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Transition at Whirlpool-Tatramat
Case Studies

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Comments Welcome

Transition at Whirlpool-Tatramat

Case Studies

I. How to Enter Emerging Markets in Central and Eastern Europe

by Sonia Ferencikova
and Hans Brechbuhl[1]

II. Management Aspects of the Operations within an Emerging Market

by Sonia Ferencikova[2]

Summary

These cases are about the origin and the development of the operations of the joint venture Whirlpool-Tatramat established between the Slovak washing machine producer, Tatramat and the European subsidiary of Whirlpool Corporation, Whirlpool Europe B.V. in 1992 in the former Czechoslovakia.

The first case, entitled "How to Enter Emerging Markets in Central and Eastern Europe" is designed to evaluate the impact of the fall of the Iron Curtain on the business climate for foreign companies in this region as well as on the opportunities for local companies. The case study is also used to gain an understanding of why and how firms choose an alliance partner through an analysis of Whirlpool's and Tatramat's needs and intentions. It describes the situation in both Whirlpool Europe and in Tatramat at the beginning of the 1990's. These two companies faced many problems and challenges at that time because of obstacles in their internal situations and changes in their external operational environment. After looking for the right partner and the right form of cooperation, and after evaluating all possibilities, they decided to negotiate with each other to find the right form of strategic alliance. This case can be used in courses dealing with the entry of companies on emerging markets of Central and Eastern Europe (e.g. World Economy, Corporate Strategy, International Business, Doing Business in Central and Eastern Europe, etc.)

The second case, entitled "Management Aspects of the Operations within an Emerging Market" is focused on two issues: how to manage successfully the transition of a small local post-socialist company into an integrated and efficient part of Whirlpool's global network and how to market goods produced locally, as well as merchandise obtained from the global network, in a small local market. The case describes the operations of the joint venture Whirlpool-Tatramat, the initial struggles with production volume and quality, downsizing, building a local supplier network, a drop in demand, and the gradual process of the ownership change to eventually become Whirlpool's wholly-owned subsidiary and the final involvement of the company into Whirlpool's global network. This case can be used in courses dealing with special aspects of international expansion (e.g. International Management, Doing Business in Central and Eastern Europe, etc.).

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I. How to Enter Emerging Markets in Central and Eastern Europe

by Sonia Ferencikova and Hans Brechbuhl

During 1990 and 1991 the board of directors for Tatramat, Slovakia's primary manufacturer of washing machines and boilers, often met in the office of Tatramat's Managing Director, Martin Ciran, in Poprad, a small city in Eastern Slovakia. The board usually discussed the future of the company and the troubles it faced. The board's discussion led to the consideration of new business strategies, including a purchase of new technology, licensing or an alliance with a foreign investor. There were differing opinions among the board members as to which strategy would be the most appropriate solution.

During approximately the same time period, the managers of Whirlpool Europe in Comerio, Italy led by Han Arets, Managing Director of the Eastern European Region, the Middle East and Africa, were discussing possible strategies for their company given the new situation in Europe. A whole new set of opportunities and challenges arose for Whirlpool after the fall of the Iron Curtain in 1989, and the subsequent collapse of the Soviet Union. The members of Aret's team considered exporting, a joint venture, a buy-out and even a greenfield operation in Central and Eastern Europe. Just as in Tatramat, the views on what would be the best approach were quite varied.

1. Tatramat at the Beginning of the 1990's

On a map from the early 1990's, Tatramat was located on the eastern outskirts of the city of Poprad, surrounded by the beautiful High Tatras, "the smallest European high mountains," in the eastern Slovak Republic within Czechoslovakia. Poprad was a small city with a population of about 45,000, situated some 10 kilometers (km) south of the Polish border and 150 km west of the border with Ukraine.

Tatramat was founded in 1845 by Karol Scholz, originally producing both nails and currycombs for horse grooming. By the end of the 19th century, the firm had expanded its product line and increased its production volume by supplying the Austro-Hungarian army with small aluminum and steel products. After World War I, the company switched to producing domestic kitchen goods, including utensils, enamel-coated kitchen wares and galvanized steel containers. After World War II, the company was nationalized and became state property.

Top-loading washing machines were introduced to the company's product line in 1969, using technology licensed from the French company VIVA. Initially, Tatramat assembled washing machines in Poprad using components imported from abroad. Later, they either found domestic suppliers of many of these components or developed their own facilities to manufacture the parts. After the success of the top-loaders MINI in the local washing machine market, Tatramat introduced a front-loading washing machine, the "Supertatramat" in 1972, which was produced in cooperation with Yugoslav Elektronska Industrija. This model, like the earlier one, initially relied on foreign manufacturers of components. Later, the company replaced many of them with domestic suppliers. By 1990, the first year after the fall of communism, Tatramat was the largest producer of both washing machines in Czechoslovakia (202,500 units in 1990) and boilers (146,900 units).

At this point, Tatramat held 88% of the washing machine market in Czechoslovakia, a country with a population of 15 million. Its closest domestic competitor, Romo Fulnek, produced approximately 15,000 machines per annum for the domestic market. Washing machines accounted for approximately 75% of their revenue, boilers 20%. Tatramat derived about 12% of its revenues from exports of washing machines and boilers, primarily to Eastern Bloc countries. The company employed 2,284 people, of which 1,449 were directly involved in production.

Sales of the company for the last five years were as follows:

Table 1 Sales (thousands of units)

Product	1986	1987	1988	1989	1990
Washing machines	194.2	203.5	200.0	199.1	210.6
Boilers	139.7	144.0	151.8	143.7	133.3

The company produced about 200,000 washing machines per year. They manufactured 100,000 top-loading washing machines, 95% for the Czechoslovak market, and 100,000 front-loading washing machines, 25% for the Czechoslovak market, and 75% for export primarily to the socialist countries of Poland, Bulgaria, Yugoslavia, East Germany. Only 5,000 were sold on Western markets.

The financial situation of the company was as follows:

Table 2 1990 Financial Summary

Transformed to International Accounting Standards (thousand Czechoslovak crowns)

	Consolidated	Washing machines	Boilers
Sales	962,227	758,739	203,488
Operating Cash Flow	91,095	78,358	12,737
Operating Cash Flow Margin	9.5%	10.3%	6.3%
Operating Profit	65,275	57,209	8,066
Operating Profit Margin	6.8%	7.5%	4.0%

After the so-called Velvet Revolution in 1989 in Czechoslovakia, Tatramat as well as other Czech and Slovak companies went through many changes. The communist government was overthrown and Czechoslovakia began to build a democratic society and a market economy. Although restructuring was difficult, and the year of 1990 was particularly hard, Czechoslovakia was considered among the leading and most successful transitional countries.

Mr. Ciran, the director of Tatramat, describes the situation of the company at that time: "Since 1988 according to then economic rules the state export subsidies covering the difference between the high domestic costs and low prices on foreign markets had been gradually abolished in our country. It hit the export of our main export article – front-loaded washing machines very strongly. At that time we realized that our products are not competitive on the future, open, European market. We concentrated on top-loaded washing machines, because our main customers were all interested in top-loaders and we were able to increase the production of only one, not two products. Obviously, top-loaders and front-loaders were produced by different technology. In 1989 – 1990 we introduced abroad our new product MINI, fully designed by Tatramat. It was a failure because of its low quality and high price – it was simply an old concept – new machine, but old concept. Afterwards, we started to think about how to increase the competitiveness of our products. We considered a purchase of technology or a licensed production. In 1989, prior to the revolution, I began looking for partners to supply technology for top-loading washing machine production. We received bids from Philips, Thompson and Zanussi. We intended to improve technical standard of our production as well as to increase production capacity. We realized that it was not enough to produce only 200,000 per year, because the studies showed us that we had to produce more than 300,000 per year to decrease, to dissolve the fixed costs and to be effective."

Mr. Ciran and some managers of the company visited the leading manufacturers of white goods companies in Western Europe and saw that even 300,000 washing machines per year was probably not enough. The best companies produced 600,000 – 1,000 000 pieces per year. Their decision to change their products, increase production, share costs and decrease costs per unit seemed to be the only way the company could survive. Introducing market principles to the former socialist economy also meant the devaluation of currency in 1990, after which production costs tripled.

Mr. Ciran goes on:

"In the meantime the COMECON market collapsed, we totally lost foreign markets for washing machines and boilers and the demand on the domestic market went also down as a result of the difficulties of the first years of transition. There were fewer apartments built, fewer weddings ... People had other troubles and other preferences than purchase of a washing machine. We lost markets, we lost customers. In 1990 we fired about 100 people, in 1991 even 900 from the original number of 2,300.We were lucky, because such a high lay-off did not lead to any special discontent. Employees got a good compensation according to the then law and some of them started to run their own small private businesses what had not been allowed under socialism some years ago. It was also a time of so-called small privatization – a privatization of small shops, services etc., formerly owned by state which attracted some of our employees, too."

One of the primary challenges in the Czechoslovak transition and in the shift towards market economy was privatization. On October 1st, 1990, the Slovak Ministry of Economy transformed Tatramat from a state enterprise into a state joint stock company. At that time, ownership of assets, in the form of shares, was transferred to National Assets Fund, under the administration of the Slovak Ministry of Privatization. As a joint stock company, the intention was to privatize Tatramat through voucher privatization. Local companies could establish joint ventures with foreign investors after the approval of the Slovak Ministry of Privatization, by offering them a certain percentage of shares.

Mr. Ciran recalls:

"We were transformed from state-owned company into state-owned joint stock company among the first companies in Czechoslovakia. In the meantime, the both local Czech and Slovak government became much more stronger and federal Czechoslovak government lost some of its power. It means, our superior authorities were no more federal authorities in Prague, but Slovak authorities in Bratislava. The transfer of the form of company meant much more power in the hands of a company or, more exactly, of a management. We started to have a real feeling for the responsibility, we could do a lot of things without the approval from the state or state authorities. We did not have the ownership, but simply more competence and power. We could, for example, negotiate with foreign companies. As I told you, in 1989 we were thinking about a licensing. After we recognized that the price for a license and a new technology was very high, we started thinking about capital investment or about a partner for a joint venture. It took us half of year to three-quarters of year to understand that it would be not enough to get new machines without the access to the market. Under new conditions brought by revolution, it was possible to think about other forms of cooperation or alliance with foreign companies, not only about licensing. At that time Volkswagen was preparing a deal with Skoda in the Czech Republic and with BAZ in the Slovak Republic with the assistance of Credit Suisse First Boston. In the cooperation with this company we also prepared a memorandum about us followed by an offer for the cooperation. This memorandum was sent in January 1991 to all prospective investors, worldwide known, leading companies in white goods. I cannot say that all the people in the company were such eager for a cooperation with Western companies as I and my closest team were, but everybody felt it was necessary to do something... "

After sending the memorandum, Whirlpool, Elektrolux, Bosch-Siemens and Thompson declared their interest in the cooperation.

2. Whirlpool Europe at the Beginning of 90's

Whirlpool Corporation, the parent company of Whirlpool Europe, based in Benton Harbor, Michigan, is one of the world's leading manufacturers of major home appliances and at the same time a major U.S.- based appliance manufacturer. At the beginning of 90's it marketed its products under 10 major brand names in over 120 countries and employed 39,000 people worldwide. At that time Whirlpool Corporation grew significantly in terms of its international presence: the CEO David Whitwam's vision was to expand through acquisitions and to integrate the strengths of various international operating entities to create a truly global competitive advantage.

The beginning of Whirlpool's global strategy dates back to 1987 when it founded a joint venture in India. Whirlpool first established a presence in Europe when it acquired 53% interest in N.V. Philips, a Netherlands-based European appliance manufacturer in January 1989. In 1990 it bought out the remaining 47%, thus obtaining a wholly-owned home appliance subsidiary on this continent. Whirlpool Europe B.V. (WEBV) soon became the third biggest household appliance producer in Europe, holding approximately 10 % of the European market. It produced products in several European countries (see Appendix A): Italy (Napoli - front loading washing machines, Siena - freezers, Trento - refrigerators, freezers, Cassinetta - refrigerators, stoves, ovens), Germany (Neunkirchen - dish-washers, Schondorf - front loading washing machines, dryers, Calw - refrigerators, freezers), France (Amiens - washing machines and dryers), Sweden (Norkopping - microwaves). Table 3 presents its market share in comparison to its main competitors.

Table 3 1990 Market Share in Europe by Companies

Electrolux	19%
Bosch - Siemens	13 %
Whirlpool	10 %
Miele	7 %
Temfa	6 %
AEG	5 %
Merloni	4 %
General Domestic	4 %
Candy	4 %
Other	28 %

After Whirlpool entered the market, Europe experienced a recession that was reflected by disappointing European operating margins (3.3 % in 1991, about 4 % below comparable U.S. levels). Table 4 presents Whirlpool sales and operating profits at that time.

Table 4 Whirlpool Corporation Revenues (Millions of dollars)

	1989	1990	1991
Revenues			
North America	4,116	4,165	4,236
Europe	2,169	2,456	2,540
Operating Profits			
North America	311	277	326
Europe	101	73	83

As a result, WEBV's strategy for the 1990's has been to develop strong pan-European brands and to strive for cost savings through continued improvements in productivity and consolidation in purchasing, manufacturing and distribution. WEBV has marketed three pan-European brands (Baucknecht, Ignis, Whirlpool). WEBV's strategy with regard to manufacturing has been to develop „focused" factories dedicated to the production of a single product line for sale in multiple markets. All factories are expected to provide a competitive advantage as low-cost production centers by achieving economies of scale in production and producing a general minimum of 600,000 pieces per year.

After the fall of the Berlin Wall the company started sorting out what opportunities and options it had in Central and Eastern Europe. At that time pressure was growing in the West European marketplace in the appliance industry, as well as in the area of manufacturing costs. The managers of WEBV started to visit manufacturers in Central and Eastern Europe. As Han Arets recalls:

"It became obvious that at that time the appliance industry in Central Europe was highly concentrated, it was in hands of a few players. We also found out by visiting these countries that people still have shortages in appliances. In refrigeration, we were confronted with highly saturated markets with high penetration. But with washing machines, to some extent, we felt that washing machines and the number of manufacturers making washing machines were very limited. Penetration of automatic washing machines, the ones we were making in Western Europe, was still very low. We figured out somewhere if there was an opportunity it was probably going to be more in washing than in refrigeration."

The company started to look more intensively into central European washing machine producers. There were a few: Polar Wroclaw in Poland, a big company at that time making both refrigerators and washing machines, Tatramat and Romo in Czechoslovakia and the Hungarian company Hajdu in Debrecen. The management of WEBV in Comerio recognized the opportunity in this part of Europe. According to Hans Arets:

"First, we wanted to get foothold in Central and Eastern Europe. We wanted to introduce our Whirlpool brand there, and we saw the opportunity to export from existing Western European factories into Central Europe. But, we also very much considered the possibility of a future manufacturing operations there, for two reasons: to build up manufacturing capability in the region for the region, but also very much to look at an alternative capacity for Western Europe, given the fact that labor costs were lower there."

Although the company was looking for market access to Central and Eastern Europe and for low-cost production for Western Europe, there was some hesitation among its managers concerning the future development of newly reformed countries. It was difficult to evaluate the entrepreneurial risk there, because there was no experience conducting business during the transition from a planned to a market economy. Aside from political and economic risks, one of the main issues was setting up operations on these markets. All options including exporting, joint venture, and greenfield investment were evaluated, and there were many arguments for and against each of them.

At the beginning of 1991 WEBV got the memorandum about Tatramat Poprad compiled by Credit Suisse First Boston. The offer for the cooperation from Tatramat's side was very interesting and fit into the plan for the future of Whirlpool in Central and Eastern Europe.

3. Discussions in 1990 and 1991 in Tatramat Poprad

On October 1st, 1990, the Slovak Ministry of Economy transformed Tatramat from a state enterprise into a state joint stock company, as only the second company of this type in the whole of Slovakia. Through this transformation a lot of power was given to the company's management and board of directors. The board of directors consisted of Tatramat management, representatives of government offices and academics. Their opinions about the solution of the situation in Tatramat were varied.

The first, smaller group was comprised of Tatramat's plant director and some outside members of the board of directors, and was in favor of a single purchase of technology or licensed production of top-loaders. All of them had important positions in the former communist regime and were very cautious in relationship to "suspicious Western capitalists." Their arguments could be summarized as follows: Tatramat's problems were temporary, resulting from the period of economic transition. In a certain time period they would be solved, since the economic conditions would improve and the purchasing power of people and demand for washing machines would grow. The collapse of COMECON markets was also only a temporary issue - it was necessary to focus more on the markets of the former Soviet Union which were near and where the large populations presented immense growth opportunities. They believed that all Western companies were Tatramat's competitors in the battle for Central and Eastern European market share, and the worst choice for Tatramat would be to cooperate closely with them and to allow them to use Tatramat's distribution network. In their opinion, it would lead to Tatramat's future liquidation, because Western companies would take advantage of Tatramat and its position on the market, then close the local factory and replace local production with their own products manufactured abroad. However, under pressure from Mr. Ciran, this group agreed to address Western companies in a memorandum, but still it was not whole-heartedly behind the idea of a closer alliance with a foreign Western partner.

The second group was lead by Mr. Ciran, Tatramat's managing director, supported by their financial director, Mr. Misko, and Mr. Ovsonka, Tatramat's lawyer. Mr. Ciran had a special charisma and he was able to persuade the majority of Tatramat's employees to see the judiciousness of his ideas. His first vision coming from May 1989 was building a factory with a minimum capacity of 300,000 top-loaders and canceling the production of front-loaded washing machines. His idea was to produce a domestic, Tatramat-developed MINI. In 1990, after the failure of this project and the changes brought by the Velvet Revolution Mr. Ciran presented his staff with a new vision for Tatramat: the presence of Tatramat in Poprad as a successful washing machine producer in the year 2000. At that time he and his team understood that the capacity would have to be much higher than 300,000 to meet this goal. They also realized that the fulfillment of this goal would not be possible without an alliance with a foreign partner. Within several months' time they recognized that a single partner with a technology would not be not enough, because they needed foreign market access and the opportunity to sell their products through a partner's global network. They initiated writing and sending memoranda to the leading world washing machine producers.

After sending the memorandum, Whirlpool, Elektrolux, Bosch-Siemens and Thompson declared their interest in a common deal with Tatramat. The first negotiations started. Some of the members of the board of directors preferred German companies. Their arguments aimed mostly at the cultural and geographical proximity of Czechoslovakia and Germany. Mr. Ciran and his team preferred Whirlpool, because it was the only company who offered not only technology, but also market access for Tatramat.

After the start of negotiations with Whirlpool, a more problematic issue arose: which form of the alliance would be the best? In the beginning, Tatramat was willing to establish only a majority joint venture with Whirlpool. They wanted to contribute buildings, machinery, land, workers, and a local brand name, and expected new technology and market access in return. There was a lot of hesitation concerning Whirlpool's requirement for a gradual shift of ownership into their hands until the final take-over. Also, Tatramat wanted to include boiler production in the deal, which did not fit with Whirlpool's plan. Besides, Tatramat attached much more significance to the value of local recognition and knowledge of its brand than Whirlpool did. In order for the deal to take place, Tatramat insisted on keeping a certain level of employment and high investments. As a result, Whirlpool applied for market protection with the government.

4. Discussions in 1990 and 1991 in WEBV

In 1990 and 1991, the company investigated all possible partners in Central European countries: Poland, Hungary and Czechoslovakia. The focus on these countries resulted from their higher stage of economic development in comparison to other countries in the region, their commitment to economic reforms and relative success in this area as well as their geographical location. (For basic economic indicators of these countries see Appendix B).

Although there were potential partners for a joint venture in each Central European country, the idea of a greenfield operation prevailed throughout negotiations. Because of its advantages in comparison to a joint venture, a greenfield operation or an immediate buy-out had some stalwart supporters in the WEBV management. Han Arets presented a combination of these approaches:

..."We wanted for a certain time to have a local partner, for all the benefits that a local partner can bring, especially for us operating in a foreign environment. Certainly even in that environment the linkages to the authorities were very important. ... Existing relationships determined the approval process for certain things, how the political establishment would look at the whole operation, so it was important to keep in touch with them. The partner was providing that connection, which was very important. We also knew that in time, when the thing was successful ... we wanted to have full ownership. We wanted to clear road to full ownership ... from a minority, to a majority, and finally the full ownership."

In addition to that, some managers considered a greenfield investment, buy-out or even joint venture in that part of Europe too risky. Their argument was that there was more than enough production capacity in the existing Western European manufacturers, so from a gnarl perspective didn't make any sense to build new manufacturing facilities. In their opinion, there was enough production capacity around to fulfill even the growing needs of Central Europe by exporting finished products.

The representatives of the company visited a Hungarian washing machine producer in Debrecen, Hungary. At that time, Hungary offered the most attractive environment for foreign investment and was the biggest recipient of foreign direct investment among Central and Eastern European countries.

The Hungarian factory was fairly large and was close to the Russian-Ukraine border. However, it was very far removed from the supply bases and from the market. The factory was also the biggest factory in Debrecen employing about 4,000 people.

Han Arets commented on this visit:
"There was a kind of willingness and a kind of panic amongst manufacturers to get aligned with foreign partners. I think the management wasn't wholeheartedly behind the idea anyway, and we weren't wholeheartedly behind it because we could foresee the potential impact manufacturing with Western European productivity standards would have on the employment levels there. We were not looking forward to being accused of the western capitalists destroying employment possibilities for people. We knew already from our experience that the state companies were highly overstocked, highly inefficient, very low productivity – maybe lower labor costs, but the productivity was also 5,6, 10 times lower than in Western Europe. We knew that if we would have to start there the way we would like to start, we would have to lay off a lot of people and it would be disaster in that environment."

In 1990 and 1991, WEBV also negotiated with a company called Polar in Poland: Polar was a large industrial conglomerate making washing machines and refrigerators. The negotiations with Polar progressed to the level of the companies signing a letter of intent. Some of the management in Comerio were afraid of the strong trade unions in this Polish factory and underlined that fact in the decision-making process. On the other hand, some of them focused on the fact that Poland was the biggest market in Central Europe. As Han Arets recalls:

"At that time the people of Polar believed very much that they could maintain their independence, that they were state, they wouldn't give up their state identity at that time, and even if they wouldn't be state, they had the know-how and they would be able to get resources to maintain their independence. Polar had a very strong structure in which the worker council had a major say in the future of business. I don't know what has happened ... we never got really to negotiate further at that time. I spent most of 1990 and most of 1991 on Polar ... and ultimately after all the energy we put into that actually I felt personally that we lost a year. We had Tatramat, which was smaller at that time than Polar, so we concentrated on that."

After the failed negotiations with the Polar, discovering the disadvantages of the Hungarian company and obtaining the memorandum from Tatramat, the attention of WEBV management began to turn more and more to this company in Czechoslovakia. The supporters of cooperation with Tatramat argued that this company was offering a lot of ingredients WEBV was looking for: it used to make washing machines and it had a skilled labor force - compared to Western Europe the labor costs were very low. Tatramat was close to steel mills and it had also another supplier base, although not very sophisticated. The location was very central in Czechoslovakia at that time: close to Russia for an eventual onslaught on the Eastern border, close to both Hungary and Poland. It had a monopoly position on the Czechoslovak market with a very well recognized brand name and export activities in other Eastern European countries. It also had access to land, allowing the possibility of future expansion. In addition to that, as Han Arets says:

"Very important – it had management, it had a gentleman on the top of Tatramat, Martin Ciran, who had the foresight very much as one of the few at that time, to see what was coming. He knew that basically for his factory to survive he needed updated technology, he needed capital from the West. We wanted to provide that technology. We had that capital base, and we wanted very much to make use of the distribution possibilities Tatramat had, especially in Czechoslovakia. ...But it was not only delivering in Eastern Europe, it also fitted into another Whirlpool Europe strategy, which was, the top-loader market is getting smaller and smaller – how long can we maintain Amiens on top-loaders? There was a clear need from Whirlpool Europe to substitute Amien's expensive top-loader capacity with cheaper capacity."

On the other hand, negotiations with Tatramat were proving to be problematic. Tatramat wanted to include water heater production in the deal. The machinery in the factory was obsolete and the productivity and product quality was low. The brand name was therefore damaged by a high failure rate. The company had practically lost Eastern European markets. During the negotiations, the state-owned land that had been slated for potential future expansion was returned to private citizens during Czechoslovakia's privatization, putting another obstacle in the buy-out process. At that time, the Czechoslovak government was contemplating opening the country to foreign investors. Whirlpool was considering investing capital in the country and therefore wanted to have import protection during the build-up or start-up of the factory. Some of the WEBV management felt that without protection of their segments it would not be worthwhile to invest, because they could import their products as easily as other companies attracted by a liberal Czechoslovak foreign trade policy. Many economic policies, including the trade policy, went through several changes affecting foreign investors. As the memorandum stated:

"All investors will doubtless be fully aware, the economy of Czechoslovakia remains in a period of transition. As a result, it is difficult to anticipate future conditions which may have a significant impact on Tatramat's operations, including the cost of labor, the cost and availability of energy and raw materials and the rate (the possibility of conversion) of the Czechoslovakian crown, as well as future legislative developments particularly in the labor and tax areas."

Some managers were concerned about the potential political impact of the split of Czechoslovakia. Czechoslovakia was a federal republic of two nations: the Czech Republic (about 10 million) and the Slovak Republic (about 5 million). Tatramat was located in the smaller Slovak part of the federation. According to previous examples in Central and Eastern Europe, after the fall of communism, several federally created states had separated, sometimes resulting in war. It was not only the question of a political stability, but also a question of a market access. The managers responsible for this operation asked, if the split happens, what would happen to two thirds of the market in Czechoslovakia? And what would happen with the currency? Suddenly they would have had to do business in two different currencies....

Sources:

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List of Appendixes:

Appendix A – Whirlpool's European Production Centers in 1991
Appendix B - Economic Indicators of Czechoslovakia, Hungary and Poland in 1990

How to Enter Emerging Markets in Central and Eastern Europe

Questions suggested for class discussion

A. The Changing Situation

1. What opportunities and risks did the fall of the Iron Curtain offer multinational corporations?
2. Is this different for European MNCs than for American or Asian MNCs?
3. What opportunities and risks did the new situation offer local (Czechoslovakian, etc.) companies?

B. Situation of the Two Companies

1. Describe the situation of Whirlpool Europe and its needs. Do the same for Tatramat.
2. What are the strategic options for Whirlpool? What would be the best choice and why?
3. What are the strategic options for Tatramat? What would be the best choice and why?
4. Given this scenario, is a deal likely and if so, what form is it likely to take? What other information would you like to have to make this decision?
5. What are the risks and benefits of this deal for each company? Can any of these risks be diminished, and if so, how?

C. Development after decision

1. What are potential macro & micro issues that might arise after entry? How might they influence the activities of various parties? How could the parties manage these issues?

II.Management Aspects of the Operations within an Emerging Market

1. Establishing a Joint Venture – American and Slovak Parent Companies

A. Whirlpool Corporation

Whirlpool Corporation is one of the world's leading manufacturers and marketers of major home appliances: washing machines, refrigerators, and kitchen ranges. Its growth, from primarily a U.S. manufacturer to one of the world leaders, is the result of strategic direction set in the mid 1980s. During the 1980s, four manufacturers including Whirlpool accounted for almost all major home appliance sales in the United States, a market where about 40 million appliances are sold annually. Each was a tough competitor fighting for greater sales in a market predicted to grow little in the decade ahead. Unable to find adequate growth potential in the U.S. appliance market, the company began a global expansion. The idea of globalization was advanced by David Whitwan, the CEO of Whirlpool Corporation since 1986. His vision was, and is, to expand globally through acquisitions, and to integrate the strengths of various international operating entities to create a truly global competitive advantage. His words from an interview with the Harvard Business Review entitled "The Right Way to Go Global" in 1994 have become well-known: "We want to be able to take the best capabilities we have and leverage them in all operations world-wide."

In 1997, the company manufactured products in 13 countries, and marketed in approximately 140 countries under major brand names such as *Whirlpool, KitchenAid, Roper, Estate, Bauknecht, Ignis, Laden, Inglis, Brastemp and Consul*. It employed over 61,000 people worldwide and its net sales reached $ 8.6 billion.[3] During ten years, the company approximately doubled the number of its brands, its employees and its revenues, and tripled the number of countries where it has manufacturing sites. Whirlpool's decade of growth and internationalization is illustrated in Table 1.

Table 1 Decade of Whirlpool's internationalization

Year	1988	1997
Countries with manufacturing*	4	13
Brands*	14	27
Employees	29,100	61,370
Revenues	$4.4 billion	$8.6 billion

* including affiliates

Source: *Vision*. Whirlpool Corporation. Vol.1/No.2/March-April 1998

Whirlpool Europe B. V.

The beginning of Whirlpool's European operations dates back to 1989 when Whirlpool and N.V. Philips of the Netherlands formed a joint venture company, Whirlpool Europe, B.V. (WEBV) from Philips' major domestic appliance division. Its mission was to manufacture and market appliances in Europe. In January 1989 Whirlpool acquired a 53% interest in N.V. Philips for US$361 million, and in 1991 it became the sole owner for an additional US$610 million. Whirlpool Europe, B.V. soon became the third largest household appliance producer in Europe. WEBV has approximately 10% of the European market, behind the European number one - the Swedish company AB Electrolux and the German joint venture Bosch-Siemens Hausgeraete GmbH. The estimated market share of these companies in Europe in the mid 1990s can be summarized: a 25% share was held by AB Electrolux, a

[3] Whirlpool Corporation. 1997 Annual Report

15 – 18% stake was controlled by of Bosch-Siemens Hausgeraete GmbH and approximately 11 - 15% was garnered by Whirlpool Europe B.V.

After its acquisition of Philips, Whirlpool began production in several European countries: in Italy (Napoli - front loading washing machines, Siena - freezers, Trento - refrigerators, freezers, Cassinetta - refrigerators, stoves, ovens), Germany (Neunkirchen - dish-washers, Schondorf - front loading washing machines, dryers, Calw - refrigerators, freezers), France (Amiens - washing machines and dryers) and Sweden (Norkopping - microwaves). WEBV's strategy for manufacturing was to develop "focused" factories designed for the production of a single product line to sell in multiple markets. Whirlpool's factories are expected to provide a competitive advantage by being low-cost production centers. They achieve economies of scale in production by producing a general minimum of 600,000 pieces per year per factory.

WEBV's principal brands include *Whirlpool, Bauknecht* and *Ignis* across Europe. When Whirlpool acquired the Philips, the Whirlpool brand had virtually no name recognition in Europe. Today, it is Europe's leading brand name. The company achieved it through a dual branding strategy developed when the joint venture was formed: appliances carrying the dual marks of Philips and Whirlpool were introduced in early 1990 through a major communication campaign – the largest in the European industry's history. Its aim was to ensure the Whirlpool name would have sufficient consumer recognition and support to compete independently when the Philips name was retired from major domestic appliances. In 1993 the Whirlpool brand appeared alone for the first time on appliances sold in the Netherlands, United Kingdom, Ireland and Belgium. The Philips name disappeared with the 1993 introduction of a new pan-European television and print campaign which referenced only the Whirlpool brand name. In 1994 through a road show, Whirlpool was established as a stand-alone brand with more than 15,000 appliance dealers in 20 countries.

After the fall of the Berlin Wall and the revolutionary wave in Central and Eastern Europe, WEBV started sorting out what opportunities it had in this region. At that time, competitive pressure was growing in the West European marketplace in the appliance industry, as well as in the area of manufacturing costs. WEBV capitalized on the idea of opening new markets as well as using the low-cost competitive advantage of Central and Eastern Europe. In 1991, sales subsidiaries were opened in Poland and in the Czech Republic. WEBV established a joint venture with the Czechoslovak monopoly producer of washing machines, Tatramat, in Slovakia, in the town of Poprad in 1992. A Hungarian subsidiary was also established in 1992, and it has driven strong sales growth for both the Whirlpool and Bauchnecht brands. A representative sales office was opened in the Russian capital Moscow in 1995, and two sales subsidiaries were created in Romania and in Bulgaria in January 1996. As these markets have continued to post strong growth, the company has reinforced its position with all three of its primary brands. In 1996, Whirlpool became the sole owner of the former joint venture Whirlpool-Tatramat in Slovakia and moved the Slovak national sale office in Slovakia to its capital, Bratislava. During 1997 Whirlpool's emerging markets team established new sales offices in Lithuania, Estonia and Latvia.

Currently, with a staff of approximately 11,000 and 11 factories in six countries[4], Whirlpool Europe ranks not only as the third largest producer and marketer in Western Europe, but it also commands the leading position in Central and Eastern Europe where it has one manufacturing center (in Poprad, Slovakia) and 10 sales offices. (The location of Whirlpool's European manufacturing centers is shown in Appendix 1). However, after Whirlpool entered the European market, Europe experienced a

[4] WEBV also governs operation in Africa where it has acquired the manufacturing facilities for refrigerators and freezers in Isithebe, South Africa.

recession which was soon reflected in disappointing European results in comparison to results on the US market. In the U.S., Whirlpool Corporation makes $ 10 on every $ 100 of sales; in Europe, it earns about $ 2.30 on that amount of revenue. Instead of winning an anticipated 20% of the market, WEBV has about 12%.[5] Operating margins in Europe in 1990 were 2.9 % in comparison to 6.7% in North America, but the profit differential in 1997 was even bigger (2.3% to 10.3%). Competition in Europe got tougher: AB Electrolux and Bosch-Siemens Hausgeraete GmbH improved efficiency in step with Whirlpool. At present, Whirlpool is going through its second European restructuring. The goals remain the same, but the company concedes it will take longer to reach them. According to WEBV's CEO Jeff Fettig, "We see Europe of being in the fifth year of a 10-year restructuring". He also acknowledges that the company "underestimated the competition".[6] The results of WEBV in comparison to the North America are shown in Appendix 2.

Whirlpool's strategy for the region has evolved. During the early part of the decade, Whirlpool focused on closing the "value gap" between the cost of appliances relative to consumer's disposable income in Europe and that of other major world markets, such as North America. That strategy has been largely realized, although with it has come additional cost pressures on the industry as a whole because economic growth in Europe has stagnated, and consumers have turned to lower-cost, less-featured products. Creating new products has led the company to undertake a dramatic restructuring of its entire line during the second half of the 1990's. Using extensive consumer and trade customer research, new products have been introduced in every appliance category. In 1997, according to the estimates, more than 60 per cent of business's revenues came from these new products.

In February 1998, the Whirlpool CEO David Whitwan commented on the situation in Europe, "Europe proved to be a bright spot for us in 1997, following two years of turbulent times. Our performance in Europe has consistently improved, quarter after quarter, following cost-reduction and productivity improvement efforts begun in 1996....Additionally, we continued to expand our business in Central Europe and other emerging markets by drawing from our expertise throughout our other European operations. As a result, Whirlpool remains the leading brand across the whole region..."[7]

B. Tatramat

The company was founded in 1845 by Karol Scholz as a producer of nails and currycombs, for grooming horses. After World War I, the company switched to producing domestic kitchen goods and after World War II, the company was nationalized. Under the 45 years of socialist development, the company expanded to produce zinc-coated and painted barrels, water heaters, electric ovens, and automatic washing machines. It began production of automatic top-loading washing machines (under license with VIVA of France) in 1969, and front-loading washing machines in co-operation with Yugoslav Elektronska Industrija in 1972. As the first major manufacturer of automatic washing machines in Czechoslovakia, it has established a significant production record.

At the beginning of the 90's, Tatramat was the largest producer of automatic washing machines in Czechoslovakia (202,500 units in 1990) and domestic water heaters (146,900). It employed approximately 2,300 people. Tatramat had 88% of the automatic washing machine market in Czechoslovakia, i.e. it was a near monopoly producer in the country. Washing machines accounted for approximately 75% of Tatramat's revenues, and water heaters were 20%. The company derived about 12% of its revenues from exports of washing machines and water heaters. Its sales in 1990 reached

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[5] Steinmetz. G., Quintanilla. C. (1998) Tough Target *Wall Street Journal Europe* XVI (50): 1
[6] Ibid.
[7] Whirlpool Corporation. 1997 Annual Report, p. 4

962 mil. Kcs (Czechoslovak crowns) i.e. about $ 48 mil. at the then exchange rate. The operating profit was about 65 mil. Kcs, which meant the operating margin was about 6.8%. (For production distribution in 1990 see Appendix 3).

Tatramat's washing machines were targeted at the requirements of the Czechoslovak market. In the late 1980's western brands were often too expensive, too complicated or simply too large to appeal to the average Czechoslovak buyer. Tatramat had also an established distribution and servicing network in Czechoslovakia. This, along with a high penetration of the brand, meant cheaper distribution costs, cheaper servicing costs, and lower advertising costs relative to imported brands. At the beginning of 90's the penetration level for washing machines in Czechoslovakia was 58%. It was expected to rise to European levels (approximately 90%) within the decade. Generally, the demand for major consumer appliances was expected to increase gradually in Czechoslovakia and in neighboring countries as the region re-oriented itself towards a market economy.

In 1989, just prior to the revolution, Tatramat's director Martin Ciran began looking for partners to supply technology for top-loading washing machine production. The company received bids from Philips, Thompson and Zanussi. In 1990, after the revolution and after Whirlpool's acquisition of Philips, Whirlpool emerged as another potential suitor.

At the end of 1980s and at the beginning of 1990s Tatramat produced about 200,000 washing machines per year – 100,000 top loading washing machines (so-called MINI – 95% for the Czechoslovak market), and 100,000 front-loading machines (25% for the Czechoslovak market, 75% for export primarily to the socialist countries of Poland, Bulgaria, Yugoslavia, East Germany. Only 5,000 were sold on Western markets). At that time many problems accumulated in the factory and its environment: high fixed costs, low productivity and quality, obsolete MINI not suitable and competitive on foreign markets, abolishment of state export subsidies, collapse of the COMECON market[8] and the drop in demand on the domestic market. (Tatramat sales are shown in Table 2). Finally the devaluation of the Czechoslovak crown in 1990 tripled production costs. In 1990 Tatramat fired 100 people, and in 1991 lost 900 from the original number of 2,300.

Table 2 Tatramat Sales (thousands units)

	1988	1989	1990	1991
Washing machines	200.0	199.1	210.6	144.1
Water heaters	151.8	143.7	133.3	76.2

Source. Tatramat internal materials

At that time Tatramat's management realized that a single purchase of technology would not solve all their problems. They also needed market access and a partner who would be able to guarantee it. Tatramat's idea of a purchase of technology or licensed production slowly shifted to the idea of capital investment and a joint venture. During the search for the right partner they negotiated with various companies (e.g. Thompson, Merloni, Bosch-Siemens, Philips and later Whirlpool) and realized that Whirlpool was the most interested in the improvement of the management of their company and generally, in including Tatramat in its global network. The aim of Tatramat's management was to maintain the washing machine production, as well as jobs for people in the factory, even during difficult, transitory conditions.

[8] Market of Central and Eastern European socialist countries, members of CMEA – Council for Mutual Economic Assistance, which was a socialist counterpart of Western European economic groupings

At that time managers in WEBV also realized that the essential institutional changes in the Eastern bloc brought many new challenges for their company. They were attracted by the possibility of gaining new markets, as well as obtaining production facilities and a skilled labor force. These facilities were not too efficient, but low-cost in comparison to Western Europe. Privatization of the state-owned factories began in almost all countries of the region.

2. Managing a Joint Venture

A. The Whirlpool-Tatramat Joint Venture

After complicated negotiations[9], the contractual basis of the joint venture was created by the end of 1991 and the joint venture began its operations in May 1992. At the beginning, Whirlpool contributed to the joint venture with know-how in technology, production and marketing and also bought shares from Tatramat. In this way it acquired the stake of 43,8% in the joint venture. Tatramat's non-financial contribution consisted of intellectual property rights in the area of washing machine production, goodwill, buildings, machinery, land and contracts. Tatramat had the ownership share of 56,2% in the joint venture. The original joint venture agreement was signed for 10 years. Whirlpool-Tatramat was incorporated as a joint venture company in May 1992, when Whirlpool Europe and Tatramat a.s., the state-owned company created a new corporate entity. With Whirlpool's investment, the company split into three separate entities: Whirlpool Tatramat as the number one producer of washing machines in both the Slovak and Czech Republics; Tatramat – Quasar, another joint venture company which produced vending machines with an Italian partner, and old Tatramat producing water heaters. At that time Whirlpool-Tatramat was the comprehensive organization with a sales staff, after-sales service and support staff, and local distribution facilities co-located at the factory site. The Whirlpool Tatramat facility was legally separated from the old Tatramat plant, but it was also physically separated by a wall which was constructed as one of the first actions of the joint venture.

Whirlpool-Tatramat produced two types of top-loading washing machines: the old Tatramat MINI (under Tatramat's brand name), and the Whirlpool T-12 (under Whirlpool-Philips brand name): the first T-12 rolled off the line in October of 1992. The company was supposed to produce 115,000 MINI and 25,000 T-12 in 1992. With the start in May 1992 it produced only 74,000 MINI's and 5,000 T-12's. Total output of both types for 1993 was just under 100,000 units. Even though these results were better, the number of units produced (59,000 MINI and 39,000 T-12) lagged behind the expected numbers. Not only quantity, but also quality became the critical aspect of production in Poprad. As WEBV looked to expand Poprad's role as an international production center and have it manufacture goods for western markets, the quality of Poprad's product had to meet the strict quality demands of Whirlpool and its customers. Quality had improved at Poprad during the years 1992 and 1993, but it was not enough - the company supplied only Czech and Slovak customers at that time. (See Appendix 4).

Alongside the production drop and problems with quality standards, employment levels saw a significant reduction after the establishment of joint venture. Initially, 550 employees were transferred from Tatramat. The transfer of workers was not problematic, because the joint venture took over the production of washing machines together with labor force. As for managerial positions, Tatramat did not want to lose its best staff in favor of Whirlpool-Tatramat and therefore the transfer of white collars was conditioned by the Tatramat's approval. The biggest "downsizing" of employment concerned workers and it occurred in two waves. In 1992 mostly people with "low working morale" (e.g. often

[9] See S. Ferencikova, S. and V. Pucik, *Whirlpool Corporation: Entering Slovakia*. International Institute for Management Development, Lausanne, Switzerland, 1998.

absent, drinking alcohol etc.) or those who were close to retirement age and those who were willing to leave their job were released.[10] In 1993 the employment went down further from 470 to 219. (See Appendix 5). At that time, refusal to sign-up for Whirlpool management systems and conditions (flexibility) was the most usual reason for levering-out non-compliant workers. However, in 1992 and 1993, the productivity increase was promising (153 units of output per employee in 1992 in comparison to 199 in 1993).

As for capital investment, its level was not too high and the transfer of "hard technologies" was only partial. Whirlpool in July 1993 transferred $1.5 mil. to the joint venture whereby Whirlpool's share in the joint venture grew up to 49.9%. This amount was invested into technology.

The external conditions of the joint venture experienced a drastic change, too: in 1993, as a consequence of the division of Czechoslovakia, the local market for Whirlpool-Tatramat with its location in Slovakia diminished by two-thirds. However, Tatramat's brand name enjoyed high recognition in the Czech Republic and the company disposed distribution facilities there. To catch up with the political change, erection of borders and custom union between Slovakia and the Czech Republic and to avoid losses on this market resulting from worsened operational conditions, Whirlpool-Tatramat established its own subsidiary in the Czech market in May 1993.

B. From Whirlpool-Tatramat to Whirlpool Slovakia

In spite of the production and employment drop during 1992 and 1993, the struggle with quality requirements and production costs, and the loss of SKK 48 million in the first whole year of the operations, in February 1994 a significant ownership change occurred: Whirlpool bought out equities from Tatramat whereby it increased its share in the joint venture up to 72%. Until the share of Whirlpool reached two thirds, Tatramat had the right to nominate the Chairman of the Board of Directors and two members compared to two Whirlpool's representatives in this body. After having obtained the two-thirds majority, Whirlpool got the chairmanship plus another two posts. On top of that, as soon as Whirlpool had two thirds in the joint venture, according to the joint venture agreement it did not need the approval from Tatramat about the most important issues, such as plans, important contracts, and financing. As Martin Ciran, who has been Managing Director of Whirlpool-Tatramat since the beginning of its operations, recalls: "We were aware of the necessity of performance improvement, but we did not want to have the hands tied up by Tatramat that faced big economic troubles at that time."

After the company proved to be successful, in October 1996 Whirlpool bought out the remaining shares and became the only owner of the company. (The evolution of ownership structure see in Appendix 6). The follow-up was the change of its name to Whirlpool Slovakia and the move of its headquarters and national sale office from Poprad to the Slovak capital, Bratislava.

In 1994 the production experienced moderate growth, and with 95,000 units the production of the T-12 more than doubled. The joint venture produced the last 11,000 MINI's that year: T-12 replaced the old Tatramat-designed MINI, which was dropped from production due to poor design, quality, declining sales and thin margins. Since 1994 the Poprad plant has been engaged solely in assembly. Initially, in 1992 and 1993, the Whirlpool-Tatramat assembled washing machines from kits imported from Amiens,

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[10] According to the then labor law they were eligible for compensation of 5 monthly pays when they were released, which many of them welcomed and preferred to quit the factory. At the same time, those who were interested in staying signed a contract with provisions about the future employment in case of a production increase in the factory.

France, where the T-12 was also made. The joint venture has produced only the T- 12 since 1995. In 1995 the company exceeded, for the first time, the number previewed in the agreement. In 1997 a new front-loading model Tatry was introduced in the factory. In 1998, the production of almost half of million washing machines is expected in the factory. The manufacturing in Whirlpool-Tatramat and Whirlpool Slovakia up to today is shown in Table 3 and Appendix 7.

Table 3 Whirlpool -Tatramat and Whirlpool Slovakia Production

Type	Brand	1992	1993	1994	1995	1996	1997	1998*
MINI	Tatramat	74,000	59,000	16,000				
T-12	Whirlpool Ignis	5,000	39,000	95,000	219,000	267,000	349,000	340,000
Tatry**	Whirlpool Ignis						1,000	140,000
Together		79,000	98,000	111,000	219,000	267,000	350,000	480,000

Note: * forecast, ** newly introduced front-loaded washing machine
Source: Whirlpool Slovakia Internal Information

Although the capacity at Poprad made it the smallest of Whirlpool's European manufacturing centers, it has been its lowest cost production facility. This is due to lower supply costs, the lower wage level in Slovakia, and improved quality and productivity. Since 1994, Poprad has begun to vertically integrate, producing more of its components in-house in an effort to reduce its reliance on the expensive Amiens components. Costs (80% of machine's costs is based on components costs), transport distance, customs requirements and probably a lower priority to Poprad's components orders from Amiens side led to the decision to source as much as possible locally. In order to reduce inventory, storage, transaction and transportation costs, Whirlpool-Tatramat has steadily increased local inputs. While the local share of total inputs was 3% in the first year, it reached 12% in 1994, 37% by the end of 1995 and 60% by the middle of 1997. With the creation of a local supplier network, the company has succeeded to increase production flexibility, reduce costs, and avoid import restrictions such as duty, import surcharges and deposits that were applied by the local government as a result of trade deficit. In addition, the Slovak parent company Tatramat located in the neighborhood has become one of the main local suppliers. Currently, about 30% of Tatramat's turnover are supplies for Whirlpool Slovakia (plastic parts, sheet iron parts and cables). For Tatramat, which struggled for survival for a long time, this is significant. Plastic parts are supplied by a new joint venture Scame-Tatramat located on Tatramat's site.

The struggle in Whirlpool-Tatramat for keeping costs as low as possible also reflected in the prudent investment policy. Until the launch of the new project Tatry, investment has been limited. The equity investment of Whirlpool including the buy-out and the equity increase reached about $11 mil. (one part of shares was also obtained for know-how transfer evaluated for $3 mil.). The joint venture alone invested some $14 mil. in 1992 – 1995. In the years 1996-1998 the company planned significant investments for the new production of the front loading machines (so-called Delta). This project should have introduced a completely new front-loading machine for the European market. Later, the project Delta was changed into project Tatry that was similar, however less investment-consuming, using different technology, and producing low-end front-loaded washing machines. The investment for introducing this model reached about $10 mil. To prepare for this product launch, changes had to be made to production areas and new technology – a semi-robotic line for assembling was installed. However, when considering and comparing investment costs and labor costs, the automation is not necessary in the Poprad plant yet.

In comparison to the hard technology transfer, "soft" technology transfer has been more dramatic with the introduction of Whirlpool management and incentive structures. Employment levels have seen a significant reduction since the establishment of joint venture. Initially, 550 employees were transferred from Tatramat, but by 1997 little more than 350 remained. The biggest "downsizing" of employment occurred in 1993, when the employment went down by more than 200 employees. (For employment evolution see Appendix 8). At that time, refusal to sign-up for Whirlpool management systems and conditions (flexibility)[11] was the most frequent reason for levering-out non-compliant workers. However, at the same time the company has stressed the importance of communication with workers through face-to-face meetings with management and implemented many human resources practices practically unknown and new to its employees.

The human resources department was adopting many activities and concepts, such as incentives schemes (performance evaluations, pay for performance, "recognition policy" to reward hard work and innovation, and "gainsharing" scheme where additional wages are linked to company profits), inter- and intra-departmental communication, training and seminars on specialized topics as well as on teamwork, decision-making, and individual thinking. Most of the training was held in 1992 and 1993. The white collars were trained in basic business skills, market economics, quality management, supplier quality, ISO 9000, English, computer courses and Whirlpool philosophy and corporate culture. The main mission of this training was to get managers' commitment and to disperse it among workers. People were taught how to communicate, organize their workplace, how to increase productivity and the quality of their work in favor of the company and themselves. Additionally, the HR department provided introductory sessions to Whirlpool Excellence System (WES)[12] that was very popular with Whirlpool Slovak employees and according to managers, it became the valuable tool for improvement in the company.

The region of Poprad has an unemployment rate of about 17 percent and for Whirlpool it means the possibility to ensure a so-called flexible workforce. The HR department records 400 – 500 job applicants, 70 % of them with a complete high school education. Currently, the worker wage consists of a fixed part (73%) and of a collective bonus (27%) depending on productivity, flexibility, quality and the level of absenteeism. The collective bonus was chosen as a way of mutual control when workers are pressed by their own co-workers to work more efficiently, with a higher quality and a lower absenteeism. The rate of work is considered to be very rapid, and therefore mostly young people work there (the average age of workers is 28 years). [13] The average age of managers is also relatively low (38 years). The explanation is that mostly young people from the old Tatramat were willing to join "terra incognita" - the joint venture in 1992. They were trained by Whirlpool and were able to take their new positions very quickly. In comparison to the Slovak average, they are very well paid – during six years of the Whirlpool's operation in Slovakia only one of them left the company. Currently, there is only one expatriate in Slovakia – a Poprad plant director from Italy.

The joint venture was established with the aim to reach productivity levels typical of other Whirlpool plants in Europe. The productivity in Poprad's plant has increased significantly – from 153 pieces per employee in 1992 to 199 in 1993 and 323 in 1994. It reached 927 pieces per employee in 1997, which is far above the expectation and levels in similar plants. (See Table 4).

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[11] Flexible work conditions have meant that a certain number of workers (sometimes almost a half of them) are on short-term contracts, dependant upon orders. These workers are paid a wage that is 20 percent lower than that of employees on more secure contracts.

[12] WES consists of the evaluation of seven categories in every Whirlpool plant: leadership, fact-based management, strategic planning, people, quality of processes & products, measurements & results, customer satisfaction.

[13] Interview with Zuzana Roskova, Human Resource Manager, Whirlpool Slovakia, Poprad, April 4, 1998.

Table 4 Productivity evolution in Poprad plant (pieces/employee)

Year	1992	1993	1994	1995	1996	1997
Pieces per capita	153	199	323	592	695	927
Growth Rate (%)	100	130	212	388	455	607

Source: Whirlpool Slovakia Internal Information

In addition to costs and productivity, the management of the company has struggled with the quality. Product quality has been a critical aspect of production at Poprad. As WEBV looked to expand Poprad's role as an international production center, and have it manufacture goods for western markets, the quality of Poprad's product had to meet Whirlpool's quality demands. Quality has greatly improved at Poprad. It has been attributed to the education of employees in quality concepts, in-process checks and vertical integration, i.e. greater internal control over quality of components. During production, every machine is tested electronically, and ten percent are taken off the assembly line and tested for 50 cycles. Additionally, three percent of the ten percent taken off the line are taken to the factory reliability lab where they run through 250 cycles (corresponding to one year's usage) or 2,500 cycles (ten year's usage).[14]

During the two first years, the company operated only domestically on the Czech and Slovak markets because the product quality at that time did not meet required standards. In the year 1994, the company started to export to Poland and Hungary and Argentina. In 1995 it entered also Western Europe. Currently, about 85% of company production is exported through the corporate distribution network. (The dynamics of export see in Appendix 9).

Table 5 Market Structure of Whirlpool Slovakia (1997)

Country/Region	Share
Slovakia	15,6
Czech Republic	19,1
Central and Eastern Europe – Others	36,3
Western Europe	13,4
Argentina	13,4
Others	2,2
Total	100,0

Source: Whirlpool Slovakia Internal Information

Whirlpool-Tatramat proved to be a very successful venture. Its performance as well as evaluation within the Whirlpool European network has gradually grown (see Table 6). WES score in the company has grown from 238 in 1993 to 702 points in 1997 (the best Whirlpool's plant in Europe reached the score of 850).

Within 7 years the company acquired a strong position in Slovakia, too: it became the 36th biggest Slovak company in terms of turnover (SKK 3,3 bil., i.e. \$95 mil.) and the 13th most profitable company in Slovakia with the profit before taxation of SKK 394 mil. (\$11 mil.) in 1997. It reached these results with the average number of 372 employees. In 1997 it became the 19th biggest Slovak exporter with the export of SKK 2.1 bil. (\$ 60 mil.), and the 2nd biggest exporter of machinery surpassed only by Volkswagen Bratislava. The main economic indicators of the company are shown in Appendix 10 and the structure of its sales in Slovakia in Appendix 11.

[14] Three types of defects can be identified: A (non-functioning defects), B (easily observed visual defects), C (defects including all other minor defects).

Table 6 Poprad Plant WES Score Evolution

Category	1993	1994	1995	1996	1997	Max.*
Leadership	33	56	67	67	72	95
Fact-Based Management	16	32	34	42	47	60
Strategic Planning	15	46	49	59	63	85
Whirlpool People	35	102	95	110	115	150
Quality of Processes & Products	38	84	80	80	90	150
Measurements & Results	49	86	104	112	115	160
Customer Satisfaction	52	170	175	195	200	300
Total	238	576	604	665	702	1000

Source: Whirlpool Slovakia Internal Information
Note: * possible points

Why We Are Successful – A Manager's Point of View

According to Mr. Ciran, " the very comprehensive and detailed joint venture agreement consisting of 30 pages and four appendixes worked out by the English lawyers from Scadden Arps company was one of the reasons of success of the company. In each case of misunderstanding we based on this agreement and it really showed us the way out. On the other hand, you have several cases in Slovakia when a joint venture broke up because of a non-qualified agreement. After the collapse of the centrally run economy, the establishment of joint ventures was marked by a lack of hands-on experience on the Slovak side. Due to a shortage of reputable and experienced law firms, we chose a foreign company to draft the agreement and it was really worthwhile."[15]

There is still more to the story, Martin Ciran describes other success factors, "Based on the joint venture agreement and the follow-up development of the ownership structure, the parent company Whirlpool had practically full managing and decision-making power in the company. Its approach has been very transparent and we got all the necessary knowledge and skills through training and know-how transfer. On the other hand, Whirlpool's headquarters in Italy has strictly asked for using and application of this knowledge. I would say, the mutual trust has been one of the basic points of our success. Further, our people have been eager to learn, to apply new procedures. What was also essential, the new top-management of the joint venture was young and not "hereditarily afflicted by socialist working procedures". It identified very quickly with the Whirlpool philosophy and corporate culture. The managers have transferred these values among employees and workers. We have implemented quickly and successfully a new management system – known as the Whirlpool Excellence System. In my opinion, the greatest change since the Tatramat days has not been in technological innovation or investment but in the change of employee attitudes. The new thinking of our employees and the accomplishment which they have been able to attain in improving the working conditions at the facility and in making the production lines more flexible set the company apart from most of the other companies in Slovakia today. On top of that, the next very important success factor has been "not-overinvesting", in other words, our company has a big intracorporation advantage in comparison to Western European producers because of low costs. With high investment we would lose this advantage.[16]

[15] Interview with Martin Ciran, Managing Director, Whirlpool Slovakia, Bratislava, June, 2, 1998
[16] Interview with Martin Ciran, Whirlpool Slovakia, Bratislava, May 5, 1998

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List of Appendixes:

Management Aspects of the Operations within an Emerging Market

Questions suggested for class discussion

Establishing a Joint Venture – American and Slovak Parent Companies

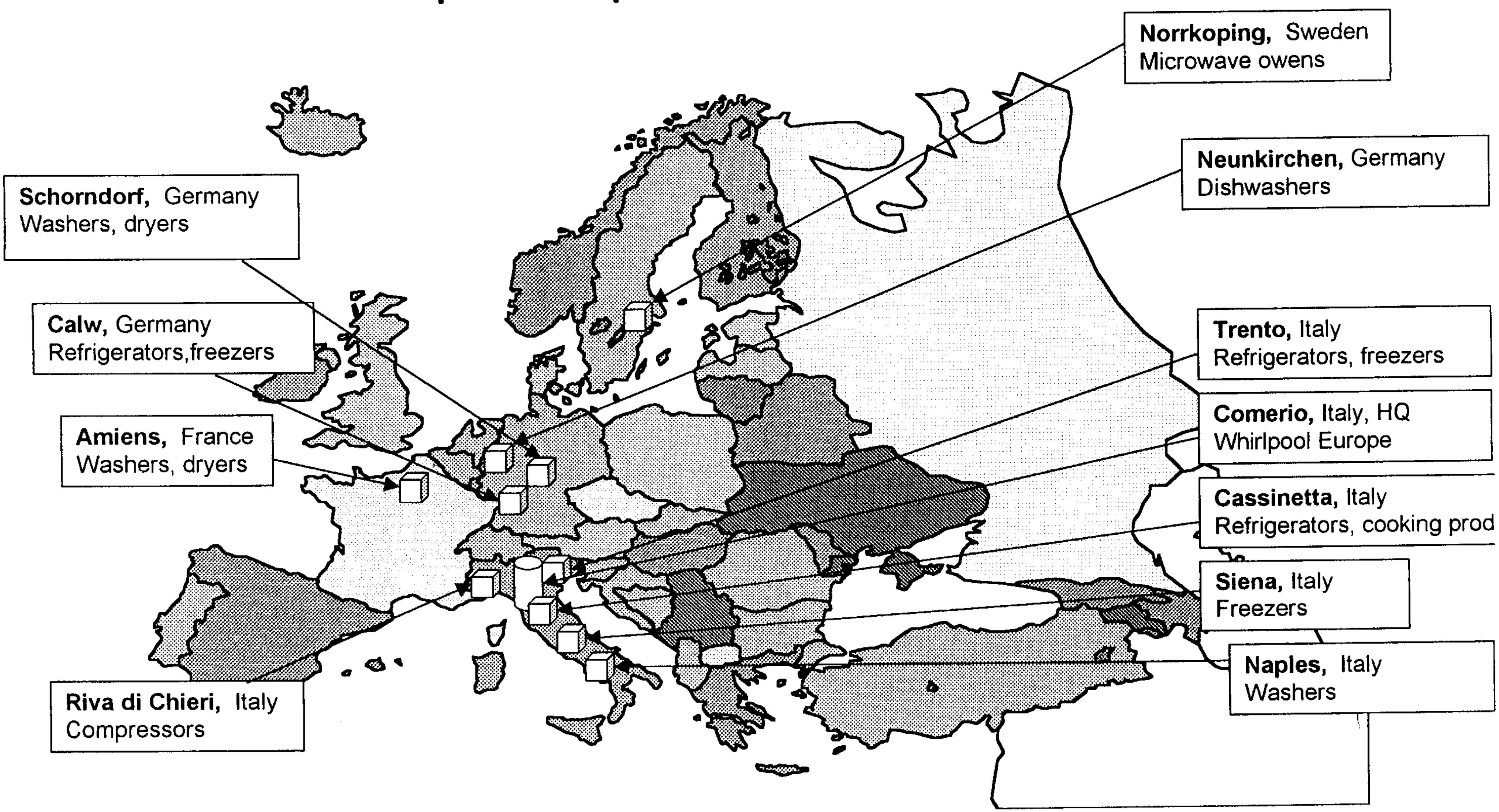
1) What were the motives for cooperation between both parties?
2) What were the strengths and weaknesses of Tatramat and Whirlpool Europe, B.V.? Do you consider these firms to be suitable and compatible partners for the establishment of a joint venture?
3) Evaluate the risks of establishing the joint venture for both parent companies.

Managing a Joint Venture

1) If you were the Managing Director of the Eastern European Region for Whirlpool Europe, B.V.in Comerio, Italy, how would you try to solve the problems of the joint venture at the end of 1993? What would be the arguments to support your position?
2) If you were the Managing Director of Tatramat in Poprad, Slovakia, what would be your position on the viability of a joint venture with Whirlpool, and why?
3) If you were the Managing Director of Whirlpool-Tatramat in Poprad, Slovakia, what proposals would you make to the Board of Directors for the joint venture at the end of 1993?
4) Identify the major changes that must occur in Whirlpool-Tatramat, if the joint venture is to be a success. Explain why these changes are so important.
5) Evaluate the strategy of Whirlpool Europe in Slovakia and the current place of Whirlpool Slovakia in the Whirlpool global network.
6) Discuss the current and future opportunities and threats for Whirlpool in Slovakia.

Appendix A

Whirlpool European Production Centers in 1991



Appendix B

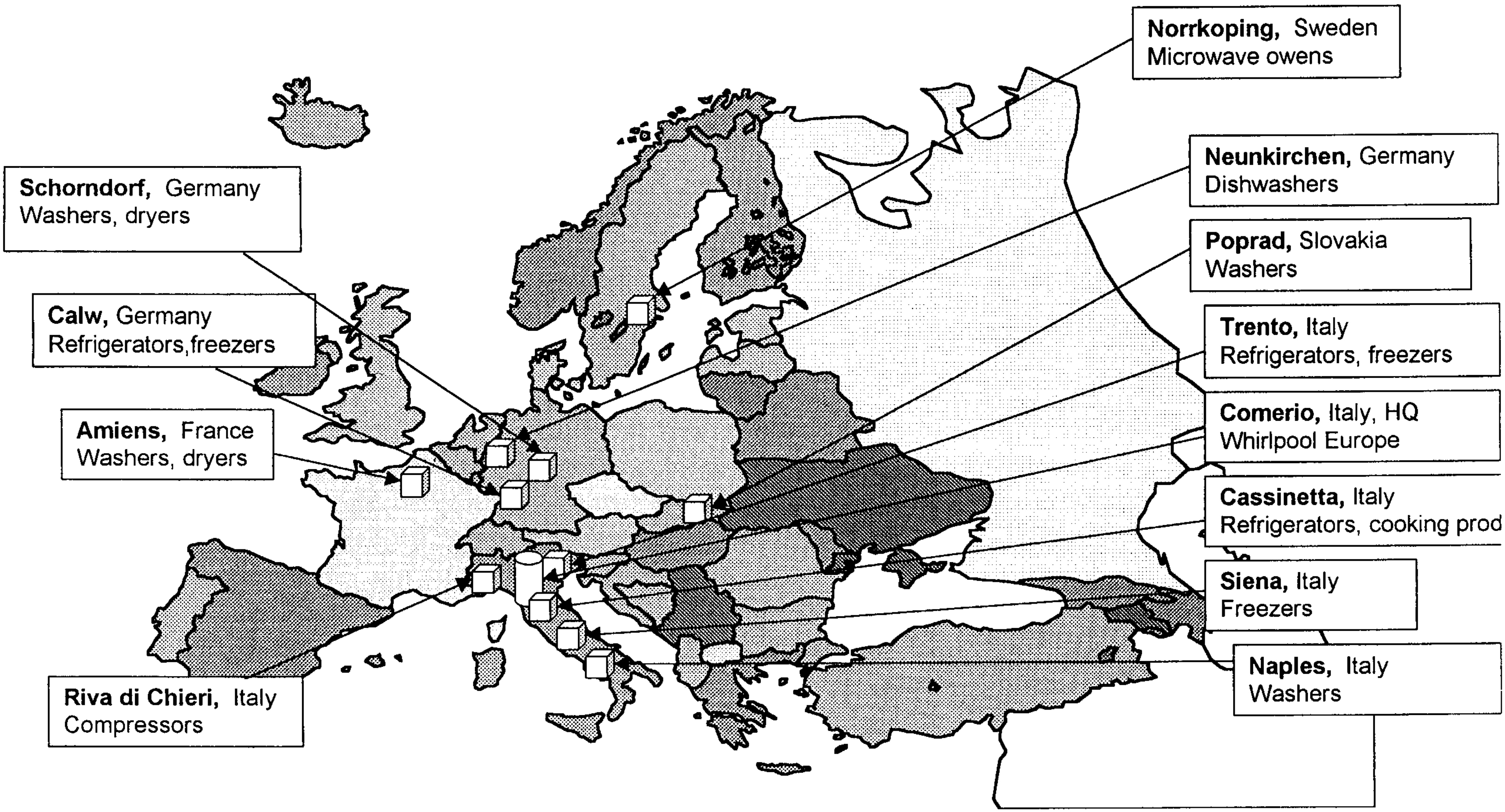
Economic Indicators
of Czechoslovakia, Hungary and Poland in 1990

Country	**Czechoslovakia**	**Hungary**	**Poland**
Local Currency Unit	Koruna	Forint	Zloty
Exchange Rate (annual average,local currency per $)	18,0	63,2	1,0
GDP (nominal, $, bn)	47,8	33,1	59,0
Inflation (%)	10,0	28,9	553,6
Unemployment (%)	0,8	1,9	6,3
Export ($, bn)	5,1	9,5	15,8
Import ($, bn)	5,7	8,6	12,3
Current Account Balance ($, bn)	-0,9	0,4	3,1
Gros Foreign Debt ($, bn)	8,1	21,3	49,4
Population (end year, mn)	15,6	10,4	38,2

Source: Data for Hungary and Poland are based on Business Central Europe on-line database at www.bcemag.com. Sources for Czechoslovakia include EIU Country Report, No.4, 1992 (p.r) and BCE on-line database.

Appendix 1

Whirlpool European Production Centers



Appendix 2

Whirlpool's Business Unit Sales and Operating Profit

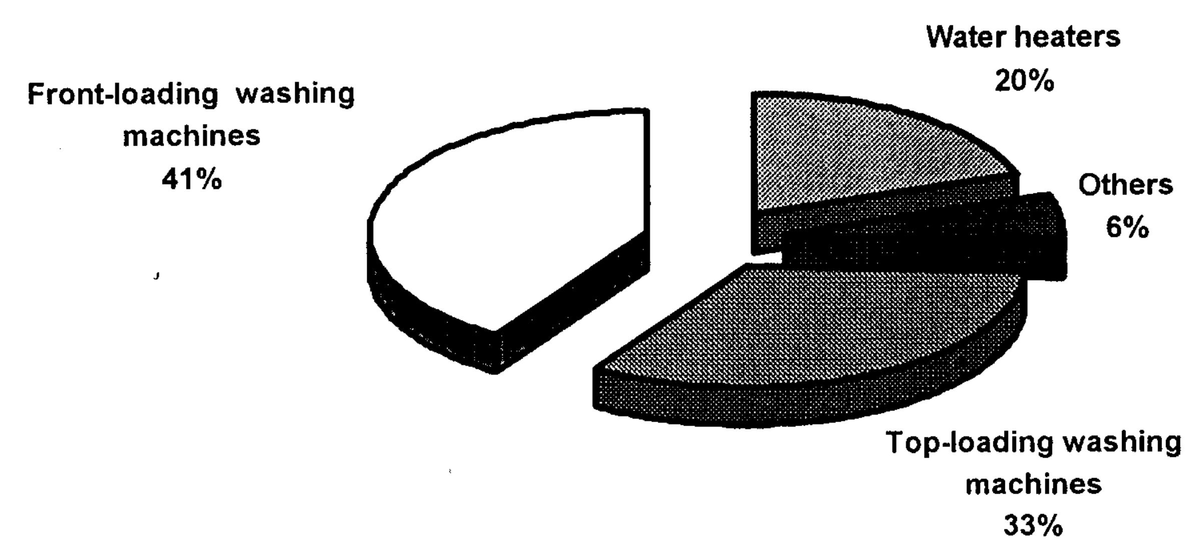
(Millions of dollars)

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Net Sales									
North America	4,116	4,165	4,236	4,162	4,559	5,048	5,093	5,310	5,263
Europe	2,169	2,456	2,540	2,463	2,225	2,373	2,428	2,494	2,343
Operating Profit (Loss)									
North America	311	277	326	417	474	552	445	537	546
Europe	101	73	83	113	139	163	92	(13)	54

Source: Whirlpool Corporation Annual Reports

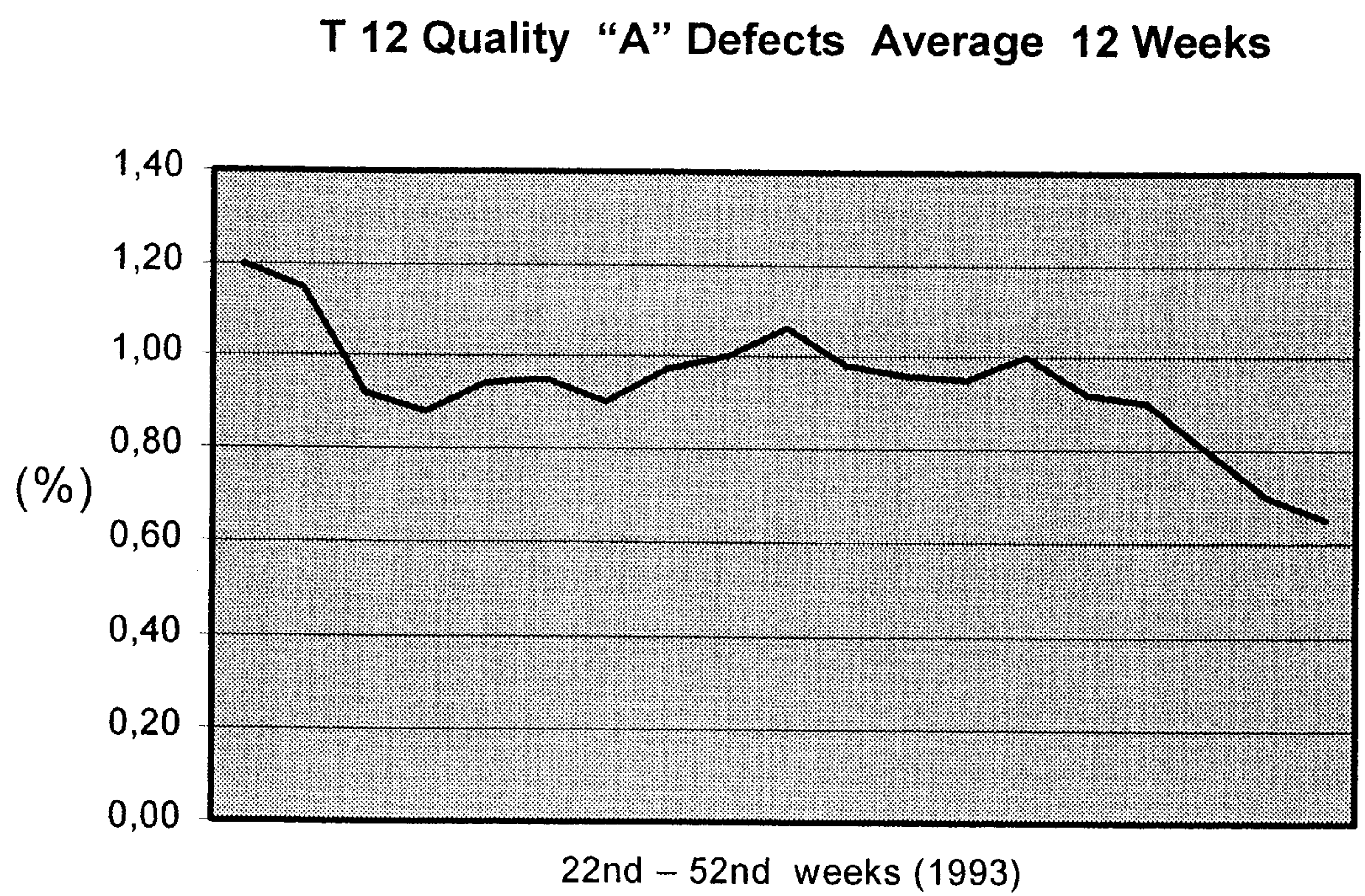
Appendix 3

Share of Products in Tatramat´s Revenue in 1990



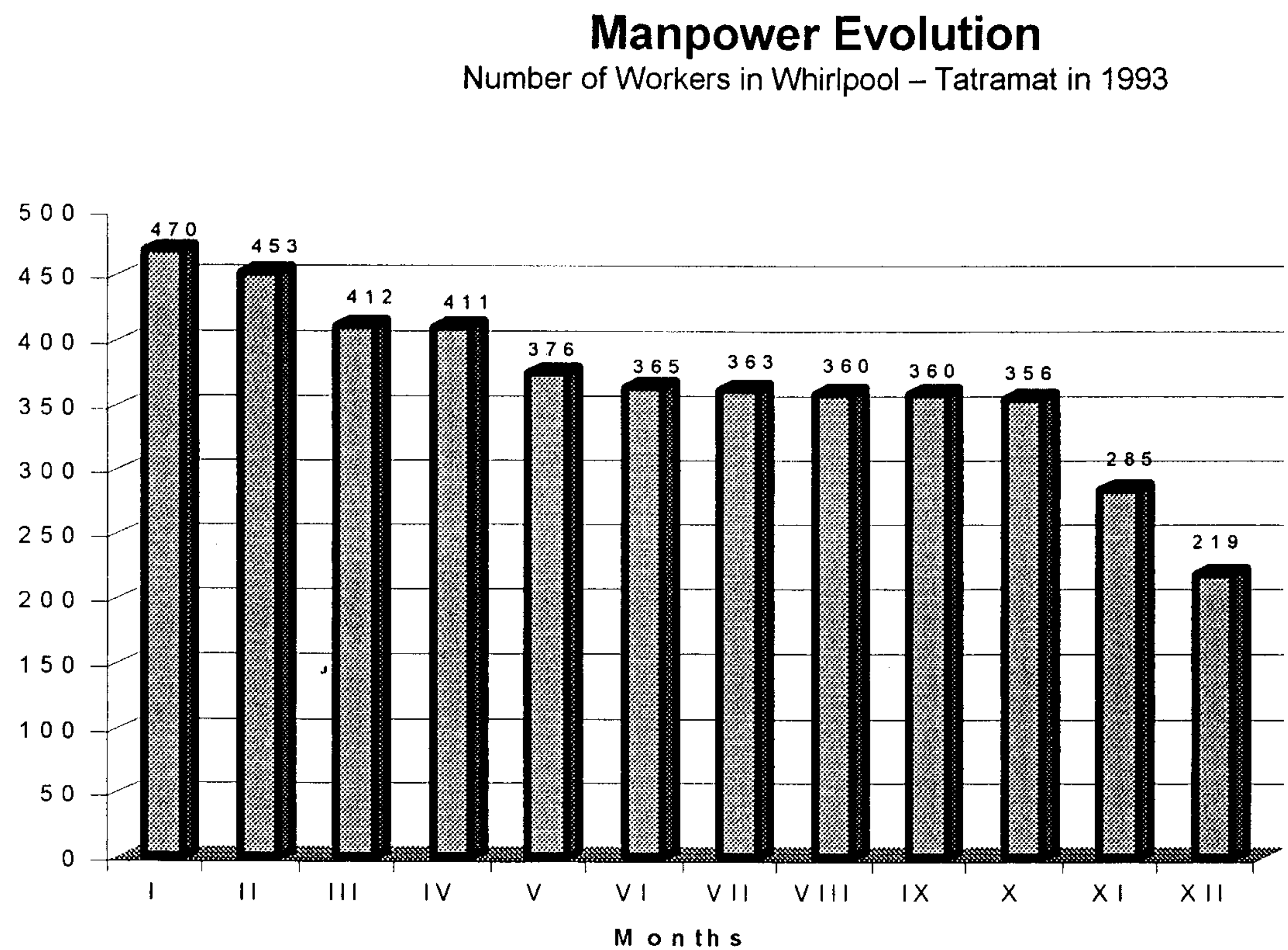
Source: "Memorandum". Credit Suisse First Boston, Bratislava 1991

Appendix 4



Source: Whirlpool Tatramat a.s. (1994) The William Davidson Institute. Business School University of Michigan,
Note: "A" Defects – non - functioning defects

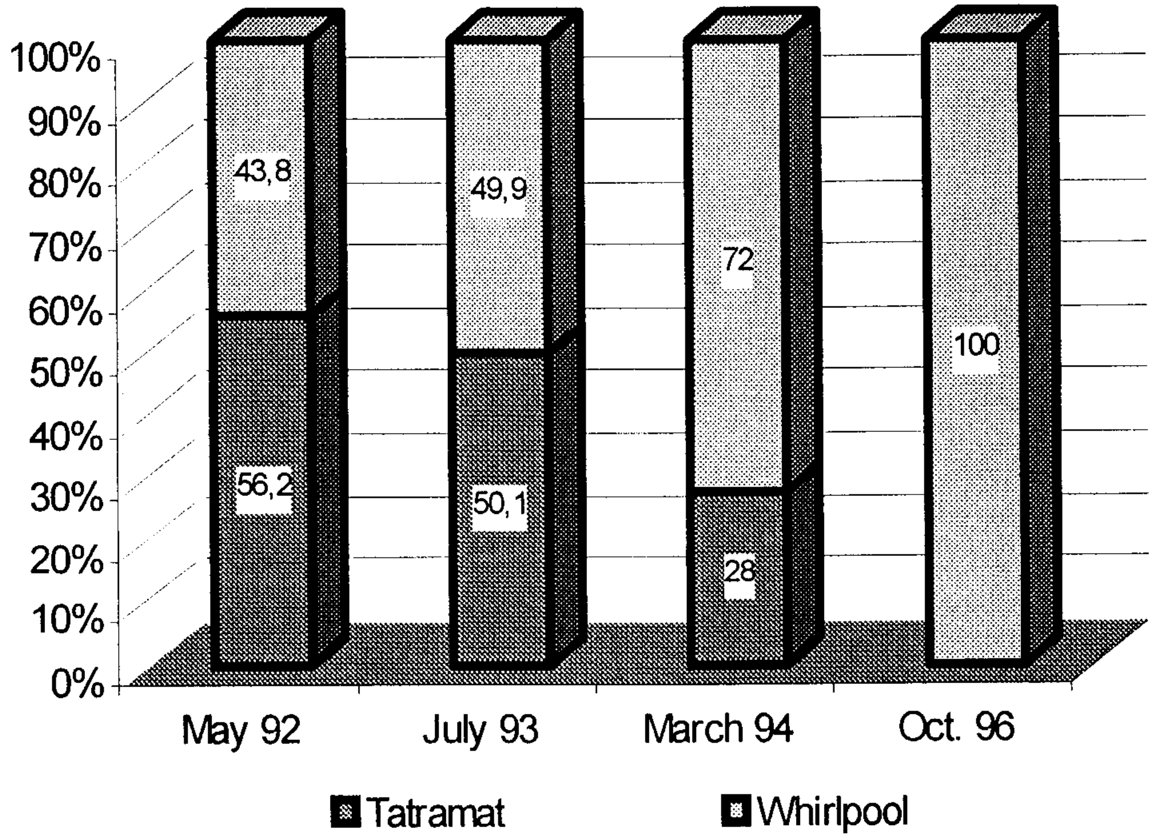
Appendix 5



Source: Whirlpool Tatramat a.s. (1994) The William Davidson Institute. Business School University of Michigan

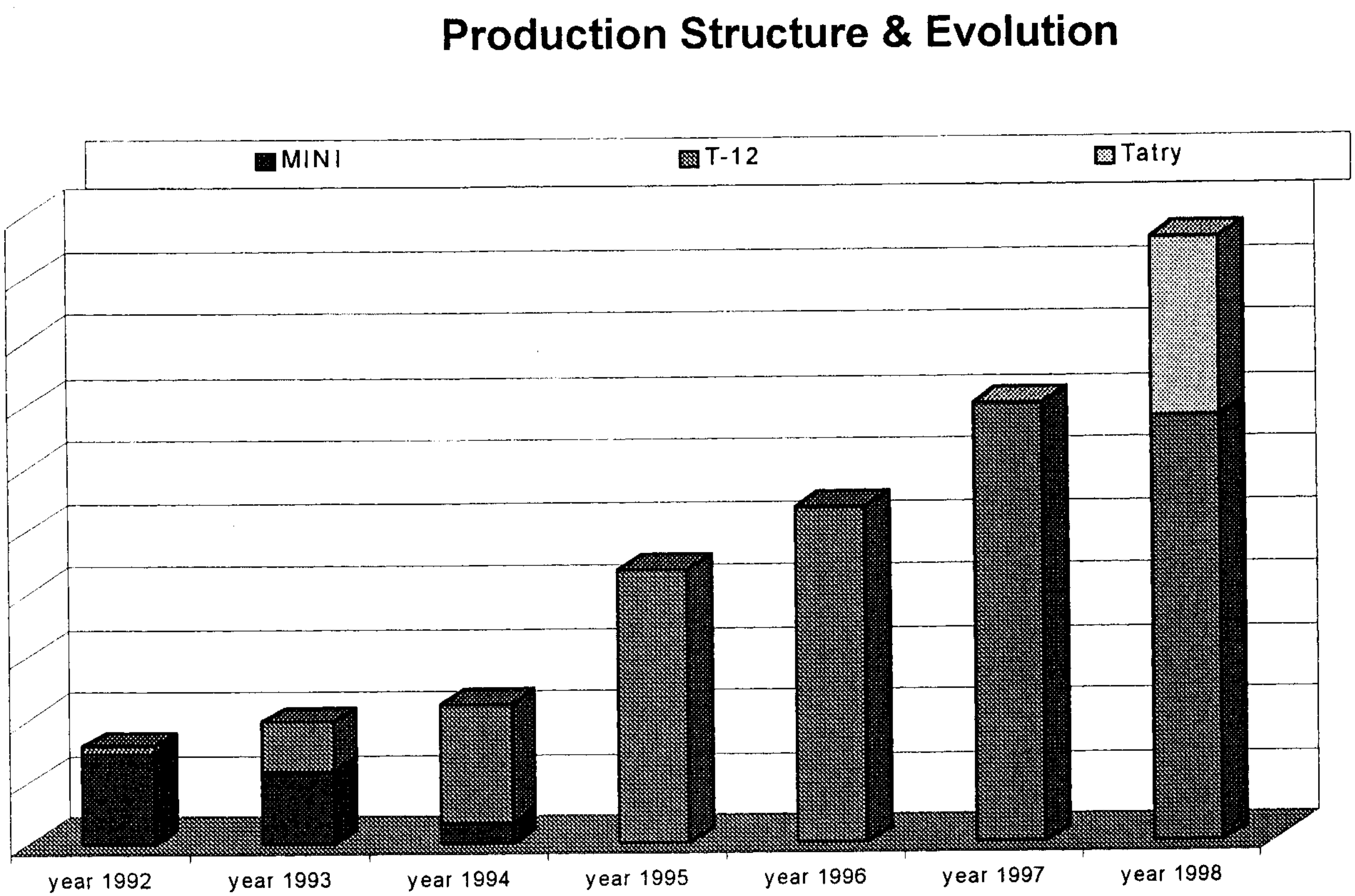
Appendix 6

Ownership Structure of Whirlpool - Tatramat



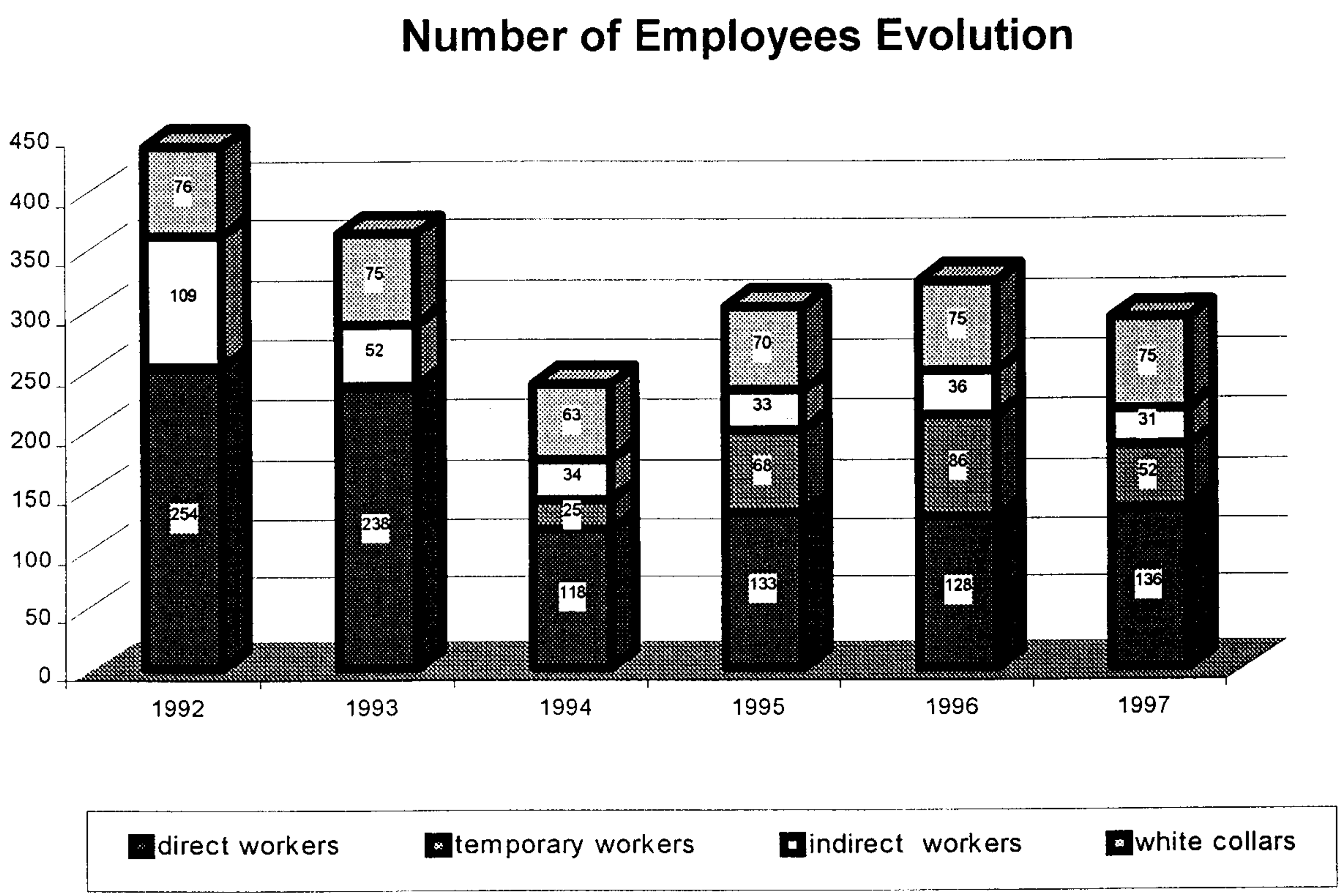
Source: Whirlpool - Tatramat Internal Information

Appendix 7



Source: Whirlpool – Tatramat Internal Information
Note: 1998 – forecast, Tatry – newly introduced front – loaded washing machine

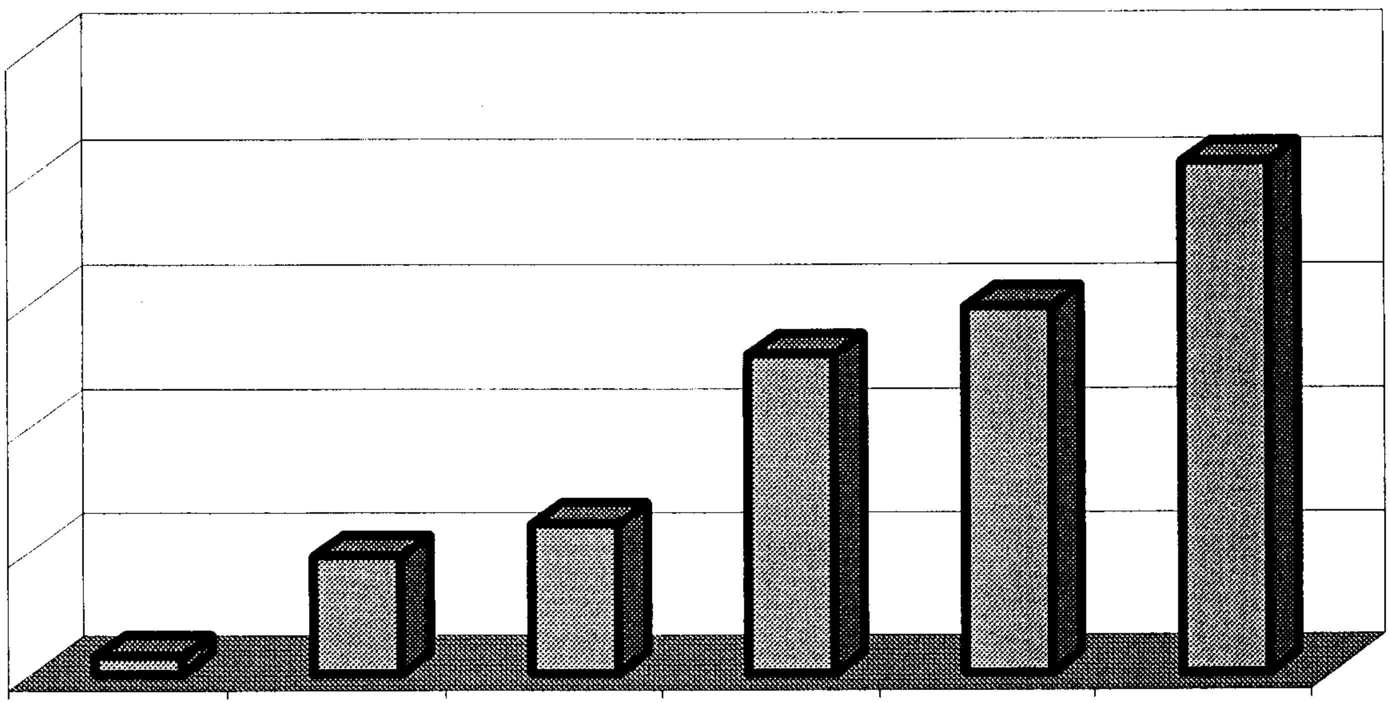
Appendix 8



Source: Whirlpool – Tatramat Internal Information

Appendix 9

Dynamics of Export
(thousands SKK)



Source: Whirlpool – Tatramat Internal Information

Appendix 10

Simplified Balance Sheet of Whirlpool Slovakia in 1997

(thousands SKK)

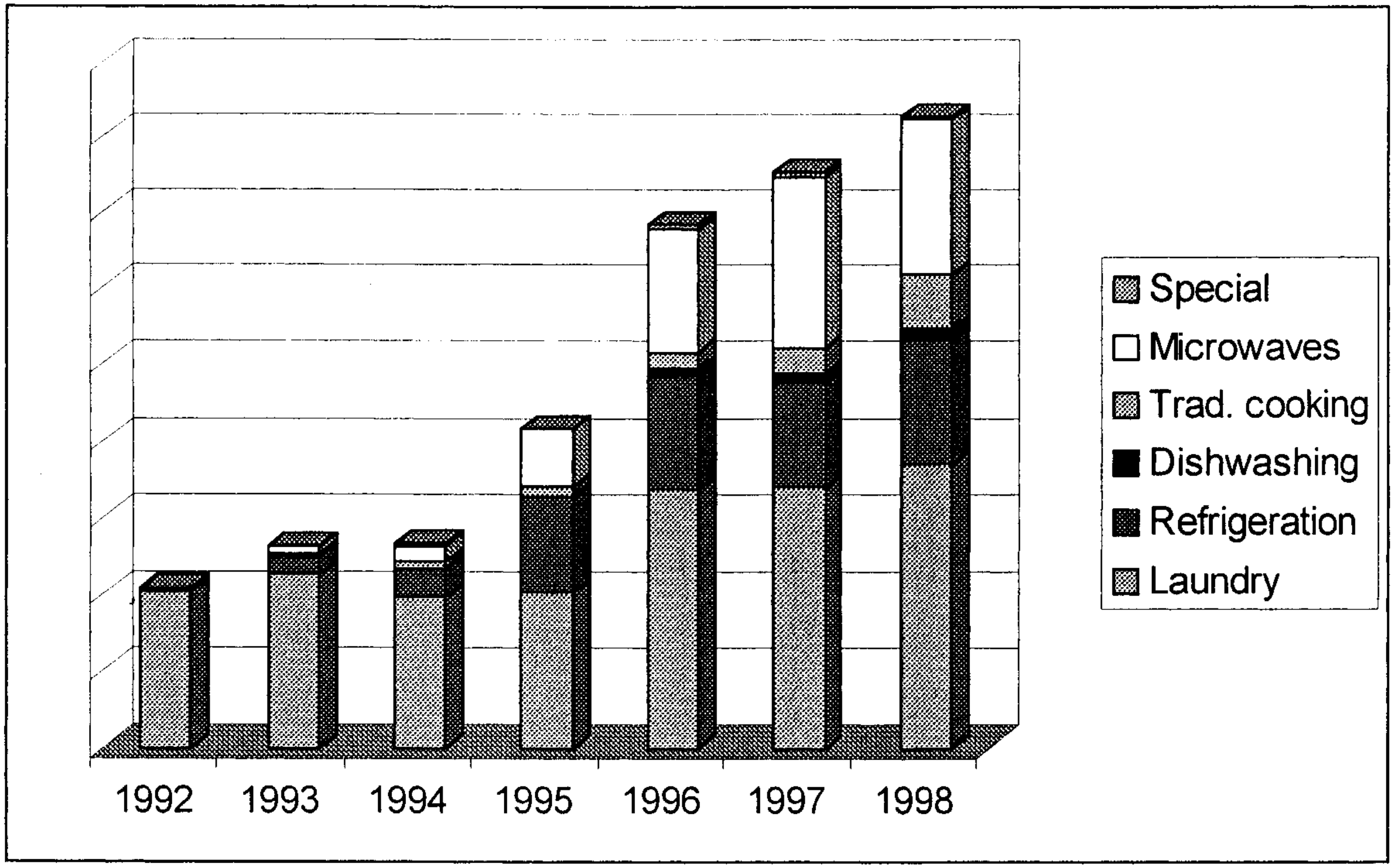
Total Assets	1,973,133
Total Fixed Assets	825,981
Intangible Assets	18,839
Fixed Assets	804,966
Financial Investment	2,176
Total Current Assets	1,129,200
Inventory	239,017
Accounts Receivable Long-term	0
Accounts Receivable Short-term	788,608
Financial Assets (Cash)	101,575
Transitory Assets Accounts	17,952

Total Equity and Liabilities	1,973,133
Total Equity	662,389
Capital Stock	450,884
Capital Funds	0
Funds of Profit	47
Profit/Loss (Previous Years)	-35,462
Profit/Loss (Current Year)	246,920
Total Liabilities	1,064,487
Reserves	44,772
Long-term Accounts Payable	3,481
Short-term Accounts Payable	536,357
Bank Loans	479,877
Long-term Loans	0
Short-term Loans	479,877
Transitory Liabilities Accounts	246,257

Source: Whirlpool Slovakia Internal Information

Appendix 11

Sales of Whirlpool Products in Slovakia



Source: Whirlpool – Tatramat Internal Information