jung Sung is the Head of Procurement, and Shin Iksoo is the Head of Quality (“Management”, 2016). There are 12 departments on the non-technical side that fall into the administration, finance, and procurement divisions respectively. There are also nine more departments on the technical side of things within the production and quality divisions; they are listed, briefly discussed, and shown in Table 1 in this section.

Administration Division

Human Resources:

Jirí Havlín is the head of HR, overseeing recruitment, HR systems, payroll and benefits, and development. To clarify, HR systems include developing and evolving the structure of performance grading, bonus systems, and supporting strong corporate culture.

Employee Relations:

The department of employee relations handles all employee complaints and negotiations with trade unions. Ctirad Václavínek is the department head.

General Affairs:

Hyunyong Cha, whose main responsibilities include supporting employee conditions, specifically by furnishing offices and providing office supplies, heads general affairs. This department also manages HMMC’s assets and monitors safety conditions and environmental protection.

Legal Department:

The head of the legal department is Petr Michník. His role, and the role of his department as a whole, is to support the company in all legal matters, namely by preventing and resolving any litigation-related issues.

Public Relations:

Petr Vanek is the head of public relations, which seeks to raise brand awareness in the Czech Republic and Europe through various events and forms of communication.

Facility & Environment, Health and Safety:

The department head is Bumsoo Kim, and he and his department have quite an extensive list of responsibilities. In short, this department is responsible for anything related to the facility itself and its compliance with Czech laws and regulations. This includes obtaining various types of permits, negotiating with national and local authorities, and ensuring adherence to environmental regulations. Kim is also responsible for installing and maintaining electric facilities and equipment (with a specific focus on energy-reducing technologies), and all forms of health and safety. Health and Safety includes fire protection, workplace injury and illness prevention, and inspections and internal audits in these areas. He works directly with the plant preventative care physician on all matters related to employee health.

Finance Division

Financial Accounting:

Baekyung Jeong is the head of financial accounting. His chief duties include ensuring accounting and taxation procedures are done according to Czech law and in the best interests of HMMC. In addition, Jeong’s department manages the treasury, including accounts receivable and payable, credit optimization, and cash-flow planning.

Financial Controlling:

Slavomír Cieslar, who works in close conjunction with the financial accounting division, leads the department of financial controlling. Both finance departments aim to avoid financial risks and maximize profit by working with all other departments to reduce costs and increase productivity. However, Cieslar focuses more on controlling the budget, cost accounting, and reporting of performance and profitability.

Procurement Division

Purchasing:

Tomás Poláček is the head of purchasing. He is charged with procurement of all required items except for automobile parts in a timely and cost-efficient manner. These items include primarily raw materials such as steel and equipment and parts for the machinery used in the plant.

Parts Development:

The head of parts development is Heeseop Jeong; he deals with all aspects of improving the supply of parts. His department seeks the best suppliers based on cost, quality, short and long-term production capacities, and supplier support mechanisms.

Production Division

Stamping:

As the head of stamping, Jail Gu ensures a steady stream of external body sheet panels is available for the next set of production processes. The department achieves this objective by closely monitoring all equipment and production procedures to prevent breakdowns and delays. Without a continuous supply of panels produced by the stamping department, the entire production process would come to a halt.

Welding:

The head of the welding department is Oldrich Fabían. His department is responsible for taking the panels produced by the stamping department and trimming and welding them together to prepare for the next processes.

Paint:

The key objective of the paint department, headed by Jan Kubaty, is to provide all vehicles with a perfect finish. Their commitment to quality is an important factor in contributing to customer satisfaction.

Assembly:

The assembly department is in charge of turning an array of individual parts into a vehicle. Led by Miroslav Jasiok, this department strives to assemble vehicles according to specifications and schedule demands while avoiding defects at all costs.

Transmission:

The transmission department staff and head Milos Broncek have the very specific job of producing defect-free transmissions according to production requirements.

Production Control:

Pavel Smída is the head of the production control department, which has very different objectives from the previous several departments listed. This department aims to meet mid and long-term strategy and increase productivity. Production control staff keep a close eye on all aspects of the production line to ensure a smooth and efficient production process, the main goal of which is to reduce order-to-delivery lead time.

Quality Division

Quality Control:

Led by Martin Klicník, the quality control department ensures all Hyundai vehicles are produced to the highest of standards, or as Hyundai puts it “the best quality vehicles in the European market” (“Organization Structure”, 2016). While this is undeniably a biased opinion, Hyundai did rank second in “Autobild’s (Germany) 2013 Quality Satisfaction Report”. Klicník’s job is very comprehensive, as his department oversees quality of the welding, paint, assembly, parts, and transmission departments. This involves testing and evaluating processes at each step in advance, as well as inspecting the actual parts and vehicles at each step in the production process.

Quality Assurance:

The quality assurance department head is Heeduk Kim, and his duty is to ensure customer satisfaction and effective customer support. This starts with testing the finished product intensively – they are the last safeguard of quality at HMMC. In addition, this department processes claims and deals with compensation for customers who have quality issues with their vehicles.

Maintenance:

Jung Jaehoon leads the Maintenance department in their comprehensive maintenance system that spans over all areas of production. This department focus heavily on preventative maintenance, but also handles defects and breakdowns when they do occur.

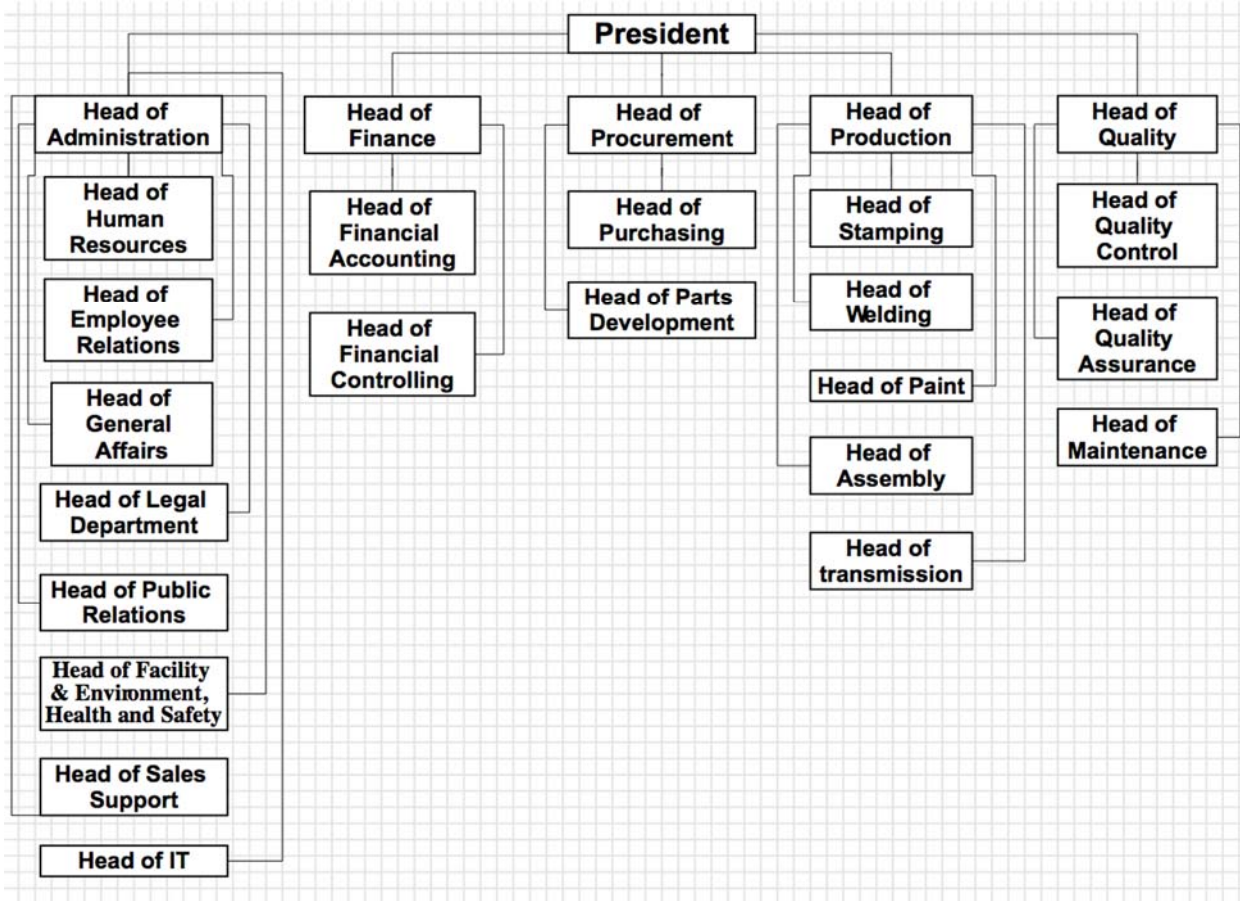


Table 1: Organizational structure of HMMC.

Source: Own (Compiled from “Organization Structure”, 2016 and “History”, 2016)

Hyundai and the Environment

While automakers worldwide were busy developing more environmentally friendly vehicles, so was Hyundai. In fact, Hyundai has launched a line of four different types of vehicles that use green technology (Hyundai calls these technologies “Blue Drive”). This list includes two types of hybrids, fuel cell vehicles, and fully electric cars. While this is certainly important for the future of Hyundai, the auto industry, and our planet, many automobile manufacturers have taken similar steps. What helps differentiate Hyundai from the pack is their commitment to the environment in other ways. The greener vehicles, it could be argued, are necessary simply to compete in the current state of the market. However, it is much harder to argue that the following two Hyundai initiatives are done out of necessity.

First, Hyundai has undertaken a general commitment to preserving and planting trees and grassland across many of its locations. In Mongolia, Hyundai has helped combat the health-damaging yellow dust problem by restoring 3,000 square metres of grassland in an otherwise arid location (“Hyundai Turns 30 Square Kilometres of Chinese Desert Into Grassland”, 2011). In the Philippines, Hyundai Asia Resources, Inc. (HARI) has partnered with the Haribon Foundation making a commitment to plant 20,000 seedlings by 2020 in vital areas (“Hyundai and Haribon: Planting Green Deeds Together for a Green Tomorrow”, 2010). In addition to these and other planting-based initiatives, Hyundai has also made a point of building and upgrading facilities to be increasingly sustainable. In the Asan plant in South Korea, Hyundai established a solar energy plant capable of reducing CO2 emissions by 5,600 tons annually (“Green Energy”, 2016). There are plenty more examples, but it really comes down to one simple truth – based on a 2014 report published by the Union of Concerned Scientists, Hyundai is the most environmentally friendly car manufacturer in the world.

HMMC NOSOVICE PLANT

In July of 2006, Hyundai decided to make a large investment in Europe. In fact, large might be an understatement. Hyundai approved the construction of a plant in Nosovice, Czech Republic that would cost over €1 billion and take approximately two years to complete. This plant was Hyundai's first plant in Europe, and was also the single largest foreign direct investment (FDI) in the history of the Czech Republic. In fact, this was such a great investment for the Czech Republic that they awarded Hyundai the country's "Investor of the Year" award in 2006. By 2008, the plant was operational and mass production of the i30 model began in November. The completion of the Nosovice plant meant that Hyundai was now producing cars in all continents with the exception of Antarctica.

The actual plant itself is quite impressive. It was constructed quickly and with a high level of respect for the environment. To start, the plant more than complies with the environmental protection system pursuant to ISO 14001 and EMAS, two initiatives aimed at improving sustainability across companies. Following along with their tree preserving/planting initiative, Hyundai replanted over 1,100 mature trees and bushes instead of cutting them down during the construction of the factory. HMMC also features three main on-site suppliers (Hyundai Mobis, Hyundai Dymos, and Hyundai Steel Czech), which reduces the daily transportation requirements significantly, considering the plant produces well over 1,000 cars daily ("Map of the area and the route Visitor train", n.d.). Finally, the plant uses a closed-system paint shop, which means no heat and no Volatile Organic Compounds are emitted. Incredibly, the Nosovice plant is a zero-emission factory.

In addition to the high environmental standards to which it adheres, the Czech manufacturing plant employs approximately 3,400 predominately Czech workers, and couldn't have come at a better time. The Moravia-Silesia region in which it is built was suffering "from high unemployment resulting from painful restructuring processes in the region's traditional industries" ("Automotive industry in the Czech Republic", 2009) which include coal, steel, and heavy engineering. Hyundai, unlike many foreign investors, was committed to creating a mutually beneficial relationship with the Czech Republic. They showcased this by hiring 97% of the 3,400 employees domestically, which greatly improved the employment situation in Moravia-Silesia. Not only did they create 3300 jobs for Czech citizens (97% of 3,400), the Nosovice plant actually resulted in the creation of 10,000 jobs when HMMC's subcontractors are included ("General Information", 2016). Furthermore, Hyundai created good jobs – they offer employees extremely generous pay and benefits packages, including five weeks annual vacation, travel agency discounts, as well as annual, performance, and loyalty bonuses ("Organization Structure, n.d.).

HMMC is also widely regarded as one of the most modern plants in Europe, and there are numerous awards and designations to back that up. Czech Invest labeled it "the most modern car manufacturer in Europe" ("Automotive industry in the Czech Republic", 2009), and in both 2013 and 2014, HMMC won the Czech Republic's "National Employer of the Year" in the under 5,000 employees category. Also in 2014, the plant was granted the "Excellence Award" under the "Czech National Quality Award" and received another award for best production rate among car producers in Europe – quite a feat considering the strength of competition. Moreover, since 2012 the Nosovice plant has been running at a full production capacity of 300,000 vehicles per year, and in 2016 it increased both capacity and actual production output to 350,000 vehicles ("General Information", 2016). In the first year of production, Hyundai produced exclusively red, white, and blue cars as a tribute to the colours of the Czech flag ("Automotive industry in the Czech Republic", 2009).

COMPARISON OF HMMC AND ŠKODA

As Table 2 below illustrates, Hyundai saw a considerable improvement in Czech market share for newly registered vehicles between 2001 and 2012, boosting market share from 1% to 8.7%. During the same period, Škoda Auto suffered a reduction from 52.5% down to 30.9%.

| Year 2001 | | | Year 2012 | | |
|--------------|----------------|--------------|--------------|----------------|--------------|
| Brand | Quant. | Share (in %) | Brand | Quant. | Share (in %) |
| Škoda | 79 948 | 52.5 | Škoda | 53 778 | 30.9 |
| VW | 9 517 | 6.3 | VW | 15 185 | 8.7 |
| Renault | 8 838 | 5.8 | Hyundai | 15 162 | 8.7 |
| Opel | 8 369 | 5.5 | Ford | 12 719 | 7.3 |
| Peugeot | 8 344 | 5.5 | Renault | 10 456 | 6.0 |
| Ford | 4 609 | 3.0 | Kia | 8 564 | 4.9 |
| Citroën | 4 259 | 2.8 | Peugeot | 6 725 | 3.9 |
| Toyota | 3 750 | 2.5 | Citroën | 5 711 | 3.3 |
| Seat | 2 793 | 1.8 | Toyota | 3 951 | 2.3 |
| Fiat | 2 773 | 1.8 | BMW | 3 901 | 2.2 |
| Nissan | 2 546 | 1.7 | Opel | 3 836 | 2.2 |
| Mazda | 2 358 | 1.5 | Audi | 3 810 | 2.2 |
| Daewoo | 1 995 | 1.3 | Dacia | 3 805 | 2.2 |
| Suzuki | 1 767 | 1.2 | MB* | 3 236 | 1.9 |
| Hyundai | 1 463 | 1.0 | Nissan | 3 163 | 1.8 |
| Others | 8 816 | 5.8 | Others | 20 007 | 11.5 |
| Total | 152 145 | 100.0 | Total | 174 009 | 100.0 |

Source: Automobile Industry Association, * MB = Mercedes-Benz

Table 2: New vehicle market share by brand (2001 and 2012).

Source: "Analysis of the Automotive Industry in the Czech Republic", 2013)

By 2015, that figure was up to 10%, which translates to an approximate 0.6% share of Czech GDP. While this figure may seem small, the biggest company in terms of contribution to GDP in the Czech Republic is Škoda, and it only contributed approximately 1.5%. For a perhaps more relatable comparison, Apple only accounts for 0.5% of US GDP, according to a 2015 Forbes article (Worstall, 2015).

After examining the environmental aspects of both companies, Hyundai is clearly superior. While Škoda is not featured in the Union of Concerned Scientists' report on the environmental performance of car manufacturers, Volkswagen, Škoda's parent company, is. It ranks a disappointing fifth out of eight ("The Environmental Performance of Car Companies", 2014). It is also worth noting that Volkswagen was in the spotlight in 2015 for a serious scandal where the company essentially rigged its cars during emissions testing to improve fuel efficiency ratings. In reality, they had engines that consumed considerably more fuel than advertised. Whether or not this form of cheating occurred with Škoda vehicles as well (there is nothing significant to suggest that it did), it was hardly a behaviour that radiated confidence in their concern for the environment. Hyundai, on the other hand, has repeatedly demonstrated through various endeavours and actions that it does.

SUMMARY

As previously discussed, the Czech Republic has historically been a country plagued by poor environmental standards and high levels of pollution. In their quest to improve in these areas, it will take more than just government regulation. Governments worldwide face the challenge of balancing economic prosperity with environmental regulation. Often these two concerns struggle to coexist. The Czech Republic is a perfect example of a country facing this struggle, since all of its main industries use exorbitant amounts of dirty energy ("The Czech

Republic: Environmental Problems”, 1999). The other important factor to make environmental progress is the existence of private firms that make sustainability a priority. Hyundai Motor Manufacturing Czech’s plant is exactly that. It is exactly the type of FDI the Czech Republic needs.

Since entering the Czech market in 2006, HMMC has demonstrated that it is possible to balance financial success with sustainable practices through its energy efficient “blue drive” vehicles, tree-planting initiatives, and eco-friendly factories. While this Hyundai subsidiary cannot single-handedly fix the environmental problems in the Czech Republic, it can and it does set an excellent example for Škoda, other Czech auto manufacturers, and industry in the country as a whole. As HMMC continues to increase its market share and the Czech Republic continues to push for better environmental standards, Hyundai’s environmental advantage only stands to grow. As it does, competitors will be forced to adapt. Slowly but surely the Czech auto manufacturing industry will become more and more green – or perhaps if Hyundai has their way, more blue.

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Closure Wars

The Impact of Wine Closure Alternatives on Portuguese Cork Exporters

Natalie McIver

Portugal is one of the few countries whose environment can support the cork oak. Cork is a versatile, durable and 100% renewable material. Cork is used in many applications; however, internationally, it is most commonly used to produce wine stoppers. Portuguese cork companies are starting to see increased competition in the wine stopper market as new alternatives such as synthetic corks and screw tops are gradually being accepted by wine producers and end consumers. The technical capabilities of all of the closure methods are relatively equal but in general, natural corks are still perceived to be the highest quality closure. Unfortunately for cork producers, this perception is not always reflected in consumer buying decisions. Amorim is an example of a Portuguese cork company that has had to adapt to the growing competition in the wine stopper market. The company has invested heavily in R&D and product development and is pushing the sustainable aspect of the material in order to stay competitive. Amorim is also diversifying its international portfolio in order to mitigate business risks. This paper uses Amorim to illustrate that adaptation and innovation are critical for business success in the face of political and competitive uncertainty.

INTRODUCTION

Quercus Suber L.

The cork oak, *Quercus Suber L.*, only grows in a very specific environment, one that is unique to the Atlantic side of the Mediterranean (Meneses, n.d.). Portugal is one of the few places in the world that possess the sandy soil, moderate rainfall and moderate temperature characteristic of this environment. Usable cork comes from the bark of the oak tree; however, harvesting and stripping this bark is no easy feat. The oak takes 25 years before it is ready to be harvested for the first time; and even then, the virgin cork is irregular and stiff and can only be used for industrial applications such as flooring and insulation rather than more finessed applications such as cork stoppers. After the initial harvest, the cork oak can then be stripped every 9 years; making the average number of strippings, 15-18 per tree ("About Cork," 2015). Although the time between harvests is relatively long, the cork oak is the only tree whose bark can fully regenerate between harvests without harming the physical tree ("About Cork," 2015). With the public's rising concern for the environment, cork producers are focusing a lot of their attention on marketing this sustainable aspect of cork. The unique environment imperative for supporting the oak combined with the complexity and length of the harvesting process make the resource quite an interesting commodity.

Applications

Cork is used in numerous applications since it is extremely durable, lightweight and sustainable. These applications range from floor and wall coverings to fashion and material goods. It is elastic, flexible and impermeable to liquids and gases making it an extremely unique material ("About Cork," 2015). There has been a recent push in cork R&D that has further expanded the number of products that the material is being used in. The transportation industry, construction industry and even the aerospace industry have recently discovered and begun to utilize the remarkable properties of cork ("About Cork," 2015). Cork can be found in products worldwide but it is clear that cork is more prevalent in the countries in which it is harvested than in those that have to import it. In Portugal, for example, you will see cork purses and wallets being sold on almost every block; whereas in North America, it is usually only seen in wine bottles. Nevertheless, cork companies rely on the international market. Exports account for a large part of cork producers' portfolios, especially the producers in Portugal.

Wine Stopper Alternatives

Cork stoppers are iconic products in the cork industry and make up a large part of Portuguese manufacturers' portfolios. Although cork stoppers are extremely common, the number of wine stopper alternatives on the market is growing in number and in popularity. Cork stoppers date back to 3rd Century B.C., in France where "several amphorae were discovered containing wine considered to be still today in good condition" ("The Art of Cork", 2015, p.2). This is a testament to cork's preservation qualities; however, with technical advances, other stopper alternatives are beginning to penetrate the market. All levels of wine producers, as well as end consumers, are beginning to accept synthetic closures and screw tops as viable alternatives to natural cork. No closure method is perfect but each has its own unique benefits; thus, a so-called "closure war" is taking place (Veseth, 2015). All of the wine stopper producers are fighting to win over both wine producers and end consumers.

The verdict is mixed on which closure method reigns supreme. Natural cork is associated with quality and tradition and advocates will point out the importance of this. Conversely, advocates of alternative methods point to the associated "cost savings, prevention of spoilage and changing tastes worldwide" as reasons to switch from natural corks to alternative closures (Wilcox, 2002). Undoubtedly, when comparing alternatives, screw tops are the most convenient closure method and synthetic closures are the cheapest. Natural cork producers have responded to these competitive pressures by inventing new products and by rebranding cork as versatile, sustainable and trendy. Many natural cork companies are beginning to manufacture technical corks, which are a combination of varying degrees of natural cork and some plastic components. This type of cork is a cheaper option than natural cork and is a response to the growth in synthetic cork sales. Clearly, cork producers are reasonably concerned about the growing competition in the wine closure market. They understand the urgency of creating new, technically superior and affordable corking options.

RESEARCH

Closure Alternatives Effect on Wine Composition

Giunchi, Versari, Parpinello & Galassi (2008) found that synthetic closures had less variation in terms of physical and mechanical properties than did natural cork closures. The consistency of synthetic corks serves to counteract the cork taint often associated with natural corks. They are made out of plastic compounds and are a cheaper alternative to natural cork closures. Opponents of synthetic corks argue that harmful air often enters the wine through these closures but although this might be the case for poorly formed synthetic corks, well-made synthetic corks have proven to have little variability in terms of their mechanical properties (Giunchi et al., 2008). In comparison, natural cork has a lot of "heterogeneity [in its] structure" due to the fact that it is a product of nature (Giunchi et al., 2008, p. 578). The quality of the natural cork at the time of harvest and the producers manufacturing techniques greatly affect the quality of the natural cork closure. This explains why in the same batch of wine; some bottles will have cork taint while others will not. Overall, Giunchi et al. (2008) concluded that the predictability of synthetic closures makes them a better choice than natural cork closures.

The research of Guiata et al. (2013) on the corking alternatives effect on the physical and sensory characteristics of a Montepulciano d'Abruzzo Rosé wine reinforce the fact that synthetic closures should be seen as viable options for wine producers. They found that after 12 months of storage, all closure methods tested (natural cork and synthetic corks) "guaranteed a good preservability [...] and the changes in composition did not significantly affect wine sensory characteristic" (Guiata et al., 2013, p. C160). Gooden et al. (2001) also found negligible differences in wine composition after testing closure alternatives 12 months after bottling a Semillon wine. This shows that independent of the type of wine being sealed, all of the closure types are viable options when comparing technical capabilities. It should be noted that although the composition of the wine remained stable under all of the alternatives tested, the coloring of the wine varied slightly. Natural cork preserved the integrity of the Rosé's color more than did any of the other alternatives (Guiata et al., 2013). This is purely an esthetic difference, not a quality difference; however, the perception of wine quality is arguably as important to consumers as is the actual wine quality. Consumers will not buy wine that is discolored regardless of its

composition. Objectively, synthetic closures are technically as capable of sealing and preserving wine; however, subjective differences do exist and should not be neglected when comparing closure methods.

In addition to their unfavorable perception, another downside of synthetic closures is the fact that they are not consumer friendly. Out of all of the alternatives, “in terms of extraction forces, energies, and ease of closure re-insertion,” synthetic closures performed the worst when compared to all of the other closure alternatives (Gooden et al., 2001, p. 64). This is due to the plastic-compounds tendency to be inflexible. Synthetic closures do not, however, carry the risk of producing any noticeable plastic-type taint in wines because their inflexibility is congruent with consistency. The results of wine sealed with synthetics are far more predictable than those sealed with natural cork. Wine producers must decide if they want to risk having corks that are viewed as difficult and not consumer friendly or if they want to risk the cork taint so often associated with natural cork and sometimes associated with technical cork. A trade-off exists between the pros and cons associated with each method of corking. Wine producers as well as consumers must keep all of these differences in mind when choosing a method of corking.

Closure Alternatives Effect on Perception of Quality

While synthetic corks and screw tops may be functional alternatives to natural cork, consumers often perceive them negatively. Specifically, these closure alternatives are often seen as cheap and tacky. Wine producers should not overlook this fact since subjective views (what the consumer *thinks* he/she knows) actually affect purchase decisions more than objective views (what the consumer *actually* knows) (Barber, Taylor & Dodd, 2009). Even if the closure method does not change the composition of the wine in any material way, it will change the consumer’s perception of quality. This is especially important in an industry where large numbers of consumers think that they are connoisseurs. If you have ever been to a wine tasting party, you will likely be able to relate to this fact. If people know that a bottle of wine was expensive, they will rave about it far more than if they believed that it was just another cheap bottle made by your Italian Nonno! Subjective views can have large impacts on purchase decisions and this can subsequently have large impacts on producers.

Barber et al. (2009) researched subjective views on closure types and found that currently, alternative closures are viewed as cheap and inappropriate to bring to special occasions. This view is more pronounced in the baby boomer generation but is also fairly significant in the millennial generation (Barber et al., 2009). In order for alternative closures to succeed in the market, “a large number of consumers need to become familiarized with and more comfortable making a purchase involving these closure innovations” (Barber et al., 2009, p. 608). The association between natural cork and quality is quite ingrained in our society and such an ingrained view is not easy to change. Most consumers are relatively uneducated on the effect of the different closure alternatives on wine preservation and thus base their purchase decisions purely on rituals and traditions passed down from older generations.

My own personal research fortifies the findings of Barber et al. (2009) – that there is still a strong perception that natural cork is superior to alternative closure methods (Figure 1). This research relied on a survey of 120 respondents to better analyze consumers’ perceptions and purchase decisions. Interestingly, although the majority of the survey respondents associated natural cork with quality, only 12% of these respondents actually based their purchase decisions on their perceptions (Figure 2). These findings contrast Barber et al.’s (2009) findings that consumers’ perceptions have significant implications on purchase decisions. Although the results differed from Barber et al. (2009), it should be acknowledged that 78% of the respondents of my personal survey belong to the millennial generation (as defined by people born in the years 1977-1995). It may indeed be the case that people from generations other than the millennial generation still base their purchase decisions on their perceptions of quality. This is a limitation of the research; however, it is clear that millennials seem to be more open to the varying closure methods. This trend in consumer buying patterns may have implications for cork producers.

Although millennials are beginning to accept closure alternatives as viable options, the diffusion of this acceptance will be a lengthy process due to the fact that older generations are still faithful to the tradition of natural cork. The adoption of cork alternatives will follow Rogers classic adoption curve (Figure 3). Currently, the late majority and the laggards have yet to accept natural cork alternatives. The view that screw tops and synthetic corks signify cheapness will continue to pervade in society until the innovators, early adopters, and early majority actively promote closure alternatives. Only through education and advocacy will there be an effective shift in purchase decisions in the greater population. Many consumers are unaware that alternative closure methods are technically as capable as natural corks and until this changes, the preference for natural corks will endure.

Consumers' preference for natural cork has been proven in a number of countries. In the US, 94% of wine consumers prefer natural stoppers ("About Cork Stoppers," 2015). In Spain, 92% prefer natural cork; in France, 89%; in Italy, 85%; in China, 85%; and in Brazil, 80% respectively ("About Cork," 2015). These numbers are substantial especially considering that these countries have high wine consumption rates. Again, this preference for natural cork is likely due to its association with quality and tradition rather than its actual effect on the wine's composition. The subjective perception that natural cork preserves quality appears to be global so it is important for manufacturers to appeal to consumers' ethos – for them to use their credibility to persuade consumers that natural cork is of higher quality than other alternatives. Since there are a limited number of countries that can actually produce cork, the relative scarcity of the material may actually be a factor in its premium perception. Exporters should capitalize on this perception and use it to stay competitive in an industry that is becoming increasingly competitive.

Amorim: A Look at a Portuguese Cork Company

Amorim is the world's largest producer of cork solutions and the most international of Portuguese companies. It leads the whole sector, making a crucial contribution to the economy and innovation of the cork industry. With its origins dating back to 1870, the company soon became aware of the endless potential of this 100% natural raw material, transforming it into the sustainable choice for a modern, informed society, aware of the environmental problems that result from its consumption related choices. ("About Amorim," 2015, p.2)

The cork stoppers business unit of Amorim is particularly important to the company. The company began as a cork stopper manufacturer in 1870 and today, has expanded this business unit internationally. They now have a worldwide network of wine producers that they distribute their many products to. The company has felt the competitive pressure of the closure war mentioned earlier and have had to respond by investing heavily in R&D and rebranding. In particular, the company has focused on the sustainable aspect of cork and has boasted, "a cork stopper is the only closure that combines high performance and sustainability credentials" ("About Sustainability," 2015). The company is FSC certified and continuously works to make its processes more eco-efficient (Figure 4). In 2008, as corking alternatives began to gain popularity in the market, Amorim, in partnership with Quercus, the main Portuguese environmental association, launched the first-ever cork recycling initiative ("About Sustainability," 2015). This initiative was extremely successful and has now been implemented in a number of other countries. Additionally, the company now has Annual Sustainable Reports to supplement their Annual Financial Reports ("Sustainability Report," 2015). These voluntary reports show that the company has a forward thinking mentality and strategy. The Sustainability Reports will positively affect the company since many investors positively value companies who have engaged in these types of initiatives (Berthelot, Coulmont & Serret, 2012).

Amorim: New Products as a Response to Competitive Pressures

As a response to the closure war, Amorim has invested heavily in R&D. This investment in R&D has resulted in a number of new product offerings from the company. Twin Top corks were one of Amorim's first products that responded to the growing competitive pressures in the technical cork market. Similarly to technical cork, the Twin

Top is made from plastic components; however, it has natural cork discs on both ends (“The Art of Cork,” 2015). This hybrid cork is more affordable than Amorim’s traditional cork stoppers since it has the addition of plastic components but still “retains all the properties of natural cork stoppers” (“The Art of Cork,” 2015, p. 50). Another product that Amorim has released as a lower cost alternative to their traditional corks is the Neutro Cork. This cork “offers great structural stability resulting from its composition: micro cork granules of uniform size” (“The Art of Cork,” 2015, p. 51). The stability of the cork addresses the findings of Giunchi et al. (2008) - that synthetic closures have less variation in terms of physical and mechanical properties than do natural cork closures. This product is another response from Amorim to stay competitive.

Amorim has also invented a number of corks to address the functionality differences between natural corks and screw tops. Proponents of screw tops attest to their ease of extraction and reinsertion as reasons to switch from natural cork. The Top Series Cork Stopper (Figure 5) and The Helix (Figure 6) are two new products offered by Amorim that offer these functionalities while still keeping the integrity and tradition of natural cork. The Top Series Cork “has the most varied range of appearance options [and] is recommended for the most prestigious beverages” (“The Art of Cork,” 2015, p. 52). The Helix is a screw off cork that combines “quality, sustainability and premium image – with user-friendly, re-sealable convenience” (Helix Concept, 2016). The Helix can only be used with glass bottles that were designed for the cork; however, it is relatively easy and inexpensive to change the specification of glass bottles to fit with the Helix (Helix Concept, 2016). Both of these products respond to traditional corks’ lack of consumer friendliness. They show that Amorim is adapting and innovating as a means to remain competitive.

Amorim: Findings from Financial Reports

Amorim’s sales figures have been steadily increasing since 2010 after they stalled during the global recession of 2008/2009. This is a testament to the company’s innovative and forward-looking strategy. Taking a closer look at Amorim’s 2015 Annual Report, the company reported record sales of €604.8 million up from €560.34 million in 2014 (“Annual Report,” 2015, p. 46). This translates into an increase of net income from €35.756 million to €55.012 million (“Annual Report,” 2015, p. 46). The company’s recent successes are largely attributable to its Cork Stopper Business Unit (BU). The Cork Stopper BU contributed 64.2% of the company’s sales (Figure 7) and €62.753 million towards the company’s EBITDA in 2015 (Figure 8). Amorim relies on the Cork Stopper BU for the company’s overall financial health and although the company has been facing stronger competition in the wine stopper market, this BU has maintained steady growth.

Another important aspect of Amorim’s financial statements is its debt to equity ratio. The company had a debt to equity ratio of 0.96 in 2014 and 0.88 in 2015 (“Annual Report,” 2015). This indicates that the company is becoming slightly less leveraged with debt and slightly more leveraged with equity. This is a good sign especially when considering the current uncertainty surrounding the banks in Portugal. Amorim should continue to pursue this strategy in case the banking system in Portugal defaults. Gradually yet continuously paying off its debt is the best way for a company based in Portugal to mitigate economic risk.

Looking towards the future, Amorim expects wine consumption to decline slightly in the European Union as well as in China. The US wine market, on the other hand, is expected “to drive the growth of the world wine market” until 2018 (“Annual Report,” 2015, p. 49). The country’s sheer size and economic capacity are the main reasons that the country is driving the entire wine industry. Because of this, Amorim plans to allocate a lot of its resources and attention to the US market in coming years. The company is extremely reliant on its exports because although the Portuguese economy is forecasted to grow by 1.7% this year, it will never grow to a size that will support the sales that Amorim is accustomed to. In order to strengthen its position in the face of growing competition, Amorim states that:

It is imperative that the [Cork Stopper] BU consolidates and defends its market position, broadens its customer base and improves its customer retention rate. It also needs to gain

market positions for alternative products based on their sustainability and product reliability (“Annual Report,” 2015, p. 50).

The above quote reinforces the fact that the company is focusing on product innovation and brand image in order to stay competitive in the closures market. Amorim plans on developing a “differentiated product portfolio” of “disruptive products” with “the same level of quality and service at a lower cost” than its traditional natural corks. (“Annual Report,” 2015, p. 50). So far, this strategy has been working for Amorim; however, if it finds that it can no longer compete in the closures market, it will have to find alternative methods to keep the business alive.

Amorim: Alternative Routes for Future Growth

If the competitive pressures edge Amorim out of the closure market, or if they lose substantial market share, the company will need to pursue alternative business paths to survive. The BU that contributes the second most sales to the company, after the Cork Stoppers BU, is the Floor and Wall Coverings BU. This BU contributes 17.8% of the company’s sales (Figure 7) and Amorim is already the “world leader in the production and distribution of cork floor and wall coverings” (“Floor & Wall Coverings,” 2015). It would seem logical that the company invests heavily in this business unit in order to proactively anticipate the risk of competitive pressures edging them out of their current position in the closures market. Cork is an ideal material for flooring and walling since it is durable, low maintenance, comfortable and sound resistant (“Floor & Wall Coverings,” 2015). The Floor and Wall Coverings BU could be a substantial driver of growth for Amorim in the future.

Additionally, cork is becoming increasingly trendy and is being noticed at an international level by interior designers from all realms. Blogs and magazines are starting to recognize and promote cork by making bold statements such as “[y]ou may only associate cork with your five o’clock wine, but it could be time to give it a second chance” (Morrissett, n.d.). Sustainable design is not only becoming popularized in home applications but in business applications as well. The eco-efficiencies of cork could actually lower heating and maintenance bills having an immediate payback to businesses that utilize the material for their flooring and walls (Kanani, 2014). Since Amorim is already focusing on branding the sustainable characteristics of cork, the company should publicize quantitative facts to demonstrate the practical value of building and designing with cork.

The company should also work to advertise cork overseas since it is already common to see cork applications in homes and businesses in Portugal but not in North America. It appears that the company’s American operations are currently only selling wine corks (Amorim Cork America, 2010). The company should capitalize on its established operations by introducing more of its business units abroad. Since Amorim already has offices and factories in the US, the potential for growth is large. The company could introduce more of its business units to the American market with relative ease. It could look into partnering with North American building companies in order to strengthen its presence in the flooring and walling market worldwide. If Amorim did decide to pursue this route, it would need to take cultural, administrative, geographic and economic differences into account.

CAGE Framework: Analysis of Portugal and North America

Although Amorim already operates internationally, The CAGE distances are something that the company should address before expanding or modifying its international strategy. This expansion might be necessary with all of the new entrants in the wine closure market and with the expectation that the US market could be a more substantial source of revenue than the European Union in the coming years (“Annual Report,” 2015).

Culturally, Portugal is becoming more westernized and therefore more similar to North America but substantial differences still remain between the two areas. The main cultural difference that could impact Amorim’s strategy is the fact that cork products are a part of Portugal’s national identity whereas in North America, the product is foreign and not a part of people’s day-to-day lives. In Portugal, people have grown up around the material and are aware of its physical properties. In North America, people are relatively uneducated about the many beneficial characteristics that the material possesses. North American consumers may not even consider cork as a

viable material for their product or building needs simply because they are unaware that it is even an option. The company needs to recognize and address this by putting out strong marketing and awareness campaigns in North America. Amorim needs to find ways to establish cork's presence and diffusion even though the cork oak is not, and will never be, native to the North American environment.

Analyzing the administrative differences, Portuguese companies are often more heavily reliant on business connections and relationships than are North American companies. It is also easier for companies, such as Amorim, to supply product to the European Union rather than North America since they already share an established free trade zone. Although globalization is making trade freer worldwide, it is still undeniably easier to export to countries within your own free trade area. Amorim should stay up to date with the advances in the Transatlantic Trade and Investment Partnership (TTIP) and other such agreements that could potentially affect trade between the EU and North America. If this type of trade agreement is eventually ratified between the two areas, the potential and ease of expansion in North America will be magnified. Amorim needs to focus and plan the most appropriate time to take its other business units international.

The geographic distance between Portugal and North America is not a huge obstacle given the advancements in global trade technologies. It is unavoidable that the raw material comes from Portugal since the cork oak cannot grow in North America. Amorim just needs to continue to ensure that it finds trade routes that are relatively inexpensive and efficient to adequately supply the global demand. It will never be able to completely transfer the business from Portugal to North America so all that it can do is keep this in mind and continuously pursue cheaper and more efficient trade routes.

Economically, it is obvious that there are distinct differences between Portugal and North America. Portugal is currently dealing with an ongoing banking crisis stemming from the European Sovereign Debt Crisis. Portuguese companies such as Amorim need to take note of the "material slowing in the wider Portuguese economy" and the moderate growth in the North American economy (Martin, 2016). The company needs to position itself in such a way as to capitalize on other economies' growth rates and relative stabilities. So far, the company seems to have come out on top of the debt crisis; however, these economic differences are constantly changing and should be addressed in order for Amorim to realize new sources of revenue.

Although the CAGE framework did not uncover any areas that would prohibit Amorim from expanding its operations in North America, the framework highlights differences that the company should be aware of when expanding. Given the mild nature of most of these distances, it seems logical for the company to develop more of its business units into North America, especially given the economic opportunities in the US and the growing competition in the closures market. If the success of the Cork Stopper BU in North America is any indication of how Amorim's other BU's would perform, the company should seriously look into pursuing this strategy.

CONCLUSION

Cork is an incredibly versatile and durable material. Cork can be found in numerous products across Portugal but the material is only commonly found in North America in wine bottles as stoppers. Although Portuguese manufacturers export large numbers of cork stoppers internationally, there are a growing number of wine stopper alternatives penetrating the market. This is a cause of concern for Portuguese cork manufacturers - Amorim being one of these companies.

Although a majority of consumers associate natural cork with wine quality, their purchase decisions do not always reflect this perception. Synthetic corks, technical corks and screw tops are all gaining popularity as consumers gain awareness of their technical capabilities and lower costs. In the face of growing competition, Amorim should continue to innovate and adapt its products in the stopper market and advertise the eco-friendliness of cork. Additionally, although Amorim's Cork Stopper BU is performing well and is contributing the majority of the company's sales, Amorim should still consider diversifying its international portfolio by introducing more of its

other business units to the international stage. This strategy would help the company to mitigate cultural, administrative, geographic and economic risks.

Amorim should continue to adapt and create new products. The Twin Top, Neutro Cork, Top Series Cork and Helix are proving to be effective strategies to compete with the alternative corks in the market. By continuously investing in R&D, the company will be able to fulfill the needs of each market segment rather than just the high-end segment traditionally served by natural corks. The company should also consider shifting its strategy to focus more on expanding its other business units into North America. Currently, the company is forgoing revenue in the US by only operating its Cork Stopper BU in the country. There is unfulfilled demand in North America that Amorim could potentially supply. If Amorim did decide to pursue this strategy, it would have to advertise the versatility of cork in the US market. North American consumers would need to be educated about the material since it is not native to the area. This strategy would mitigate the economic risk of the slowing of Portuguese economy in the near future. Amorim should consider shifting its strategy in order to address opportunities beyond just the bark to the bottle opportunities.

Currently, Amorim seems to be positioned in such a way as to prosper in the future. The company is forward thinking and innovative. It also has a fairly strong financial position that will allow it to face the looming uncertainty in Portugal. Although this financial base will suffice for the short-term, the company should still continue to adapt its strategy to survive in the long-term. Other Portuguese cork companies may not have the same fate. The growing competition in the market and the inevitable changes in the world economy will undoubtedly impact cork exporters. Amorim should be a guiding figure for managers who are facing growing competition and economic uncertainty in their areas of business.

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APPENDIX

Figure 1: Survey results showing that the majority of respondents associate quality with natural corks

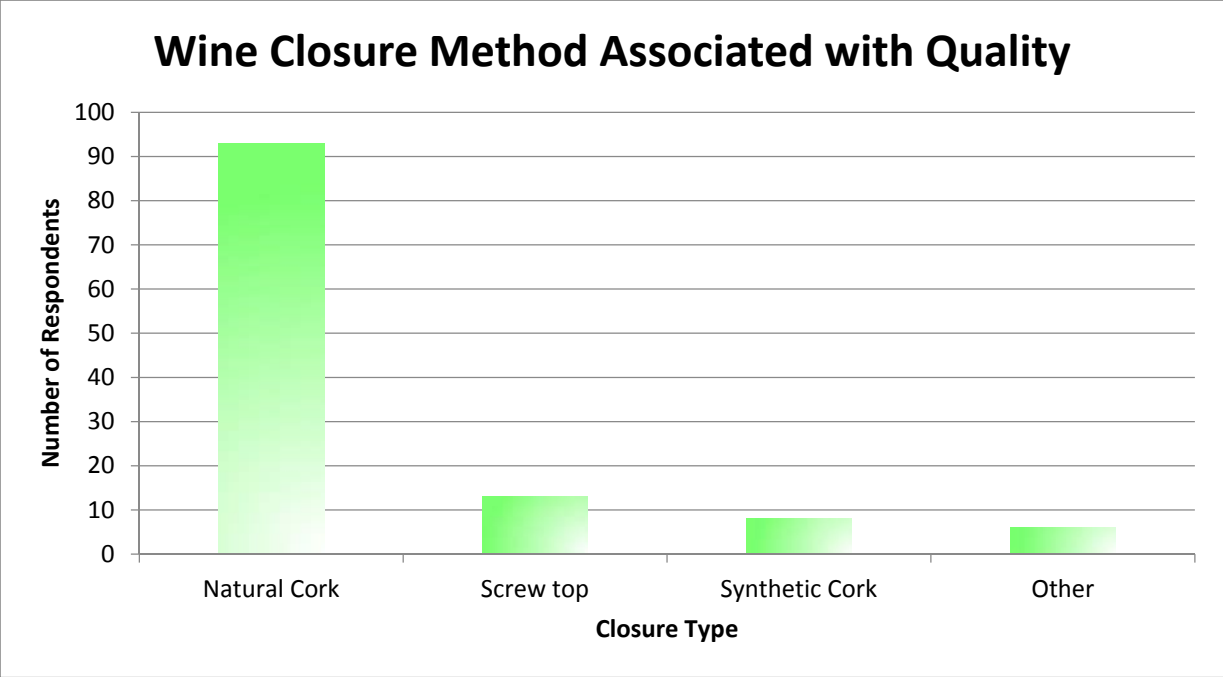


Figure 2: Survey results showing that the majority of respondents wine purchase decision is not, or is only sometimes, impacted by the bottle's method of closure

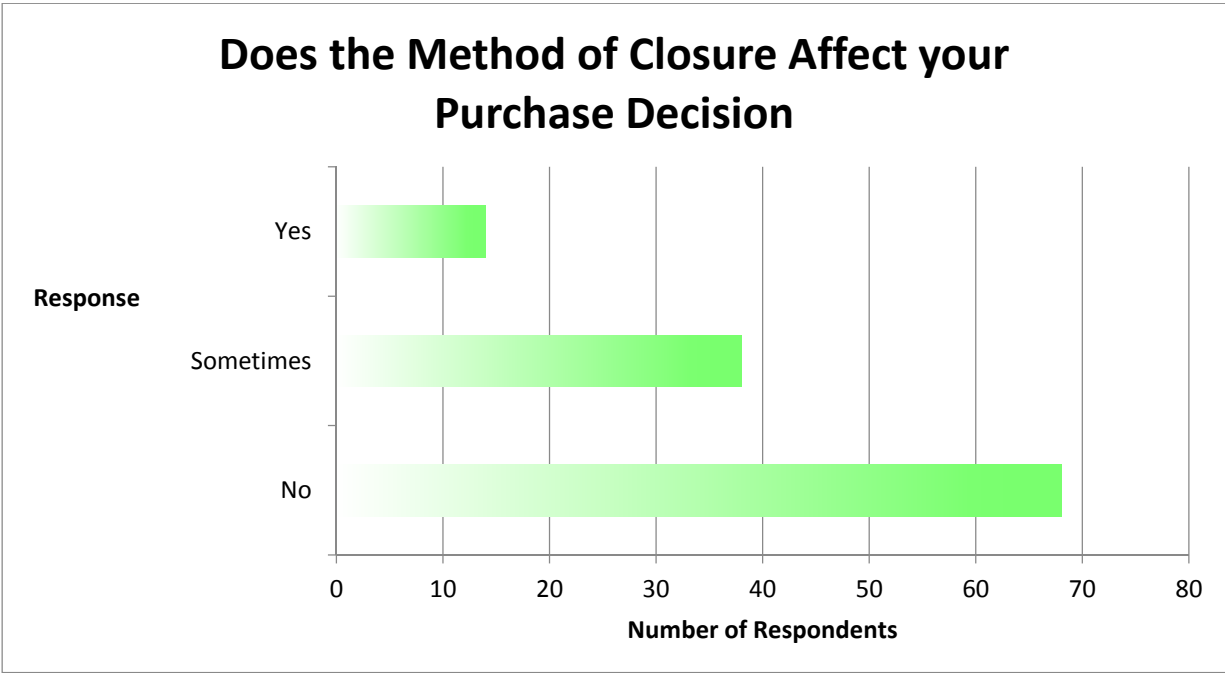
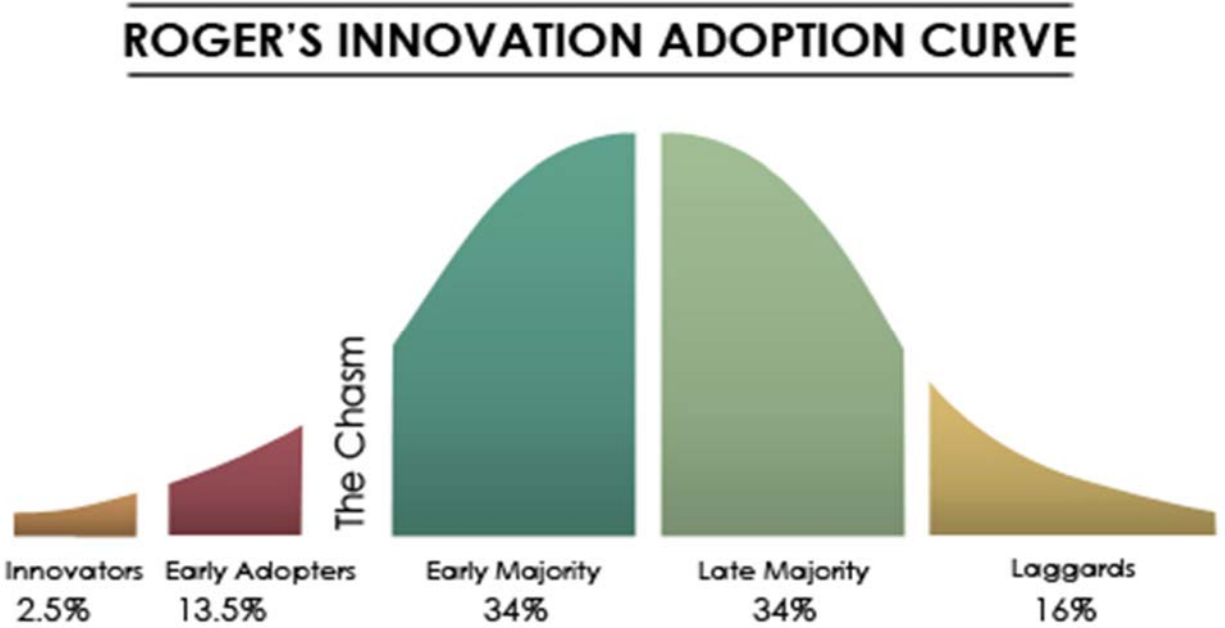
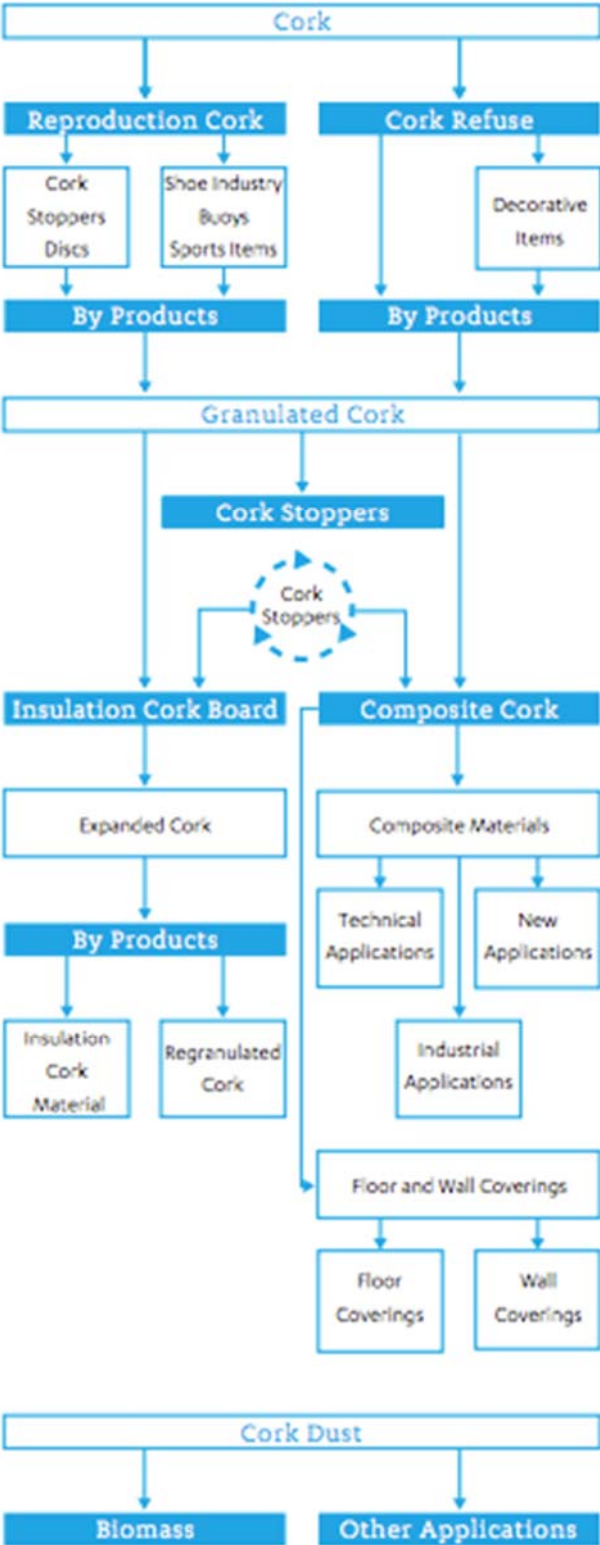


Figure 3: Roger's Innovation Adoption Curve to demonstrate that the adoption of alternative wine closure methods will be a lengthy process



Retrieved from <http://www.jacobcurtis.com/rogers-adoption-curve/>

Figure 4: Amorim’s eco-efficient processes



(“About Sustainability,” 2015)

Figure 5: Amorim’s Top Series Cork that offers easier extraction and reinsertion than traditional corks



(“The Art of Cork,” 2015, p.52)

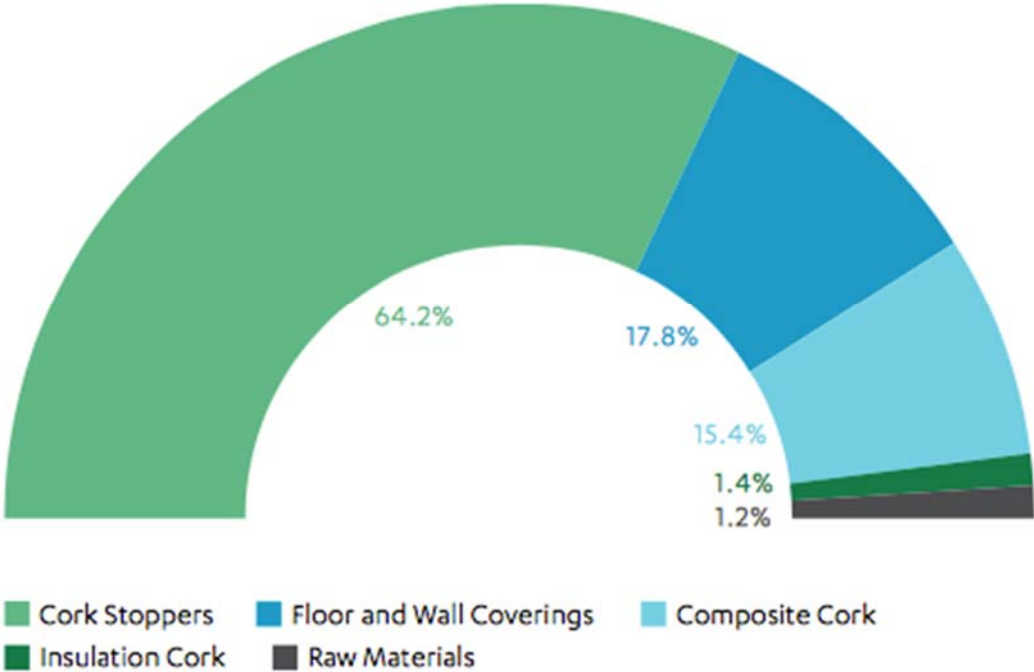
Figure 6: The Helix Cork - Amorim’s response to the competitive pressures of screw tops



(“The Art of Cork,” 2015, p.55)

Figure 7: Amorim’s Sales by Business Unit

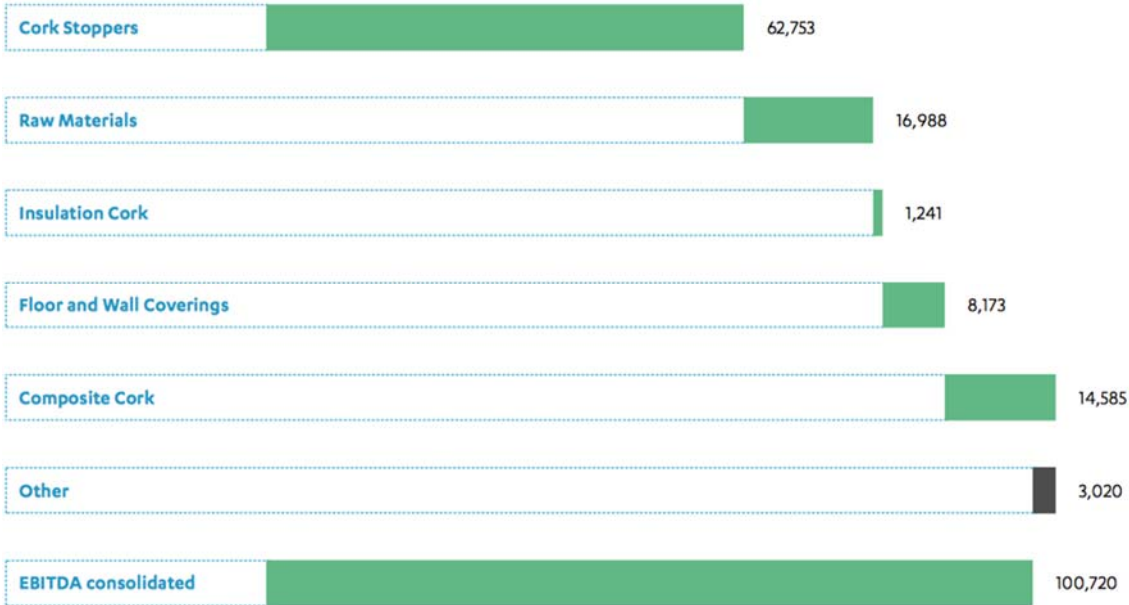
Sales by Business Unit



(“Annual Report,” 2015, p. 42)

Figure 8: Amorim’s Business Units Contribution to EBITDA

EBITDA: BU Contribution (thousands euros)



(“Annual Report,” 2015, p. 43)

How Siestas Are Changing Global Business

Jenna Sargent

This paper aggregates information on adapting to the culture of siestas when a Multinational Corporation expands into Spain. There is a brief history on siestas, research on how companies should implement change in foreign environments and an assessment on the benefits of siestas. Orange Mobile and Vodafone are compared on their adaptation techniques within Spain. These techniques can be used as a template for other industries attempting to adapt. The main determining factor on if an adaptation goes smoothly stems from how well the MNC plans their expansion, how well they research their consumers, and how well they explain changes to their local employees. It was concluded that though the future of this cultural behavior is unclear, Multinationals have the ability to determine its fate, as they have a large influence on the business practice of their host countries.

Deriving from the Latin “hora sexta” or sixth hour, siestas have influenced Spanish culture for many years. They are credited to be first invented 500 years ago by Roman Emperor Charles V (The Economist, 1999). Charles V ruled the Spanish Empire from 1516 until he voluntarily stepped down in 1556 (Cavendish, 2006). He was considered a master of this afternoon nap and recommended sitting in a throne, not a bed, with a heavy iron key in your hand. After taking some time to rest, the muscles in your hand would relax (just prior to entering REM sleep) and the sound of the heavy key hitting the ground would jerk you to wakefulness. This would happen approximately 20 minutes into your siesta, signaling that it was time to get up. Though historically a siesta would start at the sixth hour of the day, noon, modern siestas are typically from two to five in the afternoon. This mid-day break has structured Spanish culture, and from that Spanish business practices.

Sleep experts have agreed with Charles V, reporting that siestas are good for both your heart and your brain (The Economist, 1999), but warn that a siesta that is more than 20 minutes long can leave the napper feeling groggy or with a bad temper, again coinciding with the Roman Emperor’s recommendation. The practice of siestas has been seen primarily in Spanish speaking countries and in hot climates, including Mexico, Ecuador, Italy, Greece, the Philippines, Nigeria, and Spain (Slumberwise, 2013). It is thought that they started mostly in an effort to escape the intense heat that these countries close to the equator face in their summer months. The practice has remained relatively the same throughout the years, though the throne and key have been replaced with a chair and a fork, to better accommodate the average person. Some have even opted to replace the chair and fork with a bed and an alarm, though this goes against Charles V’s guidelines of siestas, as the napper may have a difficult time not allowing themselves to enter REM while lying horizontally.

Tension can be seen within the culture of siestas, especially in Spain. As globalization increases, North American Multinational Corporations appear to have the aim to diminish siestas in Spain, believing that their current organizational practices are the most profitable; however, simultaneously the popularity of “work-time naps” has been increasing in North America as more research is put into the benefits of a short, afternoon “power nap”. This has created a shift where siestas seem to be becoming less favoured in Spain than they are in Canada and America.

Multinational Corporations have used different techniques in an attempt to adapt to or change the habit of siestas in Spain as they expand their business, or acquire a Spanish subsidiary. This paper will attempt to better understand how Multinational Corporations (MNCs) should adapt to the culture of siestas according to past research and how they are currently adapting. Additionally this paper will access the benefits of siestas in order to determine if MNCs should be embracing this cultural change, and what the future of siestas is in the increasingly globalized and competitive business world.

With the expansion of global business, research has begun on the sources of competitive advantages. Current research indicates that a firm's advantage against competitors as they expand globally stems from consistent organizational practices and good management of employees from different cultural backgrounds (Bjorkman, Fey, & Jeong Park, 2007). When a MNC is considering imposing or reusing their organizational practices, such as a standard one hour lunch break into Spain, research states that institutional theory needs to be taken into account. Institutional theory indicates that organizations are under social pressure to adapt their practices to the local environment (Bjorkman, Fey, & Jeong Park, 2007). This creates tension between global integration and local adaption for Multinationals as their knowledge transfer is a critical component of their competitive advantage and success in the international business world (Jensen & Szulanski, 2004); however, it is critical for them to be viewed as isomorphic to the new environment with local consumers. This means it is vital for MNCs to adapt their organizational practices to the Spanish context if they want their business to succeed in the long term, as consumers and local stakeholders will be embedded with the cultural values and behavioural norms of the area (Bjorkman, Fey, & Jeong Park, 2007). This implies that as global firms move to Spain they need to be aware that their employees may expect a two hour lunch break, and that their consumers may not be active between the hours of 2pm-5pm, the typical hours of the siesta. The tension stems from the fact that organizations want to keep their business practices standard as they expand, in order to ensure a consistent brand image thereby retaining trust from their consumers, but they need to understand their local consumers and employee's cultural values and behaviours. That being said, the Convergence Hypothesis states that Human Resource Systems are moving towards a global standard, with American-style systems being the dominant choice (Lawler, Chen, Wu, Bae, & Bai, 2011). Though the workday which includes siestas may be reworked to adapt to American-style systems, MNCs need to examine how to implement this change in a way that their local employees will accept. The tension of local versus global is strong for all MNCs, but when they move to Spain, firms should not ignore the culture of siestas, and must have a clear plan on how they propose to adapt.

Multinational Corporations must also acknowledge the probability of Spanish employees accepting the changes to human resources that a global firm may bring, as research suggests that employees will adopt new practices to varying degrees (Kostova & Roth, Adoption of an Organizational Practice by Subsidiaries of Multinational Corporations, 2002). It is recognized that knowledge transfers are the primary source for competitive advantage for MNCs, however these transfers are still not always smooth, nor successful (Kostova, Transnational Transfer of Strategic Organizational Practices, 1999). It has been shown that the economic conditions of the country that an MNC wants to expand into can predict the successfulness of knowledge transfers. Countries who are experiencing quick economic growth are more likely to accept changes to their systems. This is due to acclimatization to change, because as their country's economy grows there are frequent changes in competition, many changes in technology, and sometimes even changes to business law constraints (Lawler, Chen, Wu, Bae, & Bai, 2011). Spain, as an economically developed country, will be less receptive to changes in their common organizational practices (Lawler, Chen, Wu, Bae, & Bai, 2011) having used the same systems for years with employees who have not experienced huge changes within their businesses or their competitor's businesses. That being said, if the employees feel a strong relational link, stemming from a feeling a dependence, trust, or identity to their employer, they may accept new organizational changes (Kostova & Roth, Adoption of an Organizational Practice by Subsidiaries of Multinational Corporations, 2002). Employees may feel dependence to a MNC when they feel as though their country's employment rate is low, and finding another position would be difficult. Trust in employees can be gained with managerial honesty and by including employees in decision making processes. Finally, identity within the employee is gained from the relationship the employee has with their company. If the employee feels a strong personal purpose from their job, they will feel identified with it and therefore with their employer.

When implementing changes, the MNC must have a solid plan which they do not intend to change drastically. Employees and lower-level managers are quickly frustrated with new programs of change continually starting and stopping (Kostova, Transnational Transfer of Strategic Organizational Practices, 1999). This frustration and lack of receptiveness to continuous changes is due to a lack of trust. Kostova and Roth say that a high level of trust is

necessary for foreign subsidiaries to accept new and different organizational practices (Adoption of Organizational Practice by Subsidiaries of Multinational Corporations, 2002), and implementing new and “better” programs consistently will lead the Spanish employees to believe that the original ideas were faulty, thereby losing trust in the firm’s decisions. If an MNC would like to change the culture of siestas in their Spanish branch, it is essential that they are able to explain to their employees the benefits of not having a siesta during working hours. This explanation needs to embody the values consistent with Spaniards in order for the new practice to be internalized and embraced (Kostova & Roth, Adoption of an Organizational Practice by Subsidiaries of Multinational Corporations, 2002). For example, Spanish nationals place more value on their relationships than North American’s do. A company could attempt to stop siestas with the explanation that a short lunch break would mean that the employee could leave work earlier, and therefore be home with their family earlier in the evening. By understanding the values of the Spaniards, explanations can be more personal, and have a higher degree of success and embodiment within their employees.

Telecommunications is Spain’s main industry of global success. Telefonica, is Spain’s top Multinational Corporation in terms of market capitalism and is also one of the biggest private telecommunications companies in the world, with 322 million clients in 21 countries (Telefonica, 2016). With telecommunications appearing to be Spain’s main area of expertise when it comes to global business, the adaptations that competing telecommunications companies have had to make when entering into Spain is interesting. The strategies that these companies have used to adapt can be extended to other business to consumer organizations as well.

In Madrid, international telecommunications company Orange has adapted to the culture of siestas in a unique way. Orange, a French owned company, adapted their stores not only to local Spanish culture, but by the demographics of each store’s location. By understanding the average Spanish consumer will not be active during the classic siesta times, Orange has acted as a local business in the less touristic areas of Madrid. For example, the neighborhood La Latina is on the outskirts of the main tourist area of Madrid. This area is described as a genuinely authentic Spanish neighborhood and is primarily inhabited by locals. The Orange store in La Latina shuts down its operations from 2pm-5pm every day, and is closed all day on Sundays. This is a classic representation of the average local Spanish business. That being said, Orange also does not want to lose business from the abundant potential international clients, so keeps its store located in the main tourist area, Puerta del Sol, open all day, including Sundays. Other store locations are not closed on Sunday but have differing hours to fit their local consumer’s needs. This is seen in the store located in Madrid’s Gran Via neighborhood. This neighborhood, though not as touristic as Sol, is a popular area for expatriates to live, so Orange has adapted their hours of operation to not include siestas. This unique style of adaptation allows for Orange to keep their employee’s happy, stationing staff, who still believe in the culture of siestas, in stores located in neighborhoods which are closed for them. However, it also does not lose out on potential profits by keeping one store open in the area most likely to gain business at that time, thereby staying competitive. Employees who work in the tourist area’s shop are required to speak English, and also get paid more than employees not required to be bilingual, according to Orange Store Sales Manager Victor Barrero Vazquez (October, 2016).

Vodafone, a British competitor to Orange, has a similar strategy of adaptation though it is not as specific. Vodafone does not have as many stores in Madrid as Orange does; however, as a huge multinational telecommunications firm operating in 28 countries around the world (Vodafone, 2016), it is a definite competitor to Orange. Instead of adapting its stores to each neighborhood, Vodafone has adapted to each city it is in within Spain. Vodafone’s strategy for adapting to siestas in Madrid is to ignore them all together. Though all their stores are closed on Sundays, they are open every day from 10am-9pm. Vodafone chose to integrate their own global practices into Madrid, opposed to adapting to the differences in culture like competitor Orange, because they see Madrid as the big city with employees who do not have the same values as other nationals from smaller cities. Seville, with seven hundred thousand inhabitants opposed to Madrid’s three million, is an example of Vodafone’s city to city adaptation. Though Seville is still a tourist destination, the majority of inhabitants are local and have stronger stereotypical Spanish values. Vodafone has taken this information and adapted all of their stores located

in Seville to close for siestas from 2pm-5pm. This less specific form of adaptation has its pros and cons. It is easier for Vodafone to paint each city with a wide brush: Madrid is large and metropolitan, Seville is small and traditional. It will be cheaper for Vodafone as they will not need to put in as much time or resources into research. That being said they may be paying employees in Madrid for three hours (2pm-5pm) to stand around, as it is possible that no customers will be walking through the door during this time in certain areas of Madrid.

In contrast to MNCs having to adapt to Spain, currently large Spanish businesses are attempting to adapt to the world. Spanish businesses want to keep up in the closely integrated business world in the European Union, and with the quickly increasing globalization of business. With this they are having to adapt their midday break schedule to a more standardized, global timetable (Baxter & Kroll-Smith, 2005). Siesta takers are beginning to be viewed as slackers, among modern Spanish business workers, even though they are still given the time to take them. Jose Ortiz, the Human Resources Director for Banco Bilbao Vizcaya states “those who can take siestas do, but those who are really serious about working do not” (Baxter & Kroll-Smith, 2005). This new stigma towards siestas has created a change in the terminology when discussing them, as some Spaniards have begun to use American vernacular, referring to siestas as ‘power naps’. This change shows that the MNCs that have opened their business to Spain, have already begun to make a drastic imposition of their organizational practices. The siesta still survives and thrives in rural and small towns, especially in the south of Spain where 3 hour afternoon siestas are common (Baxter & Kroll-Smith, 2005), but in the northeastern region, big-city dwellers are more likely to have a standard North American work day. Madrid’s business setting has begun to view siestas as a sign of weakness, according to a director of a MNC there, who states “siestas are for the weekend only” (Baxter & Kroll-Smith, 2005).

Though it seems that the culture of siestas may be diminishing from MNCs imposing their western practices, more research continues to surface on the benefits of siestas, both to the individual’s health and cognitive performance, so siestas are beginning to be seen as a source of competitive advantage in North America. The length of the siesta is important, five to fifteen minutes naps have almost immediate benefits that last for between one to three hours, while a longer nap of more than thirty minutes may leave the napper feeling groggy when waking up, but more alert for a longer period (Lovato & Lack, 2010). As Charles V first thought 500 years ago, a siesta should be no more than twenty minutes, this ensures that the napper will not enter REM sleep, thereby eliminating any irascible post-siesta effects. Additionally, as Spanish culture has done for years, Broughton reported in 1989 that the most beneficial time to nap is in between the hours of 1:00pm and 4:00pm. Research has also shown that a mid-day siesta provided longer lasting improvements to alertness, mood, and productivity, and short-term memory, when compared to improvements to the preceding components following consumption of caffeine (McNerney, 1995), implying to some that the classic North American coffee break should be replaced with a “siesta-break”. The idea of sleeping for a short period is not new to North Americans, with 74% of young and middle-aged adults living in the US reporting napping at least once per week, compared with up to 84% of adults napping once a week in countries located close to the equator where siesta culture is typically seen (Lovato & Lack, 2010), so introducing siestas into North America would not be an incredible change.

Acting Prime Minister of Spain, Mariano Rajoy is proposing outlawing siestas (Burgen, 2016). This prohibiting of siestas would be in an attempt to increase foreign direct investment by lowering cultural differences and thereby appealing to North American MNCs, and according to the Prime Minister, would also increase the quality of life for Spanish nationals (Reilly, 2016). Though siestas are definitely lowering in popularity, the majority of Spaniards are still working a longer day which is split into two parts, separated with a long break during the typical siesta time. This means that though many Spanish nationals may not be sleeping in the afternoon, they continue to take an elongated break in the middle of the day and work until around 8pm on week nights. Though this seems late to North Americans, it is important to remember how ingrained siestas are in Spanish culture. Due to the tradition of siestas, children’s classes at school also typically go until this time of night. Even the eating habits of Spanish nationals are created around siesta habits. Due to a later time returning home from work, Spanish people

do not have their dinner until approximately 10 or 11pm. The lifestyle in Spain almost entirely stems from siesta culture, so an MNC's adaptation process is critical.

With the empirical benefits of siestas gaining more acknowledgement, combined with the necessity for MNCs to adapt locally, perhaps it is premature to say "adiós" to the siesta. Workplace napping in North America is beginning to emerge, though slowly, and even starting to be prescribed by consultants (Baxter & Kroll-Smith, 2005). Previously in North America where the "you snooze, you lose" culture was strong, showing weariness was sign of working hard, and worn as a badge of honor; however, business consultants are beginning to preach the benefits of integrating naps into worktime hours (Baxter & Kroll-Smith, 2005), promising fewer workplace accidents and more productivity. MNCs struggle with this concept as the "Time is money" mindset has been ingrained so heavily into Canadian and American culture, leaving corporate directors only understanding that if their employees are sleeping, they are not working, and therefore are not making their company any money. In order for siestas to be fully accepted by North American Multinationals, it is necessary that more research is conducted on the benefits of siestas in terms of business. This will show directors the empirical evidence that siestas will bring specifically to their company's bottom line.

If siestas are to establish themselves into the western business culture, the problem of how to integrate them stands out. Are employees given longer lunch breaks, with the intention of them utilizing this time to go home and sleep, as is the case in Spain? Or do employees sleep in their offices, or office building? Requiring employees to take their siesta within the office building benefits the MNC as the time allotted for the siesta can be shorter. That being said, if siestas are to be taken in the building, investments will need to be made in terms of furniture and space. Consultants have offered different ideas ranging from strict control and regulations, to a trust based system that is governed with peer pressure (Baxter & Kroll-Smith, 2005). In the beginning strict control and regulations may be needed as with our current culture in place, longer lunch breaks may be used by employees as a chance to gain a leg-up on their colleagues. Elongated breaks may be seen by employees as a chance to work on projects, or to work in order to show their dedication, thereby eliminating the entire purpose of the break.

The future of siestas is in MNCs hands as they have an incredibly strong influence on the standard business practices in the countries they are located. A de-institutionalization can occur in countries that MNCs move into as the legitimacy of existing practices are challenged (Kwok & Tadesse, 2006). Multinationals are companies that by definition have been incredibly successful. Their organizational practices can be seen by local businesses as a picture of what works, so it is easy for them to decide to copy these practices. This implies that just the presence of MNCs not allowing their employees time for siestas, can reduce the amount of Spanish businesses allowing for them as well. It is likely that Spanish business will stop this behaviour to stay competitive, and to raise their International Business reputation, hoping that a Spanish business can be viewed as one to watch out for.

Claudio Stampi, a researcher on short naps in extreme conditions, believes that the primary factor in managing employees is understanding "what is the minimal sleep duration necessary to maintain an acceptable level of performance" (1992), which perfectly embodies North American "work hard, sleep later" culture. MNCs need to change their mindset, and instead of wanting their employees to work hard and produce mediocre results, they should want employees to take their time but produce outstanding work. Unfortunately, this sleep deprivation culture has cost businesses a combined US\$150 billion a year on sleep related fatigue causing high stress and reduced productivity, according to The National Commission on Sleep Disorders (1993). Additionally, in 2000, 51% of American adults reported that sleep deprivation negatively affects their job performance (Baxter & Kroll-Smith, 2005). This points to the fact that introducing siestas into North American work culture could be an important investment. Having energized employees would decrease workplace accidents, increase productivity and creativity, and increase employee job satisfaction.

More research could be conducted on how North American expatriates personally adapt to the cultural behaviour of siestas when relocated to Spain. If they attempt to change the culture, or if they adapt to it, and how. This

research could be used as decision making information when MNCs determine whether or not to bring siestas into their common practices. If expatriates perform better, or report feeling more productive it could be extremely valuable information for both consultants who are advising MNCs to implement siestas, and for MNCs to use as a predictor on how siestas would be utilized and perceived by employees in North America. Additionally, more research should be conducted on the best methods for implementing siestas, in terms of where they are taken, how much time should be allotted per day, and how they are regulated. MNCs will want clear cut information on the leading ways and means for putting siestas into effect, because it will be an investment and significant change process for them to make.

At this point the future of siestas is unclear, and appears to be up to what Multinational Corporations determine. As a representation of success to smaller businesses, MNCs have influence over the standard business practices in the host countries they reside in. Though it is clear that siestas can increase performance, productivity, and employee satisfaction, while decreasing workplace accidents, the investment required may be too much for MNCs at this point. It is possible that as more research is put into the empirical benefits of a quick power nap for employees, Multinationals will not be able to deny the advantages and will have to invest in this potential competitive advantage.

Though the acting Prime Minister of Spain is vocal on his position to outlaw siestas, they are so ingrained within the culture of Spain it is doubtful that they will disappear. The pressure for Spain to adapt to the more standard European work day is apparent, however for businesses operating in Spain, it is necessary to understand that siestas will not only affect your employees but also your customers. If a business to consumer store is located in a part of Spain that is not as satiated with expatriates, products will not be sold within the hours of siestas. What this means is that businesses whose consumers are other businesses may successfully dispose of siestas when operating in Spain. It may even be necessary for Spanish Multinationals to do this in order to stay competitive in the European and global market. That being said, businesses who run business to consumer operations need to adapt to the culture of siestas when operating in Spain, as it is likely that it is more cost effective to shut down operations during the typical hours of siestas.

Vodafone and Orange Mobile have used interesting adaptation techniques to adapt to this Spanish cultural behaviour, which other industries can use as well. Vodafone adapted to each city, thereby saving money in research but potentially losing money due to continuing operations during hours when local consumers are not active. Orange on the other hand adapted to each neighborhood. This specific adaptation will save them money on day to day operations, but would have been a large investment when first researching. Both Vodafone and Orange continue to succeed in their operations, both turning a profit in their last annual report, so both forms of appear to be working. In the bigger picture, the fact that both have adapted and that both continue to strive, shows the necessity of understanding their consumers.

When determining how to implement changes, MNCs need to explain to their employees how the changes will benefit them in terms of their quality of life in a way that addresses their employee's values. This will encourage their employees to fully embody any changes, especially ones that may appear to go against the cultural behaviours of the area. With Spain as an economically developed country, changes will not be as embraced as they would be in a country who is rapidly growing fiscally, because locals will not be used to constant change. With this in mind, when implementing changes, a plan needs to be made and stuck to, in order to attempt a successful transfer of knowledge and to keep the trust of the employees.

It is clear that a siesta can be used as a source of competitive advantage for Multinational Corporations. By ensuring that all employees are well rested throughout the day, a company can decrease their workplace accidents and increase their productivity and employee satisfaction. An increase in employee satisfaction would increase employee loyalty and could attract the highest ranking employees for certain positions, saving costs on recruitment. That being said the western business mantra "time is money" is a culture that large corporations

may have a difficult time abolishing. The tension between local adaptation and global integration will also be present. Corporations will have to consistently adapt their practices to some degree to the local culture as their employees and consumers will be ingrained with different values and cultural norms. Additionally, these changes must be explained in a way that encompasses the values of the employees, to ensure full embodiment. Though transformation must occur to some extent when expanding globally, MNCs have also shown to have a strong influence on the international business standards.

Multinationals need to adapt to the culture of siestas by formulating a well thought-out plan and sticking to it to ensure employee trust. Currently, there are successful examples of adaptation by utilizing demographics of store locations, and understanding consumer preferences and lifestyles. The benefits of siestas have been shown, and as more research is published, stronger evidence shows how siestas can bring a competitive advantage to corporations. It appears that siestas should definitely be a cultural change which MNCs should embrace, in order to benefit their bottom line. As of now it seems that it is up to MNCs to determine the future of siestas. There is currently a tipping point as to whether or not they will be abolished or embraced. As more research continues of the benefits of siestas, it is possible that Multinational Corporations will begin a domino effect, bringing the siesta back to a common practice, by utilizing it in their global systems and being an example for other businesses.

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Conscription in Europe

The effect on educational and career advancement among youth.

Charlene Smith

Conscription, or drafting, is the compulsory enlistment of people in a national service, most often a military service. Currently, only 5 of the European Union's 28 member countries require national service, while the rest either do not require any or offer it as a voluntary option for citizens. The purpose of this paper is to develop a real and unique perspective on how conscription affects European young adults and their transition to higher education and career development. There is little consensus in the academic literature about the impact of conscription on education, career development, and even crime. Proponents of conscription argue that conscription educates young citizens with basic skills, provides them with valuable work experience, teaches them national and civic values, and fosters nation building and unity. On the other hand, critics insist conscription not only demotivates youth and creates an ineffective military and public service workforce, but can also be viewed as a violation of individual rights. After thorough investigation of present research and conducting independent interviews with a variety of today's youth, this paper will attempt to arrive at new conclusions about the effects of conscription on the career and educational attainment of young men.

INTRODUCTION

Young men in more than 60 countries around the world face the prospect of mandatory military conscription. Militaries across Europe are downsizing and eliminating conscription in favor of all-volunteer forces. Conscription typically occurs for men between the age of 18 and 25, a critical juncture in life when decisions are being made about higher education and entering the labour market. Being called to service heavily intrudes on this phase of their lives. In Europe, conscription remains a hotly debated topic. A number of European countries have recently chosen to abolish conscription; however, Austrians recently voted to retain it.

Conscription is controversial for a range of reasons including individuals' objection to military engagements on philosophical, religious, or political grounds, and a perceived violation of individual rights. Conscripted individuals sometimes evade service by leaving the country; however, some selection systems accommodate objectors by providing alternative service outside combat operations roles or civil service roles outside the military. Conscription theoretically provides the government with cheap labour but its economic effectiveness is questionable as it ignores the principle of comparative advantage. Different people are good at different tasks, however not everyone would be equally good at being a soldier.

Proponents of conscription argue it gives youth from disadvantaged backgrounds access to training and employment and, thereby, better integrates them into society. Compulsory service has also been defended and criticized as a way to educate young citizens, to teach them national and civic values, and to foster nation building and unity. Historically, conscription was believed to be the most effective way of compiling an inexpensive military presence. (Poutvaara & Wagener, 2007)

This research paper will reveal the differences in opinions about conscription between cultures. Specifically, it will focus on how different cultures view the effect of conscription on youth and their career and educational advancement. Currently, there is very little research, most of which is inconclusive, that discusses the differences in conscription between cultures. There is even less that discusses how conscription may affect youth attainment. Through the compilation of current research and collecting data from interviews with a variety of today's European youth, this paper attempts to provide new insights on these topics.

HISTORY

Conscription dates back to ancient times and continues today in some countries where men at a certain age must serve anywhere from 6 months to 8 years on active duty and then transfer to the reserve force. In its inception, conscription was the basis of large and powerful militaries.

Modified forms of conscription were used by Prussia, Switzerland, Russia, and other European countries during the 17th and 18th centuries. The first nationwide system was instituted following the French Revolution and was institutionalized by Napoleon after he became emperor in 1803. Between 1807 and 1813, Prussia developed a conscription system based on the principle of universal service, which eventually became the model for the rest of Europe. During the 19th century, the conscript system of recruiting troops became common throughout Europe and many other countries including Japan, China, and the USA. Canada enacted forms of conscription in both world wars, creating sharp divisions between Anglophones, who tended to support the practice, and Francophones, who generally did not. (Encyclopaedia Britannica, 2016)

The end of the Cold War and the emergence of high-tech weapons systems have combined to encourage the end of conscription and the professionalization of European armies. New global environments and new military strategies reduced the need to conscript the large majority of the draft-age men to meet the force size requirements. Additionally, some countries found that conscription led to a military that looked far stronger on paper than it actually was. The Economics of Peace and Security Journal article titled *Conscription: Economic Costs and Political Allure* argues compulsory service is likely to lead into an inefficient organization within the military and an army of inexperienced and poorly trained draftees, which is bound to suffer more casualties and inflict more human suffering than a professional army. (Poutvaara & Wagener, 2007)

Conscription currently exists in 64 countries across the world (approximately 33%), with 8 other countries having selective conscription and 13 with conscription in case of emergency. Norway is the only European country that has mandatory service for women.

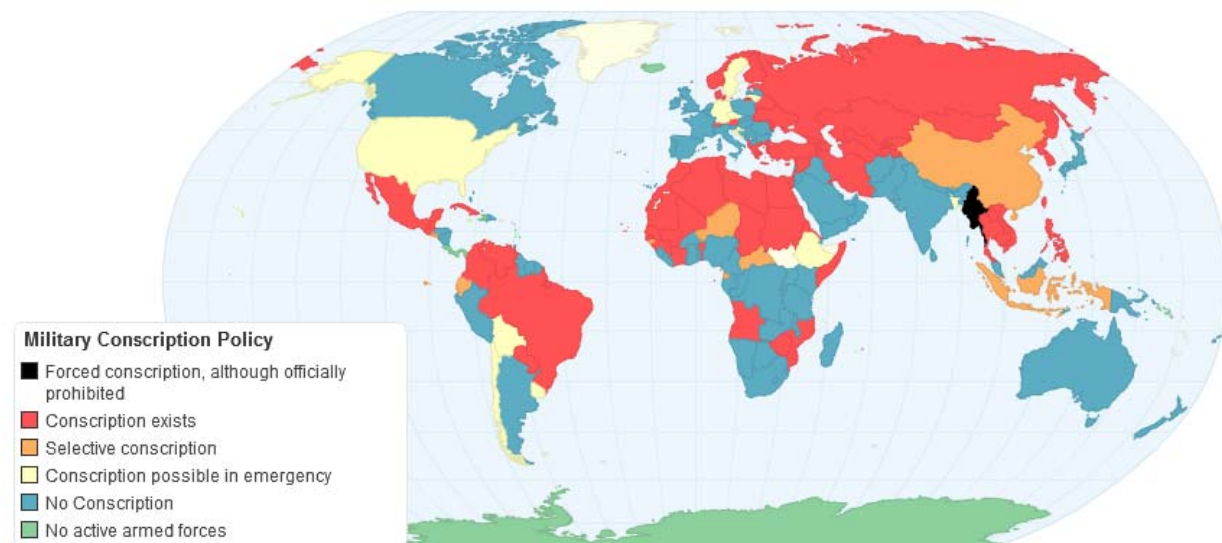


Figure 1: Military Conscription Policy by Country (Chartsbin.com, 2011).

CURRENT SITUATION IN EUROPE

In recent years, European Union (EU) armies have been reduced in size to adapt to new military strategies and smaller defense budgets, thus lessening the need for recruits. Only 5 of the European Union's 28 member states require national service (17.9%), while the rest either do not require any or offer it as an option for citizens (ChartsBin.com, 2016).

It has not been that long since the draft was the norm in Europe. During the Cold War and into the 1990s, compulsory military service existed in nearly every European country. Even after the constant threat of the Cold War subsided, several European states did not immediately move to strike conscription. Below is a graphic that indicates the current state of military service in Europe.



Figure 2: Military service in Europe (Chartsbin.com, 2013).

Most of the EU states that retain conscription can be explained under two categories. First, there are those states that are involved in territorial disputes or perceived territorial threats. This applies to Greece, Cyprus, Finland and Estonia. In these cases, the particular security situation still acts as a justification for maintaining the draft.

A second category are the neutral states with conscription, which now only includes Austria. Interestingly, in 2013 Austrians passed a referendum to maintain conscription. For the neutrals, conscription appears to be evaluated more strongly from a civic service and unity perspective, rather than strictly military strength and protection. During the referendum it was argued that the draft allows young men to opt out and perform alternative community service, such as working in hospitals, and some feared that these 14,000 short-term workers a year would be missed (Deutsche Welle, 2013) The table below provides further information about the EU countries where conscription still exists.

It is generally believed that global strategic change and, most notably, the end of the Cold War was the single most important driver of conscription reform in Europe. The long-term prospect of peace in Europe undermined the Cold War rationale of a large conscript army as a cornerstone of national security. Mass armies were no longer required as a deterrent for a potential Soviet attack and European states began to move away from the concept of territorial defence as the prime purpose of the armed forces (Bieri, 2015; Poutvaara & Wagener, 2007).

However, without conscription many countries experience difficulty finding enough recruits to fill their military. Another problem with getting rid of the draft is that professional armies are more expensive than those with conscripts. Many states that have abolished conscription therefore still reserve the power to resume it during wartime or times of crisis. See the table below for further information on EU countries where conscription has been suspended, but circumstantial policies still remain.

| Country | Status | Details |
|---------|---------------------|--|
| Austria | Conscription exists | 18-35 years of age for compulsory military service; 16 years of age for male or female voluntary service; service obligation 6 months of training, followed by an 8-year reserve obligation; conscripts cannot be deployed in military operations outside Austria (2009) |
| Cyprus | Conscription exists | 18-50 years of age for compulsory military service for all Greek males; 17 years for voluntary service; women may volunteer for a 3-year term; length of normal service is 25 months (2009) |
| Estonia | Conscription exists | Obligation for compulsory service ages 16-60, with conscription "likely" ages 18-27; service requirement 8-11 months (2009) |
| Finland | Conscription exists | 18 years of age for male voluntary and compulsory - and female voluntary - national military and non-military service; service obligation 6-12 months; mandatory retirement at age 60 (2008) |
| Greece | Conscription exists | 19-45 years of age for compulsory military service; during wartime the law allows for recruitment beginning January of the year of inductee's 18th birthday, thus including 17 year olds; 17 years of age for volunteers; conscript service obligation - 1 year for all services; women are eligible for voluntary military service (2008) |

Table 1: EU Countries with Active Conscription (Chartsbin.com, 2013).

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| Country | Status |
|----------------|--|
| Croatia | Conscription suspended, but legally possible in in cases of emergency or war, or if the Armed Forces cannot carry out their duty. |
| Czech Republic | Conscription suspended, but legally possible in national emergency or state of war |
| Germany | Compulsory military service suspended in 2011, conscription still remains part of the constitution and available in the case of an emergency. |
| Lithuania | Conscription suspended in 2008, the laws governing conscription and conscientious objection are still in place. |
| Sweden | Compulsory military service abolished 2010, but the Total Defence Service Act remains in force and can be applied if required by military preparedness |

Table 2: Countries where conscription is suspended but legally possible (Chartsbin.com, 2013).

INTERVIEW RESULTS

In order to accurately assess how youth are affected by mandatory military and public service, and what their views are on the past and current situation, a number of interviews were conducted with people from five different countries. The interview question template found in Appendix 1 was used for all of the interviewees, but slightly modified depending on each person's specific experiences and the discussion that developed during the interviews.

Austria

In Austria, all male citizens between 17 and 51 are required to do either compulsory military or public service. If they choose to do the military service, they must complete six months of basic training before the age of 35. There is an alternative service called "Zivildienst" men can choose instead of military service that lasts nine months. Further, the Austrian government does provide a twelve-month Foreign Service option and a two-year Development Aid Service option as alternatives to military service. (AFM, 2016)

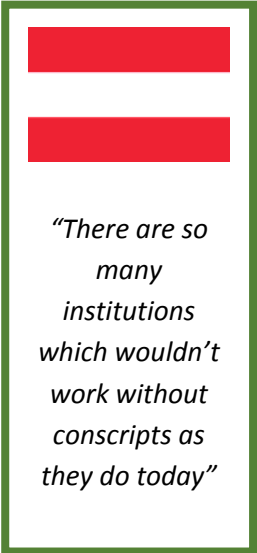
<https://www.bmeia.gv.at/en/embassy/consulate-general-new-york/practical-advice/consular-information/military-service.html>

The interviewee from Austria is a 20-year-old mechatronics student. He chose to "conscientiously object", as they call it in Austria, to military service and take part in a civil service position. His public service took place at an retirement home where he had many tasks including serving the elderly food, helping with events, office work, and spending quality time with the residents. The Austrian found his service very enlightening. He learned that there are a lot of people who are in need and it is important to respect older people and cherish the friends and family he has. He indicated that initially he did not want to do the mandatory service, however in hindsight he would take part in it once again.

This Austrian man knew what route he wanted to take educationally before his mandatory service and indicated that the service did not change his original plan. With the field of engineering being much different to health care, he has not seen many skills from his service transfer over. He has however seen the skills he learned transfer into his everyday life. For example, he stated his team work, social skills, organizational skills, and housework abilities improved tremendously due to his public service. Additionally, he explained that his time working at the retirement home confirmed his desire to work in engineering and not health care, and also developed a new level of respect for those who do choose professional careers in similar fields.

The interviewee mentioned he has friends who extended their community service for a few extra months before they found a new job and others that chose to continue a professional career in the public sector. Moreover, he mentioned his father was conscripted and chose to take part in the military service. The service moved him to a new city, which he chose to stay, as well as study, in after he had finished his required time with the military. His father found the athletic aspect of military service the most beneficial, however stated if he was able to choose again he would have chosen the civil service over military service.

Overall, the Austrian student feels that conscription can be positive for a country if used in peaceful, rather than hostile conditions. He said that both the military and public service provides the country with stability and disaster control. In regard to young people, he thinks there are a lot of life lessons to learn. However, mentioned that it truly depends on the assignment. Providing opportunities to explore potential careers or interests was also mentioned. He believes that people who have been conscripted often have a clearer view of their career goals. The interviewee feels conscription works in Austria. While there are always policies that could improve, overall



"There are so many institutions which wouldn't work without conscripts as they do today"

the system in place is good. Some things he would change about conscription are to increase the wages and to include women in community or military service.

When asked if he would voluntarily enrol in the case of another World War he responded that he would not voluntarily apply to the military service, but instead would be willing to take part in some form of civil service to support the country.

Germany

Up until 2011 Germany had compulsory military or public service very similar to that of Austria. Over the years the duration of service changed and the alternative options varied. The recent abolishment of conscription in Germany was motivated by hopes to develop a more modern and professional armed forces. Now, military conscription is still part of the constitution and available in case of emergency.

Post-Abolishment Generation Interviewee

The first interviewee from Germany is a 21-year-old student who came of age after the abolishment of compulsory service and therefore never had to serve. While he never experienced military service first hand, his father was conscripted. The interviewee explained that his father did nine months of basic military service and never spoke negatively or positively about the experience. Although, he was glad that it was abolished before his sons had to do it. This German student was happy he did not have to serve. He feels that being able to defend his country is unnecessary in these times and that being another half-trained civilian would not make a huge difference for himself or the country as a whole.

The German student does not believe the lessons of discipline and respect that young people learn during their service are worth the year they lose when they aren't even interested in military careers. Overall, he insisted that military conscription does not promote education and career advancement, or help young people discover their interests. He considers work ethic to be the only real personal benefit. He believes the countries that kept conscription likely kept it for its behavioural correction, basic skills, and societal benefits over military relevance.

When asked if he would voluntarily enrol in the case of another World War he responded that he would not. His reasoning for this was that he does not believe conscription or drafting will be necessary again with the types of online wars the world is having, and the modern technology militaries have. He believes soldier count is not as important as it once was. Regardless, he could not find a reason that would prompt him to enrol voluntarily.

Pre-Abolishment Generation Interviewee

The next interviewee is a 40-year-old German man who took part in military conscription in Germany before it was abolished. His experience in the German military involved two months of basic training and then eight months of specialized work. His specialization was mountain patrol where he hiked throughout the mountains in lower Germany with donkeys carrying weapons and supplies. His work also involved mobilization of mock wars where they would stage practice fights. For his last month he did office work and gained experience handling confidential information. He indicated that he was impartial to doing the service because everyone had to do it. There was never a thought to consider conscientious objection to do the alternative service or not do the service at all.

In regard to career and educational goals, he mentioned that his diverse experiences allowed him to realize what type of work he enjoyed. Additionally, he was given opportunities to get certifications during his service, such as



“Some countries kept conscription to teach discipline and general behavior, but it is just an outdated method to train the public in case of war”

his truck driver's license. Further, it provided him with organizational skills, teamwork skills, work ethic, and many other life skills. What he found most interesting was learning about German strategy and history and gaining a military perspective on the country. While he did not continue with the professional military, he did have many friends that chose to continue after their mandatory service.

This German interviewee feels that it is important for a country to have a good, professional, and organized military. He insisted that especially right now with the current terrorism threats, it is important that people and countries are prepared. Having people from all over the country and throughout different hierarchies trained and educated in government and military actions is important and beneficial for a country. On a personal level he feels that citizens knowing how to defend themselves is valuable. Moreover, understanding what the military stands for, what they are really doing, and what the needs of the military and public service are is important for all citizens.

Specifically, for young people and their educational and career goals, he thinks that there are a lot of both hard skills and soft skills to learn from military or public service. Some of the ones he mentioned include appropriate behaviour, respect for seniority, teamwork, and the value of hard work. He expressed that there was a lot of teaching throughout his training about what careers were possible in the future and a lot of resources to help young people with their career and educational search. At the time he was enlisted in Germany, young people could request to be in certain departments such as food, technical, labour, etc. that related to their future interests. This helped young people gain valuable experience they may not have been able to acquire outside the service. Another interesting fact about the Germany military service he revealed was that if a young person had to leave a job because of their military requirement, by law the employer had to take back the person after their required service was complete. Of course, there would be extenuating circumstances that would cause re-hiring to be impossible for the employer. In these cases, the military would have to offer them training and help them get re-introduced into the job market again so that the young man would not be without a job after his conscription.

Overall, in the current state of the world he considers more wars to take place on the internet – war of economies, currencies, etc. War is different now than in the past, it is not so much held on the ground. He mentioned there are obviously still places all over the world that war takes place on the ground every day, however in countries and civilizations like Germany it is different and more modernized, and perhaps that is why conscription is considered not as necessary anymore. He concluded by stating that military conscription could be good if implemented in a new way. As the world is changing, conscription has to adapt as well.

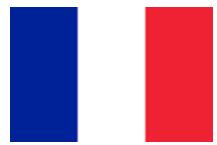


France

France was actually the first modern nation state to introduce military service as a condition of citizenship. However, France no longer has mandatory service. After World War II it was considered irrelevant and began to phase out, eventually completely dissolving in 1996. Currently, France has Service Civique, which is a voluntary service for young people between 16 and 25.

The interviewee from France is a 20-year-old business student who was not of age before conscription was abolished in France, however he did have parents that did compulsory military service. His father worked as a waiter in the military. While he did not enjoy his job and chose to not to have any similar occupations after his service, he did find value in the experience and believed in the system. Similar to the military in Germany, the military in France offered many opportunities for young people in regard to their skills, education, and certificates they could obtain during their service. Further, this interviewee had friends who took part in the voluntary service France has now, who found the experience very enlightening and beneficial to their resumes and skills.

This French man feels that it is a good thing for a country to have mandatory military or public service. From his experience and understanding, it provides a lot of opportunities to solve social problems. This is reflected in both helping young people, who don't have any skills or direction, gain experience and discover interests. At the same time, it provides resources to the military and other public organizations that may not have had sufficient employment to operate effectively. He mentioned specifically in times like these, with the recent terrorist attacks, mindsets have changed a lot and countries and citizens feel the need to be prepared for potential conflicts. In fact, he revealed that this past year had the highest record of voluntary registrations for the military in France.



"It can provide training and skills young people need for the future."

Regarding career and educational advancement for young people, the French interviewee feels that military or public service has a positive effect. He elaborated by explaining that it exposes young people to a variety of social issues, races, cultures, social classes of people. Moreover, young people often are unsure what to do after they graduate high school and he thinks the service can provide youth with a sense of direction, skills and training they need for future jobs, and time to contemplate and consider their options. It offers a first real job for many people and influences their willingness to continue working after their requirement. Additionally, the public service reduces negative stereotypes around certain public service jobs and the professional military. An interesting point of view the interviewee provided was about the high levels of voluntary unemployment in France. He recognizes that a lot of people take advantage of the good public system in France by receiving money without working. He believes that voluntary and compulsory public service of some form provides an alternative and prompts people to figure out their career paths.

When asked if he would voluntarily enrol in the case of another World War he responded that he would. His reasoning was interesting compared to other interviewees, stating that he would not want his father to fight for the family, but instead he would volunteer as he is in better health. He also specified that his willingness would depend on the context of the war and what role France was playing in it.

Netherlands

Until 1996, the Netherlands had conscription that required all men to complete compulsory military service once they turned 18 years old. Their legislation allowed for men to postpone their service for educational purposes or take part in an alternative civil service. Nowadays, like many countries, the Netherlands has kept the laws and systems in place for conscription so that it can be enacted in the case of war. Every Dutch man receives a letter when they turn 17 enlisting them in "non-active duty" in which he is registered and can present himself for duty, but is not required to.



"It is better for a country to have people who want to fight for the country in the military, rather than people who are forced to fight for their country"

The Dutch interviewee is a 22-year-old student who was not of age before conscription was abolished in the Netherlands. In fact, the only person he knows who was conscripted is his grandfather. His grandfather was a Morse code encrypter. He never shared many experiences from his time served with his family, however he did teach his children and grandchildren Morse code. Regardless of the lack of experience this Dutch man has had with conscription, he did have a number of opinions to share on the topic. He insisted that he does not feel that conscription is a particularly positive system for a country. This perspective was validated by the opinion that it is better for countries to have a smaller selection of people enlisted that want to fight for their country, versus a large mass of people enlisted who do not. Additionally, he mentioned there is no immediate need in the Netherlands for a strong military or combat-ready citizens. On the topic of young people, he expressed that he was conflicted to whether conscription was positive or negative. On one hand, he feels that young men aged 18 – 30 are in their best physical and mental condition to be trained

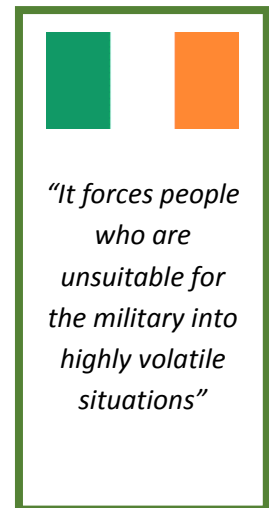
and to learn. However, he recognizes that military and public service are not everyone's industry of choice, therefore conscription consumes a young man's year that could be spent pursuing his passions.

In conclusion, he articulated that he is happy with the way the current system is set up in the Netherlands. When asked if he would voluntarily enrol in the case of another World War he responded that he would. However, his response was contingent on the war taking place in the Netherlands, as he does not believe fighting in other countries is effective.

Ireland

Ireland has always had a volunteer-based military. During the First World War, Britain attempted to impose their conscription laws onto Irish citizens. Ireland remained neutral and in a state of emergency during both World Wars and since has continued to maintain their volunteer military system.

The final interviewee is a 20-year-old Irish student who also works at a private dog kennel. Coming from a country that has never had conscription, he does not know any friends or family members who have been conscripted, nor has he been conscripted himself. Regardless of his lack of experience with the topic, it was interesting to hear the perspectives of a young man who has never been affected by conscription. Unsurprisingly, he believes that conscription is not a positive thing for a country and something that should only be used in times of extreme emergency, as it forces people who are unsuitable for the military into highly volatile situations they may not be able to handle. Further, he stated that conscription is more likely to develop overflows of unfit soldiers, rather than adequately prepare a country for war. Similarly, he expressed that conscription is not positive for young people as it takes time away from educational or work goals. Interestingly, when asked if he would voluntarily enrol in the case of another World War he responded that he would and he would not be opposed to Ireland implementing a draft.



In the Case of Canada and Austria

With the premise of this research being based on my knowledge and interest in the conscription systems in both Canada and Austria, the interviewees were asked the following two additional questions specific to these countries.

Question 1

Canada has only ever used conscription in the form of drafts during World Wars. Do you think this is more or less effective than having compulsory conscription at all times?

Overwhelmingly, most interviewees thought that drafting was less effective than compulsory conscription at all times. The opinion was if a country was to have mandatory military service in any form, it should be consistent. This maintains a mindset and ensures there are always readily trained soldiers available in case of emergency or war. Additionally, pertaining to both military and public service, it is good for both the country and the citizens to have a constant stream of people to rely on for less desirable community service positions and disaster relief that is covered by the military.

Interestingly, this opinion seemed to be based on an overall opinion of conscription worldwide. Whereas, when the interviewees focused on Canada specifically, their opinions were altered slightly. It was mentioned that in Canada there is a lack of extreme nationalism that is becoming more and more present in other countries, specifically in Europe. Moreover, there is less fear, voluntary unemployment, and an overall different mindset in Canada than in Europe. Geographically, Canada also does not have any immediate potential threats along their borders that would influence their need for a large military presence. These factors, among others, compelled the

interviewees to suggest that while consistent conscription may make sense in a lot of ways for a lot of countries, for Canada a professional voluntary military may be more suitable. However, the opinion on selective drafting stayed consistent, in that it was not an effective defence system in any circumstance.

The overall consensus resulted in two options for countries in the case of conscription. The first is to not have conscription in any form and to develop a fully professional army. This is thought to provide an overall more effective and dedicated armed forces for a country and allow young people to focus on their actual career and educational goals and aspirations without delay. The second option that was presented is to maintain consistent military and public service conscription that provides young people with more options for job types and training opportunities that relate to their specific interests. It was also suggested this be applied to both men and women. This would provide useful experiences and skills for young people, while also supplying the country with a steady flow of community service workers and keeping the country prepared for sudden states of emergency with a trained armed forces.

Question 2

Why do you think Austria has continued to be one of the only countries in the European Union to keep conscription, especially when it does not border with any other countries who also have maintained their mandatory military service or pose any immediate threats?

It is important to note that many of the interviewees were not aware prior to their interview that Austria still had conscription. Similarly, many interviewees were not aware of which other countries within the EU do or do not still use conscription.

As a country that has been declared neutral since World War II, many interviewees were confused by Austria's perceived need for conscription. One of the most interesting and commonly mentioned reasons for Austria continuing to implement conscription was their traditional-style culture. The Austrian interviewee stated that because conscription worked well in the past and has proven useful for military and public service problems, there has been no reason to abolish it. Specifically, the community and public service systems would not be as successful or effective throughout Austria without conscripts.

Other comments that were made by the non-Austrian interviewees included Austria's past involvement in all of the wars and the idea that Austria may possess some fear that leads them to maintain conscription for their protection. Additionally, the suggestion was made that Austria maintains conscription to reduce youth unemployment, provide work experience, and instill basic skills and behaviours in young Austrian men. While each of the perspectives were very diverse in the specific reasoning, all correlated to the high uncertainty avoidance and long-term orientation that Austrian culture exemplifies.

COMPARISON AND DISCUSSION

Many of the differences between the opinions and perspectives displayed by the interviewees can be explained by evaluating them using Hofstede's Cultural Dimensions. For example, the acceptance of conscription in Austria can be explained by factors such as their high masculinity, indicating that they are driven by competition and have a "live to work" attitude (Hofstede, 2016). This quality makes mandatory work more acceptable. Further, Austria's high uncertainty avoidance reflects their need for structure, systems, and traditions. This was evident in the Austrian interviewee's responses. He expresses the need to maintain consistent rules and regulations that have proven to work in the past.

Another culture that exhibits high uncertainty avoidance, which ultimately affects the way they view conscription, is France. French people do not like surprises and prefer structure and systems. They have a strong need for laws, rules, and regulations (Hofstede, 2016). Another cultural dimension that impacts their perceptions is their high individualism. The French interviewee elaborated on this point, explaining that while French people are highly

dependent on the government due their high uncertainty avoidance, they are also very individual in their own ambitions and search for success. This is interesting because it creates a need and desire for the institution of conscription, however not an interest or willingness for involvement.

The Netherlands is another country that demonstrates high individualism. They also display low levels of masculinity. This indicates that they prefer a “loosely knit social framework” (Hofstede, 2016). At the same time, they are focused on maintaining a high quality of life and substantial work-life balance (Hofstede, 2016). Together, these factors can explain much of what caused conscription to be abolished in the Netherlands. In general, Dutch people are much more focused on themselves and their families’ well-being, rather than the well-being of society as a whole. These cultural factors are made clear throughout the Dutch interviewees’ opinions on conscription, specifically when he spoke about the government taking a year of people’s lives away from them.

Ireland is another country where it is not surprising that they do not employ the use of conscription. With a low long-term orientation and low uncertainty avoidance, the Irish people are not concerned by ambiguity or problems that may happen in the future. The Irish focus more on traditions than preparing for the future (Hofstede, 2016). Ireland never used conscription in the past and it worked for them, therefore there is no reason to use it nowadays. The Irish interviewee was generally uninterested or convinced by the concept of conscription, which would be the expected response for someone from his culture.

Germany’s stance on conscription in comparison to their cultural dimensions is fascinating. Germans tend to exhibit low indulgence, which means they are more likely to control their impulses and desires to focus on more serious matters. Additionally, it implies that they are restrained by social norms. In the German interviews, both men indicated that they never questioned the importance or idea of conscription because it was mandatory and something that everyone did. This cultural dimension would alone suggest Germans would have wanted to maintain conscription. However, taking into consideration other cultural dimensions, this assumption is made less valid. For example, Germans also display high long-term orientation, which “show an ability to adapt traditions easily to changed conditions, a strong propensity to save and invest, thriftiness, and perseverance in achieving results.” (Hofstede, 2016) This perspective is also made clear in both the interviews with the German men. Both discussed a need for a strong military and a potential need for some form of conscription; however, both also indicated that the systems cannot remain as they used to be and need to be adapted for modern forms of war and the youth of today.

Effect of conscription on higher education and career development

There is little consensus in the academic literature about the impact conscription on education, career development, and even crime. Multiple studies have found Military service increases the likelihood of crime (Hjalmarsson & Lindquist, 2016). Some research has found that compulsory military service decreases the probability of men obtaining a university degree. In the same study, the effect of military service on earnings was also found to be negative and long-lasting (Hubers & Webbink, 2015).

Remarkably, these studies do not provide a consistent picture of the effects of military service. One quote from *“The long-term effects of military conscription on educational attainment and wages”*, truly explains the inconclusiveness of recent studies on this topic:

Military service seems to decrease educational attainment in the UK (Buonanno 2006) and Italy (Cipollone and Rosolia 2007) but increase completion of tertiary education in Germany (Bauer et al. 2014), France (Maurin and Xenogiani 2007) and in the US (Card and Lemieux 2001) because of draft avoidance behaviours. In addition, military service seems to reduce wages in the US (Angrist 1990; Angrist and Krueger 1994) and in the Netherlands (Imbens and van der Klaauw 1995), but in Germany (Bauer et al. 2012), there is no effect on wages. In the US, the negative effects seem

to fade away over time (Angrist et al. 2011). Moreover, the importance of education as a mediating channel for the long run effects on earnings remains unclear (Bauer et al. 2012). (Hubers & Webbink, 2015)

A diverse range of opinions on this topic were also presented throughout the interview results. The perspectives ranged between both extremes. Some of the men felt very strongly that conscription substantially improves the behaviour, organization, ethics, and respect of young men and is vital to the 'growing-up' process. These improvements to young men's value system was assumed to ultimately improve their future career and educational motivation and decisions. Moreover, it was argued that mandatory service provides more time for young people to discover themselves and supplies them with otherwise unattained work experience.

On the contrary, other interviewees were adamant that conscription would have negative effects on the motivation of young men to return to education or their career search. It was the assumption of some of the interviewees that mandatory service can be perceived as a human rights violation through an unjustified interruption of young men's lives. The maltreatment by the government was suggested to have the potential to motivate future rebellion by the conscripts. Ultimately, this could lead them to a life of crime. It was implied by interviewees that young people are the most motivated to return to school directly after high school and that the government should support that, instead of potentially hindering ambition.

Similarly to the interview results, I would argue that much of the inconsistent and inconclusive results can be attributed to cultural differences. Further, the effect of conscription on a young man's educational and career advancement will always ultimately be dependent on the individual. Some generalizations can be made about nationalities as a whole, however it is important to note that within nationalities there are numerous regional sub-cultures that exists and results will vary between each of them.

To draft or not to draft?

The cost to a society of drafting someone to be a soldier or a nurse is not what government chooses to pay him or her. Rather, it is the value of his or her lost production elsewhere, as well as the potential disutility arising from any inconveniences related to the service. Conceptually, the cost of drafting someone is the amount for which he or she would be willing to join the army voluntarily (Poutvaara & Wagener, 2007).

Most national armies in the EU have shrunk to leaner, professional armies, and these do carry several advantages. Professional soldiers are generally better trained, more specialized and far more efficient than conscripts. They are also easier to deploy on overseas missions. Alternative forms of selective conscription have been proposed. With selective conscription, key challenges are: Who shall serve, how many should be drafted, and how should they be selected? With conscription being fairly unpopular, it has been easier for political leaders to simply eliminate conscription rather than successfully modify the current conscription systems. Ending the draft is generally politically popular; whereas, alternative more selective conscription systems, would alienate some voters. This separates the people who are put at a disadvantage relative to their peers who were able to immediately enter into higher education, find exemption-worthy employment, or otherwise avoid conscription (Jehn & Selden, 2002).

Interestingly following terrorist attacks last year, 80 percent of all French and 70 percent of Swedes said they would support a return of conscription (Noack, 2016). When European Union countries decided to abandon conscription in the past decade, few of today's EU problems were predictable. In many ways, the current demands to bring back conscription reflect a wide range of different issues EU countries are faced with (Noack, 2016). This was also an evident trend in the interview results. Most interviewees felt that recent events in Europe have increased their own, as well as other citizens' acceptance of conscription and willingness to participate.

It appeared unanimous throughout my interviews and research that on the surface conscription seems like a good, cheap way to develop a strong, prepared, powerful army. However, in this day and age that is not inherently true. With technology, war has become very different than it once was. This does not mean that conscription is obsolete, but rather that it needs to be implemented in a new way. Interview results revealed that, if introduced in an alternative manner, conscription has the potential to increase unity in a society and improve the lives of young people. Specifically, a conscription system that is more civil service oriented and provides more options and opportunities for skill development for youth has yet to be completely and effectively tried. This alternative system could provide direction, experience, new abilities, and have overall positive behavioural effects on young men and women. Moreover, it could have positive effects on countries' present societal issues and public service systems.

However, if implemented using the wrong methods, conscription has the potential to create many of the problems suggested by interviewees. Forcing young, ambitious, passionate men into positions they are unenthusiastic about, with no ability to choose their roles based on interests, can result in demotivation of youth and an ineffective military and public workforce. Young men may feel that the government does not respect their life or individuality and conscripts may even choose to take action against the government, creating the potential for societal problems. Ultimately, conscription, in its innate and current form, may produce only negative effects for both the country and the citizens. This brings us back to the question of what the real costs and benefits of conscription are.

Initially, I assumed conscription in its entirety was an unethical abuse of a citizen's rights. However, after thorough investigation of research and conducting independent interviews with a variety of today's youth, many of my opinions have changed. I maintain that the historical and current conscription system in many countries is ineffective. At the same time, I no longer believe Canada is operating on the best system either. I would argue that conscription could be used to the benefit of both countries and their citizens if implemented in the right way. Additionally, I would insist conscriptions systems need to be developed and assessed on a country to country basis. After analyzing interview results using Hofstede's Cultural Dimensions it became clear how significant culture is to the impact of conscription on young men. I think that if a conscription system was established on the basis of addressing societal issues through civil and public service, in addition to developing the skills, abilities, and behaviours of youth, it would be much more widely accepted. I believe in this form, the effects of conscription on the career and educational advancement of young men would also be generally more positive. It will be interesting to see, depending on the current state of the world and as the modernization of war continues, how conscription evolves or devolves in the future.

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APPENDIX 1

1. Does your country currently have conscription or public service?
 - ➔ **IF NOT:** Has it ever and when was it abolished? What does your country have now?
2. Have you ever been conscripted?
 - (The following questions only apply if answer to this question is yes)**
 - a. What was your experience? (what did you do, day in the life)
 - b. Did you want to do the public service?
 - c. How did it affect your career goals?
 - d. How did it affect your educational goals?
 - e. Did you develop skills through your experience being conscripted that you have been able to transfer to your business or education experience to find opportunities (i.e. work experience, meeting course requirements, etc.)?
 - f. Has your experience being conscripted affected the industry you would like to work in (i.e. public vs private company)?
 - g. Did you develop a network during conscription and are you still in contact with any of your former colleagues (looking to see if there are any further connections to capitalize on when looking for business opportunities)?
3. Do you know any family members or friends who have been conscripted?
 - a. Why were they conscripted?
 - b. What did they do?
 - c. How did it affect them?
 - d. What do they do for work now?
 - e. How do they feel about conscription now?
4. Do you think that conscription is a positive thing for a country and why?
5. Do you think that conscription is a positive thing for young people and why?
 - ➔ Additional questions if not already answered in the previous responses:
 - a. Does it improve their work ethic?
 - b. Does it help them discover themselves?
 - c. Does it promote education and career advancement after the required public service term?
 - d. Do you notice any difference in the approach to career goals between young people who have been conscripted and young people who were not conscripted?
6. Canada has only ever used conscription in the form of drafts during World Wars. Do you think this is more or less effective than having compulsory conscription at all times?
7. Why do you think Austria has continued to be one of the only countries in the European Union to keep conscription, especially when it does not border with any other countries who also have maintained their mandatory military service or pose any immediate threats?
8. If there was another World War would you be with or against conscription? Would you voluntarily enrol in military service?
9. Any final thoughts on conscription in your countries or other countries?

Mittelstand and International Business

How Mittelstand companies are using China to maintain stability of respective business

Patrick Webb

The purpose of this paper is to gain a better understanding of the success factors of the German Mittelstand and how they differ from certain North American practices. In doing so, we understand how critical the Mittelstand is to Germany's economic success as an export economy. The German companies to be discussed are often defined differently depending on sources. IfM Bonn's definition has been used to derive the quantitative definition. The qualitative characteristics have been procured from various expert sources. The technological revolution that is taking place currently, Industrie 4.0, as well as global hypercompetition, has forced these firms to be dynamic within their niches. German companies have recognized Asia as a major business opportunity to expand their niche markets and have taken an incremental approach to expansion due to cultural differences and concerns over the safety of their supply chain. Two cases studies will look at how this expansion differs between two *geböhener* Mittelstand firms, followed by a brief discussion as to how North American managers can utilize the information protection practices in their expansion decision-making. With this in mind, North American managers should consider the trade-offs between protecting proprietary knowledge and protectionism as this decision can have a great impact on ROI. The first Case also looks at how DELO has focused on customer satisfaction to increase firm performance. Methods of analysis for this paper include gathering research on the influence of the Mittelstand on the German economy, profiling the cultural characteristics that influence business decision-making, and utilizing the work of Mittelstand experts, particularly Dr. Bernd Venohr.

INTRODUCTION

The German Economy

It is important to understand the historical context of the Mittelstand in Germany before focusing specifically on these companies in the 21st Century. The unification of the modern German Republic happened in 1871 when the Germanic States were able to come together under one elected official for the first time. The Mittelstand at this point consisted mainly of artisanal firms that sold locally and moved products throughout Europe. Although the industrial revolution came late to Germany, Carl Benz's invention of the motorcar in 1885, a product of the unified Germany, can be seen as a step toward Germany's placement as an innovative world leader. By the turn of the century, Germany had become Europe's largest economy.

The two World Wars had a profound impact on shaping the future of the German economy. After the division of the country, West Germany experienced the "Economic Miracle" or *Wirtschaftswunder*. Chancellor Konrad Adenauer and Finance Minister Ludwig Erhard championed the implementation of the ordoliberal social market economy. This allowed the government to intervene when the economy was not performing as expected. The German economy continues to use this system as a basis today.

East Germany's economy was constrained by limited freedoms as a Soviet controlled socialist state. Existing firms became owned by a central government. A mass exodus of people from East to West was the result of the differing opportunities presented. The effects of socialism are still being felt today in the East where unemployment, GDP, consumption, and productivity are all significantly lower than in the West.

The reunification of Germany in 1990 introduced a relatively volatile time for the German economy. The economy stagnated in the early 2000s until the Hartz IV labour market reforms and the highly successful 2006 FIFA World Cup stimulated the country. The reforms allowed German businesses better access to inexpensive labour while incentivizing work and keeping German unemployment low. The World Cup signified a change in both external

and internal perceptions of German identity as the event acted to unify a nation that had suffered from a divisive 20th Century. These two factors helped lead Germany through the 2008 recession and successfully into the next decade. Germany's GDP at Purchasing Power Parity has followed an upward trend ever since (see Exhibit 1).

Germany's recent re-emergence as a global leader would not have been possible without the stability of the Mittelstand. These firms employ the majority of the German working population. During the 2008 recession, Mittelstand managers helped the economy by negotiating with employees to have fewer hours and lower wages to avoid increased unemployment rates (Ames, 2013). GDP by PPP dropped by less than two thousand USD and were back to pre-2008 levels by early 2010.

Quantitative Definition

English language literature available is unclear as to what actually defines a Mittelstand firm. This can create skewed statistics that make some misrepresentation apparent in the form of over or underestimating the significance of the Mittelstand. Part of the reason arises from the fact that the Mittelstand has no direct English translation. The lack of clarity is most obvious when discussing the quantitative characteristics of the Mittelstand. The definition provided by the Federal Ministry for Economic Affairs and Energy (using Institut für Mittelstandsforschung Bonn's (IfM) findings) will be utilized in this paper. This characterizes classical-Mittelstand companies as having less than €50Ml. annual turnover, and under 500 employees. There are around 3.7 million of these companies in Germany (99.6% of total registered firms). They account for 59.4%, or roughly 15 million, of Germany's employees (that collect social insurance) as well as four out of five apprenticeship programs¹, and 31.43% of total exports. These figures signify the importance of classical-Mittelstand firms to the German economy.

The above definition is acceptable in terms of defining classical-Mittelstand firms quantitatively. However, there are many more firms in Germany that exhibit some definitive qualitative characteristics of the Mittelstand. To further explore the qualitative side it is helpful to expand our definition to include "upper" sized Mittelstand firms (*gebohener*). These firms have revenue between €50Ml. and €1Bn., represent 0.34% of registered German companies and 36.88% of total exports (Venohr, et al., 2015). Typical *gebohener* Mittelstand firms include fischerwerke gmbh, famous for their S-plug for fastening masonry screws, and Otto Bock, a company that is a leader in prosthesis innovation.

The third category to be considered is large companies that have outgrown the typical quantitative characteristics of the Mittelstand but continue to exhibit qualitative characteristics to varying degrees. These companies account for 0.02% of total registered companies in Germany and 31.69% of total exports (Venohr et al., 2015). These include Volkswagen, BASF, and Siemens, but also Miele, producer of high-end appliances, and Herrenknecht, an innovator in heavy-duty tunnel boring machines.

Qualitative Definition

Ludwig Erhard summarized the need for a qualitative definition best, when asked about defining the Mittelstand he instead emphasised more qualitative characteristics as [the Mittelstand] is "... much more of an ethos and a fundamental disposition of how one acts and behaves in society." (Venohr et al., 2015, p.6).

Due to the practical difficulties of settling on a consensus definition of Mittelstand firms in a qualitatively manner, we will utilize IfM Bonn's definition as a starting point: "an enterprise where up to two natural persons or their family members have at least 50 % ownership of the company and where these natural persons are also involved in the management of the company."

Family ownership is a central tenet of the Mittelstand. However, it is important to expand the definition from IfM Bonn's. Mittelstand companies exhibit a long-term focus, invest heavily in innovation, and are niche oriented.

¹ Figures from 2012, include Self-Employed citizens.

Other prevalent characteristics include: developing outstanding relationships with customers as well as employees, a global focus, and often a long-standing history in the towns where these firms are headquartered (Anonymous, 2014). Exhibit 2 summarizes the key characteristics of the Mittelstand to be used in this paper.

Hidden Champions

These companies are often large by all statistical parameters. However, they continue to exhibit characteristics similar to classical-Mittelstand companies. These companies are defined by a few criteria. First, they must be the leader or number two in the segment they occupy, or the leader in the European component of their segment. They generate less than €800Ml. in revenue. Finally, these firms must have low public visibility (Venohr & Meyer, 2007, p.6).

The Hidden Champions grew in prevalence after the reunification of Germany. By 2006 there were 1,130 of these companies.² A study tracing revenue growth rates of Hidden Champions from 1994-2004 showed that these companies outperform most German companies, including those on the DAX (Venohr & Meyer, 2007). These Hidden Champions provided stability and growth during a volatile time, again showing their importance to the German economy. But what is it about these companies that enables them to be so successful and what can North American managers learn from this model?

As we can see, the definition of the Mittelstand can easily take different shapes. The rest of this paper will examine issues faced by the Mittelstand today and the presence of German firms in Asia, followed by two brief case studies that look at how two Hidden Champions compete and operate in a globalized world and how North American business leaders can use this information.

ISSUES FACED BY THE MODERN MITTELSTAND

Cultural Differences

Of the Hidden Champions mentioned previously, 71% have a subsidiary of some form in China (Venohr et al., 2015). When entering the Chinese market, German managers are often faced with a very different business environment than they are used to. As seen in Hofstede's cultural dimensions, Germans and Chinese have some severe differences in Individualism, Power Distance, and Uncertainty Avoidance. German managers also have to deal with government regulations and tax systems that often favour the local competitors of the Mittelstand. A further difficulty can be navigating the Chinese business environment that so often is influenced by *Guanxi*³. To mitigate these issues, German managers have used a variety of measures: establishing a relationship with a local who acts as a guide while entering markets, selling products first followed thereafter by entering the market incrementally, and having a major focus on the development of mutually beneficial supply chain relationships in an effort to increase innovation and reduce costs (Beating China: Germany's Mittelstand, 2011). German managers also have an advantage when compared to those from other countries due to well-established trading relationships, as reflected by Germany's share of total imports to and exports from China, which has remained close to five percent for the past 20 years (OEC, 2016).

Competition and Globalization

It is well known that Germany is a global leader as an export economy. In 2015 it was only behind the United States and China despite having 25.3 and 5.9 percent of the respective populations (CIA, 2016). As mentioned in the definition sections above, classical and upper-sized Mittelstand firms account for just over 68% of Germany's total exports. This means that the hyper-competitiveness of globalization is something that has to be navigated by these firms. Competition can be used to help explain the niche focus of these companies. This can be explained largely by the ability of multinationals to access large amounts of capital in their respective markets. German Mittelstand managers prefer to avoid "dancing where the Elephants play" – meaning there is a tendency to stick to the products and services these firms excel in, and invest heavily with a narrow focus (Mittelmanagement,

² 2015/16 estimates range from 1300-1500

³ The Chinese phenomenon that puts a high-value on interpersonal relationships in the business environment.

2010). Mittelstand managers also tend to prefer financing operations without using debt or equity, which leads indirectly to a culture of frugality (Venohr & Meyer, 2007). The threat of Chinese competition and different approaches to dealing with it will be discussed further in the two cases.

Expanding into Emerging Markets

Dealing with contextual differences of subsidiaries in a dynamic business environment is something that a lot of German companies have to deal with. Although Germany has a well-developed modern domestic market, Mittelstand companies have become increasingly forced to adapt to dynamic global competition; many firms now sell and service their products, some even produce abroad. Mittelstand firms realized decades ago that emerging economies have enormous growth potential and so have embraced globalization as a new opportunity. However, certain industries should undoubtedly be avoided. In China for example, extremely well capitalized firms, aided by the government, champion industries deemed strategic by the government like photovoltaics and construction machinery. The economies of scale of Chinese firms in these types of industries are often difficult to compete with. However, there still is room for success in China. German Mittelstand firms that have moved into and developed their niche are able to supply the Chinese market with high value-added products and services where quality is valued over price. Chinese firms may be the world's factories, but Germans are building them (Venohr et al., 2015).

Industrie 4.0

"SMEs are lacking confidence in information security and data protection. Without this confidence, the transformation of business and manufacturing processes threatens to stall – and Germany could fall behind in the fourth industrial revolution." (Sommer, 2015, p.1515)

Industrie 4.0 is another issue faced by the Mittelstand. This phenomenon involves the move from automation and computers towards a more complex environment where products interact with automated processes via RFID tags or barcodes. Industrie 4.0 is a move toward higher productivity per employee as well as future cost savings. Mittelstand firms are lagging behind in this most recent revolution (Sommer, 2015). This may be due to the relatively risk averse nature of German managers as well as their long-term disposition. There is a lack of understanding amongst managers, and many Germans, as part of a fiscally conservative society, have yet to invest in and implement new systems and practices. Furthermore, there is a lack of financial as well as managerial resources available to German companies. Some German managers can expect negative long-term consequences if they choose to be overconfident in the perceived value of their narrow product line (Sommer, 2015, p.1528). Because of Germany's placement as an export driven economy, firms may suffer from the inability or unwillingness to accept the adaptation needed. However, the ordoliberal construct in the country may provide the opportunity for the federal government to intervene and make technology developed by large German companies, like those on the DAX, available to smaller companies (technology sharing).

Demographics

Population is expected to slightly increase in Germany over the next decade, however population decline is expected shortly thereafter. The expected ageing population, combined with a low fertility rate will lead to a decreased domestic workforce supply (Chervyakov, 2015). Typical Mittelstand firms are expected to combat this issue in two ways: vocational training that is paid for by companies, as well as the government, which helps create employee loyalty, and the recruitment and training of high-skilled immigrant workers. This investment into training also creates a general disposition of Mittelstand companies to treat their employees well, leading to low turnover (2.7% yearly average compared to 7.3% across all German firms and 33% in the US. (Audretsch & Lehmann, 2016). These two efforts look to be beneficial to the Mittelstand but will need to continue to be developed as retaining highly skilled employees will increase in importance as the population decline approaches.

THE MITTELSTAND IN ASIA

Cultural Differences and their Effect on Business Decision Making

Germany's success in the 21st Century can be attributed to some extent to the success of Mittelstand firms in Asia, China in particular which is Germany's fourth biggest trading partner⁴ (Statistisches Bundesamt, 2016). The success is reflected by Germany's growing export surplus, €24.4Bn. in 2016, which is much different than America's 36.44Bn. USD deficit (Trading Economics, 2016). Part of the reason for this difference is Germany's necessary development as an export economy due to its relatively small domestic market size.

When utilizing Hofstede's Cultural Dimensions as a reference point we can see some significant differences in countries of interest. It should be noted that China and Singapore are not being used as a generalization of Asia's cultural make-up but are relevant to the case studies to be discussed later and for the purpose of simplicity.

Cultural differences have significant implications for international firms. Some differences found in Exhibit 3 can be attributed to China and Singapore's classification as Asian developing countries and Germany and America's placement as Western developed nations. However, a massive difference is found in Long Term Orientation (83 Germany, 26 USA) (Geert Hofstede, 2016). This helps to explain why the majority of Mittelstand firms choose to maintain core business functions in Germany. This is contrasted by large job losses in the United States to outsourcing in China. Estimates suggest 3.2 million jobs have been lost from 2001-13, three quarters of which were in manufacturing (Kimball & Scott, 2014). A cause of this may be the attitude of American managers of realizing the maximization of short-term gains while sometimes ignoring or not being fully aware of the long-term implications. It should be noted that Germans align very closely with China and Singapore (87, 72) in this category.

Another cultural difference can help to explain some characteristics of the German Mittelstand that are not replicated to the same extent by SME's in America. Uncertainty Avoidance (UA) is much higher in Germany (65) than in the U.S. (46). This may help to explain the niche focus and incremental innovation that are often key success factors of the Mittelstand. UA reflects the extent to which society attempts to cope with anxiety by minimizing uncertainty (Geert Hofstede, 2016). Mittelstand firms tend to focus on what they have historically found success in while investing in making it better instead of investing in expanding product lines, therefore minimizing the uncertainty of what a firm's ROI will be for a new project or venture. See Exhibit 2 for a breakdown of Cultural Dimensions discussed above.

Presence

The previous section briefly touched on Germany's presence in Asia using China as an example. A significant proportion of literature available on German firms in Asia focuses on China. This is due to the nature of Chinese economic growth in the past few decades. A recent survey of 80 managers of Mittelstand firms in Asia found that 15% of these firms have China as their biggest market. Another 46.5% of firms found China in the top 3 global markets in terms of profits (Venohr et al, 2015).

It is well known that other emerging economies in Asia have experienced tremendous growth. ASEAN countries⁵ have recently become more of a major focus for German companies. Using FDI as an indicator, ASEAN countries were the second most important partner for German firms in Asia in 2014 (China €48Bn., ASEAN €25.2Bn.) (Venohr et al, 2015).

Asia as a whole accounts for an estimated 20% of total Mittelstand revenues (Venohr et al., 2015). Due to the nature of the majority of the Mittelstand's product, these companies tend to have representatives present in Asian markets. This is not a foreign concept to North American managers as it tends to be seen as good business

⁴ By turnover, imports + exports. Only trailing USA, Netherlands, and France.

⁵ Indonesia, Malaysia, Philippines, Cambodia, Thailand, Singapore, Brunei, Laos, Myanmar, and Vietnam

practice. German representatives are able to custom tailor their services to the needs of Asian markets by creating a cooperative environment with local partners.

Differing Approach to Expansion

A significantly different approach that Mittelstand companies take in their expansion to Asia is found in the way new operations are opened. North American firms have tended to outsource operations to Asian countries, driven by cost savings. German firms use a different method. They tend to try and replicate operations in Germany by using an incremental approach to expansion (Bruche & Venohr, 2015, p.15). Furthermore, German firms tend to avoid splitting of their supply chain. Risk aversion as well as a long-term outlook could be the explanation for these differing tendencies. American firms, in a true capitalist system, are encouraged to maximize shareholder wealth therefore sometimes sacrificing long-term stability whereas German firms tend to be held privately and so have fewer legal obligations, which allows them to take an incremental approach (Beating China: Germany's Mittelstand, 2011). This method of expansion allows the German firms to continue to improve and innovate at home while also gaining knowledge from their new locations. Another advantage, related to technology and Industrie 4.0, is the ability for German firms to keep Intellectual Property (IP) and proprietary knowledge in their home base, which helps to reduce the risk of some less than stringent IP laws in Asian countries. American firms have experienced this issue in the past. For example, American software producer Microsoft's revenue in China was just 5% of that in America in 2011. This low number was partially due to lax Chinese piracy laws. It is possible to be able to purchase a \$100 version of Microsoft's most up to date software for just \$2 or \$3 on Chinese street corners (Carbaugh, 2016, p.213).

The incremental approach to expansion is perhaps surprisingly contrasted by German managers' prospective outlook. More than half of German leaders expect revenue in Asia to increase by 10% over the next three years. German hired staffs at Mittelstand firms are also expected to increase significantly in areas like sales, services, and marketing. Increases in areas like logistics, research, and product development are expected to lag behind (Bruche & Venohr, 2015, p.26). Keeping much of the supply chain in Germany reflects the incremental approach of these firms when expanding operations

LESSONS FROM ASIA

Case 1: DELO Industrie Klebstoffe GmbH & Co. KGaA

DELO is a German manufacturer of industrial adhesives, dispensing systems, and LED lamps. This Hidden Champion was founded in Windbach, a small town near Munich, in 1961. It started with a small section of industrial adhesives such as epoxies. The original founder's lineage is no longer relevant in the company today, however the company is owned and operated by a husband and wife and still characterizes the ethos of the Mittelstand. Wolf-Dietrich and his wife, Sabine Herold bought out management of the company in 1997 and have been running it ever since (DELO, 2016B). DELO has won numerous awards in areas like innovation, employee wellbeing, and firm performance (DELO, 2016C).

The company can be classified as a small *gebohener* Mittelstand-type. Revenues in 2015 were around €80Ml. from the company's 500 employees, 30 of which are located on the Asian continent. The company's presence in Asia, in the form of sales engineers, predates the opening of "own-offices" in Singapore and Shanghai in 2004/05. The own-offices represented the beginning of strong growth patterns. In 2008 the company reached €30Ml. revenue for the first time (210 employees) (Venohr & Bruche, 2015, p.39).

In 2012 a wholly owned subsidiary was founded in Singapore, followed the next year by a subsidiary opening in Shanghai. By 2013 the company reached revenues of €51Ml., followed by the opening of representatives' offices in South Korea and Malaysia. Since 2004/05 DELO's revenue has quadrupled, with Asian revenue contributing 40% of the total (Venohr & Bruche, 2015, p.38). All of this expansion and growth was enabled by the construction of a new production facility in Windbach. DELO has chosen to keep all manufacturing and production in Germany. The subsidiaries and representatives offices are strictly for sales, service, and technical support. The decision not

to relocate researching, developing, and manufacturing products “protects [DELO’S] know how” (Venohr & Bruche, 2015, p.39). Furthermore, retaining key components of the supply chain allows DELO to maintain and improve its domestic employee and support base.

Another key to DELO’s international success is found in their decision to liaise with local distributors (Venohr & Bruche, 2015). This particular company chose to utilize one distributor per country entered. This allows for a simple approach and enables DELO to focus on relationship development with just one distributor. These local allies have become some of the most important strategic partners for the company. This strategy helps DELO combat business issues related to new cultures and common practices in each foreign country.

A large focus on R&D is another common characteristic of Mittelstand firms. DELO is facing increased competition from global players as well as developing local competitors. To help maintain their competitive advantages, the company invests 15% of gross revenue to R&D, much higher than the industry average (DELO, 2016A). This is a significant and necessary investment as it helps to maintain an advantage over firms with smaller revenue while remaining a niche leader in an area that is not large enough, volume wise, to attract large firms with far superior resources (Venohr, & Bruche, 2015, p.40).

As a B2B company, owner Sabine Herold understands the importance of remaining dynamic and flexible when providing service and expertise for her European customers. Incremental expansion into Asia happened within the previous 10 years for this company. This was caused by DELO’s customer base lowering manufacturing costs by moving the entirety, or parts, of production to Asia. The company did not originally intend to move to Asia, but was forced to by its dedication to customer wellbeing. The placement of employees in Asia allows DELO to react quickly and positively to customer demands. Sales engineers provide technical support and help customers adapt and develop their manufacturing demands to make best use of DELO products.

This company has also received numerous awards regarding employee satisfaction. It is regarded as one of Germany’s best places to work. Dedication to customer satisfaction and employees is one of the common characteristics of Mittelstand firms and are easily reflected by DELO’s actions.

Customer satisfaction and its relation to firm performance has been reasonably well studied in business literature. Customer satisfaction is related to the fulfillment of customer needs by the products and services provided by a firm. The most widespread indicator of this relationship is importance-performance analysis (IPA). The Kano Model of attractiveness and must-be attributes expands on IPA (Tontini & Dagostin Picolo, 2013, p33) and can be seen in Exhibit 3. This model looks at three major different attributes and how they impact customer satisfaction: the first is *must-be attributes* which are assumed to exist by the customer, *one-dimensional attributes* have a direct positive correlation to customer satisfaction, and *superior attributes* exponentially increase customer satisfaction when their performance is high (Tontini & Dagostin Picolo, 2013, p.34). DELO’s product line can be used as an example. The must-be attributes are simple; DELO’s products must adhere, or help in the adhesion process (LEDs). The one-dimensional attributes can be seen in product performance compared to competitors. DELO supplies technologically advanced high-value added products to other businesses’ manufacturing processes. The specialized products have been of high enough perceived-performance to their customers (as indicated by the quadrupling revenue in the past ten years). The superior attributes of DELO’s product line arise from the heavy R&D investment of the firm. More than 30% of the firm’s products in use are less than three years old. The Kano model also shows that product excitement leads to greater customer satisfaction, which could be one of the main drivers of DELO’s large yearly investment into R&D. Using the Kano Model and its relationship to customer satisfaction, we can see the benefit of DELO’s effort to ensure their customers are treated well. The example can be seen as an indirect effort by management to increase firm performance through high levels of customer satisfaction.

Case 2: Pepperl+Fuchs GmbH

Walter Pepperl and Ludwig Fuchs founded the company in 1945 in Mannheim, Germany. In 1988 the sons of Pepperl and Fuchs took over as owners of the firm. What started as a small radio workshop has evolved to become a global company specializing in electrical explosion technology and industrial sensor systems. This is another typical *gebohener* Mittelstand company as well as a Hidden Champion due to its prominence in the markets it occupies. The company's success was launched by the invention of the proximity switch for automatic doors. Revenue in 2015 was €540Ml. from its 5700 global employees spread out among more than 40 subsidiaries worldwide (Bruche & Venohr, 2015, p.54). Subsidiaries in Asia are found in the following countries: Singapore, Indonesia, Vietnam, China, India, South Korea, and Japan

In the 2014 fiscal year, 25 percent of Pepperl+Fuchs (P+F) revenue came from its Asian subsidiaries. This firm is admittedly a bit unique in its makeup in that it operates manufacturing, logistics, and procurement from its Global HQ in Mannheim but has opted to decentralize its R&D, product development, product management, sales and application engineering in a move to separate their electrical explosion and industrial sensor technology divisions (Bruche & Venohr, 2105, p.54). A further unique characteristic of P+F is the location of their employees; 50 percent are based in Asia (Pepperl+Fuchs, 2016).

The decentralized nature of P+F can be seen as an advantage in this case. By moving some core functions of the firm closer to customers, P+F is able to adapt more quickly and accurately to changing demands. RFID tags and sensor systems can be used as an example in this case. As mentioned previously, many firms of different natures are experiencing a new revolution in manufacturing - Industrie 4.0. As the manufacturing process becomes more reliant on automation and data exchange, companies are looking to implement new technologies. P+F makes "tailor-made manufacturing solutions" that include all required components: readers, tags, control interfaces, and cables. Their systems are advertised as being adaptable for all control systems in use. P+F is able to advertise and promote their systems as being easily compatible partly due to their widespread global network of experienced and knowledgeable service experts in their subsidiaries (Pepperl+Fuchs, 2016).

It should be noted that this firm has been able to avoid some of the issues faced by firms expanding into China by setting up its first Asian production facility in Singapore in 1979. A further measure was to avoid the use of joint ventures, preferring to open wholly owned subsidiaries and regional headquarters (Pepperl+Fuchs, 2016). These precautions are important due to the decentralization of R&D and production at the firm. It should be noted that IP legislation is changing in China as, in 2011, China had more patent filings than any other countries. Filing for patents creates vested interests from businesses with valuable IP. Those interests have influenced lawmakers and will continue to do so into the future, but the infrastructure to combat IP threats is still far behind in China when compared to Singapore.

Supply Chain Lessons

The two cases discussed presented us with two very different organizational supply chain structures. DELO has chosen to maintain a heavily centralized make-up while P+F has decentralized the majority of its core functions. Both of these choices represent a trade-off in multiple ways. The first was discussed previously: the ability to adapt to customer requests quickly while potentially sacrificing the ability to protect proprietary knowledge. The second trade-off again risks the loss of proprietary knowledge but with a new proposed benefit. Decentralizing the supply chain and partnering with local agents can reduce transaction costs, promote learning, and foster collaboration within the supply chain (Fredendall, Letmathe, & Uebe-Emden, 2016, p.138). Firms that have relationships where proprietary knowledge is potentially at risk have to choose to sacrifice short-term benefits (information sharing (IS), collaboration, mutual learning) or long-term benefits (maintenance of proprietary knowledge through protectionism).

Implications for Managers Considering Asia

Mittelstand managers that have entered the market in Asia have benefited significantly from hiring an inside agent to develop markets and liaise with potential customers (Venohr et al., 2015). These agents also act as experts of cultural norms in Asian markets. Firms that have gained better insight into cultural differences in Asia, China in particular, have become more skeptical about the benefits of discussing proprietary knowledge with Asian partners (Fredendall et al., 2016, p.148) which could explain DELO's choice to maintain centralization of core business functions. Firms tend to become more skeptical about the security of their proprietary knowledge as their understanding of the Chinese domestic market increases (Fredendall et al., 2016). This could be due to the aforementioned cultural differences as well as the influence of *Guanxi*. As cultural knowledge increases, firms begin to question how IS will impact their long term competitiveness as China has been working to develop the high value-added manufacturing sector that Mittelstand managers are mainly situated in.

Managers must act to maintain the knowledge that leads to their competitive advantage. However, protecting proprietary knowledge tends to lead to a negative effect on a firm's return on investment (Fredendall et al., 2016). Possible explanations of this phenomenon for managers to consider:

- Managers miscalculate the trade-off between reducing transaction costs and protecting proprietary knowledge.
- Some companies have been able to protect their proprietary knowledge while also acting to increase IS (P+F).
- Other companies cannot do what P+F have done and become protectionist in their IS practices (DELO).

It should be noted there are two different types of IS. The first is standard practices that can improve processes. The second is technical and product know-how that is more important to protect as it can easily be transferred to other companies via employee turnover. However, it is difficult to separate these two types of IS, which influence the functionality of companies, when looking at how centralized core functions usually are (Fredendall et al., 2016).

CONCLUSION

Germany's re-emergence as a global economic leader can partially be attributed to the success of the Mittelstand. Although SMEs exist all over the World, no other developed country is influenced as significantly as in Germany. The cultural make-up of Germany, specifically Uncertainty Avoidance and Long-Term Orientation, have contributed to the success of the Mittelstand and are attitudes that American managers should consider when regarding operations in Asia. The social and political landscape of Asia is not the only issue that the Mittelstand is forced to deal with. The implications of an aging population, Industrie 4.0, and increasing competition all have influenced German decision makers and will continue to do so. The presence of and revenue generated by German firms is expected to continue to grow as emerging markets (ASEAN countries, India) continue to develop. This is expected to present new, and expand existing cultural, legal, and economic issues in those markets. Mittelstand companies will have to choose how to address these issues. We saw how DELO has opted to maintain a highly centralized firm structure and how P+F contrasted that setup with its decentralization of core functions. North American managers should consider the regulations regarding IP when deciding IS practices in their subsidiaries. These considerations should also influence the setup of supply chain, as well as choices regarding the degree to which a firm will maintain centralization. Overall, this report showed that North American managers can utilize some of the long-term success factors of Mittelstand firms in Asia.

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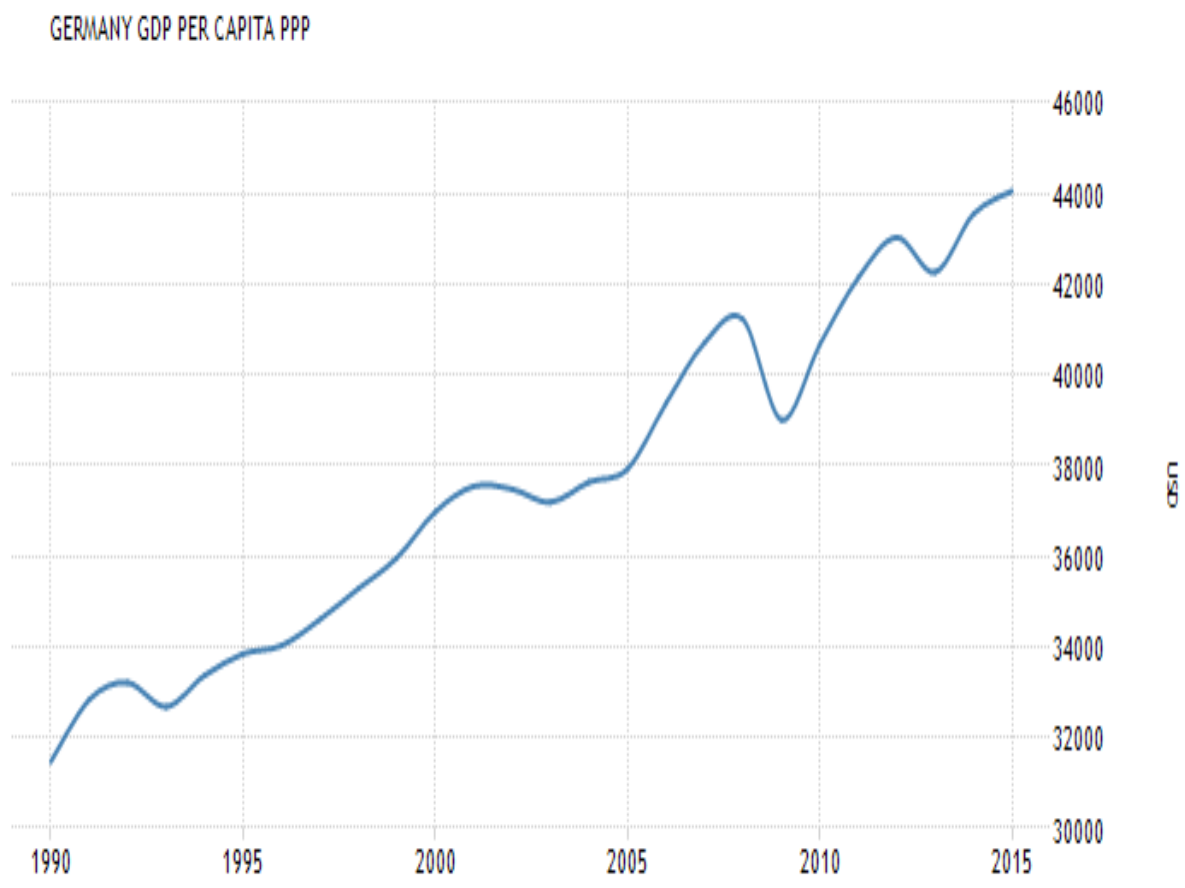
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APPENDIX

EXHIBIT 1: German GDP by PPP trend since unification. (Trading Economics, 2016).



SOURCE: WWW.TRADINGECONOMICS.COM | WORLD BANK

EXHIBIT 2: Quantitative & Qualitative Characteristics of the Mittelstand.

Quantitative

| Classical (small) | <€50Ml. | <500 | 99.6 | 31.43 |
|---------------------------|----------------|------|------|-------|
| <i>Gebohener</i> (medium) | €50Ml. - €1Bn. | >500 | 0.34 | 36.88 |
| Large | >€1Bn. | >500 | 0.02 | 31.69 |

Qualitative

These are generalizations and do not apply to all Mittelstand firms. All information has been taken from References used in this paper.

- Historical family focus
- Entrenched in town of origin
- Outstanding relationship with employees and customers
- Heavy investment into R&D
- Long-term focus
- Niche oriented
- Prefer to avoid financing with equity
- Incremental approach to improving and expanding business

EXHIBIT 3: Cultural Dimensions of China, Singapore, Germany & USA. (Geert Hofstede, 2016).

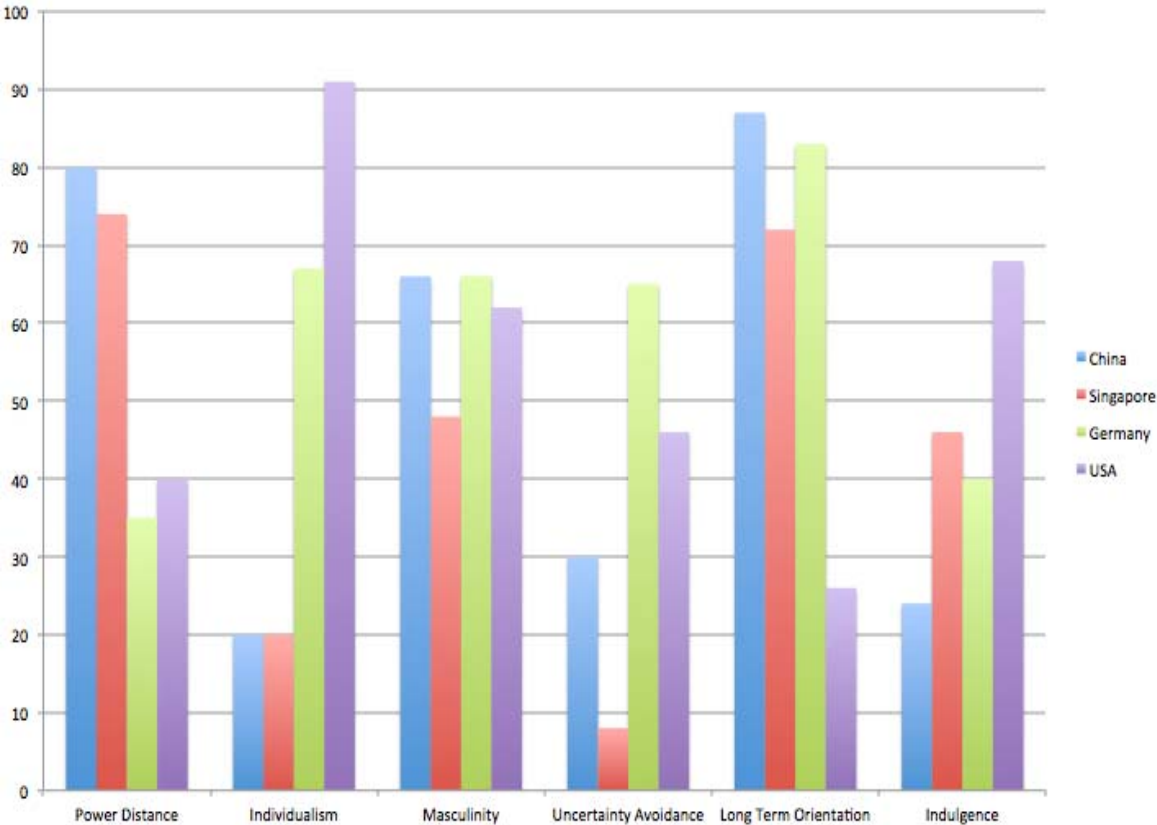


EXHIBIT 4: Kano Model of Attractiveness (Tontine & Dagostin Picolo, 2013).

