

Cork Institute of Technology

Bachelor of Business (Honours) in Information Systems - Award

(BBISY_8_Y4)

Summer 2008

International Business

(Time: 3 Hours)

Instructions

% of marks allocated for this exam: 70

Section A: Answer all questions

Section B: Answer three (3) from five (5) questions

Please do not write or underline in red pen

Examiners: Ms. C. Murphy
Mr. L. Elwood

Section A: Answer all questions

Case Study: Dyson relocates production to South-East Asia.

James Dyson, long associated with manufacturing has innovative products in the UK, announced in 2002 that he was to shift production of his revolutionary dual cyclone bagless vacuum cleaner to Malaysia with the loss of over 800 jobs at his factory in Malmesbury, Wiltshire, which has produced some 8,000 vacuum cleaners per day. He argued that the globalisation of manufacturing industry had left Dyson with two ways of surviving in the cut-throat consumer market. The first was to become a low-cost producer making a cheap product that follows the rest of the market. The second is to invest much more than its competitors in technology, design and performance. He argues that it is his determination to follow the second approach has led him to relocate production to Malaysia. The 54-year-old design engineer made his name by eventually overcoming the scepticism of banks and venture capitalists to bring his revolutionary product to market some 15 years after his breakthrough invention. By 2002, some 32 separate models of vacuum cleaner were in production. Dyson is keen to point out that since the day the first Dyson dual cyclone vacuum cleaner went on sale in 1993, the company has been operating in a price-cutting market in which it has faced the further problems of rises in labour costs, land prices, taxation and other overhead costs while still trying to substantially increase its investment in new technology.

Dyson claims that by 2002 the sums no longer added up and the company faced going out of business if it continued manufacturing its product in the UK. As of September 2002 all vacuum cleaner production has taken place in Malaysia. The company argues that its production costs will benefit from the much lower wages in Malaysia, equivalent to £1.50 per hour (despite its intention to pay twice the Malaysian national average to its employees) as compared to the then £4.10 per hour in the UK. Indeed the company estimates that lower wages will reduce its unit production costs by around 30%, though the added cost of transporting vacuum cleaners back to European markets will almost wipe out any cost savings. Nevertheless further cost savings will come from now having most of its components suppliers nearby (South-East Asia component suppliers having

progressively replaced those from the UK) and from now being much closer to emerging new markets in Japan, Australia and the Far East. Dyson makes the point that when he first started making high-speed landing craft in the UK thirty year ago, he located in Birmingham where he found 90% of the suppliers he needed all within a few miles of each other. Over the years, however, these have virtually disappeared and the company has had to go abroad to find suppliers for many of its new product ranges.

Dyson goes on to argue that, over the years, successive UK governments have failed to implement the right measures to support manufacturing, such as good R&D related tax incentives, training sufficient apprentices and educating enough engineers and scientists. In addition, successive governments have used high interest rates to control inflation and strengthen the pound – both of which hurt manufacturers, who need low interest rates to borrow, and a low exchange rate to make their exports competitive abroad. Further disincentives, such as the delay in planning applications for factories, rising national insurance contributions and crippling factory rates are seen by Dyson as also creating barriers to efficient manufacturing in the UK. By contrast in Asian countries tend to adopt, in his view, policies that smooth the paths for manufacturers.

While lamenting the loss of UK jobs, the consolation to Dyson is moving his vacuum cleaner manufacturing to Malaysia is that it will now generate enough cash to maintain the company's commitment to reinvesting up to 20% of turnover in research and development, keeping the company alive and ensuring that 1,150 other jobs in Malmesbury are safe, more than 300 of which involve engineers, scientists, designers and testers – the brains that ensure Dyson products remain a step ahead of the rest. Dyson claims to have exported the brawn, keeping the higher level value-added parts at home since Dyson's comparative advantage lies in researching and designing new products to ensure the company stays two steps ahead of its rivals, most of whom manufacture in the Far East. Indeed he claims that to have followed the rest of British industry, which invests an average of only 2% of turnover, would have been to neglect Dyson's engineering and technological heritage and to follow in the footsteps of Britain's car, television and other domestic appliances. Dyson believes that his is the target company to beat for every manufacturer of vacuum cleaners worldwide. Rivals try to copy Dyson, and with the competition so fierce and widespread, Dyson believes his company has to invest much more in research and development than the international norm to retain its competitive advantage.

- Q1. (a) How can Dyson argue that it is in the interest of his British workforce that he relocates production to Malaysia? (10 marks)
- (b) Dyson moving its production to South East Asia may result in negative publicity in its home market, the UK. How would you suggest the company counter that negative publicity? (10 marks)
- (c) Which international trade theory do you think best explains why Dyson chose Malaysia as the location to which they would move their production facilities. (10 marks)
- (d) Debate the advantages and disadvantages of “offshoring” or outsourcing production to foreign countries. (10 marks)

Section B: Answer three (3) from five (5) questions

- Q1. Wild et al, (2006) suggest that “two main forces underline the globalisation of both markets and production, namely falling barriers to trade and investment and technological innovation.” Discuss the validity of this statement using relevant examples to support your answers. (20 marks)
- Q2. (a) Gross National Product (GNP) is a robust estimator of an economy’s absolute economic performance. Discuss the validity of this statement. (10 marks)
- (b) Evaluate the rationale for government intervention in international trade. (10 marks)
- Q3. Identify the origins of political risk and suggest how managers of international firms can reduce its effects. (20 marks)
- Q4. Hofstede’s work identified five important dimensions along which people seem to differ across cultures. Detail the five dimensions, using relevant examples to illustrate your answer. (20 marks)
- Q5. Critically analyse the range of collaborative options open to companies considering foreign trade. (20 marks)