

# **NON-MARKET STRATEGY AND THE 'RACE TO THE BOTTOM': LESSONS FROM THE *BAYWATCH* EXPERIENCE**

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This article examines how international firms operate strategically in the non-market environment to secure advantages which improve their cost and/or revenue structures and, hence, their economic performance. It centres on a detailed case study of the globally popular *Baywatch* television show's efforts during 1999 to secure attractive locational subsidies by placing the states of New South Wales, Queensland (both in Australia) and Hawaii into competition with each other in a 'race to the bottom'. The article is organized into three main sections: the first briefly reviews the concept of non-market strategy; the second examines the *Baywatch* case in detail; and the conclusion presents some lessons for various stakeholders involved in this and similar non-market contexts.

## **Strategy in the Non-market Environment**

In charting the emergence of non-market strategy, an observer could go back to the strategies and tactics employed by such organizations as the British East India Company throughout its several centuries of operation on the subcontinent. The rise of non-market strategy as a formalized body of knowledge relevant to theory and practice is, however, much more recent. Baron (1995) is credited with bringing the term 'non-market strategy' into the field of strategic management, while the journal *Business and Politics* (dedicated to the study of non-market strategy) only commenced in 1999. More recently, Ghemawat (2007) has integrated non-market insights into his research on global strategy.

According to Baron (2005:3), the business environment consists of both market and non-market components. The market component includes the interactions of buying and selling between firms and other parties and private agreements such as contracts. This is the domain of competitive strategy, where firms strive to win customers and market share through differentiated product offerings based on their respective sources of competitive advantage (*cf.* Porter, 1985).

The non-market environment includes social, political and legal arrangements that structure interactions outside of – but in conjunction with – markets and private agreements. It encompasses those interactions between firms and individuals, interest groups, government entities, and the public that are intermediated by public institutions rather than markets or private agreements. The distinguishing characteristics of public institutions (ostensibly) include majority rule, due process, broad enfranchisement, collective action and transparency. Vitally, a firm can secure advantages in the non-market environment which serve to protect or enhance its position in the market environment. Non-market strategy thus offers another route to competitive advantage and superior economic performance. In some instances, non-market approaches can be *more* important than competitive strategy in generating firm-level advantages – e.g., where effective lobbying garners an exclusive import/distribution license from a government agency.

Non-market strategy is particularly important in relation to transnational corporations (TNCs). The impacts of corporate globalisation on host countries – particularly of the developing or underdeveloped variety – are matters of contentious debate. Mainstream TNC scholars in the ‘internalization’ school (Buckley and Casson, 1985) or the ‘transaction costs’ school (Hennart, 1982) view this institution’s existence as evidence of market failures, which its actions serve to ameliorate through the efficient allocation of organizational resources to their optimal value-creating applications. TNC activities in the non-market environment are beyond the theoretical scope of scholars based in these paradigms. Other, broader approaches to these issue are taken by development economists such as Bhagwati (2002) and Sen (2001), both of whom agree (with qualifications) that, on balance, globalization and TNCs are beneficial to the peoples of the developing world.

This article takes a more critical perspective, arguing through the means of a specific case, examined in detail, that globalization has had a major impact on the non-market environment with respect to the degree that it empowers TNCs relative to other stakeholders. Because TNCs by definition operate in numerous host countries, their subsidiaries have the opportunity to engage in multiple non-market strategies. They can thus enhance their structural bargaining power *versus* workers and states, thereby reducing claims by these stakeholders on their income streams. This increase in bargaining power is achieved most simply by placing multiple groups of workers located in different nations in competition with each other for the jobs which the TNC provides, and similarly by putting states in competition with each other for the jobs, capital, technology and tax revenue with which TNC investment is associated.

Importantly, the transaction costs of pursuing such leveraging (or ‘divide and conquer’) strategies in the non-market environment have dropped substantially since the 1970s in reaction to the increasing pace of globalization and the transition from Fordism to post-Fordism (see Aglietta, 2000). This is because states have more explicitly entered into competition with one another to attract TNC investment, based on endogenous country-specific advantages combined (sometimes) with incentive packages. Meanwhile, TNCs have become increasingly adept at ‘working the system’ of interstate investment competition to optimise locational advantage throughout their value-chains (Jones, 2000).

Multiple non-market strategies are not always integrated effectively at the headquarters level, however. In Australia, for example, the local subsidiary of Ford Motor Company (based in Melbourne since the 1920s) works aggressively both by itself and at the industry level to lobby for continuation of the federal tariff on imported automobiles. Meanwhile, at the global level, Ford supports WTO efforts to reduce international tariffs on motor vehicle (and parts) imports and exports. The potential certainly exists, though, for TNCs to integrate their non-market strategy at the corporate level in order to amplify their effectiveness, as well as to ensure that non-market efforts are linked and supportive of the firm’s competitive strategy.

Following Baron (2005), we can regard the non-market environment of a firm or industry as constituted by issues, interests, institutions and

information. Issues are the basic unit of analysis and the focus of non-market action. Interests refer to the relevant stakeholders' desired outcomes with respect to the given situation. Institutions typically include government entities such as legislatures and regulator bodies, as well as business firms, unions and non-governmental organizations. Information refers to what the relevant stakeholders know, when they know it, how they perceive cause and effect relations, and what they think about the interests and capabilities of other stakeholders.

These principles are evident in the non-market bargaining that were initiated and managed by the *Baywatch* producers, pitting Avalon beach (and the NSW government), the Gold Coast (and the Queensland government), and the state of Hawaii against each other to maximize locational advantage for the production company.

### ***Baywatch's* Global Product**

In the 1990s the television program *Baywatch* was viewed by one billion people each week (Hornery and Schulze, 1998). This made it the most watched television program in the world, as boasted by producers (de Moreas, 2001). It was also the number one syndicated television show for many years (Petrozzello, 2001). The show was screened in 147 countries and in 32 languages (Niesche, 1999). The show's original location was along Santa Monica Bay's 46km coastline in southern California. The show spent nine years there, starting in 1989 (with NBC), producing over 200 episodes (de Moreas, 2001). The production cost of each *Baywatch* episode was US\$1.2m. This is slightly less than a network drama, but high for a syndicate (CP, 2001). The production company, as of 1998, was UK-based Pearson Television (Lalor, 1999).

### **1998/1999: *Baywatch* leaves California**

*Baywatch* left California due to budgetary challenges and declining (domestic and international) ratings (Tighe, 1999). The objectives of relocating *Baywatch* included re-energizing the show, saving money and improving ratings (Ryan, 1999a). A focus report commissioned by the

show's producers stressed the need for change – especially to entice viewers back (Dent, 1998). The decline in domestic viewers was a major concern for producers. Their funding sources were located in the US: negative ratings in this home market would raise questions amongst the funding sources as to whether to continue the show. A new location outside the USA was seen to be the solution. International ratings were of secondary concern: if they also increased, that would be an added plus (Huff, 1999d).

Initially, the *Baywatch* producers searched for locations within the Americas, such as Florida and Mexico. Due mostly to a lack of 'proper' surf beaches, however, they subsequently decided to look beyond the region. This included Southern Europe and Australia. The latter, Sydney specifically, was the real contender due to (1) surf beaches/culture and (2) the upcoming 2000 Olympic Games. The NSW state government was also the first to consider incentives to attract the show (Pollack, 1999).

Hollywood's response to *Baywatch* leaving was predictable. Those involved in the film and television industry (especially who lost jobs as a result of the *Baywatch* decision) were unhappy. This equated to only a handful of people, however. Most recognized that losing *Baywatch* was not of major economic significance. For example, Los Angeles' film industry, alone, was still worth US\$27 billion, annually. The reason for job losses was, by many, attributed to the reduced spending of all studios (Pollack, 1999). Furthermore, rather than the cause of frustration being *Baywatch* relocating, specifically, it was more the fact that it was *another* film/show to be leaving the State and country for cheaper horizons (Bates and Dixon, 1999). Still, the State of California acknowledged that it could not feasibly provide concessions to the local film industry, due to the costs involved. Also, general cost-cutting by the industry itself was a difficult and time consuming process – generating union involvement, and at times, resistance (FT, 1998).

Further compounding the loss of film and television production domestically – in California and the USA – was the aggressive competition by other countries keen to secure such deals. Such countries include Canada and Australia. As noted in a 2005 Production report by the Center for Entertainment Industry Data and Research (CEIDR), the trend of runaway productions is frequently linked to American films and

television being lured away from U.S. locations to out-of-country locations. A significant factor in these migrations is foreign subsidies offered to American companies, ultimately reducing the cost of making the film. According to the CEIDR report, 'The analysis reveals that, while there are certainly general economic factors at play, such as relative labor and exchange rates, the data over the past several years strongly suggests that proliferation of production subsidies around the globe has been one of the most significant factors affecting the choice of production venues for a significant volume of production' (CEIDR, 2006: 1; see also United States Department of Commerce, 2001).

In Australia, for example, 'Ausfilm' (a department within 'Austrade'), seeks film and television opportunities for the country. Ausfilm is a consortium of all Australian State and Territory film commissions and 21 private companies. Each State/Territory then competes for applicable deals. NSW, for instance, offers payroll tax concessions, while Queensland and SA offer other tax incentives. Such concessions/incentives quickly add up to hundred-thousand dollar savings per film/television show. Other benefits of producing in the Australian context include: (1) (relatively) low value of A\$ (exchange rates); (2) budgetary savings (the main benefit) of up to 30% through cheaper equipment hire; and (3) skilled and efficient crews (Jameson, 1999).

Having had strong interests in coming to Australia (Sydney, specifically), *Baywatch* shot two episodes in the region. These focused primarily on the Sydney beachside suburb of Avalon. The episodes served two purposes: (1) to test the various locations for suitability; and (2) to measure viewer (US) response to such a move (Safe, 1998).

### **1999: *Baywatch* Sydney?**

Sydney was the first choice for *Baywatch* producers. This followed the success (both financially and in ratings) of the two episodes shot in Avalon and surrounding areas the previous year (Gelastopoulos, 1999). Having settled on the new location, Bonnan representing *Baywatch* met with Federal Tourism Minister, Jackie Kelly, in early 1999, and initially requested that State and/or Federal governments pay A\$200,000 in

relocation costs for the show to move to Avalon (SCMP, 1999b). This request was increased to A\$2 million shortly after to cover additional unforeseen costs associated with the move (Lalor, 1999).

Bonnan was sure to spell out the benefits in *Baywatch* coming to Australia (Maynard, 1999). First, approximately A\$20 million would be spent producing the show through April and October each year (1 to 2 days shooting per week for 22 weeks, annually) (Jamal, 1999). Two years production was guaranteed, with six very likely (Huff, 1999d). Second, the vast *Baywatch* audience meant tourism spin-offs for Australia, NSW and Sydney. Third, the show would create 220 jobs for locals. Fourth, as per 'Bonnan-math', every A\$1 spent producing the show would generate A\$21 spending for Avalon (Urban, 1999).

The request was swiftly supported *in theory* by the Federal government. Kelly found that there existed great potential to promote Australia internationally through *Baywatch* (Peschardt, 1999). More broadly, she (and the Federal government) perceived the advantages for Sydney and Australia as being: (1) the direct economic impacts of production; (2) the national image projected internationally for tourists; and (3) the ability for the area/state/nation to manage the exact image projected (Southgate, 1999). *In practice*, however, the Federal government strongly encouraged the State government of NSW to grant the incentive: in other words, the Federal government placed the financial burden on NSW. NSW Premier Carr refused, although he too supported it *in theory* (Lalor, 1999). Despite this, *Baywatch* producers remained focused on Avalon.

As part of the agreement with Pittwater Council – the municipality responsible for Avalon – Bonnan offered A\$775 for each day's filming on Avalon beach. Pittwater Council was happy to take the show. This was based not on the above payment but on the indirect economic benefits the show would bring to the area—i.e. tourism spin-offs. In return, however, it was (strongly) implied that *Baywatch* would have priority use of, and access to, the beach and surrounding area, and its facilities. As a result, local schools would be unable to conduct surfing lessons whilst filming was taking place. Added to this, problems arose because Avalon beach is only 700m long – much shorter than the beach at Santa Monica, for instance (Macken, 1999b). Privileged access became the main sticking point between the show and its supporters

(including various levels of government) and (some) local Avalon residents.

Residents of Avalon, upon hearing the impending intentions of the *Baywatch* producers, expressed their dissatisfaction with the planned move. They claimed that the show was exploiting the area to cut costs and to entice viewers back with a new location (Watts, 1999). This discontent grew over the following weeks. Bonnan and the Council feared that the community outcry would worsen, so attempted to keep the Avalon filming application submission as quiet as possible. Bonnan clandestinely, but with full Council knowledge, submitted the Avalon filming application to Pittwater Council by email at 1 minute to midnight on February 9 (Lalor, 1999); a decision was expected to take four weeks.

News of the application submission nevertheless spread quickly amongst locals. Some Avalon residents then formed the 'Anti-*Baywatch* Action Group' (ABAG) (Saluzsinszky, 1999). This group launched a community petition to garner support *against* the *Baywatch* relocation. They quickly collected over 900 signatures – a significant number, considering Avalon's (permanent) population of just 9200 (Macken, 1999a). As the ABAG gained momentum, additional reasons for their not wanting the show arose. They argued that in late 1998, upon filming the two 'down under' episodes, the entire *Baywatch* cast and crew were rude, offensive and heavy-handed (Saluzsinszky, 1999). They went further, noting that the small size of Avalon beach could not, without detrimental environmental affects, accommodate such a large show. The show had destroyed Santa Monica beaches, and Avalon residents weren't going to let happen to their beach also (Macken, 1999b). Those in favor of *Baywatch's* move – Pittwater Council, Avalon surf club, local businesses and the State government – felt these claims were false and merely weak excuses (Saluzsinszky, 1999).

Some observers asserted that Avalon residents were not Anti-*Baywatch*, but rather Anti-American. This was based on the fact that many Australian shows and/or commercials, had been, or were, filmed in the area: the popular television soap *Home and Away* for one. In these instances, residents had made no fuss (Macken, 1999b). Either way, Bonnan explicitly targeted the supporters so as to gain leverage in the community's decision making process, and ultimately, to mitigate locals'

concerns about the relocation. His comments, referring to Avalon residents (protestors, specifically) as ‘non-Australians’ and snobs, however, did not help ease the situation (Macken, 1999a). It soon became clear that the show would have an uphill battle. Bonnan responded by (1) hiring corporate lobby group Gavin Anderson & Kortlang to aggressively push the show’s interests at the local and State levels (Lalor, 1999), and (2) acknowledging that the resistance might be too difficult to overcome. The *Baywatch* executives then began searching for other areas in the region and nation. Queensland’s Gold Coast and Coffs Harbor in NSW were quick to put up their hands (Roberts, 1999).

NSW Premier Carr and several of the State’s tourism chiefs expressed disappointment at local residents’ opposition to *Baywatch* (Maynard, 1999). They saw only (economic) positives for Avalon, Sydney and NSW – above all, the potential to promote tourism development. Interestingly, however, it was also Premier Carr who was not willing to give the show the A\$2m incentives/concessions they had requested (Lalor, 1999) – the *in practice* component. At the local level, Pittwater Council Mayor, Patricia Giles, was angry at what she described as a few stubborn people ruining ‘it’ (the expected rise in local real-estate values?) for everyone. This anger was felt in the private sector also. That is, many enterprises in Avalon were keen for the show to relocate to boost business and trade. Yet, they felt intimidated by the local ‘mob’ opposing *Baywatch*, and were not willing to express their views for fear of retribution (Morris, 1999).

Following an incendiary general public meeting, the level of opposition to *Baywatch* was made clear to Bonnan (Maynard, 1999). The Council decision, whether for or against, was starting to seem irrelevant. Bonnan asserted that, if Avalon did not want the show, then he would not push the matter any further (Murphy and Doherty, 1999). The *Baywatch* executives stated that many other Australian towns were welcoming the show with open arms. Cities and towns in other nations followed suit, including locations in Hawaii (Gelastopoulos, 1999). This was the first mention of the so-called ‘surf state’ as a possible location. It was not to be the last.

On Thursday, February, 25, the *Baywatch* producers began scouting other areas in NSW. These included Wollongong, Cronulla, Maroubra,

Coogee, and Newcastle (Niesche, 1999). While physically attractive places, they were not financially viable options. The local councils were happy for, even encouraged, the show to relocate to their municipalities, but they did not have incentives/concessions to entice. That same day, the producers flew to Queensland. The Gold Coast, after all, had the beaches. It also eagerly supported *Baywatch* both *in theory*, and more importantly (for the producers) *in practice* (with incentives/concessions) (Razer, 1999). The end result of Avalon's rejection of *Baywatch* was thus the simultaneous offers stemming from Queensland and Hawaii. These areas/regions then became the real contenders for the show's relocation.

### **1999: *Baywatch* Gold Coast?**

The *Baywatch* executives flew to Queensland's Gold Coast prior to the Avalon general public meeting. This was on Tuesday, February 23. While there, Bonnan met with Queensland Tourism minister Gibbs and Gold Coast Mayor Baildon, who represented the Beattie government's interests. The trip north was not revealed by *Baywatch* executives to any of the parties involved in the NSW bid. Bonnan (and *Baywatch*, generally) felt that the Avalon public meeting the following day would not resolve the issues raised by locals (Roberts, 1999). As a result, and after being explicitly made aware of a Queensland offer, he wished to discuss the possibility of relocating to the Gold Coast instead – specifically, Currumbin beach (Balogh, 1999). The Beattie government was very keen to secure a deal with *Baywatch*. It quickly made this known to the producers. The Beattie government felt that the benefits (production spending; jobs; tourism promotion, etc.) the show would bring to the State, and locally, were significant (Roberts, 1999). As a result, Queensland/Gold Coast were willing to provide a substantial incentive package to entice the show north (Fischer, 1999).

Following the Avalon meeting the producers returned to Queensland. By Friday, February 26, Bonnan clinched an in-principle agreement with Gibbs to relocate the show to the Gold Coast (Lalor, 1999). The agreement was to be formally signed one week later (Murphy and Jamal, 1999). For Queensland Tourism minister Gibbs, the in-principle agreement meant the deal was as good as done (Niesche, 1999). It also

meant that *Baywatch* would start shooting on Currumbin beach by June, 1999 (Morris, 1999). Curiously, Bonnan and his associates were unavailable for comment after word spread of the in-principle agreement (SCMP, 1999c).

The incentive/concession package offered to *Baywatch* by the Queensland government was similar to that rejected by NSW Premier Carr, a fact which was initially kept hidden because it was 'commercial in confidence'. Yet details were nonetheless rapidly disseminated through informal channels, since the deal was supposedly 'as good as done' (Niesche, 1999). Queensland's offer, however, was more generous. The total value of the package was approximately A\$3 million (Grattan and Martin, 1999): this included tax concessions (a payroll tax rebate of 5%, and a cast and crew rebate equal to 10% of each wage paid to a local worker); free fire and police services; free location research; free accommodation; and other free services (in return for exposure on the show) (BBCON, 1999). Bonnan, in return (and to garner local support), offered Currumbin Surf Life Saving Club a (one-off) payment of A\$40,000 for the use of its premises (Robbins and Balogh, 1999).

The next day, Saturday, February 27, the *Baywatch* executives left Queensland bound for Hawaii (Murphy and Jamal, 1999). Prior to leaving, Bonnan personally called Gibbs to inform him of the trip and to tell him that he looked forward to signing the contract upon returning; that is, he assured Queensland that it was (remained) the real contender (Austin, 1999). Enter the challenger: Hawaii (Murphy and Doherty, 1999).

### **1999: *Baywatch* Hawaii!**

Hawaii entered as a contender for *Baywatch*'s relocation following the disputes surrounding Avalon. April Masini, an official from the Hawaiian Tourist Commission, called producers and invited them to scout particular Hawaiian beaches where they would be welcome (Huff, 1999c). The Hawaiian State was keen to secure the *Baywatch* relocation because of the previous success with 'Hawaii Five-O' and 'Magnum P.I.'

in promoting the region to domestic (US) and international tourists (Purdum, 1999).

Upon meeting Hawaiian officials, Bonnan spelled out the potential benefits of the show to the regional/local economies and the fact that, if successful, filming would begin in June, 1999 (Fischer, 1999). He also noted that Queensland was very aggressively pursuing the show so as to secure the deal – their package was attractive (Ryan, 1999a). Hawaii, not to be outdone by Queensland, put its own (slightly) larger incentive/concession package together. The State, county, local labor and visitor industry came together to design the package. This was subsequently approved by Hawaiian Governor Cayetano. The offer consisted of US\$14.5 million in incentives/concessions in the first year, and another US\$42 million over the six years that *Baywatch* was to air (Robbins, 1999b). Furthermore, some local labor unions were considering lowering wage/salary packages by up to 30%. This would reduce production costs to the estimates expected in Australia (Ryan, 1999c). (It is important to note that at this stage, the package's exact contents were only known by Hawaiian and *Baywatch* officials.) In return for these incentives, Hawaii requested that the show's name be changed to '*Baywatch* Hawaii.' Producers apparently had no problem with this request (Ryan, 1999d).

For *Baywatch*, Hawaii was seen to offer additional benefits, relative to Queensland. These comprised (1) a very attractive, coordinated government and local union incentive package to attract the show; and (2) closer proximity/easier access to the US mainland for media appearances (Donnelly, 1999). In fact, the package was so 'attractive' that, although Hawaii was a US State and thus had similar wage structures to LA, the show would still be able to reduce costs significantly. Prior to Hawaiian officials approaching *Baywatch* with the deal, the show's producers had never considered the island State to be a viable production site, as they assumed costs could not be reduced significantly within the USA (Ryan, 1999c).

Conversations between the *Baywatch* producers and Hawaiian officials continued for some time. The original planned signing date for the Queensland deal (March 1) passed by. The media, having sensed a possible scandal, started to raise questions about the strength of the in-

principle agreement for the Currumbin relocation. Nonetheless, Queensland officials remained as confident as ever. By March 8, Bonnan and his associates were still in Hawaii. Speculation continued to grow.

It was also at this point that an unlikely individual entered the debate – Australian Prime Minister John Howard. Upon hearing of the producers' extended time abroad, he expressed his anger at the Avalon residents for pushing the show away. If Australia lost *Baywatch*, and all its much lauded economic benefits, it would evidently be the fault of the Avalon protestors. Howard stressed that Australia could not afford to wave-off foreign investment and further job creation, just because of a few selfish individuals. The PM's comments filtered through to Bonnan in Hawaii, who welcomed and echoed them (Grattan and Martin, 1999).

On March 10, the *Baywatch* producers, still in Hawaii, finally corroborated that the island US state was competing against Queensland for the show. Bonnan noted that, while the Queensland offer was very attractive, so too was the Hawaii offer. It was at this point that the details of the Hawaiian package emerged. The Beattie government immediately stated that it could not match Hawaii's package. It was infuriated that *Baywatch* had said nothing of the deal prior to that date. Queensland, or QEC, specifically, then demanded that Bonnan explain. Furthermore, the Queensland government requested that Bonnan provide full flight details of his return trip to Australia before any further negotiations whatsoever (Robbins, 1999b). This was because Bonnan, by that stage, had already delayed his return twice. Bonnan complied, and announced that he would arrive in Brisbane the next day, on Thursday, March 11 (Robbins and Balogh, 1999). Some media reports suggested that, with the involvement of the Prime Minister, Bonnan believed the Beattie government would be pressured into offering more concessions and incentives to attract the show (Grattan and Martin, 1999).

The expected arrival of Bonnan in Queensland was again delayed. Bonnan stated that he needed more time in Hawaii to consider the further concessions that had been offered to *Baywatch* (Balogh, 1999). On March 11, the State of Hawaii decided to include in their upcoming budget a bill for US\$1.7 million in infrastructural 'improvements' to attract the show (DJN, 1999). The money would be used for (1) refurbishments to the Haleiwa Recreation Centre and Haleiwa marina,

(2) costs associated with *Baywatch's* relocation (*i.e.* boat and water equipment transportation from the US mainland), and (3) renovations to the Hawaii Film Studio. The latter included the building of a huge water tank and a new lifeguard beach set for the show (Purdum, 1999). With the postponement of Bonnan's arrival, the Queensland government finally accepted that *Baywatch* was orchestrating a bidding war between Queensland and Hawaii. Still, Queensland remained confident that the in-principle deal remained (Robbins, 1999a).

On Saturday, March 13, after several delays, Bonnan arrived in Queensland. His return, though, was strategic. During what was the final part of the negotiations with Hawaiian officials, one issue arose that had the potential, according to Bonnan, to stop the show's relocation to Haleiwa Alii beach. This was a dispute with the Teamsters union of Hawaii. Excepting the Teamsters, which represents drivers of various types, all other local unions involved in the show's production had agreed to *Baywatch's* request of wage/salary reductions of approximately 30% for the full six years the show was expected to air. The unions that agreed included the Screen Actors Guild (SAG) and the International Alliance of Theatrical Stage Employees (IATSE) (Ryan, 1999b). The catch, however – and what made the resolving of the Teamsters issue critical – was that the SAG and the IATSE made these concessions conditional and contingent upon *all* unions involved in production agreeing similarly. Hence, without the Teamsters there were no concessions at all (Ryan and Yuen, 1999).

Bonnan refused, very publicly, to return to Hawaii until the Teamsters agreed to the concessions. Hence, by returning to Queensland, he aimed to pressure the union to agree to *Baywatch's* terms. He repeatedly commented to the media that the Australian deal was also very attractive, and that labor costs would naturally be lower there also. According to Bonnan, then, the entire multi-million dollar deal hinged solely on the Teamsters issue (Ryan, 1999b).

Despite the impending deadline for the final decision on March 13, the Teamsters refused to budge. Reed (Teamster leader) expressed his anger about the producers pressuring him to agree to the concessions. Furthermore, he felt that they were leveraging their support from the state government to force him to comply. Reed asserted that the

wage/salary cuts were the largest ever requested by any producers. The Teamsters usual concessions were normally no greater than a 15% salary/wage cut and no holiday pay. According to Reed: the discounts were ‘. . . *lower than whale shit*’ (Lalor, 1999: 5). Cayetano slowly but surely became nervous about the disagreement and feared that the Teamsters really would jeopardize the entire deal. As a result, he asked one of his councilors to contact Reed to try to bring the dispute to end ASAP. Hannemann was a close relative of Reed’s. It was hoped that, being family, Hannemann’s advice would be heeded by Reed. Cayetano was also quick to make it known to *Baywatch* executives that Hawaii really did want to host the show, and that he would do everything possible to ensure a speedy resolution of the Teamsters issue (Ryan, 1999e).

*Baywatch* needed just one more day to reach a decision. On March 14, 1999, it was officially announced that *Baywatch* would relocate to Hawaii (Saltau, 1999). However, this decision was made in light of the fact that the Teamsters still had not agreed to the concessions (SCMP, 1999a). Hence, the producers found the Hawaiian package very attractive, even without the remaining concessions. They also assumed that they could still convince Reed to accept concessions in the future (BBCON, 1999).

Following the announcement of Hawaii’s success and Queensland’s failure, the QEC and the Beattie government were furious. Gibbs, for instance, accused Bonnan of returning to Queensland only in an attempt to ‘scare’ Hawaii (Saltau, 1999). Queensland was used as a negotiating tool or, as another observer put it, Queensland was the ‘. . . *fish ‘n’ bargaining chips*’ (Woodley, 1999: 1). The QEC, in the meantime, talked of deception and the prospect of taking legal action against *Baywatch* producers for renegeing on the in-principle agreement (Lagan, 1999) – a threat which was never pursued. Amid the anger and mayhem, the members of the Queensland opposition party (Liberal) were smiling at the apparent incompetence of the Beattie-lead government. They noted that Gibbs had put all his cards on the table face-up, which meant that Hawaii had only to match or slightly better Queensland’s offer – although Hawaii went far beyond this (Fischer, 1999).

Shortly after announcing Hawaii's success, the *Baywatch* executives returned there to finalize the negotiations. On March 24, Bonnan met with Teamsters leader Reed in an attempt to resolve the wage/salary issues and to ensure the move to Hawaii. Reed refused and stood firm, citing the 30% concessions as excessive and unwarranted. The *Baywatch* producers reiterated that the cost cuts were necessary and that, without them, the show could not be made. They also pleaded with Cayetano to step in and help. The producers expressed that they very much wanted to remain within the USA, but because of the Teamsters they could not do so. Bonnan then threatened to return to Australia yet again! And this time, he asserted, there would be no comeback to Hawaii – ever (Huff, 1999f).

Three days passed and the situation in Hawaii had not eased. On Saturday, March 27, Bonnan announced that, to his deep regret, *Baywatch* was being forced to return to Australia – where in Australia, he did not say – because of the Teamsters' unwillingness to cooperate – or, more specifically, Reed's unwillingness to cooperate (Huff, 1999b). Bonnan vociferously declared '*... it's all over*', and called the Teamsters '*... knuckleheads ...*' and '*... un-American*' (Ryan, 1999a: 2). (Recall that Avalon protestors were termed *un-Australian*.) He also duly noted that Reed was personally and solely responsible for *Baywatch* having to move again. Reed responded by stating that his first objective was to ensure that his union members were well looked after. He also mentioned that all 19 members supported his actions fully. Other Teamsters members exclaimed that (1) *Baywatch* was 'crying poor' and that (2) Australia was not a true contender but, rather, a bargaining tool (Ryan, 1999a).

Having heard of the change of fortunes in Hawaii, Queensland officials publicly declared their willingness to reopen negotiations. They had not, however, been contacted by *Baywatch* producers (Atkins, 1999). This was odd since the show was almost certainly (at this point) leaving Hawaii! Tourism Minister Gibbs said that the A\$3 million package was still on offer. There would be no additional concessions though. Gibbs acknowledged that, while the real chances of *Baywatch* returning were slim and despite the producers (dodgy) business dealings, the potential economic benefits to Queensland were worth a last ditch attempt

(Emerson and Balogh, 1999). Queensland's welcoming arms was good fortune for Bonnan, since there was no guarantee that the show would ever be allowed back into Australia following the last controversial departure. It also conveniently placed even more pressure on Reed to comply.

*Baywatch's* pressure tactics against Hawaii and the Teamsters paid off. On Wednesday, March 31, the Teamsters (Reed) finally agreed to some initial concessions. Bonnan was quick to say that it was 'a' step in the right direction. For Bonnan, however, it was only a start. Teetering on the verge of agreement, he 'offered' the Teamsters one final opportunity to fully comply – on April 1, 1999 (the next day). Otherwise, *Baywatch* was off to Australia. Note that, thus far, the show's producers had neither been in contact with, nor met any Australian officials involved in the Queensland bid (Ryan and Yuen, 1999). The supposed plan to return to Australia was a simple, yet effective, means of placing pressure on the Hawaiians.

D-Day was April 1, 1999. Hawaii won the deal as *Baywatch's* new home (Adamski, 1999). The Teamsters again buckled under the pressure. Reed agreed to all concessions, but demanded that holiday pay, albeit reduced, should remain (CT, 1999). Bonnan and his associates found this to be reasonable. Reed's change of heart stemmed from (1) the Hawaiian State's involvement/ determination to secure the deal (i.e. Cayetano), and (2) Hannemann, who kept him level-headed and brought him to see the producers' side also! (Ryan, 1999d).

## **2000 and Beyond: the Denouement**

A little over a year later, on February 17, 2000, Bonnan was again crying poor. He requested the Hawaiian State to provide an additional US\$2.5m to cover unforeseen budget blow-outs and a 50% drop in international revenues. Without this, Bonnan stressed, the show would be finished (Zilbreman, 2000). Hawaii obliged and made some further concessions (undisclosed), but not all. Around this time also, David Hasselhoff, the show's star, left *Baywatch*. This was another blow to the show's ratings

(Markham-Smith, 2000). Finally, after the two guaranteed years of filming in Hawaii, *Baywatch* was cancelled in 2001.<sup>1</sup>

## Implications and Lessons

This detailed case study illustrates how a firm that is internationally mobile can use non-market strategy to obtain maximum benefits with respect to its locational decisions. *Baywatch* placed the states of New South Wales, Queensland and Hawaii in direct competition with each other, using the resulting leverage to exploit the most generous package of locational incentives, thereby maximizing cost advantages and minimizing transaction costs for the show.

As the case clearly illustrates, the bidders for *Baywatch* were operating in an environment lacking full information, including the sincerity of the producer's claims. The three states were thus placed in a 'race to the bottom' to outbid each other in order to 'win' what had become a competitive event in its own right. Somewhere along the way, 'winning' and the status of hosting the *Baywatch* series opportunity became the primary drivers of governmental decision makers, irrespective of the show's actual positive impact on the local economy (net of the subsidy package). In light of this and similar actions exhibited by various government agencies considered in this article, Baron's (2005) depiction of public institutions in terms of majority rule, due process, and transparency is revealed as being normatively rather than empirically based.

The lessons of this case for the relevant stakeholders seem fairly clear. For governments (at any level), the imperative is to avoid getting caught up in a race where each party tries to outbid the other with taxpayer dollars. Of course, this is easier said than done, particularly when the international firm usually holds most of the cards (in terms of both information and options). Governments could try to better communicate with each other in order to reduce the informational advantage of the

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1 In September 2003, the race was back on to woo the reincarnated *Baywatch*, which had changed its name to *Coral Coast TV*. This time, however, the battle was between Fiji and the Gold Coast (AAP, 2003).

firm and put some agreed upon limit to the subsidies/concessions they would offer. It is certainly within governments' control to ensure that subsidy packages always make sense in terms of their expected net economic impact, and that 'winning' does not become an end in itself. Lastly, the case also illustrates the difficulties governments can have imposing their will when local stakeholders are resourced and motivated (and, especially, *coordinated*) in opposition.

For workers, the case illustrates the problem of being caught between other stakeholders and pressured from many directions at once to settle for below market wages and/or conditions in order to secure 'the deal'. The Teamsters in Hawaii held out for some time while all other involved unions buckled immediately at the prospect of *Baywatch* coming to the island State. But even the Teamsters ultimately withered before the prospect of employment for their members and extreme pressure from the Hawaiian government. Given the massive surplus of semi-skilled and unskilled workers as globalization unfolds, the ability of TNCs to minimize labor costs can be expected to increase over time.

For local communities such as Avalon in NSW, lessons include the potential for grassroots democracy to be effective in opposition to decisions being imposed 'from above'. Local residents were probably more displeased with the bureaucratic, elitist and undemocratic process of attracting *Baywatch* than they were with the actual impact of the show on their community. It is also pertinent to note that Avalon is a very wealthy suburb, and its residents were singularly well positioned (in terms of resources, education and motivation) to fight initiatives imposed from outside their locality.

Finally, for firms using leveraging strategies in the non-market environment, the obvious attraction of methods such as those employed by *Baywatch* must be balanced against longer-term concerns for a positive reputation, the capacity to attract good business partners, and to avoid pariah status among critical stakeholder groups. *Baywatch* certainly burned some bridges in this case. And yet, in the end, the production company *was* successful in extracting substantial subsidies from Hawaii. Certainly, in this case non-market strategy was the *primary* source of value creation for *Baywatch*, as there was no evidence that the show was competing with other movie or television production

companies for locational advantages in a manner commensurate to the 'race' between the Gold Coast and Hawaii. The balance of bargaining power throughout the three-way negotiations always remained with *Baywatch*, as is typical when mobile capital interacts with more place-bound stakeholders such as states and workers.

Nonetheless, a relevant question is whether the actions attributed to *Baywatch* – essentially a transient entity – are typical of more 'traditional' TNCs in the manufacturing or resource extraction sectors. Some observers (eg. Matten and Crane, 2005) argue that many TNCs are expanding their positive role as corporate citizens, particularly in developing and underdeveloped countries, by participating in the provision of critical 'public goods' to vulnerable groups. And yet there is continuing evidence of major global firms employing blatant 'divide and conquer' strategies to maximize locational advantages – Disney Corporation's practice of placing potential host cities in competition for new theme parks is a case in point. Furthermore, 'networked' TNCs such as Nike are famous for shifting their supply chains in response to changes in relative labor costs and operating conditions (Dicken, 2007), with scant regard to the closed factories and unemployed workers left in their wake.

Thus we would suggest that the *Baywatch* example – while not constituting the 'rule' in interactions between TNCs, states and workers – is not 'exceptional' in the contemporary global political economy.

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