

6. What five entry modes do firms use to enter international markets? What is the typical sequence in which firms use these entry modes?
7. What are political risks and what are economic risks? How should firms deal with these risks?
8. What are the strategic competitiveness outcomes firms can achieve through international strategies, and particularly through an international diversification strategy?
9. What are two important issues that can potentially affect a firm's ability to successfully use international strategies?

Mini-Case

The Global Soccer Industry and the Effect of the FIFA Scandal

The Fédération Internationale de Football Association (FIFA) was founded in Paris in 1904 and was initially comprised of only European nations. By World War II, FIFA had added a few South American members. Newly independent states in Africa, Asia, and the Caribbean joined later. However, it continued to be governed “as though it was an exclusive European club”—until 1974 when João Havelange, a Brazilian, won the election as FIFA's president. Havelange was able to transform the organization and expand the World Cup competition to teams from nations outside Europe and South America and made the tournament a major money-making enterprise. With the amount of exposure and money involved, companies desired sponsorship rights because of the advertising potential. Adidas AG and Coca-Cola were original sponsors. Havelange also oversaw significant increases in revenue from television rights. In the process, Havelange was alleged to have participated in much corruption and eventually was suspected of amassing \$50 million in bribes.

Havelange facilitated the election of Sepp Blatter who became FIFA president in 1998 and continued to follow Havelange's approach to politics. After FIFA became a worldwide organization, especially in developing countries in Latin America, Africa, and the Caribbean, more allegations of corruption surfaced. One analyst suggested that “FIFA could not have developed soccer in poorer countries without corrupt practices.” Of course, there has also been corruption in more developed countries, such as the United Kingdom and the United States, although normally not through blatant bribery. On May 27, 2015, the United States

Department of Justice and the FBI announced a long list of indictments, and simultaneous arrests of FIFA officials were made at the Zurich FIFA meetings in Switzerland. Several days after the indictment, though he was not officially indicted, Blatter stepped down from his long presidency.

In order to understand the amount of exposure and money involved, an estimated one billion people watched at least some of the 2010 World Cup Final. In the same year the National Football League's Super Bowl accumulated only 114.4 million worldwide viewers. Given the massive exposure, it is no wonder that sponsors along with television and media outlets want to be involved. However, sponsors do not want to be associated with a large scandal. Coca-Cola, Adidas, Nike, McDonald's, and Hyundai Motor were all said to be “deeply concerned” about the FBI allegations—and by indictments brought recently by the United States Department of Justice against many regional and country-level FIFA-affiliated executives who were identified as having participated in the alleged corruption.

Many of the sponsors are cautious about supporting an organization that has been tainted politically such as FIFA. Apparently, the way the corruption has been pursued is through intermediaries who are paid exorbitant amounts for contracts that they helped to establish; these intermediaries funnel the bribes to the leaders of the regional and country FIFA-related associations. For example, in order for Nike to get a contract in the soccer-crazed country of Brazil, it paid a sports marketing agency, Traffic Brazil, \$30 million between 1996 and 1999, which Traffic Brazil used, in part, for bribes and kick-backs. This allowed Nike to

sign a 10-year, \$160 million agreement to become a co-sponsor of the CBF, the Brazilian soccer confederation. Nike's strategic intent for the deal was to better compete with its chief overseas rival, Adidas. In 2014, the World Cup was held in Brazil, and Nike had \$2.3 billion in sales of soccer products, an annual increase of 21 percent, compared with \$2.29 billion in sales for Adidas, which was up 20 percent over its previous year. These figures illustrate how strong the incentives are for sponsors as well as for media outlets to participate; the advertising potential and selling opportunities are enormous for those involved.

However, because of the weak institutional infrastructure in many countries around the world where the game of soccer is played, there is opportunity for corruption. Apparently, many involved in the FIFA infrastructure globally, regionally, and within specific countries have taken advantage of this opportunity. For example, Paraguay has been the headquarters for the Latin American regional confederation known as CONMEBOL since 1998 when Nicolás Leoz, a Paraguayan businessman and president of the Latin American Confederation, negotiated to have the confederation headquartered there. As part of the agreement, he obtained prosecutorial immunity for the organization through the Paraguay parliament. In essence, this gave the federation license to act in ways that would protect it against local law enforcement officials, similar to local embassies that have exemption from prosecution in a particular foreign country. As such, this allowed the local confederation to pursue deals under the table. Leoz was charged in the FIFA indictments by the U.S. Department of Justice, along with

13 other FIFA officials, of bribery and money laundering schemes related to funds he received from sports marketing firms during his tenure at CONMEBOL. Interestingly, following the indictment, Paraguay's congress moved quickly to repeal the prosecutorial immunity for the CONMEBOL federation.

Likewise, many other legal and investigative organizations in Switzerland, Latin America, and around the world, including INTERPOL, an international investigation organization, have begun to initiate their own enquiries. Many fans in the soccer world have been excited about these indictments because they felt that the corruption was hurting the game. People were profiting in illegal ways that tainted many organizations associated with the game of soccer. This outlines a main danger of working in countries where many participate in corrupt practices indirectly sponsored by the government. This is not to say officials in more developed governments are not also corrupt, but the rule of law is not as strong in many developing countries.

Sources: 2015, A timeline of the FIFA scandal, *Los Angeles Times*, www.latimes.com, June 2; P. Blake, 2015, FIFA scandal: Why the US is policing a global game, *BBC News*, www.bbc.com, May 28; M. Futterman, A. Viswanatha, & C. M. Matthews, 2015, Soccer's geyser of cash, *Wall Street Journal*, May 28, A1, A10; S. Germano, 2015, Nike is cooperating with investigators, *Wall Street Journal*, May 28, A11; P. Keirnan, R. Jelmayr, & L. Magalhaes, 2015, Soccer boss learned ropes from his Brazilian mentor, *Wall Street Journal*, May 30–31, A4; K. Malic, 2015, The corruption rhetoric of the FIFA scandal, *New York Times*, www.nytimes.com, June 16; S. S. Munoz, 2015, FIFA pro shows soccer state within a state, *Wall Street Journal*, June 20–21, A7; S. Vranica, T. Mickel, & J. Robinson, 2015, Scandal pressures soccer's sponsors, *Wall Street Journal*, May 29, A1, A8; A. Viswanatha, S. Germano, & P. Kowsmann, 2015, U.S. probes Nike Brazil money, *Wall Street Journal*, June 13–14, B1, B4; M. Yglesias & J. Stromberg, 2015, FIFA's huge corruption and bribery scandal, explained, *VOX*, www.vox.com, June 3; C. Zillman, 2015, Here's how major FIFA sponsors are reacting to the scandal, *Fortune*, www.fortune.com, May 28.

Case Discussion Questions

1. How does the FIFA scandal represent a form of political risk for companies operating in foreign countries?
2. What are the benefits to companies such as Nike and Coca-Cola acting as sponsors of soccer organizations in foreign countries?
3. What international strategy is being used by the major companies holding these sponsorships? Please explain.
4. Given the process described for gaining sponsorships (e.g., through sports marketing agencies), should Nike and other major companies realize that bribes and other corrupt practices were taking place?
5. How can companies handle corrupt practices in foreign practices? Can they find ways to compete there without engaging in these practices? Please explain.