Is Hong Kong Disneyland a Déjà Vu of Corporate Mistakes?

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Abstract

This paper analyzes the challenges Hong Kong Disneyland has encountered in its first five years to shed light and whether this is a déjà vu of the Disneyland Paris debacle or indicates development in new directions. Specific research analyses include the global and local levels of the industry, and they relate to Disney's worldwide operation. Our methodology consists of the comparative analysis of existing documents (academic, practitioner, and popular press), combined with on-site observations of practices at Hong Kong Disneyland. This paper will also discuss whether the common strategic trajectory discussed in the literature suits the amusement park industry. It also attempts to provide a roadmap for future global business.

Introduction

The international business literatures document a common pattern of multinationals' strategies from exporting to localization, globalization, glocalization, and transnationalization. However, companies that are able to smoothly evolve through these stages are rare. The hurdles of such evolution in service industries are apparently high. The Walt Disney Company's amusement park business is an example. Disneyland theme parks are in the tourism sector of the service business, partially entertainment and partially hospitality industries. From 1983 to the early 2000s, Disney's international operations experienced both ups and downs. The success in Tokyo Disneyland and the failure in Paris raise interest in industry observers, scholars, and the public. The situation was heightened when the Hong Kong government and Walt Disney broke ground for the second Disneyland theme park in Asia. Since its inauguration in September 2005, Hong Kong Disneyland has received more criticism than praise. During this time, scholars interested in Disney's theme park business revealed interesting results. Matusitz (2010) cited four glocalizing changes in Disneyland Paris, namely: (1) price cutting; (2) adding a French style to settings and shows; (3) modifying food menus and eating habits; and (4) changing park customs and labor policies. [1] Ironically, most of the current problems in Hong Kong duplicate those in Paris, with local peculiarities. Queries about how such a prominent, experienced,

multinational enterprise could repeat its' own mistakes draws attention to the implementation of global strategies in the Walt Disney Company.

Walt Disney theme parks have been successful in its first overseas location, i.e., Tokyo, Japan, in 1983. It has consistently been at the top of Disney's all theme park operations in terms of attendance and revenue. [2] Tokyo Disney was so successful that it warranted the venturing of Tokyo DisneySea later in 2001, which is another huge success. Between these two parks in Tokyo, Disney made its footprint in the European Continent in 1992 and named it Disneyland Paris. Due to its success in Tokyo and the commonalities between European and US cultures, the expectations for the Paris location were high. On the contrary, Disneyland Paris experienced heavy losses over time and a change of strategy was needed. According to Martusitz (2010) a glocalization strategy was adopted and has resulted in top performance among all paid attractions in Europe. [3] Over 12 million visitors a year queue up to enter the theme park. [4] Matusitz (2010) cited that the success of Disney's glocalization has also been applied to the Hong Kong Disneyland, opened in 2005. [5]

Since its opening in 2005, Hong Kong Disneyland has received criticism for its management. Some even accused Disneyland of not localizing its operation in Hong Kong. Hong Kong Disneyland had taken precautions when localizing its operation in Hong Kong but its efforts were proven inadequate. When traced in time, there is enough evidence to suggest that localization measures had been taken place before 2005. For example, Disney hired *feng shui* masters to design the park from the very beginning. Chinese numerology was also adopted when selecting specific important opening dates. [6] It also took extra care to design landscaping that suits the interest of Hong Kong residents in a natural environment as an escape of the overcrowded, cement blocks of the city. Even the design of the landscaping, such as specimens, went far beyond the typical high standards, including placement and attractiveness. [7] Unfortunately, these localization measures were not enough to offer a promising start for Hong Kong Disneyland. The Park did not achieve the goal of 30,000 visitors maximum per day until December 2005 when there were more holidays. [8] Hong Kong Disneyland over corrected the problem by selling flexible tickets with no date limitations but without understanding the travelling patterns of an important group of visitors, the mainland Chinese. It resulted in overcrowded park-visits during the Lunar New Year holidays in 2006, which severely damaged the Hong Kong Disneyland image. The impression of the park from a random survey was mostly negative and worse than before it was opened. [9]

During the following years, Hong Kong Disneyland continued having performance issues. In the meantime, the park that experienced repetitive performance difficulties, i.e., Disneyland Paris, began to report desirable results. Matsuki (2010) attributed the improvements to the efforts of glocalization, which "emphasizes particularism of a global theme, product or service." (p. 224). [10] The irony is that given an experienced multinational enterprise like Walt Disney, it would be logical to expect that the company has built up enough capability to perform well internationally, but the performance was far below expectations. In an attempt to understand how and why a multinational enterprise as Walt Disney conducts its global strategy, scholars began to inquire and investigate the situation in Hong Kong.

Theoretical Development

This section reviews two major theories in international management in relation to Disney's theme park business, Dunning's Eclectic Theory,[11] i.e., the Ownership-Locational-Internalization (OLI) model, and the Integration-Responsiveness framework. The Eclectic Theory provides theoretical explanations and outcomes of successful foreign direct investment.[12, 13] The Integration-Responsiveness framework offers strategic options to multinational enterprises. If implemented correctly, the company should achieve its strategic goals and realize OLI advantages.

The Eclectic Theory

A theoretical perspective in interpreting the advantages of foreign direct investment can be reviewed back to Dunning's Eclectic Theory where ownership-specific, internalization-specific, and location-specific advantages are cited.[14] Ownership-specific advantages tend to be specific and proprietary. They are considered to give the company "monopoly" power.[15] This type of advantage includes proprietary knowledge, patents, unique management skills, differentiation, and trade secrets. Examples are companies such as Coca-Cola with its formula, DeBeers' control of worldwide diamond sources, third-place Starbucks' other-than-home and work-concept, and Apple's ability to market devices such as iPod, iTouch, and iPad. In the case of Walt Disney theme parks, it is conrceivable that the company has acquired advantages, such as patents and copyrights of the cartoon characters, proprietary knowledge and management skills in running theme parks and cooperating with host governments, differentiation in corporate image and reputation, and the like. Most of them are hard to duplicate, and they provide a foundation for Disney's strategic competencies and assets for building competitive advantages. Location-specific advantages refer to advantages a firm obtains by locating part of its production facilities overseas for particular types of resources that are unique to those locations. The pursuit of tangible assets, such as mineral and materials, is often the typical reason. Intangible assets such as human capital, from low to high skill labor, is also the reason if home countries are experiencing shortages or too expensive. In theme park operation, the use of local talent for overseas theme parks is an imperative, logical and economical approach. Walt Disney should have been benefited from years of experience in employing, managing and sourcing local supply. Even though most of the resources are not transferrable, experience with them should be. Internalization-specific advantages come from a company's experience in internally producing goods and services abroad instead of exporting or licensing. The company does not rely on external players, such as distributors or licensees. Instead, the company acquires such competencies from within. It not only forces the company to remain updated with the latest know-how and technology, but also actively transfer such knowledge from country to country to minimize the learning effort for maximum results. In the case of a Disney theme park, one would expect that from Tokyo Disney to Hong Kong Disneyland, Walt Disney has had over several decades of foreign experience with two locations in managing local establishments from scratch including the selection of location, land development, construction, planting, food and lodging services, human resources training, financing, design, choosing attractions, capacity planning, and the like. The company should be able to internalize its operations and transfer its know-how successfully from location to location.

The Eclectic Paradigm not only offers explanations to foreign direct investors but also specific goals for doing business abroad. One would expect that after theme park experiences in both

Tokyo and Paris, there would be ownership-specific advantages, such as management skills, knowledge and trade secrets to carry over to Hong Kong, etc. Regarding the internalization advantage, Disney has been given opportunities to internalize diverse competencies from its experiences in Tokyo and Paris but appears to have missed this target. The company shows a failure in acquiring, applying, and transferring such advantages beyond its home country. What might have been overlooked? Was the company ready to move from Tokyo to Paris and then to Hong Kong? This paper will later explore the strategic approaches Disney employed using the Integration-Responsiveness model in relation to the company's strategies.

The Mulitdomestic vs. global industries

Global strategy scholars suggest differences between the natures of industries that might affect the use of strategy. In general, industry can be divided into two large categories, multidomestic and global. "Multidomestic industry is when firms operate in several national markets that are culturally different, and competition in each country is essentially independent of competition in other countries. While globalizing processes are at work, these industries have not reached a point of convergence in which coordination is a critical requirement for success." [16] In multidomestic industries the company's level of business activities across multiple countries is mostly confined to one domestic market at a time. The company is practically running a group of individual, independent domestic markets. A logical approach is a collection of locally tailored strategy or of multi-local strategies. Synergies at the corporate level are therefore limited and are not enough to accumulate economic benefits of scope and scale. As for a global industry, it is "defined as an industry in which a firm's competitive position in one country is significantly affected by its position in other countries and vice versa. Presumably, in contrast to multidomestic industries, the interactions between the firm's positions in each of these countries can yield scale and scope benefits, if not synergies from sharing resources, costs, or manpower across the different countries". [17] Operationally, this type of industry can be linked in terms of its market and its technological and managerial operations via a global strategy.

Theme park business is seemingly a multidomestic industry in nature. It is a service and entertainment business, and the key is to draw an emotional attachment from the visitor's on-site experiences. In most cases, theme parks are primarily designed as one-day trips for domestic visitors unless the theme park is built with many attractions for multiple visits by long-distant visitors. Therefore, they are mostly designed to suit the local interest, specifically in terms of the park layout, coloring, types of attractions, the pattern of the local consumer's spending and vacation preferences, food services, local transportation, and the like. On the one hand, a theme park must coincide with the visitor's habits and rhythm in such issues as eating, shopping and resting. On the other hand, it must provide enough novelty in the attractions to cultivate an emotional attachment with the visitors. When a theme park is taken beyond one country but with the same theme tying the parks together, it gradually changes the nature of the industry and makes it less multidomestic and more global. Taking Disney as an example, it has two successful theme parks on both the east and west coasts of the U.S. This proves its competencies in the domestic theme-parks business. Nine years after Tokyo Disneyland opened, Disney opened Disneyland Paris in 1992. Tokyo DisneySea was opened in 2001. Hong Kong Disneyland was opened in 2005. The path of Disney's overseas endeavors suggests that the company has become more global. In a global industry, companies should demonstrate some level of economies of scale or scope. The global character arises from the theme of Walt

Disney's cartoon characters made popular by the worldwide distribution of movies and television programs. Their most well known characters are Mickey Mouse and Minnie. The rest of the attractions are based on other recent cartoon stories, such as the Toy Story sequel. To heighten its synergistic effects, the company has to be able to leverage the image and popularity of these characteristics to attract both children and their parents who grew up with their old friends from the 1960s and 1970s such as Donald Duck, Cinderella, 101 Dalmatians, and Aristocats. In other words, wherever Disney goes, in addition to its worldwide reputation as a multinational corporation, there is already an emotional connection that Disney has already built upon before the parks open. In that light, the company has changed a multidomestic industry into a more global industry. It appears that a company's business approach, in this case Disney, changes part of its industry so that it becomes more global while the remainder remains multidomestic.

While it appears that Disney is already in what may look like a global industry, to say that Walt Disney is a global industry over simplifies the matter. For example, the local element of the theme park industry, namely, which means serving primarily local visitors. Local visitors come to enjoy the park at their leisure. Everything in the park relates to their daily habits and should be as close to their daily routines as possible. A park cannot expect such visitors to spend the entire day trying to adapt to the theme park, with the added stress involved. Specifically speaking, local adaptation is imperative. Disney, therefore, has to find the balance between global and local, and the latter is different from country to country in cultures, socio-economic, familiarity to the characters, and perceptions of Disney. To Disney, the theme park business involves both multidomestic and global industries. Compared to other locally oriented theme parks, Disney has to incorporate global base resources with sufficient local features. Thus, Disney represents a company that moves from multidomestic to global operations and thereby changes the nature of the industry. As a result of such change, strategic changes are expected to be in order. The company's unprecedented success in Tokyo made it logical to expect that the multinational enterprise had mastered the art of international operations. But that success was not duplicated in Paris and Hong Kong. Apparently, Disney's performance problems in both Paris and Hong Kong represent a failure in strategic changes that should correspond to the change of industry environments.

Framework for Positioning Strategic Choices in a Global Context

Literatures on global business strategy emerge around several key concepts. For example, 'think global; act local'; 'think globally, act locally, act appropriately', and glocalization are widely discussed. Ghoshal first introduced a framework of building multi-local and global strategies based on multi-domestic and global industries.[18] The theory was further developed into a broadly defined, four-cell model, known as Integration-Responsiveness framework (Cavusgil, et al., 2007). [19] See Exhibit I. This section attempts to put Disney's strategic trajectory into perspective using this framework. Tokyo Disneyland is essentially a replication of its parks in the U.S. and has been very well received from the beginning, signaling that low local responsiveness and low global integration are the two dominant conditions. That approach continues to be successful and sustainable in Japan and Tokyo DisneySea is a successful complement to Tokyo Disneyland. Yet, the replication strategy does not suit the European tourism market. According to Matusitz (2010), Disney localized their approaches and that yield desirable results. [20] Matusitz (2010) suggested saw this as a glocalization strategy. [21] According to Matusitz (2010), glocalization, in this case, is the transplanting of the theme from

the U.S. to Paris for a higher probability of success. [22] Disney's challenges in Paris were overcome by sufficient localization, but this rationalization does not explain the entire phenomenon. Matusitz's study does not provide enough analysis on the 'global' aspect of Disney's theme-park business. How does a theme-park business, an apparently multidomestic industry, require a global level operation that is beyond simply transplanting? Cavusgil et al. (2007) offers a more analytical view of global strategies. [23] According to Cavusgil et al. (2007), there was a shift of home replication to a strategy that places more emphasis on local responsiveness. [24] In Cavusgil et al. (2007), it is more like a multidomestic strategy recognizing that the need for local responsiveness is high and the need for global integration is low. [25] Disney had a shift of strategy from Tokyo to Paris and at the same time a shift of the company's global approach. This also suggests that there is no one-size-fits-all strategy for the same industry. Assuming that the industry has not changed, the need for local responsiveness changed the strategy in this case. This implies that Disney should not treat the international market as one market to be approached with one strategy.

The lesson in Europe appeared to be taken seriously when Disney prepared for Hong Kong Disneyland. A number of signs indicate that the company has made accommodations to the Hong Kong environment. Such efforts have been detailed in the literature. It has been documented that Disney took eleven measures in preparing Hong Kong Disneyland in order to avoid the problem in Disney Studio Paris. [26] It also appears that Disney made great effort in local adaptation before the theme park was opened in 2005. Among them included the adoption of *feng shui* and numerology in designing the park, eliminating attractions that would offend the local culture, toning down the intensity of roller coaster rides, modifying the recipes for the western style hamburger, etc. [27] Unfortunately, Hong Kong Disneyland is still accused of overlooking the local environment. Is Hong Kong Disneyland repeating the mistakes of Paris? Below is a summary of the problems in Disney Studio Paris as cited in Matusitz (2010) and those from other literature about Hong Kong Disneyland. [28] The first one is about pricing. In Paris, Disney had to cut the price of admission. Disney charged 200FF, which is more expensive than either park in the U.S. The hotel is US$300 per night. The entire package is designed for spending at least a couple of days in the park. Disney did not know how to train travel agents and that resulted in low bookings. In the case of Hong Kong, the price was too high because of the limited attractions and the size of the park. Instead of cutting the price, Hong Kong Disney offered two visits for the price of one for local residents. For the tourists from mainland China, it offered free photographs, free meals, and free souvenirs to increase the value of the ticket. Most non-Hong Kong-resident tourists go through travel agents, so Disney has to offer strong incentives to motivate them. The second one is about local style and settings. Mickey, in his original style, is considered bland to Europeans. So the park has to tone down its American image in toys, souvenirs, clothing, and attractions. Merchandise sold has to be made of better quality and substance for long lasting purposes. In the case of Hong Kong, the local adaptation becomes regional adaptation, i.e., a combination of Hong Kong, mainland China and Asia culture generally, beginning with Chinese style outfits on Mickey and Minnie. Mainland Chinese are not familiar with the Disney cartoon characters but are aware of Disney's worldwide reputation. Disney has to create animation movies for the locals and build attractive characters. Given the subtropical climate, there is no snow in Hong Kong and neighboring countries. So the adaptation model is now reversed. Disney has to create an American style winter as an attraction, like a snow-blower on a sloop for children to play sledges on a manmade snowy

mountain. The third one is about food menus and eating habits. In Paris, policies against drinking alcohol are not welcome. Ignoring French eating habits is also a cause of negative feelings. In Hong Kong, it is the shark fin soup that offends conservationists, as well as poor food and beverages. Disney actually corrected the mistake they made in Paris by having special teams observe the eating preferences and behavior of guests. The fourth one is about employee customs and labor policies. In Paris, there were issues about pay, dress code, and ethnocentric management. In Hong Kong, the issues are overwork, insufficient pay, inadequate rest periods, and lack of communication in labor dispute. [29]

Although there are common challenges in both Paris and Hong Kong, there seems to be issues that are unique and more complex in Hong Kong.

Miscalculating the Chinese visitor's travelling pattern. Mainland Chinese accounts for about 26% of total visitors of Hong Kong Disneyland. [30] In the beginning, Disney had a hard time attracting visitors, so the company over-accommodated this by offering tickets with flexible visiting dates without realizing that mainland Chinese visitors like to travel during their Lunar New Year holidays when they have extended off-time. Instead of staying home like the Americans on Christmas Day, many businesses remain open in Hong Kong, including Hong Kong Disneyland. The result is an overcrowded park. Some visitors pushed through the entrance gates and climbed over the fence to enter the park. [31, 32] As visitors were turned away after fighting with the crowd, Disney left a bad taste in everybody's mouth. It drew fire from the public, the government, the travel agents, and of course, the ticket holders.

Inadequate deals. Most tourists from China are very careful consumers, and they have expectations that differ from local Hong Kong residents and overseas travelers. In the eyes of mainland Chinese travelers prices of food and souvenirs were too high. The attractions were too limited compared to the price of tickets. In sum, visitors thought it was not worth it. The company left the impression that it just wanted to make money instead of providing a fun time.

Visitor's lack of experience in theme park. Visitor etiquette is a difficult area for Disney. In other theme-parks, visitors have been accustomed to putting trash in designated cans and bins after eating. That is not always the case in Hong Kong Disneyland. Many visitors leave their trash on the street, and tables are not habitually bussed after meals. They also don't understand the layout of a theme-park and give after studying the map. Disney tried to overcome this by offering a one-day trip guide. This level of visitor education is more intense than expected.

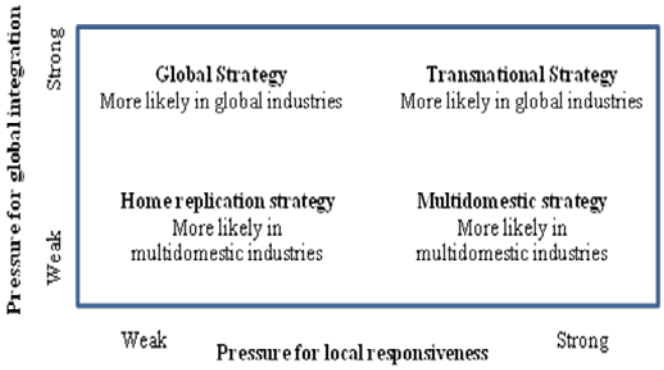
An unpopular administration as an investor. It is known that the Disney theme park was set up under Hong Kong's previous Chief Executive, Mr. Tung Chee Hwa. He resigned before the end of his term. Among many things, the Hong Kong public felt that he signed off on a deal that gives the Hong Kong public no economic advantage. Hong Kong had to offer the land, build a transportation system, and other infrastructural and local arrangements, and other commitments in exchange for 57% of the ownership. [33] The public expects Hong Kong Disney to act like a good citizen. Lack of transparency and poor performance and management are considered a shame that Disney has brought to the name of Hong Kong.

Local competition. Ocean Park is Hong Kong's homegrown theme-park and was founded in 1977. It had a long history before Disney came on board. It has been successful because it is primarily tailored to the local residents and constantly introduces new shows with an international flavor that is appreciated by locals and mainland Chinese who don't travel overseas very often. Disney was primarily staying with the same attractions and shows.

When Disney went to Hong Kong, it did not anticipate a new phenomenon and business environment in the theme-park business in Hong Kong. Unlike most local theme-park businesses, Disney uses one theme at the global level. Unlike what glocalization usually suggests for transplanting a theme, Disney now has to leverage its global resources to produce a consistent level of quality of services to visitors (local, regional and international), which is beyond glocalization. From 1983 to 2005 and from Tokyo to Hong Kong, Disney has transformed its own segment of theme-park business from a multidomestic industry to a global industry, leaving its competitors in the multidomestic mode. Based on Cavusgil et al. (2007), Disney's global approach also intensifies the need for its own global integration and must remain focused on local responsiveness. [34] In other words Disney is at the upper right corner of the framework, suggesting that a transnational strategy is the most appropriate strategy. Since the need for local responsiveness has been discussed above, the remainder of this paper will elaborate the need for global integration, primarily in three aspects. First, the company is known for its cartoon characters through various media, mostly printed cartoon books, animated movies and television channels. The company relies on the widespread of these characters to attract visitors. The attractions are designed based on the adventures of the characters. The primary success factor is to familiarize the tourists with the cartoon characters at the global level so that the consumers are able to find what they are emotionally tied to. This is the backbone of the entire global approach and must be kept at some highly integrated levels. This is an example of leveraging the company's assets from one location to another. Characters that are culture neutral seem to enjoy a level of attractiveness similar to consumers of different backgrounds. A successful leveraging effort would produce a uniform image for Disney. The second element is the hotel and resort industry. Unlike most other theme-parks, Disney is often connected to the hotel and resort business to complement their theme-parks. Due to the size of the park and other local attractions in Paris, Hong Kong and Tokyo, visitors who are also tourists will probably stay for more than one day. The change in the global hotel industry also inspires multinational hoteliers to adopt a more global view. Leveraging on Disney's theme-park, global branding and positioning of Disney's hotel services are primarily taken care of. Other critical areas would be greater integration of back office operations for greater economies of scale. There is a need for uniform service and sourcing. The third element is the need to leverage know-how and experience at the global level. This requires internalizing new knowledge gained from international exposure, similar to the Eclectic theory. Learning is the key word. A company can acquire new technology and management know-how, new product ideas, improved R&D capabilities, partnering skills, and survival capabilities from its international exposure and exploit learning on a worldwide basis. Having been in domestic locations, as well as two international locations, Disney has expanded to the global level when it goes to Hong Kong. Disney's foreign parks are expected to capture and disseminate its knowledge throughout its corporate network, but it has not taken advantage of its global experience. This is the effect that is also discussed in Dunning's Eclectic Theory, i.e., the internalizing of advantages.

Was it corporate mistake *déjà vu*? That would only be partially correct. It is true that the company overlooked some local problems. But what is not *déjà vu* is the lack of a global view. Most literature covers what previous mistakes are at the local level, but it does not discuss two other elements. First, despite how much local experiences one has, there are still new local peculiarities in the new location, which require a deep level of local knowledge. Second, the global level of the company's operation and its relations with industry has not been explored. One should realize that when Disney planned to go to Hong Kong, it immediately elevated itself to a higher global integration level. Coupled with global environmental change (consumer taste, etc.), the environment became more complex. Disney was encountering new problems. Simply looking at what to do at the local level does not suffice for the long term. The solution is a combination of high emphasis on local responsiveness as well as high emphasis on global integration. Disney cannot operate as if it were low global integration only. Time has changed and the company has to change with it. The challenges are two-fold. Disney must learn fast in each unique country-environment and must integrate its knowledge into its global network to reduce learning time. This requires the company to break out of its current mindset and formulate strategies that suit both the global and local levels in order to prepare itself for the future. A transnational strategy with emphasis on both aspects is needed to prepare Disney for its forthcoming Shanghai theme-park.

Exhibit I Strategies from the Integration-Responsiveness Framework



Source: Cavusgil, Knight, and Riesenberger. 2007. International Business: Strategies, Management, and the New Realities. P. 319.

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