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Summaries on Case Studies

Case-study about Nike and Reebok

This paper deals with the “International Sourcing in Athletic Footwear: Nike and Reebok” case, which describes the situation in the athletic footwear industry focusing particularly on two competitors with the biggest market share namely Nike and Reebok. The paper makes effort to evaluate the companies’ policies towards production in foreign countries in terms of human rights and labor conditions in foreign environments. Another intention of this paper is to address the question how much responsibility international companies should have regarding labor standards and environmental standards in foreign countries.

Nike developed in late1992 a Memorandum of Understanding for its contractors and suppliers. The Memorandum directed contractors to certify their compliance with all applicable local laws for labor regulations, occupational safety and health, and for worker insurance. Contractors also had to certify not to use forced labor and not to discriminate workers on the basis of gender, race or other differences and to reinforce Nike’s environmental practices as well as to maintain to file documentation of thier

compliance. Even if these requirements may sound sufficient to prevent labor exploitation and violation of human rights, they still give contractors the right to apply local rights, which are particularly in countries like Indonesia not developed at all or only to a minimum extent.

This means that despite Nike's Memorandum Indonesian contractors are still legally allowed to have people work like in camps, which they can leave only on Sundays with a special permission at the same time paying them 19 cents an hour, which doesn't even suffice to buy basic necessities. The same rule applies to local environmental restrictions, which basically don't exist in a developing country like Indonesia, where government tries to attract all potential investors in order to create jobs and increase GDP. The major difference of Nike's Memorandum to Reebok's Human Rights Production Standards, which have been release in May1993, is probably the company's corporate commitment to be not only good business people but also responsible business citizens going beyond the pure commercial intentions. Particularly Reebok's commitment to human rights and the increased attention to the way products are made seems to stand out, compared with Nike's pure profit policy. Reebok is also taking the cost intensive burden to send a task force to all its production facilities in order to check their compliance with Reebok's requirements, which makes Reebok's corporate policy efforts look more serious and favorable than Nike's Memorandum.

Phil Knight's explanation of Nike's contribution to Indonesia and its industrial transition and particularly his comment about the company operating in the industry's average gross profit rate of 39 percent turns, when scrutinized more into a sarcastic joke than a seriously intended statement. A company like Nike, which had $1.544 billion gross profit in1993 (exhibit 2) and succeeded to achieve profit margins between 37% and 39% in the five prior years with major sales in affluent countries like the U.S. or European countries, should be able to spend 1% of its $180 million annual advertising budget in order to put 15,000 of its workers above the poverty line. Compared with other industries like the automobile industry, where Nissan is highly satisfied achieving profit margins of 7% for its upper-midsize model Bluebird, Nike doesn't realize its huge profit margin, which represents more than 5.5 times Nissan's profit margin. Having such high profit margins as industry standard can hardly count as an argument for the entire industry to justify exploitation of cheap labor and violation of basic human rights in Nike's contractors worldwide production facilities. Particularly the fact, that such a highly profitable and successful company as Nike pays sub-minimum wages, which don't even guarantee the ability to purchase basic necessities and lift the employees above the poverty line definitely qualifies into the sector of exploitation or simply rib-off.

Shifting of production facilities among countries worldwide like Nike's example of moving from South Korea to Indonesia also raises further

question regarding its Memorandum in means of implementation if human rights and environmental regulations.

As time went by and Nike's South Korean subcontractors started losing their competitive advantage, which was obviously the cheap labor they couldn't longer provide because of progressing industrialization increasing living standards and affluence combined with increasing wages, Nike simply decided to switch to another country, which was able to provide this cheap labor for the low-value added tasks. This new country, Nike was looking for, had therefore to be less developed including low wage levels and a government willing to lure investors to create jobs and to generate income, regardless other consequences. These consequences are certainly exploitation of labor, which also inevitably means violation of worldwide ratified human rights. A famous and successful company should not just look how to achieve the highest short time profits in order to satisfy stock holders but also bring over western standards especially, the for Americans traditionally precious human rights, to the rest of the world and at least to countries it operates in. Nike's policy to exploit cheapest labor worldwide just doesn't reflect the company's prestige and image, people have. Even if local laws and restrictions are obeyed in countries, where Nike produces its products with subcontractors, the stage of development in a developing country is most likely to be low enough to make the violation of human rights possible and a real concern regarding policies of multinational companies, operating worldwide.

A multinational company like Nike or Reebok have the responsibility to adapt to the host country's standards for labor and environmental regulations, when engaging in manufacturing in a foreign country outside the country of the headquarters. However lower developed countries have low such standards in general, if they have them at all. The involved countervailing forces between stakeholder in home and host countries also force MNE as well as the country's officials to make compromises to match their different interests and objectives. Knowing that labor unions or environmental regulations basically don't exist in developing countries, MNEs are likely to take advantage of the situation and forget about regulations they have to meet in their home country, having the option to increase their profits and bottom lines from cost savings in host countries profiting from their exploitation. This dangerous set of mind doesn't fulfill our ethical responsibilities to help develop LDEs and might cause future conflicts with host countries regarding exploitation of resources both natural and human and compensation for example for environmental depletion.

The Palmolive case-study

This paper deals with the " Colgate - Palmolive : Managing International Careers" case and makes effort to address Colgate-Palmolive's International Assignment policy in terms of a critical evaluation of this program. The paper will furthermore focus on the increasing problem of dealing with the issue of dual-career families and their impact on the manager's attitude towards expatriation. The last part of the paper will then show up factors playing a role in designing a policy for international career development.

In 1983 Colgate-Palmolive developed an International Assignment Policy to provide a standardized set of procedures and entitlements for its expatriate managers and assist them during their international assignments. The policy should promote global career mobility and ensure consistent and equitable treatment to all expatriates in compensating them for enduring unusually difficult conditions such as harsh climate, political instability, health problems, security risks and the unavailability of basic goods and services abroad. The developed program is an extensive package of compensation measures, which are really generous compared with other multinational corporations and cost the company a big chunk of their income. The International Assignment Policy included compensation for housing, goods and services, moving,
education for children, medical exams, pension and salary differences based on U.S. standards. The program also includes a fully paid 5-day trip to visit the assignment location before accepting as well as language training, medical exams, cultural training and assistance in selling homes. All upcoming expenses for moving to the new assignment abroad are also paid by the company, which makes the entire program extraordinary attractive and certainly an excellent but also very costly policy.

Some of the mentioned parts of the International Assignment Policy are really worth closer examination because of their excellent characteristics,

which seem to respond to the participants' concerns about international assignments in a comprehensive manner compensating and at the same time providing expatriates with approximately the same level of net disposable income as their counterparts at headquaters in New York City. Considering the program's content about education of family members, the company covers all costs of private school tuition for children ages 4-19 giving them the opportunity to gain proper high-level education, which is certainly a bonus. Salaries abroad are also held equivalent to those in the U.S. and expatriates are formally shifted to " U.S. status" and considered to be American employees for purposes of equal pensions and benefits. In order to provide the expatriates with a similar level of disposable income as their NYC counterparts, Colgate-Palmolive also takes all the extra effort to pay five employees, who permanently calculate compensation payments comparing the cost of a standard market basket of goods and services in New York with an equivalent basket in the foreign country as well as calculating exchange rate fluctuations, housing supplements and tax equalizations just to make sure, that expatriates are compensated for their inconvenience of working and living abroad. What certainly is another of the company's bonuses for expatriates does not really serve its purpose taking the evolving costs into account. At this point, one also has to examine the problems of this program, which do exist and can't be hidden underneath the layer of benefiting factors. Even if the program deserves the attribute of excellence compared with other companies' programs it still lags in several points, which have to be scrutinized. Examining the spouses assistance program, the lately appearing cases of managers rejecting offers for international assignments because of dual-careers in their families, show up weakpoints of this program, which obviously doesn't serve its purposes to the extent it was supposed to do. The misconception of compensating the expatriates' living partner for a missed job and career opportunity probably can't be fixed by increasing the money amount above the current level. It seems it's not likely that the company can lure spouses, who are already successfully engaged in

a professional career, and no money will force them to make up their mind. Either way the program represents a significant cost factor for the company's overall income. As a matter of fact, excellence has its price, which questions the effectiveness and efficiency of C-P's International Assignment Policy. The estimated costs for 170 expatriate managers, who get compensated for their assignments in the range of 150% to 400% of the costs associated with a manager in the U.S. as well as costs for five full-time professionals to administer the policy cumulate to the estimated amount of $30 million[1] each year, which represents 4.8% of the company's total pretax income of $727.9 million in 1992[2] and even 16.06% of 1991's $217.9 million pretax income.

The significant cost factor of the program obviously outweighs the benefits it provides and should be examined in order to cut its costs. One possible point to lower these costs would be reducing the duration of the international assignment for 2 of the 4 managers of each assignment from 10 years down to 5 years, which would cut down the total costs to 75%, dropping a big chunk of the expenses. These calculation base on the presumption, that the position of a director of manufacturing or finance simply doesn't require 10year-long international experience in opposite to the country general manager and a director if marketing, who need to spend such a long period of time in an assignment in order to achieve best effectiveness and efficiency. The high costs of spouses' compensation also encourage the search for possible alternatives. One possibility could be to look for younger managers of maybe 30 years, who have a higher grade of flexibility because of less developed family ties or just single managers, who don't even require spouse compensation and would certainly eliminate this high cost factor.

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[1] calculation based on average salaries of additional $175,000 per manager, 170 managers and estimated $600,000 traveling expenses for program administratives

[2] Exhibit 3 in the case is source for financial data

The Nissan Motor Co. case

This paper deals with the “Nissan Motor Co, Ltd: Marketing Strategy for the European Market” case, which focuses on the situation of the Nissan company and conditions of the car market in different European countries in 1989 and projections made regarding the 1992 EC integration program. The purpose of the paper is to address different questions about Nissan’s market position in 1989, the probable impact of the EC integration on it, the factors included in Nissan’s decisionmaking as well as its strategic options.

In 1989 Nissan Motor Co. was the second largest Japanese car manufacturer with 3.419 billion yen in sales 1988 behind Toyota, which accounted for 6.691 billion Yen. As one of the leading companies in the japanese automobile industry it manufactured 2.16 million units in domestic factories and 0.52 million units in foreign factories, and it exported 1.14 million units from Japan. However did the European car market represent an additional challenge to Japanese car makers, who wanted to sell their products there. Upcoming protectionist sentiment against increase of car exports from Japan since the 1970s forced Japanese car companies to various resrictions and surveillances in European countries as well as vluntary ceiling on exports to the United States, which were based on the fear of the competitive advantage of japanese car plan in terms of productivity and efficiency as well as the high quality of their products and the fear of growing influence and power of the “mysterious” Ministry of International Trade and Industry on Japanese economic matters and its influx worldwide. As a consequence of this protectionistic

atmosphere, which was expected to continue Japanese carmakers voluntarily limited their total exports to Europe to a ceiling of ca. 10% of the EC market, which represented 90% of the total Western European market. In addition France, Italy and Spain were imposing
several restrictions limiting Nissan's sales in these countries. As a consequence of the restrictions, Nissan's management moved local production overseas from 1980 on and acquired Motor Iberica, S.A. company (NMISA), the largest commercial vehicle manufacturer in Spain, where it produced 76,000 commercial vehicles, of which 66% were Nissan's and the rest Motor Iberia's and 32% were exported into other European countries. In order to manufacture passenger cars Nissan founded the Nissan Motor Manufacturing U.K., Ltd (NMUK) as a local subsidiary in Sunderland, England in 1984 and from 1986 on it was producing the Bluebird, a 1800-cc upper-mdium-sized model, which was also exported to other European countries under the mentioned and additional local content restrictions. The production volume of the U.K. plant grew smoothly up to 56,744 units in 1988 and the local content of 80% of the Bluebird's parts qualified it as a U.K. made car and opened Nissan the possibility to export more cars onto the European contonent and to exploit further markets.

The liberation of the EC market in 1992 including movements of products, services, people and capital within the European community and consolidation of technical standards promised to have a tremendous impact on business in general and Nissan's product allocation decision in particular and which would create a great opportunity for Nissan, which would allow the company to

penetrate the European market deeper, particularly the three protective countries Spain, Italy and France. One effect of the liberalization would be the more efficient allocation of production facilities as well as reduction of inventories, production and logistic costs of about 853 billion yen, which would be passed through to the customer and would lower average retail auto prices by 5.7% at the same time expanding the market by more than 6% influencing the product allocation decision towards Europe. Another effect of the integration expected by analysts was an increase in competition in the automobile industry, which would magnify differences among companies and forced car makers to expand, modernize or reallocate their production resources as a preparation for 1992. Technical standards would also be affected by the integration pushing toward harmonization of standards, eventually permitting single-type approval for the entire EC market, which would also significantly lower development and production costs also favoring the European market for allocation of Nissan's products. Maybe the most important market change and force influencing the product allocation decision for Nissan would be the elimination of import barriers for Japanese cars in France, Italy and Spain opening a huge market and great growth potential for sales. Nissan had capitalized on its competitive advantage in the European market in holding the biggest market share among Japanese companies partly due to its early establishment of local poduction facilites. Realizing the importance and growth of the European market Nissan planned to strenghten its competitive position by 1992 focusing on increase of market share and production in the European car market, improvement of the brand image

emphasizing product quality and service and decentralization of responsibility for European operations, including product design , production,marketing and sales. All these measures were sought to achieve the market penetration needed to justify increased production, to achieve further economies of scale and to increase productivity.

Additional forces influencing the product allocation decision in the different European countries were market size, market growth potential and market penetration in the different countries as well as its structure regarding popularity of different car classes like the middle-sized or Supermini class. Nissan had for example the lowest sales in 1987 countries like Spain (2100), Italy (0) and France (17800) because of the mentioned import restrictions, which however represented the biggest car markets together with West Germany and U.K., with an cumulated market size of 5.25 million units sold in 1989, just for the former 3 countries. Another factor was the market segmentation in EU countries giving information about demand for the 2 different car-classes Nissan would offer namely the upper-medium (Bluebird) and the supermini class (Micra) with the relative segment sales in 1987 of 292.25% (France), 8.06% (Italy) and 13.9% (Spain) for the upper-medium class and 40.31% (France), 38.94% (Italy) and 43.0% (Spain[3]) for the supermini class. The next important factor, which influences the product allocation decision and has to be taken into consideration would be the distributor channel net in specific EU countries, whereas France had 203, Italy 160 and Spain 148 dealers located in those countries, what reflects a fairly good representation compared with Nissan's dealerships in

Germany (734) and the U.K. (450) considering the sales in those countries. The last factor to be mentioned here is customer behavior, which shows the relative importance of product attributes in different countries for example the price consciousness of customers in France, Italy and Spain favoring Nissan's highly price competitive products.

Nissan's strategic options are basically to further engage in the new emerging markets in those 3 specific EU countries in order to retain competitive advantage and to allocate the limited marketing resources between the 2 models Bluebird and Micra in different countries, most efficiently. Another strategic option is to introduce and market a fleet of 6 cars giving the customer a broad range of products and minimizing the economic risk of failing of a single product. However the small sales volumes in those countries restricted levels of their advertising budgets leaving every market the funds to promote either the Micra or the Bluebird. The pros the Micra offered were a higher potential demand and therefore faster sales growth in those countries as well as missing of direct competition with other Japanese companies giving Nissan the first mover advantage of first establishing of the brand and achieving of scale economies, mainly because no other Japanese car company would be able to build a supermini class car in Europe before 1992.

The advantages of the Bluebird were higher profit margins per unit in the upper-middle class cars, which makes them more profitable as well as further increase in unit profit contribution because of the experience curve and scale economy effects in the U.K. plant.

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[3] includes utility and supermini class

Considering all arguments for the both cars, I would recommend to focus on marketing of the Micra, because of the bigger market and demand for the supermini class as well as less competition and price consciousness of customers in Italy, France and Spain. Furthermore a new product like the Micra needs more attention in order be established in a market and would lower the risk of failing of the new Bluebird.