

MANAGEMENT PROGRAMME

Term-End Examination

June, 2011

MS-97 : INTERNATIONAL BUSINESS

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

Note :

- (i) *There are two Sections : A and B.*
 - (ii) *Attempt **any three** questions from Section-A which carry **20** marks each.*
 - (iii) *Section-B is **compulsory** and carries **40** marks.*
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SECTION - A

- 1. (a) Discuss the Market Imperfections Approach, of FDI .
- (b) Briefly discuss the different modes of entry into international business and bring out their merits and demerits.

- 2. (a) MNE's use differentiate approach/ mechanisms in the coordination process so as to match the roles of different units .
- (b) How does one identify the environmental volatility of a given company ?

3. (a) What effects, positive and /or negative, the MNCs might have on the host country ? Explain in the context of management practices of MNCs.

(b) Discuss the various evaluation systems which aid in performance measurement in case of MNCs.

4. What have been the basic differences between Japanese and Western work cultures and human resource management Practices ? Explain with examples.

5. Write notes on the following.
 - (a) Role of International Finance Corporation in promoting International business.
 - (b) UNCTAD and International Code of Conduct on Transfer of Technology.

SECTION - B

6. Read and analyze the case study, hereinafter carefully and answer the questions given below.

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Questions :

- (a) What arguments should Dirk Roberts make in his presentation to the executive committee with respect to the technology transfer question ?
- (b) What considerations should Miracle Corporation take into account in deciding between locations on the border or in inland Mexico ?
- (c) What types of products are most amenable to production in a *maquiladora* ? Which of Miracle' products or components might be most efficiently manufactured in Mexico ?
- (d) Do you think US tariff regulations should provide incentives for firms to move manufacturing outside of the United States ?

Miracle Corporation

Introduction

Staring out the window of his room in a downtown Washington hotel as the jets taking off and landing at National Airport, Dirk Roberts pondered tomorrow's presentation to the executive committee. Dirk was Miracle Corporation's coordinator of international investments and strategic planning and had lately been working on one of the most challenging projects he had seen in his eight years with the firm. Roberts had just returned from a meeting with Mexico's assistant undersecretary for economic development, Dr. Roberto Estaphan, and was returning to Miracle's St. Louis headquarters the following morning. That afternoon, he was to make a presentation to the Executive Committee for strategic Development on the details of the meeting with Dr. Estaphan and offer recommendations as to how Miracle should organize itself vis-a-vis its proposed Mexican investment.

Company Information

Miracle Corporation was in the business of manufacturing electronic test equipment for the automotive repair industry. Miracle had annual sales in the \$300 million to \$350 million range and

employed 130 employees at its plant in St. Louis. It also had a 20 - person research centre in Michigan to track technological developments in the automotive industry.

Electronic test equipment is the auto industry equivalent of the diagnostic equipment found in hospitals and doctors' offices. Without some means of accurately measuring the performances of automotive engine components, valuable repair time would be lost speculating on the reasons an engine is running incorrectly. As automotive technology advanced with the advent of semiconductor technology, a need arose for more sophisticated testing equipment to track faults in vehicles' electrical, carburetion, fuel injection, and ignition systems. Vehicle emissions regulations also created a demand for measurement equipment. Fifty percent of Miracle's sales were exhaust emissions analyzers to automotive service establishments. This segment of its business had taken off as a result of Miracle being the first manufacturer to have an analyzer certified for use in California (home of the most stringent emissions control laws in the United States) in 1984. As "green" awareness rose, other states and communities had since followed California's lead in adopting strict vehicle emissions controls, and this business segment was growing rapidly.

The auto test equipment industry was quite small, with only three other major competitors in the United States. Competition was generally on product performance and after - sales service rather than on price. Miracle believed it was the market leader as a result of its early entry into the emissions analyzer market. Sales revenue from this segment provided funds to improve the performance capabilities of its equipment and keep up with changes in automotive technology. The major competitive threat Miracle faced was competition from the Far East, which offered comparably priced products specifically designed for the high performance, small displacement engines used in Japanese imports. The less expensive hand-held items, such as battery testers and timing lights, were taking a beating from imports from Taiwan, Hong kong, South Korea, and Singapore. As a result, Pop - off was putting pressure on Miracle to either reduce costs or increase product performance. In addition , the small test equipment account for the retail chain was coming up for renewal next year. The executive committee was worried that unless quick action was taken to reduce manufacturing costs and lower prices while maintaining profit margins, both the Pop - Off and retail accounts would be lost, and Miracle's future would be in peril.

Investment in Mexico

Miracle's executive committee had decided the time was right to explore investment in a manufacturing platform in Mexico. They were interested in a Mexican location because of US tariff regulations and the possibility of the two countries negotiating a free - trade agreement sometime in the 1990s. Many other US companies were shifting operations to Mexico in response to competitive pressures. Even Japanese and European firms were setting up operations across the border to serve the US market. There was a consensus among Miracle's executive committee that the best way to maintain market share and remain competitive during the economic slump of the early 1990s was to shift a portion of production to a site in northern Mexico into a facility known as a *maquiladora*. Mexico was chosen as a site because the company was worried about losing control over the operation and had relatively little experience in the international environment. Most *maquiladoras* were located less than a one - day drive from the border, and the corporate Lear jet would facilitate one-day trips for upper management.

Maquiladoras are offshore manufacturing facilities that operate under terms of US tariff laws 806.3 and 807.0. Under the terms of these laws, a firm

can export from the United States to Mexico parts and components for further processing and assembly and pay a duty upon import back into the United States only on the value-added in Mexico. In other words, the value of the product for US customs purposes is the difference between its value leaving the United States and its value upon return to the United States. In addition, labour rates in Mexico averaged approximately \$1.50 per hour versus \$7.80 per hour in the United states.

The problem with the project from Dirk Roberts's perspective involved the location of the project, the characteristics of the products that would be produced there, and the type of processing technology that would be transferred to the *maquiladora*. Roberto Estaphan had remarked that the Mexican government did not look favorably on the transfer of less than state-of-the-art equipment into Mexico unless it was absolutely necessary. The Mexican government was proud of the accomplishments of Ford's automotive manufacturing plant in Hermosillo and wanted as many new investments as possible to follow Ford's lead in transferring modern technology. Modern technology contributed to spin - offs in terms of training and development of supporting industries. Estaphan also stated that the Mexican government was willing to offer lower tax rates

to those firms that used modern equipment in their Mexican facilities. The government would lower tax rates even further for firms that chose manufacturing locations some distance from the border. There were serious social and environmental problems along the border, and the Mexican government was trying to encourage new *maquiladoras* to set up in the underdeveloped interior.

Characteristics of the Manufacturing Process

Miracle's main plant was in St. Louis. All manufacturing took place in this plant. As a result of automation of most of the major process functions, the plant's capital-to-labor ratio was very high, and Dirk Roberts was worried that transferring some of the production process technology might be inappropriate at a low-wage site. The assembly line for the hand-held test equipment relied on a significant investment in plant and equipment to support a very high output rate. There was, however, a hand assembly component to the production process. For much of this work, Miracle relied on low-skilled, hourly labor.

An exception was the manufacturing line for the integrated engine analyzers and emissions test equipment. Since production volumes for this product were quite low, Miracle had in place a

much less sophisticated production process. Products were assembled using relatively standardized components such as printed circuit boards and power supplies that were sourced internally. Workers assembled the final product in batches using general - purpose equipment. At this stage of the process, Miracle needed very highly skilled employees because of the different variations of the product that could be manufactured. Most of the employees working on this line had been with the firm for over 10 years, and the company had invested heavily in their training as technology grew more sophisticated. Management was pleased that various attempts to unionize its direct labor force had not been successful.

Notwithstanding the impact on the St. Louis work force, Roberts was also worried about the effects of Mexican manufacturing on the firm's ability to meet delivery commitments. Miracle prided itself on its ability to ship 99 percent of its engine analyzers on schedule. Since the cost of the engine analyzers precluded keeping a very large inventory, the ability to meet due dates reliably was critical to winning orders. Because of the lower investment in hand-held test equipment, large stocks of finished-goods inventory were kept to ensure a steady supply of distributors. The

company found that demand for these products was inversely related to business cycles. Demand increased during downturns, because people kept their cars longer and had a greater need for repair services. (However, the 1990 recession, coupled with Operation Desert Shield, had hit Miracle's business hard, particularly in communities surrounding major military installations. Many auto repair shops noticed a reluctance on the part of military wives to take over the traditionally "male" job of automotive upkeep.)

With this information in mind, Roberts proceeded to sketch out recommendations to the executive committee.
