

ZATON S.A.R.L.¹

Fés, Morocco

It seemed like a re-enactment of a scene from the motion picture *The Last Action Hero*. In that story, detective Jack Saltier (played by Arnold Schwarzeneger) receives a phone call from his ex-wife who begins a conversation that is all too familiar. To get on with his work, he plays a cassette tape labeled “The Shrew” and lays the phone’s mouthpiece next to the speaker. The tape continually plays “uh-huh, uh-huh, yeah, yeah, yeah,” and the ex-wife continues her end of the conversation oblivious to the man’s absence.

A few years later, and six thousands miles away, a similar scene was taking place in the offices of ZATON, an agricultural export firm located in Fés, Morocco. There the situation was a little different, of course; ZATON had recently lost on exports only a small fraction of the money Columbia Pictures lost on that movie. And there was no tape recording device actually in use here, but the same kind of repeated assurances and agreements were uttered unthinkingly. This Moroccan conversation also took place in French and Arabic, rather than English. Instead of Schwarzeneger uttering the lines, it was Abdul Abdul, the Managing Director of ZATON S.A.R.L., who was placating his client with “oui, oui, wacha (Arabic for OK).” In the meantime, he continued his conversation with his recently arrived American FMDAP adviser, only to return to the phone every few moments to repeat his assurances.

“Every week we have the same conversation. I know exactly what he is going to say and I keep giving him the same response. He’s upset because we haven’t processed his order yet. The problem is that he wants lithographic tins, and our manufacturer says that the

boat carrying the raw materials sank en route from Spain. I want to confirm this with the shipping company, but our manufacturer won’t give me their name. He says that it’s his problem, not mine. I think he’s processing the material for someone else. Meanwhile our clients are frustrated because they’re running out of stock.”

Abdul’s company was facing multiple problems in its operation. The firm had expanded rapidly in recent years and that was taking a toll on the finances and management of the company. With a new factory on the outskirts of Fés, and the recent acquisition of a local competitor, ZATON had more than tripled in size. This was posing immense challenges for this tightly-held family-run business. Compounding the problem, the company was now pursuing joint ventures with Spanish, Italian and Turkish firms.

The results of these initiatives surprised Abdul. Instead of spending the majority of his time in the factory supervising production, he was now locked behind his desk answering the increasing volume of questions and complaints from clients, agents and suppliers. Quality control had become a concern due to the age and lax maintenance of his factory equipment, and personnel problems were disrupting both key managers and unionized employees.

History of ZATON and Present-day Conditions

ZATON S.A.R.L., was started in 1974 by Mr. Maleh Sr.. His motivation for starting the company was to give himself

Exhibit 1
PROFILE OF ZATON



Managing Director of ZATON



Using manual methods to dig a well



Using a horse-drawn cart to deliver equipment



Inspecting plants grown under cover to shield them from the sun



Adjusting machinery to close cans



Using sophisticated equipment to sterilize crops

something to occupy his time. He had recently retired from government service as the former vice governor of the Fés region, and now sought an outlet to continue leading an active life.

In 1984 his oldest son took control of the company, and he has been its managing director ever since. Before coming to work for ZATON, Abdul had been in academia. Assisting him in running the business was his brother Karim. The two of them made most decisions concerning the factory. In addition to the two brothers, other members of the immediate family were partners as well. Though he had to please them as business partners, Abdul was the key decision maker. Family meetings were chaotic but controlled; everyone had a say, but Mr. Abdul and Karim always prevailed.

ZATON was located in the industrial quarter of the city. Over the years the factory had changed dramatically. When it opened, the factory did not even have lights for the 6,400 square meter facility. Over the years the family acquired a vast array of machines, ranging from used can closing machines to state-of-the-art sterilizers. Overall the factory was unimpressive equipment-wise, but Abdul's strength was that customers and clients preferred dealing with him over larger companies.

The company currently produced green and black olives, capers, flame roasted red peppers, pepper paste, onions, artichokes and garlic. Its markets were primarily overseas with a large portion of the products going to Europe. In 1992 the company began exporting to the United States and Canada.

In addition to expanding product lines, Mr. Maleh Sr. began expanding production facilities. In 1994, ZATON opened a new factory on the outskirts of Fés called Sunray. Though the new company had been founded in 1990, it existed only on paper until plant construction began in the summer of 1994. The company was set up as a receiving station for olives and capers. Here, freshly picked olives and capers were delivered, cleaned, sized and sorted according to color and quality. The company exported both of these products in 60 and 225 liter drums.

On September 13, 1994, the company acquired controlling interest in Olive Branch, a local competitor, owned and operated by the Ganim family. Olive Branch exported olives and capers, and it was acquired to provide ZATON with additional storage and processing room for olives and capers. It retained its own management and product label.

ZATON was the administrative headquarters for these companies. The ZATON factory was also the final processing station because it had all of the canned food processing equipment and the pepper roasting line. Both Sunray and Olive Branch would supply ZATON

with olives and capers to be packaged in commercial and retail-size containers. The ZATON factory was also the site where green olives were oxidized to become black olives.

Over the previous two years, ZATON had invested over \$2 million in new and used equipment to upgrade its facilities. This expansion had cost more than just money for the company. One of the major costs of expansion could be seen in Abdul's loss of control over day-to-day operations. He openly admitted that things were confused at the factory, but that he could live with the disorganization as long as quality remained high.

Another problem was typical of family-run businesses, in Morocco and elsewhere. It was extremely difficult for senior management to delegate meaningful levels of responsibility to subordinates. At ZATON, the overwhelming majority of decisions were made by Abdul alone. He served as managing director and chief sales representative for the company. He had his hand in about everything the factory did. With the expansion, the additional stress and pressure was taking its toll on Abdul's health. As problems at the factory increased, his upper left-hand desk drawer began to look like a pharmacy.

Delegation of responsibility at ZATON was tightly controlled, even among family members. Karim was primarily responsible for all new construction projects as well as accounting. When one of Abdul's sisters came to work at the factory, he had to assert his authority over her a number of times. When she went into the production area and decided to make a few changes, Abdul bluntly informed her that "even though you may be a partner in this business, you don't make decisions. 'If you see something that needs to be changed, tell me, and I will decide.'

Product Lines

ZATON was historically an export-oriented firm. Abdul prided himself in his ability to utilize business trips to find new markets for ZATON produce. This was one of the reasons ZATON was involved in so many joint ventures. Abdul felt that there were a lot of opportunities to make a great deal of money in Morocco. He said that all it took was someone to travel and see what was out there, then come back to Morocco and make it cheaper here. ZATON currently had three major product lines and several smaller ones.

OLIVES

Olives were the mainstay of ZATON's operation. They accounted for the greatest portion of its sales. One benefit of this product over others was its low labor intensity. The olives were for the most part much more durable than any of the other products, and required

**Exhibit 2
OLIVES PROCESSING**



Drawing olives from storage vat for sorting



Sorting olives to remove twigs and damaged ones



Moving damaged olives for shipment to an olive oil plant



Sorting sliced black olives



Stamping tin cans with identification codes



Hand-packing sliced black olives



Topping off drums of olives with brine

much less handling. Most if not all of the handling could be automated. ZATON's main difficulty was that it faced an extremely competitive world market. ZATON had competitors not only in Morocco but also in other countries, notably Spain, the world's leading producer of olives.

Morocco's variety of olive, the picholine, was sometimes viewed less favorably than the Spanish variety. Spanish producers had recently invested heavily in the technical aspects of harvesting and producing to keep their output levels high. Spanish companies also had unfettered access to the European Union, making competition quite fierce.

ZATON was in the process of expanding its market into North America. It had been successful in landing several large orders for black olives from Canada, but was unable to sell them in the United States due to stringent FDA requirements. The factory had taken all steps necessary to comply with these regulations, but their official forms had not yet been approved. With respect to green olives, the company was successful in getting contracts in both the United States and Canada.

The company sold olives in both retail and commercial size packaging as well as bulk drums (60 and 225 liters). In gross sales, the company ranked approximately fifth in size in Morocco, though no accurate market studies had ever been conducted to-date.

It was expected that this year's drought would have a significant impact on next year's crop because olive trees required a mild and damp winter to generate a bountiful fruit crop.

CAPERS

Capers were the second largest product line for the company. Like olives, ZATON sold capers in both retail size bottles and bulk drums. Capers—though profitable—were highly labor intensive when sold in retail size jars. One 20 foot container of 106 ml. jars contained over 96,000 hand-inspected and hand-packed bottles.

ZATON was the leading producer of capers in Morocco. Its Sunray facility processed over 1,200 tons worth of the product in 1994, and with the startup of a joint venture in Turkey, the company hoped to add an additional 1,000 tons of capacity.

By June 1994, the company began to feel the effects of the previous winter's drought. In regions that normally supplied ZATON with 10 tons of capers a day, the company was lucky to receive even one. Prices of raw capers soared in Morocco. Luckily for ZATON, Spain also had a shortage.

Once again, Spain provided the strongest competition for ZATON, followed closely by Turkey. ZATON saw definite advantages to starting a joint venture in Turkey.

Not only would they be able to take advantage of lower Turkish wages; they also gained access to a more highly valued variety of the product. The percentage of non-pareil-sized capers was greater in Turkey than in Morocco. Typically the price earned on capers was determined by their size: the smaller the size, the more expensive. In Morocco, small caliber capers only accounted for 5 to 10 percent of the crop, whereas in Turkey, 20 to 25 percent of produce could usually be sold as nonpareille or surfine.

ZATON was fully committed to this venture. The operation was scheduled to start in the beginning of May 1995, and the first year's production was tentatively scheduled to be completed that summer. This was to be only a seasonal operation, and oversight of the first season's production was given to the American FMDAP adviser. In the meantime, the venture's other partners would make use of the factory space in Turkey for additional projects unrelated to ZATON.

Concerns were raised in late March when Turkey, in an attempt to deal decisively with Kurdish rebels, launched the largest military operation in the Republic's history along the southeastern border with Iraq. The joint venture program nonetheless went ahead as scheduled.

PEPPERS

Peppers represented a lucrative market for ZATON in the United States. In 1994, the company had planted 25 hectares, and easily received orders in excess of the projected yield from this planting. For 1995, the company increased its planting to 125 Ha, but the limiting factor was the age and the speed of the equipment at the factory for processing. Roasted peppers were even more labor intensive for ZATON than capers. After roasting, each pepper had to be hand-washed, sliced and packed. ZATON was the only company in Morocco that offered this product line. Photos showing the stages of pepper processing appear below on page 111.

Drought conditions were not expected to hurt ZATON because all pepper planting had been contracted out to farmers with irrigated farmlands. ZATON's problems with raw materials stemmed from the gap between the signed contracts selling 100 tons of raw peppers and the receipt of only 20 or 30 tons from their farmers. It is believed that farmers took produce contractually sold to ZATON and sold it on the open market.

ADDITIONAL PRODUCTS

Other products produced by ZATON were sun-dried tomatoes, apricots, wild onions, and garlic. The only product line that ZATON actively looked to expand was the sun-dried tomato market. Here the company had an excellent opportunity to enter the U.S. market, but once again FDA regulations were making this difficult.

Apricots had proven troublesome because the markets were primarily in France, Belgium and the Netherlands. Abdul had basically stopped production of this fruit because of the pricing techniques typically used by the French. In the past, French buyers would delay placing orders until the last possible minute. They waited to see what final market price would likely be for apricots in France, then purchased them at cheaper end-of-season rates.

Wild onions and garlic were primarily used for local consumption and for company products that required packing in brine. For example, the company began its first production run of artichokes at the end of March. If this test proved successful, ZATON would use the garlic and onions along with other spices to pack marinated artichoke hearts.

An American Executive Advises the Company

In addition to the American FMDAP adviser (an American MBA student working inside the company for a ten month period), ZATON had an affiliation with the in-country office of the U.S.-based International Executive Service Corps. This organization worked in close association with the U.S. Agency for International Development to provide Moroccan businesses with various types of assistance. Through this service, ZATON arranged to have an experienced U.S. food industry executive, Tom Anderson, volunteer to consult with the factory at the end of 1994.

Tom was technically very qualified in all areas of food production. He arrived at the plant and immediately started work doing capacity studies, flow charts and everything needed to evaluate the company. Tom quickly examined the situation and then began assessing the company's food processing quality control and safety features. As important as these efforts were, they were not what Abdul had in mind for this distinguished experienced visitor. He had assigned a trained biologist to monitor quality control and safety activities, and she was in the process of attending the necessary seminars to become licensed in these areas. What Abdul wanted from Tom were ways to improve productivity and increase profits.

Tom's final report was full of flow charts and recommendations. Abdul listened attentively to the briefing and thanked Tom for his assistance, but as soon as Tom left, the company continued on, business as usual.

Tom had even proposed an organizational chart for the company, but he felt that trying to sort out responsibilities and determine who holds them was as confusing to him as the language. In the end, he proposed an organization chart that by Western standards was

appropriate and logical. It had Abdul at the top of the organization, reporting to him were different mid-level managers responsible for overseeing production by product line. Each person had defined responsibilities, and each was empowered to make the decisions necessary to run his or her department.

In many ways Abdul was unusual for someone from this region in being so open with his advisers. Often in the Arab world, information is tightly guarded, to the point that people who need to make decisions often cannot do so because they cannot obtain necessary information. It is said that Arab businesses are limited in size by the number of brothers, sisters and cousins in the family. For Abdul to take in someone from outside his family and put them into a key decision-making position, as suggested by Tom's organization chart, was very difficult for him. Decisions had always been made by him or his brother.

Tom's advice to ZATON, though relevant, did not receive the appropriate attention because he was not able to tailor it to the cultural-milieu of ZATON. Tom constantly made statements like "This is how we did it at Del Monte" or "In an American plant, we set things up like this..." Not adapting to cross-cultural differences in his recommendations made it difficult for him to sell his ideas. It was not until months later that Abdul took another look at the report, but by then he was struggling with other problems.

ZATON had been run as a family business since its founding. Making the transition to a mid-size company would require many of the changes Tom recommended, but by not understanding their relevance, Abdul could only see them as threats to his authority and control.

Personnel Turnover

ZATON was also experiencing severe employee turnover. For the most part, the loss of unskilled workers could be corrected with little effort, for new workers could be found and trained almost immediately. ZATON's problems rested with their middle management and skilled employees, where the owners' traditional approach to management caused considerable frustration.

Over a four-month period, the company lost four key individuals. First to go was the factory foreman, Ahmed. Two months later two of the company's accountants left. Two months after that Mahmoud, the manager of Olive Branch, accepted an offer from Producto to construct and run a factory in Fés. Producto was ZATON's largest Spanish competitor. ZATON and Producto had in fact recently looked into the possibility of forming a joint venture, but in the end Producto decided to go it alone—putting a former ZATON manager in charge.

In all cases, money was a concern. For the accountants and Ahmed, money was the deciding factor. For Mahmoud, it was only part of the appeal. His family had opened Olive Branch the same year Abdul's father started ZATON. When ZATON acquired controlling interest in his company, Mahmoud's father, Mr. Ganim, became assistant director of ZATON. Mahmoud was the new director of Olive Branch, but he felt his job was unfulfilling. He said that before the takeover he was in a more junior position, but with more responsibility. He would deal with clients and get involved in all aspects of the business. Now with ZATON as the administrative head, he was left as a middle man with little or no say in the running of the business. His parting words were: "In this organization, when you control only 49 percent, all you can say is 'yes.'"

The loss of the ZATON plant manager was no shock to Abdul. He and Ahmed had been at an impasse over several issues, the most important being compensation. Abdul felt that he could get by without Ahmed because he knew the machines and the products as well as anyone. It took several months for him to realize the importance of having someone in that position day-in and day-out, but finding someone with suitable experience was difficult.

Ahmed quickly found work outside ZATON working for a distributor of canned food machinery. Commenting on his reasons for leaving, Ahmed noted that at ZATON

I was in charge of everything: maintenance, production, employees, inventory, training, quality control, and whatever else you could think of. With all that responsibility I was making 4,500 Dh a month. I have over 23 years worth of work experience. I asked him for a raise so that I could pay doctor bills for my pregnant wife. I needed a car so I could get back and forth to work. He wouldn't budge at all. Finally, I said that this was enough, so at 7:00 am on October 1st, I walked into his office and said 'Bonjour Mr. Maleh, and Au revoir.' Now I'm using all of my experiences selling the same types of machines that I spent so much time working with. I'm earning 10 times what I earned at ZATON and I'm a whole lot happier. I ask you, after I left, what condition did the machines end up in, better or worse? I think we know the answer to that one.

Overall, individuals in middle-level management positions working at ZATON were becoming more and more dissatisfied with their jobs. As they saw the day-to-day situation become more chaotic, they found no one would listen to them when they had something to report. Many felt the company was going to fail within the next couple of years if things did not change. In

general, the consensus was that ZATON was doing too many things, and none of them properly.

The number of workers at ZATON and the other two plants varied according to the time of year and the harvest at hand. Typically, ZATON had approximately 75 full-time employees, with the majority of them poorly educated and unskilled individuals. Olive Branch and Sunray regularly employed 100 workers, and that number usually doubled during harvest time.

ZATON needed the employees with the highest skill level. At Olive Branch and Sunray, if an error was found, it was usually corrected by reinspecting the product. At ZATON, which served as the final production station, errors were usually incorrigible and very costly. For example, one time a steam valve was opened while a full load of olives was being sterilized. The resulting drop in pressure left high temperature liquid in the cans which ruptured most of the seams. The entire cycle of 600 3-kilogram cans of olives was lost. This represented approximately a \$4,000 loss.

ZATON's Labor Force

Illiteracy and poor education posed challenges for Morocco as the country worked to improve the quality of life of everyone through industrialization. At ZATON, these hindrances could be seen in attempts to update and automate the factory. The majority of employees at ZATON had little to no formal education. For the most part, women were hired as laborers, and men were supervisors and equipment operators.

For ZATON, as well as many other companies in the Fés area, it was common to see large groups of women crowding around the gates to the factory looking for work. Normally Mohamed, the company's personnel director, would look at the number of regular personnel he had available for the day, and if more unskilled workers were needed, he would have the guard open the front gate and he would select the people he needed. At times the women were so crowded against the gate's door that full-time workers had difficulty working their way through the crowd.

Many times companies would decide they needed people to work an hour or two. There was never any difficulty finding someone. These women acted as a sort of migrating herd, seeking employment opportunities wherever they could be found. When harvest seasons came they were found predominantly outside the processing factories. As work developed in other industries, they would circulate to other companies in search of work.

Most processes were repetitive and required little training. Typical tasks involved sorting and inspecting olives and capers, and loading and unloading cans. When new employees started working or new products were

launched, it was imperative that each person's work be checked to ensure quality. In one instance, when women were labeling jars of capers for a German customer, the women, not knowing the language, placed the labels on upside down.

Even something as simple as signing one's name to acknowledge receiving one's pay had to be handled differently at ZATON. Most payments were in cash because the majority could not read or write (even in Arabic). Even fewer had bank accounts. To record salary payment, the company had employees put fingerprints in numbered boxes on a control sheet.

For the most part, ZATON took good care of its employees. When full-time workers needed extra money, they knew they could go to Abdul and get an advance. Afterwards a portion of their pay would be deducted each week until the amount was repaid.

With unskilled workers, there were problems. The minimum wage of six dirhams per hour was not followed. Daily workers at ZATON were paid a flat rate of 28 dirhams per day. But work started at 7:30 a.m., went to 12:30 p.m., and followed by a one-hour lunch, resumed at 1:30 p.m. and continued until 5:30 p.m.—which was really a nine-hour day. When work fell behind schedule, the women would work additional hours. Whenever they did, they were paid time and a quarter, the rate specified by law. Simple arithmetic (28 dirhams / 9 hours) showed that the women earned only approximately 3.1 Dh per hour.

Majda was the ZATON employee responsible for paying the women. When questioned about the number of hours they were paid, she answered "a half day is four hours and a whole day is eight hours." Even when she was shown the number of hours (9) these women actually worked each day, she stuck with her response adding only that the matter was "not her affair."

Full-time employees received closer to the minimum wage, and in some instances earned more. As noted above, Majda was in charge of the information systems. She created a program to automate the pay procedures, and it mirrored exactly the manual system. For both the manual system and the computerized system, a half day was considered four hours, and a whole day eight hours. After she wrote the program, she was asked what ZATON paid its workers. She immediately responded "Oh, we pay the minimum wage." When informed that the minimum wage was six dirhams an hour, and that ZATON was only paying 3.1 per hour, she quickly said that that payout was only for the daily employees.

Any attempt to install modern equipment was considered impractical because of the amount of employee training required. ZATON was in a financial position to automate a greater portion of its production line. This, however, was not considered feasible because the company would have had difficulty finding an educated workforce capable of running the equipment. The lack of a formally trained maintenance staff was also a major concern.

Since much of the equipment was purchased used, all warranties, maintenance manuals, and equipment publications were in short supply. When adjustments were needed, they were usually done on a hit-or-miss basis. Machinery was adjusted until it "looked good." The lack of a trained maintenance staff also came to light during repairs. Though by local standards these mechanics were trained, in actuality many of their repairs were at best temporary fixes made by substituting a wrong part or bypassing control or safety circuits.

The situation was not much better for those with advanced education. In Morocco the state provided free college education for those who qualified academically. In many instances Moroccans facing no prospects for work continued on as students for years earning degree after degree. Those who tried to find work faced a challenge. If they found work, it was usually positions unrelated to their field or temporary jobs. For the majority, the lack of any type of real work experience was common, as was jumping from job to job.

ZATON faced this kind of labor market when trying to hire a replacement for the factory foreman. The foreman had left the company in the middle of the pepper production run, frustrated over several issues. Tom, ZATON's volunteer American executive, participated in the search for a new plant foreman by interviewing job candidates. Each candidate was a college graduate who had completed school several years before and had since jumped from job to job. Each felt he could contribute to the company, but they would have to complete their education at the company since none had any experience supervising large numbers of people or managing production.

ZATON's Markets

ZATON, in its expansion, had aggressively pursued markets in the United States and Canada, and this was yielding desired results. Orders for roasted peppers, green olives and capers had flooded into the office in 1994. But a major problem the company faced in dealing with the North American market was the language barrier.

The company first began exporting roasted peppers to the U.S. in 1993. This had come about through ZATON's

participation in the Fancy Foods Show in Chicago. After arranging several contracts, the company successfully exported a limited number of containers to the United States.

ZATON was a newcomer to the North American market and when the opportunity came to enter full steam into the fire-roasted pepper field, the company jumped at the chance. Through the services of Joe Conrad, a sales agent in New York, the company quickly received contracts for more than 50,000 cases of peppers. This roughly translated into approximately thirty 20-foot cargo containers to be delivered in an eight-week period beginning in September and ending in October. Contracts had also been written with other individual companies in the United States and Europe.

The Operations Challenge: Filling the Orders

From the beginning Abdul assured Joe that ZATON would have the necessary production capacity to meet the contract obligation. Problems began to surface in the beginning of September when the necessary labels and cartons did not arrive on time. Unlike most companies its size in the United States, ZATON did not have a purchasing department. In most cases Abdul or his brother would order whatever was needed for the company. With the expansion of the company, the brothers found that they had to begin delegating some of their responsibilities to the staff.

This was just the second year that the company sold peppers to the United States, and with a large number of new clients, much preparation was required. For example, each client needed printed labels and cartons that presented their distinctive product information. This normally was not a problem because the customer usually provided ZATON with a set of film negatives used to print the labels. However, the U.S. Food and Drug Administration had recently begun requiring that all products carry nutritional information on the label. This was something completely foreign to the company; it required that each label be redesigned with the appropriate nutritional information added.

After some delays, proofs for all redesigned labels were approved by their respective companies. It was then time for printing, but ZATON learned that the printer was short on paper and it would take at least a week before paper supplies could arrive from Spain.

Meanwhile production continued and valuable factory floor space was occupied by an increasing number of orders awaiting labels. When the labels finally arrived, management was alarmed to find out that Fatima had not ordered the cartons. Fatima, one of Abdul's sisters, had joined the company at the end of the summer after

leaving her job as a technician for a firm in the capital city of Rabat. She had no formal business experience as a manager, but her job was to help create the necessary management information systems for the company. The company had recently purchased a computer but this was underutilized.

Fatima involved herself with the day-to-day operations of the factory and had little time for writing needed programs. In her first six months with the company she wrote only one program, which supported payroll. When she finally started programming in earnest, her software addressed what she perceived to be the needs of the company but she failed to consult people who would use the information. As a consequence, she spent much of her time writing programs that did not fit the needs of the company.

Not ordering cartons was just one consequence of inadequate communication inside the corporation. Many other examples could be found. The same was true for external communication. An almost continuous flow of faxes poured into the office on a daily basis from customers and agents wanting to know the status of their orders. For the most part the faxes sat in piles on Abdul's desk awaiting his response.

The greatest delays usually occurred with English-speaking clients. Even though Abdul's English was good enough to conduct business face-to-face, he still had problems when it came to writing. With simple faxes, he was able to muddle his way through and give a coherent response, but when it came to long faxes and technical jargon, he would often be overwhelmed and call in his FMDAP adviser for help.

If these were the only delays the company experienced, there would have been no problem meeting the October-end deadline, but these were just the tip of the iceberg. Problem after problem beset the company in its efforts to get the product to port for shipment to the United States.

The company used a single rotating pepper roaster that was purchased used. The peppers were loaded onto a conveyor belt which raised them approximately 20 feet and deposited them into a 5-foot-wide rotating tube that was angled down at about 5 degrees. At the opposite end of the tube was an industrial gas burner that sent a flame into the tube. As the tube rotated, the peppers would cascade through and the flame would roast and completely blacken the peppers. The peppers would then tumble into a cage where they were washed to cool them and wash away a large part of the blackened portion. From there the peppers would go to a conveyor belt where women would core and de-stem them. The next step in the process was another caged bath that brought the peppers to the slicing and filling station.

Exhibit 3
PEPPERS PROCESSING



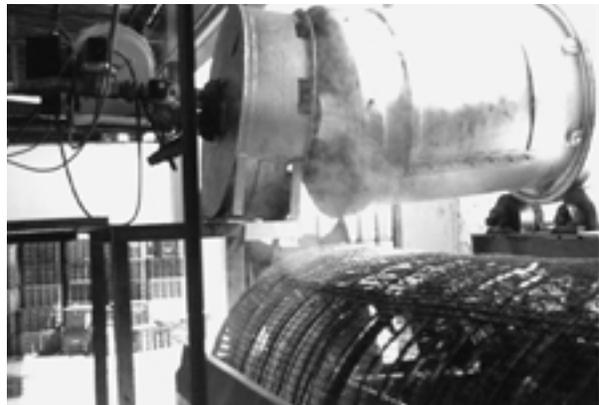
Harvesting peppers



Peppers entering the roaster via a conveyor belt



Making repairs to the roasting tube



Peppers tumbling down roaster tube into bath for washing



Slicing peppers



Bottling peppers and weighing for accuracy

Once the peppers were in jars or cans, they were weighed to ensure the proper amount was inside. The next step added acidic brine to the peppers, and the can was then sealed by the closing machine. After pasteurization the product was ready to be labeled, cased and shipped.

During one time or another, ZATON had problems with each section of the line. Most problems involved the two most critical pieces of equipment: the roasting tube, and the can closing machines. At the end of October, the roasting tube shattered a support bearing. This shut down the line for half-a-day while a new bearing was bought and installed.

The bearing held the tube, keeping it from shifting downward from its original position tilted at a 15 degree angle. The bearing was aided by supports on each of the four rollers that spun the tube. Initially the shattered bearing was considered a minor problem, but two days later, the replacement bearing shattered. Something was causing the tube to exert more downward pressure than normal. A number of ideas were considered, but the company was under such pressure to continue producing peppers that it decided just to replace the bearing and fix the problem later.

Unfortunately, the time between shattered bearings dropped. It went from two days to a few hours. Each time a bearing shattered, the line would be down for a minimum of an hour. Finally, after replacing the bearing for the third time on a single day, Abdul called it quits. He said that until the problem was solved, the roaster could not be used.

Various attempts at keeping the tube from sliding were unsuccessful, and the delays created by the machine being down were increasing. The majority of the daily workers had been laid off, and work for the remaining full-time employees was limited. Eventually management believed they solved the problem by encasing the support legs in concrete to limit the amount of vibration caused by the one-ton tube. This solution was never fully tested, however, as it was implemented at the end of the season.

Finally, as mentioned above, when it rains it pours. Morocco experienced several days of intense rain at the end of October that ended up flooding a large portion of the country. Though there was no flooding in Fés and the local area, a large number of crops were damaged by the intense rain. ZATON had to become much more selective regarding what peppers it accepted to screen out poor quality produce. The rains came at the end of the growing season, and they prematurely ended it.

ZATON now faced the fact that it had promised 30 containers of peppers to Conrad's clients alone but had

only shipped six. The company had to default on 80% of its contracts with its New York agent. It had not even yet begun to fill its other independently signed contracts.

Also of concern to the company was the presence of prepared lithographic tins requested by one of its customers. These tins were more expensive, but they provided a much nicer looking product because all the label information was printed directly on the can. This reduced one of the handling steps for ZATON, while at the same time improving the appearance of the product. But ZATON was now stuck with 80,000 of these tins that could only be used for this client. The company also had several thousand company specific cartons.

An American Sales Agent Visits the Factory

Joe Conrad of Conrad Imports, Inc. finally came to Morocco on a business trip to examine the quality of the peppers being exported and to find out why his shipments were so far behind schedule. He faced several problems on this visit. One was his extremely tight schedule, and the other was his inability to speak either French or Arabic.

"You must put the nutritional information on the label now; the FDA requires it. Here, look at the Roland label, it's the same product, so the information is the same. You just have to reformat it and add it to the Dara Brand label."

"Yes, yes, no problem."

"For two hours you have been saying 'yes, yes, no problem,' but I think we still have problems. I don't have a lot of time because I have to be in Casablanca by four this afternoon, and we have to get this worked out. You just don't understand what I am saying."

Joe said that he had talked with Abdul over the phone on many occasions until he was blue in the face. He always got the answer "no problem" but there were always problems. He did not understand that in order for Abdul to understand him, he had to speak slowly. Unfortunately the more frustrated Joe became, the quicker he spoke. Joe's strong New York accent only added to the communication gap.

Abdul and Joe were equally frustrated and the meeting was going nowhere. Joe had a definite problem understanding the cultural patterns of Morocco. Abdul decided to bring the FMDAP adviser in to their meeting to let him make sense of the problems under discussion. When they finally got down to discussing product labels, and the new regulations for including nutritional information, Joe did not want to deal with Abdul at all. He had discussed the matter for two hours over the

telephone and Abdul still did not understand. The adviser took Joe into another room enabling Abdul to make a break for it, which he gladly did.

Joe came from a world where customers screamed to get results, but screaming in New York did not instill a sense of urgency in Morocco. Joe was also upset that Abdul had accepted an order from another company, Leslie Foods International, and he planned to ship them their goods before he filled existing orders. Joe believed that Leslie had not committed to a contract in the beginning because he did not like the price, but now that no one else had peppers, he was coming to ZATON.

Abdul had accepted and made the Leslie order a top priority for one very simple reason, one not commonly heard in U.S. business circles: George Leslie was his friend. They had met during a food exposition in the United States, and he was the first client to whom Abdul had exported. To him that meant a great deal. Giving priority to friends was a common business practice in Morocco.

The adviser told Joe that personal contacts meant a tremendous amount in Morocco. In business, it meant much to be dealing with a large, powerful corporation, but most times your reputation, hospitality, and manners were more important. Urgency and impatience were not appreciated, and usually these traits did more harm than good. They were generally considered rude.

Moroccans respected a low-key approach and typically took longer and consulted more associates in their deliberations than did American businessmen. In many cases one had to deal with several people at the same time and keeping track of things was difficult because people wandered in and out of meetings frequently. In general, business meetings were protracted events that sometimes consumed more time than one had available. The process of negotiations could take hours, but that was an everyday reality.

Joe expressed concerns that ZATON would not be able to make its contract commitment. "He should have shipped at least one container of peppers already to Roland foods. Why is he doing a bottling run? He should be packaging cans now! When am I going to get my product? People (from Cosmo's Foods) are crying out in Connecticut for the canned product, yet he is doing a run of bottled peppers.

"This trip is costing me an awful lot of money. The plane was outrageous because I had to change it at the last minute, and now I have to take a taxi all the way to Casablanca (4 hours away). That's going to cost me an extra \$100, but I have to be there by 5:00 because I have a meeting. I just don't have enough time! The problem

is, if he can't fill his order, he is going to leave these people high and dry."

The Sales Agent Saga: Two Months Later

The reality of the situation became clear to Joe in the next few months. Commenting to the FMDAP adviser, Joe lamented over the phone from New York:

"I'm looking at a disaster here. You mean to tell me that there is no product left to be shipped? For months now he has told me that there was no problem, and that they would ship everything. Now he's telling me that there's nothing else coming this year? I mean I would have been happy if he had shipped half of it, but we didn't even make that. You only shipped six of the 30 containers you had orders for. He never should have sold to Leslie. We had longer standing contracts with others who now aren't going to get any product. Thanks for the faxes though. I have had such a hard time getting any information out of him. We're just in such a bad situation here, I just don't know what we're going to do. He has lost a lot of face around here. I don't know why he is going to the show in San Diego. It's a complete waste of time. Nothing is going to go on there. He needs to get his act together. First things first. He needs to get his production going and get some product out. He doesn't need to try to find clients; he needs to get his shop in order. Well, at least we got this much, and when you're gone, communication is going to be impossible."

Joe was thoroughly frustrated. To him it was not ZATON defaulting on contracts, it was Conrad Imports Inc. which let its clients down. Luckily for Joe, he was able to find suppliers in Mexico that still had enough product left to fill his orders. In fact, Joe was even able to come out ahead. In January the Mexican Peso suffered a massive devaluation, and because of the increased buying power of the dollar, Mexico became one of ZATON's newest competitors.

The Next Season

Throughout the winter of 1994, ZATON continued its operations. For the most part olive production went fairly well. ZATON was able to land a large contract for black olives in Canada. Significant problems began to arise in late May with both green and black olives. The company fell increasingly behind in its deliveries to its Canadian client. It also fell short by approximately one million pounds of green olives to its European clients.

Continuing problems between the EC (especially Spain) and Morocco reached the point where Spain was threatening to seize agricultural products shipped from Morocco. ZATON consequently had to delay several contracts to ship to Spanish clients.

During this time the company formally entered into a joint venture with an Italian firm to produce artichokes. ZATON also began a joint venture with a group of Turkish cotton farmers to produce capers. ZATON's role in this venture was to supply the technical assistance and the marketing networks for the product.

Though these ventures served to increase ZATON's markets, they had the negative effect of adding more confusion to an already chaotic situation. Mr. Ganim, the former owner of Olive Branch, was quickly overwhelmed because he was now supervising the production of olives, capers, peppers and artichokes all at the same time.

All of the junior-level managers were complaining that the company was doing too many things and doing none of them properly. Quality control was becoming an even greater problem. One promising note, however, was that Brahim, the company's chief mechanic, attended a week-long course on repairing the can closing machines and the other processing equipment.

A study was undertaken to determine how many contracts the company could sign for peppers for the following season. Based on an estimated yield of 2,000 tons of raw peppers, ZATON was already committed to using 35 percent of this amount to fill last year's contracts. Abdul decided that once last year's contracts had been completed, it would be safer to produce full containers and then sell through his agents.

ZATON began to receive peppers at the end of April, and within the first two days of processing, problems began. The roller bearings began to shatter, and production halted. The company also had to throw away a complete truckload of peppers because they sat too long before processing. Luckily for the company, these peppers were not part of the ZATON crop. They were peppers that were bought on the open market, and the company was under no obligation to buy any others. ZATON's pepper crop was not going to be ready until June. The company had to find a long-lasting solution to this production problem quickly, but the chief maintenance person was too busy fixing all other daily problems to tackle this one.

In the middle of May, the King of Morocco addressed the country saying that the drought had made this year's expected crop yield only one tenth of the previous year's output. He stated that he was attempting to raise \$200 million to help those who lived in the country, and that he and the members of the cabinet were

going to donate their salaries until the amount was reached. An account was set up at one of the national banks for people to make donations, and all the country's soccer teams agreed to donate their gate receipts from the following weekend.

At the same time, there was a series of nationwide railroad strikes. The railroad was the principal means for transporting not only people but also all merchandise produced inland. ZATON, unable to send its shipments to clients, fell further behind in deliveries. An opposition newspaper claimed that economic impact of the strike was much greater than the actual pay demands of the railway workers.

To make matters worse, the management decided to enlarge their office facilities at the ZATON plant to help them get organized. This involved completely renovating the offices. While Abdul was in Turkey signing the joint venture contracts, his brother Karim, in charge of the office enlargement project, decided that it was going to be too difficult and expensive to renovate the existing building. So he and the rest of the family decided—without Abdul's approval—to demolish the building and rent an apartment to serve as the office in the center of town.

Renting the office was done with such haste that the office was thrown into complete confusion. They demolished the building before the apartment was ready. The company was unable to keep the same telephone numbers, so now customers, clients and suppliers had no idea as to the company's new phone numbers. In the meantime, files, schedules and all other administrative equipment were thrown into cardboard boxes and nothing could be found efficiently. The company even lost a leased laptop computer.

The family kept Abdul in the dark about these changes because they wanted to surprise him. They were very happy to have their new office in a suite in the tallest building in Fés, but they completely overlooked the problems this move caused. Now instead of being just a 30 second walk to the factory, Abdul now had to drive 10 minutes. Supervision was now even more difficult for him, and when asked if he felt the company was organized enough to work like this, Karim replied, "Well, now, we will have to, won't we."

Abdul immediately recognized that this would cause immense problems and told his brother to rebuild the office on the ZATON site. Instead of hiring an architect to design the building however, Karim decided that he was going to design it himself, even though he had no experience in this field. Rebuilding the office was projected to take a minimum of six months, the length of the next pepper season.

APPENDIX

BACKGROUND ON MOROCCO

History of Morocco

The Kingdom of Morocco is the western-most of three North African countries known as Jeziret al-Maghreb or “Island of the West” in the Arab world. Roughly equal to California in size and variability of climate, it is the closest nation in Africa to Europe—separated only by the straits of Gibraltar. The country is bounded on the north by the Mediterranean Sea, on the west by the Atlantic Ocean, on the south by Mauritania, and on the east by Algeria.

Often labeled as “a cold country with a hot sun,” Morocco has a climate as varied as the landscape. The country is dominated by two mountain ranges. In the north, the Rif mountains rise almost directly from the sea. Running north to south are the Middle and High Atlas mountains, rising to over 13,000 feet, forming the backbone of the country. The coastal plains of the country are supported by a mild, semitropical climate. This plain, known as the Gharb, is usually adequately supplied by rainfall to support the country’s agricultural industry. It is here that the majority of the country’s large cities and population is located.

The area to the south and east of the mountains is largely arid and sparsely inhabited, much of it part of the Sahara Desert. The population in these areas is concentrated on the oases along the Draa and Sous rivers.

Morocco is a unique nation. Arriving in the country at

any major city, one finds a distinctly European atmosphere due in large measure to the influence of French and Spanish colonialists. Once outside these cities, however, commerce retains features of earlier centuries. Business is conducted in the many different souks or markets, just as it was in medieval times.

The country gained its independence from France in 1957 after more than 40 years as a colony. The French had a profound impact on the culture. Most business today is still conducted in French, even though the official language is Arabic, and French food and culture are found everywhere, down to the petit taxis and sidewalk cafes.

Morocco is a constitutional monarchy, with the king serving as head of state and spiritual leader. King Hassan II has ruled Morocco since 1961. He is part of the Alaouite dynasty that has ruled Morocco since the 17th century, and which traces its ancestry back to the prophet Mohamed. He is the latest in his family’s line to bear the title “Commander of the Faithful.”

The country’s official religion is Islam, but Moroccans are relatively tolerant of other religions. The majority of Morocco’s Moslem population is Sunni, and the king has been effective at keeping the Islamic fundamentalist movement under control. Neighboring countries have not been so successful, and these forces there have proven to be a destabilizing factor in society.

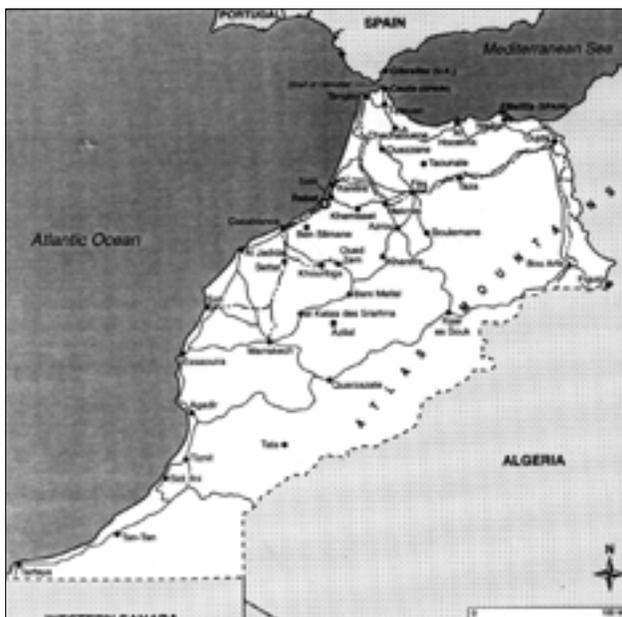
Fés

Fés, Morocco’s third largest city and one of the nation’s four Imperial cities, is considered the cultural and religious capital. Students from around the world study law and theology at the 1,000-year-old Karaouine University and mosque.

Originally founded in the eighth century, the traditional way of life in the medina has remained relatively unchanged since its beginnings. The French designated the old city a historic landmark, and as such, changes and modernization have left the old city relatively untouched. Roads and alleys are laid out in a fashion that give it a striking resemblance to the mythical labyrinth of ancient Greece.

The French built a new city after World War I two miles away, and this has become the industrial and administrative center of the region. The city’s estimated population of just over one million is split equally between old and new Fés.

Exhibit 4
MAP OF MOROCCO



The Economy

Over the past decade Morocco has become increasingly urbanized and industrialized. Immigration flowing into the large cities has only aggravated Morocco's large unemployment problem. Despite increased industrialization, however, agriculture remains the most important segment of the economy, employing over half the workforce.

Cash crops, including citrus fruits and vegetables, have benefited most from state incentives and inducements. These have been felt upstream—through the financing of equipment for irrigation systems, the distribution of subsidies and the provision of inputs and intermediate goods, and downstream in the economic system—through the organization of marketing channels, mainly for exporting.

In 1993 exports for this sector accounted for 25 percent of the nation's total, which was equivalent to 15-20 percent of GDP. The main exports of the country included phosphates (Morocco has one of the world's largest reserves), phosphoric acid, citrus fruits, textiles, fertilizers, fish and canned vegetables.

Agriculture

Crop yields depend on the timing and the magnitude of rainfall, or in other words, when the rains come and how heavily they fall. Unfortunately for ZATON and the rest of Morocco, rainfall from the end of 1994 through the summer of 1995 was not helpful to the country. At the end of October, severe rains flooded portions of the region. In areas where rainfall was less extreme, there was still severe damage to a large portion of the crops.

Normally winter rains are the source of life for many crops. Throughout the fall and winter, with the exception of the October rains, this year the country experienced a severe drought. In many areas of the country, talk centered around the need for rain and how bad the year would be if no rains came.

On January 20th, King Hassan II, the country's monarch and spiritual leader, led a noontime prayer session with a special prayer for rain. Some rain in fact fell that day, and devout citizens thanked Allah and the king.

Literacy and Labor Practices

By official estimates the literacy rate was somewhere around 45% for males and 22% for females. This figure varied by geographic region. In the more urbanized areas a significantly greater percentage attended school, while the opposite was true in rural areas. An estimated 85% of boys and 53% of girls attended primary school for at least some period. This figure dropped to 35% and 22% respectively for secondary

schooling. Both primary and secondary schooling were patterned after the French system, with instruction given in both French and Arabic.

The availability of unskilled labor posed no problems in Morocco. Official estimates of unemployment reached as high as 20 percent, and the number of Moroccans in under-employment situations—those having fewer than 40 hours of work per week—was equal to or greater than that. Overall it was a discouraging situation for those seeking employment.

Life for an unskilled worker usually meant less than the minimum wage, and in Morocco that translated into approximately 54 cents an hour. Depending on the source, per capita income in Morocco was between \$550 and \$900 per year.²

Often owners of factories complained that their margins were too low, and that they could not afford to pay the minimum wage. This may have been true on the books, but this was because much of the money was immediately diverted to other projects, or else used to pay off family bills for new cars, villas and travel expenses.

Morocco had very modern legal codes designed to protect the rights of the individual, but some observers felt they were mostly a whitewash for the international community and were usually not enforced. Many international aid packages were now being tied to assurances that wages and proper working conditions were enforced, so that more than just management and ownership would benefit. The minimum hourly legal wage was DH6.00 for a maximum of 48 hours per week. Many Moroccans not only exceeded that number of hours per week, but also were paid less than the minimum wage.

In Morocco the work contract between the employer and the employee was based on the Royal Decree of August 13, 1913 which defined the rights and responsibilities of each. The contract could be oral or written, and every worker had the right to a weekly day of rest of 24 hours and the 11 statutory paid holidays. This was variable because an employer could petition to have lost work days made up if there were a shortage of raw materials, damaged machinery or seasonal lows.

There was no specific law that forbade employee discrimination in Morocco, but the Moroccan Constitution stated that everybody was equal before the law irrespective of sex or religion. Being fired from a job could take place for any number of reasons, including incapacity due to age. Officially the minimum legal age to work was 18, but in practice this was not followed. Many children were kept from going to school so that they could work in family-run businesses or any other job to contribute to family income.

It was common to see little children working not only in family-run shops and stores, but also in major factories, especially the textile and carpet mills. Here, when dealing with artisans, a different set of laws applied. In many instances mothers brought their children to work with them. The owners of these factories made a contract with the mother to pay the wages of the children. In effect they were not paying the children, but rather the mother. It was just a technicality that allowed the use of child labor.

Other examples of different labor practices included women working in the textile mills unpaid for their first few months. The owners of these factories informed the women that they were “in training” and as such did not qualify for pay. These women worked 9 or 10-hour days sewing pockets or other minor parts of the pattern for several months without pay. In many instances, if the company fell behind in production, management would not even allow the women to take breaks. There was no set schedule for the completion of training, and if management did not feel like hiring anyone, they could let these women go.

Discussion Topics

1. In order to establish Western management practices in a company in the developing world, management must consider how to adapt those practices to local society and organizational culture. Given the prerequisites for successful adoption of management philosophies like Total Quality Management (customer-driven quality, top down management commitment, continuous improvement, measurement and reporting systems to manage by fact, and ongoing training of the workforce), and given the cultural, political and historical context of firms in the developing world, how can companies such as ZATON bring about needed change?
2. As more and more “developing nations” enter the global market, expatriates who work there experience many difficulties beyond just bridging the language barrier. Consider the reasons for these difficulties. Examine the experiences of Tom Anderson and Joe Conrad and discuss ways to better prepare Western-educated executives and consultants to play a constructive role in the developing world.
3. ZATON is experiencing numerous difficulties across the entire organization. Examine these problems systematically and discuss their interrelationships. Consider among other things how problems in the management structure affect the plant’s operation. Be sure to consider cultural milieu, technology transfer, human capital and the macro environment.

4. Ethical issues confront all levels of management. In the ZATON case, fairness of wages is a central theme. Some employment practices observed in Morocco are unacceptable in the United States. These differences raise questions: What are the responsibilities of owners to their employees? What are the responsibilities of managers who are aware of unethical practices in their organization? Should they (a) ignore the problems altogether, (b) risk losing their jobs by bringing these concerns to the attention of senior management and/or governmental agencies, or (c) quit their jobs in protest, possibly speaking out publicly?

NOTES

1. This case was written by Shawn Cochran of the University of Connecticut. It is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.
2. An hourly wage of \$.54 implies a “full-time” annual salary of $(\$0.54/\text{hr})(8 \text{ hrs/day})(250 \text{ days/yr})$ or \$1080. Most workers made less.