Norges Handelshøyskole

Bergen, Spring 2011

Master Thesis within the main profile of International Business

Thesis Advisor: Professor Svein Ulset

Title: International Modes of Entry

Subtitle: The Case of Disney

By,

Carlos Gonzalez Hernandez

1 Abstract

The case of Disney's theme parks represents an opportunity to test major internationalisation theories in a setting of large investments with little chance for reversal of commitments. The purpose of the research is to study the benefit of different entry modes dependent on Disney's Theme Parks value-generating resources and capabilities while conditioned to certain local industrial and institutional conditions in foreign markets.

Five major theories and frameworks were used to analyze all four Disney's ventures abroad. This resulted in 20 individual hypotheses analyzed. Results indicate that Disney followed a predictable internationalisation process in the cases of Tokyo, Hong Kong and Shanghai, but that it went off-path in the Paris one. In successful cases Disney followed a cautious approach, involving local partners to transfer and adapt the "Disney Experience". In the case of Paris the company decided to enter the market alone, which neglected the unique needs of the local market.

Table of Contents

2 Foreword

This master thesis was written during the time period of spring 2010 and fall 2011 under the supervision of Professor Svein Ulset from the Norwegian School of Economics and Business Administration.

The intent of research project was threefold. First, to study the different types of entry modes available for companies that decide to internationalize. Second, to investigate current major theories about the process of internationalisation. Third, to apply these theories and frameworks to the individual cases of Disney's theme parks abroad. The overall balance of the thesis project remained approximately two thirds theoretical and one third practical.

Perhaps the biggest challenge was to identify major internationalisation theories in a field characterized by extensive academic output. In this regard, previous work by Canabal and White (2008) that researched and identified major trends in internationalisation research proved invaluable in deciding which theories and frameworks to use. I strongly believe that the theories included in this research project cover all major aspects that companies have to face when going abroad.

I would like to thank my supervisor, Professor Svein Ulset, for being of great help during the development of this thesis. I also thank Professor George Yip for the inspiration and advice during my academic period at the Rotterdam School of Management in the fall of 2010.

Carlos Gonzalez Hernandez

3 Introduction

"As global as possible, as local as necessary."

George Yip

The purpose of the research is to study the benefit of different entry modes dependent on Disney's Theme Parks unique resources and capabilities while conditioned to certain industrial and institutional conditions in foreign markets.

More than 50 years ago Walt Disney revolutionized the concept of theme parks by creating Disneyland Anaheim in the American state of California. Today, the company thinks of theme parks as enchanting places that provide both children and adults with long-lasting *"experiences of the heart"*, something very few businesses can actually boast of delivering. Based on this unique competitive advantage, which Disney prefers to call the "*Disney Difference*", the company decided to embark on the challenging project of exporting its theme parks abroad: first to Japan ('83), then to France ('92), and then back to Asia with the projects of Hong Kong ('06) and Shanghai ('15).

Disney's theme parks international entry strategies are as remarkable and far-reaching as the iconic characters on which the company's image is based on. Little do visitors to Tokyo Disneyland know that the park is actually own and operated by a Japanese local firm under a licensing contract, or that it actually took Disney more than 20 years to convince itself to allow the Asian park to open, which is nowadays, ironically, one of the most visited amusement parks in the world (Clavé 2007).

A company planning to expand its operations abroad has to choose between equity-based and non-equity-based entry modes in order to smooth the transfer of its resources and capabilities given certain local industrial and institutional conditions. On the one hand, selecting equity-based entry modes implies deciding whether to service the foreign market on a stand-alone basis (e.g. wholly owned subsidiary) or with the assistance of a partner (e.g. joint venture). On the other, choosing non-equity-based entry modes involves deciding between exports or contractual agreements (Pan and Tse, 2000). Different local conditions at different foreign locations require specific entry mode strategies that best transfer resources and capabilities (Resource Based View) or that reduce transaction costs (Transaction Cost Economics).

The first part of this thesis is offers a theoretical review that comprises three main elements. First, an overview of the different types of entry modes is offered (e.g. licensing, joint ventures, wholly owned subsidiary). Second, five major internationalisation theories are introduced in the context of international modes of entry: Uppsala Model of Internationalisation, Transaction Cost Economics, Resource-Based View, Institutional Theory and Cultural Distance Theory. Finally, the concept of international diversification and firm performance is advanced in order to prepare the ground for a company-wide analysis of its international ventures.

The second part of the research project includes the research method. In this section the whole construction of thesis is explained, including a visual research model. A case is made for a descripto-explanatory study with a deductive approach given the need to portray four different, but highly intertwined cases (Tokyo, Paris, Hong Kong and China).

The third part of the study included four case studies: Disneyland Tokyo, Disneyland Paris (previously EuroDisney), Hong Kong Disneyland and Shanghai Disneyland. For each case a general description is offered with as much information as possible, followed by an analysis of the 5 hypothesis developed after all major internationalisation theories.

Finally, a discussion of the results is offered followed by a conclusion where the results of the research projects are summarized. General recommendations are made for future projects that Disneyland might undertake.

4 Research Question, Objectives and Model

Disney's theme parks represent an interesting case study in the sense that the company has been able to exploit abroad a unique, hard-to-imitate asset, but that requires substantial adaptations. Moreover, it has done so in very diverse countries like France, Japan and Hong Kong with wildly different levels of success. Decisions on entry modes have clearly affected and continue to influence the economic performance of Disney's international activities.

4.1 Research Question

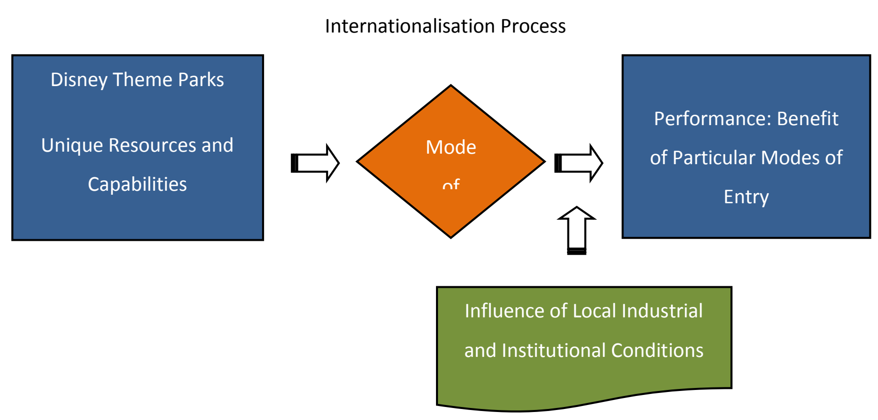
Q. How different international **entry modes** affect Disney's foreign theme parks performance given its unique **resources and capabilities** under different **foreign conditions**?

4.2 Objectives

1. To learn about international modes of entry, including the most recent perspectives.
2. To examine the internationalisation process of a company and how decisions on entry modes fit in this process and affect the transfer of resources and capabilities.
3. To analyze how local industrial and institutional conditions influence decisions on modes of entry.
4. To find out how global entry strategies are made in reality for large projects like those of Disney's theme parks (average investment is 5 billion US dollars).
5. Personal objective: To learn how to conduct business research in an academic, master level setting.

4.3 Research Model

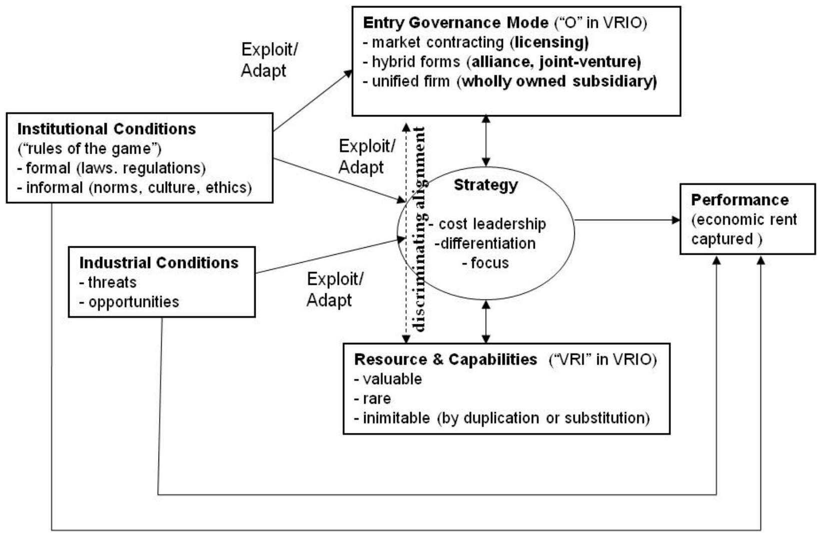
Figure 4-1. Research Model



5 Theory / Literature Review

Extant literature on international modes of entry is rich and represents the third most researched field in international management (Canabal and White, 2008). First, a general overview of the different types of entry modes will be introduced. Second, the most relevant frameworks used to analyze the relative merits of different entry modes given a certain set of firm-specific and non-firm-specific factors will be provided. Finally, a framework to analyze firm international diversification and performance is provided.

Figure 5-1. An integrated TCE strategy model for Entry into Foreign Markets



Source: Ulset, Svein. (September, 2009). Entry Strategies in a Global Context. Lecture conducted from Norwegian School of Economics and Business Administration

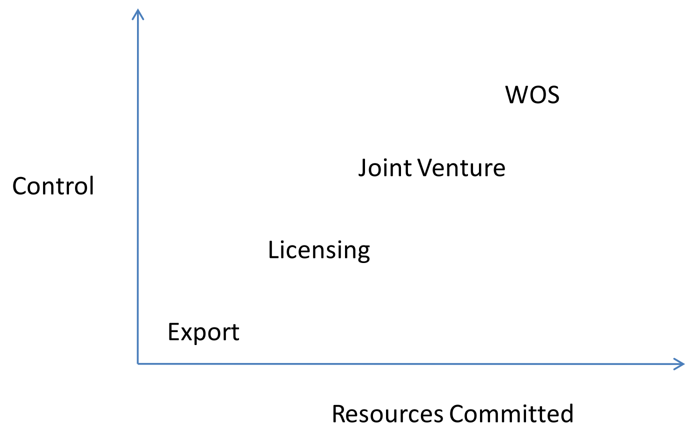
The choice of specific theories and frameworks is based on the TCE strategy model for entry into foreign markets (Ulset, 2009) and complemented with Canabal and White's extensive theoretical review on the subject (2008) which shows that Uppsala model, TCE, Resource-Based View, Institution Theory and Cultural Distance Theory are some of the most frequent tools to analyze entry mode strategies and the ones that best fit Disney's internationalisation process. Dunning's OLI (Ownership, Location and Internalisation) Paradigm is also extensively researched by academics, but will only be included as an Appendix (See Appendix I) due to its overlapping with the rest of the theories.

The goal of this section is to provide as many theories as necessary in order to better explain Disney's challenges when going abroad. Specifically, how to choose the entry mode that best transfers and adapts a highly unique asset while still maintaining the "Disney Flavour" and adapting to local tastes. In other words, to explain how Disney may achieve the contradictory goal of being American and local at the same time, which we will refer in this study as the Disney internationalisation paradox.

5.1 Type of entry modes

Entry modes can be divided into equity-based and non-equity-based. Within equity-base modes, the choices are between Wholly Owned Subsidiaries (WOS) and Joint Ventures (JV) with different degrees of ownership. Among non-equity-base modes, the choice is between contractual agreements and exports. Different entry modes are associated with different levels of committed resources, amount of control, technology risk and profit potential, with equity-based entry modes normally offering the highest levels of exposure, and hence higher levels of risk, control and return (Osland, Taylor and Zou, 2001).

Figure 5-2. Resources Committed Vs. Level of Control

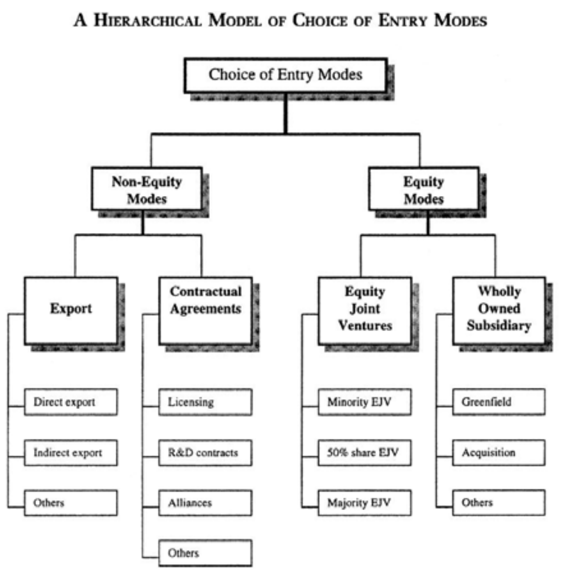


Source: Osland, Gregory, Charles Taylor and Shaoming Zou. "Selecting International Modes of Entry and Expansion." Marketing Intelligence & Planning Vol. 19 No. 3 (2001): 155

Resource commitments are dedicated assets that cannot be employed for other uses without incurring in additional costs. They can be intangible, such as managerial skills, or tangible, such as plant and machinery. The quantity of required resources varies with the entry mode, from almost nothing with indirect exporting, to minimal in licensing and extensive in Greenfield investments in WOS. Level of control is the capability and motivation of a firm to influence decisions, systems, and methods in foreign countries. Technology risk is the possibility that a firm's applied knowledge will be accidentally leaked to a local firm (Osland, Taylor and Zou, 2001). Resource commitment, level of control and technology risk are highly intertwined in the sense that, for example, higher levels of control involve a higher commitment of resources, but less technology risk, and vice versa.

As described in the next section, different entry modes have different performance outcomes based on their resource commitment, level of control and technology risk demands. The selection of an entry mode is an issue of high strategic magnitude as each entry mode delivers specific benefits and risks. Acquisitions are the fastest way to build a market presence in a foreign market, yet they involve risks of overpayment, inability to assess the real value of acquired assets, and post-acquisition problems like cross-cultural assimilation. Greenfield investments offer the greatest control over subsidiaries, yet they often require the longest time to establish and need the greatest transfer of resources and capabilities. Joint ventures are a way to leverage the resources of a local partner in order to maximize local knowledge and minimize risk, but also involve issues of managing a business relationship with a partner whose interests may be different from those of the company, as well as high possibilities of suffering from technology risk (Chang and Rosenzweig, 2001).

Figure 5-3. Hierarchical Model of Choice of Entry Modes



Source: Pan, Yigang and David K. Tse. "The Hierarchical Model of Market Entry Modes". Journal of International Business Studies, Vol. 31, No. 4 (4th Qtr., 2000): 538

5.1.1 Exports

Exports differ from other entry modes in that the final or intermediate product is manufactured outside the target country and the subsequently transferred to it. On the one hand, indirect exporting uses agents located in the company's home country to handle the entire sale, including shipping and marketing, to the foreign market. Direct exporting, on the other hand, means that the company itself is in charge of selling and delivering the products to the target market (Osland, Taylor and Zou, 2001). Indirect exporting offers the less learning benefits to the firm, while direct exporting involves more interaction with the foreign market and is usually the first step of the internationalisation process of every firm (Johanson and Vahlne, 1977).

Research by Osland, Taylor and Zou (2001) showed that American companies typically use export as a mode of entry decision when the foreign market in question is viewed as highly competitive and where the investment in a WOS is deemed as unnecessary.

5.1.2 Contractual Agreements

Contractual agreements can be divided into licensing, R&D contracts, and alliances. Licensing, for example, is a contractual agreement with one or more agents in the foreign country in which the company transfer the right to use all or part of the following property: patents, trademarks, company name, technology, and/or business methods. The licensee pays initial fees and/or a percentage of sales to the licensor (Osland, Taylor and Zou, 2001).

Licensing is a preferred mode of entry when the local government of the foreign country is strong and prefers to conduct business with national companies. Unfortunately licensing increases technology risk by exposing the company's products and services to potential future competitors.

5.1.3 Joint Ventures

Joint Ventures involve direct investment in the foreign country and can be minority JV's (ownership is less than 50%), 50% JV's, and majority JV's (ownership is more than 50%). JV's usually involve two or more companies that share the ownership, management, risks, and profits of the newly created entity. Each firm contributes equity that may take the form of money, assets, and/or technology (Osland, Taylor and Zou, 2001).

JV's are usually used when the foreign country has established rules against the operation of a local company by foreigners. This vehicle is also used when the psychic distance between the home and host country is elevated and local knowledge is paramount to the business success. JV's also suffer from high technology risk.

5.1.4 Wholly Owned Subsidiaries

Wholly Owned Subsidiaries can take the form of Greenfield investments and Mergers & Acquisitions. They function as subsidiaries in another country in which the parent company retains full ownership and sole responsibility for the administration of the operation (Osland, Taylor and Zou, 2001). WOS offer companies the highest level of control and the lowest levels of technology risk, but they also require the highest level of resource commitments.

In conclusion, the choice of entry mode is at the same time also a preference between risk and return. Certainly, each entry mode differs in terms of costs and benefits, with some being practically cost-less, such as indirect exporting, and other extremely expensive, such as WOS. Moreover, each firm has to consider the equation of costs and benefits on a project by project basis, as it is repeatedly a function of firm-specific resources and different local conditions. In other words, what was useful in once place might be a mistake in another one. Academics have made an effort to develop useful frameworks in order to approach the entry mode problem, which is topic of the next sections.

5.2 Selecting international modes of entry: Five theories

Ultimately firms have to decide on a mode of entry to use. Three main schools of thought have tried to explain the reasons behind these choices. The first school views internationalisation as a gradual process where the firm will increase its market commitment (from a non-equity entry mode to an equity-based one) once knowledge about a particular foreign market increases and justifies it. This is the so-called “staged process of internationalisation”, or Uppsala Model (Johanson and Vahlne, 1977). The second school of thought stems from work on Transaction Cost Economics (TCE). The idea behind TCE is that firms will internationalise those activities in which they have a cost advantage over the market and will subcontract those in which they have a cost disadvantage (Williamson 1981; Teece 1986). Finally, the third school of thought is the one pioneered by Dunning (1995), which stresses the importance of location advantages in addition to ownership and internalisation factors as decisive elements in mode of entry decisions and is something of a “one-size-fits-all” approach. This last school of thought is only included in Appendix I due to its overlapping with the rest of internationalisation theories. In addition to these schools of thought, the Resource-Based View, Institutional Theory and Cultural Distance Theory are also provided given their unique perspective on the topic of internationalisation that at times are in direct contrast with other major theories, yet offering the only plausible solutions to the Disney paradox (the need to be American and local at the same time).

Recently, TCE and the Resource-Based View have become the major theories to explain entry mode choices (Sharma & Erramilli, 2004). While both theories use diverse approaches, their underlying logic is not necessarily mutually exclusive. Rather, by ignoring the influence and complementarities of the other theories, single-minded approaches run the risk of missing important angles that affect the best choice of entry mode. Perhaps this is the reason of the success within practitioners of Dunning's Eclectic Paradigm, which conciliates all theories into a single, one-size-fits-all framework (See Appendix I).

5.2.1 Uppsala Model: A trade-off between market knowledge and market commitment

The model is based on empirical observations at the University of Uppsala (hence the Uppsala Model) that shows that Swedish firms often develop their international operations in small steps, rather than by making large foreign investments at single points in time. Typically, firms start exporting to a country via an agent, later establish a sales subsidiary, and eventually begin production in the host country. Moreover, such establishments are related to the psychic distance between the home and the host countries. Psychic distance is the sum of factors preventing the flow of information from and to the market, like language, education, business practices, culture, and industrial development (Johanson and Vahlne, 1977).

Market knowledge (general and market specific) and market commitment (amount of resources committed and the degree of commitment) are assumed to affect both commitment decisions (scale and types of operations) and the way current activities (primary source of experience) are performed. These same current activities, in return, affect knowledge and commitment (Johanson and Vahlne, 1977).

There is a direct relation between market knowledge and market commitment. Knowledge can be considered a resource, and consequently the better the knowledge about a market, the more valuable are the resources and the stronger is the commitment to the market. Under this model, a firm will incrementally extend its scale of existing operations in the market until its tolerable risk frontier is met. Market experience can offset uncertain market conditions, but only to a certain point. The less uncertainty (either because of high market experience or stable local conditions) the more the firm will favour scale-increasing decisions (Johanson and Vahlne, 1977).

Additional commitments will be made in small steps unless the firm has very large resources and/or market conditions are stable and homogeneous, or the firm has previous relevant experience from other markets with similar market conditions. If not, market experience will lead to a step-wise increase in the scale of operations and of the integration with the market environment where steps will be taken to correct imbalance with respect to the risk situation in the market. Market growth will speed up this process (Johanson and Vahlne, 1977).

Hypothesis 1: Disney's entry mode processes are consistent with the Uppsala Model given the high psychic distance between the company and its host markets.

5.2.2 Transaction Cost Economics: Exploiting a unique asset abroad at a minimum cost

The transaction cost approach to the study of economic organization regards the 'transaction' as the basic unit of analysis and states that transaction cost economizing is crucial to the decision made by the organization, which is viewed in this theory as a governance structure (Williamson, 1981, 1985). According to the theory, the costs of an economic transaction, including ex-ante (negotiating contracts) and ex-post costs (monitoring), may or may not exceed the costs of organizing the transaction internally. Moreover, different governance structures such as Licensing Agreements and Wholly Owned Subsidiaries will have different levels of transactions costs and asset specificity (site specificity, physical asset specificity and human asset specificity) that will affect its selection (to avoid bilateral monopolies, for example). Firms should select the governance mode as a response to the expected transaction costs. In particular, the firm should strive for the most efficient entry mode, which is the one that minimizes total transaction costs.

Behavioural assumptions are relevant within the TCA theory. 'Bounded rationality' acknowledges that it is impossible to deal with complexity. As a consequence, incomplete contracting is the best that can be achieved. Complexity in contracting will be further affected by 'opportunism', since the mere existence of economic agents that engage in dishonest behaviour will make it costly for the firm to discern between opportunistic and nonopportunistic trade partners ex-ante (Williamson, 1981, 1985). The parties, therefore, have an incentive to develop specialized governance structures to prevent opportunism (Teece, 1986).

David Teece (1986) summarized the conditions that must be present for a firm to become a multinational according to TCA theory:

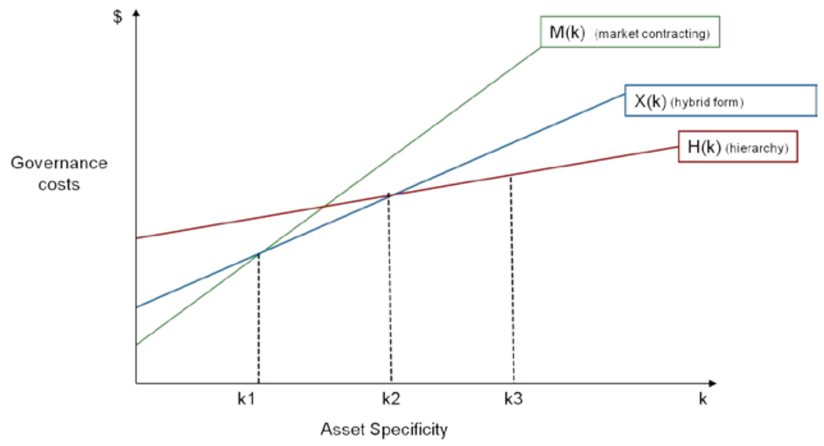
1. Own special assets which give it a competitive advantage over indigenous firms (strategic advantage factor).
2. These assets are more economically utilized in facilities outside the firm's local market (location factor).

3. The best way to profit in full from the asset abroad is to transfer the asset internally within the firm (transactions costs factor).

All three factors must be present to explain FDI. Multinational enterprises are a reaction to high transaction costs by firms with unique assets/capabilities which have value when utilized in production facilities abroad (Teece, 1986). Conversely, the lack of some these factors will explain hybrid structures such as joint venture.

Governance costs can be drawn of as a function of asset specificity (see picture below). If asset specificity (contractual hazard) is low, a market solution such as licensing is generally sufficient. If asset specificity is higher, then governance costs in the form of bounded rational behaviour, opportunistic behaviour and uncertainty of transactions are also higher. Under such conditions a market solution is no longer feasible and other governance modes with higher levels of control, such as JV's and WOS should be investigated (Williamson, 1981, 1985: Teece 1986).

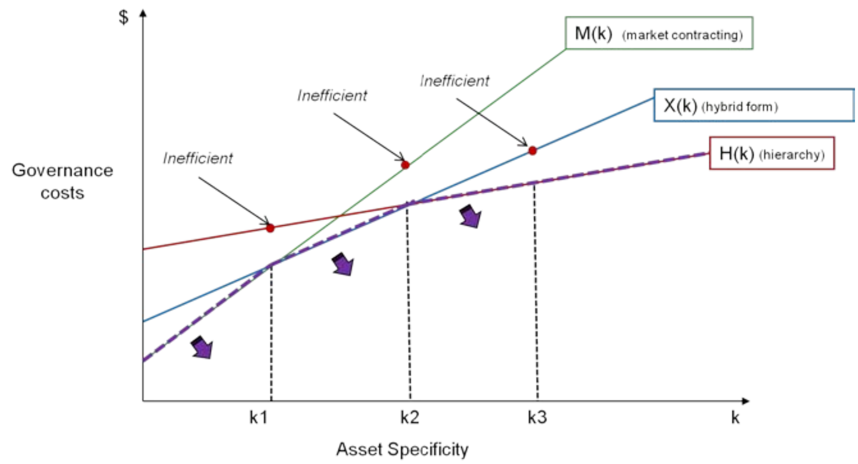
Figure 5-4. Governance costs as a function of Asset Specificity



Adapted from: Williamson (1981, 1985), Teece (1986)

If total transaction costs are expected to be small, a rational firm will most likely prefer to let the market perform its transactions. Such would be the case of perfectly competitive markets. Yet, since markets are hardly ever perfectly competitive, various conditions might favour internalisation over market transactions (Williamson, 1981, 1985). Under these circumstances the costs of monitoring and protecting against opportunism and contractual hazard are likely to be larger than the costs of an internal governance structure such as a WOS (Luo, 2001).

Figure 5-5. Governance costs as a function of Asset Specificity with boundaries



Adapted from: Williamson (1981, 1985), Teece (1986)

Teece (1986) also introduced the role of government in transaction costs. A firm that has engaged in horizontal or vertical integration in order to save on transaction costs also creates a direct interface between the newly created multinational enterprise and the host government: “To the extent that host governments treat multinational enterprises differently from indigenous enterprises, the foreign firm may have circumvented one set of potential recontracting hazard through direct investment only to encounter another.” Thus, a firm has to weight the total advantages and disadvantages of going abroad before committing to a certain governance structure that might end up causing major complications.

TCE Criticism

Regarding entry modes, TCE offers a polychotomous choice (different degrees of ownership). Nonetheless, empirical evidence suggests that the theory is more effective when discriminating between the dichotomous options of equity versus non-equity (Sharma & Erramilli, 2004). Another criticism of TCE is that it tends to treat each particular entry decision in isolation, rather than as part of the overall firm’s strategy (Hill, Hwang and Kim, 1990), which is why this view will be complemented, among others, by the Resource-Based View.

Hypothesis 2: Disney’s possession of a unique asset that grants it with a competitive advantage over indigenous firms will induce the company to profit from it internally when market transaction costs are high and externally when low.

5.2.3 Resource-Based View: Strategical transfer of resources with minimal erosion in value

In contrast to the TCE rationale, which focuses mainly on cost and risk minimization, the Resource-Based View (RBV) examines the link between the firm resources and sustained competitive advantage. RBV differentiates from other frameworks by not basing its argumentation on current market conditions (imperfection or failure). In its place it offers an opportunity to elucidate entry mode choices from the reference of a company's resources and capabilities alone (Sharma and Erramilli, 2004). Unlike TCE, RBV successfully explains why not all firms select the same cost-cutting strategy that is supposed to minimize transaction costs. Companies tend to choose an internationalisation strategy that is dependent on its firm-specific value-generating resources.

According to the RBV, in order to generate competitive advantage, a firm's resources have to be valuable, rare, imperfectly inimitable and non-substitutable (Barney, 1997). The Resource-Based view is an inside-out view of the firm rather than an outside-in view. In contrast to the market-based view of the firm, the resource-based view considers a firm as unique because of its possession and deployment of firm-specific resources that are valuable, rare, imperfectly inimitable and non-substitutable. Moreover, firm-specific resources cover a wider range of competitive advantages than the ownership advantages of, for example, the OLI paradigm (see Appendix I). Furthermore, these competitive advantages are not constrained to the present since they may also help in the creation and transfer of future competitive advantages via selected modes of entry (Sharma and Erramilli, 2004). For instance, transferability of resources and capabilities is easier with equity-based mode of entry than with non-equity-based ones.

The resource-based view of the firm explains the selection of entry mode via four major constructs according to likelihood of establishing or transferring competitive advantages to the host country (Sharma and Erramilli, 2004):

- Probability of establishing competitive advantage in production operations in a host country.
- Probability of establishing competitive advantage in marketing operations in a host country.
- Capability to transfer advantage generating resources in production operations to host country partners.

- Capability to transfer advantage generating resources in marketing operations to host country partners.

The first two constructs are associated to the location decision of production and/or marketing operations in the host country, whereas the last two involve the ownership decision. In the resource-based framework the benefit required is the effective and/or efficient transfer of resources and capabilities to the foreign market with minimal erosion in their value (Sharma and Erramilli, 2004). Most entry modes are effective in preserving the value of transferred resources and capabilities; it is the level of efficiency that varies the most.

The resource-based view therefore predicts that a company will locate its foreign activities in countries where the likelihood of effectively and efficiently transferring its resources and capabilities is higher. In contrast, it explains two factors that may constrain internationalisation: resources and capabilities might be home-specific or not compatible with other host country factors. In addition, certain governments might limit the amount of resources (e.g. human resources) that a company can transfer to the host country.

In summary, a company's capability to establish competitive advantage in a host country depends on the degree to which it can efficiently and/or effectively transfer its competitive advantage generating resources to the host country and the compatibility of transferred firm-specific resources with foreign country factors (Sharma and Erramilli, 2004). If the ability to transfer firm-specific resources to foreign partners is low, equity-based modes of entry will be favoured, whereas high transferability will promote the use of market and partnership transactions.

Contribution of the Resource-Based View beyond Transaction Cost Economics

The evaluation of the entry mode decision differs widely between the RBV and other frameworks. RBV strives for value maximization while the TCE approach for minimization transaction costs and risks. Both RBV and TCE offer sometimes similar conclusions. Both agree with the basic premise that companies will try to profit from an asset internally when the costs of transferring the assets via a hybrid structure outweighs its benefits, and externally when the benefits are higher than the costs. Nonetheless, RBV emphasizes the strategic implications for a firm's resource deployment. For instance, it is capable of not only explaining the entry mode choices based on the exploitations of those existing advantages

(TCE), but can also explain those decisions that are based upon the development of new advantages (Sharma and Erramilli, 2004). In other words, a decision that might not make sense from a TCE perspective might be perfectly normal according to RBV. The RBV offers a fresh perspective that augments that of TCE by considering a firm's strategic resource endowment and deployment. Central to RBV is the effective and/or efficient transfer of resources to the host market with minimal erosion in their value. RBV can be thought of as an approach where cost itself (TCE) is not the only determinant in a mode of entry decision.

Table 5-1 Comparison between RBV and TCE

Comparison	TCE	RBV
Unit of Analysis	Transaction	Firm
Motivation for entry	Market failure	Generation and sustainability of competitive advantage
Focus	Transaction characteristics	Resources and Capabilities
Derived benefit	Minimize transaction costs (complexity and monitoring)	Maximize resources and capabilities
Justification	Exploitation of firm's unique assets abroad	Exploitation and <u>development</u>
Essential elements	Opportunism, bounded rationality, contractual hazard, risk preference for entry modes	Valuable and inimitable resources, partner's absorptive capacity

Sources: Williamson (1981, 1985), Sharma and Erramilli (2004), Hill, Hwang and Kim (1990), Teece (1986), Luo (2001).

To summarize, the firm's governance decision is a function of the firm's ability to effectively transfer its resources to the foreign country without erosion of value and the country's ability to effectively absorb them. Only when both elements are present may the company choose to use market or collaborative mechanisms, else it has to rely on higher levels of control to avoid eroding its competitive advantage. The ownership decision according to the RBV is primarily determined by the firm's ability to transfer its key value-generating resources to a local partner firm. If the firm is able to effectively and/or efficiently make such a transfer, it may select collaborative modes, otherwise WOS only (Sharma and Erramilli, 2004), above and beyond transaction cost considerations.

Hypothesis 4: Disney will attempt to use equity-based entry modes when the absorptive capacity of a local partner is low and non-equity ones when high.

5.2.4 Institutional Theory: The tension between internal and external isomorphism

Institutional theory analyses how companies enter and operate in an institutional environment defined by certain rules, norms, and values (Davis, Desai, and Francis, 2000). An important feature of institutional theory is isomorphism, that is, pressures to imitate local firms that may have a considerable influence on entry mode selection. Companies venturing into foreign countries will try to mimic local firm actions in order to legitimize their operations and market presence (Canabal and White III, 2008). The focus is on the roles of external institutions in shaping companies' decisions and behaviours, including decision on international modes of entry.

Companies suffer in fact from two very distinct and conflictive forms isomorphism: external and internal. External isomorphic forces represent the foreign environment in which the firm operates and that it will try to mimic in order to gain legitimacy in the host country's market. Internal isomorphic forces are the pressures to stay in line with headquarter practices (Davis, Desai, and Francis, 2000). The relative dominance of these two distinct isomorphic pressures will define the behaviour of firms since inception, that is, from the decision to internationalize onwards. Local pressure for isomorphism may stem from economic or regulatory reasons. For instance, some countries regulatory environment obliges companies to set structures and practices similar to those already in place.

In general, the higher the resources committed and/or level of control from the parent company to foreign operations the higher the pressures for internal isomorphism. The lower these factors are, as in the case of exporting or licensing, the higher the pressures for external isomorphism will be. Moreover, when pressure for internal and external isomorphism is equally high companies will then to use a mix of international entry modes (Davis, Desai, and Francis, 2000). In fact certain viable modes of entry will sometimes be overlooked purely because of institutional pressures, which confirm the importance of this paradigm when analyzing entry mode decisions.

In selecting between a WOS and a JV, a study by Yiu and Makino (2002) showed that institutional forces may influence the selection of entry modes in different magnitudes. Their analysis suggested that the more restrictive the regulatory environment of the host country is, the more likely a joint venture will be chosen over a wholly owned subsidiary. Moreover, the more restrictive the normative domain of the host country, the more likely the multinational enterprise will choose a JV over a WOS. Finally, they discovered that companies will tend to select the mode of entry that has been used most frequently in the past by other companies in the same foreign country.

Corruption is a pervasive force best analyzed within the institutional view framework that heavily affects international mode of entry decisions. Research by Uhlenbruck et al. (2006) suggested that firms favoured non-equity-based entry modes rather than equity-based ones when they enter countries with high levels of corruption. Companies in fact avoid dealing directly with corruption, without having to give up the market potential of an affected country, by choosing non-equity modes like JV or contractual agreements.

In sum, according to institution theory the selection of international entry modes is constrained by two isomorphism forces: internal (parent company) and external (host country). Both parental and external institutions norms influence greatly the entry mode selection. Foreign operations that are highly influenced by the parent company (e.g. the case of companies following a global strategy) will tend to favour equity-based entry modes like WOS, while those more highly influenced by the local environment will prefer non-equity-based entry modes, like exports or licensing. What make this theory relevant for the Disney case is that the company seems to be suffering from equally high forces for external and internal isomorphism. This is the so-called Disney paradox that we introduced earlier in the document, that is, the need to be American and local at the same time.

Differences between the Institutional and Cultural Distance/Uppsala Model

The main difference between the Institutional Theory and the Cultural Distance Theory and Uppsala Model lays in its unique focus on internal and external isomorphism. Only this approach is able to capture Disney's dual need to mimic its foreign markets (external isomorphism) while maintaining the "Disney flavour" (internal isomorphism). On the one hand, Cultural Distance Theory is concerned with predicting/explaining a firm's entry mode decision based purely on the home country's cultural traits. For instance, a company from a country with high uncertainty avoidance will prefer JV's and WOS over acquisitions, all the time and regardless of other factors (Makino and Neupert, 2000). On the other hand, the Uppsala Model represents a step-by-step stages model where the decision to go abroad is a function of the relationship between market knowledge and market commitment (Johanson and Vahlne, 1997). That is, a firm will "commit" to a certain mode of entry that is a result of its current knowledge about the local market, not because of the internal or external pressures for isomorphism. In this regard, the Institutional Theory does include characteristics of both the Cultural Distance Theory and Uppsala Model, but offers a fresh perspective on internationalisation by isolating the effect of internal and external isomorphic pressures. For instance, a company might decide to always use WOS regardless of its local culture and regardless of the psychic distance between its markets. An example of this being IKEA, who owns all its stores abroad given its unusually high pressures for internal isomorphism. In this regard, both the Cultural Distance Theory and the Uppsala Model would have failed to explain IKEA’s phenomenon.

> *Hypothesis 5: Disney will favour non-equity-based entry modes when pressures for external isomorphism are high and equity-based ones when pressures for internal isomorphism are high.*

5.2.5 Cultural Distance Theory: Entry modes are highly influenced by cultural traits

Culture refers to the ‘‘collective programming of the mind which distinguishes the members of one category of people from those of another’’ (Hofstede, 1984, p. 389). Research by Makino and Neupert (2000) suggested that a firm’s preferred level of ownership in their foreign subsidiaries is influenced primarily by cultural traits. Cultural distance refers to the distance between two cultures. In the case of entry modes, cultural distance is defined as the one existing between a firm’s home and host country. Hofstede found, after an extensive survey, four cultural value dimensions: Power Distance, Individualism-Collectivism, Masculinity-Femininity and Uncertainty Avoidance.

The first one, power distance, defines the extent to which the less powerful person in a society accepts inequality in power and considers it normal. The second one, Individualism-Collectivism, assumes that persons from individualistic societies look primarily after their own interest and that of their immediate family, while those from collectivistic cultures presume that individuals belong to one or more close groups, like extended families. The third one, Masculinity-Femininity, describes masculine societies as those expecting men to be assertive, competitive, to strive for material success, and to respect whatever is big, strong, and fast. Feminine cultures define relatively open roles for men and women and don’t expect either of them to be ambitious or competitive, while expecting them to value quality of life, interpersonal relationships and concern for the weak. Finally, the fourth dimension, Uncertainty Avoidance, defines the degree to which individuals within a culture are made nervous by situations that they consider to be unstructured, unclear, or unpredictable, and the degree to which they try to avoid such situations by adopting strict codes of behaviour and a belief in absolute truths (Hofstede, 1984, p. 390).

Literature on the topic has shown that uncertainty over the foreign market influences decisions on international modes of entry. A study by Kogut and Singh (1988) about the effect of national culture on the choice of entry mode suggested that when economic choice is compared across countries, cultural characteristics are likely to have profound implications. Their research discovered that the higher the cultural distance between the home and host country, the higher the probability that a firm will choose a JV or a Wholly Owned Greenfield over an acquisition –management of acquisitions from distant cultures is seen as expensive-. Furthermore, the greater the uncertainty avoidance in the home country relative to the host country, the more likely the firm will select a JV or a Wholly Owned Greenfield over an acquisition. Acquisitions are seen by countries with a high uncertainty avoidance index as involving greater uncertainty that other modes of entry with higher levels of control. Acquisitions are not available for Disney and therefore this last idea will not be tested.

Difference between the Cultural Approach and the Uppsala Model of Internationalisation

It might be thought that Cultural Distance Theory is a subset of the all-encompassing Uppsala Stage Model of Internationalisation, especially given that psychic distance includes culture within its definition. On the one hand, Johanson and Vahlne (1997), the pioneers of the Uppsala Model, defined psychic distance as the sum of factors preventing the flow of information from and to the market, such as language, education, business practices, culture, and industrial development. Flow of information can be affected by several factors, and lack of one element may be offset by expertise in another. The authors observed that "...additional commitments will be made in small steps unless the firm has very large resources" (Johanson and Vahlne, (1997), p.30), thus implying that a large amount of resources could offset, among other factors, large cultural distances. On the other hand, Cultural Distance Theory states that a firm's preferred governance mode in their foreign subsidiaries is primarily influenced by cultural traits regardless of psychic distance, Makino and Neupert (2000). Cultural Distance Theory explains entry modes by looking "*inside*" into the home country's culture of the firm, while the Uppsala Model looks "*outside*".

Hypothesis 6: Cultural distance theory is sufficient to explain Disney's entry mode decisions and the higher its magnitude the likelier the firm will choose hybrid governance structures.

6 Hypothesis Summary

In total 5 hypotheses (Uppsala Model, TCE, Institutional Theory, Resource-Based View and Cultural Distance Theory) will be confronted against the real cases of Tokyo, Paris, Hong Kong and China, for a total of 20 comparisons. The following is a summary table of the hypotheses tested.

Table 6-1 Hypotheses and theories summary

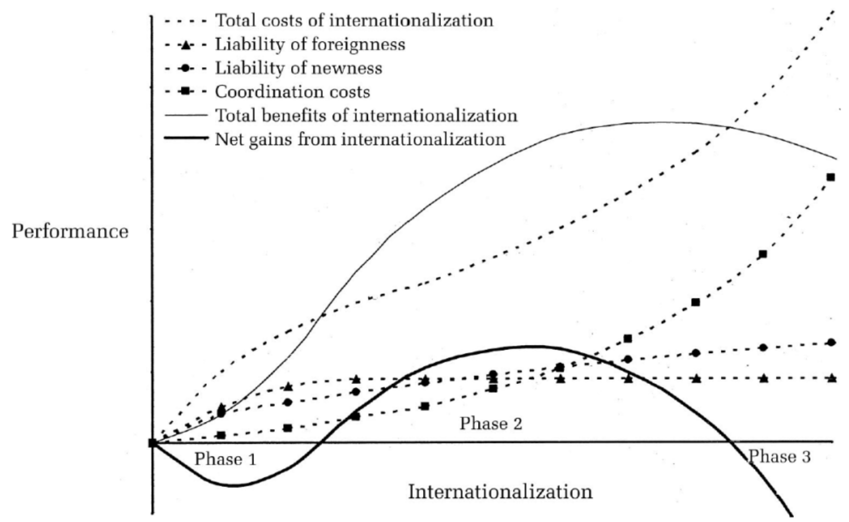
Framework	Tokyo	Paris	Hong Kong	China
Uppsala Stage Process	Disney's entry mode processes are consistent with the Uppsala Model given the high psychic distance between the company and its host markets. Theories tested: **Johanson and Vahlne (1977)**			
TCE	Disney's possession of a unique asset that grants it with a competitive advantage over indigenous firms will induce the company to profit from it internally when market transaction costs are high and externally when low. Theories tested: **Williamson (1981, 1985)** and **Teece (1986)**			
Resource-Based View	Disney will attempt to use equity-based entry modes when the absorptive capacity of a local partner is low and non-equity ones when high. Theories tested: **Barney (1997)** and **Sharma and Erramilli (2004)**			
Institutional Theory	Disney will favour non-equity-based entry modes when pressures for external isomorphism are high and equity-based ones when pressures for internal isomorphism are high. Theories tested: **Canabal and White III (2008)**, **Davis et al. (2000)**, **Yiu and Makino (2002)** and **Uhlenbruck et al. (2006)**			
Cultural Distance Theory	Cultural distance alone is sufficient to explain Disney's entry mode decisions and the higher its magnitude the likelier the firm will choose hybrid governance structures. Theories tested: **Hofstede (1984)**, **Makino and Neupert (2000)** and **Kogut and Singh (1988)**			

6.1 International Diversification and firm performance

Once these hypotheses are tested, Disney as a whole will be examined to see how well it adapts to current theories of international diversification and firm performance, in particular the S-Curve hypothesis. Research by Lu and Beamish (2004) found that the returns from an international diversification strategy were associated to costs and benefits that varied depending on the extent of a firm's level of internationalization. This relationship resulted in a horizontal S-curve, which at the beginning showed a decline in performance with increasing internationalization, followed by an increase in performance which then declined at very high levels of international diversification.

Figure 6-1. International diversification and Performance: A Three-Phase Model

Source: Lu, Jane and Paul Beamish. International Diversification and Firm Performance: The S-Curve Hypothesis. <u>Academy of Management Journal, Vol. 47 No. 4</u> (2004): p. 600



As can be seen from the previous graph, the net gains from internationalization initially decrease while the firm learns to limit its liability of foreignness and newness and attempts to control its coordination costs (all these add up to "total costs of internationalization"). Once the firm overcomes its initial total costs of internationalization its net gains start to rise up to a point where the total costs of internationalization become larger than the net gains (Lu and Beamish, 2004). We identify this effect in other major theories such as in the Uppsala stage-model of diversification where firms end up retreating after having committed major international ventures given unforeseen loses from geographical diversification (Johanson and Vahlne, 1977). Having major theme parks in all the relevant continents, it is expected that Disney will be located near or at the peak point of its internationalization process.

7 Research Method

Research on Disney's international modes of entry was based on a deductive approach where the explanation of the causal relationships between the relevant variables (foreign market conditions and entry mode) was explained by going from general theory of internationalisation to particular information on the actual decisions taken by Disney.

The nature of the study was descripto-explanatory given the need to portray four different but highly intertwined cases (Tokyo, Paris, Hong Kong and China) while attempting to establish causal relationships between the variables that influence international modes of entry decisions.

The research strategy was based on the creation of independent case studies for each international mode of entry decision made by Disney. Case studies are a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence (Robson, 2002:178). In this case the particular contemporary phenomenon studied is the decision by Disney to select a licensing contract in Tokyo, a WOS in Paris and Joint Ventures for Hong Kong and China.

Sources of evidence for the investigation were mainly of secondary nature, such as:

- Newspapers
- Corporate websites
- Academic journals
- Conference proceedings
- Specialized books
- Stock exchange filings
- Press releases
- Annual reports

The research project is cross-sectional given that performance of the Disney Theme Park division was studied from 1983, date of the Tokyo entrance, all the way into the present, representing a total of 28 years, and this performance was analyzed today, at one point in time.

8 Case Studies: Tokyo, Paris, Hong Kong and Shanghai

The case studies of Tokyo, Paris, Hong Kong and Shanghai are presented in this section in the order of their inauguration. Each case and its hypotheses were developed in such a way as to make them understandable independently of the others.

8.1 First venture abroad: Tokyo Disneyland

On April 15, 1983 Tokyo Disneyland (TDL), the first international Disney theme park, opened on reclaimed shallow areas of Tokyo Bay. Nowadays, with over 17 million visitors a year and more than 45 rides covering an area of 115 acres, Tokyo Disneyland ranks as one of the most highly visited theme parks in the world. By the end of the 1980s Tokyo Disneyland beat a record as it was the only Disney Park able to attract more than 15 million visitors a year. In the year 1989, thanks to the licensing agreement with TDL, Disney received royalties amounting to $573 million – a considerable figure given that it exceeded the operating income received from both Disney's US theme parks (Raz, 1999).

Tokyo Disneyland is owned and operated by a Japanese company, Oriental Land Company Limited (OLCL), which is a conglomerate of several distinct Japanese companies. In the mid-1960s OLCL's main objective was to exploit the area of the Tokyo Bay, since such land was ordered by the Japanese government to be utilized for "leisure" purposes only. It was at this point that OLCL sent study teams around the world to determine the best use for the land. After one of the teams visited the California Disneyland the decision was made to approach Disney with an offer to open a Disneyland in Japan. The company was interested but at the time was busy developing the Florida Park. Moreover, top managers at Disney were deeply concerned about building a Disney theme park in a country with a completely different culture and viewed the venture as too risky, and they were probably right (Raz, 1999).

The two parties came out with a licensing agreement that would render OLCL exposed to all the risks while leaving Disney safe. OLCL was licensed by Disney to use its trademarks, intellectual property and engineering designs for rides. In return Disney would receive royalties of 10% on the admissions revenues and 5% on sales of food, beverages and souvenirs while also providing ongoing technical assistance to OLCL (Raz, 1999).

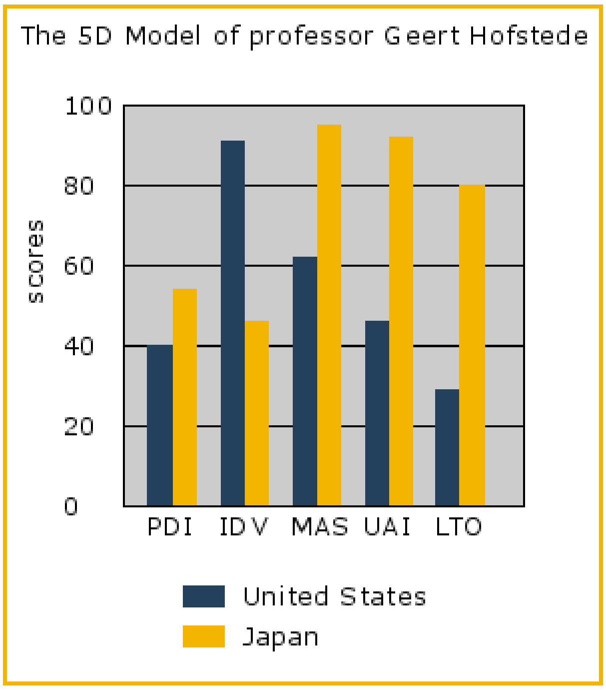
Despite common knowledge, Tokyo Disneyland is more a Japanese product than a perfect copy of the American style. The fact that Tokyo Disneyland is owned by a Japanese company caused the Tokyo Park to adhere almost perfectly to local regulations and customs. Therefore, Tokyo Disneyland did not face all the issues that generally arise with other forms of international activities and entering the Japanese market was overall a smooth process. A licensing agreement, given Disney's lack of knowledge of the local market, was the right choice.

When Disney approved the licensing agreement its management was conscious of the risk posed by entering a different market. One of the most appropriate frameworks that could be used in order to investigate the cultural differences existing between the US and Japan is Hofstede's "Four Dimensions of Culture".

In terms of the Power Distance Index (PDI), Japanese are willing to accept higher levels of hierarchical power than in the US. One of the cases exemplifying this dimension is the adaptation that Tokyo Disneyland had to implement when it asked employees to show last names rather than first names in their personal ID tags as it was done in the US theme parks (Van Maanen, 2003). From a cultural perspective a licensing agreement was the right choice given the large differences between the two cultures and Disney's lack of knowledge about the country.

Figure 11. Hofstede "Five Dimensions of Culture". Japan Vs. US
PDI: Power Distance Index
IDV: Individuality Index
MAS: Masculinity Index
UAI: Uncertainty Avoidance Index
LTO: Long Term Orientation Index

Source: Hofstede's official website, consulted on February, 28th 2011.



A licensing agreement is an entry mode characterised by low risk and development costs. By choosing this method the company didn't face any tangible risks. It is possible to say that the construction and the entry strategies chosen for Tokyo Disneyland were entirely a burden of OLCL. The licensing agreement as a non-equity entry mode gave Disney considerable Ownership advantages in the sense that it allowed the company to leverage its unique resources –refer to the VRIO Framework- in a fast, relatively risk-free way and at a fraction of the cost.

Nonetheless, the company forfeited internalization advantages because it had little exposure to international activities other than handling the licensing contract with OLCL. Moreover, this mode of entry produced a lack of control over the delivery and marketing of the Disney experience that the US Company tried to overcome, at least partially, by sending a small American management team (called Disnoids) to Japan. Their task is to act as advisors and consultants in order to keep the Tokyo Park in tune with the Disney doctrine (Van Maanen, 2003).

The company clearly lost locational advantages since it is not directly operating the venture in Japan. All the advantages derived from the abundance of strong market demand and the willingness of customers to pay goes directly to licensee, Disney receives only a small percentage of this advantage through royalties.

Having learnt how to leverage its resources abroad through the most basic mode of entry Disney felt that it was now ready to jump steps and to take an ownership position in its next venture, Disneyland Paris, and exploit directly its unique model without sharing any of the revenue.

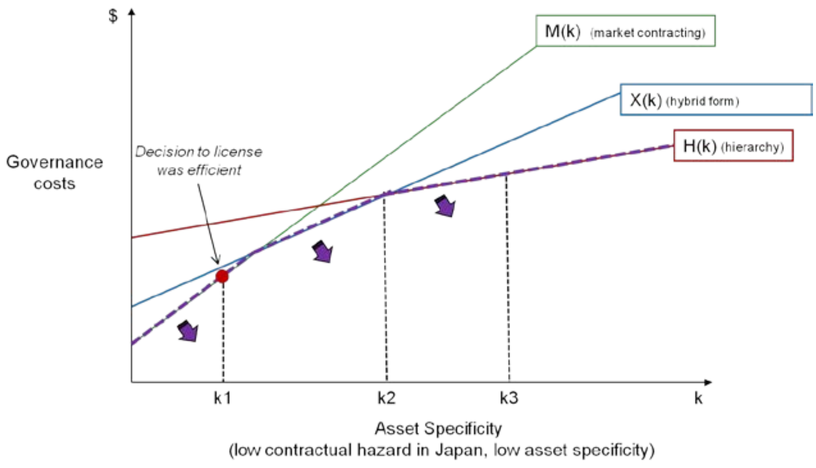
8.1.1 Hypotheses analysis for Tokyo

According to the Uppsala Model of Internationalisation (Johanson and Vahlne, 1977), firms often develop their international operations in small steps, rather than by making large foreign investments at single points in time. This was certainly the case of Disney, who opted for a licensing agreement instead of attempting to conquer by itself a market characterised by having a large psychic distance from the United States. We can therefore confirm hypothesis one for Tokyo Disneyland:

1. *Disney's venture into Tokyo via licensing agreements **is consistent** with the Uppsala Model of Internationalisation given the high psychic distance between both countries and Disney's lack of knowledge about the region.*

In terms of Transaction Cost Economics, ex-ante (negotiating contracts) and ex-post costs (monitoring) may or may not exceed the costs of organizing the transaction internally. Moreover, different governance structures will have different levels of transactions costs and asset specificity. Given the low ex-ante and ex-post transaction costs involved in dealing with a developed country such as Japan (respectful of contracts and aware of property rights), it is consistent for Disney to have chosen licensing agreements instead of a governance structure with higher levels of control. This decision saved Disney costs of complexity and monitoring that would have been exceedingly high for a company that was just starting its internationalisation process.

Figure 8-1. Governance costs as a function of Asset Specificity for Tokyo Disneyland



Adapted from: Williamson (1981, 1985), Teece (1986)

2. *Disney's decision to profit from its unique assets externally via licensing agreements **is consistent** with the TCE approach to internationalisation given the savings achieved in complexity and monitoring.*

In order to generate competitive advantage, a firm's resources have to be valuable, rare, imperfectly inimitable and non-substitutable (Barney, 1997). According the Resource-based view of the firm transferability of resources and capabilities is easier with equity-based modes of entry than with non-equity-based ones. Most entry modes are effective in preserving the value of transferred resources and capabilities; it is the level of efficiency (partner's absorptive capacity) that varies the most. Given that Disney was able to find a committed Japanese partner who was able to transfer its value-generating resources while making important local adaptations without eroding value confirms that choosing a licensing agreement was a good decision from the outset and one that increased the company's resources and capabilities for the whole company.

3. *Disney decision to enter the Japanese market via a licensing agreement* ***is consistent*** *with the Resource-Based view of the firm given its ability to find an efficient local partner with high absorptive capacity that was able to transfer and adapt advantage generating resources without erosion in value.*

Institutional theory analyses how companies enter and operate in an institutional environment defined by certain rules, norms, and values (Davis, Desai, and Francis, 2000). A relevant feature of institutional theory is internal and external isomorphism: the pressures to imitate the parent or local firms in order to best tailor the needs of headquarters or the host market, respectively. Given the large institutional differences between the US and Japanese market, Disney's decision to favour a licensing agreement is consistent with institutional theory given the high pressures for external isomorphism of the Japanese market.

4. *Disney's selection of a licensing agreement* ***is consistent*** *with the institutional theory of internationalisation given the high pressures for external isomorphism in the Japanese market and the need to contractually ensure the effective transfer of the "Disney Flavour" (internal isomorphism).*

Culture refers to the ''collective programming of the mind which distinguishes the members of one category of people from those of another'' (Hofstede, 1984, p. 389). Kogut and Singh (1988) suggested that the effect of national culture on the choice of entry mode is likely to have profound implications. Disney, coming from a very diverse home country, was correct in his decision to enter the Japanese market via a licensing agreement given the large cultural differences between both countries.

5. *Disney's selection of a licensing agreement* ***is consistent*** *with Cultural Distance Theory due to the large cultural differences with the host country and lack of similar cultural experiences in the region. Thus, cultural distance alone is sufficient to explain Disney's decision.*

Table 8-1 Aggregated Results for Tokyo

Framework	Tokyo
Uppsala Stage Process	Yes
TCE	Yes
Resource-Based View	Yes
Institutional Theory	Yes
Cultural Distance Theory	Yes

As can be verified from the previous table, Tokyo Disneyland was not only a success from a financial point of view, but also from a management perspective. The right tools to enter the Japanese market and this positively influenced performance.

8.2 Gaining confidence: Disneyland Paris

Until 1992, the Walt Disney theme parks in California, Florida and Japan had experienced nothing but success. Encouraged by the strong sales of Disney licensed products in the European market, in 1986 Disney executives started to evaluate the alternative of opening a European-based theme park in the belief that Disney “magic”, which had been so successfully exported in Japan, was sure to repeat itself in Europe. Among viable locations were Great Britain, Italy, Spain and France. Britain and Italy were dropped from the list because they lacked suitable land. Spain offered a better climate, but locating the park in France showed significant advantages in terms of supporting infrastructures, government subsidies and tourism affluence, since its capital, Paris, is the most visited European destination (Forbes, 2007).

It was in March 24th, 1987 that the Walt Disney Company signed an agreement with the Republic of France for the creation of Euro Disneyland. For this purpose, a wholly-owned subsidiary, called Euro Disneyland SCA, was incorporated as a French corporation and listed in the London Stock Exchange. In fact Euro Disneyland is not exactly a WOS since Disney nowadays only controls 39% of the company. Nonetheless, Disney remains the majority shareholder and commands total control of the company’s operations (Grant, 2008).

Nevertheless, the theme park was not an immediate success. One prominent French intellectual defined the transplantation of Disney park as “a cultural Chernobyl” (Mnouchkine, 1992), and many cultural conflicts arose before and after the opening, on April 12th 1992, of the 5 billion dollar venture.

The first phase of development had gone over budget. Nevertheless, the park showed sluggish attendance figures over its first months, and by May 1992 it was only attracting 25,000 visitors per day, instead of the predicted 60,000 (Walt Disney Company Press release, 1992). The company invested billions in building luxury hotels next to the park, which turned out to be empty most of the times since visitors were not willing to spend additional money to visit an area that could be explored in a day trip from Paris. This situation was worsened by the fact that only 3 out of 10 visitors were native French and the remaining were, surprisingly, Americans living in Europe or Japanese on a European vacation (Grant, 2008).

The European recession in 1992 caused property prices to drop, and prevented Euro Disney from sustaining revenues through land sales. Hence, the massive interest payments on the start-up loans taken out by Euro Disney turned the company into financial difficulties and the company's stock price started a downward spiral. Moreover, the cheap dollar persuaded more and more people to forego Europe in favour of holidays in the US parks. By the end of 1993, Euro Disney had cumulative losses of 2 billion dollars (Walt Disney Press Release, 1993), and there were rumours that the park was about to close.

In 1994, Prince al-Waleed, a billionaire from Saudi Arabia decided to purchase a 24% share - eventually decreased to 17%- of the debt-ridden Euro Disney, allowing the company to withstand the European recession and continue building despite the increased debt ratio. It is worth mentioning that many analysts attribute Euro Disney's future success to the Prince al-Waleed's investment (Disney Press Release 1994). The financial imbalances of Euro Disney were attributed to the high costs committed to adapt the American model to sophisticated European tastes. Disney simply was not able to overcome its liability of foreignness and newness in the new market (Grant, 2008).

The local adaptations added significant costs to Disney business model. Park attractions were planned to accommodate the French and European culture and many of them were unique to Euro Disney (e.g. attractions based on themes inspired by European famous artists such as Jules Verne and Leonardo da Vinci). Disney dealt with European queuing concerns by providing entertainment, movies and video screens for people waiting in line. A huge amount of money was spent on building French-style restaurants, placing less emphasis on American fast foods. Nonetheless, when customers were asked to choose between sophistication or lower prices, they opted for the latter (Grant, 2008). In fact, visitors preferred fast foods and the same rides as in the US parks. It was clear that Euro Disney needed to change its strategy.

In 1994, executives significantly cut operational costs and lowered the prices for daily entrance tickets and hotel rooms. On the marketing and communication side, the name of the park was changed to Disneyland Paris in order to show a stronger identification with the city of Paris and a new advertising campaign was launched in order to make people aware of the changes. Nowadays, Disneyland Paris shows successful figures and has overcome all of the past strategic problems. With its 15.3 million visits in 2008 it is nowadays one of the most visited tourist destinations in Europe (Grant, 2008). Disney finally was able to adapt to the local culture, but not without significant costs that could have been avoided with other entry modes like joint ventures.

The French government played a key role in Disney's eventual success. The venture was welcomed by the French government which, since the beginning, committed itself to the development of the project. Among the other facilitations, the French government sold Disney approximately 4.400 acres of land in Marne-la-Valle at farmland price, lent Disney US$ 770 million at favourable interest rates, financed much of the transport infrastructure at the park and set the VAT payments for Disney at 5.5% instead of 18.6% (Company Website). From an institutional perspective it made sense for Disney to dismiss alternative modes of entry given the unconditional support of the government.

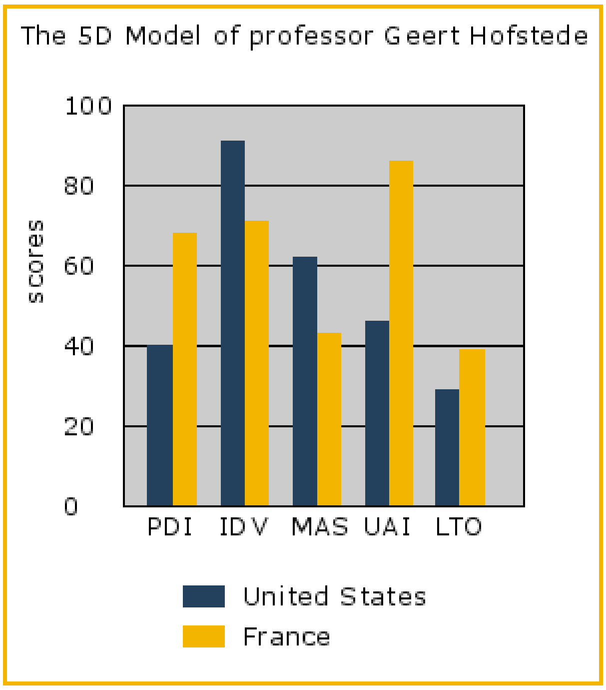
In France, FDI regulations are simple and attractive to foreign investors. The French government has established several regulatory frameworks which promote the establishment of foreign companies. So far, the development of Euro Disney, considered one of the hugest investments in Europe by an American company, was facilitated by a developed form of formal institutions.

Many of the cultural problems that Euro Disney experienced could be analyzed using Hofstede's "Four Dimensions of Culture" (1984). The following analysis compares Hofstede cultural dimensions for the US against those of France. The US has a PDI score of 40, which is 27% lower than the world average and is characterized by flat organization structures, a smaller proportion of supervisors and by employees empowered to make their own decisions. France scores 68 points on the PDI which is 24% higher than the world average. Higher PDI societies have hierarchical organization structures featuring a high proportion of supervisors that give orders to the lowest levels. In fact, the French were confused when Disney appointed mostly American managers in the front-line supervisory positions at Euro Disneyland, many of whom were not even fluent in French. Furthermore, American managers required English spoken at all meetings. The lack of effective communication led to major mistakes in the park theme operations.

American Individualism score of 91 is the highest in the world. France's score of 71 is high as well, 65% more than the world average. Paradoxically, cultures characterized by high level of individualism believe that there is only one set of correct values, while collectivist cultures admit different ideas among different groups. American executives imposed a strict dress code at Euro Disney that required extremely short hair and banned beards and moustaches. French employees perceived that the Americans, by imposing the Disney appearance code, were insulting their traditions and identities.

Figure 12. Hofstede "Five Dimensions of Culture". France Vs. US

PDI: Power Distance Index
IDV: Individuality Index
MAS: Masculinity Index
UAI: Uncertainty Avoidance Index
LTO: Long Term Orientation Index



Source: Hofstede's official website, consulted on February, 28th 2011.

The large differences in culture called for a different entry mode than a Wholly Owned Subsidiary. Other types, like a joint venture with a local company, would have allowed for different voices to be heard that could have avoided the initial business failure that Euro Disney was.

In the Euro Disney case, the choice of a wholly-owned subsidiary as an equity entry mode involved high costs for building the park, huge operational expenses, and high risks due to running the business in an unfamiliar environment. Nonetheless, this entry decision allowed the company to gain Ownership, Internalization and Locational advantages at the same time.

The Ownership advantages of Disneyland Paris are mainly reputational and first mover advantages which render the theme park unique in the customer's mind. Furthermore, it is worth mentioning that, given the uniqueness of the Disney product, there are no potential competitors in the European arena. These factors give the company the possibility to charge a premium price for the final customer.

In terms of Locational advantages France offered unique transportation facilities, qualified labour and access to a big potential market, justifying an investment in the region over other options.

The decision of pursuing a WOS allowed Disney to save on high transaction costs like the ones experienced in the licensing contract with Japan. This Internalization advantages were the prevention of knowledge leakages, the cost savings of not having to enforce a contract with a third party and the avoidance of opportunistic behaviour. Moreover, this decision allowed the company to gain a practical understanding of how to run a theme park abroad. Finally, as Teece suggested (1986), by internalizing market transactions the company still has to deal with the government which as a consequence adds an extra layer of costs.

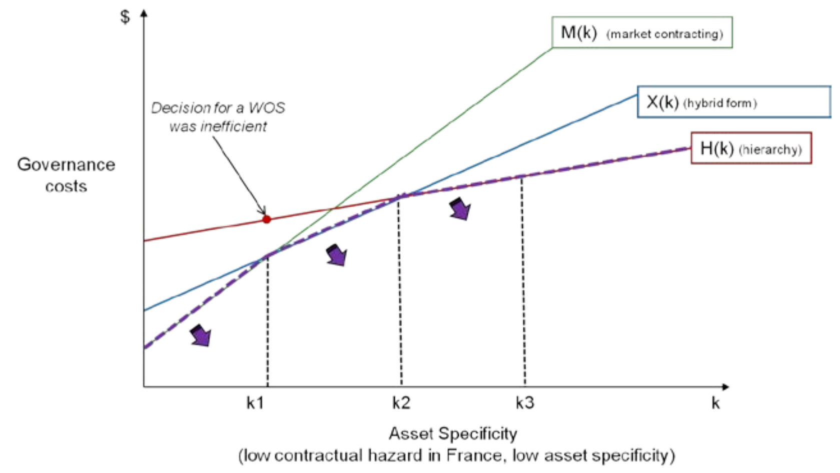
8.2.1 Hypotheses analysis for Paris

According to the Uppsala Model of Internationalisation (Johanson and Vahlne, 1977), firms often develop their international operations in small steps, rather than by making large foreign investments at single points in time. After the successful experience of Tokyo Disneyland, Disney felt that it was ready to jump steps and implement a corporate governance structure with higher levels of commitment when it simply was not ready. Thus Disney's venture into the French market is not consistent with the Uppsala Model of Internationalisation given that a hybrid mode of entry was advisable.

1. *Disney's venture into France via a Wholly Owned Subsidiary* ***is NOT consistent*** *with the Uppsala Model of Internationalisation given the high psychic distance between both countries and the lack of relevant experience abroad and local knowledge.*

In terms of Transaction Cost Economics, ex-ante (negotiating contracts) and ex-post costs (monitoring) may or may not exceed the costs of organizing the transaction internally. Furthermore, different governance structures will have different levels of transactions costs and asset specificity. Given the relatively low ex-ante and ex-post transaction costs involved in dealing within a developed country such as France (respectful of contracts and aware of property rights), it is NOT consistent for Disney to have chosen a WOS when it could have chosen a hybrid governance structure with lower levels of commitment that would have allowed the company to better adapt, from the outset, to the unique needs of the French market.

Figure 8-2. Governance costs as a function of Asset Specificity for Disneyland Paris



Adapted from: Williamson (1981, 1985), Teece (1986)

2. *Disney's decision to profit from its unique assets internally via a Wholly Owned Subsidiary* ***is NOT consistent*** *with the TCE approach to internationalisation given that it was not necessary to maintain such a high level of control from the outset.*

In order to generate competitive advantage, a firm's resources have to be valuable, rare, imperfectly inimitable and non-substitutable (Barney, 1997). According the Resource-based view of the firm transferability of resources and capabilities is easier with equity-based modes of entry than with non-equity-based ones. Most entry modes are effective in preserving the value of transferred resources and capabilities; it is the level of efficiency (partner's absorptive capacity) that varies the most. What was needed in Disneyland Paris was a local partner that was able to adapt Disney's resources and capabilities to the local environment. Therefore the Resource-based view is not fully supported for Disneyland Paris given that resources and capabilities were not fully developed by this choice.

3. *Disney decision to enter the French market via a WOS* ***is NOT consistent*** *with the Resource-Based view of the firm given that there was a real need for a local partner to effectively and efficiently transfer advantage-generating resources without eroding value. Moreover, it was feasible to find such a partner in France's developed market.*

Institutional theory analyses how companies enter and operate in an institutional environment defined by certain rules, norms, and values (Davis, Desai, and Francis, 2000). A relevant feature of institutional theory is internal and external isomorphism: the pressures to imitate the parent or local firms in order to best tailor the needs of headquarters or the host market, respectively. Given the large institutional differences between the US and France, Disney's selection of a WOS as an entry mode is NOT consistent with institutional theory because the high pressures for external isomorphism were utterly neglected.

4. *Disney's selection of a WOS **is NOT consistent** with the institutional theory of internationalisation given that the company ignored high pressures for external isomorphism in the French market in order to accommodate its high pressures for internal isomorphism. Only hybrid structures are able to cover to both needs simultaneously.*

Culture refers to the ''collective programming of the mind which distinguishes the members of one category of people from those of another'' (Hofstede, 1984, p. 389). Kogut and Singh (1988) suggested that the effect of national culture on the choice is likely to have profound implications. The cultural differences between the US and France are high and it was a mistake for Disneyland to settle for a WOS when other governance structures with lower levels of commitment would have allowed for better adaptation to local needs.

5. *Disney's selection of a WOS **is NOT consistent** with Cultural Distance Theory due to the large cultural differences with the host country. Cultural differences alone would have provided a recommendation for a hybrid structure.*

Table 8-2 Aggregated Results for Paris

Framework	Paris
Uppsala Stage Process	No
TCE	No
Resource-Based View	No
Institutional Theory	No
Cultural Distance Theory	No

In general Disney stayed off-path in the Paris venture. Over-confidence from the Japanese experience combined with greed cause the company to settle for an inefficient entry mode.

8.3 Mature phase: Hong Kong Disneyland

Back in 1999, the Hong Kong government announced plans for a Disney theme park construction in the area. Hong Kong Disneyland finally opened in 2005 and it has been operated by Hong Kong International Theme Parks, a company jointly owned by the Government of Hong Kong and Disney.

The investment in the Hong Kong theme park is over HK$14 billion, with the Hong Kong Government owning 57% and Disney the rest. The theme park's board of directors has 11 members. The Hong Kong Government appoints five directors while Disney names four of them. Two independent non-executive directors are jointly appointed by the Hong Kong Government and Disney. Chairmanship rotates annually between the government-appointed directors and the Disney-appointed directors. The management team is composed by people with many years of experience in the company and from several backgrounds and nationalities.

The park plays an active role in its community by constantly operating programs that benefit it, like donating trees or giving free tickets for special occasions. Although the theme park is still in its first years and attendance was low at the beginning -it actually missed its visitors target in each of the first two years- (Kwok 2009), it has recently been reported that overnight travellers with children or grandchildren increased by 22% from 2006 to 2007.

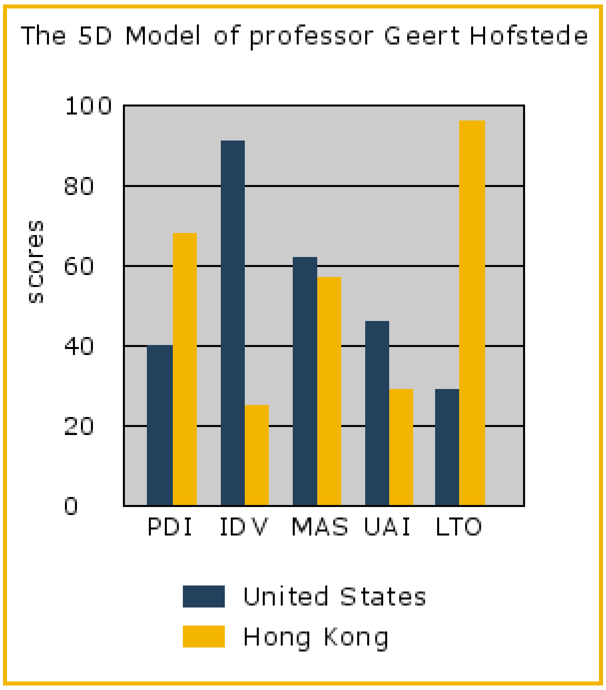
Contrary to the experiences in Tokyo (licensing agreement) and Paris (WOS), Disney selected a joint venture as entry mode for Hong Kong. This entry mode is an option between a licensing agreement and a WOS, with its own advantages and disadvantages. The main benefit of a joint venture is, in this case, the close relationship with the local government that Disney is developing. Asia is a complicated market and it usually pays to not only have the government on your side, but to have it as a major investor. It also benefits the venture to have a local partner with deep knowledge of traditions and customs. Thus, from and institutional and cultural point of view the selection of a joint venture was justified.

A major disadvantage for the Hong Kong venture is that the company is not the majority shareholder in the joint company and it is somehow dependent on the Hong Kong government for major decisions. Moreover, other investments that might be beneficial for Disney as a whole might be detrimental for the joint venture and cause problems with the partner, as will probably be the case with Disney's plans to open a Shanghai theme park since it will take away a substantial market share from the Hong Kong Park. This example reflects many of the challenges arising from joint ventures.

One of the major risks of joint ventures is the probability of a partner stealing the other's capabilities in order to later compete on its own. This is clearly a risk for the Hong Kong theme park and even more for the Chinese one. Nonetheless, Disney's resources and capabilities are so rare and inimitable that this risk should not be reason enough for considering other options. In other words, technology risk is almost non-existent for Disney, since other companies might copy the rides, but they will never be able to copy the Disney experience.

Figure 11. Hofstede "Five Dimensions of Culture". Hong Kong Vs. US

PDI: Power Distance Index
IDV: Individuality Index
MAS: Masculinity Index
UAI: Uncertainty Avoidance Index
LTO: Long Term Orientation Index



Source: Hofstede's official website, consulted on February, 28th 2011.

Finally, a joint venture seems to be the best course of action for Hong Kong given the high cultural distances between those locations and the United States. A local partner, in the way of a local government, seems better suited to deal with local traditions than the American company. Moreover, joint ventures are a great opportunity for Disney to learn more about these markets and maybe run a new park by itself in the future (in South Korea or Indonesia, for example).

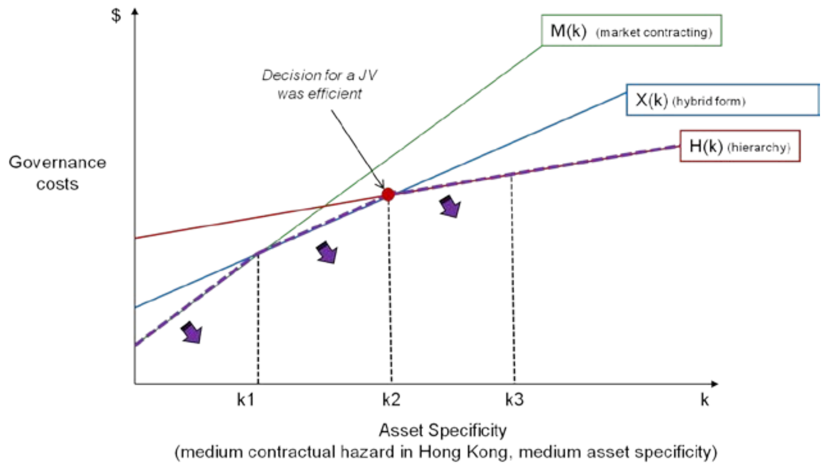
8.3.1 Hypotheses analysis for Hong Kong

According to the Uppsala Model of Internationalisation (Johanson and Vahlne, 1977), firms often develop their international operations in small steps, rather than by making large foreign investments at single points in time. The model also foresees the option of reversing the internationalisation process in case of overexpansion. Disney clearly jumped steps when moving directly to a WOS in Paris after having only a licensing agreement in Tokyo as experience abroad. The decision to settle for a Joint Venture in Hong Kong is clearly consistent with the Uppsala Model of Internationalisation, from both the point of view of a normal internationalisation process and as a reversal due to overextension.

1. *Disney's venture into Hong Kong via a Joint Venture* ***is consistent*** *with the Uppsala Model of Internationalisation given the high psychic distance between both countries and lack of relevant experience abroad. It is also consistent with the model as an example of reversal of commitments due to overexpansion.*

In terms of Transaction Cost Economics, ex-ante (negotiating contracts) and ex-post costs (monitoring) may or may not exceed the costs of organizing the transaction internally. Furthermore, different governance structures will have different levels of transactions costs and asset specificity. Given the relatively high ex-ante and ex-post transaction costs involved in dealing with partner in Hong Kong, but also the higher costs of operating in a highly different foreign market, Disney's decision to settle for a Joint Venture is consistent with the TCE approach.

Figure 8-3. Governance costs as a function of Asset Specificity for Hong Kong Disneyland



Adapted from: Williamson (1981, 1985), Teece (1986)

2. *Disney's decision to profit from its unique assets via a Joint Venture **is consistent** with the TCE approach to internationalisation not only because of high transaction costs, but also because of the challenge of operating in a different foreign environment.*

In order to generate competitive advantage, a firm's resources have to be valuable, rare, imperfectly inimitable and non-substitutable (Barney, 1997). According the Resource-based view of the firm transferability of resources and capabilities is easier with equity-based modes of entry than with non-equity-based ones. Most entry modes are effective in preserving the value of transferred resources and capabilities; it is the level of efficiency (partner's absorptive capacity) that varies the most. Disney's "in-between" decision to enter the Hong Kong market with a Joint Venture is consistent with the Resource-based view given the feasibility to transfer value-generating resources and capabilities while allowing a local partner with high absorptive capacity to adapt for unique local conditions without eroding value.

3. *Disney's decision to enter the Hong Kong market via a Joint Venture **is consistent** with the Resource-Based view of the firm given that there was a real need for a local partner to "adapt", not just transfer, its value-generating resources and capabilities without eroding value.*

Institutional theory analyses how companies enter and operate in an institutional environment defined by certain rules, norms, and values (Davis, Desai, and Francis, 2000). A relevant feature of institutional theory is internal and external isomorphism: the pressures to imitate the parent or local firms in order to best tailor the needs of headquarters or the host market, respectively. The company's decision to enter the Hong Kong market via a Joint Venture is consistent with the Institutional Theory given the need to properly mimic local conditions while keeping the "Disney flavour".

4. *Disney's selection of a Joint Venture **is consistent** with the institutional theory of market entry given the high pressures for external isomorphism in the French market and the equally high pressures for internal isomorphism (maintaining Disney flavour).*

Culture refers to the ''collective programming of the mind which distinguishes the members of one category of people from those of another'' (Hofstede, 1984, p. 389). Kogut and Singh (1988) suggested that the effect of national culture on the choice is likely to have profound implications. The cultural differences between the US and Hong Kong are high, thus confirming Disney's decision to select a Joint Venture as a mode of entry.

5. *Disney's selection of a Joint Venture* ***is consistent*** *with Cultural Distance Theory given the large cultural differences with the host country. Cultural differences alone were a sufficient reason to choose a hybrid structure.*

Table 8-3 Aggregated Results for Hong Kong

Framework	Hong Kong
Uppsala Stage Process	Yes
TCE	Yes
Resource-Based View	Yes
Institutional Theory	Yes
Cultural Distance Theory	Yes

Disney learnt its lesson and corrected its internationalisation approach for its Hong Kong venture. A hybrid approach was the right entry mode and this reflected in positive performance for the company.

8.4 The future: Shanghai Disneyland

"Shanghai Disneyland will be authentically Disney and distinctly Chinese"

The Walt Disney Company

Although details have not been properly diffused, it is known that the Chinese government approved plans to develop a Disneyland theme park in Shanghai on November 4, 2009, shortly after a visit of the current President of the United States of America, Barack Obama. The park is expected to be operational by 2015 and at 3.9 square kilometres it will be 2-3 times the larger than Hong Kong Disneyland.

The exact location of Shanghai Disneyland will be at Pudong New District, quite close to Shanghai's city centre. In fact, 330 million possible visitors live within a three-hour drive or train ride from the park. Shanghai Disneyland will include signature Disney ride that are common around the world as well as many new elements tailored specifically for Chinese people and unique to the Shanghai Disney Resort. In many ways this project represents a good example of Disney's challenging task to be American and Chinese at the same time.

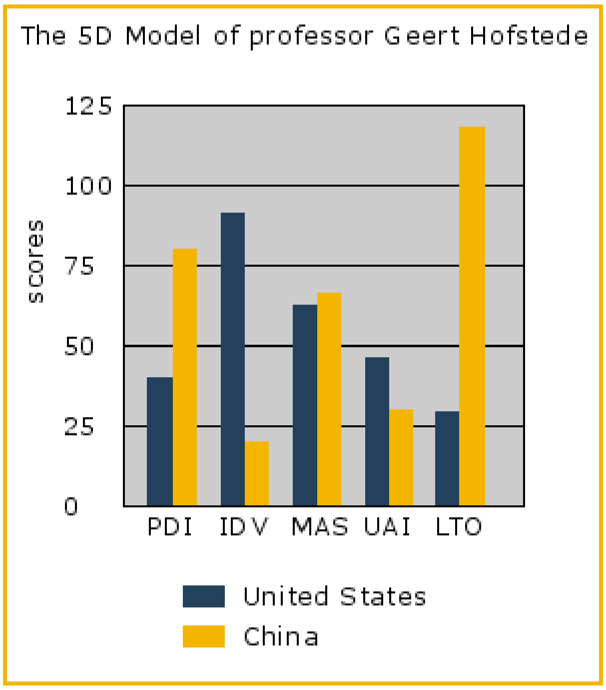
Disneyland Shanghai will be a joint venture between Disney and the Shanghai Shendi Group, a 100% state-owned Chinese company. As part of the agreement, Shanghai Shendi Group will hold 57% of the shares and Disney the remaining 43%. Although it is mandatory by law to enter the Chinese market with a joint venture with a local company, the selection of a JV makes sense from several perspectives given the great differences between both cultures. From an Institutional Theory standpoint it makes sense to team up with the government. Nonetheless, from a Resource-Based approach such a move might jeopardize an effective and efficient transfer of resources and capabilities. Disney's decision is controversial and all theories of internationalisation have to be consulted in order to understand it.

Disney gained a large amount of knowledge about the Asian market from its operations in Disneyland Hong Kong. In theory it should be capable of running the park by itself, but the power and influence of the Chinese government is so high that a joint venture seems to be the less risky option. However, the value of the government as a partner is questioned given the limited contributions that it would be able to bring to the new venture, besides its money and official blessing. Disney might encounter difficulties adapting to the local market if the government agency is simply not up to the task, as a private partner would be.

The total investment in the park would be around $3.59 billion dollars and it would be the company's fourth international venture after Tokyo, Paris and Hong Kong. The project will be completely financed by 7 Chinese banks, which illustrates the benefits and challenges of conducting business with such a powerful local government. With so much weight in the project being hold by the Chinese government it is not unreasonable to assume that Disney will have difficulties maintaining its "Disney flavour" in China.

Figure 11. Hofstede "Five Dimensions of Culture". China Vs. US

PDI: Power Distance Index
IDV: Individuality Index
MAS: Masculinity Index
UAI: Uncertainty Avoidance Index
LTO: Long Term Orientation Index



Source: Hofstede's official website, consulted on February, 28th 2011.

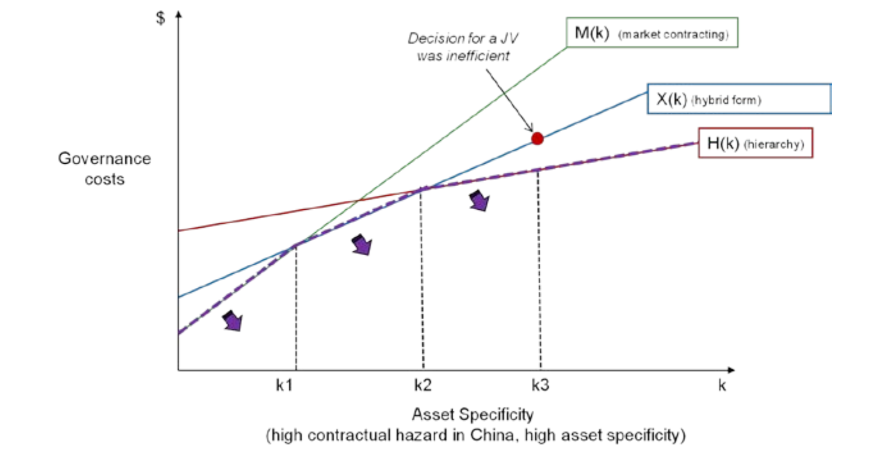
8.4.1 Hypotheses analysis for Shanghai

According to the Uppsala Model of Internationalisation (Johanson and Vahlne, 1977), firms often develop their international operations in small steps, rather than by making large foreign investments at single points in time. Having gained substantial experience abroad, especially in the Asia region, Disney should be able to enter the Chinese market by itself or with the help of a minority partner in a Joint Venture. Disney's "forced" decision to enter China via a minority JV with the Chinese government is therefore not consistent the Uppsala Model of Internationalisation since higher levels of commitment would have been expected.

1. *Disney's venture in Shanghai via a 57% Chinese Government /43% Disney Joint Venture* ***is NOT consistent*** *with the Uppsala Model of Internationalisation given the now lower psychic distance between the two countries due to the firm's extensive experience in Asia. A Joint Venture with high higher levels of commitment, or at least 50%-50%, would have been more adequate.*

In terms of Transaction Cost Economics, ex-ante (negotiating contracts) and ex-post costs (monitoring) may or may not exceed the costs of organizing the transaction internally. Furthermore, different governance structures will have different levels of transactions costs and asset specificity. Given the high ex-ante and ex-post transaction costs involved in dealing in the Chinese market, plus the equally high costs of operating in a different foreign market combined with high contractual hazards (high asset specificity), Disney's decision to settle for a Joint Venture is not consistent with the TCE approach. This conclusion is consistent with the one derived from the Uppsala Model of Internationalisation.

Figure 8-4. Governance costs as a function of Asset Specificity for Shanghai Disneyland



Adapted from: Williamson (1981, 1985), Teece (1986)

The fact that Disney was "forced" into a JV with the Chinese government does not justify the project from a TCE perspective. Disney still had the option of withdrawing from the venture itself and venture somewhere else. The TCE perspective would only make sense if the company expects abnormal profits that would justify selecting an entry mode with higher transaction costs. Still, other venues around the world would have provided the same amount of profits without having to accept contractual conditions that could jeopardize the entire project. This situation is comparable to the one suffered by Shell when its investments in the Russian Sakhalin project went awry.

2. *Disney's decision to profit from its unique assets via a minority Joint Venture* ***is not consistent*** *with the TCE approach to internationalisation given that high contractual hazards in China would have justified higher levels of control, such as a majority JV or a WOS.*

In order to generate competitive advantage, a firm's resources have to be valuable, rare, imperfectly inimitable and non-substitutable (Barney, 1997). According the Resource-based view of the firm transferability of resources and capabilities is easier with equity-based modes of entry than with non-equity-based ones. Most entry modes are effective in preserving the value of transferred resources and capabilities; it is the level of efficiency (partner's absorptive capacity) that varies the most. Disney's selection of a minority Joint Venture with the local government is not consistent with the theory as this will seriously jeopardize the company's ability to effectively and efficiently transfer and adapt value-generating resources and capabilities. A private local partner would have been a better choice, but obviously the company had little choice in this regard due to the aggressive institutional environment (see next hypothesis). The only case where it would make sense from a RBV perspective would be if Disney's ultimate purpose was to learn how to operate in difficult markets such as China. For this reason the RBV hypotheses is only partly inconsistent.

3. *Disney's decision to enter China via a minority Joint Venture with the local government* ***is partly NOT consistent*** *with the Resource-Based view of the firm given the obstacle that cooperating with a partner with low absorptive capacity would represent in effectively transferring and adapting resources and capabilities without eroding value. It makes sense if the purpose is to develop the capabilities to operate in difficult environments such as China.*

Institutional theory analyses how companies enter and operate in an institutional environment defined by certain rules, norms, and values (Davis, Desai, and Francis, 2000). A relevant feature of institutional theory is internal and external isomorphism: the pressures to imitate the parent or local firms in order to best tailor the needs of headquarters or the host market, respectively. Disney has a strong need to properly mimic the Chinese environment in order to fit in, but this might come at the risk of not maintaining the Disney flavour in the new market due to the high influence that the Chinese government will have in the venture. Thus, Disney's decision is considered to partly confirm the institutional approach to market entry given that a private partner would have been a better choice to mimic the local market.

4. *Disney's selection of a minority Joint Venture with the Chinese Government **is partly consistent** with institutional theory given the unusually high pressures for external isomorphism in the Chinese market. A private Chinese would have been better.*

Kogut and Singh (1988) suggested that the effect of national culture on the choice is likely to have profound implications. The cultural differences between the US and China are quite large, implying that Disney's decision to select a Joint Venture as a mode of entry is consistent with the cultural approach to market entry.

5. *Disney's selection of a Joint Venture is consistent with Cultural Distance theory given the large cultural differences with the host country. Cultural difference alone would have recommended a hybrid structure as a solution.*

Table 8-4 Aggregated Results for China

Framework	China
Uppsala Stage Process	No
TCE	No
Resource-Based View	No (partly)
Institutional Theory	Yes (partly)
Cultural Distance Theory	Yes

The Chinese venture is a complex one. The fact that Disney was forced into a minority Joint Venture with the Chinese government complicates the analysis and illustrates the benefit of using several perspectives. While the Uppsala Model and TCE approaches offer negative results, the RBV and Institutional Theory present new insights. On the one hand, the China venture is an opportunity to learn how to conduct business in harsh environments, thus partly supporting the RBV. On the other, Institutional Theory justifies a JV with the Chinese government given the abnormally high pressures for local isomorphism. Cultural Distance Theory would have provided a similar answer, regardless of all the other paradigms.

9 Aggregated Results for Disney

The following is a summary table of the hypotheses analysed.

Table 9-1 Aggregated Results

Framework	Tokyo	Paris	Hong Kong	China
Uppsala Stage Process	Yes	No	Yes	No
TCE	Yes	No	Yes	No
Resource-Based View	Yes	No	Yes	No (partly)
Institutional Theory	Yes	No	Yes	Yes (partly)
Cultural Distance Theory	Yes	No	Yes	Yes

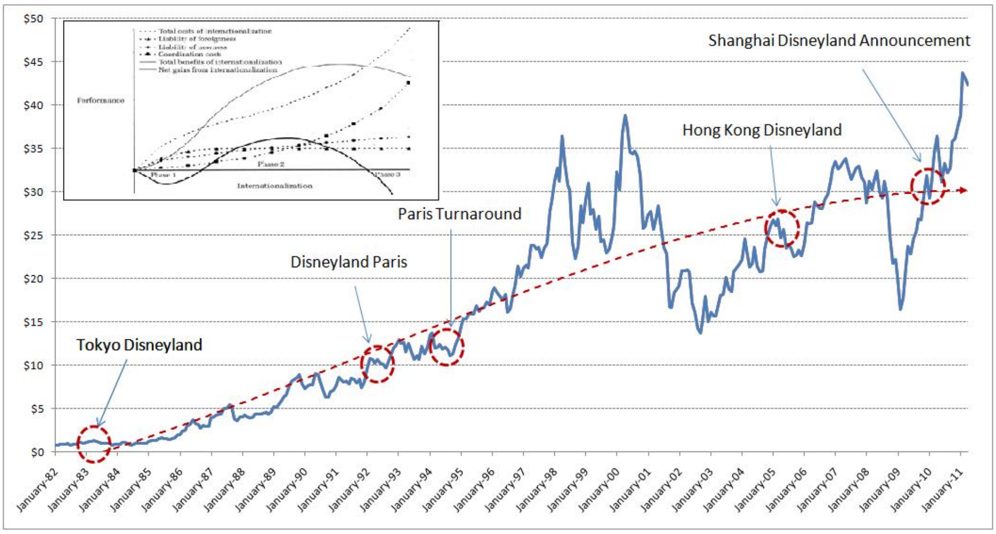
As can be verified from the previous table, Disney has followed a fairly normal internationalisation process with the exception of Paris, a venture that the company eventually turned around by addressing the importance of local conditions. After Paris' initial failure, the company learnt that when it comes to internationalisation it pays to respect foreign markets and closely follow theoretical recommendations, while still being open to radical exceptions, such as the recent partnering with the Chinese government. A more complete discussion of the results is offered in the next two sections.

9.1 International Diversification and Firm Performance: Results

Research by Lu and Beamish (2004) showed that the performance from an international diversification strategy may result in a horizontal S-curve, which at the beginning showed a decline in performance with increasing internationalization, followed by an increase in performance which then declined at very high levels of international diversification. Even though Disney is a large company with commercial concerns that go beyond its theme park division, the effects of billion-dollar investments this sector are noticeable and consistent with Lu and Beamish's approach. With the announcement of Shanghai Disneyland the company is effectively at or near the top of its international diversification strategy.

Figure 9-1. International diversification and Performance: Results (Stock price and polynomial trend line, Dollars, 1982-2011)

Source: Yahoo! Finance, consulted on April 24th, 2011.



As can be seen from the previous figure, Disney effectively started its diversification process with Tokyo Disneyland. After huge success it ventured into France, where after some initial troubles it managed to turn around the operations into profitability. Hong Kong Disneyland also kept fuelling Disney's international growth with more advantages than disadvantages. It is clear from the figure that with the announcement of Shanghai Disneyland the company might be approaching a point of inflexion after which each additional project might actually be detrimental to the company's bottom line. Nonetheless, the picture is still incomplete and a definitive diagnosis cannot be made before evaluating performance of the company as a whole after a few years beyond the opening of the Chinese project.

To summarize, Disney's international diversification and firm performance **is consistent** with the S-curve proposed by Lu and Beamish (2004) where it has been consistently benefiting from international projects while rapidly approaching a point of diminishing returns.

10 Discussion

The major pattern observed in Disney's internationalisation process is a tendency to include a local partner, especially after the case of Paris where its decision to go solo resulted in severe financial losses for the company after failing to adapt its value-generating resources and capabilities. It is clear from the individual observations that Disney is gradually becoming an expert in internationalisation and it would not come as a surprise if the company starts working in future international ventures with more and more minority JV partners. Eventually it might be possible for the company to enter markets alone and stop sharing the pie, especially in the Asia region where it has developed recognized expertise.

Paris remains an exception to the observations as a case of "temporary" greed by the American company. The general trend is one consistent with major theories of internationalisation like the Uppsala Stage Model. An exception is the Shanghai case, where Disney should have been able to work with a minority Chinese partner instead of with the government itself, but the decision is understandable given the unusually strong influence of the government in that country.

The likely causes underlying this current modesty exhibited by Disney is the learning and experience that the company has accrued over the years. It will not, as it did with Paris, focus on "eating all the pie", but on growing it and sharing it with value-adding local partners. As long as Disney stays loyal to this strategy it should not suffer from such difficulties again.

In general the results from this research project are consistent with previous work in the area of internationalisation. It became evident that there is not a single internationalisation theory that explains all aspects of such a complex process. In some cases Transaction Cost Economics would recommend one solution only to be discredited by another framework, such as the Institutional-View to market entry (the China case). The value of mixed frameworks such as Dunning's eclectic paradigm is clear in light of the challenges faced by companies going abroad, especially for practitioners (See Appendix I).

Herein lays the major contribution of this project: companies should take a broad view when deciding how to go abroad while keeping in mind the inherent challenges of doing business in different cultures. At the end of the day it is better to share higher profits with a value-adding local partner than to keep loses in a solo venture.

11 Conclusions

At the current moment the theme park division of the Walt Disney Company is experiencing unprecedented success. With the Shanghai project starting in just a few months it is expected that this positive trend will continue. But this was not always the case.

The single most important statement that we can derive from the observations is that when Disney stays relatively close to theoretical recommendations it tends to perform better. It took Disney 20 years to evaluate the Tokyo venture only to settle for the most conservative and theoretically correct solution: a licensing agreement. Good times in Tokyo convinced the company that it was ready for major international projects without further help from local partners, which was a strategic mistake when attempting to conquer the European market by its own. After a difficult turn-around of Disneyland Paris the company was able to internalize the lesson and return to a traditional path to internationalisation.

The more recent cases of Hong Kong and Shanghai are living proof of the return to an all-encompassing international strategy where the company seeks value-adding help from local partners. Disney has finally learnt that even highly unique resources and capabilities require some degree of adaptation in foreign markets. Disney was forced to learn that its value-generating resources and capabilities were actually location-bound. An ideal partner for Disney is the one that is able to effectively and efficiently transfer those resources and capabilities with the required amount of adaptation, that is, one with high absorptive capacity.

The best cases for Disney remain Tokyo and Hong Kong. In the Tokyo case the company acknowledged its lack of experience abroad and settled for a full-fledged licensing agreement with a local company. In Hong Kong, with more international experience accrued, the company rightly decided that a Joint Venture with a local partner was the best way to proceed.

Shanghai will represent a challenge for the company. After the international experiences accrued it should be assumed that Disney should be able at this stage to conduct international projects with the help of only minority partners, that is, there is no longer any need to share a higher percentage of future profits. Opting for a 57/43 partnership with the Chinese government represents a reversal in Disney's international expansion process in several respects. On the one hand, the Chinese government cannot be considered a value-adding partner in the sense that it is only providing financing and its official blessing for the project, that is, it does not have the required absorptive capacity. Chinese officials will not certainly help Disney to adapt its value-generating resources and capabilities in the way a regular Chinese partner would have done so. On the other hand, given the inherent difficult conditions to conduct business in China, it makes sense for Disney to cope with these conditions in order to achieve first-mover status and asset mass efficiencies in the new market, which turns out to be the biggest one in the world. These contradictory conclusions are fully explained by all theories, and only by looking at them simultaneously can one comprehend Disney's reasoning behind the China venture.

From the research project it is evident that no single internationalisation theory covers all aspects related to going abroad. Even broad frameworks such as Dunning's eclectic paradigm fail to take into account all the details that could make a mode of entry decision right or wrong. The Disney case is an example of how companies should approach internationalisation with an open mind (Tokyo), while being humble (Hong Kong) and willing to take risks (Paris and Shanghai). Truth is, even Paris is a success story nowadays.

Answering the research project's original research question, how different **international entry modes** affect Disney's foreign theme parks performance given its unique **resources and capabilities** under different **foreign conditions**? It can be now said that the mode of entry decision is the single most important aspect that affects performance in an international venture given the way it affects implemented strategy, division of responsibilities, cash flow distribution and adaptation of location-bound value-generating resources and capabilities.

As Professor George Yip mentioned at one of his lectures during my time at the Rotterdam School of Management, when it comes to internationalisation the motto "*as global as possible, as local as necessary"* becomes essential. Involvement of local partners will remain a necessary evil for Disney given its unique set of location-bound resources and capabilities. At the end of the day even so-called "purely global" companies like Coca Cola have different formulas to cater for slightly different tastes in different countries. Disney, as has been proven in this research project, is no exception.

12 Appendices

Appendix I: *Dunning's paradigm: Ownership, Location and Internalisation*

Realizing that there's no single theory to explain internationalisation, recent efforts in the field have focused in trying to combine several theories into one. Dunning's updated 'eclectic paradigm (1995, 1998, 2000) states that the mode of entry is influenced by three different advantages: ownership specific, location specific and internalisation advantages of integrating transactions. It is therefore a multi-theoretical approach that encompasses several theories into one. Dunning's eclectic paradigm explains FDI by the interaction of these independent factors that form the so called "OLI Tripod" (Dunning, 1995, 1998, 2000):

Ownership advantages

1. Those relating to the possession and exploitation of monopoly power, which are presumed to create an entry barrier.
2. Those relating to the possession of scarce, unique and sustainable resources and capabilities.
3. Those relating to the competencies of the managers of firms.

Location advantages

1. Demand related variables (size, character and potential growth).
2. Supply related variables (availability, price and quality of natural resources) and the existence of related clusters.
3. Economies of scale and scope.
4. Fiscal and other economic incentives.
5. Exchange, political and economic risk levels.

Internalisation advantages

1. To reduce transaction and coordinating costs inherent of market transactions.
2. To capture coordinating and transactional benefits of common governance of related activities and to benefit from scale economies.
3. To reduce the risk of external agents behaving against the interests of the principals.
4. To reduce moral hazard and adverse selection.
5. To tap into learning and experience.

13 References

Barney, J. “Firms Resources and Sustained Competitive Advantage. Journal of Management, Vol. 17 (1991): 99–120.

Barney, Jay and William Hesterly. Strategic Management and Competitive Advantage. 3rd ed. Pentice Hall: n.p., 2005.

Brouthers, K. D., and Brouthers, L. E. “Explaining the National Cultural Distance Paradox.” Journal of International Business Studies, Vol. 31 (2001): 177–189.

Calof, Jonathan and Paul Beamish. "Adapting to Foreign Markets: Explaining Internationalisation." International Business Review Vol. 4 No. 2 (1995): 115-31.

Canabala, Anne and George O. White III. “Entry mode research: Past and future.” International Business Review, Vol. 17 (2008): 267–284.

Clavé, Salvador. The Global Theme Park Industry. Wallingford, Oxfordshire: CABI Publishing, 2007.

Chang, Sea-Jin and Philip M. Rosenzweig. “The Choice of Entry Mode in Sequential Foreign Direct Investment.” Strategic Management Journal, Vol. 22, No. 8 (Aug., 2001): 747-776

Curwen, Peter. Euro Disney: the Mouse that Roared. Sheffield Business School, Policy Research Center, 1995

Grant, Robert. Cases to Accompany Contemporary Strategy Analysis. 6th ed. Massachusetts: Blackwell Publishing, 2008.

Davis, P. S., Desai, A. B. and Francis, J. D. “Mode of International Entry: An Isomorphism Perspective.” Journal of International Business Studies, Vol. 31 (2000): 239–258.

Dunning, John H. "Reappraising the Eclectic Paradigm in an Age of Alliance Capitalism," Journal of International Business Studies Vol. 26 No. 3 (1995): 461-91.

--- "Location and the Multinational Enterprise: A Neglected Factor," Journal of International Business Studies Vol. 29 No. 1 (1998): 45-66.

--- "The Eclectic Paradigm as an Envelope for Economic and Business Theories of MNE Activity," International Business Review Vol. 9 No. 2 (2000): 163-90.

Erramilli, Krishna and Rao, C. “Service Firms' International Entry-mode Choice: A Modified Transaction-Cost Analysis Approach.” Journal of Marketing, Vol. 57 No.3 (1993): 19-38.

Ghemawat, Pankaj. “Distance Still Matters.” Harvard Business Review Vol. 79 No. 8 (2001): 137-147.

Hill, C., Hwang, P., and Kim, W. An eclectic theory of the choice of international entry mode. Strategic Management Journal, Vol. 11 No. 2, (1990): 117- 28.

Hofstede, G. “The Cultural Relativity of the Quality of Life Concept.” Academy of Management Review, Vol. 9 (1984): 389–398.

Hunt, Shelby D. and Robert M. Morgan. “The Resource-Advantage Theory of Competition: Dynamics, Path Dependencies, and Evolutionary Dimensions.” The Journal of Marketing Vol. 60 No. 4 (Oct., 1996): 107-114.

Johanson, Jan and Jan-Erik Vahlne. “The Internationalisation Process of the Firm”. Journal of International Business Studies, Vol. 8 (Spring 1977): 23-32.

--- "The Mechanism of Internationalisation." International Marketing Review Vol. 7 No. 4 (1990): 11-24.

Kogut, Bruce and Harbir Sing. “The Effect of National Culture on the Choice of Entry Mode.” Journal of International Business Studies Vol. 19 (1988): 411–432.

Kwok, Vivian Wai-yin. China to Greet Obama with Shanghai Disney. Forbes Online, 2009 http://www.forbes.com/2009/11/02/shanghai-disney-land-markets-entertainment-obama.html

Lu, Jane and Paul Beamish. International Diversification and Firm Performance: The S-Curve Hypothesis. Academy of Management Journal, Vol. 47 No. 4 (2004): 598-609

Luo, Y. Determinants of entry in an emerging economy: A multilevel approach. Journal of Management Studies, Vol. 38 No. 3, (2001): 443-472.

Nakamura, Takafusa. The Post-War Japanese Economy: its Development and Structure. Tokyo: Tokyo University Press, 1981

Malhotra, Naresh, James Agarwal, and Francis Ulgado. “Internationalisation and Entry Modes: A Multitheoretical Framework and Research.” Journal of International Marketing Vol. 11 No. 4 (2003): 1-31.

Madhok, Anoop. “Cost, Value and Foreign Market Entry Mode: The Transaction and the Firm.” Strategic Management Journal Vol. 18, No. 1 (Jan., 1997): 39-61.

Makino, S., and Neupert, K. E. “National Culture, Transaction Costs, and the Choice Between Joint Venture and Wholly-Owned Subsidiary.” Journal of International Business Studies, 31 (2000): 705–713.

Misawa, Mitsuru (2005). Tokyo Disneyland: Licensing vs. Joint Venture. Asia Case Research Centre: The University of Hong Kong. 05/254C.

Onkvisit, Sak and John J. Shaw. “An Examination of the International Product Life Cycle and Its Application within Marketing.” Columbia Journal of World Business; Vol. 18 No. 3 (1983): 73-19.

Osland, Gregory, Charles Taylor and Shaoming Zou. "Selecting International Modes of Entry and Expansion." Marketing Intelligence & Planning Vol. 19 No. 3 (2001): 153 – 161.

Pan, Yigang and David K. Tse. “The Hierarchical Model of Market Entry Modes”. Journal of International Business Studies, Vol. 31, No. 4 (4th Qtr., 2000): 535-554.

Peng, Mike. Global Strategic Management. 2nd ed. Canada: Thomson South-Western, 2009.

Sharma, Varinder and Krishna Erramilli. “Resource-Based Explanation of Entry Mode Choice.” Journal of Marketing Theory and Practice, Vol. 12 No. 1 (2004): 1-18.

Raz, Aviad E. Riding the Black Ship: Japan and Tokyo Disneyland. Cambridge, Harvard University Press, 1999

Raz, Aviad E. The Hybridization of Organizational Culture in Tokyo Disneyland. Culture and Organization, Vol. 5, (1999): 235-264.

Robson, C. Real World Research. 2nd Edition. Oxford:Blackwell, 2002. Quoted in Saunders, Mark, Philip Lewis and Adrian Thornhill, 145-146. Essex: Pentice Hall, 2009.

Teece, David J. “Transactions Cost Economics and the Multinational Enterprise.” Journal of Economic Behavior and Organization Vol. 7 (1986): 21-45.

Uhlenbruck, K., Rodriguez, P., Doh, J., and Eden, L. “The Impact of Corruption on Entry Strategy: Evidence from Telecommunication Projects in Emerging Economies. Organization Science, Vol. 17 (2006): 402–414.

Ulset, Svein. Entry Strategies in a Global Context. Lecture conducted from Norwegian School of Economics and Business Administration. (September, 2009).

Van Maanen. Displacing Disney: Some Notes on the Flow of Culture. Qualitative Sociology, Vol.15, No.1., 1992

Williamson, Oliver E. "The Economics of Organization: The Transaction Cost Approach." The American Journal of Sociology. Vol. 87 No. 3 (Nov., 1981): 548-577.

--- The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting. New York: The Free Press, 1985.

Yip, George, Javier Biscarri and Joseph Monti. "The Role of the Internationalisation Process in the Performance of Newly Internationalizing Firms." Journal of International Marketing Vol. 8 No. 3 (2000): 10-35.

Yiu, D., and Makino, S. "The Choice between Joint Venture and Wholly Owned Subsidiary: An Institutional Perspective." Organization Science, Vol. 13 (2002): 667–683.

Yoshino, Kosaku. Cultural Nationalism in Contemporary Japan. London: Routledge, 1992

Zhao, Xuemin and Reinhold Decker. "Choice of Foreign Market Entry Mode: Cognitions from Empirical and Theoretical Studies." Universität Bielefeld (2004): http://bieson.ub.uni-bielefeld.de/volltexte/2004/507/.

14 Additional resources not included in the text

Bjorkman, Ingmar and Mats Forsgren "Nordic International Business Research: A Review of Its Development." International Studies of Management and Organization Vol. 30 (2000): 6-25.

Coviello, Nicole E. and Kristina Martin. "Internationalisation of Service SMEs: An Integrated Perspective from the Engineering Consulting Sector." Journal of International Marketing Vol. 7 No. 4 (1999): 42-66.

Crouch, David. Leisure/tourism Geographies: Practices and Geographical Knowledge. New York: Routledge, 1999

Gooderham, Paul and Odd Nordhaug. International Management. Cowley Road, Oxford: Blackwell Publishing, 2003

Knickerbocker, Frederick. Oligopolistic Reaction and Multinational Enterprise. Boston: Harvard University School of Business Administration, 1973.

Hymer, Stephen. “The International Operations of National Firms: A Study of Direct Foreign Investment.” Diss. Massachusetts Institute of Technology, 1960/1976.

Vernon, Raymond. “International Investment and International Trade in the Product Cycle.” The Quarterly Journal of Economics Vol. 80 No. 2 (May, 1966): 190-207

15 Table of Figures

16 Index of Tables