International Business 2253

Exam 1, October 21, 2011

Examiner: Jennie Sumelius

Please answer all questions. Note that your answers to question 1 may not exceed 10 lines per sub-question, and your answers to questions 2 and 3 may not exceed 3 pages per question. Please make sure you write legibly. Good luck!

Jennie

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1. Please provide brief answers to the following questions:

   a) What are the different dimensions of *social capital*?
   b) What is meant by the concept of *psychic distance* in the context of internationalization?
   c) What are the elements of a *political system*?
   d) What are the positive and negative aspects of being active in an *emerging market* (from the MNC point of view) - big market - opportunities - develop countries

2. It is commonly argued that multinational corporations are subject to pressures for cost reduction/standardization on one hand, and pressures for local responsiveness on the other hand. In your answer:

a) explain where these pressures stem from
b) list the four basic strategies they give rise to, and
c) explain under which conditions each of these strategies are relevant

3. Please read the case description below and analyze it using the knowledge you have of foreign direct investment modes, international orientation of firms and staffing decisions, organizational architecture and HQ-subsidiary relationships.

FDI modes
int. orient.
org. arch.
HQ-sub

Your name is Gustav Gustavson. You are a childhood friend, tennis partner and confidant of Sven Svensson, one of Sweden's reigning CEO celebrities. A real big shot. Sven has a bit of a problem and he invites you over to his summer cabin for a sauna, a few beers and advice. He is asking you, because in addition to being his friend of over 25 years, you are also brutally honest, unusually smart - and a highly acclaimed consultant, known as one of the top experts in the field of International Business, and have worked for several years in a large MNC with operations in Asia. Sven is an old buddy and you are happy to give him the best advice you possibly can. Here is Sven's dilemma:

Well, as you know, our company STEN Ab is a major Swedish company in the mining equipment industry with headquarters in Sweden, operations in 35 countries, and personnel of app. 12,000 employees. We've been successful particularly in Europe, with market-leading market positions in many countries, and also to a lesser extent in North America.

Due to the saturation of the established markets, our company has developed an increasing interest in fast-growing emerging markets, and in particular China. We started our operations in China in the mid 1990's by forming a joint-venture with a local partner in the Shanghai area. Later, we bought out the joint venture partner and the operation became a fully owned subsidiary, which is actually now our biggest production unit. Largely because of this the Chinese operations have become a major priority for us, and we recently made a decision to invest in a second factory in China. What we're currently pondering over is whether to invest in a greenfield factory outside Beijing or whether to acquire an existing, locally-owned production facility in the same area.

Further, until now our existing Chinese subsidiary has been run as a relatively independent part of the organisation, and most decisions have been made within the subsidiary. However, with the investment in a second factory I feel that the China operations need to become better integrated into the global organisation, so that we can increase corporate control and also draw on expertise and learning regarding production capabilities and HR practices from our European and North American operations.

So, here's the deal Gustav, this is what I need your advice on: As CEO of STEN I am meeting with the rest of the top management team next week. What things should we take into consideration with these plans? I would appreciate your input on three main issues: First, how should the new factory be established, and what are the implications of the entry mode we choose to go for? Second, where should the General Manager for the new subsidiary come from? Third, what do we need to consider when thinking about how to integrate the Chinese operations with the global organisation, and ensure that our important production capabilities and HR practices really are transferred to and adopted in the Chinese subsidiaries?

http://www.asemakustannus.com/mika/blog/?m=201005)

1. entry mode

2. GM - nationality