AAG-010-003401 Seat No. _______

M. B. A. (Sem. IV) (CBCS) Examination

April / May - 2016

CCT - 10401 : International Business

Faculty Code : 010
Subject Code : 003401

Time : 3 Hours] [Total Marks : **70**

Instruction : All questions carry equal marks.

1 Explain the following : (any **seven**)
- (1) International licensing
- (2) Globalization
- (3) Business culture
- (4) Standard of living
- (5) Channel of distribution
- (6) MNC's
- (7) Foreign exchange market
- (8) Polycentric approach
- (9) WTO

2 (a) Why companies go for international market? How international business is differ from domestic business ?
(b) Explain the environment of international financial management.

OR

2 (a) What is culture? Discuss different level of cultures.
(b) Briefly explain the objectives and the functions of WTO.

3 What are the basic issues involved in recruiting and selecting managers for foreign assignment?

OR

3 Discuss with example, marketing process for a product launching at international business.

4 (a) Why is harmonization efforts of accounting standards and practices resisted?

(b) What do you mean by international human resource management? Discuss major activities of IHRM.

OR

4 (a) What is business environment? How does its study help an international manager?

(b) Discuss about the various salient features of MNC's.

5 Case study :

In November 2004, Hiroshi Okuda, Chairman of Toyota Motor Corp. of Japan, announced that the company was going to build another factory in North America, raising the number of factories producing parts or assembling cars and trucks in North America to 14. As of May 2004, Toyota manufactured parts and assembled cars in 51 overseas manufacturing companies in 26 countries/locations. In 1980, the company had only 11 production facilities in 9 countries, so it was essentially servicing the world market through exports from Japan. Since 1980, however, the company has committed more energy and resources into foreign production.

Toyota, the second largest auto manufacturer in the world, is moving aggressively to overtake leader General Motors in terms of volume. In 2004-2005, GM sold 7.4 million vehicles worldwide, and the company expects to increase sales to 8.5 million vehicles by 2006. Even though Toyota's major manufacturing base is in Japan, with 12 plants located closely together around Toyota City in Aichi Prefecture, it is expanding its manufacturing capabilities to every corner of the world, including Russia. However, it is clear that Toyota is betting more on production in countries outside of Japan. Although Toyota hopes to produce 3.8 million vehicles in Japan by 2006, it plans on doubling its foreign output to 6 million vehicles sometime in the future. It currently produces more vehicles in Japan than it does in its overseas plants, and it exports more of its domestic production than is sold inside of Japan.

Toyota is known for its commitment to low cost, high quality, and just-in-time inventory, which implies that it must be close to its main suppliers. A major reason for the company's success in Japan is its close proximity to key suppliers, such as Nippon Denso, which allows it to schedule the delivery of parts as soon as they are needed in the assembly operations.

One of Toyota's major advantages is its strong cash position. Its cash and short-term investments totaled $30 billion in 2004, even though GM's cash and short-term investments at the end of the 3rd quarter 2004 were nearly double that at $58.623 billion, down slightly from the same quarter a year earlier. However, Toyota's strong earnings and cash positions are in contrast to GM, which is constrained by weak credit ratings, rising health-care and pension costs, and losses in its automotive division. Toyota expects to use its strong financial position to expand operations worldwide and increase its commitment to R&D, especially in safety, automation, and environmentally friendly vehicles, such as the Prius, one of its hybrid cars.

In spite of its strong commitment to future growth, Toyota has some challenges. Its net profits in the second quarter of 2004 dropped from ¥301.9 billion a year earlier to ¥297.4 billion. Toyota reports its financial information in yen, although it reports earnings according to U.S. generally accepted accounting principles due to its active presence on global capital markets and the universal acceptability of U.S. GAAP.

Operating in global markets is a challenge for Toyota. Since it is a Japanese company that reports financial information in Japanese yen, it is subject to exchange rate fluctuations. In particular, the yen has been strong relative to the U.S. dollar, so earnings of its U.S. operations have fallen in yen terms in recent years when translated from dollars back to yen. In addition to the strong yen, Toyota and other companies operating in the U.S. market have struggled with high gasoline prices and high competition, which have cut into profit margins. Toyota has also suffered with high raw materials costs, both inside Japan and in its other operations worldwide. It is important for the company to do well in North America, because it accounts for about two-thirds of the Japanese car industry's profits on an operating level. Given Japan's rapidly aging population and the sluggish economy, Toyota and other Japanese car manufacturers will have to do well in the United States to survive.

Toyota services U.S. markets through significant exports from Japan as well as assembly inside North America. Because Canada, the United States, and Mexico are members of the North American Free Trade Agreement, parts and final vehicles can be moved from one country to the other duty-free, as long as the North American content is at least 62.5% of total cost. It has plans to assemble the Tacoma in Mexico; it assembles the Corolla, Matrix, and RX33 in Canada; and it assembles the Corolla, Tacoma, Avalon, Camry, Solera, Tundra, Sequoia, and Sienna in the United States. It is firmly committed to manufacturing cars and trucks in developing countries, especially Thailand, and it is making a big push to assemble in China. It also has plans to expand in South America, probably in Brazil where it already produces the Corolla, and it plans to expand into Russia, which would then join Poland and the Czech Republic as former members of the Soviet Union that have production facilities.

Another factor influencing Toyota's growth abroad is the opening of the European Union. In 1999, the EU countries finally opened the doors to Asian car makers, and their market share rose from 14.8% to 17.4% at the expense of Ford, GM, Volkswagen, and other European manufacturers. Due to high wages in Europe, which have reached $40.68 per hour for average wages including health-care costs, Asian auto makers are increasingly establishing assembly operations in Eastern Europe, where wages are significantly lower. In Poland, for example, wages are only $8.63 per hour. Thus it appears that Toyota's strategy of making vehicles in Poland, the Czech Republic, and Russia makes sense. If the sluggish European market can recover, Toyota may have a bright future there.

Questions :

(1) Why do you think Toyota is expanding so aggressively outside of Japan instead of focusing more on manufacturing in Japan and exporting to other countries?

(2) What are the risks it faces in expanding its overseas manufacturing?

(3) Where do you think Toyota should put its next plant in North America, and what factors should it consider in making that decision?

(4) What are some of the major accounting issues that Toyota faces as it expands its global reach?