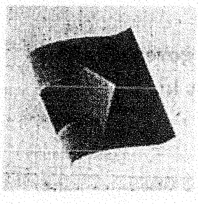
Case
Bata, Ltd.[41]



In 1996, Bata, Ltd. was struggling to determine its future, both in defining its long-term strategy and in finding a top management team who would move the company into the twenty-first century. And in doing so, it was being deeply effected by the dramatic political changes taking place in Eastern Europe, South Africa, and elsewhere.

As war swept across Europe in 1939, Tom Bata, Sr., was faced with a difficult situation. His father, the ninth generation of a family of Czechoslovakian shoemakers, had built a worldwide shoe network in twenty-eight countries, using machinery and the mass-production technology of the 1920s. On his father's death, Tom Bata, Sr., was left with the responsibility of expanding that empire during a period of great political uncertainty worldwide. Because of the Nazi invasion of Czechoslovakia and the uncertain future engendered by the resulting occupation, Tom Bata, Sr., sought to preserve his father's business by abandoning his Czechoslovakian operations and emigrating to Canada with a hundred of his managers and their families. His Czech operations were subsequently taken over by the communists after World War II.

Since that time, Bata's decision has been ratified through strong growth worldwide. The company is a family-owned business that is the world's largest manufacturer and retailer of footwear. Activities are carried out in over 60 countries on virtually every continent, employing more than 67,000 people worldwide. Bata operates 6,300 company-owned stores worldwide, and has over 100,000 independent retailers and franchisees. Bata owns over 70 manufacturing units worldwide, including shoe manufacturing plants, engineering plants producing molds, quality control laboratories, hosiery factories, and tanneries. Bata produces about 170 million pairs of shoes annually and sells about 270 million pairs worldwide (see Bata's Web page for current information).

It might appear that Bata is a multidomestic company where local managers are free to adjust operating procedures to local environments, within certain parameters. As one outsider noted, "wherever you had a strong Czech, you had a strong company. Where you had a lousy Czech, you had a lousy company." However, Bata's core philosophies and strategies are tightly controlled by Bata himself, who was 82 in 1996. In 1994, Bata hired the company's first non-family chief executive in an attempt to reinvigorate the paternalistic company, but disagreements over the future of the company forced the resignation of the CEO and two of the top members of his management team in October 1995. In announcing his resignation, the CEO stated that he had tried to balance the strong values of the company with the need for change. But he appeared to have overestimated his ability to operate independently of the family shareholders. As one executive stated, "Tom Bata is a charismatic personality who exerts an awful lot of personal authority."

The problem is that the shoe business is changing, and Bata is being affected like any other company. The key to Bata's success has traditionally been a low-cost manufacturing base tied to an extensive distribution network. But Nike and Reebok turned the footwear industry into one that was market-driven, not manufacturing-driven. Several of Bata's retail outlets began losing money, and Bata was forced to close down 20 percent of its retail outlets in 1995 and 1996.

Although Bata has factories and operations of various forms in many countries, it does not own all of those facilities. Where possible, it owns 100 percent of them. The governments of some countries, however, require less-than-majority ownership. In some cases, Bata provides licensing, consulting, and technical assistance to companies in which it has no equity interest.

The company's strategy for serving world markets is instructive. Some MNEs try to lower costs by achieving economies of scale in production, which means they produce as much as possible in the most optimally sized factory and then serve markets worldwide from that single production facility. Bata serves its different national markets by producing in a given market nearly everything it sells in that market. It does this in part because substantial sales volume in the countries in which it produces enable it to achieve economies of scale very quickly. It may seem difficult to believe that Bata can always achieve economies of scale, especially since the company has production facilities in some small African nations. However, Bata's management believes that the company can achieve scale economies very easily because its shoe production is a labor-intensive operation. It also tries to buy all its raw materials locally, although this is not always possible, especially in some poorer countries.

Bata also prefers not to export production; when possible, it chooses local production to serve the local market rather than imports. However, sometimes Bata becomes entangled with local governments when it imports some raw materials but does not export. In such cases, it must adjust to local laws and requirements for operation.

Bata avoids excessive reliance on exports partly to reduce its risks. For example, if an importing country were to restrict trade, Bata could possibly lose market opportunity and market share. In addition, Tom Bata, Sr., noted the benefit to a developing country of not exposing itself to possible protectionism:

> We know very well what kind of a social shock it is when a plant closes in Canada. Yet in Canada we have unemployment insurance and all kinds of welfare operations, and there are many alternative jobs that people can usually go to. In most of the developing countries, on the other hand, it's a question of life and death for these people. They have uprooted themselves from an agricultural society. They've come to a town to work in an industry. They've brought their relatives with them because working in industry, their earnings are so much higher. Thus a large group of their relatives have become dependent on them and have changed their lifestyle and standard of living. For these people it is a terrible thing to lose a job. And so we are very sensitive to that particular problem.

Bata operates in many different types of economies. It has extensive operations in both industrial democratic countries and developing countries. However, it was soundly criticized for operating in South Africa and thus tacitly supporting the white minority political regime. It also has been censured for operating in totalitarian regimes, such as that in Chile. In the latter case, Tom Bata, Sr., countered by pointing out that the company had been operating in Chile for over forty years, during which time various political regimes were in power.

Although Bata's local operations have not been nationalized often, the company has had some fascinating experiences with such actions. For example, in Uganda, Bata's local operations were nationalized by Milton Obote, denationalized by Idi Amin, renationalized by Amin, and finally denationalized by Amin. During that time, the factory continued to operate as if nothing had happened. As Tom Bata, Sr., explained, "Shoes had to be bought and wages paid. Life went on. In most cases, the governments concluded it really wasn't in their interest to run businesses, so they canceled the nationalization arrangements."

Despite Bata's ability to operate in any type of political environment, Tom Bata, Sr., prefers a democratic system. He feels that both democratic and totalitarian regimes are bureaucratic, but a democracy offers the potential to discuss and change procedures, whereas under totalitarianism it sometimes is wisest to remain silent.

Bata has a multifaceted impact on a country. Its product is a necessity, not a luxury. The company's basic strategy is to provide footwear at affordable prices for the largest possible segment of the population. The production of shoes is labor-intensive, so jobs are created, which increases consumers' purchasing power. Although top management may come from outside the country, local management is trained to assume responsibility as quickly as possible. Because the company tries to get most of its raw materials locally, sources of supplies usually are developed. Further, it likes to diversify its purchases, so it usually uses more than one supplier for a given product, which leads to competition and efficiencies.

South Africa presented unique challenges for Bata management. The size of the country's population is just under that of Nigeria, Egypt, or Ethiopia. Thus South Africa had long been considered a good place in which to invest because of its large market size. Further, South Africa's per capita GNP was the largest in Africa. However, the country's main attraction was the incredibly high rate of return that companies could earn, which was largely the result of low labor costs and extensive mineral wealth. The large market allowed companies to achieve economies of scale in production while exploiting the low labor costs.

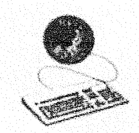
But the situation deteriorated rapidly in the early 1980s. A relatively stagnant economy, political strife resulting from apartheid, including the policy of not granting political freedom and civil liberties to blacks, prompted foreign companies and governments to pressure the government for political reforms. The Canadian attitude toward South Africa was very negative. Canada's government issued very conservative voluntary guidelines on new investments in South Africa. As a result, Bata sold its holdings in South Africa in 1986. It did not identify the buyer or the sales price, and it denied that apartheid was the reason for its pulling out. Company personnel stated, "It really was a business decision that took into account all of the factors with respect to investment in South Africa at the present time." Under the terms of the sale, the Bata company name and trademark could no longer be used in South Africa, and all ties with Canadian headquarters were broken. In addition, the new buyer apparently assured that the jobs of the workers, most of whom are black, would be preserved.

Bata also faced problems trying to get back into Slovakia. As noted earlier, the Bata operations started in the former Czechoslovakia, and as Eastern Europe opened up, Bata immediately tried to recover lost investments in the Czech Republic and Slovakia. The problem was that the Czech and Slovak governments wanted compensation for the factories, but Bata (known as Tomas Baoa in his homeland) felt the factories were still his. He eventually opened one factory in the Czech Republic and 48 retail outlets where the company sold 3 million pairs of shoes in the first year, capturing 11 percent of the Czech shoe market.

However, things were not so rosy in Slovakia. Baoa said that the problem is that "his company's former Slovak properties ended up in the hands of the Slovak government, which isn't interested in giving them up. Instead, he is expected to rebuild his Slovak business using his own resources." He says that he is still waiting for the government to keep the promise it made when his 45,000-employee factory in Slovakia was nationalized. Compensation was promised by the communists but never paid. The official government position is that a new restitution law has been put into effect and that Bata has to raise his ownership claims with the new owner of the factory. If the two parties cannot agree to a joint solution to the problem, Bata is welcome to file a lawsuit against the new owner to be settled in Slovakian courts. Despite his success in the Czech Republic, Bata had not sold one pair of shoes in Slovakia by the beginning of 1996.

Questions

1. Evaluate the different ways in which Bata has interacted with foreign political systems in its investments and operations abroad.
2. Do you think Bata made the correct decision to pull out of South Africa? How do you think the political events in South Africa in the past few years might change Bata's strategy for South Africa? How should Bata formulate a strategy for determining whether or not to reenter South Africa?
3. What are the advantages and disadvantages to both Bata and the Republic of Slovakia of having Bata take over his former operations? Why do you think the Czech Republic allowed Bata to reenter the market, but Slovakia had not as of the end of 1995? Why do you think Bata is appealing for a political solution to his problems rather than go through the courts to get back his property? What type of political system do the Czech Republic and Slovakia have? How might that help explain Bata's problems?
4. Check the Web for country pages, the CIA Factbook, or other sources of information on South Africa, the Czech Republic, or Slovakia that will help you understand more about the changing political and economic climates in those countries.



5. Why do you think Tom Bata, Sr., has joined the list of entrepreneurs who cannot bear to loosen their grip on businesses they started? What is the risk to Bata, Ltd. if Tom Bata, Sr., cannot find a way to retire?