

CASES IN INTERNATIONAL **ENTREPRENEURSHIP**



HIS RICH

MCDUGALL

OVIATT

CASES IN INTERNATIONAL ENTREPRENEURSHIP

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The last decade has seen an ever-increasing emphasis on international activity in a hypercompetitive business environment. This has sparked an increasing interest in international entrepreneurship, international business, and international economics by academics, business leaders, and government officials. This book assists in understanding and addressing international opportunities and how international entrepreneurs respond to them. It is unique because each of the entrepreneurs and their entrepreneurial companies are attempting to profit from opportunities in countries that are not their home. International entrepreneurship focuses on how new and small ventures conduct business across national borders. The topic is especially timely because entrepreneurs and small business owners are often reluctant to become involved in international business activities. This book provides a resource of experiences that will assist students, professors, managers, executives, government officials, and other interest groups as well as international entrepreneurs themselves in overcoming the inevitable problems of venturing across country borders. This casebook brings alive both the opportunities and the problems with vitality, relevance, and richness of detail.

The variety of experiences in *Cases in International Entrepreneurship* is significant. The cases demonstrate that entrepreneurs can find the resources to take virtually any type of business international. Most people would think of "high-tech" industries, such as computer software, as being naturally global and several of the cases in this book indicate the struggles of software ventures in various stages of international development. Yet there are also several cases on service businesses, such as a temporary employment agency for scientists and technicians; agricultural ventures, such as a mushroom cooperative; and various manufactured products, all of which have or are attempting to have international operations. Even the performing arts, like the Irish *Riverdance*, offer international entrepreneurial opportunities. From capitalism in China to bricks in Botswana, *Cases in International Entrepreneurship* demonstrates that entrepreneurs can span

virtually any international boundary. It is a book about adventurous venturing, providing readers an opportunity to learn from the experiences of creative, enterprising pioneers.

Many of the resources required by entrepreneurs are now available around the world. For example, both wired and wireless communication is available in almost every country, and the Internet virtually ignores country borders. International financial transfers take place at the touch of a computer key. Air transportation can move goods and people halfway around the world in less than a day at prices that most often seem to be steadily decreasing. With these and other efficiencies, people are beginning to realize that international business is no longer the exclusive domain of large multinational enterprises like Matsushita, Ford, and Siemens. As the significant extent and increasing activity of international entrepreneurship is recognized, more and more students and teachers will demand education on the topic, at first as part of other management education, international business, or entrepreneurship courses, and then as a distinct course. *Cases in International Entrepreneurship* is useful in all of these situations. Instructors may supplement the domestic cases they already use with the variety of international cases in this book. Many of the dilemmas that students are asked to resolve in *Cases in International Entrepreneurship*—starting-up, financing, and managing growth—are the same problems they encounter in domestic cases. As more students choose an entrepreneurial orientation, this book offers instructors of traditional international business courses the opportunity to broaden their focus from primarily large multinational firms to include smaller, entrepreneurial ventures. Today, a course in entrepreneurship that is exclusively domestic is losing its relevance in a world where in seconds one can be virtually transported to a foreign culture in 256, full-motion, worldwide-web colors. To the familiar domestic issues, the cases in this book add the increasingly important complexity of international exchange rates, foreign competition, and exotic cultural differences. As entire courses in international entrepreneurship are developed, *Cases in International Entrepreneurship* will be an extremely useful resource.

The book is also easy to use. Instructors and students can find topics and cases of interest in one of three ways. First, broad topics covered by the cases are identified by the chapter titles in the Table of Contents. Second, below each chapter title, the name of each case in a chapter is listed, and below the names are shown the industries, the main countries involved, and the primary developmental stage—opportunity identification, start-up, growth, or maturity—of the main business. Third, the introductory page of each chapter provides a summary of the situation that will be encountered in each case in the chapter.

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**Robert Hisrich
Patricia McDougall
Ben Oviatt**

CHAPTER I

STARTING THE INTERNATIONAL NEW VENTURE

Case 1: China International Trade Associates, Limited: A New Venture's Journey into China (A) 3

Industry—Ceramic tiles, trade

Key countries—China, United States

Primary developmental stage—Start-up

Case 2: Heartware International Corporation (A) 18

Industry—Medical equipment

Key countries—Holland, United States

Primary developmental stage—Start-up

Case 3: Professional Staff, Limited—Taking a Venture Abroad 39

Industry—Temporary scientific personnel services

Key countries—United Kingdom, France, United States

Primary developmental stage—Growth

CHAPTER II

**MARKET ENTRY: EXPORTING, LICENSING,
DIRECT INVESTMENT**

Case 4: Airview Mapping, Inc. 61

Industry—Aerial Surveying and Mapping

Key countries—Canada, Latin America, Mexico, Middle East, North Africa, United States

Primary developmental stage—Maturity

Case 5: Graphisoft: The Entry of a Hungarian Software Venture into the U.S. Market 80

Industry—Software

Key countries—Hungary, United States

Primary developmental stage—Growth

Case 6: Power Beat International, Limited 97

Industry—Automobile batteries

Key countries—Australia, Canada, Japan, New Zealand, United States

Primary developmental stage—Growth

Case 7: Sytko International, Limited 115

Industry—Home construction

Key countries—Poland, Canada

Primary developmental stage—Opportunity identification

CHAPTER III

CROSS-BORDER ALLIANCES

Case 8: Foreign Market Entry and Internationalization: The Case of Datacom Software Research 135

Industry—Software

Key countries—Australia, Europe, Japan, New Zealand, United States

Primary developmental stage—Growth

Case 9: Lobatse Clay Works 152

Industry—Brick and clay products manufacturing

Key countries—Botswana, United States

Primary developmental stage—Start-up

Case 10: Internationalization and the Entrepreneurial High Technology Firm: MANA Systems, Limited 171

Industry—Systems software

Key countries—Australia, Japan, New Zealand

Primary developmental stage—Growth

CHAPTER IV

MANAGING INTERNATIONAL GROWTH

Case 11: Cognex Corporation 185

Industry—Computerized vision systems for industrial robots

Key countries—Japan, United States

Primary developmental stage—Maturity

Case 12: International UNP Holdings, Limited 204

Industry—Investment fund, bakery equipment manufacturing

Key countries—Canada, Poland

Primary developmental stage—Growth

Case 13: Monaghan Mushrooms 224

Industry—Agribusiness

Key countries—Ireland, European Community

Primary developmental stage—Growth

Case 14: Nature Isle Herbal Teas, Limited 244

Industry—Tea production

Key country—Dominica

Primary developmental stage—Growth

CHAPTER V

CULTURAL, ETHICAL, AND LEGAL ISSUES**Case 15: Riverdance 258**

Industry—Entertainment

Key countries—Ireland, United Kingdom, United States

Primary developmental stage—Start-up

**Case 16: Shopping for Sunglasses at the Burjaman Center:
The Case of a Shady Buyer 271**

Industry—Specialty retailing

Key country—United Arab Emirates

Primary developmental stage—Maturity

Case 17: Tašky Hucek 273

Industry—Shopping bag distributor

Key countries—Czech Republic

Primary developmental stage—Growth

CHAPTER VI

CROSS-BORDER FINANCIAL ISSUES**Case 18: Carolina Furniture Company 282**

Industry—Furniture manufacturing

Key countries—Germany, Japan, Singapore, United States

Primary developmental stage—Maturity

- Case 19: Doka Corporation: An Entrepreneurial Russian High-Technology Venture 287**
Industry—Telecommunications, software
Key countries—Russia, European Community, United States
Primary developmental stage—Growth

CHAPTER VII

HUMAN RESOURCE ISSUES

- Case 20: Crisis at Wrentham Corporation: A Case of Executive Selection after Merger 305**
Industry—Microcomputer manufacturing
Key country—United States
Primary developmental stage—Maturity
- Case 21: Diamond Power: Capitalism in China (A) 317**
Industry—Industrial maintenance equipment
Key countries—China, United States
Primary developmental stage—Start-up
- Case 22: The Hit and Run Expatriate Employees 330**
Industry—Trading company
Key country—Saudi Arabia
Primary developmental stage—Maturity

I STARTING THE INTERNATIONAL NEW VENTURE

CASE SUMMARIES

CASE 1: CHINA INTERNATIONAL TRADE ASSOCIATES, LIMITED: A NEW VENTURE'S JOURNEY INTO CHINA (A)

By Mark Simon (Oakland University, USA)
and Michael Lamb (Georgia State University, USA)

The case describes the struggles of three young entrepreneurs as they strive over five turbulent years to make their newly formed trading company profitable. CITA is a family business that imports ceramic floor tile from the People's Republic of China (PRC). Part A explores the company's formation, the principals, the process by which they decided upon a product line, and the complexity of conducting business with the PRC. Mr. Richard Altwarg, one of the founders, had learned several Chinese dialects and was one of the first American students to visit the PRC. However, at the end of the case, CITA is having difficulties with distribution of their tiles in the United States, and the founders are even questioning whether they are in the right business. The reader is asked to determine an appropriate strategy.

CASE 2: HEARTWARE INTERNATIONAL CORPORATION: A MEDICAL EQUIPMENT COMPANY "BORN INTERNATIONAL" (A)

By Benjamin M. Oviatt (Georgia State University, USA),
Patricia Phillips McDougall (Georgia Institute of Technology, USA),
Mark Simon (Oakland University, USA),
and Rodney C. Shrader (University of Alberta, Canada)

The case explores the founding and initial problems of a new venture in the medical equipment industry. Mr. Gerald Seery starts the venture in New York in 1988 (later moving to Atlanta) with personal and family financing. The cardiac technology and its production come from Holland,

and from inception the plan is to sell in the United States, Europe and, to a lesser extent, in other countries. Although some early sales come from Europe and South America, Mr. Seery's efforts to sell and raise financing in the United States are disappointing. Part A describes the founding and asks the reader to suggest the next moves.

CASE 3: PROFESSIONAL STAFF LIMITED: TAKING A VENTURE ABROAD

By Thomas Hellmann, Kimberly Abell, and Aditya Dehejia,
(all of Stanford University, USA)

Backed by venture capital, Mr. Bruce Culver starts a successful company in the United States that supplies laboratory scientists and technicians for temporary assignment. After failing to convince his board that similar opportunities are available in Europe, Mr. Culver resigns and forms a similar company in the United Kingdom, also backed by venture capital. It is successful and a related firm headquartered in Paris is acquired, but it turns out to have significant management problems. In late 1994, further European expansion is being considered and the venture anticipates a public offering in 1996. ■

CASE 1**CHINA INTERNATIONAL TRADE ASSOCIATES, LIMITED****A New Venture's Journey into China (A)**

In December 1988, the management of China International Trade Associates, Limited (CITA) held an impromptu meeting in their three-room Atlanta headquarters. CITA, an importer of ceramic floor tile from the People's Republic of China (PRC), was managed by three people: Lisa Tosi, chief executive officer (CEO), age 26; Lisa's husband Richard Altwarg, the company president, age 27; and Lisa's sister, Kathy Tosi, chief financial officer (CFO), age 25. In addition, Du Wei Ping, a citizen of the PRC, handled much of the day-to-day business in China.

The principals of CITA were concerned because customers were reluctant to purchase their floor tile, even though many of these very same customers had given positive feedback when they evaluated earlier product prototypes. The CITA management team had spent a year and a half exploring different trade opportunities between the United States and the PRC, and were reluctant to change products now.

CITA'S EARLY HISTORY

Richard's Background. It was not altogether unexpected that CITA personnel were interested in trade with the PRC. Richard's intense fascination with China began in the late 1970s when he chose Oriental Studies electives in high school. Later, at Oberlin College, Richard pursued a B.A. in East Asian Studies, majoring in Chinese history, and learned the Mandarin, Cantonese, and Shanghainese dialects. By age 23, he had translated a novel from Chinese to English, interpreted various materials for Taiwanese companies, and taught English to Taiwanese nationals. In addition, he spent his junior year of college in Shanghai, becoming one of the first seven American students to visit the PRC in decades. While there, he noticed a rising standard of living and the demand for many goods that simply were not available.

After returning to the States, Richard finished his college education. Late in 1983, he began working as an assistant traffic manager for Block Industries, a U.S.-based importer of shirts. At Block, he gained experience in international trade fundamentals by tracking shipments and expediting the flow of paperwork for banks, steamship lines, trucking companies, and governments. After learning the fundamentals of the job, Richard complained of boredom.

Less than a year after starting at Block, in 1984 Richard accepted a job offer from a new venture called China Trade Promotions (CTP). The company's founder was trying to organize a trade show in the PRC for U.S. medical equipment companies

Source: This case was prepared by Mark Simon (Oakland University, USA) and Michael Lamb (Georgia State University, USA). The authors would like to thank Richard Altwarg, Kathleen Tosi, and Lisa Tosi for their willingness to share time and information. This case is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

who were interested in exporting. The company consisted of the owner, a secretary, and three recently hired employees who would start work soon after Richard. During Richard's first week of work, the owner left for the PRC to handle some details of the show's setup. Although the trip was only supposed to be for 10 days, it ended up being for four months.

Richard took on the role of managing the office, convincing bill collectors not to cut off the phone, selling additional booth spaces, and developing new promotional material. His 18-hour days paid off and by the time the owner returned, Richard had sold 53 booths. Only three spaces had been purchased before the owner's trip. In recalling his boss's return Richard said,

'The Boss' wanted his job back even though he had no relationship with the people. As soon as he came back he started questioning everything I had done and double-checking every decision I was making. However, I was proud of what I had accomplished. I had done a good job and had a lot of ego invested. My father, who was a self-employed attorney, used to tout the benefits of not having to please a boss. Now I knew why.

After a series of arguments, Richard was fired in June 1985, one week before the trade show opened in China.

CITA Is Started. Without a job in hand, Richard debated whether to start his own company, an idea that had been incubating since his days at Block Industries. He began lengthy discussions with Lisa Tosi, his girlfriend and soon-to-be wife. Together they decided to take the entrepreneurial leap, agreeing to little more than the fact that the company would be called China International Trade Associates and would somehow involve trade with the PRC. Until the company became-profitable, the couple planned to live on Lisa's income from General Motors (GM) and the \$10,000 dollars Richard had managed to save. While she worked at GM, Lisa nonetheless played a part in all of CITA's major decisions.

Encouraged by the changing economic conditions in the PRC (see Exhibit 1), Richard and Lisa spent the remainder of 1985 and all of 1986 exploring possibilities for trade with China. Given China's large population and the pent-up consumer demand Richard had observed while abroad, Lisa and Richard decided initially to export goods to China, as opposed to importing goods from China. Specifically, they hunted for products or industries where trading channels between the United States and the PRC had not already been established.

As time progressed, the couple began to use an increasing percentage of Lisa's earnings and Richard's savings to finance their search. Together, they began to write and call any personal contacts and companies in both the United States and China that might lead to opportunities. In addition to reviewing many available publications including the *China Business Review*, Richard flew to China on three occasions to learn more about the market.

One of CITA's first opportunities occurred when Richard was approached by a Chinese army general who wanted to buy U.S. tanks. The general had heard from relatives that there was a Westerner interested in exporting goods to China. After Richard met with the general, Lisa proceeded to telephone General Dynamics. The salesperson on the other end of the line showed little wariness about supplying mil-

itary equipment to China and immediately began to solicit information such as the make and model number of the tanks. After 10 minutes of gathering information, the General Dynamic's sales representative proceeded to quote prices. However, Richard and Lisa decided not to forward the information, becoming uncomfortable with the idea of dealing in arms. The ethical considerations outweighed potential sales commissions.

EXHIBIT 1 Changing Economic Conditions in the People's Republic of China

In recent decades the People's Republic of China took several steps to increase economic productivity, raise the standard of living, modernize production facilities, and increase exports. Many of these steps marked a departure from the country's previous policies of economic isolation and central government planning of economic activities. Some of the changes included supporting trade and investment with foreign nations, allowing economic incentives to permeate businesses, and relying to a greater extent on the market for allocation of resources and determination of prices. Government loans were granted to business enterprises and favorable treatment of state-owned enterprises was diminished. Government authority began to shift from the central government to provinces.

Perhaps one of the biggest changes was the formation of industrial organizations which were not directly run by the state, although state-run enterprises were responsible for over 85 percent of employment and output as of 1988. Enterprises run by provinces and by holding companies comprised of several local businesses, usually in the same industry, had grown twice as fast as state industrial enterprises, especially in rural areas. Often, these enterprises were given a large degree of autonomy from the state and were, to an extent, able to determine their own prices and management practices.

Much of the second half of the 1980s could be described as a period of unbridled industrial expansion, unprecedented rise in entrepreneurship, growth in household disposable income, and increases in pent-up demand. In part these dramatic results were caused by the establishment of the Special Economic Zones created after 1979. There were four primary zones, including Shenzhen in the Guangdong province, next to Hong Kong. Specifically these zones were established to promote the exporting of Chinese manufactured goods and to become a model for other coastal areas. To an extent, the zones were self-ruling and less answerable to the central government in Beijing. Many of the enterprises within a zone were motivated by profit, an idea formerly foreign to the PRC. Furthermore, foreigners interested in trade had a greater degree of autonomy than anywhere else in China. The Special Zone policy had dramatic local results, most notably in Shenzhen where hundreds of new buildings were constructed and tens of thousands of new jobs were created.

However, the very success of many of the PRC's programs caused difficulties. The lack of tight centralized control created inflationary pressures and the loosening of the trade restrictions worsened China's balance of payments. Also a disproportionate share of the growing economic well-being was concentrated in the Special Economic Zones, a disturbing development in a society still basically committed to socialism.

In the second half of the 1980s, the government began to take some steps to alleviate some of these problems. Concurrent with the general atmosphere of loosening controls, some selective central controls were put in place to repress demand, and the Chinese currency was often devalued in order to promote exports and raise the price of imports. The adoption of new business methods in the pursuit of economic strength did not mean that China accepted the notion of liberal free trade and capitalist ownership.

During the year and a half search period, Richard and Lisa unsuccessfully tried to exploit many trade opportunities, including selling booth space at Chinese trade shows to U.S. exporters, exporting factory equipment, and consulting with companies interested in establishing business relations with China. Most of the projects failed to come to fruition because of China's lack of foreign exchange to pay for U.S. goods.

To overcome the foreign exchange problem, CITA explored countertrade, a form of international trade that takes place when merchandise, not hard currency, is exchanged between companies of different countries. Through the father of a former classmate, Richard learned of a carpet factory in China interested in obtaining tufting machines, used in the production of carpeting, from a U.S. equipment manufacturer. However, the factory did not have access to U.S. currency to pay the manufacturer. Therefore Richard and Lisa arranged a way for the factory to receive the machinery without using U.S. dollars. The equipment manufacturer would ship the tufting machines to the factory in China while the factory simultaneously shipped carpet to a third party, a U.S. carpet wholesaler. The U.S. wholesaler would then in effect "pay" the equipment manufacturer instead of the Chinese factory. U.S. and Chinese banks would guarantee the whole transaction and CITA would receive a commission based on the selling price of the equipment and the selling price of the carpeting.

The deal fell through when the factory's cost of certain raw materials rose due to national shortages, effectively increasing the factory's price of providing carpet to the U.S. wholesalers. According to Lisa and Richard, the deal still made sense in the long run, because the tufting equipment would lower the cost of making carpet in the future. Therefore the "loss" incurred on the carpet shipped to the United States could be subsidized by future sales within China because the new equipment would result in a higher margin. However, they were unsuccessful in convincing the Chinese factory manager that one side of his operations could be used to subsidize another.

Lisa Joins CITA Full Time. By the end of 1986, the young couple had witnessed project after project fall through and had invested over \$30,000 of Richard's savings and Lisa's current earnings trying to make CITA work. After a year and half of living as frugally as possible, Richard was seriously considering getting a traditional job.

Meanwhile, after almost two years of working for GM, in a program for high-potential employees, Lisa was ready to leave corporate America. Although working on a variety of different job rotations, Lisa found most of her work boring or her bosses second-rate. The one rotation she looked forward to fell through because of what Lisa described as "behind the scene political maneuvering." Lisa recalls her feelings at the time:

I decided that this was a little too arbitrary. One person could totally wreck your whole career, like if he had a bad tamale for lunch or something. I don't usually get upset but this scared me.

*Names that are disguised are marked with an asterisk the first time they appear.