

Analyzing The Strategies for Enterprises to Realize A Win-Win Situation in International Cooperation

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Abstract. China's gaming sector accounts for a significant portion of the global market. However, it is unclear why Blizzard is willing to abandon the Chinese market and terminate their deal with NetEase without hesitation. This article examines the reasons for the abrupt termination of the longstanding partnership between NetEase and Blizzard, which had been collaborating for 14 years. The objective of this study was to examine how businesses should develop collaboration strategies in order to achieve mutually beneficial outcomes in international business partnerships. The application incorporates cultural dimension theory, resource dependence theory, and industrial organization theory. This article focuses on the resolution of the dispute between NetEase and Blizzard, specifically addressing the communication barriers arising from cultural differences, the fair distribution of resources, market rivalry, and conflicts of interest. Simultaneously, it proposes three recommendations for NetEase to foster cross-cultural teams, establish explicit collaboration tactics, and gain a profound understanding of competitors' requirements. This article provides guidance for enterprises to facilitate seamless international cooperation. Additionally, it holds significance in terms of stabilizing the global situation and expediting the process of economic globalization.

Keywords: NetEase; Cultural Differences; Inappropriate Allocation of Resources; Market Competition.

1. Introduction

Mobile phones have become an indispensable aspect of people's lives due to the advancement of mobile networks, including 3G, 4G, and now 5G. Consequently, the mobile gaming market has consistently expanded, whereas client games have progressively become more isolated. In the emerging market, all companies want to be at the forefront; however, the original industry leaders have not been able to develop a notable presence due to technical challenges and their dependence on conventional promotional strategies. Currently, Mihayou's "Genshin Impact," Tencent's "Honour of Kings," and NetEase's "Fifth Personality" have garnered global acclaim, showcasing the exceptional performance of the Chinese gaming industry in the realm of mobile games.

Nevertheless, on January 23, 2023, NetEase, a significant participant in China's gaming market and the mobile gaming sector, suddenly terminated its 14-year collaboration with Blizzard. The abruptness of the news not only turned the occurrence into a prominent unsolved case in the business community, but it also created substantial repercussions in the academic community, leading scholars to delve into the underlying causes. Fan and Jia conducted a study on the effects of Blizzard's departure on Chinese gamers, selecting "NetEase and Blizzard Dissolution" as their research topic. They interviewed players of various sorts to gather data [1]. To examine NetEase and extract valuable information for media management, Dai also conducted a case study on them [2]. Furthermore, Zhang conducted an in-depth analysis of the "NetEase and Blizzard Dissolution," focusing on the modifications implemented in the online gaming industry and the potential outlook for China's gaming market [3].

Although there are many analysis papers on the termination of the contract between NetEase and Blizzard, most scholars explore the impact of the contract on the game market, thus ignoring the research on the causes of the breakdown of the cooperative relationship between the two. The essence of the relationship between NetEase and Blizzard lies in their international cooperation, which can be

particularly challenging for businesses operating in different countries and cultures. In today's global environment, international cooperation is essential, yet there are numerous instances of unsuccessful collaboration. Promoting smooth progress in international cooperation is conducive to accelerating economic globalization and encouraging economic development. At the same time, it also plays a role in stabilizing the international situation and encouraging friendly cooperation and exchanges between countries. Therefore, this paper will explore the reasons for the failure of international cooperation based on the cases of NetEase and Blizzard and further solve the research problem: how should enterprises formulate strategies to realize a win-win situation in international business cooperation?

This paper aims to address the research gap by analyzing the selected case. Blizzard terminated its cooperation with NetEase. Using the relevant case description as a guide, this paper will analyze the phenomenon in question. Use some theories and data to analyze the reasons for Blizzard to propose these terms and the impact of these terms on NetEase. After analyzing the reasons for the negotiation's failure, the article will incorporate the current international market environment and propose several strategies for conducting successful international business negotiations for NetEase.

2. Case Description

NetEase formally founded its online game division in 2001. NetEase has achieved the status of one of the top seven game businesses globally after more than two decades of tremendous growth. NetEase, a prominent game creation business in China, has consistently been a pioneer in conducting independent research and development of online games. Currently, NetEase operates over 100 game products. NetEase Games has achieved significant advancements in international markets in recent years, leveraging its robust research and development expertise to produce top-notch games.

One can describe NetEase's current development in the mobile game business as extremely smooth. In general, as a 14-year NetEase partner, Blizzard should expand its collaboration with NetEase since NetEase can entirely compensate for its limitations in the mobile game business. However, this is counterproductive. NetEase and Blizzard halted the Warcraft mobile game project code-named Neptune (Neptune) due to financial disputes, which preceded the signing of the contract. As a result, NetEase arbitrarily dismissed a development team of over 100 personnel, incurring a loss of at least \$10 million. On the same day, NetEase's Hong Kong share price decreased 3.1% while the Hang Seng Technology Index increased 1.8%. In early November 2022, Ativision Blizzard announced its financial report, stating that NetEase's domestic Blizzard's operating income in 21 years accounted for only 3% of Ativision Blizzard's net income (\$264 million), implying that renewing the contract next year is risky [4].

Before 2022.11.17, NetEase had been doing its best to negotiate with Blizzard with the utmost sincerity to seek continued cooperation in mainland China. However, after a long period of negotiations, it is still impossible to reach an agreement with Blizzard on some key cooperation terms involving sustainable operations and the core interests of the Chinese market and players. At the NetEase financial report conference call, Ding Lei, CEO of NetEase, said in response to Blizzard's suspension of cooperation that NetEase was very hopeful to continue to represent Blizzard Games and also made a lot of efforts. However, over the past few months, the negotiation process has proven to be significantly more challenging than anticipated.

Before Blizzard unilaterally issued the cancellation announcement, NetEase hoped to continue to negotiate, but the terms proposed by Blizzard did make NetEase unacceptable:

1. Blizzard needs a share proportion more than 50% higher than revenue and net profit in the 2019–2022 contract! Note that Blizzard advocates for global price synchronization, despite the service price for Blizzard games in China being approximately 20% lower than in other regions.
2. Blizzard requires NetEase to assist in the development of other IP mobile games in accordance with the Diablo: Immortal model. The global release of these games will only yield a revenue share

in the Chinese market. Additionally, NetEase must pay a substantial deposit or prepaid fee as a guarantee, failing which there will be a significant penalty. This is considered one of the most unacceptable practices.

As a result, on January 23, 2023, NetEase will cease the majority of Blizzard's game services in mainland China, including World of Warcraft and Hearthstone. At the same time, NetEase has begun dissolving the Shanghai Blizzard Game Operation Department. So far, NetEase and Blizzard's relationship has come to an end.

3. Analysis on Problems

3.1. Reason on Cultural Differences

The paper acknowledges that cultural conflicts break down the cooperation between NetEase and Blizzard. Countries in different regions will breed their own unique cultures after experiencing various historical evolutions. And these cultures will lead companies in different camps to have different operational ideas and strategies. Consequently, achieving smooth international cooperation becomes challenging. From the perspective of corporate values, NetEase, a Chinese company that has made a fortune in mobile games, emphasizes market benefits and rapid profits, whereas Blizzard pays more attention to game quality and player experience. The well-known saying that "Blizzard produces must be a boutique" has also gained widespread recognition. Therefore, when it comes to the game operation strategy, the two sides will disagree because of different values. At the same time, NetEase mainly operates in the Chinese market, which has little tolerance for risks; Blizzard, as a company that has long been in the international market, can bear greater risks. Cultural differences significantly influence the operational thinking and decision-making of enterprises.

From a theoretical point of view, cultural differences do have an important impact on international cooperation. For example, when exploring cultural differences and cross-cultural communication, Chen Jing literature applied the theory of cultural dimension to connect the five factors that affect business communication with the way of thinking, values, communication style, customs and habits, and time concept [5]. The article states that in a multicultural workplace, local employees form their own code of conduct and value evaluation standards, influenced by both national and organizational cultures [5]. When foreign employees introduce a new culture, local employees tend to subconsciously compare it with their own to gain a better understanding and acceptance. This comparison can lead to cultural shock, which is a significant barrier to cross-cultural communication. The inability to comprehend and accept the new culture results in cultural shock [5]. In addition, Geng Donghua scholars have also applied cultural dimension theory to the study of business negotiations between the United States and China [6]. "Due to cultural background differences, China and the United States will use different negotiation methods and strategies in business negotiations [6]. However, in order to realize a win-win situation, the two sides should clearly understand themselves and accurately understand each other's behavior during the negotiation process [6]. It illustrates the correlation between cultural differences and the smooth execution of international cooperation.

3.2. Reason on Inappropriate Allocation of Resources

An inappropriate division of resources is one of the reasons why NetEase and Blizzard cannot continue their cooperation. The deal between NetEase and Blizzard vividly exemplifies this dilemma. Blizzard stipulates in the deal that NetEase must increase the revenue and net profit ratio by a minimum of 50%. In the past, Blizzard games in China were usually priced 20% lower compared to other areas, and Blizzard supports the idea of aligning prices globally. Conversely, Blizzard sought NetEase's help in creating further mobile games utilizing the Diablo: Immortal framework, with the goal of launching them worldwide. However, Blizzard's primary focus was on generating cash from the Chinese market. The uneven allocation of benefits clearly puts NetEase at a disadvantage, making it impossible for the cooperation to progress smoothly.

From a theoretical standpoint, resource allocation is critical to international collaboration. Wu et al. used resource dependence theory to investigate family companies' internationalization and value chains [7]. According to the paper, organizations must employ effective strategic procedures to manage and constrain these resource providers in order to reduce external dependency [7]. These acts include product or function enhancements, collaboration among enterprises, worldwide mergers and acquisitions, and so on [7]. Through foreign entrepreneurial activities, family businesses can expand into new markets and form deeply rooted partnerships with more partners [7]. Wang et al. also used resource dependence theory to explore the effect of value co-creation on innovative enterprises' improvisational abilities [8]. The essay contends that, in the context of structural resource reliance, each value co-creation subject has internal resources that complement one another, thereby increasing asset complementarity [8]. In this instance, all parties can trade or collaborate to realize value through production, transfer, and acquisition [8]. This will contribute to establishing a steady resource exchange relationship and achieving an acceptable resource allocation" [8]. The level of reliance on resources clearly determines the cooperative relationship.

3.3. Reason on Marketing Competition and Conflict of Interest

This film paper contends that fierce market competition has hampered NetEase and Blizzard's capacity to continue working together. NetEase and Blizzard are both in the gaming industry. One primarily serves China's internal market, whereas the other mostly serves the foreign market. As it grows, NetEase will likely expand its international market. If Blizzard continues to collaborate with NetEase, Blizzard's game IP and influence will soon assist NetEase in achieving this goal. At that point, Blizzard will have established itself as a strong competitor, contending for a part of the worldwide gaming market. As a result, Blizzard has decided to end its collaboration with NetEase.

Xin once applied the theory of industrial organization when exploring the competitiveness of China's construction industry [9]. Every stakeholder maximizes their interests as much as possible with limited resources [9]. Obviously, excess competitiveness is not conducive to cooperation" [9]. At the same time, Li also employed the theory of industrial organization when exploring the decomposition of the social welfare effect of horizontal mergers and acquisitions in high-tech industries [10]. Monopoly will bring social welfare losses [10]. Mergers and acquisitions, especially mergers and acquisitions between large enterprises, will change the game rules between enterprises in the industry [10]. This will have a significant impact on the method and intensity of strategic responses among manufacturers, ultimately influencing their decisions about output and price [10]. The influence of market competition-induced conflicts of interest and monopolies on international cooperation is evident.

4. Suggestions

4.1. Suggestion on Culture Differences

In order to effectively promote smooth cooperation, it is necessary to comprehend cultural differences and eliminate communication obstacles, as these factors have a significant impact on cooperation. Hence, this paper proposes that, in order to sustain its collaboration with global game producers, NetEase should prioritize the establishment and development of cross-cultural teams. Cross-cultural teams enable organizations to effectively address challenges arising from language barriers, cognitive disparities, and cultural conventions when engaging with enterprises of diverse cultures. Cultural disparities can effectively hinder the breakdown of collaboration.

Indeed, Microsoft has already used similar strategy and make a great success. Microsoft assembled a cross-cultural team of personnel from both American and European backgrounds to facilitate the acquisition process. Their responsibilities include developing cultural integration strategies and fostering the harmonization of values and working methodologies on both sides. Following the acquisition, Microsoft will maintain the LinkedIn brand, culture, and independence, with Jeff Weiner remaining as the CEO of LinkedIn. The transaction advances well due to the cross-cultural team's

meticulous respect and assimilation of the company culture on both sides. Consequently, NetEase may form and educate multicultural teams to facilitate future international collaboration, thereby enhancing the project's likelihood of success.

4.2. Suggestion on Inappropriate Allocation of Resources

According to the impact of resource allocation on cooperation, the reasonable allocation of limited resources between the two parties will effectively promote the smooth progress of cooperation. This article suggests that NetEase should formulate a clear cooperation strategy for its next collaboration. For instance, as a large mobile game manufacturer, NetEase can leverage its own advantages to carry out research, development, and testing of mobile games. Meanwhile, international game companies that collaborate with it are primarily responsible for international promotion and publicity. Similar to Blizzard, these companies cannot allow NetEase to capture not only a share of the Chinese market, but also a share of revenue in all regions. This can not only clarify the division of labor and interests between the two sides but also establish a stable cooperative relationship between them.

It is widely recognized that Coca-Cola and McDonald's have a strong and intimate collaboration. Since 1980, they have established global strategic collaboration and concurrently formulated a comprehensive collaboration plan. Coca-Cola is accountable for the manufacturing and distribution of beverage products, whereas McDonald's concentrates on the management and marketing of the food service industry. Both sides utilize their distinct advantages to increase the visibility of each other's brand while still protecting their own interests. The implementation of this transparent collaboration plan has established a strong basis for the enduring and environmentally responsible growth of the partnership between Coca-Cola and McDonald's. Consequently, in the subsequent partnership, NetEase should ensure the protection of the interests of both parties while clearly defining the allocation of responsibilities. This fosters collaboration between the two parties.

4.3. Suggestion on Market Competition and Conflict of Interest

The competitive relationship between NetEase and Blizzard, which influences cooperation, could potentially lead to a breakdown in their cooperation. In this case, NetEase needs to have an in-depth understanding of the target market and competitors before making the decision to cooperate. Understand each other's needs and disadvantages and offer help. Simultaneously, NetEase can leverage its own advantages to reciprocate Blizzard's benefits. For example, NetEase can help with the development and production of Blizzard mobile games, which means that Blizzard can successfully enter the mobile game market, but Blizzard should also provide IP to help NetEase improve its popularity overseas.

For example, Wal-Mart, as an offline entity, and the Chinese e-commerce giant JD.com are essentially shopping platforms. The two have a competitive relationship, but they are not inseparable. Wal-Mart has expanded its share in the Chinese market by acquiring shares of JD.com. JD.com has also used Wal-Mart's complete supply chain to improve the variety of its products and its competitiveness. It is evident that even competitors can foster cooperation by understanding each other's needs and exchanging them for mutual benefits. Therefore, NetEase can imitate the above situation, provide its own advantages, and exchange its own needs while meeting the needs of the other party. Even if the two sides have a competitive relationship, they can also cooperate.

5. Conclusion

This article examines why NetEase, a mobile game manufacturer, and Blizzard, an established game manufacturer, abruptly terminated their contract, a move that clearly deviates from the market trend. Therefore, this article continues to use NetEase as the research object to explore how enterprises should formulate cooperation strategies in international business cooperation to achieve a win-win situation. In the process of research, this article focuses on the case of NetEase and Blizzard and uses cultural dimension theory, resource dependence theory, and industrial organization theory to prove

that the formation of cross-cultural teams, the formulation of clear cooperation strategies, and an in-depth understanding of the needs of competitors are conducive to the smooth progress of international cooperation.

The study helps businesses understand the causes of international cooperation's failure and offers practical recommendations for fostering and maintaining cooperation. Additionally, companies seeking cooperation can use this article as a guide. Simultaneously, it highlights the significance of the theory in international cooperation through its application of the cultural dimension theory. In addition to stabilizing the international situation and fostering friendly exchanges between countries, promoting international cooperation between enterprises and deepening ties between the two sides can also play a significant role in accelerating economic globalization.

However, this article still lacks adequate research on international cooperation involving multiple parties. When more than two parties cooperate, whether through shared interests or exchanges, the situation becomes significantly more complex.

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