OTTO-VON-GUERICKE-UNIVERSITY MAGDEBURG
Faculty of Economics & Management
– INTERNATIONAL MANAGEMENT –
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Lecture International Management I (WT 06/07) - Final Exam

Course No. : 1585; Lecturer: Prof. Dr. Birgitta Wolff

Final Exam

In the Final Exam to this class, you will have one hour to solve the problems with a maximum of 60 points. There are a few pieces of general advice we can offer at this stage:

1. Use the theoretical tools and terminology you have learned in class and from the textbook.
2. Make sure there is a clear structure in your argument. (Use some time to sort your ideas before you start writing the version you want to submit, esp. if you answer B).
3. Use the time you have! If you are ready much earlier than we planned you should wonder if you forgot something.
4. Remember: people have to be able to decipher what you write.
5. Leave a margin for our comments, so we can give you a more detailed feedback than just the number of points.
6. You are welcome to use a dictionary.

Here is the set of problems:

Please solve ***either*** part A ***or*** part B (max. 60 points)!

You are welcome to use a dictionary and a calculator!

Part A *(max. 60 points)*

Answer only 4 of the following 5 questions! (max. 15 points for each question)

1. Explain the difference between moral hazard and hold-up risk in international business transactions. Explain the risks theoretically and give real or stylized examples to illustrate your explanation.

2. Name and explain five alternative internal organizational forms of foreign market entry and compare their advantages and disadvantages.

3. Explain the consequence of IT with respect to solving coordination and motivation problems in international corporations from a transaction cost perspective.

4. Assume you are an exporter located in Germany that sells washing machines to France. Name and explain three alternative ways to use third parties to make sure you get paid after the delivery of the goods.

5. Which problems are ICOTREMS supposed to solve? How do they do so? Name and explain five examples.

Part B *(max. 60 points)*

Read the following text carefully.

Carmakers Shift Their Sights to Turkey

As wages start to creep up in Eastern Europe, carmakers, including Honda and GM, are taking advantage of the country's low costs and flexible labor

by Gail Edmondson, BusinessWeek.com, January 10, 2007

Is Turkey the next hub for global auto production? Eastern Europe is humming with cutting-edge auto factories built since the collapse of communism in 1990, as global giants such as Toyota, General Motors, and Renault rushed to tap the region's low wage rates and top engineering skills. But Turkey is making huge gains, too, competing for future investments and determined to become an auto export powerhouse. On Jan. 9, Renault announced it will start producing the new version of its Clio subcompact in Turkey later this year. It will also invest $236 million to expand engineering and research. Honda also aims to boost its Turkish production, from 30,000 cars a year to 100,000. Toyota and Honda have set up their own subsidiaries in Turkey, while Mercedes-Benz, Renault, Fiat, Ford, Hyundai, and Isuzu have joint ventures with local partners. "We expect most manufacturers will add further capacity," says Carol Thomas, Central and Eastern European analyst at J.D. Power Automotive Forecasting in Oxford, England.

Volatile Demand

True, investments in Turkish plants have been more gradual and less spectacular than the $1 billion greenfield projects in Eastern Europe, such as Hyundai's new factory in Slovakia. But total vehicle production at Turkey's 17 plants, estimated at around 1 million vehicles in 2006, already outstrips car production in any single East European country, including Poland, the Czech Republic, and Slovakia. And many are expanding capacity. Originally, automakers set up small manufacturing operations in Turkey to cater to the domestic market, but demand proved volatile and the strategic lure has shifted to exports. In 2006, auto exports from Turkey rose 25% to 637,360 vehicles—near double the level in 2003, according to the Turkish Automotive Manufacturing Association, known as OSD. Ercan Tezer, head of the OSD, believes Turkey's auto exports could jump to 1.5 million vehicles a year as total production rises to 2 million in the medium term. Today, roughly half the cars built in Turkey are exported into the EU, including Toyota's Corolla Verso, Honda's Civic, Renault's Megane, and Fiat's Marea. And Ford announced recently it will start exporting its Turkish-built Transit Connect light truck to the U.S.

Hard Workers

The lure for manufacturers is rock-bottom costs and labor flexibility—two competitive advantages that are not likely to change soon, since Turkey remains outside the European Union and is not expected to join for at least 15 years. As wages start to climb in Eastern Europe, now fully integrated into the EU, automakers are thinking twice about where to build future models. That's a factor for Toyota, which now produces 175,000 cars a year in Turkey. The Japanese giant is considering building its new Auris hatchback at its Adapazari plant in northwestern Turkey, according to suppliers. Toyota declined to comment on its plans. Another draw: Factory workers in Turkey spend 45 hours a week on the job—even more than the 38 to 42 hours a week typical in Poland, the Czech Republic, and Slovakia. Automakers also are running into serious labor shortages in countries such as the Czech Republic and Slovakia. Hyundai, which just opened a Slovakian plant, has even been forced to recruit workers from Poland. Like Eastern Europe, Turkey boasts a highly skilled workforce that has proven itself capable of matching or exceeding quality at Western plants. Indeed, Ford has named its Otosan joint-venture factory in Turkey its best European plant four years running. "There is a strong work ethic in Turkey and manufacturing quality is excellent," says J.D. Powers' Thomas.

Looking for Growth

The Turkish government has steadily supported the birth of an auto industry over the past 15 years, adopting EU vehicle standards and backing tax breaks for investments in research and development. It also helped fund a new automotive technology and R&D center at the Istanbul Technical University. In a potential sign of things to come, Fiat has shifted the development work for the new Linea sedan to its Tofas joint venture in Turkey. No question, autos have already become an engine of economic growth for Turkey, generating some $14 billion in revenues in 2006, says Ford Otosan General Manager Turgay Durak. As more carmakers look to Turkey for manufacturing, the impact can only grow.

Source: http://www.businessweek.com/globalbiz/content/jan2007/gb20070110_446656.htm?chan=globalbiz_europe_companies

What kind of exogenous risks might occur with respect to the business relation mentioned in the text? What kind of instruments could carmakers use to minimize those risks? Use theoretical concepts to analyse the case described in the article.

Good luck !