

PROFESSIONAL PROGRAMME EXAMINATION

DECEMBER 2011

**STRATEGIC MANAGEMENT, ALLIANCES AND
INTERNATIONAL TRADE**

Time allowed : 3 hours

Maximum marks : 100

PART A

(Answer ANY TWO Questions from this part.)

Question 1

Distinguish between any four of the following :

- (i) 'International strategy' and 'transnational strategy'.*
- (ii) 'Strategic planning' and 'tactical planning'.*
- (iii) 'Internal auditing' and 'statutory auditing'.*
- (iv) 'Corporate level strategy' and 'business level strategy'.*
- (v) 'Offensive strategies' and 'defensive strategies'. (5 marks each)*

Answer 1(a)(i)

Difference between International Strategy and Transnational Strategy

The main points of distinction between the two include the following:

International Strategy : In the initial stages of globalization, a firm may not be in a position to opt for either global strategy or multi-domestic strategy for its overseas business. They adopt international strategy which involves creating an international division and exporting the products through that division to those countries where the products are needed. At this stage of globalization, a company is really focused on the domestic market and just exporting what is demanded abroad. As the product becomes successful abroad, the company may set-up manufacturing and marketing facilities with certain degree of differentiation based on product customization. The key characteristic of this strategy is that all control is retained at the home office regarding product and marketing functions. Many multinational corporations have adopted this procedure.

Transnational Strategy : Transnational strategy involves adopting a combined approach of low costs and high local responsiveness simultaneously by the companies for their products/services. Integrating these two contradictory approaches is a difficult proposition and requires innovative ways.

Answer 1(a)(ii)

Difference between Strategic Planning and Tactical Planning:

The main points of distinction between the two include the following:

- (i) Strategic planning is carried out at the highest level of management and is concerned with decisions in the purview of that level. However, tactical planning is related to lower level of management.

- (ii) Strategy formulation is a continuous but regular process. Tactics on the other hand, are determined periodically with a fixed time schedule.
- (iii) Strategic decisions-making is influenced by personal values of executives while the subjective values exercise little influence on tactical decision-making.
- (iv) In strategic formulation the total possible range of alternatives from which management must choose is greater than in tactical planning.
- (v) Strategic formulation and implementation managers have to deal with a high degree of uncertainty and the results of strategic decisions are not easily predictable. On the contrary, the dimension of tactical decisions are much shorter and the risks associated with such decisions can be assessed more easily.
- (vi) Strategic problems are generally unstructured and non-repetitive while tactical problems are structured and often repetitive in nature.
- (vii) Strategies are intended to last for long periods of time while tactics covers a shorter duration.
- (viii) Strategic formulation requires large amounts of information which is derived from the external environment. While tactical decision-making requires internally generated data which is of historical nature.
- (ix) Strategy is original in the sense that it is the source for the origin or development of tactics. Tactics are formulated within and in pursuit of strategies.
- (x) In strategic formulation the number of people involved is less as contrasted with tactical decision-making wherein large number of managers and workers are involved.
- (xi) The scope of strategies is usually broad and has fewer details than tactics.
- (xii) It is usually easier to measure the effectiveness and efficiency of tactics than of strategies. Result of strategic decisions are evident after a number of years while tactical results are quickly available and can easily be identified with specific actions.
- (xiii) Strategic are formulated from a corporate point of view whereas tactics are developed primarily from a functional view-point.

Answer 1(a)(iii)

Difference between Internal Auditing and Statutory Auditing:

The main points of distinction between the two include the following:

(i) *Method of appointment and interests served*

Internal auditors are appointed by the management and are part of the managerial function. Statutory auditors, on the other hand, are appointed by the shareholders under the statute. Their reports are addressed to the shareholders and their function is to add credibility to financial statements and to report on the stewardship of management.

(ii) *Independence*

Independence is a freedom of action and thought which enables the auditor to choose his own methods of operation and evaluation, and allows complete objectivity in reports. The external auditor has considerably more independence than the internal auditor as he is appointed by the shareholders and thus not dependent on management for directions.

(iii) *Principal areas of interest*

Since management is concerned with the operational efficiency and adherence to policies, the internal auditor will devote a considerable portion of his time in reviewing the accounting and operating procedures of the company in order to determine whether established policies are being followed and whether other improved procedures could be devised.

The external auditor is concerned with the truth and fairness of the reports presented to the shareholders and shall therefore devote the major portion of his time on the verification of the accounting for assets, liabilities, owner's equity, revenues and expenses.

(iv) *Nature of Work*

It would be very seldom that either type of auditor would make detailed checks of all transactions; both the internal and external auditor will rely upon tests and samples. However, the internal auditor is likely to devote more time and effort to detailed work than the external auditor.

(v) *Scope*

The internal audit is in compliance with the procedures laid down by management and they may differ from one undertaking to another depending upon their needs as also the perceptions of the management. But the scope of activities of the statutory auditors is determined by statute.

(vi) *Approach*

The internal auditors are mainly concerned with ensuring substantial accuracy of records and to report upon specific problems which may be assigned to them by the management. On the other hand the external auditors are concerned with the truth and fairness of accounts.

(vii) *Responsibility*

Internal auditors are responsible only to the management of the organisation while external auditors are responsible to members/shareholders and outsiders, like government.

(viii) *Objectives*

Internal auditors are the representatives of the management. The external auditors are engaged to give an unbiased and impartial report on the financial position of the company to the shareholders as well as outsiders.

(ix) *Qualification*

The qualification required for appointment of the internal auditor is determined by the management and it is not obligatory for him to possess qualifications prescribed under Section 226 of the Companies Act, but a statutory auditor must possess such qualifications.

(x) *Performance*

An internal audit is usually a continuous process and its main object is to make sure that transactions recorded in the books of account have been properly performed and duly authorised. An external audit may also be continuous, but in the case of very large undertakings this is not often practicable. Hence, in such case external audit is taken up usually at the end of the year when the organisation has completed the preparation of the financial statements.

(xi) *Reporting*

The internal auditor submits his report to the management while the report of the statutory auditor is placed before the shareholders of the company.

Answer 1(a)(iv)

Difference between Corporate-Level Strategy and Business-Level Strategy

The main points of distinction between the two include the following:

Corporate-Level Strategy

In an organization there are basically three levels. The top level of the organization consists of Executive Officer of the Company, the Board of Directors and Administrative Officers, the responsibility of the top management is to keep the organization healthy. The issue pertaining to business ethics, integrity and social commitments etc. are dealt with at this level of strategic decisions. Major financial policy decisions involving acquisition, diversification and structural redesigning etc. belong to the category of corporate level strategy. Corporate level strategies translate to orientation of the shareholders and the society into the forms of strategies for functional or business levels. The nature of strategic decision in the corporate level tends to be value oriented and conceptual. There is also greater risk, cost and profit potential as well as greater need for flexibility associated with corporate level strategic activities.

Further, the content of corporate-level strategy is a set of action plans and corresponding corporate-level goals. By comparison, business strategy focuses on expected operational results of a business unit. However, it also consists of action plans that relate to goals (at the business level).

Business-Level Strategy

Business or divisional level strategy usually occurs at business unit or product level and it emphasizes improvement of the competitive position of a company's product or services in the specific industry or market segment served by that business unit. Business strategies, most often are concerned with maintaining or increasing market share.

Business level management consists of primarily the business managers or managers of strategic business units. The managers at this level translate the general statements of direction intent whisked out at corporate level. The corporate values, managerial capabilities, organizational responsibilities and administrative systems that link strategic and operational decisional making level at all the levels of hierarchy, encompassing all business and functional lines of authority in a company are dealt with at this level of strategy formulation. Strategic decisions at business level should include policies involving new product development, marketing mix, research development,

personnel, etc. Thus, the content of business-level strategy is a combination of goals and action plans.

Answer 1(a)(v)

Difference between Offensive Strategies and Defensive Strategies

The main points of distinction between the two include the following:

Offensive Strategies

Offensive strategies are those strategies which are employed by management to reach goals related to increases in sales or market share, and in some cases, profitability. It should be pointed out that bringing about an increase in market share alone may not always satisfy performance expectations. There is some evidence suggesting that achieving high returns from high market share depends at least partly on some other considerations such as Concentration Postures or Strategies, Market Penetration, Market Development, Product Development, Horizontal merger, and Niching etc.

Defensive Strategies

Not all strategies have expansion orientation. Very often the strategist is forced to control the firm's operations. Except for the rare attempt by a firm's owners to simplify their lives by shrinking their business's size, contraction is usually a defensive response to adversity. There are three basic types of defensive strategies i.e.,: retrenchment, divestment and liquidation. Retrenchment strategy includes those strategies which attempts to regain control of a faltering business or to prevent it from faltering in the first place by temporarily reining in its operations. Divestiture or divestment strategy means ridding the organization or sub-unit usually by selling it. Liquidation strategy means converting an asset, sub unit or organization to cash.

Question 2

- (a) *"Knowledge is currently considered as the most important strategic resource."*
As a Company Secretary, suggest a systematic approach to your company for implementing knowledge management programme. (10 marks)
- (b) *What do you understand by 'risk' and 'return' trade off ? Discuss various techniques involved in measurement of risk and return.* (10 marks)

Answer 2(a)

Knowledge is currently considered as the most important strategic resource, and the ability to create and apply knowledge has been a key in establishing a relatively sustainable competitive advantage. It has been naturally assumed that the enterprises that have better knowledge of their customers, products, technologies, markets and links between them, and that can apply such knowledge, can achieve better results. Such an opinion further develops a resource-based approach to the enterprise and pushes it towards the 'knowledge approach', which perceives an enterprise as a tool for creating, integrating, storing, sharing and application of knowledge.

The following Knowledge Management Programme is suggested for implementation:

(1) Defining Knowledge Management Strategy

Knowledge management strategy is defined in advance so that a systematic

approach is followed. It requires the active involvement of top management so that its commitment and support are ensured. Knowledge Management strategy contains the following:

- (i) *What to Share* : Different aspects of technical know-how, managerial know-how, competitive intelligence, operational processes, etc. can be shared.
- (ii) *Why to Share* : Knowledge for the sake of knowledge has no relevance rather it must be used for organizational betterment. Knowledge management strategy should specify the way in which the organization will be benefited through practicing knowledge management.
- (iii) *How to Share* : In this stage the decision about mechanism of knowledge sharing is made. There may be different channels for sharing knowledge such as personal face-to-face contact, deputing personnel to the sharing parties, computer networks—internally and externally, etc. depending on the nature of parties, and the channel chosen.
- (iv) *Whom to Share* : There are different types of people and organizations with whom knowledge can be shared. They are internal employees at various levels, customers and suppliers, shareholders and financiers, research organizations, collaborators, etc.

(2) Organizing Knowledge Management Programme:

For this, a knowledge management centre should be established. Besides this, the business should undertake the following steps to implement the knowledge management programme:

- (i) *Providing Budget for Sharing Knowledge* : Knowledge management programme involves cost in the form of outlay on physical facilities, information technology, personnel involved, etc. Therefore, a budget should be prepared in advance for launching the knowledge management programme.
- (ii) *Communicating the Value of Sharing Knowledge* : Before the knowledge is shared among various constituents, it is essential that they are informed about the value of knowledge sharing, how it will be useful to them and to the organization and what processes can be adopted for knowledge sharing.
- (iii) *Choosing Technology for Sharing Knowledge* : Knowledge can be shared by using a channel which is provided by the technology chosen for this purpose.
- (iv) *Selecting Methods of Sharing Knowledge* : Knowledge in an organization can be shared in the following forms i.e., (a) Serial Transfer ; (b) Near Transfer; (c) Far Transfer; (d) Strategic Transfer ; and (e) Expert Transfer:
- (v) *Measuring of Performance* : When knowledge sharing methods are put into practice, their impact should be measured continuously to ascertain whether they are effective in knowledge sharing.

(3) Reinforcement for Knowledge Management

Reinforcement for knowledge management is necessary to make it a part of

organizational processes and practices. It increases the strength of a new behaviour and tends to induce repetition of that behaviour. Reinforcement should be provided so long as knowledge sharing does not get imbibed into personnel. In order to provide reinforcement for knowledge management, the business has to:

- (a) *Introduce New Incentives* : Incentives are those objects that are perceived by people as being important to satisfy their needs, which may be in financial or non-financial forms.
- (b) *Provide Support Knowledge Sharing* : The business should provide support to employees for sharing knowledge. This facilitates knowledge sharing and employees feel that top management pays attention on them also.

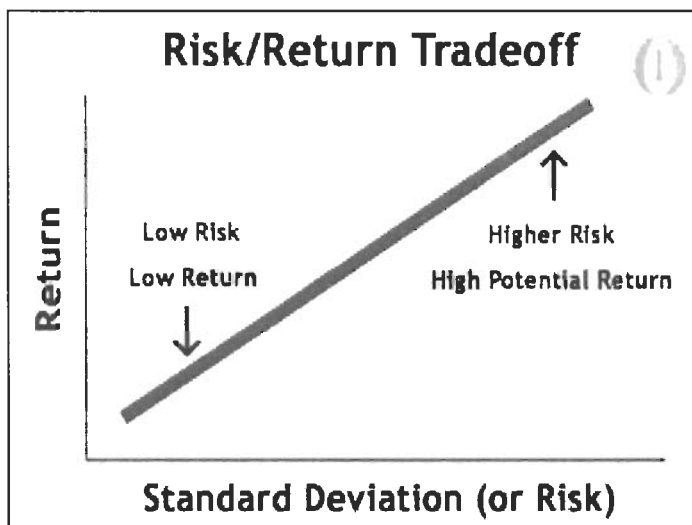
Answer 2(b)

Trade Off Between Risk and Return

A fundamental investment concept is the trade-off between risk and return. This concept is based on two realities i.e., investments and investment performance.

First, all investments carry some degree of risk – the reality that one could lose some or all of his money when he buy shares, bonds, mutual funds or other investments. Second, not only do different types of investments carry different levels of risk, but the more risk one assume, the greater the investment return one is likely to achieve.

Risk in an organization arises in various forms, but when one talks about the risk-return trade-off, the primary measure of risk is volatility, or the degree to which an investment fluctuates in price. Different asset categories are subject to different levels of price fluctuations.



In short:

- The return earned on investments represents the marginal benefit of investing.
- Risk represents the marginal cost of investing.
- A trade-off always arises between expected risk and expected rate of return.

It is necessary that individuals and institutions consider the combined influence on expected future return or benefit as well as on risk-cost. The requirement that expected return-benefit be commensurate with risk-cost is known as the “risk-return trade-off” in finance.

Measurement of Risk and Return

Risk refers to variability of return from expected investment. A variety of measures have been used to capture different facets of risk. The most important ones among them are : Range, Standard Deviation and Co-efficient of Variation, Sensitivity Analysis, Break Even Analysis, Simulation Analysis, Decision Tree Analysis, Value at Risk (VAR) Analysis and Cash Flow at Risk Analysis.

The techniques of risk analysis are discussed as under:

- (i) *Range* : It is the simplest measure of dispersion. It is the difference between its two extreme observations. It basically indicates the absolute measure of variation in return and degree of risk.
- (ii) *Standard Deviation* : It is also known as root mean square deviation and is also a measure of variability and risk. It refers to the square root of the mean of the squares of deviation from mean.
- (iii) *Co-efficient of Variation* : It represents the ratio of standard deviation to the mean. It is a useful measure of comparing the degree of variation from one data series to another even if the mean values are drastically different from each other. In other words the lower is the ratio of standard deviation to mean return, the better will be the risk- return trade off.
- (iv) *Sensitivity Analysis* : It is a technique whereby the values of a variable parameter (inputs) are changed to denote different situations/assumptions and the effect of the changes is measured on the expected value of the outcome.
- (v) *Break Even Analysis* : It indicates the minimum quantity a firm should produce and sell at which loss is avoided. This analysis helps the financial manager of the organization to ensure cost recovery.
- (vi) *Simulation Analysis* : Simulation analysis helps to generate the information which can be used for developing the probability profile of a criterion of merit by randomly combining values of variables, having a bearing on the chosen criterion.
- (vii) *Decision Tree Analysis* : It is a useful technique where sequential decision making in the face of risk is involved. Representing a decision problem as a series of decisions to be taken under condition of uncertainty. A present decision depends upon the past decision and their outcome.

- (viii) *Value at Risk Analysis* : It is one of the proven and the most used measures of risks by financial institutions. VAR measures the likely change in marked to market value of a portfolio, at specified time periods with certain confidence.
- (ix) *Cash Flow at Risk Analysis* : It has been specifically developed for non-financial organizations with cash flow as variable.

Question 3

Write notes on any four of the following :

- (i) *Balanced score card (BSC)*
- (ii) *Functional level strategies*
- (iii) *BCG matrix*
- (iv) *Business process re-engineering (BPR)*
- (v) *Risks in global business.* (5 marks each)

Answer 3(i)

Balanced Scorecard (BSC)

The balanced scorecard (BSC) is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization.

A balanced score card combines financial measures which describe the results of actions already taken with operational methods on customers' satisfaction, internal processes, and the company's innovation and improvement activities for future financial performance. The management should develop goals or objective in financial; customer; internal business perspective; and innovation and learning areas.

The balanced scorecard has evolved as a simple performance measurement framework to a full strategic planning and management system. It transforms an organization's strategic plan from attractive but passive documents into the marching orders for the organization on a daily basis.

The balanced scorecard suggests the following four perspectives:

- (i) *Learning and Growth Perspective* : This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge based organization, people – the only repository of knowledge – are the main resource. In the current situation of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode.
- (ii) *Business Process Perspective* : This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements.
- (iii) *Customer Perspective* : Recent management philosophy has shown an

increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators, if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good.

- (iv) *Financial Perspective* : The availability of timely and accurate financial data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database system, it is seen that more of the processing can be centralized and automated.

Answer 3(ii)

Functional-Level Strategies

Functional level strategy involves decision-making with respect to specific functional areas, say, production, marketing, personnel, finance, etc., decisions at the functional level and are often described as tactical decisions. Functional strategies emphasize on doing things right. But these decisions are guided by overall strategic considerations and must be consistent with the frame work of the business strategy. Functional strategy is the approach taken by functional area to achieve corporate and business objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinct competence to provide a company or business unit with a competitive advantage.

In contrast with the other levels of strategy, functional strategies serve as guidelines for the employees of each of the firm's sub-divisions. Which ones of these segments or functional areas are included in a firm's functional strategy set is itself a matter of strategy. For example, whether to have an R&D department or not in the first place is a strategic decision. Functional goals and action plans are developed for each of the functional areas of the firm to guide the behavior of people in a way that would put the other strategies into motion.

Answer 3(iii)

BCG matrix

The Boston Consulting Group developed the growth-share matrix to analyze the problem of resource deployment among the business units or products of multi-business firms. It is based on product life cycle theory. The business units or products are analyzed by placing each one in the matrix according to their (1) expected growth rate (vertical axis), measured by anticipated growth rate in sales depends on maturity of industry, and (2) relative market share (horizontal axis), measured as the unit's share divided by that of its largest competitor. The basic idea behind this model is if a product has a bigger market share or if the products' market grows faster, it is better for the organization.

The placing products in BCG matrix provide four categories in the portfolio of an organization:

Dogs (Low Growth, Low Market Share) : Each of businesses or products with low expected growth rates and low relative market standing are labeled as "dogs" or "cash

traps.” The strategy in this category should consist of cost cutting by divestments, retrenchment, or even liquidation.

Question Marks (High Growth, Low Market Share): Those with high projected growth rates and low market standing, are labeled as ‘Question Mark’. The reason is that although they are operating in markets with expected growth potential, they are otherwise experiencing competitive disadvantage. This quadrant have worst cash characteristics of all, because they have high cash demands and generate low returns because of their low market shares. Management can invest cash to correct the market weakness so as to take advantage of expected market growth or, if not convinced of their ability to improve market share, it can retrench, divest, or liquidate to minimize the cash drain.

Stars (High Growth and High Market): Products or business units which have both high market standing and high industry growth potential are labeled as star. They should receive heavy cash investment in order to maintain their market share. Successful resource deployment beyond cash requirements could lead to a superior market share when industry growth potential falls off.

Cash Cow (Low Growth and High Market Share): Here a product or business would become a cash generator. Cash cows have a strong market position in industries that have matured. These products or businesses can thus be “milked” by investing just enough cash to maintain market standing and applying excess cash inflows to the firm’s other activities which are growth industries or products.

Answer 3(iv)

Business Process Re-engineering (BPR)

Business process re-engineering (BPR) is a management approach aimed at improvements by means of elevating efficiency and effectiveness of the processes which exist within and across organizations. The key to business process re-engineering organizations is to look at their business processes from a clean slate perspective and determine how they can best construct these processes to improve the conduct of their business. Business process re-engineering can be defined as the analysis and design of workflows and processes within and between organizations. It is basically the critical analysis and radical redesign of existing business processes to achieve breakthrough improvements in performance measures. Business process re-engineering is also known as business process redesign, business transformation or business process change methodology. It is fundamental reconsideration and the radical redesign of organizational process, in order to achieve drastic improvement of current performance in cost, services and speed.

Re-engineering strives to break away from the old rules and procedures that develop and become ingrained in every organization over the years. The following principles are suggested for re-engineering:

- (i) *Organise around outcomes, not tasks*: Design a person’s or a department’s job around an objective or outcome instead of a single task or series of tasks.
- (ii) *Capture information once and at the source*: Instead of having each unit develop its own database and information processing activities, the information can be put on a network so that all can access it.

- (iii) With computer-based information systems, processes can now be re-engineered so that the people who need the result of the process can do it themselves.
- (iv) People or departments that produce information can also process it for use instead of just sending raw data to others in the organization to interpret.
- (v) With modern information systems, companies can provide flexible service locally while keeping the actual resources in a centralized location for coordination purposes.

Answer 3(v)

Risks in Global Business

Global business has some additional risks besides the usual business risk which are of the following types:

- (i) *Political and Regulatory Risks* : Many countries of the world are not politically stable and transfer of political power does not happen in smooth ways in these countries. Therefore, companies doing business in these countries may have risk in new political regimes. Similarly, many countries have different types of regulations for doing business. Such regulations may be of quite different nature as compared to those prevailing in the domestic country. Therefore, the regulations of the host countries should be taken into account.
- (ii) *Cultural and Managerial Risks* : Countries differ widely in terms of cultural characteristics like customer preferences and tastes, attitudes towards certain types of products/services, traditions, values and beliefs, and a host of other cultural factors. Therefore, products/services have to be tailored according to such requirements. Further, since management practices are culture-bound, the kinds of management practices which are effective in the domestic country may not be suitable in foreign countries. Therefore, there is a need for suitable change in management practices, more particularly related to human resource aspects.

PART B

(Answer **ANY ONE** question from this part.)

Question 4

- (a) Write a detailed note on the restrictive practices being used in the foreign collaborations and technology transfer agreements. (8 marks)
- (b) Strategic alliances are important for success of a business. Discuss characteristics and need for strategic alliances. (8 marks)
- (c) Explain how alliance strategy can be integrated into the overall corporate strategy. (4 marks)

Answer 4(a)

The term restrictive practice signifies non-governmental measures used by the companies to strengthen their position in a given market. These practices can hamper

or distort international trade, which often coincides with the public interest of the country concerned.

Following are some of the restrictive practices being used in the foreign collaboration and technology transfer agreements.

- Restrictions after expiration of Industrial Property Rights or Loss of Secrecy of Technical Know-how
- Restrictions after Expiration of Arrangements
- Restrictions on Research and Development
- Non-Competition Clauses
- Tying Arrangements
- Export Restrictions
- Price Fixing
- Grant-back Provisions
- Exclusive Sales and Representation Arrangements
- Use of Quality Controls
- Restrictions on Use of Personnel
- Restrictions on Publicity

Answer 4(b)

Strategic alliance has three distinguishing characteristics

- (i) the two or more firms that unite to pursue a set of agreed goals remain independent subsequent to the formation of an alliance.
- (ii) the partner firms share the benefits of the alliance and control over the performance of assigned tasks.
- (iii) the partner firms contribute on a continuing basis in one or more key strategic areas e.g. technology, products and so forth.

Need for strategic alliances

- *Satisfy customer demands* : Customer demands in many markets are changing. For example, in office automation, customers now prefer a “systems solution” and want to rely on a single company to service all equipment.
- *Fill knowledge gaps* : Companies that are leaders in their fields can maintain that position by using alliances to capture new developments, and keep their technological resource base ahead of the competition.
- *Make scale economies* : Alliances can achieve the scale needed to amortise investments.
- *Make scope economies* : Alliances can enlarge dramatically the scope of a

company's operations. Alliances focusing on scope help counter the ever-shorter product cycle of modern technology.

- *Jump market barriers* : However potent the producer company's name may be in its "home" markets, that company may not market even its mature products best in international markets. Alliance marketing, franchising, distribution and licensing deals can leave a development-focused company free to concentrate on new products.
- *Speed product introduction* : The narrowing of the development-to-market lead time has been a crucial feature of the past decade. In many sectors, the first company to introduce a new product enjoys a dominant market position and stands the best chance of recouping costs before the competition arrives to drive prices down-or before patent protection expires.
- *Pre-empt competitive threats* : In industries in which a few large players increasingly dominate markets, some companies resort to an "if you can't beat them, join them" approach.
- *Use excess capacity* : A large number of companies have used the restructuring effect of manufacturing alliances to soak up excess capacity.
- *Cut exit costs* : Participants can use alliances to cut the costs of leaving a business.

Answer 4(c)

Alliance strategy must be integrated into the overall corporate strategy and articulated in the strategic plan with a process for implementation. The entire process of developing and managing an alliance could be as follows;

- Development of the strategic domestic or global plan
- Development of the alliance plan
- Alliance partner — search and selection
- Development of the implementation plan
- Execution of the implementation plan

The integration of the alliance strategy into the overall strategy of the organization depends on the extent of the vision of the company for the future. The kind of strategic planning that a company undertakes affects the nature of the alliances that a company enters into. If a company is willing to undertake long-term strategic planning, the alliances entered into as part of the long-term vision are likely to be those that take some time to come to 'fruition', such as research and development partnerships.

Question 5

(a) Write notes on any two of the following :

- (i) Foreign direct investment
- (ii) Foreign technology agreements
- (iii) Modes of joint venture.

(5 marks each)

- (b) *Discuss the methods of funding investments in overseas joint ventures (JV) and wholly owned subsidiaries (WOS).* (10 marks)

Answer 5(a)(i)

Foreign Direct Investment

Foreign Direct Investment (FDI)' means investment by non-resident entity/person resident outside India in the capital of the Indian company subject to the compliance of Foreign Exchange Management Act, 1999, FEM (Transfer or Issue of Security by a Person Resident outside India) Regulations 2000 and FDI policy issued by the Government from time to time.

Foreign direct investment is freely allowed in all sectors including the services sector, except certain prohibited sector and where the existing and notified sectoral policy does not permit FDI beyond a ceiling. FDI can be brought in through the Automatic Route/ Approval Route. FDI beyond sectoral limits prior approval of the Foreign Investment Promotion Board (FIPB) or Cabinet Committee on Economic Affairs (CCEA) as the case may be.

An Indian company receiving investment from outside India for issuing shares/ convertible debentures/preference shares under the FDI Scheme, should report the details of the amount of consideration to the Regional Office concerned of the Reserve Bank not later than 30 days from the date of receipt.

Answer 5(a)(ii)

Foreign Technology Agreements

With a view to injecting the desired level of technological dynamism in Indian industry and for promoting an industrial environment where the acquisition of technological capability receives priority, foreign technology induction is encouraged both through FDI and through foreign technology collaboration agreements.

The Government of India has permit, payments for royalty, lumpsum fee for transfer of technology and payments for use of trademark/brand name on the automatic route i.e. without any approval of the Government of India. All such payments will be subject to Foreign Exchange Management (Current Account Transactions) Rules, 2000 as amended from time to time.

Answer 5(a)(iii)

Modes of Joint Venture

A joint venture is an association of two or more individuals or business entities who combine and pool their respective expertise, financial resources, skills, experience, and knowledge in the furtherance of a particular project or undertaking. There are two fundamental types of joint venture, i.e., Equity Joint Venture and Contractual Joint Venture. Their description is as follows:

Equity Joint Venture

The equity joint venture is an arrangement whereby a separate legal entity is created in accordance with the agreement of two or more parties. The parties undertake to

provide money or other resources as their contribution to the assets or other capital of that legal entity. The entity is generally established as a limited liability company and is distinct from either of the parties which participate in its creation. The newly created company, thus, becomes the owner of the resources contributed by the parties to the joint venture arrangement. Each of the parties in turn becomes the owner of the company having equity in the company.

Contractual Joint Venture

The contractual joint venture agreement can be entered into in situations where the project involves a narrow task or a limited activity or is for a limited term or where the laws of the host country do not permit the ownership of property by foreign citizens. For the purposes of contractual joint venture, the relationship between parties is set forth in the contract or agreement concluded between them.

Answer 5(b)

Investment in an Overseas Joint Venture /Wholly Owned Subsidiary may be funded out of one or more of the following sources:

- Drawl of foreign exchange from an Authorised Dealer Bank in India;
- Capitalization of exports;
- Swap of shares;
- Utilizations of proceeds of External Commercial Borrowings (ECBs)/Foreign Currency Convertible Bonds (FCCBs);
- In exchange of American Depository Receipts/Global Depository Receipts issued in accordance with the scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993, and the guidelines issued there under from time to time by the Central Government;
- Balances held in Exchange Earner Foreign Currency account of the Indian party; and
- Utilization of proceeds of foreign currency funds raised through ADR/GDR issues.

PART C

*(Answer **ANY TWO** questions from this part.)*

Question 6

- (a) *Write a note on WTO as an extension of GATT.* (4 marks)
- (b) *Examine fundamental principles of multilateral trading system.* (4 marks)
- (c) *Discuss basic principles of GATS.* (4 marks)
- (d) *Discuss objectives and conventions of World Intellectual Property Organisation (WIPO).* (4 marks)
- (e) *Discuss objectives and fundamental principles of Association of South East Asian Nations (ASEAN).* (4 marks)

Answer 6(a)

The World Trade Organization is not a simple extension of GATT, rather it completely replaces its predecessor and has a very different character. The principal differences are as follow :

- The GATT was a set of rules, a multilateral agreement, with no institutional foundation, only a small associated secretariat which had its origins in the attempt to establish an International Trade Organization in the 1940s. The WTO is a permanent institution with its own secretariat.
- The GATT was applied on a “provisional basis” even if, after more than forty seven years, governments chose to treat it as a permanent commitment. The WTO commitments are full and permanent.
- The GATT rules applied to trade in merchandise goods. In addition to goods, the WTO covers trade in services and trade-related aspects of intellectual property.
- While GATT was a multilateral instrument, by the 1980s many new agreements had been added of a plurilateral, and therefore selective in nature. The agreements which constitute the WTO are almost all multilateral and, thus, involve commitments for the entire membership.
- The WTO dispute settlement system is faster, more automatic, and thus much less susceptible to blockages, than the old GATT system. The implementation of WTO dispute findings will also be more easily assured.

Answer 6(b)

The fundamental principles of multilateral trading system are as follows:

- *Without discrimination* — a country should not discriminate between its trading partners (they are all, equally, granted “most-favoured-nation” or MFN status); and it should not discriminate between its own and foreign products, services or nationals (they are given “national treatment”);
- *Freer* — with barriers coming down through negotiation;
- *Predictable* — foreign companies, investors and governments should be confident that trade barriers (including tariffs, non-tariff barriers and other measures) should not be raised arbitrarily; more and more tariff rates and market-opening commitments are “bound” in the WTO;
- *More competitive* — by discouraging “unfair” practices such as export subsidies and dumping products at below cost to gain market share;
- *More beneficial for less developed countries* — by giving them more time to adjust, greater flexibility, and special privileges.

Answer 6(c)

Basic Principles of GATS are as follows:

- All services are covered by GATS

- Most-favoured-nation treatment applies to all services, except the one-of temporary exemptions
- National treatment applies in the areas where commitments are made
- Transparency in regulations
- Regulations have to be objective and reasonable
- International payments: normally unrestricted
- Individual countries' commitments: negotiated and bound
- Progressive liberalization: through further negotiations
- Services supplied from one country to another (e.g. international telephone calls), officially known as "cross-border supply"
- Consumers or firms making use of a service in another country (e.g. tourism), officially known as "consumption abroad"
- A foreign company setting up subsidiaries or branches to provide services in another country (e.g. foreign banks setting up operations in a country), officially "commercial presence"
- Individuals travelling from their own country to supply services in another (e.g. fashion models or consultants), officially "presence of natural persons".

Answer 6(d)

The World Intellectual Property Organization (WIPO) is an international organization dedicated to ensure that the rights of creators and owners of intellectual property are protected worldwide and that inventors and authors are, thus, recognized and rewarded for their ingenuity.

WIPO seeks to:

- Harmonize national intellectual property legislation and procedures.
- Provide services for international applications for industrial property rights.
- Exchange intellectual property information.
- Provide legal and technical assistance to developing and other countries.
- Facilitate the resolution of private intellectual property disputes.
- Marshal information technology as a tool for storing, accessing, and using valuable intellectual property information.

Paris Convention for the Protection of Industrial Property

1883 marked the birth of the Paris Convention for the Protection of Industrial Property, the first major international treaty designed to help the people of one country obtain protection in other countries for their intellectual creations in the form of industrial property rights, known as: inventions (patents), trademarks and industrial designs

Berne Convention for the Protection of Literary and Artistic Works

In 1886, copyright entered the international arena with the Berne Convention for the Protection of Literary and Artistic Works. The aim of this Convention was to help nationals of its member States obtain international protection of their right to control, and receive payment for, the use of their creative works such as: novels, short stories, poems, plays; songs, operas, musicals, sonatas; and drawings, paintings, sculptures, architectural works.

Answer 6(e)

Objectives of the Association of South-East Asian Nations (ASEAN)

The ASEAN Declaration sets out the aims and purposes of the Association as under:

- to accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of South East Asian nations, and
- to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter.

Fundamental Principles of the Association of South-East Asian Nations (ASEAN)

ASEAN guided by the following fundamental principles:

- Mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;
- The right of every State to lead its national existence free from external interference, subversion or coercion;
- Non-interference in the internal affairs of one another;
- Settlement of differences or disputes by peaceful manner;
- Renunciation of the threat or use of force; and
- Effective cooperation among themselves.

Question 7

(a) Match the following :

- | | | |
|------------------------------------|---------------|---------------|
| (i) First ministerial conference | (l) Doha | |
| (ii) Second ministerial conference | (m) Seattle | |
| (iii) Third ministerial conference | (n) Singapore | |
| (iv) Fourth ministerial conference | (o) Geneva | |
| (v) Fifth ministerial conference | (p) Cancun | (1 mark each) |

(b) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

- (i) UNCTAD stands for _____.
 - (ii) Theory of comparative advantage was given by _____.
 - (iii) When value of merchandised export equals the value of merchandised import, it is known as _____.
 - (iv) _____ argument deals with the ratio (i.e., the prices) at which countries exchange export for import.
 - (v) The first reasonably systematic body of thought devoted to international trade is called _____ and it emerged in seventeenth and eighteenth century in Europe. (1 mark each)
- (c) State, with reasons in brief, whether the following statements are true or false :
- (i) World Trade Organisation (WTO) is the only international body dealing with the rules of trade between the nations.
 - (ii) National treatment principle says that goods produced in a nation should be treated equally throughout the country.
 - (iii) The dispute settlement understanding is often seen as one of the most important achievements in the WTO agreement.
 - (iv) Regional trade agreements are entered into only between neighbouring countries.
 - (v) The ministerial conference — the highest decision making body of WTO has to meet at least once in a year. (1 mark each)
- (d) Briefly explain the procedure for anti-dumping investigations. (5 marks)

Answer 7(a)

- (i) First Ministerial Conference = Singapore
- (ii) Second Ministerial Conference = Geneva
- (iii) Third Ministerial Conference = Seattle.
- (iv) Fourth Ministerial Conference = Doha.
- (v) Fifth Ministerial Conference = Cancun

Answer 7(b)

- (i) UNCTAD stands for **United Nation Conferences on Trade and Development.**
- (ii) Theory of comparative advantage was given by **David Ricardo** .
- (iii) When value of merchandised export equals the value of merchandised import, it is known as **Balance of Trade.**

- (iv) **Terms of Trade** argument deals with the ratio (i.e., the prices) at which countries exchange export for import.
- (v) The first reasonably systematic body of thought devoted to international trade is called **Mercantilism** and it emerged in seventeenth and eighteenth century in Europe.

Answer 7(c)(i)

True

The World Trade Organization (WTO) is the only international body dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground-rules for international commerce.

Answer 7(c)(ii)

False

Principle of national treatment says Imported and locally produced goods should be treated equally, at least after the foreign goods have entered the local market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents.

Answer 7(c)(iii)

True

The Dispute Settlement Understanding (DSU) is often seen as one of the most important achievements in the World Trade Organization (WTO) Agreement. While the GATT also contained provisions for conflict resolution, the DSU contains a number of innovations. In particular, it is generally seen as being superior to its predecessors in terms of the clarity of its provisions concerning procedural matters, and its provisions establishing a monitoring scheme to overview implementation. Recently, however, criticism has been voiced concerning the possibilities for poorer countries to take full advantage of the system.

Answer 7(c)(iv)

False

In the WTO context, Regional Trade Agreements (RTAs) have both a more general and a more specific meaning. More general because RTAs may be agreements concluded between countries not necessarily belonging to the same geographical region; more specific, because the WTO provisions relate specifically to conditions of preferential trade liberalization with Regional Trade Agreements (RTAs).

Answer 7(c)(v)

False

The WTO is a member driven, consensus based organisation. The major decisions are taken by members as a whole, either by ministers or by their ambassadors or

delegates. The Ministerial Conference - the highest decision making body of WTO has to meet at least every two years. The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements.

Answer 7(d)

A dumping investigation can normally be initiated only upon receipt of a written application by or on behalf of the “Domestic Industry”. Designated Authority receiving the application, proceeds expeditiously with the conduct of the investigation and, in appropriate cases; make a preliminary finding containing the detailed information on the main reasons behind it.

Provisional Duty

A provisional duty not exceeding the margin of dumping may be imposed by the Central Government on the basis of the preliminary finding recorded by the Designated Authority. The provisional duty can be imposed only after the expiry of 60 days from the date of initiation of investigation.

Oral Evidence

Interested parties who participate in the investigations can request the Designated Authority for an opportunity to present the relevant information orally.

Final Determination

The final determination is normally made within 150 days of the date of Preliminary determination.

Disclosure of Information

The Designated Authority will inform all interested parties of the essential facts, which form the basis for its decision before the final finding is made.

Time-limit for Investigation Process

The normal time allowed by the statute for conclusion of investigation and submission of final findings is one year from the date of initiation of the investigation. The above period may be extended by the Central Government by 6 months.

Termination

The Designated Authority may suspend or terminate the investigation in the following cases :

- (i) if there is a request in writing from the domestic industry at whose instance the investigation was initiated.
- (ii) when there is no sufficient evidence of dumping or injury.
- (iii) injury is negligible.

Question 8

- (a) Write a note on the four main institutions of European Union. (5 marks)
- (b) Write a note on the duration and review of countervailing duties. (5 marks)

- (c) *Discuss transitional rules and special and differential treatment under agreement on subsidies and countervailing measures.* (5 marks)
- (d) *Discuss the task of the appellate body under dispute settlement procedure.* (5 marks)

Answer 8(a)

The European Union (EU) has four main institutions namely, the Council of Ministers, the European Commission, the European Parliament and the European Court of Justice.

The Council of Ministers

The Council is the EU's main decision-making body. It is the embodiment of the Member States, whose representatives it brings together regularly at ministerial level. The Council is comprised of ministers from national governments of each of the member states. It meets most weeks in Brussels or Luxembourg to deliberate upon legislation and policy.

The European Commission

Commissioners of the EU are charged with furthering the goals of the Union and implementing EU policy and legislation head the EU's administrative and executive body, the Commission. The Commission for consideration and decision by the Council of Ministers and the European Parliament drafts initial proposals for legislation and policy.

The European Parliament

The European Parliament is the democratically elected body whose members (MEPs) are elected every five years. Parliament scrutinises the activities of other EU institutions, passes the annual EU budget, and shapes and decides new legislation jointly with the Council of Ministers.

The European Court of Justice

Based in Luxembourg, the Court, which has a judge from each member state, adjudicates on all legal issues and disputes involving Community law. The Court deals with two main types of actions: those referred to it by national courts for rulings of interpretation of Community law; and those started by one of the other institutions.

Answer 8(b)

A countervailing duty shall remain in force only as long as and to the extent necessary to counter subsidization, which is causing injury. The authorities shall review the need for the continued imposition of the duty, where warranted, on their own initiative or, provided that a reasonable period of time has elapsed since the imposition of the definitive countervailing duty, upon request by any interested party, which submits positive information substantiating the need for a review.

Interested parties shall have the right to request the authorities to examine whether the continued imposition of the duty is necessary to offset subsidization, whether the injury would be likely to continue or recur if the duty were removed or varied, or both. If, as a result of the review, the authorities determine that the countervailing duty is no longer warranted, it shall be terminated immediately.

Any definitive countervailing duty shall be terminated on a date not later than five years from its imposition, unless the authorities determine, in a review initiated before that date on their own initiative or upon a duly substantiated request made by or on behalf of the domestic industry within a reasonable period of time prior to that date, that the expiry of the duty would be likely to lead to continuation or recurrence of subsidization and injury. The duty may remain in force pending the outcome of such a review.

Answer 8(c)

The provisions of SCM agreement for developed countries, developing countries and members in transformation to a market economy are given as follows:

Developed countries

Members not otherwise eligible for special and differential treatment are allowed three years from the date on which for them the Subsidies and Countervailing Measure (SCM) Agreement enters into force to phase out prohibited subsidies. Such subsidies must be notified within 90 days of the entry into force of the WTO Agreement for the notifying Member.

Developing countries

The SCM Agreement recognizes three categories of developing country Members: least-developed countries ("LDCs"), Members with a Gross National Product (GNP) per capita of less than \$1000 per year and other developing countries. The lower a Member's level of development, the more favourable the treatment it receives with respect to subsidies disciplines. Other developing country

Members have an eight-year period to phase out their export subsidies. With respect to import-substitution subsidies, LDCs have eight years and other developing country Members five years to phase out such subsidies.

Members in transformation to a market economy

Members in transformation to a market economy are given a seven-year period to phase out prohibited subsidies. These subsidies must, however, have been notified within two years of the date of entry into force of the WTO Agreement in order to benefit from the special treatment. Members in transformation also receive preferential treatment with respect to actionable subsidies.

SCM Agreement requires that Members notify all specific subsidies, countervailing duty laws and regulations and all countervailing actions to the SCM Committee.

Answer 8(d)

If a party files an appeal against the report of the panel, the Appellate Body shall review the issues of law addressed by the panel and confirm or modify its findings. The Dispute Settlement Body (DSB) is responsible for appointing Appellate Body members. The Appellate Body membership must be broadly representative of membership of the WTO.

The Appellate Body determines its own rules of procedure. The proceedings of the Appellate Body are confidential. Reports of the Appellate Body are drafted without the

presence of the parties to the dispute and in the light of the information provided and the statements made. The opinions expressed in the Appellate Body report by individuals serving on the Appellate Body are anonymous. Till date, there have not been any dissenting opinions and the Rules of Procedure of the Appellate Body envisage that members of the Appellate Body shall make every effort to take their decisions by consensus. Where, nevertheless, a decision cannot be arrived at by consensus, the matter at issue has to be decided by majority vote.

An Appellate Body report generally composed of an introduction including some factual aspects, a part on the issues raised in the appeal, and the discussion of these issues, and the findings and conclusions and recommendations.

Where a panel or the Appellate Body concludes that a measure is inconsistent with a covered agreement, it must recommend that the Member concerned bring the measure into conformity with that agreement. In addition to its recommendations, the panel or Appellate Body may suggest ways in which the Member concerned could implement the recommendations.

An Appellate Body report must be adopted by the DSB and unconditionally accepted by the parties to the dispute unless the DSB decides by consensus not to adopt the Appellate Body report within 30 days following its circulation to Members.
