THE WOMEN’S TENNIS ASSOCIATION COMES TO CHINA – BUT WHO? (B)

Sharda Prashad wrote this case under the supervision of Professor Glenn Rowe solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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The Women’s Tennis Association (WTA) board had committed to opening an Asian regional office in Beijing before the opening games of the 2008 Summer Olympics, and David Shoemaker had a lot on his mind. As the chief operating officer (COO) of the WTA, he was charged with deciding how to staff the local office. Should the managing director be a local or an expatriate? What was the optimal mix of expatriates and locals? It was September 4, 2007, and the WTA board wanted to hear his recommendations by the end of the week so it could notify potential expatriate staff by the end of September and open the office by April 1, 2008. The WTA had come a long way since its founding in 1973, and locating the WTA’s Asian headquarters in Beijing was a big leap for women’s professional tennis. Shoemaker knew that the board would be expecting his recommendation regarding who should be selected to relocate to Beijing and head the WTA’s Asian headquarters.

THE WORLD IS WATCHING

As Shoemaker paced around his office in St. Petersburg, Florida, he knew that the board was primarily concerned with who would be the managing director of the WTA’s first Asian regional office. It was a high-profile decision because not only were the Beijing Olympics mere months away and the world’s eyes on Beijing but also the Beijing government had offered the WTA numerous subsidies to open the regional headquarters there. The WTA’s Beijing office would mark one of the first times a foreign sports organization had opened its doors in Beijing, so other sporting organizations would also be watching.

Shoemaker recognized that the sporting business in China differed from what he was accustomed to in the United States or in the United Kingdom, where the WTA had another office. For starters, China’s central and local governments had much more influence on sports and, Shoemaker expected, on those organizations such as the WTA that were involved with sports in China (see Exhibit 1 for China’s government structure and Exhibit 2 for the WTA’s concept of the Asian regional office in China).
Regarding what he was looking for in a managing director, Shoemaker said, “We view it as an important quality to have someone who is sensitive to those differences and capable of dealing in an effective way with our local partners in China.” The main question he was grappling with was whether the managing director should be a local person who understood the market but who would not initially understand the WTA, or an expatriate who understood the WTA but would need to learn about operating in China.

WHY DON’T YOU GO?

So much uncertainty surrounded the staffing of the Beijing office that Shoemaker’s immediate reports even suggested that he should lead the Beijing contingent. He was not sure whether the suggestion had been made in jest, but a quick analysis caused him to veto the idea. Shoemaker, a Canadian lawyer who had studied at The University of Western Ontario’s law school and had worked in New York City as a sports lawyer, based his analysis on two key points: he did not speak the language and he worried about marginalizing himself from the WTA’s global operations if he focused on one region. Shoemaker, just 35 years old at the time, was looking for a long career with the WTA and did not want to blemish what to date had been a relatively impressive career path at the WTA by an impulsive adventure to Asia; consequently, he went back to the drawing board.

BENEFITS OF A LOCAL MANAGING DIRECTOR

Shoemaker analysed the key benefits of a Chinese managing director quite succinctly: he or she would understand the local market and speak the language, both of which were imperative if the managing director were to meet the board’s criteria and to succeed in the new position.

The board had already laid out the key deliverables for the managing director, and they were substantial (see Exhibit 3).

The timeline between opening the office and the new Chinese tennis event was approximately 12 months, a very short time to pull together the massive project. The incumbent would have no time to waste stumbling on basics such as understanding the language and the business climate. Shoemaker knew that all communications, from translating the WTA’s website to introducing tennis to children, needed to be transacted in Mandarin to tap into the local audience. A local managing director would have a clear advantage.

Moreover, a local managing director would have a firmer grasp of the political system, including how to interact with the central and Beijing governments and the Chinese Tennis Association. By using a local managing director, any worries of inadvertently offending the government officials because of a culture gap would be eliminated, thought Shoemaker.

In terms of learning the WTA culture, Shoemaker thought such knowledge could be gained through regular contact with the regional offices in the United States and the United Kingdom. The U.S. headquarters was already offering weekly seminars on the Chinese government and customs so that the North American staff would know how to efficiently interact with their new colleagues and to help them execute their plans.

“I think I’ve made my decision,” thought Shoemaker; however, one potential problem with hiring a local managing director was that the Chinese or Beijing government might tell him who had to occupy the position. Shoemaker did not want to be put in a position of confrontation. Another problem with a local
hire was that all of the talented locals already had jobs associated with the Olympics. It was a tough time to be scouring China for sports management talent; however, Shoemaker knew he could not wait until after the Olympics — he was already operating on a very stingy timeline. He wondered whether an expatriate made more sense, after all.

**BENEFITS OF PARACHUTING IN AN EXPATRIATE**

Shoemaker knew that the WTA’s staff regularly interacted with tournament directors around the world, and they were, in general, a culturally sensitive group. He was sure he could fill the position with an existing WTA employee. She or he wouldn’t know the Mandarin or Chinese business culture, but would know the WTA culture. Having someone from the current team would ensure that the needs of this new Asian office would be dealt with by someone who had the respect of the WTA; consequently, he knew that assigning the job to an existing WTA employee would better ensure that the Asian operation was not marginalized.

Shoemaker tapped his pen on his desk and considered the expatriate option. Yes, choosing an expatriate would be good; however, what about the Chinese and Beijing governments? Would they prefer someone who knew their language and how to interact with them? Perhaps, but an existing WTA managing director would send a positive signal: “I think sending someone senior from one of our existing offices would show how important we believe the initiative is,” he speculated.

“Maybe that is the way to go,” he contemplated. Shoemaker looked at his watch; he really needed to get his initial thoughts down. His chief executive officer (CEO), Larry Scott, and the WTA’s president, Stacey Allaster, would both want to hear his preliminary thoughts soon — and what about the actual staff? Who should work in the office? He was looking to staff only approximately 10 positions, a small enough number that could be filled with expatriates.

**STAFFING THE OFFICE**

Shoemaker pulled up his initial budget for the office (see Exhibit 4); without a doubt, staffing with locals was the less expensive option. They would also clear the language and business culture hurdles, but Shoemaker worried that this option would create an Asian office that did not truly represent the WTA. Even if he chose an expatriate managing director, the managing director would not have much time to infuse the staff with the WTA culture. He or she would be trying to build a premier tournament, secure sponsorship and spread tennis throughout the Asia-Pacific market. If Shoemaker chose from those already employed by the WTA, however, they would be familiar with the WTA brand values, attributes and office culture. “By physically locating some experienced WTA staff in our Asia-Pacific headquarters, we believe the office would more closely resemble the look, feel and culture of the other WTA offices,” he said; however, if he staffed the office mainly with expatriates, was he sending a message to the government officials that the Chinese talent pool was not good enough for the WTA? Shoemaker sighed, the clock was ticking and he had to come up with a staffing plan.
Exhibit 1

CHINESE GOVERNMENT STRUCTURE

The political structure governing the sports industry in China dates back to the country's early Communist government foundation:
- Structure was designed as a copy of the former Soviet Union,
- Sports are "controlled" by the highest levels of government,
- Significant government influence still exists today, although recent discussion suggests that the State Sports General Administration unit may be eliminated after 2008.

Source: Women's Tennis Association files.
Exhibit 2

WOMEN’S TENNIS ASSOCIATION’S CONCEPT OF THE ASIAN REGIONAL OFFICE IN CHINA

Sony Ericsson WTA Tour
Asia-Pacific Headquarters
Beijing

- Improve service to Asia-Pacific membership base: Provide on-site marketing, communications and support for 15 Sony Ericsson WTA tournaments in the region; provide improved service to support players from across the region; realize benefits of being in the market.

- Fulfill obligations to Chinese partners: Support China Open in transition to premium status; support development of tennis in China, together with local organizing bodies; pursue China-specific promotional and commercial initiatives.
## Exhibit 2 (continued)

<table>
<thead>
<tr>
<th>Key Facts</th>
<th>Representative Office</th>
<th>Wholly Foreign Owned Enterprise (WFOE)</th>
<th>Joint Venture</th>
<th>Non-Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Most common structure for new entrants into China; limited in scope; illegal to invoice for work and illegal to contract for trade activities — all transactions must go through the foreign parent.</td>
<td>Preferred structure for many established foreign businesses in China; capable of conducting transactions in China; can take up to six months to set up; monthly reports to government agencies are required.</td>
<td>Historically, the only structure allowing foreign ownership in China, prior to WFOE introduction in the 1990s; requires partnership with a Chinese firm; currently declining in favor unless a strong strategic alignment exists with the Chinese partner.</td>
<td>Only entities with parents that are non-profit are eligible; few multinationals qualify for this status; registration is more complicated than with a representative office; it is possible to establish a representative office initially and then convert to non-profit status.</td>
</tr>
<tr>
<td>Set-up Costs</td>
<td>Low-cost: Usually US$1,000 or less.</td>
<td>Minimum RMB100,000 investment to set up</td>
<td>Percentage of registration fee (same with WFOE)</td>
<td>Very low</td>
</tr>
<tr>
<td>Taxes</td>
<td>Levied based on expenses of the business. Business tax: 5% of &quot;revenue&quot; computed as total expenses + 10%; income tax: 33% of &quot;income&quot; computed as 10% of total expenses.</td>
<td>Business tax: 5% of revenue; income tax: 33% of income.</td>
<td>Business tax: 5% of revenue; income tax: 33% of income.</td>
<td>Business tax: 3–8%; No income tax.</td>
</tr>
</tbody>
</table>

*Note: At the time of the case RMB1 = US$0.14. Source: Women's Tennis Association files.*
Exhibit 3

KEY DELIVERABLES OF THE WOMEN'S TENNIS ASSOCIATION'S ASIA-PACIFIC OFFICE

- To establish China as a tennis epicenter:
  - By making the China Open one of the world's top tennis events, and one of the top sporting events in Asia in terms of media coverage, viewership, commercial value, organizational competence, fan engagement and prestige.
  - By promoting the development of tennis in China (elite, grassroots).
- To establish a China-based head office for the Asia-Pacific region:
  - By maximizing servicing efficiency for Asia-Pacific players and tournaments.
  - By serving as the head office for all Asia-Pacific and China Roadmap activities.
- To deliver value to the Sony Ericsson Women's Tennis Association Tour brand, players, tournaments and commercial partners:
  - By creating and capturing commercial opportunities related to tennis in China.
  - By executing the project in intelligent ways that would ultimately allow the Tour's China presence to be self-sustaining.

Source: Women's Tennis Association files
Exhibit 4

BUDGET ESTIMATE FOR THE WORLD TENNIS ASSOCIATION'S ASIA-PACIFIC OFFICE

We estimate total annual local administrative costs for the Sony Ericsson World Tennis Association Tour’s office to be between RMB1.4 million and RMB2.6 million.

<table>
<thead>
<tr>
<th></th>
<th>Low Estimate Staffed by Locals (in RMB)</th>
<th>High Estimate Staffed by Expatriates (in RMB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office personnel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing assistant</td>
<td>25,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Communications assistant</td>
<td>17,000</td>
<td>21,000</td>
</tr>
<tr>
<td>Operations assistant</td>
<td>8,000</td>
<td>12,500</td>
</tr>
<tr>
<td>Office administrator</td>
<td>8,000</td>
<td>12,500</td>
</tr>
<tr>
<td>Basic office supplies</td>
<td>28,200</td>
<td>28,200</td>
</tr>
<tr>
<td>Facilities rental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base rent</td>
<td>12,480</td>
<td>70,200</td>
</tr>
<tr>
<td>Power, cleaning, furniture</td>
<td>5,500</td>
<td>13,500</td>
</tr>
<tr>
<td>Total (RMB/month)</td>
<td>104,180</td>
<td>197,900</td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business tax</td>
<td>5,730</td>
<td>10,884</td>
</tr>
<tr>
<td>Income tax</td>
<td>3,438</td>
<td>6,531</td>
</tr>
<tr>
<td>Total taxes (RMB/month)</td>
<td>9,168</td>
<td>17,415</td>
</tr>
<tr>
<td>Total monthly (RMB)</td>
<td>113,348</td>
<td>215,315</td>
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<tr>
<td>Total annual (RMB)</td>
<td>1,360,176</td>
<td>2,583,780</td>
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<tr>
<td>Total Annual (US$)</td>
<td>181,357</td>
<td>344,504</td>
</tr>
</tbody>
</table>

Note: At the time of the case RMB1 = US$0.14.
Source: Women’s Tennis Association files.

1 The numbers in this exhibit are disguised to maintain confidentiality.