

## Open question (closed book) exam International Business (191880801)

Date: October 27, 2014. Time: 08.45h – 11.45h

This exam consists of 6 questions. Each (sub-)question of this exam will be graded with a maximum amount of points, as indicated behind each question. In total, on questions 1-6 (including sub-questions) you can score a maximum of 100 points, which equals the grade 10. **ATTENTION:** exceeding the maximum text when indicated will lead to negative counting. So, as an example, question 1a; max 1 A-4 = max 1 A-4. With answering questions where no indication is given regarding the amount of text, I check for quality which is not equal to quantity. Keep that in mind.

Attached to this exam you can find parts of the article “**Tilting the global balance: An interview with the CEO of Solvay**” (McKinsey quarterly, October 2013; See p.3, 4 and 5 of this exam). Carefully read this article before answering the questions. When in a question “Solvay” or “article” is used, it is referring to this article.

*You can make use of a hardcopy dictionary (no electronic device). You may answer both in English and Dutch. Dus; antwoorden mogen ook in het Nederlands gegeven worden, evt met gebruik van Engelse (vak)termen. Good luck & lots of success!!*

### Question 1; introduction to International Business

1a. Describe the International Business Model (as described during the first lecture) and then, apply it on Solvay by giving 1 or 2 examples of the different components of the model (when present).

**Max 1 (one) A-4 of text (!), excluding potential drawings. 20 points**

1b. Which component of the model is the most important one? Explain. **5 points**

1c. Is the importance described in your answer to question 1b reflected in the article? Explain. **3 points**

### Question 2; Culture

2a. Geert Hofstede operationalized values as the core of cultural difference into dimensions (as explained during lectures 1 and 2, and in the book by Ball in chapter 4). Explain short which dimensions these are and what they are about (in other words: describe them shortly). **5 points**

2b. A number of scholars gave critique on the work of Geert Hofstede. Describe three of these points of critique. You do NOT have to explain in which way Hofstede counters this critique. **6 points**

### Question 3; guest lecture Johan Pross

3a. According to Mr. Pross: what were the 2 most important points of attention for the Chinese Mobile Group while introducing the TD-SCDMA air interface? **4 points**

3b. Mr Pross discussed several factors for his company T3G which made that T3G was successful in China. Describe 2 of these and explain whether or not these 2 factors can be found back in the Solvay case. If so: explain. If not: explain if Solvay should focus on the same factors. **4 points**

3c. Culturally speaking, Mr Pross indicated Guanxi is very important in China, especially when it comes to contracts. Please explain what Guanxi is about. **2 points**

#### Question 4; Intellectual property

In chapter 7 and during lecture 4, Intellectual Property (IP) has been discussed. There are 5 sorts of IP. Explain which ones these are and then choose which of these 5 you would think is most important for Solvay with regards to their business in China. **8 points**

#### Question 5: financial forces and the economic position of the USA

5a. Please comment, which of the following 2 statements you think makes more sense:

1. "Saudi Arabia is the savior of the economy of the United States of America".
2. "China is the savior of the economy of the United states of America"

*redder = serviceur*

In your answer and arguments, include:

- OPEC
- USA dollar
- Balance of Payments (BOP).

#### Max 1 (one) A-4 of text (!!). **20 points**

5b. In chapter 8 and during lecture 5, the International monetary system and Financial forces are discussed. If you would be Jean-Pierre Clamadiou (CEO of Solvay), would you prefer to deal with countries having a floating currency or with countries which have a fixed / pegged currency? Explain, also how to deal with potential problems. **8 points**

#### Question 6; Internationalisation

The article "Internationalization process of firm - model of knowledge development and increasing foreign market commitments" by JOHANSON & VAHLNE has been discussed during lecture 7.

6a. What is this model about? Explain. **5 points**

6b. Can you find elements of the model back in the Solvay article? Explain. **5 points**

6c. When looking at the "Internationalization process of firm model" by Johanson & Vahlne: do you see more familiarity with the Eclectic theory (OLI paradigm) by Dunning or the "international new ventures" theory by Oviatt & McDougal? Explain. **5 points**

## CASE:

### Tilting the global balance: An interview with the CEO of Solvay

The Belgian company is reshaping its portfolio to focus harder on fast-growing markets.

**October 2013** | by Hervé de Barbeyrac and Ruben Verhoeven

**Many companies** talk about placing a greater emphasis on emerging economies. Solvay, with headquarters in Brussels, has acted decisively in this respect—first by freeing up resources through the €5.2 billion sale of its core pharmaceutical business in 2010, then in 2011 by acquiring Rhodia, a French rival with an enterprise value of €6.6 billion. Rhodia complemented Solvay’s chemical portfolio and added a substantial Chinese business.

**The Quarterly:** Can you summarize the rationale for the Rhodia acquisition?

**Jean-Pierre Clamadiou:** Solvay was too much tilted toward Europe, so this was a significant factor in the choice of Rhodia. If things go according to plan, by the end of the year we will end up with one-third of our sales in Europe, one-third in Asia, and one-third in the Americas. That will be a unique position in the global chemical industry. Asia gets a lot of attention these days, of course, but we shouldn’t forget that North America is also a very attractive market because of the very favorable energy scenario which has developed there over the last three to four years. Energy is the key input factor for a large number of our chemical products.

**The Quarterly:** How do you ensure that Solvay stays focused on these high-growth opportunities?

**Jean-Pierre Clamadiou:** The fact that our headquarters is in Brussels and that our top team is still largely European in origin and culture means it is a challenge. We’re organized into global business units, or GBUs, not regions, so it is up to each GBU separately to make sure that it has a clear strategy for what Asia and Latin and North America can offer. The job of the corporate team, meanwhile, is to give GBUs the right amount of resources and make sure we exploit our group synergies.

Twelve of our 17 GBUs already operate in Asia—an example is our specialty-polymers business, for which the region is a particular priority. That global business unit has grown historically out of Europe and North America, but it’s likely that 40 percent of its sales will soon be in Asia. So the business is scrambling to develop its Asian teams, something that is certainly much easier thanks to the fact that Solvay, as a group, already has around 5,000 people in Asia, of whom about 3,000 are in China. We also have assets, like our large R&D lab in Shanghai. We have some excellent Chinese executives in the other businesses who are helping with the recruitment.

**The Quarterly:** Is talent a constraint in these markets?

**Jean-Pierre Clamadiou:** Solvay has been in Brazil for more than 90 years, China for about 30, and South Korea for 35. In all these countries, we have mostly locals in the key jobs. We bring Westerners in for short, very specific assignments, but the days of sending expatriates in large numbers are largely past. The challenge is that whereas 30 years ago there were few Western companies in a country like China, today most multinationals are there, Chinese companies are developing very fast, and the job market is very competitive. We have to work harder

than ever to demonstrate that we can offer local talents a rewarding and exciting career path and opportunities to develop their skills.

**The Quarterly:** How do you get the best people in the Solvay group as a whole matched with the most exciting opportunities in the business units?

**Jean-Pierre Clamadiou:** In some ways, capital is easier to reallocate than people—you can sit in Brussels, look at the annual capital flows of the different businesses, and act accordingly. With people, there is always a tendency to manage in geographic or business “silos.” That’s why we have recently established a new principle: that the top 300 people in the group are corporate assets. That means we will take a corporate view, obviously in discussion with the GBUs, about the best role for these key individuals. The tendency up to now has been for each business to want to hang on to the good ones. In my view, though, it’s important that we offer our top people the chance to contribute to different businesses and acquire different know-how.

**The Quarterly:** How do you actually manage the capital-reallocation process?

**Jean-Pierre Clamadiou:** Following the acquisition of Rhodia by Solvay, we ended up with a large and diverse set of activities, so it was important to establish at the outset the strategic intent for each one. Which ones would be growth engines? Which ones sustainable cash generators? And which ones were struggling?

This exercise led to the development of what we call a five-year strategic road map, which we will update each year. In some cases, that update is simple because things have worked out much as we expected; in other cases, it calls for a brand-new road map because the industry environment has changed. The annual review allows us to see where the units are allocating their resources, which ones are generating cash, which ones consuming cash, and whether the overall financial equation makes sense for the group. Out of this, we are able to see where the capital is flowing and what capital expenditure is required for the individual GBUs.

These annual discussions are intended to send a clear signal to the different management teams: if we agree that you are going to grow, tell us what resources are needed; if we agree that you are there to generate cash and maintain your industry position, you equally know what’s expected. Where businesses are struggling—which inevitably they are in the economic environment of mid-2013—you have to make midterm strategic adjustments. An example of this is that by the end of the year, we hope to have constituted a 50–50 joint venture in polyvinyl chloride with INEOS, a leading industry player.

**The Quarterly:** Do you think managing this sort of change is more difficult in Europe than in North America?

**Jean-Pierre Clamadiou:** It is true we have certain regulations, particularly social ones, which make movement and change more complex. But this is just the way everyone in Europe has to operate. Europe has its place, and exciting things are happening here too. A significant number of our R&D facilities are located in this region, we have excellent relationships with universities here, and innovations continue to flow from our European labs. Even though automotive-industry volumes are suffering in Europe, it is still by far the global leader in technology and innovation. When our businesses come up with innovations linked to automotive, the first markets to respond are in Europe. The reality of Solvay is that we are based in Europe and we have a European culture. There is no reason to

fight that reality. We have to fight to maintain the competitiveness of our operations here, and we can't and don't want to put chemical assets on a boat and ship them to Asia or North America.

**The Quarterly:** How do you manage your own time to keep that global perspective?

**Jean-Pierre Clamadiou:** I obviously travel around the group. But I am starting to wonder if the classic two- to three-day business trip is still the right way to get this sort of global exposure. For the moment, the priority for Solvay's executive committee is probably to spend time together and to learn to work as a team. The next step, though, could be for members of the top team to spend more significant amounts of time in different geographies. Two to three weeks in a place like Shanghai or Singapore, for example, allows you not only to sit down with local managers but to get to know key suppliers and customers.

I find it quite frustrating when I look at my calendar and see so many dates for next year that are "must do." It's good to organize ahead, of course, but doing so sometimes inhibits flexibility. I am sure it's going to make more sense in the future to take longer trips, and I am now starting to prepare for 2014 with this mind-set. A couple of months ago, I met the global COO of a large Europe-based consumer-goods group who is based permanently in Singapore. After a couple of hours with him, I realized how being based in the European headquarters of a global company gives you a completely different outlook. I am not planning to move to Singapore, but with the benefit of high-quality video and other technology, these days I think we need to spend less time at HQ and longer periods in different regions of the world.

In the 18 months since the integration of Solvay and Rhodia got under way, we have pushed ahead simultaneously on developing a common culture for the enlarged group, on devising a new strategic direction for the businesses, and on driving operational improvements. It would have been easier for us to have moved sequentially—to spend the first two years on integration, the next two on operational excellence, and then get around to thinking about strategy and portfolio management in years five and six. Our markets are changing quickly, and there is no alternative but to move forward in parallel. The destination is probably changing as fast as we are moving.

#### END OF CASE

*N.B.: After the results are published, you have 2 weeks to make an appointment to discuss the grade (appointments via tel 3510, secretariat NIKOS; 1 person per appointment). This appointment is to be held within 5 weeks after publication of the result. After these 2 initial weeks, you can schedule an appointment (via secretariat NIKOS, tel 3510) to look into the exam but there is no possibility to discuss the content anymore (see article 12 of the student charter).*