

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

**Date: April 17, 2013    Time: 8.45h – 12.15h**

This exam consists of 5 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 1-5 (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 part of the article “**From internal service provider to strategic partner: An interview with the head of Global Business Services at P&G**” (McKinsey quarterly, 2008; See p.3, 4 and 5 of this exam). Carefully read this article before answering the questions. When in a question “P&G” 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 P&G (headquarters in Cincinnati, Ohio, USA), 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; Internationalisation**

2a. In the article “Toward a theory of international new ventures” by Oviatt & McDougal (1994; JIBS), the 2 authors discuss the phenomenon of the International New Venture. Would you say P&G fits the pattern of the phenomenon described by Oviatt & McDougal, looking at the way in which P&G is organizing their global back-office functions (GBS)? If yes, why? If not, why not? Explain. **15 points**

2b. Is the entry mode by P&G in Costa Rica in the new situation a form of Equity or non-Equity? Give a short explanation. **6 points**

### **Question 3; Forces**

3a. If you would be an exporter based in The Netherlands, would you prefer inflation in the Netherlands over deflation or the other way around? Or potentially, none?

Explain. **8 points**

3b. "The Big Mac Index is a good indicator of the PPP". Would you agree?

Explain. **8 points**

3c. What has Google to do with "double Irish" and "Dutch sandwich"?

Explain, max half A-4. **8 points**

### **Question 4; International Institutions**

Let's assume Costa Rica has some financial problems. Costa Rica is supported by the International Monetary Fund (IMF) and the World Bank (WB) to solve these financial problems, but only if they sign a Poverty Reduction Strategy Paper (PRSP).

Will P&G notice anything of this? If so, how? If not, why not?

Explain in max 1 A-4. **15 points**

### **Question 5; guest lecture Johan Pross**

During his lecture, Mr Pross talked about negotiation differences between Asia (China in particular) and The West. What are the differences and can these differences be explained by looking at the work by Geert Hofstede on culture (the dimensions)?

Elaborate on this, but max 1 A-4. **12 points**

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## CASE

### From internal service provider to strategic partner: An interview with the head of Global Business Services at P&G, Filippo Passerini.

July 2008 • Michael Bloch and Elizabeth C. Lempres

**P&G's support services** have made a ten-year journey that many global corporations are studying with interest and, perhaps, envy. P&G has saved around \$600 million to date by consolidating all back-office functions, such as finance and accounting, HR, facilities management, and IT, into one unit—Global Business Services (GBS)—and by outsourcing many of the nonstrategic activities involved in providing these services. What's more, GBS played a key role in the speedy integration of Gillette, which P&G acquired in 2005, and it has emerged as a strategic partner with the operating units of the global consumer products group by providing innovative solutions in consumer and customer interactions and in product development.

**The Quarterly:** What was the thinking behind creating GBS, in 1999?

**Filippo Passerini:** It was to eliminate duplication—most operating units at the time were supported by their own local service organizations—and, in doing so, reduce costs and leverage our economies of scale. What we did in the next three years was consolidate and standardize more than 70 services. To provide around-the-clock business support worldwide we built three shared-services centers: in San José, in Costa Rica; in Manila, in the Philippines; and in Newcastle, in the UK. We also integrated numerous IT systems into a much smaller set of global platforms, which enable us to access data faster, make smarter decisions, and track operations anywhere around the globe.

**The Quarterly:** P&G made a design choice when it set up GBS as one entity rather than letting the various support functions improve performance on their own. Many companies fear that bundling functions might create overhead that would bring more complexity rather than more efficiency.

**Filippo Passerini:** Our opinion is that if you optimize by function, you will inevitably end up creating silos, which would carry the risk of fragmentation. By integrating all these services into one organization, we can manage them by work process rather than by function and better leverage scale and create synergies. Take purchase-to-payment for suppliers, for example. Some of this work is normally in procurement, some in accounting, and some in finance. We can have one group of people who handle the whole process and so avoid handovers across multiple functions, each with its own management and perhaps different objectives and incentives.

**The Quarterly:** GBS was doing well at that stage. Why did you outsource many of its services?

**Filippo Passerini:** Our objective was not only to further cut costs and improve service levels. By outsourcing the more repetitive commodity work and keeping in-house what we considered strategic, we could in effect decommunitize our shared-services business and allow it to focus on innovation and developing new business capabilities for P&G. For

example, about 2,000 P&G employees in 48 countries transferred to HP to cover things like infrastructure management and application coding. The remainder of our IT community stayed with us to work on system design and architecture, new technologies, and new IT-related business capabilities.

At the time, this was the largest package of outsourcing deals in the marketplace. Because we had strong internal skills, we were able to make the proposition to outsourcers attractive so that our people were all offered jobs by our partners. Our own people became our providers, delivering the same services. I asked our internal business partners—P&G's operating units—if they knew what day we transferred many of our services to our outsourcing partners. They hadn't even noticed it happen. That's perhaps not so strange. Let's take our service center in Costa Rica as an example. Here, the people who transferred continued to work in the San José center, so for them it was mainly a change of badge.

The commitment to collaboration and strategic connection with our outsourcing partnerships has made a difference too. Earlier we mentioned purchase-to-payment for suppliers. One element, accounts payable, is now outsourced; the other two, procurement and finance, remain in-house. But the people managing this process work as one team. Even when they are not physically co-located, they are building on established relationships and know-how. That can only be an advantage.

This model was also unique because it was not a case of flat-out outsourcing, where costs are usually reduced by cutting staff. P&G was offering unique capabilities—skills, knowledge, work processes, and technologies—to each of its outsourcing partners, which enabled them to create new business opportunities. That was beautiful because our people were wanted and needed. The vendors further offshored some of the work, but the GBS people who were affected by the offshoring stayed in place to serve the vendors' other clients.

**The Quarterly:** What was the thinking behind the incorporation of information technology in GBS?

**Filippo Passerini:** The services that can help P&G gain a competitive advantage are enabled by IT-driven innovations. But making these innovations happen and getting the most out of them required a change in mind-set—from IT as a provider of technology to IT as a provider of solutions, often in cooperation with other services. This reinvention of IT would not have happened had it remained a functional silo. By pulling all IT employees into one unit, renaming it Information and Decision Solutions,<sup>1</sup> and integrating this unit in GBS, we had the structural foundation for developing our IT people and instilling a new mind-set. The results have not been late in coming.

In the new IDS structure, we have put resources to deliver against priorities. One of these is personalization—supporting P&G's brands to develop one-to-one connections with consumers. So today, we have digital-services managers partnering with the brands to create best-in-class Web sites that offer a high level of interactivity. At pampers.com, for instance, parents can customize their membership according to the age of their children and get appropriate health and nutrition advice by our experts. Having these managers in place allows us to drive scale, and because the digital-services experts work as one global team, we can create synergies among work done by brands in different business units. Pampers has reapplied the model in 49 markets around the globe, and the pampers.com global network

now reaches 26 million consumers a year. In addition, we have reapplied this personalization approach for other individual brands, as well as on multibrand Web sites.

**The Quarterly:** From a people perspective, what has changed at GBS since 1999?

**Filippo Passerini:** I will give you a couple of indicators. Every year, P&G's top 400 senior managers rate each business unit on its contributions to the group. GBS started off six years ago at an aggregate score of 5.2 out of 10. Our score is now above 8.5. It has gone up for six years in a row. But the most important indicator from a people perspective is perhaps the number of internal P&G applicants for every new job at GBS. That shows how much people want to be part of our services organization. We've gone from 0.3 applicants per job five or six years ago to 7.1 today.

**The Quarterly:** Why are so many people suddenly so interested in working for GBS?

**Filippo Passerini:** It is due to growing skills, high levels of investment in our organization, and the perception that we are doing more important work than before. Success breeds success.

The integration of Gillette is a good example. Our people were working around the clock. Every two or three months, we started up large systems. One phase, which covered Europe and some of Asia, began two years ago on January 1. Some 35 people were in the control room for the last few days of December and the early days in January. I was there with them on New Year's Eve. I am sure most people would say they have more interesting things to do on New Year's, but the paradox was that even though people had to work so hard, their morale was rising. It's really very simple. People want to do well. People want approval. When they feel they are doing something extraordinary, their motivation increases. Our people loved the work they did during those 15 months.

**The Quarterly:** How did you go about changing the culture?

**Filippo Passerini:** It was a big cultural change. However, when we talk of cultural changes, we must keep in mind that we can't commandeer culture. It is the product of organizational design, of building skills and competencies, and of rewarding people when they do well. My own leadership philosophy is about launching breakthrough ideas and setting goals. It's about starting with the end in mind and forcing a pace to deliver on the goals. It is about creating support systems that enable the organization to perform, to feel motivated and good about itself. It's about raising the energy level.

#### 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 5355, secretariat Business Administration; 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 Business Administration, tel 5355) to look into the exam but there is no possibility to discuss the content anymore (see article 12 of the student charter).*

