

PROFESSIONAL PROGRAMME EXAMINATION

JUNE 2009

**STRATEGIC MANAGEMENT, ALLIANCES AND
INTERNATIONAL TRADE**

Time allowed : 3 hours

Maximum marks : 100

PART A

(Answer ANY TWO questions from this part)

Question 1

*(a) Attempt **any two** of the following :*

- (i) Describe salient features of strategy in the light of launch of Nano car by Tata Motors Ltd.*
- (ii) "The more important the decision, the less quantifiable it is and the more we will have to rely on the options of others and our own best judgment." Explain.*
- (iii) "SWOT analysis is a strategic planning tool." Discuss.*
- (iv) In the process of strategic change, managers face the problem of resistance to change. Discuss the factors responsible for individual resistance.*

(5 marks each)

*(b) Enumerate the steps involved in logical sequence in respect of **any two** of the following :*

- (i) BCG Matrix*
- (ii) Strategic programming*
- (iii) Benchmarking process.*

(5 marks each)

Answer 1(a)(i)

Strategy is the pattern of organizational responses to its environment. Henry Mintzberg defines strategy as: "a pattern in a stream of decisions and actions". Based on the various views, the term strategy, is considered as a long term course of action through which an organization relates itself to the environment so as to achieve its objectives. Strategy is a unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved. It means that the plan joins all the parts of an enterprise together, covers all the major aspects of the enterprise, and that all parts of the plan are compatible with each other.

Tata Motors Ltd. has recently launched its new model, small car 'Nano'. It is intended to be used as a fuel efficient, safer alternative to the motorcycles/two wheelers used by millions of Indians. It is launched as a part of its strategy to tap the vast low and medium income customers and to provide a safer and convenient mode of transport. It is a car of many people who are dreaming about cheapest possible higher technology vehicles. Tata Motors is expecting a revolution in Indian car market and giving stiff threat to its competitors. As the cheapest car, every ordinary person can become a proud owner of a car, sooner than later.

The following are the salient features of strategy:

- (i) Strategy is a relative combination of actions aimed to meet a particular condition to solve certain problems, or to achieve a desirable end.
- (ii) Strategy is a major course of action through which an organization tries to relate itself with environment to develop certain advantages which help in achieving its objectives.
- (iii) Strategy may involve contradictory action. As the strategic action depends on environmental variables, an organization may take contradictory actions either simultaneously or with a gap of time.
- (iv) Strategy is forward looking and it has orientation towards future as it is required to face a new situation.

Answer 1(a)(ii)

Strategic management is basically the art and science of formulating, implementing and evaluating cross-functional decisions that enables an organization to achieve its objectives. It is the process of specifying the organization's objectives, developing policies and plans to achieve these objectives, and allocating resources to implement the policies and plans to achieve the organization's objectives. Strategic management is thus a set of decisions and actions resulting in formulation and implementation of strategies designed to achieve the objectives of an institution.

Strategic management is an ongoing process that assesses the business environment and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors. It later reassesses each strategy annually or quarterly i.e. regularly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment.

Therefore, it is correctly stated in the context of strategic management that the more important the decision, the less quantifiable it is and the more we will have to rely on the options of others and our own best judgment. Strategic management is essentially a decision-making activity. It is the result of a series of managerial decisions. Although these decisions are supported by quantifiable data, but in situations where decisions cannot be quantified, managers must rely on 'informed judgment'. For example, the most important organizational decisions, such as entering a market, introducing a new product or service, or acquiring a company, although based on information and analysis, are essentially informed judgments.

Answer 1(a)(iii)

SWOT analysis is a strategic planning tool used to evaluate the Strengths (S), Weaknesses (W), Opportunities (O), and Threats (T) involved in a project or in a business venture. While opportunities and threats are external to the organization, strengths and weaknesses are internal to it. The approach of matching internal capabilities with the environmental opportunities and threats is known as SWOT. Thus, it involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable for achieving that objective.

SWOT analysis can be best understood as under:

- *Strengths* : Attributes of the organization which are helpful in achieving the objective.
- *Weaknesses* : Attributes of the organization which are harmful in achieving the objective.
- *Opportunities* : External conditions which are helpful in achieving the objective.
- *Threats* : External conditions which are harmful in achieving the objective.

Thus, the basic objective of SWOT analysis is to provide a framework to reflect on the firm's ability to overcome threats and to avail of the opportunities emerging in the environment. Indeed the dimensions of internal capabilities have relevance in so far as they relate to the environmental conditions. Hence the analysis of comparative strengths and weaknesses requires linking internal competencies with the characteristics of external environment.

Identification of SWOT is essential as subsequent steps in the process of planning for achievement of the selected objective may be derived from the SWOT. The decision makers have to determine whether the objective is attainable, given by the SWOT. If the objective is not attainable a different objective must be selected and the process is repeated.

Answer 1(a)(iv)

Strategic change management is the process of delivering the strategy of an organisation in a controlled, efficient and effective manner. It is not about the delivery of a single project or monitoring business as usual activities. It is basically the process of governing a portfolio of programmes, projects and initiatives within the context of a wider strategy for the organisation. The purpose of the whole exercise is to deliver value to the organization.

In the process of strategic change, managers face the problem of resistance to change. It is a human tendency to resist any change. People resist change because it requires new habits, new skills, knowledge and some sacrifices to do things by new methods. The reasons underlying resistance to change may be individual or group resistance.

There are many factors operating at the individual level which are responsible for resistance. Degree of resistance depends on how people feel about the change. Their feelings may be either real or emotional. The following are the factors responsible for individual resistance:

- (i) *Economic Factors* : People feel attached to the organization for satisfying their needs. The economic needs i.e. physiological, job security, etc., precede over other needs. People may perceive that they will be adversely affected by the change in terms of their need satisfaction due to: (a) obsolescence of skill; (b) fear of economic loss; and (c) reduced opportunity for incentives.
- (ii) *Psychological Factors* : It covers those factors which are based on people's emotions, sentiments and attitudes towards change. These are qualitative rather

than quantitative. Major psychological factors responsible for resistance may include: ego defensiveness; status quo; low tolerance of change; lack of trust on change agent and fear of unknown.

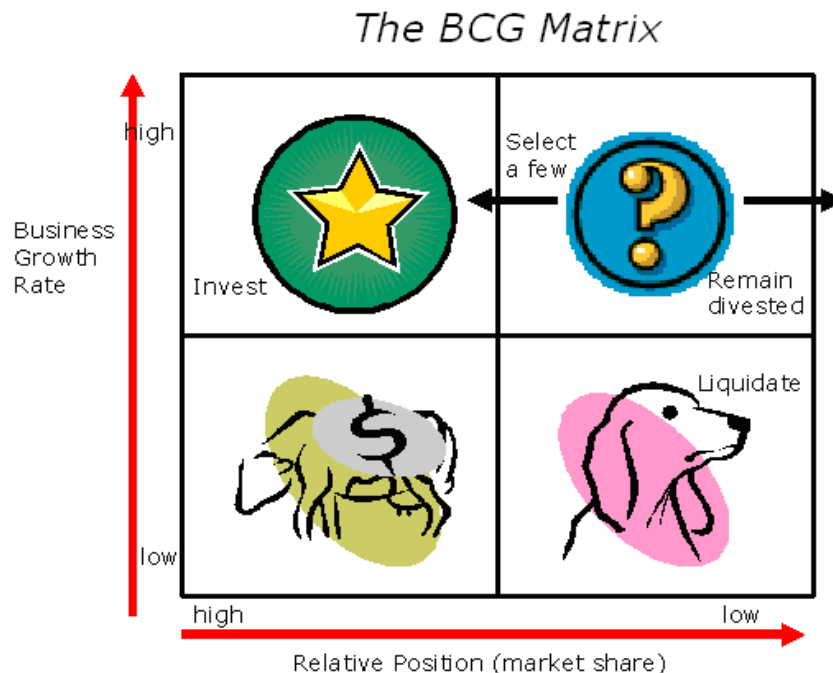
- (iii) *Social Factors* : People derive need satisfaction, particularly social needs through their mutual compatible interaction and form their own social groups at the workplace for the satisfaction of their social needs. The satisfaction of these needs is affected by a change which people resist. The major social factors causing resistance to change are: (a) desire to maintain existing social interaction; and (b) feeling of outside interference.

Answer 1(b)(i)

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 i.e. a model for managing a portfolio of different business units (or product lines). It is based on product life cycle theory. The basic idea behind this model is that if a product has a bigger market share or if the products' market grows faster, it is better for the organization. The original BCG model was based on a lifecycle view of the product of a company. It is also known as a portfolio management tool.

BCG matrix may be graphically shown as under:



BCG matrix provides four categories in the portfolio of an organization which are as follows:

- (i) *Dogs (Low Growth and Low Market Share)* : Each of businesses or products in quadrant I 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. These units or products are likely to be characterized by high costs, low quality, less effective marketing procedures, and so on, which would collectively contribute to weak competitive position and low potential for profits.
- (ii) *Question Marks (High Growth and Low Market Share)* : Those in quadrant II, with high projected growth rates and low market standing, are labeled as 'question marks'. The reason is that although they are operating in markets with expected growth potential, they are otherwise experiencing competitive disadvantage. This quadrant has worst cash characteristics, because they have high cash demands and generate low returns because of their low market shares.
- (iii) *Stars (High Growth and High Market Share)* : Products or business units in quadrant III, have both high market standing and high industry growth potential and are labeled as 'stars'. 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. Resources should be allocated to these units to grow faster than the competitions in sales and profits. Stars are leaders in the business and generate large amounts of cash.
- (iv) *Cash Cows (Low Growth and High Market Share)* : A product or business would become a cash generator in quadrant IV. 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 1(b)(ii)

Strategic programming

A programme is a statement of the activities or steps needed to accomplish a single use plan. Program is a list of planned activities or the plan for future action. The programs make the strategy action oriented. Strategic programming concerns with planning as to how the deliberate strategy can best match the intended strategy to the realized strategy for effective implementation of strategy. A strategic programming is aimed at producing a particular kind of realized strategy.

Following are the major steps involved in strategic programming:

- (i) Identification mission.
- (ii) Setting objectives.
- (iii) Developing alternative strategies.
- (iv) Evaluation of strategies.

- (v) Selection of optimal alternatives.
- (vi) Preparation of master plans.
- (vii) Preparation of medium term plan.
- (viii) Preparation of short-term plan.
- (ix) Evaluation of results.

Answer 1(b)(iii)**Benchmarking process**

Benchmarking is the continuous process of measuring products, services and practices against the competitors and those companies recognized as industry leaders. It is another method of comparative analysis of organizational strengths and weaknesses. It is a process of identifying, understanding and adapting outstanding practices from within the same organization or from other businesses to help improve performance. It involves open learning how others do something better than one's own company so that one not only can intimate, but perhaps even improve on their current technique. The benchmarking process normally includes the following steps:

- (i) Identify the area or process to be examined.
- (ii) Find behavioural and output measures of the area or process and obtain measurements.
- (iii) Select an accessible set of competitors and best-in-class companies against which to benchmark.
- (iv) Calculate the differences among the company's performance measurements and those of the best-in-class and determine why the differences exist.
- (v) Develop tactical programs for closing performance gaps.
- (vi) Implement the programs and then compare the resulting new measurements with those of the best-in-class companies.

Question 2

- (a) *State, with reasons in brief, whether the following statements are correct or incorrect:*
- (i) *Leadership is not confined just to the CEO or the top level of the organisation.*
 - (ii) *Environmental analysis consists of external analysis.*
 - (iii) *Strategies for global business do not differ from domestic business.*
 - (iv) *Mission is a statement which distinguishes the organisation from others.*
 - (v) *Defensive types of strategies do not include retrenchment.*
 - (vi) *Vision is not a mental perception of the environment an organisation wants to create.*

(2 marks each)

(b) Calculate 'economic value added' (EVA) from the following data :

Particulars	Rs. in Crores
Turnover	1,000
Cost of production	600
Average cost of capital :	
Debt (Long+Medium+Short Term)	200
Equity	100
Income-tax is @ 30%. Net operating profit after tax is 20%.	

(8 marks)

Answer 2(a)

- (i) **Correct** : Leadership is not confined just to the CEO or the top level of the organization as leadership is a performing art, a collection of practices and behaviors and not a position. For strategic management to be successful, everyone should be encouraged to think strategically and thus encouraged to be a leader.
- (ii) **Correct** : Environmental analysis consists of external analysis. However, it includes internal analysis too. It is the process by which organizations comprehends various environmental factors and determines the opportunities and threats that are provided by these factors.
- (iii) **Incorrect** : Strategies for global business differ from those of domestic business because of difference in the nature of competitive forces. A firm's decision to adopt strategies for global business depends on two factors: (a) extent of cost pressures to denote the demand on a firm to minimize its per unit costs; and (b) extent of pressures for local responsiveness to denote to make a firm to tailor its strategies to respond to national-level differences in terms of variables like customer preferences and tastes, government policies, and business practices.
- (iv) **Correct** : An organization's mission is a fundamental statement of the purpose and direction which defines the place of the organization within its environment. Thus, mission statements of every organization differs from others of its type, thereby separating it from competitors as well as non-competitors.
- (v) **Incorrect** : Generally not all strategies have expansion orientation. Very often the strategist is forced to control the firm's operations. There are three basic types of defensive strategies i.e., retrenchment, divestment and liquidation. Thus, defensive types of strategies include retrenchment.
- (vi) **Incorrect** : Vision of a company is the mental perception of the kind of environment that an organization aspires to create with a broad time frame. A vision relates to an organization's broadest and most desirable goal. A company forms its vision in the light of the information and insight gained from studying its internal and external environments.

Answer 2(b)

$$\begin{aligned}
 \text{Economic Value Added (EVA)} &= \text{Net operating profit after taxes} - \text{Cost of capital employed} \\
 &= \text{NOPAT} - \text{Cost of capital employed}
 \end{aligned}$$

$$\begin{aligned}
 \text{Now, Cost of capital employed} &= \text{Cost of debt} + \text{Cost of equity} \\
 &= \text{Rs. 200 crores} + 100 \text{ crores} \\
 &= \text{Rs. 300 crores}
 \end{aligned}$$

NOPAT, as given in the question = 20%

$$\begin{aligned}
 \text{i.e. NOPAT} &= 20\% \text{ of Rs. 1000 crores} \\
 &= (20/100) \times 1000 \text{ crores} \\
 &= \text{Rs. 200 crores}
 \end{aligned}$$

$$\begin{aligned}
 \text{So, Economic value added (EVA)} &= \text{NOPAT} - \text{Cost of capital employed} \\
 &= \text{Rs. 200 crores} - 300 \text{ crores} \\
 &= \text{Rs. (-100 crores)}
 \end{aligned}$$

Ans: EVA = Rs. (-100 crores)

Question 3

- (a) *Risk management has become prime concern and acquired added significance after the global financial crisis and corporate frauds. The operations of your company are global and attract various types of risks and uncertainties. Prepare a note on risk management process for submission to the Managing Director of your company. (12 marks)*
- (b) *Write short notes on **any two** of the following :*
- (i) *Strategic decision-making*
 - (ii) *Steps involved in business process re-engineering (BPR)*
 - (iii) *Integration strategies. (4 marks each)*

Answer 3(a)

To
Managing Director
XYZ Ltd.

10th June, 2009

Sub. : Risk Management Process

Risk management has become a prime concern for every business in the present global competitive and knowledge based environment. Every business entity in the world exists for providing value to its stakeholders. All entities face uncertainty or risk and the challenge for management is to determine how much uncertainty or risk to accept. Uncertainty presents both risk and opportunity with potential to erode or enhance value. Risk management enables management to effectively deal with uncertainty and associated risk and opportunity enhancing to build the value.

Risk management refers to identification of opportunities and avoiding or mitigating losses. It is a logical and systematic process of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process, in a way which enables an organisation to minimise losses and maximise opportunities.

Risk management helps management to achieve the entity's performance and profitability targets and prevent loss of resources. It ensures effective reporting and compliance with laws and regulations and helps to avoid damage to the entity's reputation and associated consequences. It also helps an entity to accomplish its target where it wants to go and avoid pitfalls and surprises along the way.

As the operations of our company are global we may attract the following types of risks:

- (1) *Systematic Risk* : It refers to risk which affects the entire market. This type of risk is not diversifiable and can not be eliminated. A significant political event, for example, could affect several of the assets in our portfolio. Interest rates, recession, political disturbances, change in government policy etc., all represent sources of systematic risk because they affect the entire market and cannot be avoided through diversification.
- (2) *Market Risk* : The market risk is also called the undiversifying risk, because this risk can not be avoided no matter how many different stocks might be present in the portfolio.
- (3) *Business Risk* : It basically refers to the situation of uncertainty associated with operating cash flows of a business. It may be external and internal risk. External business risk is the result of operating conditions which are imposed upon the organisation by circumstances beyond its control. Internal business risk is associated with the efficiency with which a firm conducts its operations within the broader operating internal environment imposed upon it.
- (4) *Purchasing Power Risk* : It refers to the impact of inflation or deflation in the economy on an investment.
- (5) *Interest-Rate Risk* : It is the risk where an investment's value will change as a result of a change in interest rates.

In the present era of economic recession and corporate financial fraud it has become inevitable for an organization to have a sound risk management framework, which will mitigate the impact of any arising risk and enhance the value of business. But by following a comprehensive risk management process our company can overcome the risky prepositions and manage risk.

In this direction, we may consider a comprehensive risk management process containing the following:

- Evaluate the methodology for identifying the risks surrounding the business activities
- Assessment of the likelihood of an event occurring for each asset
- Explanation of the course of action say, how to respond to these events
- Putting systems in place to deal with the consequences
- Monitoring the effectiveness of our risk management approaches and controls
- Prioritize risk reduction measures based on the strategy of the organization.

Submitted for your kind information and advice please.

Sd/-

Company Secretary

Answer 3(b)(i)**Strategic decision making**

Strategic decision making is the core of strategic management. It enhances manager's abilities to obtain insight and exercise judgment by deepening their decision making skills and helping them to design more effective decision processes. Strategic decision is a major choice of an action concerning committing of resources with a view to achieve organizational objectives. Unlike many other decisions, strategic decisions deal with the long run future of the entire organization. It has the following features:

- (i) Strategic decision is a major choice of action which affects the entire organization or major parts of it.
- (ii) It affects the long-term prosperity of the organization because the commitment is for long-term.
- (iii) It involves commitment of large amount of resources i.e., human, financial and physical in implementing the chosen strategic option.
- (iv) Because of high-level of futurity, a strategic decision is made after analyzing various factors both within the organization and its environment.
- (v) Since a strategic decision has major impact on the organization on long-term basis, it is made by top management which has much wider perspective of the organization and its environment.

Strategic decision making involves the usual decision-making process-specific objectives derived from organization's strategic intent, search for alternatives to achieve those objectives, evaluation of these alternatives and choice of the most appropriate alternative. Thereafter, this choice is put into action. Strategic choice cannot be taken without careful thought as to their implementation. It must be feasible as well as appropriate to the requirement of the situation.

After comparing possible strategies, the manager must decide what will be the future strategies of the organization. Many different decision models have been proposed to explain how these decisions can be made. The decision-making contexts constitute different frames of reference a decision maker might take. It is important to note which frame of reference or context surrounds a particular decision model and then to compare it only with other decision models within that context. The manager may actually select more than one model or strategy. In contingency planning systems, an action plan could be selected for the environmental scenario that is most likely to occur and/or the set of goals appropriate to that scenario. Another strategy would be selected for an optimistic scenario - a reasonable but very favorable set of environmental circumstances with a somewhat low probability of occurrence. Then a third strategy would be chosen for the pessimistic scenario, which also has a low probability of occurrence but carries unfavorable implications.

Answer 3(b)(ii)**Steps involved in business process re-engineering**

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. 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.

Following steps are involved in business process re-engineering:

- (i) *Developing business vision and process objective* : Under this process it is desirable that a vision of organization is defined clearly so that one can put business process function in tune with the vision. BPR is driven by a business vision which implies specific business objectives such as cost reduction, time reduction, output and quality improvement, etc. Accordingly, organization should make projections about where it should go and what are the major challenges ahead.
- (ii) *Identifying the process to be redesigned* : Once business vision and process objectives are clearly defined, the organization should focus and identify those processes which needs redesigning.
- (iii) *Measuring the performances of existing processes* : Under this step, the organisation should focus on various methods used to measure the performance of a process to determine whether an opportunity exists to improve its efficiency, effectiveness and adaptability.
- (iv) *Identification of the opportunity for application of information technology* : Under this step, the emphasis is placed on application of information technology knowledge to support a process and redesign the process accordingly.
- (v) *Building prototype of new processes* : Under this step, the organization should design a new process on an experimental basis in the light of series of revision and improvement until the redesign process is put in actual operation. The prototype must be tested to measure this performance and incorporate needed changes.

The purpose of business process reengineering is improvement in business performance by redesigning the various processes involved. This is because business performance is the result of outcome of the inter-related work processes that constitute the business system.

Answer 3(b)(iii)

Integration strategies

Integration strategies seek to acquire a service or product by merging with or acquiring the prior provider. Therefore, the process of integration should be implemented within a framework of goals that spells out the limits of such evaluative criteria as return on sales and investment, pivotal expense items, time, and cash flow. Integration strategies can be achieved in the following ways:

- (i) *Backward Integration*

Backward integration involves gaining increased control over the firm's supply (or input) activities. It can be implemented through merger with or acquisition of

the organization that produces the company's inputs or by growing one's own supply systems. However, it is often easier to finance an acquisition than internal expansion. The main reasons to support the backward integration are: (a) getting regular and adequate supply of inputs; (b) enjoying the benefits of enhanced quality control; (c) getting higher return on investments by better use of facilities; (d) improving negotiation power with suppliers; and (e) saving indirect taxes payable on purchase of inputs.

(ii) *Forward Integration*

Forward integration consists of obtaining control over the external portions of the organizations marketing systems. This is down stream expansion which refers to moving higher up in the production and or distribution process towards the end user or consumer. In most cases this means either acquiring a distribution system or establishing one internally. For example, a textile unit producing cloth, opens its own retail outlet is an example of forward integration.

(iii) *Horizontal Integration*

Horizontal integration refers to a situation when two or more firms engaged in similar activities think of joining hands for their betterment. Integration is the order of the day particularly with sweeping phase of globalization. It builds up synergy and can provide companies with opportunities to have fast access to new products, services, geographical regions and customers.

(iv) *Vertical Integration*

Vertical integration is a case when a firm accepts either earlier activities or the latter activities than what it is engaged in the series of activities that start converting raw materials till the handling over of the end products to the class of consumers. In a sense, vertical integration permits the organization to enlarge its scope of operations within the same overall industry. It is characterized by the firm's expansion into other parts of industry value chain directly related to the design, production, distribution and marketing using existing set-off products or services. For example, a dyeing unit takes over the spinning, weaving, bleaching and printing, finishing and marketing is a case of vertical integration.

PART B

(Answer ANY ONE question from this part.)

Question 4

- (a) Briefly explain the concept of 'strategic alliance', its forms and principles for its success. (8 marks)
- (b) The Board of directors of your company has forwarded you the proposed foreign technical collaboration agreement for scrutiny and comments. There are clauses in the agreement putting restrictions on use of technical know-how after the expiry of the agreement; further research and development of technical know-how after the expiry of the agreement; sharing of technical know-how with any other Indian company; sale of goods outside assigned territory and price-fixation. Examine the agreement and pinpoint restrictive clauses and their effect on interests of your company in particular and Indian industry in general. (8 marks)

(c) Explain briefly 'equity joint venture' and 'contractual joint venture'.

(4 marks)

Answer 4(a)

Any arrangement or agreement under which two or more firms cooperate in order to achieve certain commercial objectives is referred to as strategic alliance.

A true strategic alliance is a written arrangement between two companies that complement each other in a particular identified area. It is not a partnership, and neither company has legal power to control or obligate the other. Instead, it is a commitment by the two companies to provide capabilities or cross servicing in certain identified areas.

By properly utilizing a strategic alliance, companies can expand their product and service offerings substantially, without the usual corresponding investment in staff, equipment, and facilities. Strategic alliances are motivated by considerations such as cost reduction, technology sharing, product development, market access etc.

Strategic alliances have objectives similar to those of conventional acquisitions but such alliances can prove to be less expensive than acquisition, if they are structured properly. This is because if two or more companies pool their resources they can secure their joint objectives more easily and economically.

Such alliance may be in the form of:

- Management contract.
- Franchising.
- Supply or purchase agreement.
- Marketing or distribution agreement.
- Joint Venture.
- Agreement to provide technical services.
- Licensing of know-how, technology, design or patent.

Principles for successful strategic alliances includes Articulating Goals, Selection of Appropriate Partners, Working at Strategic and Operational Levels, Organizational Alignment, Dealing with Conflicts and Cultural issues, Maintaining Strong Executive Sponsorship, Experimenting and Committing to Learning.

Answer 4(b)

Restrictions after Expiration of Arrangements

The use of such clauses in technology transfer agreements generally oblige the company acquiring technology to pay royalties during the entire duration of manufacture of product or the application of the process involved, without specifying any time limit. Sometimes these clauses also contain restrictions to be continued even after the expiration of the agreement, for example, restrictions on competition, restriction on Research and development activities and specially, the acquiring company's obligation to keep secret and not to make use of the confidential information even after the expiration of the life of the arrangement.

Restrictions on Research and Development

Such restrictions in the technology transfer agreement generally involve limitations on the research and development policies and activities of the company acquiring technology.

The use of such clauses affects directly or indirectly the possibilities for the technological development capabilities of the recipient company. Such provisions also restrict the freedom of recipient party to undertake its own Research and development programmes. These restrictions also cover such provisions which are in direct competition with Research and Development activities of the company supplying technology.

The restrictions on Research and Development activities of recipient company have also been declared as restrictive practices under the UNCTAD Code. The provisions recognised such clauses as restricting the acquiring party from undertaking R&D activities directly to absorb and adapt the transferred technology to suit local conditions or restriction on initiation of R&D programmes in connection with new products, processes or equipment.

Price Fixation

Price fixing clauses in a technology transfer arrangement involve the practices where the supplier company reserve the right to fix the sale or resale price of the product manufactured by the imported technology. In certain cases the imposition of resale conditions might be justified, e.g. where the supplier company practices a legal selective distribution system, the supplier may impose the conditions on his distributor only to sell to qualified dealers. Therefore, the price-fixing clauses may cover the price determined by the supplier on goods produced with the help of transferred technology. Price-fixing may also involve horizontal price cartels between several technology suppliers or several technology recipients.

The developing countries have enacted regulations on transfer of technology which deal with restrictive business practices on the basis of a conceptual approach which, though not necessarily incompatible with anti-trust or competition laws, but substantially differs from it.

The main object of such an approach is to protect certain wider interests which are closely related to the economic and technological development of the recipient country. The approach adopted by the developing countries seeks to prohibit any practice that establishes a relationship of dependence or control over the productive, technological or marketing activities of the recipient country or any other practices which adversely affect the economy and development policies of the recipient country.

Answer 4(c)**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 might be used where the establishment of a separate legal entity is not needed or the creation of such a separate legal entity is not feasible in view of one or the other reasons. 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.

Question 5

- (a) *Your company is negotiating an international joint venture with a company registered in Italy for the manufacture of fuel efficient engine for a small car. As a Company Secretary, prepare a note for the consideration of the Managing Director —*
- (i) *giving the best method of resolution of disputes in international joint ventures; and* (8 marks)
 - (ii) *drafting of arbitration clause nominating the London Court of International Arbitration for resolution of disputes between the parties.* (8 marks)
- (b) *State the steps involved in the process of integrating alliances into corporate strategy.* (4 marks)

Answer 5(a)(i)

To

The Managing Director

Internationally, it is accepted that commercial disputes should be resolved through arbitration and not through normal judicial system. The object of arbitration is settlement of dispute in an expeditious, convenient, inexpensive and private manner so that they do not become the subject of future litigation between the parties.

International commercial arbitrations are those which satisfy two basic criteria, i.e., different nationality of parties and international character of the transaction. UNCITRAL Model Law on International Commercial Arbitration under Article 1(3) enumerates the basic ingredients of international commercial arbitration.

The Model Law clarifies that the term “commercial” in relation to international commercial arbitration covers matters arising from all relationships of a commercial nature, whether contractual or not.

Parties to an international commercial arbitration are generally free to choose the place for conduct of arbitral proceedings. The place of arbitration chosen by or on behalf of the parties may expressly be provided in the arbitration agreement or the terms of reference or in some other way. However, the place of arbitration as designated by the parties does not imply that the arbitral tribunal must hold meetings or hearings at the

designated place of arbitration. In international commercial arbitration, it is well established that the arbitral tribunal may meet or hear the parties at different places, if considered necessary, but the place or seat of arbitration remains the same as agreed upon between the parties.

Sd/-

Company Secretary

Answer 5(a)(ii)

To

The Managing Director

Arbitration Clause Recommended by London Court of International Arbitration (LCIA)

Parties to an international contract who wish to have any disputes referred to arbitration under the LCIA Rules are recommended to insert in the contract an arbitration clause in the following form:

“Any dispute arising out of or in connection with his contract, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the Rules of the London Court of International Arbitration, which Rules are deemed to be incorporated by reference into this clause”.

Parties are also reminded that difficulties and expenses may be avoided if they expressly specify the law governing their contract. The parties may if they wish also specify the number of arbitrators, and the place and language of the arbitration. The following provisions may be suitable:

“The governing law of this contract shall be the substantive law of.....”

“The tribunal shall consist of(a sole or three) arbitrator(s).”

In the case of a three-member tribunal, the following words may be added

“...two of them be nominated by the respective parties”

“The place of the arbitration shall be(city)”

“The language of the arbitration shall be

Sd/-

Company Secretary

Answer 5(b)

Strategy for Alliances 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;

- (a) Development of the strategic domestic or global plan

- (b) Development of the alliance plan
- (c) Alliance partner — search and selection
- (d) Development of the implementation plan
- (e) Execution of the implementation plan

PART C

(Answer ANY TWO questions from this part.)

Question 6

Read the following passage and answer the questions given at the end :

India has imposed anti-dumping duties on imports of compact discs recordables (CDRs) from China, Hong Kong, Singapore and Chinese Taipei. The move is expected to give some relief to domestic producers of CDRs. The Central Board of Excise and Customs (CBEC) had notified the imposition of anti-dumping duty in the range of \$0.050 to \$0.099 per piece.

Imposition of duty is expected to level the field for domestic players. The domestic industry had petitioned the government against such imports as these were eroding their margins.

The designated authority – Director General of Anti-Dumping (DGAD) had made a recommendation to the CBEC in this regard. The authority, in its final findings, had concluded that the CDRs had entered Indian market from the identified countries at price less than their normal value in the domestic market.

“The domestic industry had suffered material injury and the injury has been caused to the domestic industry both by volume and price effect of dumped imports of subjected goods originating in or exported from the subject countries”, it had said.

The authority maintained that dumping margins of the CDRs imported from these countries were substantial and above the de minimis and recommended imposition of definitive anti-dumping duties.

Answer the following questions —

- (i) *What is dumping ? Illustrate.*
- (ii) *How did DGAD come to the conclusion of dumping of CDRs ?*
- (iii) *Under what conditions DGAD would have suspended the investigations ?*
- (iv) *With whom the appeal against the order of DGAD may be filed and in how many days ?* (5 marks each)

Answer 6(i)

Dumping occurs when the export price of goods imported into India is less than the Normal Value of 'like articles' sold in the domestic market of the exporter. Imports at cheap or low prices do not per se indicate dumping. The price at which like articles are sold in the domestic market of the exporter is referred to as the "Normal Value" of those articles.

The normal value is the comparable price at which the goods under complaint are sold, in the ordinary course of trade, in the domestic market of the exporting country or

territory. If the normal value cannot be determined by means of domestic sales, the Act provides for the following two alternative methods:

- (i) Comparable representative export price to an appropriate third country.
- (ii) Cost of production in the country of origin with reasonable addition for administrative, selling and general costs and for profits.

The export price of goods imported into India is the price paid or payable for the goods by the first independent buyer.

Answer 6(ii)

In determining the dumping of CDRs first of all the DGAD must have constructed Export Price. If there is no export price or the export price is not reliable because of association or a compensatory arrangement between the exporter and the importer or a third party, the export price may be constructed on the basis of the price at which the imported articles are first resold to an independent buyer. If the articles are not resold as above or not resold in the same condition as imported, their export price may be determined on a reasonable basis.

Thereafter, DGAD must have decided about margin of dumping. Margin of dumping refers to the difference between the Normal Value of the like article and the Export Price of the product under consideration.

The export price and the normal value of the goods must be compared at the same level of trade, normally at the ex-factory level, for sales made as near as possible in time. Due allowance is made for differences that affect price comparability of a domestic sale and an export sale. These factors, inter alia, include physical characteristics, levels of trade, quantities, taxation and conditions and terms of sale.

Anti-dumping action can be taken only when there is an Indian industry which produces “like articles” when compared to the allegedly dumped imported goods. The article produced in India must either be identical to the dumped goods in all respects or in the absence of such an article, another article that has characteristics closely resembling those goods.

The Indian industry must be able to show that dumped imports are causing or are threatening to cause material injury to the Indian ‘domestic industry’. Material retardation to the establishment of an industry is also regarded as injury.

A ‘causal link’ must exist between the material injury being suffered by the Indian industry and the dumped imports. In addition, other injury causes have to be investigated so that they are not attributed to dumping.

Answer 6(iii)

The DGAD 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) if the margin of dumping is less than 2% of the export price.

- (iv) the volume of dumped imports from a country is less than 3% of the total imports of the like article into India or the volume of dumped imports collectively from all such countries is less than 7% of the total imports.
- (v) injury is negligible.

Answer 6(iv)

Appeal against the order of the DGAD may be filed with the Customs, Excise and Gold (Control) Appellate Tribunal within 90 days of the date of the order.

Question 7

- (a) *Describe the time-frame for different stages of dispute settlement under the WTO.* (8 marks)
- (b) *Write short notes on any three of the following :*
 - (i) *Objectives of ASEAN*
 - (ii) *Rules of origin criteria*
 - (iii) *Distortion of trade*
 - (iv) *Non-tariff barriers.* (4 marks each)

Answer 7(a)

The approximate period for each stage of a dispute settlement procedure are target figures - the agreement is flexible. In addition, the countries can settle their dispute themselves at any stage. Totals are also approximate.

60 days	Consultations, mediation, etc.
45 days	Panel set up and panelists Appointment.
6 months	Final panel report to parties.
3 weeks	Final panel report to WTO members.
60 days	Dispute Settlement Body adopts appeals report.

(if no appeal)

Total = 1 year

If Appeal

60-90 days	Appeal report
30 days	Dispute Settlement Body adopts appeals report.

Total = 1 year 3 months

Answer 7(b)(i)

Objectives of ASEAN are 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.

Answer 7(b)(ii)

“Rules of origin” are the criteria used to define where a product was made. They are an essential part of trade rules because a number of policies discriminate between exporting countries: quotas, preferential tariffs, anti-dumping actions, countervailing duty (charged to counter export subsidies), and more.

Rules of origin are also used to compile trade statistics, and for “made in” labels that are attached to products.

This first-ever agreement on the subject requires WTO members to ensure that their rules of origin are transparent; that they do not have restricting, distorting or disruptive effects on international trade; that they are administered in a consistent, uniform, impartial and reasonable manner; and that they are based on a positive standard. In other words, they should state what does confer origin rather than what does not.

Answer 7(b)(iii)**Distortion of Trade**

Trade is distorted if prices are higher or lower than normal, and if quantities produced, bought, and sold are also higher or lower than normal — i.e. than the levels that would usually exist in a competitive market. For example, import carriers and domestic subsidies can raise crop prices on a country’s internal market. The higher prices can encourage over-production, and if the surplus is to be sold on world markets, where prices are lower, then export subsidies have to be paid. When some countries subsidize and others do not, the result can be that the subsidizing countries are producing considerably more than they normally would. Governments usually give following reasons for supporting and protecting their farmers, even if this distorts agricultural trade:

- to make sure that enough food is produced to meet the country’s needs,
- to shield farmers from the effects of the weather and swings in world prices to preserve rural society.

Answer 7(b)(iv)

Non-Tariff Barriers are

- technical regulations and standards
- import licensing, import quota restriction
- rules for the valuation of goods at customs
- preshipment inspection: further checks on imports

- investment measures
- export subsidies and domestic support
- service barriers
- lack of adequate protection to intellectual property rights.

Question 8

(a) *State, with reasons in brief, whether the following statements are correct or incorrect :*

- (i) *The World Trade Organisation (WTO) is a simple extension of GATT.*
- (ii) *SAPTA is a free trade agreement between South Asian Countries.*
- (iii) *Most favoured nation (MFN) concept means some kind of special treatment for one particular country.*
- (iv) *The word 'plurilateral' in the context of the WTO means plurality of agreements.*
- (v) *'Champagne' a term associated with wine produced in a certain region of France can be made in India and exported as 'Champagne'.*

(2 marks each)

(b) *"Subsidies and countervailing measures (SCM) agreement creates three basic categories of subsidies." Explain.*

(6 marks)

(c) *What are the objectives of South Asian Association for Regional Co-operation (SAARC) ?*

(4 marks)

Answer 8(a)(i)

Incorrect

Reason : 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 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 rules applied to trade in merchandise goods. In addition to goods, the WTO covers trade in services; Trade-related aspects of intellectual property and Trade related investment measures.

Answer 8(a)(ii)

Incorrect

Reason : SAPTA is the acronym of SAARC Preferential Trading Arrangement. In this Agreement, the Contracting States establish the SAARC Preferential Trading Arrangement (SAPTA) to promote and sustain mutual trade and the economic cooperation among the Contracting States, through exchanging concessions in accordance with this Agreement. SAPTA will be governed by the provisions of this Agreement and also by the rules, regulations, decisions, understandings and protocols to be agreed upon within its framework by the Contracting States.

Answer 8(a)(iii)**Incorrect**

Reason : Most-favoured-nation (MFN) under WTO is actually non-discrimination — treating virtually everyone equally. What happens under the WTO is this; each member treats all the other members equally as “most-favoured” trading partners. If a country improves the benefits that it gives to one trading partner, it has to give the same “best” treatment to all the other WTO members so that they all remain “most-favoured”.

Answer 8(a)(iv)**Incorrect**

Reason : Plurilateral agreements are those agreements which are negotiated amongst a narrower group of signatories and is binding only between/among those signatories. Some of the examples plurilateral agreements are: Trade in Civil Aircraft, Government Procurement.

Answer 8(a)(v)**Incorrect**

Reason : Place names are sometimes used to identify a product. Well-known examples include “Champagne”, “Scotch”, “Tequila”, and “Roquefort” cheese. Wine and spirits makers are particularly concerned about the use of place names to identify products. A company situated outside that area, or a product not using the raw material used that particular place, can not use the name of that area.

Such products are governed by the law of Geographical indications and Appellation of Origin.

The TRIPs agreement of WTO contains special provisions for such products. In India the Geographical Indications of Goods (Registration and Protection) Act, 1999 provides protection to such products.

Therefore, Champagne can not be made in India and exported as Champagne.

Answer 8(b)

The SCM Agreement creates three basic categories of subsidies, namely prohibited, actionable (i.e., subject to challenge in the WTO or to countervailing measures), and non-actionable. All specific subsidies fall into one of these three categories.

Prohibited subsidies are those subsidies that require recipients to meet certain export targets, or to use domestic goods instead of imported goods, are prohibited because they are specifically designed to distort international trade, and are therefore likely to hurt other countries’ trade. They can be challenged under the WTO dispute settlement procedure where they are handled under an accelerated timetable. If the dispute settlement procedure confirms that the subsidy is prohibited, it must be withdrawn immediately. Otherwise, the complaining country can take counter measures. If domestic producers are hurt by imports of subsidized products, countervailing duty can be imposed.

Actionable subsidies : The complaining country has to show that the subsidy has an adverse effect on its interests. Otherwise the subsidy is permitted. The agreement

defines three types of damage they can cause. One country's subsidies can hurt a domestic industry in an importing country. They can hurt rival exporters from another country when the two compete in third markets. And domestic subsidies in one country can hurt exporters trying to compete in the subsidizing country's domestic market.

Non-actionable subsidies : These can either be non-specific subsidies, or specific subsidies for industrial research and pre-competitive development activity, assistance to disadvantaged regions, or certain types of assistance for adapting existing facilities to new environmental laws or regulations. Non-actionable subsidies cannot be challenged in the WTO's dispute settlement procedure, and countervailing duty cannot be imposed on subsidized imports.

Answer 8(c)

The objectives of SAARC are as under:

- To promote the welfare of the peoples of South Asia and to improve their quality of life;
 - To accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realise their full potentials;
 - To promote and strengthen collective self-reliance among the countries of South Asia;
 - To contribute to mutual trust, understanding and appreciation of one another's problems;
 - To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
 - To strengthen cooperation with other developing countries;
 - To strengthen cooperation among themselves in international forums on matters of common interests; and
 - To cooperate with international and regional organizations with similar aims and purposes.
-

PROFESSIONAL PROGRAMME EXAMINATION
DECEMBER 2009
STRATEGIC MANAGEMENT, ALLIANCES AND
INTERNATIONAL TRADE

Time allowed : 3 hours

Maximum marks : 100

PART A

(Answer ANY TWO questions from this part)

Question 1

- (a) *“Organisations are becoming more responsive, flexible and adaptable to changing business situation.” Comment with example. (5 marks)*
- (b) *IOC Ltd. has changed its vision statement to capture the collective aspirations of its stakeholders to create a ‘shared vision’ rather than ‘vision shared’. Comment. (5 marks)*
- (c) *Discuss Porter’s Five Forces Model of industry analysis. (5 marks)*
- (d) *Describe the main approaches to evaluation of strategic alternatives. (5 marks)*

Answer 1(a)

It is correctly remarked that organizations are becoming more responsive, flexible, and adaptable to changing business situations. Today, businesses are becoming more complex due to rapid changes in environment. It is becoming increasingly difficult to predict the environment accurately. The internal and external environments of organizations are now driven by multitudes of forces that were hitherto non-existent. Earlier, the changes in technology were not so rapid but today the information from all over the globe is pouring in through the computers. The world in fact has shrunk. This has created fierce competition as the customers and stakeholders have become more aware of their rights.

The number of events that affect domestic and world market are now far too many and too often. Over reliance on experience in such situations may really work out to be very costly for companies. For example, Reliance has shifted to more creativity, innovation and new ways of looking at business and doing it in novel ways. The earlier concepts of having highly specialized departments and developing specialization of labour is losing its credibility. Organizations are becoming more responsive, flexible, and adaptable to changing business situations. In such an environment which is charged with high level of competition, developing competitive edge for survival and growth has become imperative for companies. For example ITC began as a tobacco company. Over the years, it has diversified into paper (ITC Bhadrachalam), hotels (Welcome Group), food (ITC Agro), and garments (Wills Lifestyle) in order to take advantage of changing environments and to achieve its growth objectives.

Answer 1(b)

“Shared Vision” connotes the idea of stakeholders’ acceptance and commitment to the vision whereas “Vision Shared” gives the impression of compliance of the vision

imposed from the top management. The former creates a sense of communality that permeates the organization and gives coherence to diverse activities. On the other hand, the latter connotes sharing of values already decided by the higher management. The former indicates bottom up approach and the latter top down approach of the management.

Answer 1(c)

Porter's five forces model of industry analysis

The nature of competition in an industry in large part determines the content of strategy, especially business-level strategy. Based as it is on the fundamental economics of the industry, the very profit potential of an industry is determined by competitive interactions between different market forces. Where these interactions are intense, profits tend to be whittled away by the activities of competing firms. Where they are mild and competitors appear docile, profit potential tends to be high.

All these forces assist in identifying the presence or absence of potential high returns. The clear understanding of these forces and their influences on competition within an industry enables the strategist to identify the most advantageous strategic position.

The five forces that influence the intensity of competition are explained below:

- (i) *Intensity of Rivalry among Competitors* : Some industries appear inactive because of a low level of rivalry among competitors. An example might be industrial fasteners, the manufacturers of nuts and bolts and other devices used to connect the components of products.
- (ii) *Power of Buyers* : From an industry's point of view, the buyers can usually be classified into three major categories i.e.: consumers, industrial customers, and commercial customers. Consumers include the purchasers of the firm's service or product for their own use. Goodyear, for example, sells tyres directly to the people who use them in their cars and two wheelers. Industrial buyers include the companies which purchase the firm's product or service to be used as a component in its product. Continuing with the Goodyear example, automobile manufacturers who put Goodyear tyres on new cars would be one group of its industrial buyers. Commercial customers include other companies that sell Goodyear's products to consumers.
- (iii) *Power of Suppliers* : The suppliers of goods and services to an industry have the power to influence their customers through their ability to set price and control quality, delivery time, and order quantity. If these customers cannot manage successfully one supplier against another to protect their interest, then the industry's profits can be drained off by the suppliers.
- (iv) *Substitute Products* : Substitute products refer to those products of industries which serve similar consumer needs. Existence of close substitutes represents a strong competitive threat which limits the price fixation power and the profitability of the firm. Conversely, if the firm's products have very few substitutes, then the company has the opportunity to raise prices and earn additional profits. It is an eye opener for the firms to select those lines which have least substitutes.

- (v) *Potential Entrants* : New entrants to an industry pose several threats to existing competitors. New competitors can reduce the market share of all participants by dividing the pie into more pieces. As a result of this they may also bring new technology or greater resources not available to present competitors and capture a high market share position quickly to the detriment of all existing participants.

Answer 1(d)

Once the organization identifies various strategic alternatives, the next important step of strategic management process is to make a choice from among available alternative strategies. The rationale of strategic choice is to direct resources towards objectives in accordance with chosen strategy.

Different approaches are developed by experts to evaluate strategic alternatives and choose the best among them subject to given conditions. We can classify the evaluation approach in the following categories:

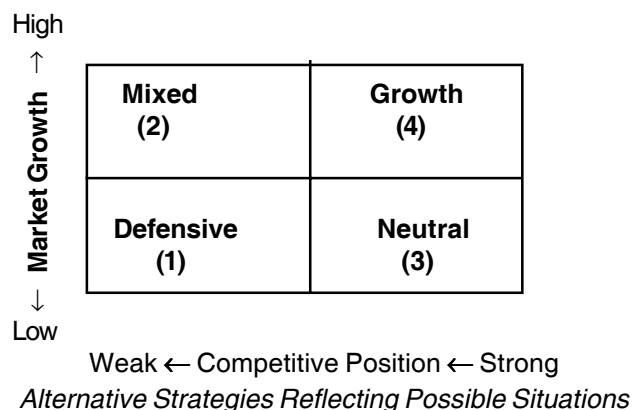
- (i) Simple Approach
- (ii) Analytical Models Approach.

(i) Simple Approach

Let the strategic alternatives be grouped on the basis of key variables, viz., potential market growth and the firm's competitive position. This is a logical starting point since the appropriateness of the strategic choice depends upon the firm's position in relation to the external market and its competitive position assuming that the firm has or can secure the necessary financial resources. The alternative strategies may thus be said to comprise the following combinations of the two variables:

- (1) Low market growth potential/Weak competitive position.
- (2) High market growth potential/Weak competitive position.
- (3) Low market growth potential/Strong competitive position.
- (4) High market growth potential/Strong competitive position.

The quadrant 1 which represent the defensive situation in the following diagram shows low market growth potential and weak competitive position. The organization may seriously consider the defensive retrenchment or divestment—and use excess cash to invest in areas where profit potential is greater.



The quadrant 2 depicts the mixed situation where an organization has high market growth potential and weak competitive position. In this situation, some variant of the combination or mixed strategy is called for.

In quadrant 3 the organization is in neutral situation where the organisations having low market growth potential but strong competitive position. In this situation, organization should normally favour a stable growth strategy so as to maintain its market share.

The Quadrant 4 depicts growth situation which reflects high market growth potential and strong competitive position. These strategies are ideally suited for growing organization situation.

(ii) Analytical Models Approach

A number of analytical conceptual models have been developed by experts for managers to evaluate strategic alternatives before making a choice. Some of them include: Growth share Matrix—Boston Consulting Group (BCG) Model; General Electric's Stoplight Grid, Life Cycle Theory, etc.

Question 2

Read the following extract from the annual report of Sterlite Industries (India) Ltd. and answer the questions given at the end :

"Our business and operations are subject to a variety of risks and uncertainties which are no different from any other company in general and our competitors in particular. Risks are identified through a formal risk management programme with the active involvement of business managers and senior management personnel at both the subsidiary level as well as the corporate level. Each significant risk has an 'owner' within the group at a senior level, and the impact to the group, if a risk materialises and its likelihood of crystallization is regularly reviewed. A risk register and matrix is maintained, which is regularly updated in consultation with business managers. The risk management process is coordinated by our management assurance function and is regularly reviewed by our Audit Committee. Key business decisions are discussed at the monthly meetings of the Executive Committee and senior managers address risk management issues when presenting initiatives to the Executive Committee. The overall internal control environment and risk management programme is reviewed by our Audit Committee on behalf of the Board of directors.

The areas identified for risk management by the company include – Treasury Management; Commodity Risks; Political, Legal, Economic and Regulatory Risks; Ore Reserves and Resources; Delivery of expansion projects on time and within budget; ASSET use and Insurance; Safety, Health and Environment Risks; Operational Risks; Financial Risks; Liquidity; Foreign Currency; Interest Risks; Counterparty Risks; and Employees.

During the year 2008-09, the world witnessed several mine closures, production cutbacks and deferral of projects. Despite such negative market sentiments and a depressed outlook for demand, we remain focused on our basic objectives of achieving a least-cost position and developing low capital cost projects on or ahead of schedule and within budgets. Thus the year 2009-10 augurs well."

Questions —

- (i) *What is risk management ?*
- (ii) *What are the major steps in risk management process ?*
- (iii) *Who is responsible for putting in place risk management process ?*
- (iv) *What is the risk management style in the company ?*
- (v) *What could be the possible reasons to have negligible provision for bad and doubtful debts ?* (4 marks each)

Answer 2(i)

Risk Management' is an integral part of business process. It is the process for identifying and assessing opportunities and avoiding and mitigating losses. It is a logical and systematic process of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risks associated with any of the business activity, functions in a way that enables an organization to minimize losses and maximize opportunities/gains. In practice, it is about identifying potential variations from what is planned targets and managing those to maximize opportunity, minimize loss and improve decisions and outcomes. Corporate risk has been classified into (a) Enterprise risk management and (b) Project risk management.

Answer 2(ii)

Risk management process consists of following main steps:

- (i) *Risk identification* : Risk cannot be managed unless it is first identified. Once the context of the business has been defined, the next step is to utilize the information to identify as many risks as possible. The aim of risk identification step is to identify possible risks which may affect, either negatively or positively, the objectives of the business and the functioning of the enterprise.
- (ii) *Risk assessment* : Every organization is continuously exposed to an endless number of new or changing threats and vulnerabilities that may affect its operation or the fulfillment of its objectives. Identification, analysis and evaluation of these threats and vulnerabilities are the only way to understand and measure the impact of the risk involved and hence to decide on the appropriate measures and controls to manage them.
- (iii) *Risk measurement and analysis* : Risk measurement includes a determination of (a) The probability or chance of the losses that will occur, (b) The impact of the losses upon the financial affairs of the firm, and (c) The ability to predict the losses during the financial period.

The risk analysis assists in determining which risks have a greater consequence or impact than others. This helps to provide a better understanding of the possible impact of risk, or the likelihood of its occurring, in order to make a decision about committing resources to control the risk.
- (iv) *Risk evaluation* : Risk evaluation implies ranking in terms of importance, and ranking suggests measuring some aspect of the factors to be ranked. Risk

evaluation involves comparing the level of risk found during the analysis process with previously established risk criteria, and deciding whether these risks require treatment.

- (v) *Risk treatment* : Risk treatment is basically concerned with identifying options for treating or controlling risk, in order to either reduce or eliminate negative consequences, or to reduce the likelihood of an adverse occurrence. Risk treatment should also aim to enhance positive outcomes. It is often either not possible or cost-effective to implement all treatment strategies
- (vi) *Risk monitoring and review* : Risk monitor and review is an essential and integral step in the risk management process. A business owner must monitor risks and review the effectiveness of the treatment plan; strategies and management system which have been set up to effectively manage the risk.

Answer 2(iii)

Part IV(C) of Clause 49 of the Listing Agreement requires laying down procedures for informing the board members about the risk management and internal control systems in critical areas of operation. The CEO and CFO are responsible for putting in place risk management and internal control system in critical areas of operations of their companies. These procedures have to be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework. Simply stated, the company has to adopt appropriate risk management policies, commensurate with its size and requirement of business, and review these periodically in the light of changing economic and corporate scenario. In the present case, for practical purposes, each significant risk has a 'owner' within the Group at a senior level. The risk management issues are discussed at the Executive Committee meetings held every month and the overall risk management programmes are reviewed by the Audit Committee on behalf of Board of Directors.

Answer 2(iv)

The company has a participative style of risk management involving the top, middle and lower management at the holding and subsidiary companies. The company has in place a formal risk identification programme at the holding and subsidiary level where the board identifies and manages various business risks. The holding, subsidiary and departments manage risk continuously and systematically. Such a risk management process is essentially a part and parcel of the operations and management function of the company at corporate level.

Answer 2(v)

The company could have negligible provision of bad and doubtful debt by proper management of default risk. This is to manage the uncertainty associated with realization of receivables from the customers. The underlying objective is to ensure timely receipt of contractual interest and principal from the short-term and long-term debtors. It involves (i) insisting on payment by letter of credit; (ii) receiving part payment in advance; and (iii) strict receivable management.

Question 3

- (a) *Critically examine the major characteristics of information systems (IS). (8 marks)*

(b) *In the context of Management Information Systems (MIS), state, with reasons in brief, whether the following statements are correct or incorrect :*

- (i) *Study of MIS is about the use of computers.*
 - (ii) *More data in reports means more information for managers.*
 - (iii) *Accuracy in reporting is of vital importance.*
 - (iv) *Strategic information meets information requirements of the top management.*
- (2 marks each)*

(c) *“Internal control can provide only reasonable, but not absolute assurance that the objectives are achieved.” Critically examine the statement with four inherent limitations of internal control systems.*

(4 marks)

Answer 3(a)

Information system refers to a set of people, procedures and resources that collects, transforms, and disseminates information in an organization.

In other words an information system is a system of collecting, storing, retrieving and processing data for providing appropriate and timely information to managers at different levels of organization hierarchy for helping them in performing managerial activities. It consists of people, procedures, methods, equipments and other resources that work together in a desired manner to provide necessary information supports to managers with an objective to increase effectiveness of management

The major characteristics of Information Systems are as follows :

- (i) *Repetitiveness* : The information produced by these systems is usually repetitive in nature at periodic intervals such as daily, weekly, or monthly.
- (ii) *Predictability* : The information they produce usually does not contain any surprises for the manager or the users of the information.
- (iii) *Emphasis on the past* : The information generated by the systems usually describe the past.
- (iv) *Detailed nature* : The information produced is very detailed.
- (v) *Internal origin* : The data for operational system usually spring entirely from internal sources.
- (vi) *Structured form* : The form of the data input and the form of the output produced by the operational information systems is structured.
- (vii) *Great accuracy* : The accuracy of the data used as input to such systems and of the output produced by such systems is usually very high.

However, there is no such tailor made information system which can be universally applied to **all situations**. Therefore it has to be adjusted as per the requirements **and objectives** of an organization.

Answer 3(b)

In the context of Management information system (MIS) correctness or incorrectness of the following statements are clarified below:

- (i) **The statement is incorrect.** MIS may or may not be computer based on use of computer. Computerization is just a tool for installation of required MIS, depending

on several factors like how critical is the response time required for getting the information, how big is the organization and how complex are the needs of information processing.

- (ii) **The statement is incorrect** because what is important is the quality of data and information in reports rather than the quantity of data and information. In fact, the data provided in reports should meet information requirements of management. Unorganized mass of data may create confusion than bringing clarity to the issues.
- (iii) **The statement is correct** at the operating level because the degree of accuracy is closely related to the decision problem. For example, accuracy is really important in medicine, control of aircrafts, design of dams, bridges, flyovers and railway tracks.
- (iv) **The statement is correct** because the top level management requires strategic internal and external information for formulating long-term objectives, strategies and major policies and programmes of the company. It is the top management, who is concerned with the determining, maintaining and supplying of required information.

Answer 3(c)

Internal control system means all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

Experience proves that best of internal control system in any organization can provide *only reasonable, but not absolute assurance* that the objectives are achieved. The four inherent limitations of internal control are as under:

- (i) Management's usual desire is that a control should be cost-effective, i.e., the cost of a control procedure should not be disproportionate to the potential loss due to fraud or error.
- (ii) Most of the controls tend to be directed at anticipated types of transactions and not at transactions of unusual nature.
- (iii) The potential for human error due to carelessness, distraction, mistakes of judgement or the misunderstanding of instructions can not be ruled out.
- (iv) The possibility of circumvention of controls through collusion with parties outside the entity or with employees of the entity may be present.

PART B

(Answer ANY ONE question from this part.)

Question 4

- (a) Explain whether every technical collaboration is a strategic alliance. (5 marks)
- (b) Explain briefly the various types of strategic alliances. (5 marks)
- (c) What are the advantages of a technical collaboration ? (5 marks)
- (d) What are the important factors for the success of a technical collaboration ? (5 marks)

Answer 4(a)

Every technical collaboration is a strategic alliance. Any arrangement or agreement under which two or more firms cooperate in order to achieve certain commercial objectives is referred to as strategic alliance. A true strategic alliance is a written arrangement between two companies that complement each other in a particular identified area. It is a commitment by the two companies to provide capabilities or cross servicing in certain identified areas.

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.

Answer 4(b)

Various types of strategic alliances are as follows:

- Joint Venture.
- Equity strategic alliances.
- Non-equity strategic alliances.
- Global strategic alliances.
- Research & Development.
- Management contract.
- Franchising.
- Supply or purchase agreement.
- Marketing or distribution agreement.
- Agreement to provide technical services.
- Licensing of know-how, technology, design or patent.

Answer 4(c)

Advantages of a technical collaboration are as follows:

- Move to decisively seize opportunities before they disappear.
- Respond more quickly to change.
- Adapt with greater flexibility.
- Gain overseas presence.
- Gain overseas expertise and technology.
- Increase a company's market share.
- Gain access to a new market or beat others to that market.

- Quickly shore up internal weaknesses.
- Gain a new skill or area of competence.
- Rapidly meet a company's need for key resources.
- Gain a means of Distribution in International market.
- Overcome legal or Regulatory barriers.
- Diversification of business.
- Avoiding competition.
- Focus on New Products and Restructuring.
- Gaining cost and quality competitiveness defend business interests, updating technology.
- Increasing efficiency through economies of scale, specialisation etc.

Answer 4(d)

Certain key success factors are:

- *Mutual Trust* : Mutual trust at senior management level carry ventures through turbulent times.
- *An ability to compromise* : When there are two strong companies, the ability to compromise is not easy to achieve. If you expect to receive some valuable technology, production or marketing know how from a partner, you must be willing to give something.
- *Favourable business condition* : Launching an alliance when favourable business conditions exist makes a venture life considerably easier for its partners.
- *Alliance Autonomy* : The autonomy mandates a high degree of responsibility and good judgement by the ventures management.
- Dynamic management structure.
- Encouragement of calculated initiatives.
- Systematic task setting.
- Equal distribution of authority.
- Streamlined communication channels.
- Development of multi-manager roles.

The benefits of alliances can be leveraged by adequate internal communication mechanisms. Managing alliances will test even the most competent of executives. The capabilities include not only careful planning and implementation, but also a broad perspective and an open mind.

Question 5

Modern Pharmaceuticals Ltd., India (hereinafter called the First Party), is entering into a joint-venture agreement with Afro-Drugs, Nigeria (hereinafter called the Second

Party) to incorporate a new company in India for setting-up a pharmaceutical manufacturing project. In this context, answer the following :

- (a) What is the nature of the joint-venture project ? (5 marks)
- (b) Draft the following clauses to be included in the joint-venture agreement/articles of association of the new company :
- (i) Allotment of shares to the first Party and second party with lock-in-period.
 - (ii) Suitable restrictions on the transfer of shares during the lock-in-period.
 - (iii) Exit route.
 - (iv) Right to first refusal in case any party decides to exit.
 - (v) Arbitration under the London Court of International Arbitration.
- (3 marks each)

Answer 5(a)

The nature of the joint-venture project is 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.

The parties to a joint venture agreement agree on purposes and functions of the newly created entity, the proportion of capital contribution by each party and the share of each party in the profits of the company and on other matters such as its management, operation, duration and termination and exit route etc.

Answer 5(b)

The drafts of clauses are as under in the joint venture agreement/articles of association of the new company:

- (i) The New Company shall initially allot 51% (fifty one per cent) shares to the Mordern Pharmaciutical Ltd. (herein after called FIRST PARTY) and 49% (forty nine per cent) shares to the Afro-drugs, Nigeria (herein after called SECOND PARTY) in the total paid-up capital of the New Company. The initial allotment of shares shall be subject to a lock-in-period of three (3) years from the date of allotment of shares by the New Company.
- (ii) The shares held by the FIRST and SECOND PARTY during the locked-in-period can be transferred to and amongst the promoters. They shall, however, not sell, transfer, pledge and assign their shares and voting rights to any third party during the locked-in period, save and except to banks and financial institution or any other government or statutory body to fulfill the conditions for seeking loan and investments for the Company.
- (iii) In case of unavoidable circumstances like statutory hurdles, non cooperation or irreconcilable difference, if either PARTY would have to exit from the New

Company, the Board of Directors shall appoint and engage independent chartered accountants of neutral nationality to evaluate and determine the 'Net Asset Value' of the shares as per the latest available Balance Sheet and Profit and Loss Account of the new company.

- (iv) The continuing PARTY shall have 'the right to first refusal' in case any PARTY decides to exit. The exiting PARTY shall, therefore, offer its entire shares to the continuing PARTY at the Net Asset Value price. Valuation shall be made by a independent chartered accountants of neutral nationality.
- (v) Any dispute arising out of or in connection with this joint-venture agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the Rules of the London Court of International Arbitration (LCIA) at London.

PART C

(Answer ANY TWO questions from this part.)

Question 6

Write notes on any four of the following :

- (i) Controversy on Regional Free Trade Agreements.*
- (ii) Advantages of India joining the Association of South-East Asian Nations (ASEAN).*
- (iii) Main objectives of the World Trade Organisation (WTO).*
- (iv) Rules of origin.*
- (v) Dispute Settlement System – rules-based or justice-based. (5 marks each)*

Answer 6(i)

Regional Free trade agreements are considered policy compulsions, but highly controversial in terms of economic advantages. On the one hand, RFTAs are promoted as the instrument of forging partnerships to strengthen their position in the global economy and to sustain economic growth. These are considered vehicles of mutual gains between developing countries by opening up of the trade and services sectors bilaterally. However, there is question about the economic gains from the Regional FTAs. It may cause increasing unaccountable concentration of power and decision making; environmental degradation; eroding workers rights; brain drain from poor countries to rich countries; protectionism for the rich and open market for poor; positive or negative form of interdependence. There are also concerns about the non-transparent/transparent pricing mechanism and massive hidden subsidies and recurring trade deficits.

Answer 6(ii)

Advantages of India joining the ASEAN

- Enhancing India's close economic cooperation and to work towards an India-ASEAN Regional Trade and Investment Area (RTIA) as a long term objective.
- Minimising barriers and deepen economic linkages of India.
- Increasing intra-regional trade and investment.

- Increasing economic efficiency.
- Creating a larger market with greater opportunities and larger economies of scale for the businesses; and
- Enhancing the attractiveness to capital and talent.

Answer 6(iii)**Main objectives of the WTO**

- Promotion of free trade among member countries
- Expanding trade in goods and services,
- Optimal use of the world's resources in accordance with the objective of sustainable development, and environmental protection.
- Ensuring that developing countries, especially the least developed countries (LDCs), secure a proper share in the growth of international trade.
- Removal of obstacles to free trade.
- Administration of Rules, Regulations for settlement of trade related dispute among member countries under Dispute Settlement Mechanism.
- Providing technical advice in trade related matter to all member countries.

Answer 6(iv)

“Rules of origin” are the criteria used to define where a product was made. They are an essential part of trade rules because a number of policies discriminate between exporting countries: quotas, preferential tariffs, anti-dumping actions, countervailing duty and more. Rules of origin are also used to compile trade statistics, and for “made in” labels that are attached to products. This first-ever agreement on the subject under WTO requires its members to ensure that their rules of origin are transparent; they do not have restricting, distorting or disruptive effects on international trade. They are administered in a consistent, uniform, impartial and reasonable manner; and that they are based on a positive standards (in other words, they should state what does confer origin rather than what does not). For the longer term, the agreement aims for common (“harmonized”) rules of origin among all WTO members.

Answer 6(v)**Dispute Settlement System**

The WTO dispute settlement system is a rule-oriented system where recommendations and rulings must aim at achieving a satisfactory settlement in accordance with the rights and obligations of the Members under the WTO Agreement. As a result, all solutions to matters formally raised under the consultation and dispute settlement provisions of the WTO agreements must not nullify and impair benefits accruing to any Member under those agreements.

Under the DSU, the “players” in a dispute settlement process are subject to certain rules aimed at ensuring due process and unbiased recommendations and rulings. For

instance, there must not be any ex parte communications with the panel or Appellate Body members concerning matters under consideration by the panel or the Appellate Body.

The WTO dispute settlement mechanism provides for three main ways of resolving disputes: (i) bilateral consultations; (ii) good offices, conciliation and mediation; and (iii) adjudication, including arbitration.

With the exception of arbitration, adjudication cannot be requested until consultations have taken place or unsuccessful attempts to consult have been made. The Dispute Settlement Mechanism contains rules and procedures to be followed by WTO Members.

Question 7

- (a) *Prepare an executive note for the Director (R&D) explaining the roles and functions of the Trade-Related Aspects of Intellectual Property Rights (TRIPS), World Intellectual Property Organisation (WIPO) and Patent Cooperation Treaty (PCT).*
(10 marks)
- (b) *Briefly explain the dispute settlement procedure of the WTO with particular reference to dispute settlement body and provision for appeal and decision-making process.*
(10 marks)

Answer 7(a)

The WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is an attempt to narrow the gaps in the way these rights are protected around the world, and to bring them under common international rules. When there are trade disputes over intellectual property rights, the WTO's dispute settlement system is available. The second part of the TRIPS agreement looks at different kinds of intellectual property rights and how to protect them. The purpose is to ensure that adequate standards of protection exist in all member countries. The Council for Trade-Related Aspects of Intellectual Property Rights monitors the working of the agreement. The areas covered under the TRIPS agreement include Copyright and related rights, such as Trademarks, including service marks, Geographical indications, Industrial designs, Patents, Layout-designs (topographies) of integrated circuits, Undisclosed information including trade secrets.

The World Intellectual Property Organization (WIPO) is an international organization dedicated to helping 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. In 1974, WIPO became a specialized agency of the United Nations system of organizations, with a mandate to administer intellectual property matters recognized by the member states of the UN. WIPO expanded its role and further demonstrated the importance of intellectual property rights in the management of globalized trade in 1996 by entering into a cooperative agreement with the World Trade Organization.

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.

Patent Cooperation Treaty (PCT) implements the concept of a single international patent application which has legal effect in the countries which are bound by the treaty and which are designated by the applicant. Once such an application is filed, an applicant receives valuable information about the potential patentability of his invention (through the international search report and the optional international preliminary examination report) and has more time than under the traditional patent system to decide in which of the designated countries to continue with the application. Thus, the PCT system consolidates and streamlines patenting procedures and reduces costs, providing applicants with a solid basis for important decision-making.

Answer 7(b)

The operation of the WTO dispute settlement process involves the Dispute Settlement Body, the panels and the Appellate body, the parties and the WTO Secretariat. The General Council discharges its responsibilities with respect to dispute settlement through the Dispute Settlement Body, which is composed, of representatives of all WTO members. Panels and the Appellate Body are the entities in charge of adjudicating disputes. The former are composed of experts selected on an ad hoc basis. The latter is a permanent group of seven experts in trade issues and trade law in charge of reviewing the legal aspects of the reports issued by panels.

As a general rule the DSB is to take decisions by consensus, as is the case for all decision-making in the WTO. It is deemed to have decided by consensus on a matter submitted for its consideration, if no WTO Member, present at the meeting of the DSB when the decision is taken, formally objects to the proposed decisions. However, a radically different procedure is followed in decision-making at four key stages in the dispute settlement process: establishment of panel, adoption of panel and Appellate Body reports and authorization for retaliation. At these stages the decision is taken to accept the request or adopt the report unless there is a consensus against it.

Only WTO Members can take part in dispute settlement under the WTO. WTO dispute settlement is not open to WTO observers, other international organizations, non-governmental organizations, local governments or private persons.

The WTO dispute settlement mechanism provides for three main ways of resolving disputes: (i) bilateral consultations; (ii) good offices, conciliation and mediation; and (iii) adjudication, including arbitration. With the exception of arbitration, adjudication cannot be requested until consultations have taken place or unsuccessful attempts to consult have been made.

Either side can appeal a panel's ruling. Sometimes both sides do so. Appeals have to be based on points of law such as legal interpretation. They cannot reexamine existing evidence or examine new evidence.

The appeal can uphold, modify or reverse the panel's legal findings and conclusions. Normally appeals should not last more than 60 days, with an absolute maximum of 90 days. The Dispute Settlement Body has to accept or reject the appeals report within 30 days and rejection is only possible by consensus.

These approximate time lines for each stage of a dispute settlement procedure are target figures. In addition, the countries can settle their dispute themselves at any stage. The approximate period of settlement of dispute is 1 year (without appeal) and 1 year 3 months (With appeal).

Question 8

Attempt any five of the following :

- (i) *Explain 'domestic industry' in the context of dumped goods.* (4 marks)
- (ii) *Explain the 'principle of distortion'.* (4 marks)
- (iii) *"Presently Indian exporters are facing non-tariff barriers and quantitative restrictions from the European Union facing economic slowdown." In this context, distinguish between the 'non-tariff barriers' and 'quantitative restrictions'.* (4 marks)
- (iv) *The Indian manufacturers of industrial goods and chemicals have complained to the Director General of Safeguard, Ministry of Finance, about heavy losses suffered by them due to cheap import of industrial goods and chemicals from China. State whether the Director General of Safeguard should exercise total control over import of industrial goods and chemicals or impose import duties on the imported industrial goods and chemicals.* (4 marks)
- (v) *The European Union has registered complaint with the WTO that India is restricting import of foreign liquor by imposing very high duties. Comment on the Indian plea that sale of liquor in India is a State subject.* (4 marks)
- (vi) *US has imposed a 98.4% anti-dumping duty against the Chinese imports of steel pipes, besides additional countervailing duties to off-set the subsidies given by China on steel pipes. What remedy is available to China ?* (4 marks)

Answer 8(i)

Domestic industry in the context of dumped goods means the Indian producers of like articles as a whole or those producers whose collective output constitutes a major proportion of total Indian production. Producers who are related to the exporters or importers or are themselves importers of the allegedly dumped goods shall be deemed not to form part of the domestic industry.

Answer 8(ii)

Essentially, trade is distorted if prices are higher or lower than normal, and if quantities produced, bought, and sold are also higher or lower than normal — i.e. higher than the levels that would usually exist in a competitive market. For example, import carriers and domestic subsidies can raise crop prices on a country's internal market. The higher prices can encourage over-production, and if the surplus is to be sold on world markets, where prices are lower, then export subsidies have to be paid. When some countries

subsidize and others do not, the result can be that the subsidizing countries are producing considerably more than they normally would.

Answer 8(iii)

Non tariff barriers are technical regulations and standards; import licensing; rules for the valuation of goods at customs; preshipment inspection; further checks on imports; investment measures.

Quantitative Restrictions, on the other hand, refer to specific limits imposed by countries on the quantity or value of goods that can be imported or exported to regulate or prohibit international trade. Quantitative Restrictions specifically refer to measures such as licensing requirements for exports/imports, quotas and ceilings.

Answer 8(iv)

The Director General (DG) of Safeguard, on the complaints of the India manufacturers, cannot put total control over import of industrial goods and chemicals imported from China because a total control violates the WTO multilateral trading norms.

The right course of action is that DG Safeguard can carry out safeguard investigations against import of industrial goods and chemicals. The investigations if lead to the conclusion that there is sharp increase in the import of industrial chemicals, leading to losses for the domestic industry, it can impose 200-day temporary import duties on the import of industrial chemical. The safeguard duty could be in place up to three years if the injury continues. Safeguard duty usually takes the form of increased duties and acts as quantitative restriction on imports.

The WTO allows use of 'Special Safeguard Measures (SSM)' to its members for preventing injury to a local industry due to imports. The SSM leads to imposition of additional import duties on products after it is conclusively proved that there has been a surge in the import of an identified product leading to domestic market disruption and injury to the industry. India can use the WTO approved SSM where special import duties are imposed to prevent import surges to help Indian industry against cheap imports.

Answer 8(v)

There is a threefold distribution of legislative powers stipulated in Article 246 read with Schedule VII of the Constitution of India. List I of the Union list in Schedule VII comprises of 99 items or subjects over which the Union shall have the exclusive powers of legislation. List II comprises of 61 items over which the State Legislature shall have the exclusive powers of legislation. List III the concurrent list comprises of 52 items over which the Parliament and the Legislatures of States shall have concurrent powers.

Imposition of excise duties on alcoholic liquor for human consumption, opium etc is the legislative competence of the State Government under Article 246 read with Schedule VII of State List.

Answer 8(vi)

The Chinese Government can seek and question the safeguard investigation report of the US Government on the import of steel pipes by the US industry. In case the investigation lacks of factual data, the Chinese Government can ask for withdrawal of the antidumping and countervailing duties. China can use the WTO's dispute settlement procedure to seek the withdrawal of the subsidy.

STRATEGIC MANAGEMENT, ALLIANCES AND INTERNATIONAL TRADE

Time allowed: 3 hours

Maximum marks: 100

NOTE: Answer all questions.

PART—A

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

Question 1

In a market dominated by behemoths like SAIL and TISCO, finding a niche is of crucial importance for a small player. What could a Lloyds do with a meager annual capacity of making 6 lakh tonnes of HR coils while SAIL sold over 1,600 lakh tonnes in the same time? Should Lloyds follow the market leader or adopt its own unique approach to its business strategy? It is in the context of such questions that Lloyd's attention came to rest on the manufacturing process.

Almost all steel producers adopt the blast furnace technology. In this, the process starts with a clear differentiation among the ultimate products to be manufactured. So, manufacturing batch size has to be large enough to take up customised orders. The raw material, iron ore, has to pass through several complex stages of manufacturing.

Lloyds looked for an alternative technology that could suit its requirements. The solution lay in the electric arc furnace technology where the unique feature was that initial manufacturing stages need not differentiate among different products. Such a differentiation came at a much later stage. Translated into a business proposition, what is meant was that Lloyds could operate with a much smaller batch size of, say, 100 tonnes and deliver quickly. For instance, a 1,000 tonnes small order of specialised product custom-made to buyer's specification could be delivered in as little as 15 days. Such a quick delivery schedule would not be possible for a large integrated steel manufacturer. In this manner, analogous to small gunboats that could efficiently torpedo a large slow-moving ship, Lloyds carved out a niche in the highly competitive steel market.

Answer the following questions :

- (i) Comment on the nature of the business strategy of Lloyds. (10 marks)
- (ii) What are the conditions in which such a strategy would succeed? Could fail? (10 marks)

Answer 1(i)

Nature of business strategy of Lloyds:

Lloyds as a strategy first identified their position in the steel industry in comparison with other giant leaders like SAIL, TISCO etc. Lloyds business strategy was based on its limited annual capacity. The company identified following business strategy towards building its core competencies:

- (i) Production in small batch size to meet customer requirements.
- (ii) Quick delivery by re-engineering its total supply chain and manufacturing process.

For implementation of these strategies Lloyds preferred alternative technology i.e. electric arc furnace technology where the unique feature was that initial manufacturing stages need not differentiate among different products instead of adopting the blast furnace technology wherein the process starts with differentiating among the ultimate products to be

manufactured.

Through this process Lloyds built its niche in the highly competitive steel market by reducing its delivery time and by providing specialized products custom made to customer requirements.

Answer 1(ii)

Lloyds may have an added advantage with the new electric arc furnace technology since their customer base may react positively to this new technology. However, it may face competition from its bigger counterparts who in the coming time shift to this new technology and wipe out Lloyds completely.

The strategy would succeed in the following conditions:

- (i) The strategy adopted by Lloyds is successful where small batch size orders are to be manufactured.
- (ii) It is also successful where small orders of specialized products custom made to buyer's specification are to be made.
- (iii) When a dedicated regular customer base is present.
- (iv) Where there is no threat of competition from big players.
- (v) When custom made products are to be delivered in a short span of time.

The strategy would fail in the following conditions:

- (1) It is a failure where large orders are to be manufactured i.e., the manufacturing batch size is large enough to take-up customized orders.
- (2) Where large specialized products are to be delivered.
- (3) Where the delivery time is short.

Lloyds is a small player with small administrative cost, but situation may come where Tisco and Sail may completely wipe out Lloyds by following suit.

Question 2

Explain the following:

- (i) SWOT analysis
- (ii) BCG growth matrix
- (iii) McKinsey's 7-S Framework
- (iv) Balanced Score Card approach. (5 marks each)

Answer 2(i)

SWOT Analysis

SWOT Analysis, is a strategic planning tool used to evaluate the Strengths (S), Weaknesses (W), Opportunities (O), and Threats (T) involved in a [project](#) or in a [business](#) venture. It basically involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable for achieving the objective. It is a tool of environment analysis. The SWOT Analysis forces management to analyse what it is that makes its company successful or unsuccessful.

In SWOT analysis Strengths, Weaknesses, Opportunities and Threats can be understood as:

- Strengths:** Attributes of the organization that are helpful in achieving the objective.
- Weaknesses:** Attributes of the organization that are harmful in achieving the objective.
- Opportunities:** External conditions that are helpful in achieving the objective.
- Threats:** External conditions that are harmful in achieving the objective.

The merit of SWOT analysis is not limited to profit-seeking organizations. SWOT analysis may be used in any decision-making situation when a desired end-state (objective) has been defined. SWOT analysis may also be used in pre-crisis planning and preventive crisis management.

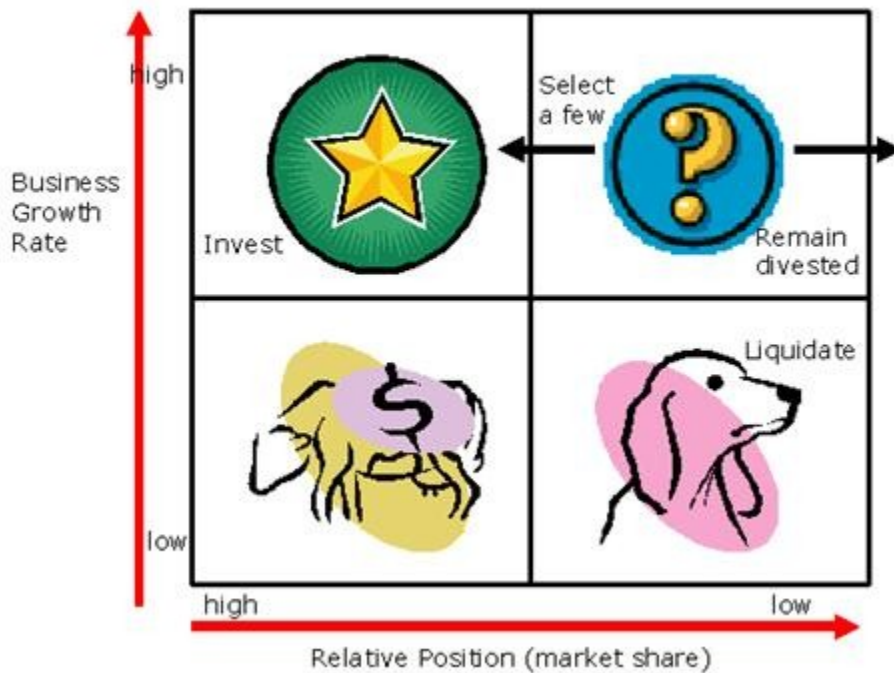
Answer 2(ii)

BCG Growth-Matrix (GSM)

The Boston Consulting Group developed the growth-share matrix model which helps 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. It is the most renowned corporate portfolio analysis tool. In other words, it is a comparative analysis of business potential and the evaluation of environment. The business units or products are analyzed by placing each one in the matrix according to their (1) expected growth rate (vertical axis), and (2) relative market share (horizontal axis). The basic idea behind this model is that if a product has a bigger market share or if the products' market grows faster, it is better for the organization. The original BCG model was based on a lifecycle view of the product of a company.

BCG Model provides a graphical representation for an organization to examine different businesses in its portfolio on the basis of their related market share and industry growth rates. The four categories of strategic business units' of BCG matrix has been shown in the following diagram:

The BCG Matrix



The different categories as shown in the above pictorial presentation can be understood as follows:

1. **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 for this category should consist of cost cutting.
2. **Question Marks (High Growth, Low Market Share):** Businesses and products with high projected growth rates and low market standing, are labeled as 'Question Mark'. This quadrant has worst cash characteristics of all, because they have high cash demands and generate low returns because of their low market shares.
3. **Stars (High Growth High Market):** Products or business units with high market standing and high industry growth potential are labeled as stars. Stars are leaders in the business and generate large amounts of cash.
4. **Cash Cows (Low Growth High Market Share):** A product or business would become a cash generator here. 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 2(iii)

McKINSEYS 7-S FRAMEWORK

McKinsey developed the 7-S framework management model which organize seven factors to organize a company in an holistic and effective way with the objective to diagnose the causes of organization problem and formulate program for improvement due to the implementation of the strategy which are associated with change in the organization.

The organizational change is not simply a matter of structure although the structure is a significant variable in the management change. Effective organizational change may be understood to be a complex relationship between the 7-S i.e. strategy, structure, systems, style, skills, staff and shared values (super ordinate goals). They are discussed herein below:

(i) **Strategy:** Strategy means to achieve objectives. It provides the direction and the scope of the organization over the long-term. A strategy targets at gaining competitive advantage over rivals.

(ii) **Structure:** It is a basic framework to designate responsibilities and functions. Organization structure prefers relatively more durable organizational arrangements and relationship. It prescribes the formal relationship among various positions and activities.

(iii) **System:** It is a management tool for planning, decision-making, communication control and the procedures and processes regularly followed by an organization. Systems in the 7-S framework signifies all the rules and regulations, procedures both formal and informal that complement the organizational structure.

(iv) **Style:** Style stands for the patterns of behaviour and managerial style of top management over a period of time. It is visible through relationship among the three levels of management or managers, organizational culture which is a reflection of value system.

(v) **Staff:** According to 7-S framework the term 'staff' refers to the way organizations introduce young recruits into the main streams of their activities and the manner in which they manage their careers as the new entrants develop into future managers.

(vi) **Skills:** It means organization and individual capabilities. Skill is an ability or proficiency in performing a particular task. It includes those characteristics which most people use to describe a company.

(vii) **Shared Values (Super Ordinate Goals):** Super ordinate goals stands for company's mission, vision, values, philosophy in the backdrop of which organizational goals and objectives are set and strategies are formulated. These are essential as they inspire the members of the organization and provide a definite direction to its operations.

Answer 2(iv)

BALANCED SCORE CARD APPROACH

The balanced scorecard is a methodological tool meant to help businesses manage their future growth, objectives and plans. The balanced score card (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.

The purpose of the balanced scorecard is to give a measuring tape by which someone can determine whether the set goals have been met or exceeded. It adds non-financial metrics to traditional financial metrics to give a well-rounded view of the performance in an organization. Balanced scorecards can be as simple or complex as needed for the purposes of a company's metrics. There are four components to the balanced scorecard:

- Learning and Growth Perspective
- Business Processes Perspective
- Customer Perspective
- Financial Perspective

Some of the merits of BSC are listed as under:

- 1.A balanced view of a company's performance can be gauged after looking at all the four aspects of balanced scorecard.
- 2.Unlike traditional methods of [tracking the financial health of a business](#), the balanced scorecard gives a full picture as to whether the company is meeting its objectives.
- 3.The balanced scorecard approach doesn't only help in evaluating the immediate future rather allows for stakeholders to determine the health of short, medium, and long term objectives at a glance.

Some of the demerits of BSC approach include the following:are:

- 1.It is not a tool that will help when immediate results are required. Thus it does not solve last minute problems It is a long term tool which has to be used and implemented to attain objectives in the long run.
- 2.The financial information included on the scorecard is limited. Instead, to be successfully implemented, the balanced scorecard must be part of a bigger strategy for company growth that includes meticulous accounting methods.
- 3.Finally, many companies use metrics that are not applicable to their own situation. It is vitally important when using balanced scorecards to make the information being tracked applicable to your needs. Otherwise, the metrics will be meaningless.

Question 3

*(a)Explain in detail Michael F. Porter's five forces model of industry analysis.
(10 marks)*

(b)Distinguish between 'goals' and 'objectives'. Also mention the major features of objectives in an organisation. (10 marks)

Answer 3(a)

PORTER'S FIVE FORCES MODEL OF INDUSTRY ANALYSIS

Michael E. Porter developed an assessment model for analyzing industry structure that focuses on the forces imposed on the process of competing by five influences: the intensity of rivalry among competitors, the threat of new entrants, the threat of substitute products, the bargaining power of suppliers, and the bargaining power of buyers or customers.

Using Porter's model to analyze an industry for a particular firm, involves estimating the strength of each force, identifying its underlying source, and then formulating a strategy that will create an advantage for the firm.

The key task of the analyst is to understand the underlying causes of each of the competitive forces at work. With this knowledge, a company's strengths or weaknesses can be clarified, and the most fertile areas for drafting competitive thrusts can be defined. Also, knowing the magnitude of competitive forces allows the strategist to identify the most important trends that are emerging as opportunities and threats.

The five forces that can create strength for competitors are explained below:

(i) *Intensity of Rivalry among Competitors:* Some industries appear inactive because of a low level of rivalry among competitors. An example might be industrial fasteners, the manufacturers of nuts and bolts and other devices used to connect the components of products. A large number of quite small manufacturers accept low levels of profitability for

staying in business. Competition is key with little effort and expense devoted to differentiating brands or single products.

(ii) *Power of Buyers*: From an industry's point of view, the buyers can usually be classified into three major categories i.e.: consumers, industrial customers, and commercial customers. Consumers include the purchasers of the firm's service or product for their own use. Buyers, whether consumers, industrial, or commercial, can enjoy positions of strength over the firm from which they purchase products by superior bargaining power. For example, a large retailer (commercial buyer) with a loyal customer base and high volume of sales of the product in question may be able to virtually dictate price, shipping arrangements, order quantity, quality level, and other factors to its vendors.

(iii) *Power of Suppliers*: The suppliers of goods and services to an industry have the power to influence their customers through their ability to set price and control quality, delivery time, and order quantity. If these customers cannot manage successfully one supplier against another to protect their interest, then the industry's profits can be drained off by the suppliers.

(iv) *Substitute Products*: Substitute products refer to those products of industries which serve similar consumer needs. Existence of close substitutes represents a strong competitive threat which limits the price fixation power and the profitability of the firm. Conversely, if the firm's products have very few substitutes, then the company has the opportunity to raise prices and earn additional profits. It is an eye opener for the firms to select those lines which have least substitutes.

(v) *Potential Entrants*: New entrants to an industry pose several threats to existing competitors. New competitors can reduce the market share of all participants by dividing the pie into more pieces. As a result of this they may also bring new technology or greater resources not available to present competitors and capture a high market share position quickly to the detriment of all existing participants.

Thus, conducting an industry analysis following Porter's model involves collecting data and developing explanations for the ways in which industry competition is affected by the five forces.

Answer 3(b)

Goals and objectives are the end results which an organization strives for. Thus, goal and objective consists of a projected state of affairs which a person or a system intends to achieve. It is the desired end-point in some sort of assumed development.

A desire or an intention becomes a goal if and only if, it activates an action for achieving it. It is roughly similar to purpose or aim, the anticipated result which guides action, or end, which is an object, either a physical object or an abstract object, that has intrinsic value.

Objectives are aims, or purposes that organizations wish over varying periods of time. Objectives are the intended end result that an organization desires to achieve over varying periods of time. Because of time variation, objectives may be specified in different ways in which long-term objectives are supported by short-term objectives.

The objectives and goals may differ from each other in the following dimensions:

(1) **Time**: Objectives are timeless, enduring, and unending whereas goals are temporal, time-phased, and intended to be superseded by subsequent goals. Objectives relate to the ongoing activities of an organization, their achievement tends to be open-ended

and not bound by time. A goal on the other hand is short-lived as it is time bound.

(2)**Specification:** Objectives are stated in broad, general terms, dealing with matters of image, style and self-perception. These are aspirations to be worked in the future. Goals are very specific, stated in terms of a particular result that will be accomplished by a specific date. Goals are more specific and time bound.

(3)**Focus:** Objectives are usually stated in terms of some relevant environment which is external to the organization. Goals on the other hand, are more internally focused and carry important implications about how resources of the organization are utilized or will be utilized in future. Objectives are more generalized statements like maintaining market leadership, striving continuously for technological superiority, etc., whereas a goal may imply a resource commitment requiring the organization to use those resources in order to achieve the desired outcomes.

(4)**Measurement:** Both objectives and goals can be stated in terms, which are quantitatively measured, but the character of measurement is different. Generally quantitative objectives are set in relative terms. For example, Reliance Industries has put its objectives like this: to acquire top position among the Indian companies. This objective may not be achieved in one year, but it is timeless and externally focused, providing a continuing challenge for the company. Quantitative goals are expressed in absolute terms; say 20% increase in sales. The achievement of this goal can be measured irrespective of environmental conditions and competitors' actions.

MAJOR FEATURES OF OBJECTIVES IN AN ORGANIZATION

(1)Each organization has some objectives as it is created basically to attain the same. Members/employees in the organization try to achieve these objectives.

(2)Objectives may be broad or they may be specifically mentioned. They may pertain to a wide or narrow part of the organization. They may be set either for the long term or for the short term. For example, the basic objective of a business organization may be to earn profit. This may be quite a broad objective. In order to achieve this broad objective, some specific objective may be set, for example, amount of profit to be achieved in a particular period. Thus, general objectives may be translated into operative objectives to provide definite action.

(3)Objectives may be clearly defined and have to be interpreted by the behaviour of organizational members, particularly those at top level. However, clearly defined objectives provide clear direction for managerial action.

(4)Objectives have hierarchy. At the top level, it may be broad organizational purpose which can be broken into specific objectives at the departmental level. From departmental objectives, units of the department may derive their own objectives. This is due to grouping of people into sections, departments, divisions, etc., in the organization.

(5)Organizational objectives have social sanction; organizations are created within the social norms. They must conform to the general needs of the society.

(6)An organization may have multiple objectives which may be functional and interrelated. Sometimes, the objectives may be even incompatible. This happens because over a period of time, many interest groups exert their pressure on organizational objectives. There are trade off among objectives. The achievement of one may be at the cost of the other at one point of time, while at other time, both can

be integrated.

(7)Organizational objectives can be changed as new ones may replace old objectives. It is possible because organizations are free to set their objectives within the overall social norms. Since objectives are formulated keeping in view the environmental factors and internal conditions, any change in these may result into change in objectives. For example, the Red Cross which was originally formed to hold itself in readiness in the war or any calamity to help the people found itself underemployed after World War I. So subsequently added another objective-that of preserving and improving public health.

PART—B

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

Question 4

(a)Discuss the preliminary steps required for the creation of a successful alliance. (8 marks)

(b)Discuss the restrictive covenants being used in the foreign collaboration and technology transfer agreements. (8 marks)

(c)What are the methods of funding investments in overseas joint-venture and wholly-owned subsidiaries? (4 marks)

Answer 4(a)

The preliminary steps necessary for creation of a successful alliance are as follows:

–Developing qualitative and quantitative partner criteria: The organizational culture and norms should be analysed, personnel functions should be analysed and the proposed criteria of partner to be selected should be outlined.

–*Developing a list of prospective partners:* It is essential that the partner analysis is proactive and not reactive. A partner that approaches a company may not be the optimum partner. It is therefore, necessary to examine other opportunities, if they exist. Accordingly, a list of prospective partners should be prepared.

–*Partner Selection:* While selecting a partner, companies must list the prospective standards against which they can measure the merits of a prospective partner; the most important being the three C's of successful alliances namely, Compatibility, Capability and Commitment.

–*Partner Analysis:* Once the potential partner has been identified, the next step is to analyse the strategic fit of the partner with the company. As much information as possible should be gathered about the prospective partner so as to adapt and improve the understanding of the appropriateness of the partner for the stated goals of the company. The legal and accounting team of the company should be involved in researching the implications of the alliance.

–*Obtaining internal approvals:* The policies should be completely unambiguous and clear internal approvals should be obtained from the CEO and the top advisory personnel to avoid embarrassment later.

–Creating an implementation plan: Alliance conceived entirely by the planning and corporate departments without the active participation of the operational managers, who will ultimately have responsibility for the implementation of projects are bound to

fail. It is therefore, essential that the operating managers are involved in at least the later stage of the negotiation process.

- Final predeal evaluation of all the relevant information.
- Negotiating the deal and managing the legal process.

Answer 4(b)

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 on Research and Development
- Non-competition clauses
- Tying arrangements
- Export restrictions
- Direct and Indirect restrictions
- Implied restrictions
- Price fixing and grant-back practices
- Exclusive sales and representation arrangements
- Restrictions on field of use, volume or territory.

Answer 4(c)

Investment in an overseas joint venture and wholly-owned subsidiaries may be funded out of one or more of the following sources:

- Drawal of foreign exchange from an authorized dealer bank in India
- Capitalization of exports
- Swap of shares
- Utilization of proceeds of External Commercial Borrowings / Foreign Currency Convertible Bonds
- Balances held in EEFC account of the Indian party and
- Utilization of proceeds of foreign currency funds raised through ADR/GDR issues.

Question 5

(a) Discuss the important clauses to be incorporated in a foreign collaboration agreement. (10 marks)

(b) Discuss the types of strategic alliance and its advantages. (10 marks)

Answer 5(a)

The foreign collaboration agreement generally contains the following comprehensive clauses:

- (i) In case of agreement for provisions of technical know-how:
 - Definitions and characteristics of the subject matter of the know-how
 - The mode of transfer of technical know how
 - Clause safeguarding secrecy of the technology
 - Training of the technical personnel of the Indian company by the foreign collaborator

- Performance guarantee in regard to the achievement of the required qualities, standard of the product, quantities to be produced and minimum standard of performance with suitable indemnity clause
 - Conferring of license or patent right for technical know how and the product to be manufactured.
 - Mode and method of payment.
 - Who would own the future improvements in the technology by the transferee made by transferring the technology.
- (ii) In case of agreement for a joint venture:
- Since in India, a foreign company is not allowed to hold more than 51% shares in any company, care must be taken to promote the equity participation by the foreign company
 - The constitution of the Board of Directors with election, number of directors and power of the Board
 - The mode of declaration and distribution of the dividends
 - The area of marketing of the products
 - Restriction on any change in the ownership ratio, other provision as incorporated under an agreement for supply of technical know-how.

Answer 5(b)

Alliances may be in the form of:

- Management contract
- Supply or purchase agreement
- Marketing or distribution agreement
- Joint venture
- Agreement to provide technical services
- Licensing of know-how, technology, design or patent

These arrangements differ in scope mainly by virtue of the following:

- Capital commitment
- Structure of organization
- Decision making
- Proportion between risk and reward

Advantages

A business strategic alliance is also mean to an end, not just an end in itself. Strategic alliance often takes place between firm of different industries and of varied sizes for vertical and horizontal links, consolidation of position or any of the following:

- (i)Gains a means of distribution in international market
- (ii)Overcome legal or regulatory barriers
- (iii)Diversification
- (iv)Avoiding competition
- (v)Focus on new products and restructuring.

In addition to the above, the various perceived gains which may motivate strategic alliance include establishment of business network, gaining cost and quality competitiveness, defend

business interests, updating technology, starting new project, sharing of risks, increasing efficiency through economies of scale, specialization etc.

PART—C

(Answer ANY TWO questions from this part.)

Question 6

(a)What is fair trade? (3 marks)

(b)Explain the theory of comparative advantage in international trade. (7 marks)

(c)Why was NAFTA created and what objectives has it achieved? (5 marks)

(d)What are 'deminimis margins' and 'price undertakings' which necessitate the suspension or termination of anti-dumping investigations? (5 marks)

Answer 6(a)

Fair Trade

The term 'fair trade' gained currency in 1870s. It meant placing home and foreign producers on an equal level with regard to artificial conditions of production caused by export bounties, dumping under protection of high tariffs in the domestic market and indirect taxation, but not interfering with natural comparative advantage.

Answer 6(b)

Comparative advantage explains how trade can create value for both parties even when one can produce all goods with fewer resources than the other. The net benefits of such an outcome are called gains from trade. It is the main concept of the pure theory of international trade. The theory of comparative advantage suggests that a country should export goods in the country in which its relative cost advantage, and not the absolute cost advantage, is greatest in comparison to other countries. Suppose that the United States can produce both shirts and automobiles more efficiently than Mexico. But if it can produce shirts twice as efficiently as Mexico and can produce automobiles three times more efficiently than Mexico, the United States has an absolute productive advantage over Mexico in both the goods but a relative advantage in producing automobiles. In this case, the United States might export automobiles in exchange for imports of shirts—even though it can produce shirts more efficiently than Mexico. The practical import of the doctrine is that a country may export a goods even if a foreign country could produce it more efficiently if that is where its relative advantage lies; similarly, a country may import a goods even if it could produce that goods more efficiently than the country from which it is importing the goods. From Mexico's standpoint, it lacks an absolute productive advantage in either commodity, but has a relative advantage in producing shirts (where its relative disadvantage is least). This trade is beneficial for both the United States and Mexico.

Answer 6(c)

NAFTA stands for North American Free Trade Agreement. In January 1994, Canada, the United States and Mexico launched the North American Free Trade Agreement (NAFTA) and formed the world's largest free trade area. Designed to foster increased trade and investment among the partners, the NAFTA contains an ambitious schedule for tariff elimination and reduction of non-tariff barriers, as well as comprehensive provisions on the conduct of business in the free trade area. These include disciplines on the regulation of investment,

services, intellectual property, competition and the temporary entry of business persons.

NAFTA has been a remarkable success story for all three partners, viz. Canada, United States and Mexico. It has contributed to significant increases in trade and investment flows between Canada, the United States, and Mexico. It has benefited companies in all three countries, paving the way for increased sales, new partnerships, and new opportunities.

Since NAFTA came into effect, trade among the NAFTA countries has more than tripled. In 2008, Canada and the United States inward foreign direct investment from NAFTA partner countries enhanced. Meanwhile, Mexico has become one of the largest recipients of foreign direct investment among emerging markets from its NAFTA partners.

Since NAFTA came into effect, the overall job growth has been strong in all three partner countries. NAFTA has promoted higher wages. NAFTA partners work cooperatively to better understand and improve the protection of their environment and effectively enforce its environmental laws.

Answer 6(d)

De Minimis Margins and Price Undertakings

Any exporter whose margin of dumping is less than 2% of the export price shall be excluded from the purview of anti-dumping duties even if the existence of dumping, injury as well as the causal link is established. Further, investigations against any country are required to be terminated if the volume of the dumped imports from that particular source are found to be below 3% of the total imports, provided the cumulative imports from all those countries who individually account for less than 3%, are not more than 7%.

The Designated Authority may suspend or terminate investigation if the exporter concerned furnished an undertaking to revise his price to remove the dumping or the injurious effect of dumping as the case may be. No undertaking can however be accepted before preliminary determination is made. No anti-dumping duties are recommended on such exporters from whom price undertaking has been accepted. No price undertaking may, however, be accepted in case it is found that acceptance of such undertaking is impracticable or is unacceptable for any reason.

Question 7

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

(i) Quota is an important non-tariff barrier affecting the quantum of _____.

(ii) Tariff is a source of _____ to the government exchequer.

(iii) When duty is assessed as a percentage of the value of the imported commodity, it is called _____.

(iv) When the political relations between two countries are strained, a country imposes _____ on the imports from that particular country. (1 mark each)

*(b) Distinguish between **any four** of the following :*

(i) 'Prohibited subsidies' and 'actionable subsidies'.

(ii) 'Geographical indications' and 'trade marks'.

(iii) 'Green box' and 'blue box'.

(iv) 'Substantive rules' and 'procedural rules'.

(v) 'Most favoured nation (MFN)' and 'national treatment'. (4 marks each)

Answer 7(a)

- (i) Import
- (ii) Revenue
- (iii) Ad valorem duty
- (iv) Embargo

Answer 7(b)(i)

Distinction between Prohibited subsidies and Actionable subsidies

Prohibited subsidies: subsidies that require recipients to meet certain export targets, or to use domestic goods instead of imported goods, are prohibited because they are specifically designed to distort international trade, and are therefore likely to hurt other countries' trade. They can be challenged under the WTO dispute settlement procedure where they are handled under an accelerated timetable. If the dispute settlement procedure confirms that the subsidy is prohibited, it must be withdrawn immediately. Otherwise, the complaining country can take counter measures. If domestic producers are hurt by imports of subsidized products, countervailing duty can be imposed.

Actionable subsidies: The complaining country has to show that the subsidy has an adverse effect on its interests. Otherwise the subsidy is permitted. The agreement defines three types of damage they can cause. One country's subsidies can hurt a domestic industry in an importing country. They can hurt rival exporters from another country when the two compete in third markets. And domestic subsidies in one country can hurt exporters trying to compete in the subsidizing country's domestic market.

Answer 7(b)(ii)

Distinction between Geographical indications and Trademarks

Geographical indications: Geographical Indications of Goods are defined as that aspect of industrial property which refers to the geographical indication referring to a country or to a place situated therein as being the country or place of origin of that product. Typically, such a name conveys an assurance of quality and distinctiveness which is essentially attributable to the fact of its origin in that defined geographical locality, region or country. Place names are sometimes used to identify a product. Well-known examples include "Champagne", "Scotch", "Tequila", and "Roquefort" cheese. Wine and spirits makers are particularly concerned about the use of place names to identify products, and the TRIPS agreement contains special provisions for these products. But the issue is also important for other types of goods.

Trademarks: A Trade Mark distinguishes the goods of one manufacturer or trader from similar goods of others and therefore, it seeks to protect the interest of the consumer as well as the trader. A trade mark may consist of a device depicting the picture of animals, human beings etc., words, letters, numerals, signatures or any combination thereof. Since a trade mark indicates relationship in the course of trade, between trader and goods, it serves as a useful medium of advertisement for the goods and their quality. The object of trademark law is to permit an enterprise by registering its trademark to obtain an exclusive right to use, share, or assign a mark.

Answer 7(b)(iii)

Distinction between Green Box and Blue Box

Green Box: In order to qualify for the "green box", a subsidy must not distort trade, or at

most cause minimal distortion. They have to be government-funded and must not involve price support. They tend to be programmes that are not directed at particular products, and include direct income supports for farmers that are not related to production. “Green box” subsidies are therefore allowed without limits, provided they comply with relevant criteria.

Blue Box: The blue box is an exemption from the general rule that all subsidies linked to production must be reduced or kept within defined minimal levels. It covers payments directly linked to acreage or animal numbers, but under schemes, which also limit production, by imposing production quotas or requiring farmers to set aside part of their land. Countries using these subsidies say they distort trade less than alternative amber box subsidies.

Answer 7(b)(iv)

Distinction between Substantive Rules and Procedural Rules

Substantive Rules: A Member may not impose a countervailing measure unless it determines that there are subsidized imports, injury to a domestic industry and a causal link between the subsidized imports and the injury. The existence of a specific subsidy must be determined in accordance with the criteria provide under SCM Agreement. SCM Agreement provides for the explicit authorization of cumulation of the effects of subsidized imports from more than one Member where specified criteria are fulfilled. In addition, SCM Agreement contains rules regarding the determination of the existence and amount of a benefit.

Procedural Rules: SCM Agreement contains detailed rules regarding the initiation and conduct of countervailing investigations, the imposition of preliminary and final measures, the use of undertakings, and the duration of measures. A key objective of these rules is to ensure that investigations are conducted in a transparent manner, that all interested parties have a full opportunity to defend their interests, and that investigating authorities adequately explain the basis for their determinations.

Answer 7(b)(v)

Distinction between Most-favoured-nation (MFN) and National treatment

Most-favoured-nation: It suggests some kind of special treatment for one particular country, but in the WTO it actually means non-discrimination — treating virtually everyone equally. Each member treats all the other members equally as “most-favoured” trading partners. If a country improves the benefits that it gives to one trading partner, it has to give the same “best” treatment to all the other WTO members so that they all remain “most-favoured”. Most-favoured nation (MFN) status did not always mean equal treatment. In the 19th Century, when a number of early bilateral MFN treaties were signed, being included among a country’s “most-favoured” trading partners was like being in an exclusive club because only a few countries enjoyed the privilege. Now, when most countries are in the WTO, the MFN club is no longer exclusive. The MFN principle ensures that each country treats its over-153 fellow-members equally.

National treatment: Treating foreigners and locals equally. Imported and locally produced goods should be treated equally — at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents. This principle of “national treatment” is also found in all the three main WTO agreements (Article 3 of GATT, Article 17 of GATS and Article 3 of TRIPS), although once again the principle is handled slightly differently in each of these. National treatment only applies once a product; service or item of intellectual property has entered the market. Therefore, charging customs duty on an import is not a violation of national treatment even if

locally produced products are not charged an equivalent tax.

Question 8

Write critical notes on **any four** of the following :

- (i) World Intellectual Property Organisation (WIPO)
- (ii) Multilateral trading system
- (iii) Export subsidy on agriculture
- (iv) Role of WTO
- (v) Necessity of dumping for exporting countries. (5 marks each)

Answer 8(i)

The World Intellectual Property Organization

The World Intellectual Property Organization (WIPO) is an international organization dedicated to helping 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.

The roots of the World Intellectual Property Organization go back to 1833. That year marked the birth of the Paris Convention for the Protection of Industrial Property, the first major international treaty designed to help people of one country obtain protection in other countries for their intellectual creations in the form of industrial property rights.

In 1974, WIPO became a specialized agency of the United Nations system of organizations, with a mandate to administer intellectual property matters recognized by the member states of the UN. WIPO expanded its role and further demonstrated the importance of intellectual property rights in the management of globalized trade in 1996 by entering into a cooperative agreement with the World Trade Organization.

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.

Answer 8(ii)

Multilateral Trading Agreement:

Trade agreements are either bilateral, involving only two countries, or multilateral, involving more than two countries. They are usually intended to lower trade barriers between participating countries and, as a consequence, increase the degree of economic integration between the participants.

Multilateral trade agreements are very complicated to negotiate, but are very powerful once all parties sign the agreement. The primary benefit of multilateral agreement is that all nations get treated equally, and provides level playing field, especially for poorer nations that are less competitive by nature which bind all the members. The WTO trade agreements are multilateral trade agreement between all members of the World Trade Organization. Some of

the example of multilateral agreements are: Agreement on Agriculture, Textile and Clothing, TRIPS, TRIMS, Anti-Dumping Agreement, etc.

Answer 8(iii)

Export Subsidy on Agriculture

Agriculture Agreement prohibits export subsidies on agricultural products unless the subsidies are specified in a member's lists of commitments. Where they are listed, the agreement requires WTO members to cut both the amount of money they spend on export subsidies and the quantities of exports that receive subsidies. Taking averages for 1986-90 as the base level, developed countries had agreed to cut the value of export subsidies by 36% over the six years starting in 1995 (24% over 10 years for developing countries). Developed countries had also agreed to reduce the quantities of subsidized exports by 21% over the six years (14% over 10 years for developing countries). Least developed countries do not need to make any cuts. During the six-year implementation period, developing countries were allowed under certain conditions to use subsidies to reduce the costs of marketing and transporting exports.

Answer 8(iv)

Role of WTO

In pursuit of the goal of sustainable growth and development for the common good, the Ministers envisaged a world where trade flows freely and renewed their commitment to:

- A fair, equitable and more open rule-based system;
- Proressive liberalization and elimination of tariff and non-tariff barriers to trade in goods;
- Progressive liberalization of trade in services;
- Rejection of all forms of protectionism;
- Elimination of discriminatory treatment in international trade relations;
- I ntegration of developing and least-developed countries and economies in transition into the multilateral system; and
- The maximum possible level of transparency.

With this philosophy in mind the WTO has been established to ensure the above.

Answer 8(v)

Necessity of dumping for exporting countries

Dumping obviously means exporting goods at cheaper prices, which is against the general business principle of maximizing the profits. Exporters may be compelled to charge different prices in different markets for various reasons. When they charge lower prices in foreign markets as compared to prices in the domestic market it is considered to be dumping in the context of the Agreement on Anti-dumping.

Since no one in the business may be expected to sell at a loss over a substantial period of time, one may sell at lower prices in the foreign market only at the cost of higher prices in the domestic market i.e. by cross subsidising the foreign market sales or one may resort to such practices for capturing the foreign markets with the ultimate intention of monopolizing the same.

It may also be a result of a desire to maximize sales by pushing goods even at prices

which provide only for a marginal profit over the variable costs but do not provide adequately for the recovery of all costs, particularly the fixed costs. There may be other external reasons too for dumping, for example, compulsion to bring prices in line with the prices prevailing in the importing country.

Generally speaking countries having advantage of geographical nearness or having the advantage of their goods being treated with preferential tariffs or exchange rate advantages may be able to supply goods at prices cheaper than other exporters.

PROFESSIONAL PROGRAMME EXAMINATION

DECEMBER 2010

**STRATEGIC MANAGEMENT, ALLIANCES AND
INTERNATIONAL TRADE**

Time allowed : 3 hours

Maximum marks : 100

PART A

(Answer ANY TWO questions from this part)

Question 1

(a) In the context of strategic management, discuss, with reasons in brief, any five of the following statements :

- (i) Napoleon used to say, "It is all in the execution".*
- (ii) There is often a fight to finish in the modern business world. Individual units and companies either die (fold up) or get 'eaten up' (acquired, etc.)\ while in animal world, once a contestant accepts defeat, he is left to lick his wounds alone.*
- (iii) Strategic management is a term broader than strategy itself.*
- (iv) There are no foreign lands. It is the traveller only who is foreign.*
- (v) A company faced with decline in fortunes has only one option of adopting liquidation strategy.*
- (vi) Benchmarking is the break-in-process of measuring products, services and practices against the competitors and companies recognised as industry leaders. (2 marks each)*

(b) Write notes on the following :

- (i) Stability strategies*
- (ii) Decision support system (DSS). (5 marks each)*

Answer 1(a)

- (i) In the context of strategic management, execution or implementation is really important. Strategies, by themselves, do not lead to action. It is implementation that translates intents into action. In simple words, one can have a great plan, but unless it's implemented properly, it won't lead to the desired result. Therefore, in order to achieve the desired objectives, execution is everything.*
- (ii) Firms compete not merely because they have to survive, but because they wish to acquire good things such as money, wealth, and power—well beyond what they need for survival and provisioning*
- (iii) Strategic management is a process that includes top management's analysis of the environment in which the organization operates prior to formulating a strategy, as well as the plan for implementation and control of strategy. Strategy is defined*

as a long-term course of action through which an organization relates itself to the environment so as to achieve its objectives whereas strategic management combines the activities of the various functional areas of a business to achieve organizational objectives. It is the highest level of managerial activity, usually formulated by the Board of directors and performed by the organization's Chief Executive Officer (CEO) and his executive team. Strategic management provides overall direction to the enterprise.

- (iv) Every country has its own cultural, administrative (political), geographical and economic (CAGE) environments. And, a foreigner, brought up in a different CAGE feels stranger to the values and the practices of the land.
- (v) If the organization chooses to focus on ways and means to reverse the process of decline, it adopts turnaround strategy. If it cuts off the loss-making units, divisions or Strategic Business Units, curtails its product line or reduces the functions performed, it adopts a divestment strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.
- (vi) Benchmarking is the continuous process of measuring products, services and practices against the competitors and those companies recognized as industry leaders. It is based on the concept that it makes no benefit to reinvent something that someone else is already using. It involves open learning how others do something better than one's own company so that one not only can improve, but perhaps even improve on their current technique.

Answer 1(b)(i)

Stability Strategy

A Stability Strategy arises out of a basic recognition by management that the firm should concentrate on utilizing its present resources so as to develop its competitive strength within a restricted product-market configuration. In other words, stability strategy implies that the company will continue in the same or a similar business as it now pursues, and with the same or similar objectives. This is not to be misunderstood as a 'do-nothing' strategy. For, stability strategy also implies focusing on improvements of functional performance and maintaining the level of achievements as in the immediate past. If the company had sales revenue or net earnings increasing at a certain rate per annum, it is required that the same performance should be evidenced in the years to come.

The distinctive elements of a stability strategy are:

- (i) There is no major change in the product or service line, markets or functions;
- (ii) The focus is on maintaining and developing competitive advantages, consistent with the present resources and market requirements;
- (iii) The policy thrust is aimed at not only the maintenance of the present level of performance but also to ensure that the rate of improvement continuing in the past is sustained.

Usually followed by small and medium-sized organizations, these strategies can be useful in the short run when such organizations are satisfied with their current performance.

Stability strategies can be of various types. They are as follows:

- (i) No change strategy
- (ii) Profit Strategy
- (iii) Pause-Proceed- with-Caution strategy

Answer 1(b)(ii)

Decision Support System (DSS)

A decision support system is an information system application which assists decision making. DSS tend to be used in planning, analyzing alternatives and trial and error search for solutions. They are generally operated through terminal based interactive dialogues with users. They incorporate a variety of decision models.

In other words, decision support system is a computer system that combines data, analytical tools, user-friendly software to support decision-making at the management level. DSS are slightly focused on a specific decision of classes of decision such as routing, querying, on three basic parameters which are given below:

- (i) *Philosophy* : DSS provides integrated analytical tools, data, model base (a collection of mathematical and analytical models), and a interface to the user in the form of a user friendly software.
- (ii) *System Analysis* : DSS establish what tools are used to incorporate the decision making process of an organization.
- (iii) *Design* : The design of DSS is based on iterative process and keep on changing with every feedback of the user.

A DSS is required to possess the following core capabilities:

- (i) *Representations* : It includes the presentation of the information in the form of graphs, charts, lists, reports, formatted reports, symbols etc.
- (ii) *Operations* : It includes logical and mathematical manipulation of data.
- (iii) *Memory Aids* : It also provides updation of databases and memory, viewing of data, work spaces, libraries etc.
- (iv) *Control Aids* : It provides the facility to user to control the activity of DSS. It includes a language permitting user control of operations, representations and memory.

Question 2

- (a) *Discuss the constraints that exist in operating a 'management information system' (MIS).* (8 marks)
- (b) *"McKinsey framework shows that there is a multiplicity of factors that influence an organisation's ability to change." Discuss.* (8 marks)
- (c) *"The function of the internal control is to enable the adopted plan to operate efficiently, profitably and economically." Comment.* (4 marks)

Answer 2(a)**Management Information System:**

The main purpose of MIS is to provide timely, specific and accurate information at all levels in an organization. To achieve this goal, different types of information systems are devised by the organizations. The MIS is derived from these information systems used in the organizations.

MIS refers broadly to a computer-based system that provides managers with the tools for organizing, evaluating and efficiently running their departments.

Constraints in operating a Management Information System (MIS)

Major constraints which come in the way of operating an information system are:

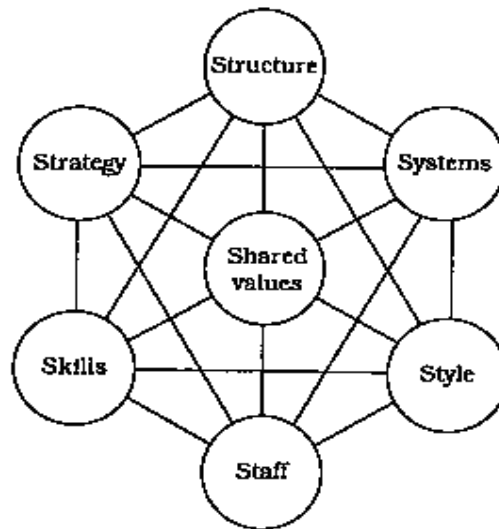
1. Non-availability of experts, who can diagnose fully the objectives of the organization and give a desired direction needed for operating information system.
2. Difficulty usually faced by experts, in selecting the sub-systems of MIS, to be designed and operated upon first.
3. Source of availability of experts for running MIS effectively, is not always known to management.
4. Due to varied objectives of business concerns, the approach adopted by experts for designing and implementing MIS is non-standardized one.
5. Non-availability of co-operation from staff.
6. Non-availability of heavy financial resources required for running the MIS effectively.
7. Turnover of experts is quite high.
8. It is difficult to quantify the benefits of MIS, so that it can be easily comparable with cost.
9. Perceptual problems as its utility are not readily perceptible by many users.

Answer 2(b)

McKinsey framework shows that there is a multiplicity of factors which influence an organization's ability to change is correct. McKinsey developed the 7-S framework management model which organize seven factors to organize a company in an holistic and effective way with the objective to diagnose the causes of organization problem and formulate program for improvement due to the implementation of the strategy which are associated with change in the organization.

The framework rests on the proposition that effective organizational change is best understood in terms of the complex relationship between strategy, structure, systems,

style, skills, staff and shared values (super ordinate goals)- the seven S's. The relationship is diagrammatically presented as follows:



McKinsey 7 Framework

The above framework shows that there is a multiplicity of factors which influence an organization's ability to change and understand as to how the 7-S model mechanism works. In general terms, the proposition of the 7-S model suggests that there are multiple factors which influence an organization's ability to change and its proper mode of change. Since the variables are interconnected, significant progress cannot be made in one area unless corresponding progress is made in other areas too. It is imperative to know what each 'S' means and what is its implication. The 3S's across the top of the model are described as Hard S's and 4S's across the bottom of the model are less tangible, more cultural in nature and some time neglected in major change efforts and mergers and were termed as soft Ss by McKinsey.

Shared values will be in the center surrounded by other factors that influence the organization's ability to change and understand as to how the 7-S model mechanism works. It combines rational and hard elements into emotional and soft elements and thereby helps guide organizational change.

Answer 2(c)

Internal Control

Internal control refers to the whole of measures taken, procedures introduced and methods established in an organization for obtaining timely information about the orderly conduct of the business to achieve the organizational objectives. Internal control can be described as any action taken by an organization to help enhance the likelihood that the

objectives of the organization will be achieved. The measures, procedures and methods as whole are referred as internal controls.

The function of the internal control is to enable the adopted plan to operate efficiently, profitably and economically so that:

- (i) Duties and responsibilities for operations to individual employees are assigned to achieve the established policy of the company.
- (ii) Feed back to the management of the results periodically, particularly in regard to abnormal or unusual situations both favourable and unfavourable and deviation from the standards.
- (iii) To safeguard the interest of the company against fraud, waste and loss of efficiency or carelessness, fire, accident, theft, etc.
- (iv) To promote efficiency of personnel and operations.
- (v) To lay and circumscribe the definite units for performance of duties.
- (vi) To establish and circumscribe the definite limits within which the internal routines of the business must be conducted. The individual who violates the limits will have to explain and justify his action.

Question 3

Distinguish between any four of the following :

- (i) *'Corporate strategies' and 'business strategies'.*
- (ii) *'Market value added concept' and 'economic value added concept'.*
- (iii) *'Vision' and 'mission'.*
- (iv) *'Internal audit' and 'internal check'.*
- (v) *'Market risk' and 'business risk'.* (5 marks each)

Answer 3(i)

Distinction between Corporate Strategies and Business Strategies

The main points of distinction between the two are:

Sl. No	Basis	Corporate Strategies	Business strategies
1	Decision	It is decided by the top management team in consultation with the Board of Directors	It is decided by the business unit managers in consultation with the top management team
2	Objectives	Shareholders return, economic profit, growth, net income, income diversity, synergy, corporate citizenship	Growth, Economic profit, quality, market share, employee development, productivity, knowledge generation.

<i>Sl. No</i>	<i>Basis</i>	<i>Corporate Strategies</i>	<i>Business strategies</i>
3	Scope	An overarching plan of action covering various functions, performed by different SBUs; deals with the objective of the company, allocation of resources and coordination of the SBUs for optimal performance	A comprehensive plan providing objectives for SBU, allocation of resources among functional areas and coordination between them for making optimal contribution to the achievement of corporate level objectives.
4	Types	Its various types are : Expansion (concentration, integration and diversification), stability, retrenchment and combination strategies.	Its various types are : Generic strategies : Cost leadership, differentiation and focus strategies to derive competitive advantage.

Answer 3(ii)**Distinction between Market Value Added and Economic Value Added**

The main points of distinction between the two are:

<i>Sl. No.</i>	<i>Market Value Added</i>	<i>Economic Value Added</i>
1	It is difference between current market value of a firm and the capital contributed by investors	It is the net earnings in excess of cost of capital employed.
2	Value is the estimated amount at which it can be exchanged	It is the return firm is said to have earned over a period of time.
3	Value is the estimated amount at which it can be exchanged	It is the return firm is said to have earned over a period of time.
4	It is market centric	It is business centric
5	MVA is the real wealth that is available right now for total investment	This has nothing to do with the price business can be sold or exchanged at
6	The higher the MVA better it is.	It should ideally be positive.

Answer 3(iii)**Distinction between Vision and Mission**

The main points of distinction between the two are:

<i>Sl. No</i>	<i>Vision</i>	<i>Mission</i>
1	Vision is the mental perception of the kind of environment that organization strives to achieve in the long run.	It is the general statement that distinguishes the organization from all others
2	A vision statement concentrates on future and should answer, "What we want to become?".	It addresses the basic purpose of the firm and the reasons for which it exists. It answers the question, "What is our business?"
3	It provides clear decision making criteria	A clear mission statement is essential for effectively establishing objectives and formulating strategies.
4	It relates to an organizations broadest and most desirable goal.	It is the guiding principle that drives the processes of goal and action plan formulation.

Answer 3(iv)**Distinction between Internal Check and Internal Audit**

The main points of distinction between the two are:

<i>Sl. No</i>	<i>Internal Check</i>	<i>Internal Audit</i>
1	It is an arrangement of duties allocated in such a way that the work of one person is automatically checked by another.	It is an independent review of operations and records.
2	There is no special staff to carry-out the system of internal check. It represents the arrangements of duties of the staff in a particular manner.	For carrying out internal audit, normally separate staff is engaged specially for the purpose.
3	The objective of internal check is to reduce the errors and frauds.	The objective of internal audit is to discover the errors and frauds, if any.
4	It represents a process under which the work goes on uninterruptedly and checking too is more or less automatic.	The internal auditor has to see as to how far the work is correct and done according to the specified rules.

Answer 3(v)**Distinction between Market Risk and Business Risk**

The main points of distinction between the two are:

<i>Sl. No</i>	<i>Market Risk</i>	<i>Business Risk</i>
1	This risk is also called the un-diversifying risks and cannot be avoided no matter how many different stocks be present in the portfolio.	It refers to the situation of uncertainty associated with operating cash flow of a business.
2	Market risk is the day-to-day fluctuations in a stock's price.	Business risk does not fluctuate on the basis of prices of securities
3	Factors affecting it are equity price movement; interest rate, currency fluctuation, commodity prices and credit	Factors affecting it are raw material and end product pricing, credit availability and interest rates, pure risk—competition and imports/exports labor unrest etc.

PART B

(Answer ANY ONE question from this part)

Question 4

Read the following case and answer the questions given at the end :

Tata Tea and PepsiCo appear to have agreed in-principle to set-up a joint venture (JV) for non-carbonated, health and wellness beverages to explore the low cost, bottom-of- pyramid segment beverages. The JV is considering leveraging the Tata brand and expertise in low-cost consumer products and coupling it with PepsiCo's distribution muscle, go-to-market expertise and R&D strength in beverages. The proposed JV may consider wellness packaged water initially followed by other beverages. The JV's focus on the lower end of the market will ensure that PepsiCo's existing alliance with Hindustan Unilever to sell Lipton ice tea, which focuses on mid-to-premium segment, will not be impacted. The new tie-up will give PepsiCo the opportunity to be perceived as a wholesome beverages company making fizzy drinks. Tata Tea will get a larger foothold in the wellness beverages segment after an earlier attempt to foray in the category had to be aborted within a year. Tata Tea, through its indirect UK subsidiary, Tata Tea (GB) Investments, has picked up 30% stake in the US based maker of vitamin water 'Glaceau' in mid 2006 for \$677 million. But in 2007, Tata Tea had to sell off its 30% stake in Energy Brands Inc., which owns Glaceau—to beverage giant Coca-cola for \$1.2 billion, less than a year after it acquired the stake. Though, Tata Tea has been aggressive in acquiring companies in the beverages sector including Tetley, Eight O'clock Coffee and Good Earth, its wellness and health beverages portfolio in India so far is limited to Himalayan packaged water and Ti'.ON, an energy drink made from fruit juice and tea extracts. Ti'.ON is not a national brand yet. It is also important to note that PepsiCo's partnership with Hindustan Unilever

for distributing Lipton iced tea in India did not take off in the way both companies expected to. Tata Tea and PepsiCo have said, “The proposed joint venture, is not intended to conflict with any existing arrangements of either party.” Though, Rs. 7,000 crore aerated soft drink market has been growing at a healthy 20% plus in India, PepsiCo has been expanding its portfolio in the health and wellness space aggressively globally as well as in the domestic market, in line with its ambition of being a global leader in the ‘good for you’ beverages segment.

PepsiCo’s existing health and wellness brands include packaged water Aquafina, Tropicana juices, Nimbooz nimbu pani and sports drink Gatorade.

Questions —

- (i) Is joint venture the only way to enter into strategic alliance ?*
- (ii) Alliances are not new, but in the competitive landscape, distinguishing features are emerging. Identify these features.*
- (iii) Is strategic alliance different from merger and when does an alliance become a merger ?*
- (iv) What reasons can you anticipate that Tatas had to sell Glaceau to Coca-Cola within such a short time ?*

(5 marks each)

Answer 4(i)

No, joint venture is not only a way to enter into a strategic alliance. Apart from joint venture, Strategic alliances may be in the form of –

- Management contract.
- Franchising
- Supply or purchase agreement
- Marketing and distribution agreement
- Agreement to provide technical services
- Licensing of know-how, technology, design, patent, etc.

Answer 4(ii)

All alliances involve some measure of inter-corporate integration. In the new emerging competitive environment the companies are finding innovative ways of alliances with features meeting their requirements. Trading alliances are only a bit more complicated than traditional buy-sell relationship. Normally the objectives of such trading alliances include the need to secure supplies of product, buy or exchange skills/technology and exploit market networks. The main features of such alliance are management at arm’s length, implementation at a fast pace, exclusivity, limited time frames with options to renew based on certain well-defined milestones.

On the other hand, partnerships involving an integration of business resources can take the form of functional alliances. Functional alliances are usually joint ventures or equity-based partnerships. They are characterised by management integration, open-ended collaboration, separate joint-venture entity and long-term commitment.

Answer 4(iii)

Any arrangement or agreement under which two or more firms cooperate in order to achieve certain commercial objectives is referred to as strategic alliance. A true strategic alliance is a written arrangement between two companies that complement each other in a particular identified area. It is not a partnership, and neither company has legal power to control or obligate the other. Instead, it is a commitment by the two companies to provide capabilities or cross servicing in certain identified areas.

In merger, one of the two existing companies merges its identity into another existing company or one of more existing companies may form a new company and merge their identities into the new company by transferring their business and undertakings including all other assets and liabilities to the new company.

Alliances between companies have become a crucial weapon in the battle for competitive advantage. Mergers/acquisitions/strategic alliance can be termed as coalescing and are becoming more and more popular. A “strategic alliance” is an excellent vehicle for two companies to work together profitably. As the alliance is developing, there is every chances that both the party will finally merge all their operations.

Answer 4(iv)

The reasons for Tata to sell Glaceau to Coca-Cola within short time might have been as under:

- Tata were to make some other acquisition abroad and they needed funds for the same.
- Tatas wanted to make quick money
- There might have been cross cultural differences
- Failure to eradicate competitive rivalry
- Complex structure and process
- Size of the organization
- Organizational age
- Dissimilarities scope of management

Question 5

- (a) *Discuss the procedure for foreign direct investment in India.* (8 marks)
- (b) *Discuss the problems associated with technology transfer agreements.* (8 marks)
- (c) *State the categories for which government approval through Foreign Investment Promotion Board (FIPB) route is necessary.* (4 marks)

Answer 5(a)**Procedure for Foreign Direct Investment are as under**

- Foreign Direct Investment in India is governed by FDI Policy issued by the Government of India and Foreign Exchange Management Act, 1999 and Rules and Regulation made thereunder.

- Foreign Direct Investments (FDI) can be made under two routes—Automatic Route and Government Route.
- RBI has given permission to Indian Companies to accept investment under automatic route without obtaining prior approval from Reserve Bank of India. However, investors will have to file the required document with the concerned Regional Office of the RBI within 30 days after issue of shares to foreign investors.
- Under the Government Route,
 - (i) The Minister of Finance who is in-charge of FIPB would consider the recommendations of FIPB on proposals with total foreign equity inflow of and below Rs.1200 crore.
 - (ii) The recommendations of FIPB on proposals with total foreign equity inflow of more than Rs. 1200 crore would be placed for consideration of Cabinet Committee on Economic Affairs (CCEA). The FIPB Secretariat in DEA will process the recommendations of FIPB to obtain the approval of Minister of Finance and CCEA.
 - (iii) The CCEA would also consider the proposals which may be referred to it by the FIPB/ the Minister of Finance (in-charge of FIPB).
- Companies may not require fresh prior approval of the Government i.e. Minister in-charge of FIPB/CCEA for bringing in additional foreign investment into the same entity, in the following cases:
 - (i) Cases of entities whose activities had earlier required prior approval of FIPB/ Cabinet Committee on Foreign Investment (CCFI)/CCEA and who had, accordingly, earlier obtained prior approval of FIPB/CCFI/CCEA for their initial foreign investment but subsequently such activities/sectors have been placed under automatic route;
 - (ii) Cases of entities whose activities had sectoral caps earlier and who had, accordingly, earlier obtained prior approval of FIPB/CCFI/CCEA for their initial foreign investment but subsequently such caps were removed/increased and the activities placed under the automatic route; provided that such additional investment alongwith the initial/original investment does not exceed the sectoral caps; and
 - (iii) The cases of additional foreign investment into the same entity where prior approval of FIPB/CCFI/CCEA had been obtained earlier for the initial/original foreign investment due to requirements of Press Note 18/1998 or Press Note 1 of 2005 and prior approval of the Government under the FDI policy is not required for any other reason/purpose.

Answer 5(b)

The problems associated with technology transfer agreements are as under:

- Identification of the required level of technology. For this purpose, the recipient may have to depend on the information, product bulletin supplied by the technology supplier company.
- No technology supplier will transfer the technology being used by him. Rather,

he may prefer to provide the second level of technology which has already been exploited by him.

- After identification, defining technology transfer in the agreement poses certain practical difficulties. Technology cannot be transferred in one lot through transfer of documents. This may have to be done through transfer of designs and drawings, supply of additions and improvements made by the technology supplier, providing the services of its experts and for training of Indian staff at the works of the technology supplier etc.
- The most difficult task in an imported technology is its indigenisation. While the technology supplier desires the recipient company to achieve the same level of quality to be able to compete in the National and Inter-national markets, the achievement of this goal bristles with practical difficulties.
- The nature of technology transferred for the purposes of manufacture and sale poses another problem.
- Technological support of an umbrella type is the emerging scenario in these days of inter-nationalisation of business and this provides technology transfer on a continuous basis.
- Long term business relationship can be built up provided that the technology supplier has a stake in the technology recipient company.

Answer 5(c)

Major Categories for which government approval through Foreign Investment Promotion Board (FIPB) is necessary, are as under:

- Defence Industries
- Terrestrial Broadcasting FM(FM Radio)
- Cable network
- Direct to Home Broadcasting
- Print Media
- Security Agency in Private Sector
- Banking- Public Sector
- Commodity Exchange
- Credit Information Companies
- Infrastructure Companies in Securities market.

PART C

(Answer ANY TWO questions from this part)

Question 6

The South Asian Association for Regional Co-operation (SAARC) comprises Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka. The main goal of the association is to accelerate the process of economic and social development in member States, through joint action in the agreed areas of co-operation.

The idea of regional co-operation in South Asia was first mooted in November, 1980. After consultations, the Foreign Secretaries met in Colombo in April, 1981, which was followed by the meeting of the Committee of the Whole, which identified five broad areas for regional co-operation. The Foreign Ministers at their first meeting in New Delhi in August, 1983 formally launched the Integrated Programme of Action through the adoption of the Declaration of South Asian Regional Co-operation. At the first Summit in Dhaka on 7-8 December, 1985, the charter establishing the SAARC was adopted.

Answer the following questions :

- (i) What are the objectives of SAARC ?*
- (ii) Discuss the institutional structure of SAARC.*
- (iii) Explain the role of SAARC Chamber of Commerce and Industry.*
- (iv) "SAARC has miserably failed to perform and fulfill its objectives, but it must succeed." Comment. (5 marks each)*

Answer 6(i)

The objectives of the SAARC are as follows:

- To promote the welfare of the peoples of South Asia and to improve their quality of life;
- To accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realise their full potentials;
- To promote and strengthen collective self-reliance among the countries of South Asia;
- To contribute to mutual trust, understanding and appreciation of one another's problems;
- To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
- To strengthen cooperation with other developing countries;
- To strengthen cooperation among themselves in international forums on matters of common interests; and
- To cooperate with international and regional organizations with similar aims and purposes.

Answer 6(ii)

Institutional structure of SAARC

Summits

The highest authority of the Association rests with the Heads of State or Government.

Council of Ministers

Comprising of the Foreign Ministers of member states is responsible for the formulation of policies; reviewing progress; deciding on new areas of cooperation; establishing additional mechanisms as deemed necessary.

Standing Committee

Comprising of the Foreign Secretaries of member states is entrusted with the overall monitoring and coordination of programmes and the modalities of financing; determining inter-sectoral priorities; mobilising regional and external resources; and identifying new areas of cooperation based on appropriate studies.

Programming Committee

Comprising of the senior officials meets prior to the Standing Committee sessions to scrutinize Secretariat Budget, finalise the Calendar of Activities and take up any other matter assigned to it by the Standing Committee.

Technical Committees

Comprising of representatives of member states, formulates programmes and prepare projects in their respective fields. They are responsible for monitoring the implementation of such activities and report to the Standing Committee.

Action Committees

According to the SAARC Charter, there is a provision for Action Committees comprising member states concerned with implementation of projects involving more than two, but not all member states.

SAARC Secretariat

SAARC Secretariat is in Kathmandu and is responsible for coordinating and monitoring the implementation of SAARC activities, servicing the meetings of the Association and serving as the channel of communication between SAARC and other international organizations. The Secretariat comprises of the Secretary-General, a Director from each member state and the General Services Staff.

Answer 6(iii)

Role of SAARC Chamber of Commerce and Industry (SCCI) are as under:

- To act as a dynamic instrument of promoting regional cooperation in the areas of trade and economic relations.
- Instrumental in disseminating the information about the content, scope, and potential of the Framework Agreement on SAARC Preferential Trading Arrangement (SAPTA) among the business community in the region.
- To organise various National Seminars on SAPTA in the Member Countries.
- To visit various countries for expanding the exports from the SAARC region.
- To expand activities in the field of promoting trade both within and outside the SAARC region.

Answer 6(iv)

SAARC have achieved a number of important milestones during twenty five years of its existence. The scope and substance of cooperation have expanded to diverse fields, providing a firm basis for genuine partnership. However, number initiatives could not be

translated into meaningful and tangible benefits to the people. SAARC therefore, highlights the need for more efficient, focused, time-bound and people-centric activities and calls for appropriate reflection of all the SAARC decisions into the national policies and programmes of Member States. There is need to make SAARC a truly action oriented by fulfilling commitments, implementing declarations and decisions and operationalizing instruments and living up to the hopes and aspirations of one fifth of humanity.

Greater focus is needed to pursue people-centric development with due emphasis on socio-cultural progress, upholding traditions, values preservation of environment and better governance. At the 16th SAARC Summit held in April 2010, the leaders emphasized the need to strengthen the role of private sector in regional initiatives, concrete measure to improve trade facilitation and cooperation in the field of education. The need for promotion of tourism to enhance people to people contact by creating tourism friendly environment has also been emphasized. With these proposed initiative the SAARC is bound to succeed.

Question 7

(a) *State, with reasons in brief, whether the following statements are true or false :*

- (i) *The Harmonised Code for custom classification, custom valuation and rules of origin are the three basic custom laws.*
- (ii) *Safeguard measures and anti-dumping actions and countervailing duties are one and the same.*
- (iii) *Regional trade agreements are entered into only between neighbouring countries.*
- (iv) *Trade policy mechanism has no utility.* (2 marks each)

(b) *Write notes on the following : (i) Limitations of dispute settlement procedure mechanism under the WTO. (ii) Role of Director General of the WTO.* (6 marks each)

Answer 7(a)(i)

True

Three basic custom laws are:

- Harmonised Code of custom classification.
- Custom valuation.
- Rules of origin.

Answer 7(a)(ii)

False

Safeguard measures are applied to all imports of the product in question irrespective of the countries in which it originates or from which it is exported. This aspect distinguishes Safeguards from anti dumping and anti subsidy measures which are always country specific and exporter specific. Safeguards are applied in the form of either safeguard duty or in the form of safeguard Quantities Restrictions (import licenses). These measures

are administered in India by an Authority called Director General (Safeguards) who functions under the jurisdiction of the Department of Revenue, Ministry of Finance.

Anti dumping and anti subsidies & countervailing measures in India are administered by the Directorate General of Anti dumping and Allied Duties (DGAD) functioning under the Dept. of Commerce in the Ministry of Commerce and Industry.

Answer 7(a)(iii)

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 relates specifically to conditions of preferential trade liberalization with RTAs.

Answer 7(a)(iv)

False

Individuals and companies involved in trade have to know as much as possible about the conditions of trade. It is therefore fundamentally important that regulations and policies are transparent. In the WTO, this is achieved in two ways: governments have to inform the WTO and fellow- members of specific measures, policies or laws through regular “notifications”; and the WTO conducts regular reviews of individual countries’ trade policies — the trade policy reviews. Therefore, trade policy mechanism has utility as it provide trading partners a predictable environment.

Answer 7(b)(i)

Limitations of dispute settlement procedure mechanism under the WTO may be summarized as under —

- The panel process is required to be more transparent to build confidence.
- Confusion apparently still exists as to the panel’s function while performing a mediating function.
- Under current WTO procedures, a panel’s Interim Report is not made available to countries which have intervened in the case as interested third parties.
- Questions of procedure, interpretations of agreements, burdens of proof, evidentiary standards, establishment of doctrines, requires an independent and standing judiciary composed of individuals who are free from undue bias.
- Requires reduction in time line for resolving dispute.

Answer 7(b)(ii)

Role of the Director-General of the WTO

The WTO Secretariat in Geneva is headed by a Director-General. The role of the Director General may be summarized as under —

- To supply technical and professional support for the various councils and committees.

- To provide technical assistance for developing countries, to monitor and analyze developments in world trade
- To provide information to the public and the media and to organize the ministerial conferences.
- To advise governments wishing to become Members of the WTO.

The Director-General of the WTO acting in an ex officio capacity, offer good offices, conciliation or mediation with a view to assisting Members to settle a dispute. The Director-General may also be requested, in certain circumstances, to appoint panel members. The Director-General is to determine the composition of the panel in consultation with the Chairman of the DSB and the Chairman of the relevant Councils or Committees, after consulting the parties to the dispute. The Director-General may appoint an arbitrator in cases where it is necessary to determine the reasonable period of time for implementation or where a suspension of concessions or other obligations has been authorized by the DSB.

Question 8

- (a) *What are the different kinds of intellectual property rights protected by Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement ? (4 marks)*
- (b) *What are the remedies against prohibited subsidies ? (4 marks)*
- (c) *"Injury analysis can be broadly classified into two categories." Elucidate. (4 marks)*
- (d) *Briefly discuss the duration and review of countervailing duties. (4 marks)*
- (e) *What are anti-dumping actions ? (4 marks)*

Answer 8(a)

TRIPS agreement looks at different kinds of intellectual property rights and how to protect them. The purpose is to ensure that adequate standards of protection exist in all member countries. The different kinds of intellectual property rights protected by TRIPS agreement are as under:

Copyright

The TRIPS agreement ensures protection to literary works including computer programmes. It also expands international copyright rules to cover rental rights.

Trademarks

The agreement defines what types of signs must be eligible for protection as trademarks, and what the minimum rights conferred on their owners must be. It says that service marks must be protected in the same way as trademarks used for goods. Marks that have become well known in a particular country enjoy additional protection.

Geographical indications

Place names are sometimes used to identify a product and the TRIPS agreement contains special provisions for these products.

Industrial designs

Under the TRIPS agreement, industrial designs must be protected. Owners of protected designs must be able to prevent the manufacture, sale or importation of articles bearing or embodying a design, which is a copy of the protected design.

Patents

Under TRIPS agreement patents protection available for inventions.

Answer 8(b)

Prohibited subsidies can be challenged under the WTO dispute settlement procedure where they are handled under an accelerated timetable. If the dispute settlement procedure confirms that the subsidy is prohibited, it must be withdrawn immediately. Otherwise, the complaining country can take counter measures. If domestic producers are hurt by imports of subsidized products, countervailing duty can be imposed.

Answer 8(c)

Injury analysis can broadly be divided in two major categories as under :

The Volume Effect

The Authority examines the volume of the dumped imports, including the extent to which there has been or is likely to be a significant increase in the volume of dumped imports, either in absolute terms or in relation to production or consumption in India, and its effect on the domestic industry.

The Price Effect

The effect of the dumped imports on prices in the Indian market for like articles, including the existence of price undercutting, or the extent to which the dumped imports are causing price depression or preventing price increases for the goods which otherwise would have occurred. The consequent economic and financial impact of the dumped imports on the concerned Indian industry can be demonstrated, *inter alia*, by decline in output, loss of sales, loss of market share, reduced profits, decline in productivity, decline in capacity utilization, reduced return on investments, price effects, adverse effects on cash flow, inventories, employment, wages, growth, investments, ability to raise capital, etc.

Answer 8(d)**Duration and review of countervailing duties**

A countervailing duty remains in force only as long as and to the extent necessary to counteract subsidization, which is causing injury. The authorities 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 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 are removed or varied, or both. If, as a result of the review, the authorities determine that the countervailing duty is no longer warranted, it is terminated immediately.

Answer 8(e)

Anti dumping, in common parlance, is understood as a measure of protection for domestic industry. However, anti dumping measures do not provide protection per se to the domestic industry. It only serves the purpose of providing remedy to the domestic industry against the injury caused by the unfair trade practice of dumping. In fact, anti dumping is a trade remedial measure to counteract the trade distortion caused by dumping and the consequential injury to the domestic industry. Only in this sense, it can be seen as a protective measure. It can never be regarded as a protectionist measure.

Anti-dumping action can be taken only when there is an Indian industry which produces "like articles" when compared to the allegedly dumped imported goods. The article produced in India must either be identical to the dumped goods in all respects or in the absence of such an article, another article that has characteristics closely resembling those goods.

Anti-dumping actions include imposition of anti-dumping duty and countervailing duty.

PROFESSIONAL PROGRAMME EXAMINATION
JUNE 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

(a) *Distinguish between the following :*

- (i) *'Market risk' and 'business risk'.*
- (ii) *'Delphi techniques' and 'cross impact analysis'.*
- (iii) *'Concentric diversification' and 'conglomerate diversification'.*
- (iv) *'Management information system' and 'decision support system'.*
- (v) *'Inter-firm comparisons' and 'intra-firm comparisons'.* (3 marks each)

(b) *As a Company Secretary, how would you perceive the 'risk elements' that a shareholder will have in a company from financial risk point of view ?*
(5 marks)

Answer 1(a)(i)

Difference between Market Risk and Business Risk

Market risk is the risk where the value of an investment will increase/decrease due to changes in market factors and is generally uncontrollable. Market risk cannot be avoided no matter how many different stocks might be present in the portfolio. This is the day-to-day fluctuations in a stock's price. It applies mainly to stocks and options.

Business risk on the other hand refers to the situation of uncertainty associated with operating cash flows of a business. Business risk can be internal and external. External business risk is the result of operating conditions which are imposed upon the organization by circumstances beyond its control. The major business risks which give rise to variation in cash flows and business value are price risk, credit risk and pure risk.

Answer 1(a)(ii)

Difference between Delphi Techniques and Cross Impact Analysis

Both of these techniques are forecasting techniques. However the differences between them are as under:

In Delphi Techniques, the divergent expert opinions are consolidated to arrive at a compromise estimate of future. This involves the use of expert opinion through anonymous, interactive, controlled feedback among a group of experts. Normally the panel is polled by questionnaires in a search for opinions on reasonably well-defined issues. Each panel

member responds with a forecast and reasons for it. These responses are then statistically compiled and fed back anonymously to all the members of the panel. This technique is employed fairly widely in public and private sector planning. The key to Delphi technique lies in the coordinator and experts.

Cross Impact Analysis Technique is designed to assess the interactions among future environmental (socio, economic, political, legal etc) conditions. The analyst begins these exercises by assuming that a set of future environmental circumstances will come true. Through the use of matrix analysis, the analyst then attempts to assess the impact of these circumstances on the possibility and timing of others such as price, competition etc. if nothing else, the analyst is able to expose forecasting inconsistencies and to clarify underlying assumptions in the forecasts themselves.

Answer 1(a)(iii)

Difference between Concentric diversification and Conglomerate diversification

Concentric diversification occurs when a firm adds related products or markets. The goal of such diversification is to achieve synergy or strategic fit. Strategic fit in operations could result in synergy by the combination of operating units to improve overall efficiency.

Conglomerate diversification on the other hand occurs when a firm diversifies into areas that are unrelated to its current line of business. One of the reasons for this type of diversification is the limited opportunities in a firm's current line of business. Finding an attractive investment opportunity requires the firm to consider alternatives in others of business. This approach is also adopted by firms as a means of increasing the growth rate. In India, Tata's ITC and Mahindra and Mahindra are examples of conglomerate diversified companies.

Answer 1(a)(iv)

Difference between MIS and DSS

<i>MIS (Management Information System)</i>	<i>DSS (Decision Support System)</i>
1 Information form of a MIS is periodic and based on demands.	Information form of DSS is interactive.
2 Information formats are pre-specified and fixed.	DSS information formats are adhoc, flexible and adaptable.
3 Information is provided by extraction and manipulation of operational data.	Information is produced by analytical modeling of operational and external data.
4. It provides information about the performance of the organization.	It provides information and decision support technique to confront problems

Answer 1(a)(v)

Difference between Inter-firm comparisons and Intra-firm comparisons

Inter-firm comparisons is a technique of comparing the performances, efficiencies,

costs and profits of various concerns in an industry for assessing its own performance and ascertaining the reasons for any difference in performances/efficiencies etc.

Intra-firm comparisons means comparison of two or more departments or divisions belonging to the same firm with the objective of making meaningful analysis for the purpose of increasing the effectiveness of the departments or divisions involved.

Thus, both inter-firm and intra-firm comparisons are different in the sense that while former compares the performance of the firm with other firms, the latter compares the performance of its own division or departments. The comparison may cover the financial position or operating results or both.

Answer 1(b)

Lapses in risk control often lead to substantial financial losses by a company. A break-down in risk control eventually costs the shareholder money, directly or indirectly, either by being forced to inject more capital or by seeing the equity lose value when losses resulting from risk control failures become public knowledge. This could even lead to closure of the company if a desperate take over does not happen.

It is thus within every shareholder's right to question the company's Board and Senior Management on how the firm manages and controls risk, since good risk management must start from the very top. Constitution of Risk Management Committee and its reports have to be reviewed periodically and management's response to mitigate the risk has to be brought to the attention of the Audit Committee which in turn apprises the Board of the level of risk that the company is exposed.

There follows a list of questions which shareholders should ask their board and senior management. The answers contain risk management and control guidelines which shareholders could use as a template to evaluate whether their company has a firm grip on risk control.

To sum up, the onus is on the top Management to instill confidence on shareholders in eventually disclosing the risks that were brought to their attention during the year and actions initiated by them in mitigating the same. Like an Ombudsman for banking system, it will not be too late to see a Risk Ombudsman for every company who will vet the reports of risk management committee and steps taken to prevent the identified risks through a separate communication to the shareholders along with the Annual Report.

Question 2

It is passenger operation which helps people at large connect with Indian Railways (IR). And yet, passenger services have generally been viewed by IR management largely as social service obligation. Passenger business have inflicted an annual loss of over ₹ 20,000 crore. Earnings of ₹ 23,488 crore from passenger traffic in 2009-10 accounted for only 27% of IR's gross revenues; freight earnings of ₹ 58,502 crore contributed 65%.

Passenger business worldwide accounted for 57% and freight 43% of the \$313 billion global rail market (in 2005). Not that railway passenger business is inherently loss-making. On IR, it is the ordinary second-class segment that is the major culprit. While the second class mail/express fare was 23.1 paise per km. in 2000-01; it

remained stubbornly stuck at 23.2 paise per km. even in 2008-09. The ordinary second-class fare, largely responsible for loss-making, has remained untenably low at 14.9 paise per km. and suburban travel still lower, at 12.9 paise per km. The fare on State road transport services in 2008-09 averaged 48.37 paise per km.

About 10 million passengers in India travel by air in a month, IR transports twice as many in a day. Even so, IR accounts for a meager 12% of India's total passenger traffic, roads carrying over 87%. Cost-effective rail travel demand, far outstripping supply, will further grow substantially in view of the country's declining agriculture sector driving migration from rural areas for an integrated national labour market. The urban population is projected to rise from current 286 million to 575 million by 2030, keeping the population on the move. Also, the specter of climate change favours IR to reposition rail travel in preference to car and airlines.

There is projection of 7,189 million inter-city passengers by 2025-26 against 2,835 million passengers in 2007-08. If GDP grows 8% or more, annual demand for transport generally rises 10-12%, implying the number of originating non-suburban rail passengers exceeding 12,000 million by 2025.

On the basis of above case study, you are required to answer the following questions as the CEO of Indian Railways :

- (i) Describe the environmental factors responsible for performance of railways as a commercial entity. (5 marks)*
- (ii) Describe components of a strategic plan for railways to meet passenger demand highlighting consideration for each component. (10 marks)*
- (iii) Write a note on commercial revival of IR using Gap Analysis. (5 marks)*

Answer 2(i)

India has seen a significant shift in transport volumes away from railways to road and air transport in the recent times. As a result, once the backbone of domestic transport, railways have during the past 20 years seen their market share decline sharply. Indeed in the 1980s, this phenomenon generated some thinking as to whether the railways were still relevant. In the 1990s, however, concern for the environmental costs of transport in general and of road transport in particular, resulted in a growing acceptance that rail has an important role to play in the national and international movement of goods and people.

The environmental factors responsible for performance of railways consist of economic, technological, political, social, legal and global surroundings. The factors which are responsible are as follows:

1. Chronic financial deficits i.e. Constraints on charges imposed through Government regulation; Persistent excess capacity; Provision of guaranteed service levels at fixed prices or with 'excess' competition (in comparison with other modes of transport); Provision of services at below marginal cost; Failure to understand or identify costs; Ineffectiveness in collecting revenues; Low productivity; Unduly high operating costs; Overmanning.
2. Growing operating subsidies i.e., Lack of 'corporatization'; Inadequate distinction between roles of government and of the railway operator; Inadequate subsidy policies.

3. Archaic pricing systems where charges are not related to cost; Prices are not related to marginal costs; Costs not properly identified or measured; Inadequate financial and management accounting systems; Inadequate or non-existent pricing objectives or statements of pricing policy.
4. Lack of an equitable fare structure and excessive fares; Lack of user or community representation in service and price decision making.
5. Low operating efficiency; Low labour productivity and Poor management and technical efficiency.
6. Low service quality; Severely congested services i.e., Lack of competition; no peak-load pricing; Inadequate cost recovery in pricing policies; Inability to reinvest operating surpluses or raise funds for investment.
7. Deficiencies in the physical infrastructure, Poor asset maintenance i.e., Failure of pricing policies to recover capital costs; Structural inability to retain/reinvest surplus funds; Regulations preventing investment or borrowing.
8. Inadequate funds to invest in transport infrastructure and/or services.
9. Widespread state ownership and operation of transport infrastructure and services.
10. Low private sector participation in the transport sector.

Answer 2(ii)

Strategic Planning

Strategic planning refers to the process of deciding on objectives of the organization, on changes in these objectives, on the resources used to attain these objectives and on the policies that are to govern the acquisition, and disposition of these resources.

Therefore even IR will have to plan for change in order to reach its ultimate goal. Effective planning will help IR to adapt change by identifying opportunities and avoiding problems. This way it can set the direction for the other functions of management and for teamwork. Planning improves decision-making. All levels of management engage in planning.

Some of the important examples of strategic planning includes planned growth rate in sales, mergers and acquisitions, diversification by technologies, types of products, customers and geographical areas, planning activities in the areas of organizing, staffing, finance, etc.

Based on this the following are the components of strategic plan for railways with consideration:

- (i) Identification of demand-supply gap (as the urban population is projected to rise from 286 million to 575 million by 2030 and also that the agriculture sector is moving from rural areas) in different zones of Indian Railways so as to ascertain the most burdened areas;
- (ii) Development of strategic plans to cope up with the increased demand including projected increase of 7189 million inter-city passengers by 2025-26 as against

2835 million in 2007-08. The need is to emerge out of the groovy traditional style of thinking wherein the focus has been to increase the number of rail trips or addition of passenger bogies;

- (iii) Exploring the possibility of the following :
 - (a) Ensuring public private participation;
 - (b) Privatization of certain routes with revenue sharing;
- (iv) Constituency nurturing based on political consideration needs to be stopped. Professionals should be involved while developing strategic plans;
- (v) Introduction of fast trains at least on the crowded routes to serve the dual purpose of optimum utilization of rail capacity and recourse to segmented privatization;
- (vi) Increasing the rail fare in comparison to road and air transport and bringing it at par with other modes. The rail fare for second class mail/express increased to 23.2 paise per km in 2008-09 as against 23.1 paise per km in 2000-01 whereas the fare of road transport in 2008-09 averaged 48.37 paise per km.

Answer 2(iii)

Gap Analysis

GAP analysis is the process of identifying the gap between the optimized allocation and integration of the inputs and the current level of allocation. This helps company provide insight into areas that have room for improvement. The gap analysis process involves determining, documenting and approving the variance between business requirements and current capabilities. Gap analysis naturally flows from benchmarking and other assessments. Once the general expectation of performance in the industry is understood, it is possible to compare that expectation with the level of performance at which the company currently functions. This comparison becomes the gap analysis.

Under Gap Analysis attention is first focused on the gaps between the actual and anticipated values that certain variables take on and the values that are most desirable. Once the gaps are properly identified, attention shifts to devising ways to close them.

In the context of the Indian Railways, the strategy should be concerned with the position and role of the railways in relation to their environment and designing of optimal strategy in the present circumstances.

On an overall consideration of the situation, the Indian Railways needs to focus on improving the performance in terms of increase in revenue with regard to second class ordinary, mail and express fares which is still stuck at 23.2 paise per km in comparison to 23.1 paise per km in 2000-01. These need to be upgraded in order to enable the Indian Railways to recover the cost and to allow it to earn the reasonable profits. But surprisingly the road transport fare stands almost at double the fare structure of railways which was at around 48.37 paise per km in 2008-09. Environmentally also railways are preferable to air or road transport. It indicates the need to enhance the utilization of existing line capacities. In addition, Indian Railways needs to explore the extension of rail network to areas with earnings potential. It will help the railways to recover the losses, earn revenues and then pay attention to the hitherto neglected areas.

Question 3

- (a) *Suggest ways to overcome resistance to change. Which is the least effective style of managing change and why ?* (10 marks)
- (b) *What are the ten 'P' elements of risk in business ? Describe at least one element for each 'P'.* (10 marks)

Answer 3(a)

Change is a natural phenomenon. Research findings on individual and organizational behaviour revealed that organization and individuals resist change.

Resistance to change is likely to be minimised if the management help employees to adjust to contemplated change with a supportive conduct and behaviour. The imperative need is to make the employees feel that their interest in the work situation is being adequately considered and fully protected by the management. It should be impressed upon the employees that in the long run they will gain from change and the management will, by all means, help them to achieve these gains. If the supportive climate exists, the employees are likely to be more receptive to change. However, that apart, the following considerations should further be kept in view:

Ways to Overcome Resistance to Change

The basic problem in managing change is to overcome people resistance successfully. Problems of overcoming resistance to change can be managed in the following ways:

- (i) *Education and Communication* : If misinformation and lack of information create barriers to managing change, education and communication might be appropriate.
- (ii) *Participation* : Participation helps to give people in organizational change a feeling of importance. It creates the feelings among the employees that the decision is their own. They realise that the change process is a must.
- (iii) *Obtaining commitment* : Commitment to take part in changed programme can be obtained in private from each individual. However, getting a person to commit himself in private to a changed programme may yield fewer results than if he voluntarily and publicly gives his commitment to an idea of change.
- (iv) *Leadership* : A transformational leader can use personal reasons for change without arousing resistance. An effective leader tries to change the psychological needs of his followers.
- (v) *Training and Psychological Counselling* : Management can change the basic values of the people by training and psychological counseling. People should be educated to become familiar with change, its process, and working.
- (vi) *Coercion or Edict* : Coercion or edict is the imposition of change or the issuing of directives about change. It is the explicit use of power.

The least effective way of managing change out of the above mentioned may be:

Coercion or Edict : Coercion is the least successful style of managing change except in a state of crisis or confusion. Coercion or edict is the imposition of change or the

issuing of directives about change. It means confronting and forcing resisting employees to change. It is the explicit use of power. Managers may force people to go along with a change by using explicit and implicit threats involving transfer, loss of promotion, negative recommendations, dismissal etc. It can be extremely risky if it leaves and makes people angry at the initiators.

Answer 3(b)

The ten 'P' elements of risk in business are :

<i>S.No.</i>	<i>'P' elements</i>	<i>Elements</i>
1	Premises	Location of the organization, type of premises available for use.
2	Product	Industry sector, features of product, life cycle of the product, fashion trends.
3	Purchasing	Access to supplies, storage and warehouse facilities, stock control, payment terms and cost.
4	People	Workers in the organization, skills, training needs, motivation and commitment.
5	Procedure	Production procedures, record keeping and reporting systems, use of standards and emergency procedures.
6	Protection	Personal protection of workers, property and vehicle security, insurance cover, information systems and data security.
7	Processes	Production processes, waste and scrap disposal, skills, technology new materials.
8	Performance	Target sets, monitoring, measurement tools, validity of data.
9	Planning	Access to relevant data, management skills, external factors and levels of control, short and long term planning and investment options.
10	Policy	Range of policies that support strategic plans of the firm.

PART B

(Answer ANY ONE question from this part.)

Question 4

- (a) *Hero Honda joint venture formed in 1984 is a classic case of strategic alliance involving the Indian company Hero Group and Japanese automobile major Honda Motorcycle. The alliance has been terminated with the entire 26% stake of Honda Motorcycle in the venture bought by the Hero Group. Selling out of the venture*

gives the Japanese company the freedom to go it alone in the world's second largest market for two-wheelers.

- (i) List out the advantages of the strategic alliance for both the organisations, in two-wheeler market in India. (5 marks)*
- (ii) What are the key success factors for managing an alliance ? In the light of these key success factors, identify the reasons for the termination of this successful joint venture. (5 marks)*
- (b) Assuming that High Speed Auto Ltd. intends to acquire technical know-how to produce a small car for the Indian market in collaboration with a German car manufacturer, specify the broad issues to be covered in the agreement for foreign technical services in India. (10 marks)*

Answer 4(a)(i)

Advantages of strategic alliance are as under:

- Rapidly move to decisively seize opportunities before they disappear.
- Respond more quickly to change.
- Adapt with greater flexibility.
- Increase a company's market share.
- Gain access to a new market or beat others to that market.
- Quickly shore up internal weaknesses.
- Gain a new skill or area of competence.
- Rapidly meet a company's need for key resources such as more customers, additional capital, new/better products, new distribution channels, additional facilities, increased production capacity, or competent personnel etc.

Answer 4(a)(ii)

The key success factors for managing alliance are under:

- *Mutual Trust* : Mutual trust at senior management level carry ventures through turbulent times.
- *Ability to compromise* : When there are two strong companies, the ability to compromise is not easy to achieve. If you expect to receive some valuable technology, production or marketing know how from a partner, you must be willing to give something.
- *Favourable business condition* : Launching an alliance when favourable business conditions exist makes a venture life considerably easier for its partners.
- *Alliance Autonomy* : The autonomy mandates a high degree of responsibility and good judgement by the ventures management.

Reasons for termination of successful joint venture are as under:

- Different cultures, may quickly find the variations in their behavioral norms are creating breeding ground for misunderstanding, poor follow-through, and eventual distrust.

- Joint ventures are also potential for conflicts. They may result in disputes between or among partners due to varied interests.
- Slow down in decision making by partners.
- Changes in the business environment in two countries and changes in partner strength.
- Life cycle of joint ventures.

Answer 4(b)

The broad issues to be covered in the agreement for foreign technical services in India are as under:

- Technical Services to the Indian company.
- Deputation of technical personnel.
- Training of personnel of the Indian Company.
- Secrecy condition such as strict confidence and secrecy and shall not be disclosed by the Indian Company.
- Consideration Technical Services fee to the Foreign Company.
- Prior Government approval.
- Duration of the agreement.
- Termination of the agreement.
- Force Majeure conditions, such as acts of God, Government laws and regulations, strikes, Lockouts, war or any other causes beyond its control.
- Arbitration clause, in case of any dispute or difference arising between the parties.
- Miscellaneous conditions.
- Law applicable to the agreement.

Question 5

Describe in brief the following in connection with direct investment outside India by an Indian company in an overseas joint venture (JV)/wholly owned subsidiary (WOS) under automatic route of FEMA :

- (i) Different methods of funding of investment.*
 - (ii) The conditions to be fulfilled for investment by an Indian entity engaged in financial sector.*
 - (iii) The conditions for capitalisation of exports and other dues.*
 - (iv) Compliances of reporting of initial investment, subsequent investment and filing of annual returns.*
 - (v) Conditions for allowing investments in JV/WOS through the medium of a special purpose vehicle (SPV).*
- (4 marks each)*

Answer 5(i)

Methods of Funding of investments are as under :

- Drawl of foreign exchange from an Authorised Dealer Bank in India;
- Capitalization of exports;
- Swap of shares;
- Utilization of proceeds of External Commercial Borrowings (ECBs)/Foreign Currency Convertible Bonds (FCCBs);
- In exchange of ADRs/GDRs 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 EEFC account of the Indian party; and
- Utilisation of proceeds of foreign currency funds raised through ADR/GDR issues.

Answer 5(ii)

Conditions for Investments in Financial Services Sector

An Indian party seeking to make investment in an entity engaged in the financial sector should fulfill the following additional conditions:

Provided that Indian party:

- is registered with the appropriate regulatory authority in India for conducting the financial sector activities;
- has earned net profit during the preceding three financial years from the financial services activities;
- has obtained approval for investment in financial sector activities abroad from regulatory authorities concerned in India and abroad; and
- has fulfilled the prudential norms relating to capital adequacy as prescribed by the regulatory authority concerned in India.

Answer 5(iii)

Conditions for capitalisation of exports and other dues are:

- Indian parties are permitted to capitalize the payments due from the foreign entity towards exports, fees, royalties or any other dues from the foreign entity for supply of technical know how, consultancy, managerial and other services within the ceilings applicable. Capitalisation of export proceeds remaining unrealized beyond the prescribed period of realization will require prior approval of the Reserve Bank.
- Indian software exporters are permitted to receive 25 per cent of the value of their exports to an overseas software start-up company in the form of shares without entering into Joint Venture Agreements, with prior approval of the Reserve Bank.

Answer 5(iv)

The Indian Party is required to report of investment, in form ODI to the Authorised Dealer Bank for submitting to the Reserve Bank within a period of 30 days from the date of the transaction.

ODI, comprising of four parts:

Part I - includes the following:

Section A – Details of the Indian Party

Section B – Details of Investment in New Project

Section C - Details of Investment in Existing Project

Section D – Funding for JV / WOS

Section E – Declaration by the Indian Party (to be retained by AD Category – I bank)

Section F - Certificate by the Statutory Auditors of the Indian Party (to be retained by AD Category – I bank)

Part II - Reporting of Remittances

Part III - Annual Performance Report (APR)

Part IV – Report on Closure/Disinvestment/Voluntary Liquidation/Winding up of JV / WOS

In cases where the investment is being made jointly by more than one Indian party, form ODI is required to be signed jointly by all the investing entities and submitted to the designated branch of the AD Category – I bank.

The same procedure should be followed where the investment is made out of the proceeds of ADR / GDR issues of an Indian party.

Answer 5(v)

Conditions for investments in JV/WOS abroad by Indian parties through the medium of a Special Purpose Vehicle (SPV) are:

- Investment permitted under the Automatic Route.
- Indian party is not included in the Reserve Bank's Caution list or is under investigation by the Enforcement Directorate or included in the list of defaulters to the banking system circulated by the Reserve Bank/any other Credit Information company as approved by the Reserve Bank.
- Indian parties whose names appear in the Defaulters' list require prior approval of the Reserve Bank for the investment.

PART C

(Answer ANY TWO questions from this part.)

Question 6

- (a) *State the similarities and differences between 'anti-dumping duty' and 'countervailing duty'.* (5 marks)

- (b) *Highlight the differences between GATT and WTO.* (5 marks)
- (c) *Elucidate the concept of ‘most favoured nation’ (MFN).* (5 marks)
- (d) *Describe the significance of ‘rules of origin’ under WTO system for ensuring fair international trade.* (5 marks)

Answer 6(a)

Dumping and subsidies — together with anti-dumping (AD) measures and countervailing duties (CVD) — are often linked. Experts speak of “AD-CVD” in one breath. Many countries handle the two issues under a single law, apply similar process to deal with them and give a single authority responsibility for investigations. Occasionally, the two WTO committees responsible for these issues meet jointly.

There are a number of similarities. The reaction to dumping and subsidies is often a special offsetting import tax (countervailing duty in the case of a subsidy). Like anti-dumping duty, countervailing duty is charged on products from specific countries and therefore it breaks the GATT principles of binding a tariff and treating trading partners equally (MFN). The agreements provide an escape clause, but they both also say that before imposing a duty, the importing country must conduct a detailed investigation that shows properly that domestic industry is hurt.

But there are also fundamental differences, and these are reflected in the agreements.

Dumping is an action by a company. With subsidies, it is the government or a government agency that acts, either by paying out subsidies directly or by requiring companies to subsidize certain customers.

But the WTO is an organization of countries and their governments. The WTO does not deal with companies and cannot regulate companies’ actions such as dumping. Therefore the Anti-Dumping Agreement only concerns the actions governments may take against dumping. With subsidies, governments act on both sides: they subsidize and they act against each others’ subsidies. Therefore the subsidies agreement disciplines both the subsidies and the reactions.

Answer 6(b)

The differences between GATT and WTO are:

- GATT was ad hoc and provisional. The General Agreement was never ratified in members’ parliaments, and it contained no provisions for the creation of an organization. The WTO and its agreements are permanent. As an international organization, the WTO has a sound legal basis because members have ratified the WTO agreements, and the agreements themselves describe how the WTO is to function.
- GATT had “contracting parties”. The WTO has “members”.
- GATT dealt with trade in goods. WTO covers goods, services and intellectual property as well.
- The WTO dispute settlement system is faster, more automatic than the old GATT system. Its rulings cannot be blocked.

Answer 6(c)

Most-favoured-nation (MFN) suggests some kind of special treatment for one particular country, but in the WTO it actually means non-discrimination — treating virtually everyone equally. Under the WTO, each member treats all the other members equally as “most-favoured” trading partners. If a country improves the benefits that it gives to one trading partner, it has to give the same “best” treatment to all the other WTO members so that they all remain “most-favoured”. Most-favoured nation (MFN) status did not always mean equal treatment. In the 19th Century, when a number of early bilateral MFN treaties were signed, being included among a country’s “most-favoured” trading partners was like being in an exclusive club because only a few countries enjoyed the privilege. Now, when most countries are in the WTO, the MFN club is no longer exclusive. The MFN principle ensures that each country treats its fellow-members equally.

Answer 6(d)

“Rules of origin” are the criteria used to define where a product was made. They are an essential part of trade rules because a number of policies discriminate between exporting countries: quotas, preferential tariffs, anti-dumping actions, countervailing duty (charged to counter export subsidies), and more.

Rules of origin are also used to compile trade statistics, and for “made in” labels that are attached to products.

This first-ever agreement on the subject requires WTO members to ensure that their rules of origin are transparent; that they do not have restricting, distorting or disruptive effects on international trade; that they are administered in a consistent, uniform, impartial and reasonable manner; and that they are based on a positive standard. In other words, they should state what does confer origin rather than what does not.

Question 7

(a) *Under the Madrid and Hague Systems dealing with the international registration of marks and industrial designs, match the following :*

- | | |
|---------------------------------|---|
| (i) <i>Strasbourg Agreement</i> | (a) <i>Concerns with establishing an international classification for industrial designs.</i> |
| (ii) <i>Nice Agreement</i> | (b) <i>Establishing an international classification of the figurative elements of marks.</i> |
| (iii) <i>Vienna Agreement</i> | (c) <i>Concerning the international classification of goods and services for the purposes of the registration of marks.</i> |
| (iv) <i>Locarno Agreement</i> | (d) <i>Concerning the international patent classification.</i> |

(1 mark each)

(b) *State, with reasons in brief, whether the following statements are true or false :*

- (i) *Anti-dumping cases initiated by WTO have increased significantly since mid 1990s.*
- (ii) *Trade creation describes the situation where the removal of tariff barriers*

between members of the trading bloc now enable various products to be purchased at lower prices, thereby stimulating intra-regional trade.

(1 mark each)

(c) Attempt the following :

(i) Which two of the following are the most likely effects of the imposition of a tariff on an imported good —

- (a) The domestic price of the imported good will fall*
- (b) Overseas production of the good may be stimulated*
- (c) Overseas unemployment will come down*
- (d) The domestic price of the imported good will rise*
- (e) Gain of tax revenue by the Government.*

(ii) Which two of the following arguments are used by critics of free trade —

- (a) Free trade does not take into consideration the productivity differences between countries*
- (b) Free trade may lead to unemployment*
- (c) Free trade often ignores the effects of monopoly elements on consumer welfare*
- (d) Free trade can only work within trading blocs*
- (e) Free trade reduces international specialisation.*

(iii) Which two of the following are the most integrated forms of regional trading arrangement —

- (a) Customs Union*
- (b) Economic Union*
- (c) Free trade area*
- (d) Multilateral trading area*
- (e) Common markets.*

(1 mark each)

(d) Explain the concept of 'boxes' under WTO terminology for agriculture agreement and briefly describe each of them.

(6 marks)

(e) What are the principles of multilateral trading system under WTO ?

(5 marks)

Answer 7(a)(i)

Strasbourg Agreement - **(d)** Concerning the International Patent Classification

Answer 7(a)(ii)

Nice Agreement - **(c)** Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks

Answer 7(a)(iii)

Vienna Agreement - **(b)** Establishing an International Classification of the Figurative Elements of Marks

Answer 7(a)(iv)

Locarno Agreement - **(a)** Establishing an International Classification for Industrial Designs

Answer 7(b)(i)

True

WTO Annual Reports show, the use of anti-dumping measures has increased dramatically in recent years, considerably greater than the numbers of such measures in force in the 1990's and Anti dumping cases initiated by WTO have increased significantly since mid 1990s

Answer 7(b)(ii)

True

The static effect of Regional economic integration is that it may result in either trade creation or trade diversion. Trade creation describes the situation where the removal of tariff barriers between members of the trading block now enable various products to be purchased at lower prices, thereby stimulating intra regional trade

Answer 7(c)(i)

- (d) The domestic price of the imported goods will rise
- (e) Gain of tax revenue by the Government

Answer 7(c)(ii)

- (b) Free trade may lead to unemployment
- (c) Free trade often ignores the effect of monopoly elements on consumer welfare

Answer 7(c)(iii)

- (b) Economic Union
- (e) Common Market

Answer 7(d)

In WTO terminology, "boxes" which are given the colours of traffic lights in general identify subsidies: green (permitted), amber (slow down — i.e. be reduced), red (forbidden).

The 'amber box'

For agriculture, all subsidies and other domestic support measures considered to distort production and trade (with some exceptions) fall into the amber box. The total value of these measures must be reduced.

The 'green box'

In order to qualify for the "green box", a subsidy must not distort trade, or at most cause minimal distortion. They have to be government-funded (not by charging consumers higher prices) and must not involve price support. They tend to be programmes that are

not directed at particular products, and include direct income supports for farmers that are not related to (are "decoupled" from) production. "Green box" subsidies are therefore allowed without limits, provided they comply with relevant criteria.

The 'blue box'

The blue box is an exemption from the general rule that all subsidies linked to production must be reduced or kept within defined minimal ("de minimis") levels. It covers payments directly linked to acreage or animal numbers, but under schemes, which also limit production, by imposing production quotas or requiring farmers to set aside part of their land. Countries using these subsidies say they distort trade less than alternative amber box subsidies.

Answer 7(e)

The principles of multilateral trading system are as under:

- *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.

Question 8

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

- (i) *The _____ of goods imported into India is the price paid or payable for the goods by the first independent buyer.*
- (ii) *_____ is the first ever set of multilateral, legally enforceable rules covering international trade in services.*
- (iii) *The Third WTO Ministerial Conference, 1999 was held in _____ between 30th November, 1999 and 3rd December, 1999.*
- (iv) *_____ increases the price of imported goods.*
- (v) *The _____ introduced the term 'European Union' in November, 1993.*

(1 mark each)

- (b) *“The subsidies and countervailing measures (SCM) agreement creates three narrowly defined categories of non-actionable subsidies.” Explain.* (5 marks)
- (c) *Briefly describe the role of appellate body in review of the panel report when a party to trade dispute files appeal against the panel report.* (5 marks)
- (d) *Doha Ministerial Conference, 2001 has failed to fulfill its commitment to correct and prevent restriction and distortion in world agricultural market. Do you agree ? Discuss.* (5 marks)

Answer 8(a)

- (i) The **Export Price** of goods imported into India is the price paid or payable for the goods by the first independent buyer.
- (ii) **General Agreement on Trade in Services (GATS)** is the first ever set of multilateral, legally enforceable rules covering international trade in services.
- (iii) The Third WTO Ministerial Conference, 1999 was held in **Seattle, Washington USA** between 30th November, 1999 and 3rd December, 1999.
- (iv) **Tariff** increases the price of imported goods.
- (v) The **Maastricht Treaty** introduced the term ‘European Union’ in November, 1993.

Answer 8(b)

The SCM Agreement creates three narrowly defined categories of subsidies, which are non-actionable, i.e., which cannot be challenged multilaterally, or is subject to countervailing action. These subsidies presumably are protected either because they are considered extremely unlikely to cause adverse effects or because they are considered to be of particular value and not to be discouraged. The three categories are:

- Basic research and pre-competitive development subsidies. These subsidies cannot exceed a designated proportion of project costs and can only be used for certain expenditures in order to be non-actionable. Research and development subsidies in the civil aircraft sector do not benefit from non-actionable status.
- Assistance to disadvantaged regions. Regional aids are non-actionable provided that they are not limited to specific enterprises or industries within the region, that they are given pursuant to a general scheme of regional development, and that the region is disadvantaged by comparison with the Member as a whole in terms of objective criteria such as GNP per capita and unemployment.
- Assistance to adapt existing facilities to new environmental requirements. Such assistance must be on a one-time basis, be limited to 20 per cent of adaptation costs, and be available to all firms, which can adopt the new equipment and processes.

Subsidy programmes, which are notified to the Committee before they are implemented, are protected unless and until the Committee or arbitration body determines that they do not qualify for non-actionable status. Subsidy programmes which have not been notified before implementation may be investigated by a panel or an investigating authority but if found to meet the criteria for non-actionability, shall be treated as non-actionable.

Answer 8(c)

Either side can appeal a panel's ruling. Sometimes both sides do so. Appeals have to be based on points of law such as legal interpretation - they cannot reexamine existing evidence or examine new evidence.

Three members of a permanent seven-member Appellate Body set up by the Dispute Settlement Body and broadly representing the range of WTO memberships hear each appeal. The appeal can uphold, modify or reverse the panel's legal findings and conclusions. Normally appeals should not last more than 60 days, with an absolute maximum of 90 days.

The Dispute Settlement Body has to accept or reject the appeals report within 30 days and rejection is only possible by consensus.

Appeals are limited to issues of law covered in the panel report and legal interpretations developed by the panel. The Appellate Body must address, but also limit its review to, each of the issues of law covered by the panel report and the legal interpretations developed by the panel which were appealed during the appellate proceeding. The Appellate Body may uphold, modify or reverse the legal findings and conclusions of the panel.

Answer 8(d)

Recognizing the work undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture, including the large number of negotiating proposals submitted on behalf of a total of 121 members, Ministers recalled the long-term objective referred to in the Agreement to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets.

Ministers committed themselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.

Ministers agreed that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development.

Taking note of the non-trade concerns reflected in the negotiating proposals submitted by Members, Ministers confirmed that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.

There is a considerable dispersion amongst Governments in their approach to agricultural policy. At one extreme are Governments which limit their attention to the pursuit of economic efficiency within their agricultural sectors, at the other are Governments which regard their agricultural sectors as fulfilling a higher level social objective without regard to efficiency. Given these quite different positions, it is proving difficult to find any middle ground in the current negotiation in the WTO which are initiated under Article 20 of the Agreement in Agriculture and there is also inconsistency and divergent interests across the members of the WTO.

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.

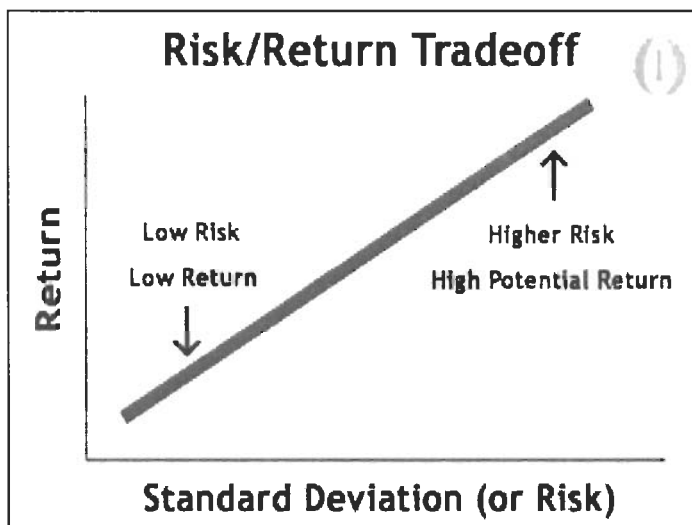
Answer 2(b)

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.
