

**MANAGEMENT PROGRAMME**

**Term-End Examination**

**December, 2016**

00575

**MS-97 : INTERNATIONAL BUSINESS**

*Time : 3 hours*

*Maximum Marks : 100*

*(Weightage : 70%)*

**Note :**

- (i) *There are two sections, A and B. Section A has two sets. Set I is meant for the students who have registered for MS-97 prior to July 2016 and Set II is meant for those students who have registered from July 2016 onwards.*
- (ii) *Attempt any **three** questions from Section A, which carry 20 marks each.*
- (iii) *Section B is **compulsory** for all, and carries 40 marks.*

**SECTION A**

**SET I (Pre-revised)**

1. (a) Discuss the determinants of international investment decisions in detail.
- (b) Discuss the concept of Corporate Life Cycle Theory giving examples of firms operating at each stage of the life cycle.

2. (a) Discuss the modes of planning adopted by MNEs.
- (b) What types of organisational structure evolve during different stages of internationalisation ? Briefly explain with examples.
3. What is the need for control in MNEs ? In what way do the national cultural traits influence the control system ? Explain with examples.
4. Discuss in detail the sourcing and procurement strategy in international business.
5. Explain any *two* of the following :
  - (a) Theory of Comparative Cost Advantage
  - (b) UNCTAD and its Role
  - (c) Flexible Manufacturing System (FMS)

## SET II (Revised)

1. Discuss the importance of international business. What are the benefits of and challenges in international business ?
2. What are the socio-cultural factors that influence international business ? Discuss in detail, citing examples.
3. Identify the key aspects of global business strategy and describe the framework to design a global strategy.
4. Discuss in detail the cross-cultural issues in International Human Resource Management (IHRM).
5. Explain any *two* of the following :
  - (a) EPRG Framework
  - (b) International Flow of Funds
  - (c) Sustainable Growth

## SECTION B

6. Read the following case and answer the questions that follow :

Home appliance maker Whirlpool Corporation, headquartered in Benton Harbor, Michigan, generated over \$ 19 billion in annual sales in 2006, an increase of 26 percent from the previous year. Key factors influencing this performance include the acquisition of the Maytag Corporation in 2006 and an increased global demand for its brands and innovative products. During the next several years, the company expects growth in Asia and Latin America to be significantly higher than in North America and Europe.

Whirlpool employs more than 80,000 employees in over 60 manufacturing and technology centers worldwide. The firm manufactures washers, dryers, refrigerators, dishwashers, freezers, ranges, compactors and microwave ovens in 13 countries and sells them in 170 others under brand names such as Whirlpool, Maytag, Magic Chef, Jenn-Air, Amana, KitchenAid, Kenmore, Brastemp and Bauknecht. Whirlpool generates almost 60 percent of its sales from North America, 25 percent from Europe, 15 percent from Latin America, and just 2 percent from Asia.

## **International Expansion**

As the U.S. appliance market matured in the 1990s, Whirlpool faced intense domestic competition and more demanding buyers, resulting in lower profit margins. Meanwhile, international market trade barriers fell, consumer affluence grew, and capitalism flourished. Management realized that it could best deal with these threats and opportunities by undertaking a systematic program of internationalisation. As a result, Whirlpool engaged in a series of moves over the next decade.

Whirlpool acquired the appliance business of Philips in Europe, 65 percent of Italian cooling compressor manufacturer Aspera, and purchased Poland's second largest appliance maker. In Eastern Europe, Whirlpool created subsidiaries to sell and service appliances in Bulgaria, Hungary, Romania, Russia, Slovakia and the Czech Republic.

In China, Whirlpool formed a joint venture to produce air-conditioners and established a corporate headquarters and product development/technology center in Shanghai. The company also opened regional offices in Hong Kong, New Delhi and Singapore. In Mexico, Whirlpool acquired

Vitromatic, a former joint venture partner in Mexico. It also developed low-cost versions of popular models to target customers in low-income markets in Latin America, China and India.

Three factors have driven this global expansion. First, Whirlpool sought to reduce its costs of R&D, manufacturing and service by locating plants and other operations in lower-cost locations such as China, Mexico and Poland. Second, flat to declining sales growth in the United States pressured the management to target sales in new markets abroad. Third, Whirlpool realized the firm's manufacturing and assembly operations would benefit from a more global approach. The management redesigned products with more standardized parts and ramped up marketing to make Whirlpool a globally recognized brand. The company integrated the activities of regional subsidiaries so that Whirlpool's most advanced expertise in appliance technology, production and distribution could be shared with the firm's divisions worldwide.

### **Innovation**

Whirlpool conducted an internal critical assessment in the late 1990s. It became apparent that a consumer walking into any appliance store anywhere in the world would witness a "sea of

white" appliances with little differentiation, even between manufacturers. The industry became known as the "white goods business". Consumers perceived the products as commodities, which offered little differential advantage and commanded ever lower prices due to increasing competition.

In 1999, Whirlpool management launched a major campaign to differentiate the firm's offerings by emphasizing innovative, value-added products. In early 2000, Whirlpool enlisted 75 employees from almost every job classification and assigned them in groups to Benton Harbor, Italy and Brazil. Training lasted nearly a year and was conducted by an outside consulting group.

The next step was to get the rest of the global workforce involved. Whirlpool established an intranet site and created a do-it-yourself course in innovation. Throughout 2001 and 2002 Whirlpool's "knowledge management" intranet site recorded up to 3,00,000 hits per month. The company established a rating system to identify high potential, innovative ideas. Since 2003, revenue has quadrupled annually. Whirlpool estimates that the new appliances in development from this system, once marketed, could produce \$ 3 billion in annual sales, up from projections of \$ 1.3 billion in 2003. Whirlpool

developed microwave ovens that can grill steaks, bake pizzas, or come in the form of a drawer that slides out for easy access to large dishes. The firm invented a washer with a built-in sensor that detects the size of the load and automatically picks the water level, spin speed and type of wash cycle, essentially making all decisions for the user.

### **Local Preferences**

Cross-regional R&D teams also collaborate on innovations to adapt offerings to meet local demands in diverse international environments. For example, due to very different climates, Italians often line-dried their clothing, while the Danes need to spin-dry their clothes. Capacity requirements vary greatly for refrigerators. The Spanish care about capacity for meats, the British want well-constructed units, and the French are more concerned about the capacity for keeping fruits and vegetables fresh. Germans are particularly concerned about environmental features, while child safety features are very important to the Italians. In India, Whirlpool developed a washing machine that delivers a higher level of cleanliness for consumers who believe whiteness of clothing expresses purity. The washer's gentle hand-scrub movement and unique "hot wash technology" maximize the effectiveness of laundry detergent.



Whirlpool has benefited immensely from international business. The firm is a leading example of how internationalization can revive declining sales and optimize cost structures. It has developed international distribution that reduces expenses, leading to higher profits, and has positioned itself to challenge competitors on a global scale. The firm has thrived through sensitivity and commitment to consumers in diverse cultural and economic settings around the world.

### **Growing Competitive Threat from Abroad**

Yet not all is bright and sparkling on Whirlpool's horizon. Haier, China's largest appliance maker, established a production base and a distribution center in South Carolina in the United States. The firm also bought a six-story landmark structure in New York, dubbed the Haier Building, to house its U.S. headquarters. The world's fifth-largest kitchen appliance maker, Haier has captured nearly 20 percent and 50 percent of the markets for window air-conditioners and small refrigerators, respectively. Now it is expanding into full-size refrigerators. Haier's moves are especially troubling given that Whirlpool generates very little of its sales from Asia, the world's most populous region, where Haier already has a strong presence.

Ironically, Haier's South Carolina factory is creating new jobs in a state that witnessed a mass exodus of textile jobs to factories in China. South Carolina receives foreign direct investment from various countries and is home to 4 Japanese and 18 European facilities. These trends show that globalization both benefits and poses new threats to Whirlpool's international ambitions.

As it struggles to remain a world-class player in a key industry, Whirlpool faces new challenges. Management wants to expand sales in emerging markets while defending the home market from global rivals from China and elsewhere. The firm seeks to continue to leverage and enjoy all the benefits of international business.

- (a) What is the nature of Whirlpool's domestic and international business environments ? What types of risk does the firm face ?
- (b) How can Whirlpool benefit from going international ? What types of advantages can the firm obtain ? What advantages acquired abroad can help the management improve Whirlpool's performance in its home market ?

- (c) What actions has Whirlpool management taken to ensure that the firm succeeds in local markets throughout the world ? To what extent is the appliance business local/regional rather than global ?
- (d) How can Whirlpool effectively compete with new rivals originating from low-cost countries, such as Haier from China ? Should Whirlpool's response differ in its home and foreign markets ? If so, how ?
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