

Course No. 1153: International Management I

Final Exam, Winter Term 2000/01

Prof. Dr. Birgitta Wolff

Time: 2 hours

Maximum points: 60

You are welcome to use a dictionary. Take your time to structure your ideas and theoretical references before you start writing. Make sure to mark all your sheets with your name and matr.no.

Here is the set of problems:

Please solve *either* problem(s) A or B:

A (answer questions 1 to 4):

1. Assume you are a European entrepreneur, who is about to start a joint venture in China, together with a Chinese partner. Explain potential hold-up risks in that business relationship and how to limit them. (max. 15 points)
2. Explain the concept of property rights and how the allocation of property rights makes a difference in terms of incentives for decision-makers. (max. 15 points)
3. Explain differences in risks of international versus national business relationships. (max. 15 points)
4. Assume a U.S.-based manufacturer of washing machines is supplying their products to a sales firm in your home country. Which are the potential moral hazard risks you would advice the U.S. firm to limit in the contractual agreement with the partner from your country? (max. 15 points)

or

B (solve the following problem):

Information technology offers new business opportunities on a global scale, which would otherwise not be feasible. The opportunities, however, also entail a variety of problems. Explain and analyze both chances and risks of these new corporate opportunities. Use theoretical concepts as well as practical examples (e.g. the following article from the International Herald Tribune) to back up your arguments. (max. 60 points)

Good luck!

Going Global Is Tougher Than It Looks

By Barbara Whitaker
New York Times Service

When First Net Card was started in 1999, it had a vision of using the Internet to provide credit for online transactions to anyone in the world.

But even with two lawyers working for nearly two years on international banking issues, First Net is still licensed only in the United States, Canada and Britain to provide credit. Although the company has gained 75,000 customers and attracted 100 merchants online, "the costs outweigh the benefits" of doing business in many countries, said Eric DePrano, president of First Net.

Mike Krill, a chief financial officer with Atlas Consulting, which advises small businesses in their first year, said: "The reality is going global is difficult. What we found is it's typically something that's an undertaking for larger ventures."

For many small businesses, the Internet has been promoted as a way to expand sales by simply installing a modem and establishing a Web site; online, the theory went, the businesses could compete with the giant multinational corporations. But the reality has not been that simple.

Bob Parker, a senior analyst specializing in electronic commerce at AMR Research Inc., cited an International Business Machines Corp. advertisement featuring an Italian woman selling olive oil. The reality, he said, is "that little old lady gets crushed."

With worldwide e-commerce projected to grow to \$6.8 trillion by 2004 from \$657 billion today, the Internet is obviously an integral part of any business strategy. And the Web is fueling global opportunities for some 25 million small businesses nationwide, said Fred Hochberg, a deputy administrator

with the U.S. Small Business Administration.

But a Web site alone does not guarantee success.

While the Internet can reduce costs and enhance competitiveness, expansion often requires partnerships that are increasingly complex — not just partners with money, said Robert Price, founder of the Global Entrepreneurship Institute, but those with complementary expertise.

"I think there is a successful strategy for small businesses," Mr. Krill said, "and that is to try and take advantage of the ecosystem around the industry."

That is the approach being taken by Chris Yeh's Click Rebates, which provides tools for companies on the Internet to attract and keep customers. The company offers rewards and benefits to consumers who are willing to share information about themselves and their buying habits.

The information is used by businesses wanting to reach a specific audience.

Mr. Yeh said he had intended to keep the business, which is based in Santa Clara, California, in the United States at first, but within two to three months, the company found that 35 percent of its customers were outside the United States, primarily in Canada and Britain.

While the demand is there, meeting it is complicated.

"How do you work on Internet time?" he asked. "How do you work on Internet time on a global scale?"

"Now you're dealing with different languages, rules and regulations. To tackle that, we really look to local partners."

In China, for example, the company is working with a Hong Kong-based investment concern that owns a stake in the Chinese portal Sohu.com. Click Rebates hopes to provide its services to the site one day.

"We're just in the beginning stage," Mr. Yeh said, noting that the company had about 20 partners and had signed up 300,000 consumers in 150 countries worldwide.

That stage can often be slow going, as First Net Card, also based in Santa Clara, found.

The online credit system was introduced by Marrowcast Media, an online advertising agency that said it had seen an opportunity to fill a global niche.

"For us to try and do this in the offline world would be largely impossible," Mr. DePrano said.

"The nice thing about launching this service online is that the number of merchants we need is significantly lower."

But as Mr. DePrano found in researching banking and credit laws, trying to do business in other countries can be

mind-boggling.

For example, one of the company's first customers was a man in Oman. First Net was unable to provide credit in the country, so instead it issued the customer with a debit card that he had to finance up front in dollars.

To avoid such problems, some small businesses form partnerships with overseas companies.

This, however, can be fraught with difficulty, too.

"It's challenging for a small company to take what they have and translate it overseas," said Cliff Sharples,

chief executive of Garden.com, an online seller of plants, tools and other gardening-related merchandise in Austin, Texas, which is now focusing on domestic markets again after a failed attempt to set up a partnership with a European Web site.