Tsingtao Brewery Company Ltd, he felt the company had become too self-satisfied and inwardly focused. As his first priority, Jin immediately began implementing internal reforms to encourage management to challenge conventional wisdom and focus on the company's significant external competitive challenges. As he noted, "Tsingtao Brewery has been an arrogant company. We must have an open mind and learn from other companies. Only a strong learning ability will lead to powerful innovations."

An equally important top management role is to constantly question, challenge, and change things in a way that forces adaptation and learning. It is by creating a "dynamic imbalance" among those with different objectives that top management can prevent a myopic strategic posture from developing. It is a delicate process requiring a great deal of time to prevent it from degenerating into internal anarchy or corporate politics. But as Steve Jobs exhibited when he regained the leadership position of Apple in 1997, it's a skill that can turn around the company. Through his ability to question, to push, and, above all, to challenge, Jobs created the necessary internal dynamic imbalance that turned Apple from a loss-making company with a shrinking worldwide market share into a market-sensitive, technology-driven global dynamo.

Third, top management can ensure renewal by defining the corporate mission and values so that they provide some strategic stretch and maneuverability while simultaneously legitimizing innovative new initiatives. More than this, those at the top must monitor the process of dynamic imbalance they have created in order to identify and support the most promising entrepreneurial experimentation and challenges to the status quo that emerge from the deliberately created instability. The champion of such adaptation must be Nokia, a company that started its life in the nineteenth century as a forestry-based paper mill company. In the post-World War II era, it diversified into electric cable production, which in turn led it to become a television set manufacturer. Then, in the 1990s, it evolved into a global mobile phone company – an impressive final transformation that led to decades of success in markets around the world.

CONCLUDING COMMENTS

Having earlier focused on the changing nature of the business environment, the conflicting strategic imperatives facing the MNE, and the organizational model needed to implement them, in this chapter we shifted the level of analysis down to the level of the individual manager. We examined the new roles of three groups of managers – those responsible for a global business (e.g., a product SBU or division), a worldwide function (e.g., finance, marketing, or technology), and a geographic territory (e.g., a country or region). And to understand how these diverse roles and responsibilities were reconciled, we reviewed the role of top-level corporate management in integrating and providing direction for these three groups.

These new roles and responsibilities are challenging to implement, primarily because they require managers to rethink many of their traditional assumptions about the nature of their work. Indeed, this is ultimately the biggest challenge facing the transnational organization – to create a generation of managers that have the requisite skills and the sense of perspective needed to operate in a multibusiness, multifunctional, multinational system.

HARVARD | BUSINESS | SCHOOL REV: FEBRUARY 26, 2013

BRIEF CASES

Christopher A. Bartlett and Arar Han

CASE 7.1 LEVENDARY CAFÉ: THE CHINA CHALLENGE

HBS Professor Christopher A. Bartlett and writer Arar Han prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. This case, though based on real events, is fictionalized, and any resemblance to actual persons or entities is coincidental. There are some references to actual companies in the narration.

Levendary Café was spun out from private equity ownership in January 2011, and the following month, Mia Foster was named as its new CEO. The departing CEO, Howard Leventhal, was the beloved founder of the popular chain of 3,500 cafés. He had grown a small Denver soup, salad, and sandwich restaurant into a $10 billion business, but after 32 years was moving on to new interests.

This was Foster's first job as CEO. Previously, the 47-year-old had been president of the U.S. business of a large American fast food company for seven years. She had started her career at a major global accounting firm, leaving to earn an MBA from Wharton. Upon graduation, she had become a consultant at McKinsey before taking a job in product management at P&G, where she worked her way up the ranks. Foster was known for her frank communication style and strong execution.

In spite of the promise held by the Levendary brand and Foster's strong track record, Wall Street was cautious about the stock. While the company's fundamentals were strong and its performance generally in line with management forecasts, its shares traded at a discount to comparable restaurant stocks. There were two reasons for this. First, analysts were concerned that Levendary's domestic business was nearly tapped out. Second, given Foster's lack of previous international management experience, they were skeptical of her ability to build a multi-national brand.

Foster felt challenged by Wall Street's skepticism and wanted to address it head-on. In particular, she knew that Levendary's recent entry into the fast-growing China market would be closely watched. So she was concerned by reports that recently opened China locations incorporated some dramatic departures from Levendary's

U.S. concept, particularly in store design and menu selection. She was also frustrated by the apparent unwillingness of Louis Chen, Leventhal's hand-picked president of Levendary China, to conform to the company's planning and reporting processes. To address these concerns, Foster decided she needed to visit the Chinese operations.

On May 25, 2011, Foster stepped out of the limo that Chen had arranged to pick her up at the Shanghai Pudong airport. Heading in to her first in-person meeting with Chen, she knew there were big decisions to be made. Indeed, they would determine the future of Levendary China.

The Multi-Unit Restaurant Business

In 2010, the U.S. restaurant and contract food-service industry was a $600 billion industry with 960,000 locations.[1] Multi-unit restaurant concepts represented approximately 30% of the industry by units, with independent operators as the balance. The restaurant and foodservice industry was highly fragmented, and even industry giant McDonald's generated just 2% of total revenues.

Multi-unit concepts were generally categorized into three industry segments:

- **Specialty Establishments** like Starbucks, Dunkin' Donuts, and Baskin-Robbins primarily served snacks and beverages under $5.
- **Quick Service Restaurants**, or so-called "fast food" concepts like McDonald's, Taco Bell, and Wendy's, provided counter or drive-through service with average tickets between $4 and $10.
- **Casual Dining** included brands like Olive Garden, Applebee's, and Outback, and offered table service for dinner entrees priced between $8 and $20. Within this group, fine dining concepts like Ruth's Chris and Capital Grille featured entrées into the $40 range.

While some concepts had bridged these categories for years (e.g., Friendly's offered casual dining coupled with a strong takeaway ice cream business), more recently several concepts had clustered around an emerging category often called "Quick Casual." For example, Panda Express was a quick service format of Chinese casual dining, while Chipotle offered a quick casual Mexican-American dining experience. Like other quick casual restaurants, Levendary promised more wholesome choices than its quick service cousins and a more informal self-serve dining experience than its casual dining relatives. Quick casual restaurants typically had average checks in the $8 to $12 range.

Restaurant Cost Structure

Restaurants had relatively simple cost structures which one industry expert defined as follows:[2]

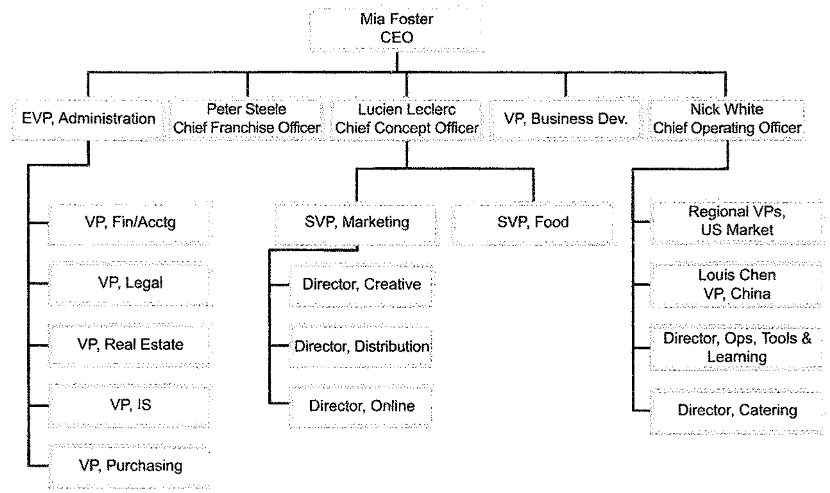
- **Occupancy:** These costs included real estate rental, common area maintenance, and energy and waste disposal. In the United States, they hovered around 10% of revenues.
- **Labor:** Even at minimum wage, labor was typically the largest cost element. High turnover in the industry required restaurant companies to continually source and train new employees and to manage employee attrition. Labor typically represented 25% to 35% of total revenues.
- **Food:** Food costs accounted for 28% to 32%. This expense was influenced by not only the cost of the ingredients purchased, but also the amount of waste.
- **Supply:** About 1% to 4% of revenues typically went to paper products at quick service restaurants or to linen and uniform cleaning at higher-end casual dining restaurants.

In a best case scenario, a restaurant might make up to 35% gross margin, but 20% to 25% was more typical. Franchised restaurants also paid a royalty, adding a 3% to 6% cost line, and a marketing fee which added a further 2% to 10% in costs. Depending on the size of the franchise organization, overhead might account for another 5% to 15% of cost.

[1] "Freedonia Focus on Restaurants," *Freedonia Group*. February 2011.

[2] http://www.bakertilly.com/userfiles/BT_Retail_RestaurantBenchmarks_web_small.pdf.

Exhibit 1 Levendary Organizational Chart



Restaurants typically operated on razor-thin margins, with profitability a direct function of their ability to generate high traffic, execute consistently, and control costs. Traffic, in turn, was a function of the brand's appeal, marketing effectiveness, real estate location, and store experience.

Levendary Café: The Foundations

In the quick casual restaurant segment, Levendary Café was distinguished by two elements: wholesome soups, salads, and sandwiches using high-quality ingredients, and a commitment to service in a comfortable, friendly environment. Its corporate chefs were highly trained artisans from the Culinary Institute of America and other top cooking schools who took pride in creating everyday versions of gourmet fare. Customers raved, "Eating at Levendary makes me feel rich."

Levendary was also distinguished by its willingness to take risks, especially those that helped evolve its concept over time. It was an entrepreneurial characteristic traced to founder Howard Leventhal. The most recent risky change occurred five years before Foster became CEO, when the company decided to use only organic grains in its breads and hormone-free naturally raised meats in its sandwiches. To management's delight, customers willingly paid the premium price, resulting in increased revenues and margins and a simultaneous boost in customer trust in the brand.

The Organizational Foundation: Blending Concepts and Operations

A complex organization supported Levendary's primarily U.S. business. The Denver headquarters housed the following activities (see **Exhibit 1** for a basic organizational chart):

- **Concept:** For 23 years, Howard Leventhal had relied on Chief Concept Officer (CCO) Lucian Leclerc to keep Levendary a top U.S. restaurant concept. Leclerc managed both the food development group and the marketing team that together determined what Levendary represented to the customer. With Leclerc's uncanny ability to sense nascent food trends and Leventhal's willingness to take calculated risks, the pair had kept the company at the forefront of changing tastes. Their shared commitment to healthful, wholesome eating was embedded in the company's culture and reflected in its well-known advertising slogan "Tasty Fresh Goodness" or TFG as insiders referred to it.

- **Marketing:** The Marketing group reported to the CCO. Its creative team worked with outside advertising agencies to convey the TFG concept through advertising copy and images. The logo, store decor, and media images used a palette of earth tones to communicate natural, wholesome goodness. The distribution team ensured that banners, table tents, window decals, and menu boards were properly placed in all 3,500 company and franchised stores, appropriately modified for differences in store size and layout. Preparing menus and menu boards was complicated by variations in menu items to respond to local market preferences and by pricing differences to meet local competition. But the comfortable, welcoming, and homey "look and feel" of stores always remained consistent.
- **Food:** A fully scaled test kitchen and food science laboratory also reported to the CCO, taking the items developed by the CCO's executive chefs and making the adaptations necessary to supply their components with quality and consistency to each of Levendary' 3,500 cafés. The food team was also responsible for conducting quality checks in the field.
- **Operations:** Led by Chief Operating Officer (COO) Nick White, who had 30 years of operating experience in U.S. franchised restaurant companies, this group managed the day-to-day restaurant business. Store managers at the 1,200 company-owned cafés reported to district managers, who in turn reported in to area directors, then market vice presidents. This structure allowed tight control of store level expenses and close monitoring of operations against the company's detailed and strict operating standards, policies, and practices. It also relayed any recommendations for modifications to the menu or variations in the store "look and feel" to the Concept group for consideration and approval.

  Operations was also responsible for Operating Tools and Learning (OTL). As retail employees were often high school-aged or minimally educated, OTL set operating standards and provided materials to enhance employees' learning. Acting as a bridge between the Concept team and the stores, OTL also developed the training materials and processes to break down food preparation into steps that ensured quality local delivery of the chefs' gourmet creations. In general, OTL functioned as both an internal school and a standards enforcer.
- **Franchise:** About two-thirds of Levendary's 3,500 stores were franchised. Headed by Chief Franchise Officer Peter Steele, the franchise team recruited new franchisees, supported existing franchisees, and enforced brand and operating standards in franchised stores.
- **Business Development:** Staffed by former strategy consultants, this department sourced new revenue opportunities such as Levendary branded grocery items like coffee, cold cuts, and soups. This group also led research for the company's nascent international expansion and was responsible for an experimental licensing deal in Dubai. Launched in 2009, this opportunistic venture was run by a Saudi Arabian restaurant company owned by an old friend of Leventhal's. Aside from China, Dubai was Levendary's only international operation.
- **Administrative Staff Groups:** Real estate, finance and accounting, legal, purchasing, and information systems all reported to an Executive Vice President (EVP) of Administration.

Headquarters staff totaled approximately 300 in all. There was no separate international division.

The Strategic Base: Serving the U.S. Market

Levendary was built on a culture that emphasized "delighting the customer." As founder, Howard Leventhal was fond of telling store staff, "Forget today's profit. Have a positive impact on customers' lives. Make them want to come back. That's how we'll win in the long run." Day-to-day, this philosophy translated into a personalized approach that would accommodate customer requests such as removing sprouts from a sandwich or serving a soup extra hot. Such service appealed to Levendary's customer base of white-collar professionals and upper-middle-class women. "Heavy user" customers in these groups visited Levendary five or six times a week.

But this approach taxed Levendary's store-level operations. The two key store operating metrics of speed of service and order accuracy were driven by standardization, and personalization threatened both. In response to store operators who questioned his relentless drive to provide personal service, Leventhal would simply point to the company's impressive results. (See **Exhibit 2.**)

Leventhal's philosophy of delighting the customer also translated into local menu adaptions. With stores in urban, suburban, and rural environments across all 50 states, Levendary believed there was no such thing as "the American consumer." While McDonald's created one menu for its entire system, Levendary was more flexible. It offered fewer soup items and more drink options in the South, allowed one or two regional specialties to be added to its core menu, and listed its menu items in order of local popularity. While appreciated by customers, the menu variations represented a challenge for the Food, Operations, and Marketing teams.

To keep the brand fresh in the eyes of the customer, the company was also committed to

Exhibit 2
Levendary Income Statement 2010 (dollars in 000s)

	Year Ending December 31, 2010
Revenues	
Sales	9,248,134
Royalties	603,365
Ingredient & paper good sales to franchisees	945,924
Total	10,797,423
Costs and Expenses	
Food & Paper	2,623,712
Labor	2,933,980
Occupancy	706,790
Total	6,264,482
Food and paper good inventory	776,902
Depreciation and amortization	480,711
G&A	710,458
Marketing	1,239,413
Pre-opening expenses	29,974
Total costs and expenses	3,237,458
Operating profit	1,295,483
Interest expense	4,725
Other expense	29,624
Income before tax	1,261,134
Income tax	480,571
Net income	**780,563**

evolving menu choices, typically by featuring in-trend healthy ingredients like pomegranates or quinoa. The Concept team rolled out a suite of new products five times a year, often with minor variants adapted to the South's appetite for fattier, sweeter formulations, or the Northeast's love of turkey and cheddar cheese. Each new release was accompanied by a marketing program and new menu boards.

In truth, the new items boosted the company's image more than its sales. Systemwide sales were driven by a small number of core items. For 80% of locations, those included such Levendary classics as its turkey and avocado sandwich with cranberry dressing, its award-winning cheese soup, and its chicken Caesar salad. For the other 20% of outlets, the core sales drivers could be as diverse as espresso beverages, Howard's Famous Cookies, or a local seasonal special.

Expanding Abroad: China Dreams

In 2008, the company's domestic growth was slowing. Its geographic expansion strategy (jokingly referred to within the company as "follow the mommies," later adapted to "follow the yuppies") had plateaued. Recognizing that its concept did not translate well into small towns, particularly in the Midwest and South, the board of directors began discussions about overseas expansion. At the board's urging, management instructed its strategy team to research opportunities in China, a market that had attracted a great deal of attention among U.S. restaurant companies.

Opportunities in China

With a population of 1.4 billion people and annual GDP growth of 14.5% over the past decade, China was ripe for investment. Two additional trends attracted U.S. restaurants: China's urban population rose from 36.2% of the total in 2000 to 46.6% in 2009, and a strong middle class emerged whose per capita income surged from RMB 6,282 to RMB 17,175. (In 2010, RMB 1 = USD 0.15.)

An affluent middle class, a large increase of women in the workforce, and a growing lifestyle trend to eat out all supported growth in the Chinese food services industry, which increased from RMB 1.106 trillion in 2004 to RMB 1.996 trillion five years later. Independent full-service restaurants still dominated the industry (there were 2,723,000 nationally), but the highly competitive quick service sector was growing the fastest, from RMB 254 billion in 2004 to RMB 471 billion in 2009.

While foreign fast food companies attracted the most attention, restaurants serving Asian food, primarily Chinese, took the biggest share of the quick service segment. These mostly independent restaurants appealed to locals' preference for rice-based dishes and low prices. However, due to low margins, wide variation in regional food tastes, and most of all, the difficulty independents had experienced in standardizing operations, there were few successful local chains.

The most successful foreign fast food chain was KFC, which had more than 3,000 restaurants in 450 Chinese cities. In 2010 KFC opened on average one new store every day. Through its Chinese joint venture partners and local management, it had learned to adapt. It added a few items such as congee rice porridge and even altered the famous seasoning on its core fried chicken offering.

McDonald's entered China in 1992, five years after KFC, and by 2010 operated 1,100 restaurants in 110 cities. Its restaurants retained a consistent worldwide look and feel, and a menu featuring its Big Mac, McNuggets, and french fries. While its core menu was the same, localized specials such as the China Mac with black pepper sauce, pork burgers, and red bean ice cream had been added. Despite the fact that a plate of six pork buns cost 25 cents at a Chinese street stall, McDonald still charged $2.50 for its large fries, appealing to Chinese youth's willingness to indulge in foreign fare.

Pizza Hut's China strategy was notable for its departure from its U.S. original. Its 560 outlets were positioned as high-end casual dining restaurants, and its menu extended well beyond pizza to include scallop croquettes and escargot. Wine was served, reservations were accepted, and a 45-minute wait for a table was not uncommon.

Young affluent Chinese went to Pizza Hut to impress their dates.

Despite these successes, many other American restaurants had struggled in China. When Applebee's replanted itself in Shanghai, the concept fizzled. So too did California Pizza Kitchen, forcing the founders to personally intervene to relaunch the effort. Many attributed Pretzel Time's failure in China to its white tile décor that reminded people of a bathroom.

More recently, Chinese chains had begun to learn from foreign competition and began to focus on standardization and tight control of raw materials, food preparation, and in-store service. After overtaking McDonald's as Hong Kong's leading chain, Dar Jia Le ("*Big Happy House*") took its tightly controlled operations to China. Other successful Asian chains in China included U.S.-listed Country Style Cooking (2009 Chinese sales of $495 million) serving Sichuan food, Hong Kong-based Little Sheep ($235 million) featuring Mongolian hot pot, and Japan's Ajisen ($256 million) ramen shops.

Leaping into China

After reviewing the research, Levendary's board and top management decided to enter China. The decision was hastened by the appearance of Louis Chen as a viable candidate to lead the effort. Chen heard about Levendary's interest in China through a Stanford MBA classmate who had become a partner at the private equity firm that had owned the company prior to its 2011 IPO. Chen gradually earned the confidence of CEO Leventhal and other key stakeholders. In time, Leventhal dropped his original idea of a joint venture with an established Chinese operator, and entrusted Levendary China to Chen, whose energy and entrepreneurial spirit reminded him of an earlier version of himself.

Chen's formal contract provided a two-year term starting in September 2009 with an option for annual renewal, but his relationship with the company was best described as a handshake agreement. While Chen formally reported to Leventhal, the CEO managed him with a very light touch. He asked Chen to establish a strong market position as a base for franchising outlets throughout China, but apart from a requirement to "do right by the concept," gave him broad latitude to execute.

To prepare for his assignment, Chen became a rotational intern in each of the major departments in Levendary's Denver headquarters as well as in a handful of stores. Over six weeks, his mandate was to pick up as much as he could and replicate it in China. The Denver team invited him to tap into their resources and expertise, interpreting and adapting them for use in the local Chinese stores. Before his departure for China, the board asked Chen about his plans. He was confident:

> It won't be easy but others have succeeded and we can too. I believe we have a good chance of building a credible foundation of stores and breaking even within a year. We just have to be flexible. For example, Chinese eat few dairy products, so we should downplay our cheese soup. But a new generation now gives milk to its children, so tastes are evolving. And most people aren't familiar with turkey, but they love chicken, so we'll adapt the menu, just as we do in the States. It may take time, but I believe Levendary will connect with Chinese youth, and that's the future.

In spite of the monumental work ahead, the board was convinced that Chen was the right choice. The 34-year-old was bilingual in English and Mandarin Chinese, and his decade-long experience as a retail property developer gave him intimate familiarity with neighborhoods in Shanghai and Beijing–a valuable asset given the powerful impact of store location on profitability. Chen also had a network of contacts to help speed up the process of permitting, incorporating, and staffing stores. Finally, he was passionate about good food, and had long wanted to work in the restaurant industry.

Chen opened his first location in the expatriate-heavy Pudong region of Shanghai in January 2010, just three months after returning to China in his new role. Occupying the corner ground floor location of a new high-rise office building, the first restaurant was both prominent and luxurious. It was an instant hit among white-collar employees of the global financial firms housed above it. Taking a page from Pizza Hut's China playbook, Chen positioned the new location as casual dining with table service and higher prices than local fast food concepts. But with the real estate markets in Beijing and Shanghai heating up, and KFC and McDonald's snapping up sites, Chen wanted to move fast. His local knowledge and connections helped him lock in prime locations at good prices, and within a year, his initial location had grown into a chain of 23 restaurants.

Expansion in China: Key Decisions

During her interview process, Foster heard much about the great hopes for Levendary China. However, she had not had the opportunity to meet Chen or to closely examine the China business. When she became CEO in February 2011, the new CEO was surprised to find that the Chinese subsidiary submitted all management and financial reports to Denver in its own format. The finance group then "massaged" them to apply U.S. Generally Accepted Accounting Principles (GAAP) and adapt them to Levendary's internal monthly reporting format. Foster felt strongly that this would not be a sustainable practice as the China operations grew into a larger portion of total revenue.

The First Meeting: Raising the Questions

In considering her options for bringing the China reporting in line with the U.S., Foster favored hiring an international financial analyst for the Denver finance team, and thought Levendary's auditor should also manage the China audit. Both steps were expensive but seemed necessary for a publicly traded company that intended to stake its future on growth in the China market. During a video conference that Foster set up to meet Chen in her first week at Levendary, she shared these thoughts with him. He bristled at her suggestions, claiming that both changes would not only incur unnecessary costs but would also greatly inconvenience his local operations.

Chen's resistance struck Foster as either naïve or antagonistic, and she responded firmly: "You're going to have to make a change, Louis. We have to protect the integrity of our reporting structure." "Fine," Chen shot back. "But to operate here, we have to be compliant with local tax laws or we'll get shut down. If you need those changes, you're going to have to spend the money to set it up right." Saying she would follow up, Foster left the virtual meeting with a nagging feeling that developing a productive relationship with Chen was not going to be easy.

The next day, Foster added the China operations as an agenda item in the weekly executive meeting she held with her direct reports in Denver. The EVP of Administration agreed that using non-GAAP numbers from China in the financial reports was a risk, and that formalizing the reporting process was a necessary change. As the discussion broadened, COO Nick White, the person to whom Chen had reported since Leventhal's departure, spoke up:

> I talk to Louis every week or two. I'm floored by how quickly he got a couple dozen stores up and running. It's an amazing achievement. But the reality is that no senior executive has visited China since Howard officiated at the opening ceremony for the Pudong store a year ago. I'm sure a lot has changed since then, but I haven't been able to get Louis to give me much. Howard gave Louis a lot of freedom to establish the Chinese operations, and frankly, it shows. Louis is a great asset but I confess managing him has been a frustrating exercise.

By the end of the meeting, the executive team had agreed it was time to obtain more information about the China operations. Chief Franchise Officer Peter Steele agreed to conduct a comprehensive review of the 23 Levendary Cafés in that market. White said he would advise Chen of Steele's plans, emphasizing that this was a routine process regularly undertaken in all franchised and licensed cafés in the U.S. market, and that Steele had recently completed such a review in Dubai.

Steele spent 10 days in China, and at a weekly executive meeting in late March, presented his

findings. He provided detailed descriptions of the 23 China locations, all in or around Beijing and Shanghai. Chen had taken many liberties with the look and feel of the cafés. While the first location in Pudong largely conformed to Levendary's design standards and menu selection, other locations held surprising and sometimes alarming changes. For example, the second location, located in Shanghai's historic Yu Garden area, was a takeaway counter with no seating. The third location, on Beijing's embassy row, was similar to the first store in both design and offering, but the fourth, at the north entrance to Beijing's Forbidden City, not only had no salads on its menu, it replaced Levendary's classic wooden framed upholstered chairs with a plastic framed alternative from a local furniture supplier. By the opening of the 23rd location in a Korean expatriate-heavy suburb of Shanghai, all but one sandwich item had been removed from the menu, and replaced by a variety of local dumplings.

Immediately after the meeting, an irate Lucian Leclerc appeared in Foster's office. She was not surprised, given his visible agitation during Steele's presentation. "Plastic chairs and dumplings! This is a pure disaster," he exploded. "What's going on in China could destroy everything I've worked for over the past 23 years. Our customers travel a lot, and in one visit to just one of those places, our carefully nurtured concept and image will be ruined. Mia, you need to stop Louis now."

After letting him vent, Foster reassured Leclerc that she would give the issue her full attention. She turned to examine a chart comparing several Levendary locations in the United States and China (**Exhibit 3**). Inwardly, she knew that resolving this issue would be a big test for her.

Meeting Two: Confronting the Issues

In early April, Foster sent Chen a copy of Steele's findings in advance of a second video conference to which she also invited White. Foster opened the discussion by explaining that China was critical to Levendary's growth, so she wanted to be involved in discussions about its plans. She explained how concerned she and White had been about Steele's report. Chen's response sounded angry:

> I don't think you guys appreciate the difficulty of managing a business in this environment. We've worked like crazy this past year and half. And in a tough market with minimum support from Denver, we've built a business that works in China. But now that we've opened 23 locations in just over a year and are about to turn a profit, you want me to change everything? Why would you do that?
>
> Levendary as it exists in the U.S. simply will not work in China. Have you seen Denny's in Japan? It's wildly successful but it serves *ton-katsu* [a Japanese breaded and fried pork cutlet] and *ramen*. They understand that nobody wants pancakes and BLTs in Tokyo. People want the food they know but with cool American branding.
>
> The only places where we can do what Levendary does in the U.S. are Pudong and Beijing's embassy row. Those locations are up and running using the American model. Everywhere else, we have to adapt our store design and menu. Otherwise, we won't be profitable. I think our performance speaks for itself (**Exhibit 4**).

Having reviewed the research, Foster was keenly aware of the difficulties of localizing a chain restaurant concept in a foreign market and the major tradeoffs entailed. She was aware that the Japanese company operating Denny's Japan had great success by radically changing its entire menu while keeping the stores' look and feel. But she also knew that the McDonald's approach was much more standardized worldwide. A McDonald's in Shanghai varied from one in New York City only in local marketing practices and some limited menu deletions and insertions. Indeed, Foster had been amazed to learn that McDonald's had even imported bricks to new markets it entered in Eastern Europe so that its restaurants would be as consistent as possible to its U.S. standards.

These were two opposite approaches, and Foster was not sure either model was appropriate

Exhibit 3
Comparison of Two Levendary U.S. and Two Levendary China Locations

	Metro U.S./ NYC	Suburban U.S./ Denver Area	Metro China/ Beijing Embassy	Metro-suburb China/ Shanghai Koreatown
Annualized 2010 sales (USD)	$10,320,000	$2,126,000	$806,000	$288,000
Square footage	2,500	4,000	1,500	500
Seats	84	120	80	0 (counter only)
Staff (full-time equivalent)	24	26	20	13
Average traffic (guests per day)	3,210	560	260	430
Average check (USD)	$15	$12	$10	$2
Top 5 menu items	Turkey sand. Cheese soup Salmon salad Chicken sand. Caesar salad	Denver Melt sand. Cheese soup Turkey sand. Caesar salad Howard's cookie	Chicken soup Chicken sand. Roast beef sand. BBQ chicken sand. Thai veggie soup	Chicken dumpling Pork dumpling Chicken sand. BBQ chicken sand. Pu-erh tea
Outdoor seating?		Yes	Yes	
Personalized service?	Yes	Yes	(simplified table service)	
Free WiFi?	Yes	Yes	Yes	

for Levendary. She had yet to be convinced by Chen's assertion that growth in China required that the stores and menus be as different as they had become, and responded carefully:

> Louis, I think Peter's report gives us a good starting point to think about that issue going forward. You've provided us a great platform for our future growth in China. Now it's time for us to think through how we want to do that. The home office will probably need to step up and do more to support you. We'll also have to ensure the Levendary brand is positioned for growth, and that will require some consistency across borders. Nick and I will both commit to working with you to support your efforts. But we first need to fully understand your strategic plan for growth in China.

A more conciliatory-sounding Chen responded:

> Mia, you speak from a place of ideas, best practices, and compliance. But I'm here in the trenches running 23 restaurants that I've built one by one by reading market needs and sensing opportunities. I'm proud of Levendary's presence here. When you send in headquarters analysts and start telling me things need to change, I don't think you have a good sense of what it took to get us to where we are.
>
> You asked me about my strategic plan. Well I don't have one. And frankly, if I'd had one, I don't think we would have grown so quickly because we wouldn't have been as nimble or responded as flexibly to market needs. I'm willing to work with you to make some changes. But understand that I was given free rein for 18 months. If you start putting in new controls and tying local operations to the home office, I can't be held responsible if growth slows. If you make changes, we'll need to be very clear about what I'm responsible for, and what can I expect from Denver.

Exhibit 4
Levendary China Income Statement (2010)

	Year Ending October 31, 2010
Sales (US$)	$ 3,261,598
Costs and Expenses	
Food & Paper	1,663,415
Labor	382,720
Occupancy	782,784
Total	2,828,919
Depreciation and amortization	6,523
G&A	163,080
Marketing	65,232
Pre-opening expenses	391,392
Total costs and expenses	3,455,145
Operating profit	-193,547
Interest expense	0
Other expense	5,925
Income before tax	-199,472
Income tax	-55,852
Net income	**-143,620**

Foster found herself annoyed at what she sensed to be Chen's continued resistance and negative attitude. But there was no time for that now. Thoughts racing, she thanked Chen for his candor and expressed a desire to visit China to see in person what he had built, and also to finally meet him face-to-face. Chen welcomed her planned visit and offered his sympathy for the pressure she must be feeling from Wall Street. "Mia, I love what I'm doing, and I hope we can work things out. I really want to stay on when my contract expires in a few months," he said.

After ending the video conference, Foster reviewed the exchange with White. The conversation had raised some big issues that needed to be resolved: What strategy should Levendary adopt to drive its expansion in China? Who should have responsibility to make and implement those decisions? And what changes, if any, should be made in the roles, responsibilities, and relationships that linked China's management team to the home office? Acknowledging the importance of these issues, White agreed it was vital for Foster to get closer to the China business. A visit was set for May.

Meeting Three: Deciding the Future

On May 25, as her plane landed at Shanghai's Pudong International Airport, Foster felt a mix of excitement and concern. She was thrilled to finally visit this market that held such great potential for the Levendary brand and for her new role as CEO. But she was also grappling with some nagging doubts about whether Chen was right person for the job.

An old mentor had once told Foster that there were three types of managers in a new business's evolution to greater scale: the go-getter, the local baron, and the professional manager. All three types could be entrepreneurial in spirit, but not all were equally well suited for the various stages of a business's growth. Chen was clearly a go-getter who had evolved to become a local baron. The question in Foster's mind was whether he could transition to become a professional manager.

Two hours later, Mia Foster got out of the limousine that Louis Chen had arranged to pick her up at the airport. As she strode toward the entrance of Levendary's Shanghai office, she felt confident and prepared. Foster was ready for this conversation.

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Christopher A. Bartlett

CASE 7.2 UNILEVER'S LIFEBUOY IN INDIA: IMPLEMENTING THE SUSTAINABILITY PLAN

Emeritus Professor Christopher A. Bartlett prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School and not by the company. Certain details have been disguised. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

In early 2013, Samir Singh faced a challenge–in fact, a double challenge. When he was named Global Brand VP for Lifebuoy soap in early 2010, this iconic Unilever brand was suffering. Its global market share had fallen from 11.2% in 2005 to 9.7% in 2009. In India, its largest market, the situation was even worse: its 2009 share had dropped to 15.5% from 18.4% four years earlier. But just as Singh and his team managed to reverse the decline, his boss challenged them to double sales in five years.

As large as this task was, it was made even more demanding by another commitment Singh had made–to improve the health and hygiene of a billion people by 2015. This ambitious goal was part of the Unilever Sustainable Living Program (USLP), an initiative introduced by the company's newly appointed CEO, Paul Polman. Aiming to decouple Unilever's growth from its impact on earth, USLP challenged the company to halve the environmental footprint of its products, to source 100% of its agricultural raw materials sustainably, and to help improve the health and well-being of a billion people worldwide. Singh's challenge was to make Lifebuoy the standard-bearer of this last goal while simultaneously doubling sales and meeting ambitious profit objectives. It would be quite a test.

Unilever's History, Lifebuoy's Heritage

Despite an uneven performance in recent decades, by 2012 Unilever had reemerged as a very effective global competitor challenging

Exhibit 1
Unilever Financial Performance, 1990–2012 ($ millions)

	2012	2011	2010	2005	2000	1995	1990
Unilever							
Revenues	67,669.6	60,366.4	59,352.3	45,488.0	44,694.7	45,651.4	39,620.0
Europe	18,299.2	17,529.1	17,753.9	17,697.2	17,816.1		24,169.0
Americas	22,530.2	19,812.9	19,526.7	15,611.2	27,790.8		8,247.0
Developing Countries	26,840.3	23,024.4	22,071.7	12,179.6	16,640.6		7,204.0
Earnings from continuing operations	6,376.2	5,834.4	6,165.6	3,950.5	1,239.9	2,066.3	3,650.0
Loss from discontinued operations	-	-	-	(758.1)	-	(361.4)	-
Net earnings	5,759.1	5,352.4	5,690.9	4,461.0	1,037.9	2,325.4	2,081.0
Dividends declared	(3,558.6)	(3,228.3)	(3,115.0)	(2,136.9)	(1,320.7)	(970.7)	(3,172.0)
Earned on average shareholder's equity	5,758.7	5,519.7	5,693.5	3,884.3	996.2	2,277.7	2,138.4
Per share: (US$)							
Net earnings	$2.04	$1.9	$2.02	$1.53	$0.34	$0.77	
Net earnings-diluted	$1.98	$1.84	$1.96	$1.48	$0.33	$0.75	
Dividends declared	$1.25	$1.21	$1.11	$0.78	$0.43	$0.28	
Stock price range (US$)							
High	$39.45	$34.32	$32.29	$23.58	$19.02	$11.47	$7.43
Low	$30.87	$28.79	$25.75	$20.23	$11.86	$9.91	$5.55
Total assets of continuing operations (Current assets)	16,443.0	18,886.7	17,232.1	13,508.2	16,537.7	15,807.0	13,434.7
Long-term borrowings	9,727.7	9,990.3	9,479.0	7,648.7	12,273.2	3,406.4	3,394.9
Shares outstanding-average (in thousands)	2,997.8	2,966.1	2,879.4	2,791.7	2,820.4	2,831.8	
Employees at year-end: (in thousands)							
Europe	35	35	29	41	80	101	114
Americas	43	42	40	47	39	29	35
Developing Countries	94	92	96	118	176	178	155
Total employees	172	169	165	206	295	308	304

Source: Capital IQ, ThomsonOne (accessed 4/29/14) and company financial statements.
Researcher: E. McCaffrey, Baker Research Services

companies like Procter & Gamble and Nestlé for a share of the fast-moving consumer goods (FMCG) industry. (For financial results, see Exhibit 1.) But its business and management philosophies still had deep roots in the company's origins.

Lifebuoy's Origins: Born of a Company with a Conscience

Born in the north of England in 1851 at the height of the Industrial Revolution, William Hesketh Lever grew up in an era when Britain's