## Chapter 05

## The Global Environment

**Multiple Choice Questions**

1.*(p. 123)* \_\_\_\_\_\_ refers to the strategy of pursuing opportunities anywhere in the world that enable a firm to optimize its business functions in the countries in which it operates. A. Vertical integration  
B. Horizontal integration  
**C.** Globalization  
D. Franchising

*Difficulty: Easy  
Learning Objective: 1*

2.*(p. 123)* \_\_\_\_\_\_ is the use of a common product, service, and message across all markets to create a strong brand image. A. Globalization  
B. Horizontal integration  
**C.** Standardization  
D. Customization

*Difficulty: Easy  
Learning Objective: 1*

3.*(p. 123)* \_\_\_\_\_\_ is the development of modified products and services, and the use of somewhat tailor-made messages, to meet the demands of a local population A. Globalization  
B. Horizontal integration  
**C.** Customization  
D. Standardization

*Difficulty: Easy  
Learning Objective: 1*

4.*(p. 123)* The change in customer \_\_\_\_\_\_\_ behavior was the beginning of an evolution in international strategy. A. saving  
B. living  
**C.** purchase  
D. moving

*Difficulty: Easy  
Learning Objective: 1*

5.*(p. 123)* The 100 largest U.S. global earn an average of \_\_\_ percent of their operating profits abroad.   
A. 12  
B. 69  
C. 54  
**D.** 37

*Difficulty: Hard  
Learning Objective: 1*

6.*(p. 123)* Firms from which country lead the way in "direct foreign investment" in the United States?   
**A.** Japan  
B. India  
C. China  
D. United Kingdom

*Difficulty: Medium  
Learning Objective: 1*

7.*(p. 124)* Overall, in less than 20 years, \_\_\_\_\_\_ countries will be overshadowed by \_\_\_\_\_\_ countries in their produced share of the world's output.   
A. Oil producing; rich industrial  
**B.** Rich industrial; developing  
C. Developing; oil producing  
D. Oil producing; gold producing

*Difficulty: Medium  
Learning Objective: 1*

8.*(p. 124)* Which country is expected to have a commanding lead in the size of its economy by 2020?   
A. The United States  
B. India  
**C.** China  
D. Japan

*Difficulty: Medium  
Learning Objective: 1*

9.*(p. 124)* The evolution of a global corporation often entails progressively involved strategy levels. What level has the minimal effect on existing product lines?   
A. Foreign licensing  
**B.** Export-import  
C. Technology transfer  
D. Direct investment

*Difficulty: Medium  
Learning Objective: 1*

10.*(p. 124)* Firms at what strategy level are called multinational corporations (MNCs)?  A. First  
B. Second  
**C.** Third  
D. Fourth

*Difficulty: Easy  
Learning Objective: 1*

11.*(p. 124)* Which of these represent the second level in the evolution of a global corporation?   
**A.** Foreign licensing  
B. Direct investment  
C. Export-import  
D. Bartering

*Difficulty: Easy  
Learning Objective: 1*

12.*(p. 124)* MNCs are involved mainly in which of the following strategies?   
**A.** Direct overseas investment  
B. Capital repatriation  
C. Joint research  
D. Host financial policies

*Difficulty: Medium  
Learning Objective: 1*

13.*(p. 124)* At what level do firms begin to emerge as global enterprises with global approaches to production, sales, finance, and control?  
**A.** Third  
B. Fourth  
C. Second  
D. First

*Difficulty: Medium  
Learning Objective: 1*

14.*(p. 124)* The most involved strategy level in the evolution of a global corporation in characterized by   
A. Technology transfer  
B. Export-import operations  
C. Foreign licensing  
**D.** A substantial increase in foreign investment

*Difficulty: Medium  
Learning Objective: 1*

15.*(p. 126)* In the past 30 years, the U.S. has \_\_\_\_\_\_ in terms of technological advantage.   
A. Substantially enhanced  
B. Maintained a status quo  
**C.** Declined dramatically  
D. Reaches the number one spot in the world

*Difficulty: Hard  
Learning Objective: 1*

16.*(p. 126)* Which country leads in chemicals and pharmaceuticals, precision and heavy machinery, heavy electrical goods and surface transport equipment?   
A. France  
**B.** Germany  
C. Japan  
D. The U.S.

*Difficulty: Hard  
Learning Objective: 1*

17.*(p. 126)* \_\_\_\_\_\_ leads in optics, solid-state physics, engineering, chemistry and process metallurgy.   
**A.** Japan  
B. France  
C. The U.S.  
D. Germany

*Difficulty: Hard  
Learning Objective: 1*

18.*(p. 124)* Direct penetration of foreign markets makes sense as a competitive weapon because a firm can drain vital \_\_\_\_ from a foreign competitor’s domestic operations.  
**A.** cash flows  
B. export sales  
C. dividends  
D. debt

*Difficulty: Medium  
Learning Objective: 1*

19.*(p. 127)* A(n) \_\_\_\_\_\_ orientation believes that the values and priorities of the parent organization should guide the strategic decision making of all its operations.   
**A.** Ethnocentric  
B. Polycentric  
C. Regiocentric  
D. Geocentric

*Difficulty: Medium  
Learning Objective: 2*

20.*(p. 127)* Which one of the following is NOT a strategic orientation of global firms?   
**A.** Omnicentric  
B. Ethnocentric  
C. Polycentric  
D. Regiocentric

*Difficulty: Medium  
Learning Objective: 2*

21.*(p. 127)* If a corporations has a(n) \_\_\_\_\_\_ orientation, then the culture of the country in which a strategy is to be implemented is allowed to dominate the decision-making process.   
**A.** Polycentric  
B. Ethnocentric  
C. Regiocentric  
D. Geocentric

*Difficulty: Medium  
Learning Objective: 2*

22.*(p. 127)* A(n) \_\_\_\_\_\_ orientation exists when the parent attempts to blend its own predisposition with those of the region under consideration.   
A. Polycentric  
**B.** Regiocentric  
C. Ethnocentric  
D. Geocentric

*Difficulty: Medium  
Learning Objective: 2*

23.*(p. 127)* A company with a \_\_\_\_\_\_ orientation adopts a global systems approach to strategic decision making, thereby emphasizing global integration.   
A. Ethnocentric  
B. Polycentric  
C. Regiocentric  
**D.** Geocentric

*Difficulty: Medium  
Learning Objective: 2*

24.*(p. 127)* A firm with a \_\_\_\_\_\_\_ orientation adopts a global systems approach to strategic decision making, thereby emphasizing global integration.   
A. polycentric  
**B.** geocentric  
C. regiocentric  
D. ethnocentric

*Difficulty: Hard  
Learning Objective: 2*

25.*(p. 127)* American firms often adopt a \_\_\_\_\_\_ orientation for pursuing strategies in Europe.  
A. polycentric  
**B.** regiocentric  
C. geocentric  
D. ethnocentric

*Difficulty: Hard  
Learning Objective: 2*

26.*(p. 128)* In which of these orientations is governance top-down?  
A. Polycentric  
**B.** Ethnocentric  
C. Geocentric  
D. Regioentric

*Difficulty: Hard  
Learning Objective: 2*

27.*(p. 128)* In which of these orientations is governance bottom-up?  
A. Ethnocentric  
**B.** Polycentric  
C. Geocentric  
D. Regioentric

*Difficulty: Hard  
Learning Objective: 2*

28.*(p. 128)* In which of these orientations are we likely to see hierarchical product divisions?  
A. Polycentric  
**B.** Ethnocentric  
C. Geocentric  
D. Regioentric

*Difficulty: Hard  
Learning Objective: 2*

29.*(p. 128)* In which of these orientations is repatriations of profits to home country a key priority?  
A. Polycentric  
**B.** Ethnocentric  
C. Geocentric  
D. Regioentric

*Difficulty: Hard  
Learning Objective: 2*

30.*(p. 128)* In which of these orientations is national responsiveness a key strategic priority?  
A. Ethnocentric  
**B.** Polycentric  
C. Geocentric  
D. Regioentric

*Difficulty: Hard  
Learning Objective: 2*

31.*(p. 128)* \_\_\_\_\_\_ countries maintain their stability by restricting the flow of money, goods, services, people, and information across their borders.  
A. Open  
**B.** Closed  
C. Most  
D. Few

*Difficulty: Hard  
Learning Objective: 2*

32.*(p. 128)* Closed countries typically have \_\_\_\_\_\_\_ policies.  
A. Open  
**B.** Isolationist  
C. Many  
D. Few

*Difficulty: Hard  
Learning Objective: 2*

33.*(p. 127)* External and internal assessments are conducted \_\_\_\_\_\_ a firm enters global markets.   
A. after  
B. during  
**C.** before  
D. once

*Difficulty: Hard  
Learning Objective: 3*

34.*(p. 128)* Understanding the \_\_\_\_\_\_ risk involved is a key element in the decision to do business in a foreign nation.  
A. financial  
B. economic  
C. social  
**D.** political

*Difficulty: Hard  
Learning Objective: 3*

35.*(p. 127)* Careful examination of critical global environmental features with particular attention to the status of the host nation is called:   
A. Internal assessment  
**B.** External assessment  
C. Ethnocentric orientation  
D. Cultural assessment

*Difficulty: Medium  
Learning Objective: 3*

36.*(p. 127)* Repatriation of profits to home country represents which orientation of a global firm?   
**A.** Ethnocentric  
B. Regiocentric  
C. Geocentric  
D. Polycentric

*Difficulty: Medium  
Learning Objective: 2*

37.*(p. 127)* Host country culture is a dominant factor in which orientation of a global firm?   
A. Ethnocentric  
B. Regiocentric  
C. Geocentric  
**D.** Polycentric

*Difficulty: Medium  
Learning Objective: 2*

38.*(p. 127)* Global personnel development and placement occurs in which orientation of a global firm?   
A. Ethnocentric  
B. Regiocentric  
**C.** Geocentric  
D. Polycentric

*Difficulty: Medium  
Learning Objective: 2*

39.*(p. 127)* Top-down governance structure is evident in which orientation of a global firm?   
**A.** Ethnocentric  
B. Regiocentric  
C. Geocentric  
D. Polycentric

*Difficulty: Hard  
Learning Objective: 2*

40.*(p. 129)* Internal assessment involves identification of the basic \_\_\_\_\_\_ of a firm's operations.   
A. Opportunities  
**B.** Strengths  
C. Threats  
D. Competitors

*Difficulty: Medium  
Learning Objective: 3*

41.*(p. 130)* Political factors in choosing a foreign manufacturing site include:   
**A.** Attitude toward foreign investment  
B. Cost of local borrowing  
C. Degree of labor force in management  
D. Currency rate

*Difficulty: Hard  
Learning Objective: 3*

42.*(p. 130)* Business International Corporation recommends that 7 broad categories of factors be considered in a corporation's assessment of a foreign manufacturing site. Which of the following described one of these categories?   
A. Size of GNP  
**B.** Tax factors  
C. Technical factors  
D. Social factors

*Difficulty: Easy  
Learning Objective: 3*

43.*(p. 130)* According to Business International Corporation, the variables to be included under capital-source factors include:   
A. Proximity of site to export market  
**B.** Modern banking-systems  
C. Availability of tariff protection  
D. Current currency rate

*Difficulty: Easy  
Learning Objective: 3*

44.*(p. 130)* Which of the following is NOT a geographic factor in choosing a foreign manufacturing site?   
A. Efficiency of transport  
B. Proximity of site to export markets  
C. Availability of local raw materials  
**D.** Availability of tariff protection

*Difficulty: Medium  
Learning Objective: 3*

45.*(p. 130)* According to Business International Corporation, variables to be included under labor factors include:   
**A.** Degree of skill  
B. Availability of raw materials  
C. Degree of anti foreign discrimination  
D. Cost of local borrowing

*Difficulty: Easy  
Learning Objective: 3*

46.*(p. 130)* State of marketing and distribution systems is a variable included under which category (as outlined by Business International Corporation)?   
A. Political factors  
**B.** Business factors  
C. Transportation factors  
D. Distribution factors

*Difficulty: Easy  
Learning Objective: 3*

47.*(p. 130)* Which one of the following is NOT a factor that contributes to the increase in complexity of the global environment?   
A. Globals face multiple political, economic, legal, social and cultural environments  
B. Interactions between the national and foreign environments are complex  
**C.** Geographic closeness impacts communication  
D. Cultural and national differences make control difficult

*Difficulty: Hard  
Learning Objective: 3*

48.*(p. 131)* The demands placed on the global firm by the foreign environments in which it operates, principally by foreign governments is called   
A. Globalization  
B. Localization  
C. Formalization  
**D.** Stakeholder activism

*Difficulty: Medium  
Learning Objective: 4*

49.*(p. 133)* A \_\_\_\_\_\_ is one in which competition is essentially segmented from country to country.   
A. Stakeholder activism  
**B.** Multidomestic industry  
C. Globalized economy  
D. Polycentric environment

*Difficulty: Easy  
Learning Objective: 4*

50.*(p. 133)* Factors that increase the degree to which an industry is multidomestic include:   
A. A need for standardized products  
B. Fragmented industry with few competitors  
**C.** Distribution channels unique to each country  
D. The existence of economics of scale

*Difficulty: Hard  
Learning Objective: 4*

51.*(p. 133)* A \_\_\_\_\_\_ is one in which competition crosses national borders.   
A. Stakeholder activism  
B. Multidomestic industry  
C. Polycentric environment  
**D.** Global industry

*Difficulty: Easy  
Learning Objective: 4*

52.*(p. 133)* The expanding list of global industries include all of these EXCEPT   
A. Automobiles  
B. Mainframe computers  
**C.** Insurance  
D. Commercial aircraft

*Difficulty: Hard  
Learning Objective: 4*

53.*(p. 133)* The retailing industry is an example of a \_\_\_\_\_\_\_ industry.  
A. global  
**B.** multidomestic  
C. transnational  
D. multinational

*Difficulty: Hard  
Learning Objective: 4*

54.*(p. 133)* The automobile industry is an example of a \_\_\_\_\_\_\_ industry.  
A. multidomestic  
**B.** global  
C. transnational  
D. multinational

*Difficulty: Hard  
Learning Objective: 4*

55.*(p. 133)* Which of the following is NOT an aspect of global business that makes global planning necessary?   
**A.** Shorter distances  
B. Greater distances  
C. The interrelationship of global operations  
D. Differences in environmental factors in different countries

*Difficulty: Medium  
Learning Objective: 4*

56.*(p. 134)* Strategic management planning must be global for six reasons. One of them is:   
**A.** The increased cope of the global management task  
B. Decreased globalization of firms  
C. Increase in global monopolies  
D. Slowing technology

*Difficulty: Hard  
Learning Objective: 4*

57.*(p. 134)* A global planning process provides:   
A. Cross purposes for subsidiaries  
**B.** An ordered means for assembling, analyzing and distilling information  
C. A means for misinformation to occur  
D. Another information explosion

*Difficulty: Medium  
Learning Objective: 4*

58.*(p. 134)* Rapid technological development:   
A. Requires less management control  
B. Has no affect on product life cycles  
C. Lengthens product life cycles  
**D.** Shortens product life cycles

*Difficulty: Medium  
Learning Objective: 4*

59.*(p. 134)* Among the factors that make for the creation of a global industry are all of these EXCEPT   
A. Economies of scale  
**B.** The presence of heterogeneous product needs across markets  
C. A low level of trade regulation  
D. A high level of R & D expenditures on products

*Difficulty: Medium  
Learning Objective: 4*

60.*(p. 135)* Factors that drive the success of global companies include   
A. Regional management teams  
B. Regional marketing  
C. Multidomestic strategy  
**D.** Global financing

*Difficulty: Medium  
Learning Objective: 4*

61.*(p. 134)* A global firm competing in a global industry must:   
A. Be responsive to global conditions only  
**B.** Be responsive to both global and local conditions  
C. Be responsive to local conditions only  
D. Compete in multi-domestic industry also

*Difficulty: Medium  
Learning Objective: 4*

62.*(p. 135)* All of these are factors that drive the success of global companies EXCEPT   
**A.** Multidomestic strategy  
B. Global financing  
C. Global management team  
D. Global marketing

*Difficulty: Easy  
Learning Objective: 4*

63.*(p. 135)* A multi-national corporation:   
A. Has limited location options for functional activities  
B. Should not have different locations for marketing and operations  
C. Should spread research and development functions across facilities  
**D.** Must determine how to coordinate activities

*Difficulty: Medium  
Learning Objective: 4*

64.*(p. 135)* An industry can be ranked along a continuum that ranges between \_\_\_\_\_ at one extreme and \_\_\_\_ at the other.  
A. regiocentric, polycentric  
B. international, global  
C. ethnocentric, regiocentric  
**D.** multidomestic, global

*Difficulty: Medium  
Learning Objective: 4*

65.*(p. 135)* As its industry becomes increasingly \_\_\_\_\_\_, a firm must begin to coordinate an increasing number of functional activities to effectively compete across countries.  
A. local  
**B.** global  
C. multidomestic  
D. regional

*Difficulty: Medium  
Learning Objective: 4*

66.*(p. 136)* All markets can be arrayed along a continuum from markets in which products are \_\_\_\_ to markets in which products must be \_\_\_\_\_ for customers from market to market.  
A. imported, exported  
B. exported, imported  
**C.** standardized, customized  
D. manufactured, ordered

*Difficulty: Medium  
Learning Objective: 4*

67.*(p. 136)* Standardized products in all markets include \_\_\_\_\_\_  
A. dolls  
B. toilets  
C. trucks  
**D.** petrochemicals

*Difficulty: Medium  
Learning Objective: 4*

68.*(p. 136)* Which one of the following is a key dimension of customer demand in foreign markets?   
A. Customer's acceptance of sub-standard products  
**B.** The rate of product innovation desired  
C. The company's desire to propagate its brand name  
D. The number of suppliers in that foreign market

*Difficulty: Medium  
Learning Objective: 4*

69.*(p. 136)* Which one of the following is a key dimension of customer demand in foreign markets?  
**A.** Customer acceptance of standardized products  
B. The number of suppliers in that foreign market  
C. The company’s desire to propagate its brand name  
D. Loose coordination of geographic activities

*Difficulty: Hard  
Learning Objective: 4*

70.*(p. 137)* When a company offers many product lines, \_\_\_\_ is high.  
A. complexity  
**B.** diversity  
C. integration  
D. planning

*Difficulty: Hard  
Learning Objective: 4*

71.*(p. 137)* The complexity of a strategy refers to:   
A. The breadth of a firm's business lines  
B. A continuum of possible strategic choices  
C. The diversity of the products  
**D.** The number of critical success factors required

*Difficulty: Medium  
Learning Objective: 4*

72.*(p. 137)* Diversity in a firm's product line refers to   
A. The length of a firm's business lines  
**B.** The breadth of the firm's business lines  
C. The number of critical success factors  
D. The quality of the product

*Difficulty: Medium  
Learning Objective: 5*

73.*(p. 137)* Which of the following is NOT a competitive strategy for firms in foreign markets?   
A. Licensing  
**B.** Vertical integration  
C. Franchising  
D. Joint venture

*Difficulty: Medium  
Learning Objective: 6*

74.*(p. 137)* The primary niche for the market approach for exporting:   
A. Begins with a mutually agreeable pooling of capital  
B. Involves the transfer of some industrial property right  
C. Is to modify select product performance or measurement characteristics to special foreign demands  
**D.** Utilizes a foreign branch extension to distribute

*Difficulty: Medium  
Learning Objective: 6*

75.*(p. 138)* Which of these strategies shows the lowest commitment to international market?   
**A.** Export  
B. Joint venture  
C. Licensing  
D. Wholly owned foreign subsidiary

*Difficulty: Medium  
Learning Objective: 6*

76.*(p. 138)* Which strategy shows the highest commitment to international market?   
A. Export  
B. Joint venture  
C. Licensing  
**D.** Wholly owned foreign subsidiary

*Difficulty: Medium  
Learning Objective: 6*

77.*(p. 138)* \_\_\_\_\_\_ usually requires minimal capital investment.   
A. Joint venture  
**B.** Exporting  
C. Foreign branch  
D. Wholly owned foreign subsidiary

*Difficulty: Easy  
Learning Objective: 6*

78.*(p. 138)* Companies between exporting and an equity position on foreign soil:   
A. Can pool capital in a joint venture  
**B.** Can choose to establish a contractual arrangement such as licensing  
C. Extend the company with a foreign branch  
D. Extend the company with a foreign subsidiary

*Difficulty: Hard  
Learning Objective: 6*

79.*(p. 138)* The transfer of an industrial property right is called   
A. Franchising  
**B.** Licensing  
C. Exporting  
D. Bartering

*Difficulty: Medium  
Learning Objective: 6*

80.*(p. 139)* Licensing and contract manufacturing types of strategies are used best in   
A. Small-sized companies  
**B.** Companies large enough to have a combination of international strategic activities  
C. Firms with broadly diversified products in high margin industries  
D. Firms with highest level of commitment to international markets

*Difficulty: Hard  
Learning Objective: 6*

81.*(p. 139)* A special form of licensing is   
A. Green-field investment  
B. Exporting  
C. Joint venture  
**D.** Franchising

*Difficulty: Easy  
Learning Objective: 6*

82.*(p. 139)* Joint ventures:   
A. Can not address complex markets  
**B.** Speed efforts to integrate into the foreign environment with less financial commitment than acquiring a foreign subsidiary  
C. Must be overseen by an outside board of directors  
D. Requires no disclosure of proprietary information

*Difficulty: Medium  
Learning Objective: 6*

83.*(p. 140)* When one company buys another, the purchase is called a(n)   
A. divestiture B. joint venture  
**C.** acquisition  
D. franchise

*Difficulty: Easy  
Learning Objective: 6*

84.*(p. 140)* Host countries may require a foreign branch to be   
**A.** Domesticated  
B. Globalized  
C. Centralized  
D. Localized

*Difficulty: Medium  
Learning Objective: 6*

85.*(p. 142)* Risks of foreign subsidiaries include   
A. The home country's expectations of long-term commitment  
B. The home country's expectations that a number of foreign nationals be employed  
**C.** Changing standards mandated by foreign regulations  
D. A commitment to profits

*Difficulty: Medium  
Learning Objective: 6*

**Essay Questions**

86. What is globalization? How are standardization and customization relevant in globalization?

Please refer to the introductory part of the chapter on pages 123-124.

*Learning Objective: 1*

87. Describe the four strategy levels involved in the evolution of a global corporation.

Please see the discussion on "Development of a Global Corporation" on pages 124-125.

*Learning Objective: 1*

88. Why do firms globalize?

Please see the discussion in the section titled “Why Firms Globalize” on pages 126-127.

*Learning Objective: 1*

89. What are the key issues to consider at the start of a firm’s globalization process?

Please see the discussion titled “At the Start of Globalization” on pages 127-129.

*Learning Objective: 2*

90. Briefly describe the different orientations companies may have toward their overseas activities.

Please refer to the discussion on "Strategic Orientations of Global firms" on page 127.

*Learning Objective: 2*

91. What factors contribute to the increased complexity of the global environment? Explain.

Please see the discussion on "Complexity of the Global Environment" on pages 129-130.

*Learning Objective: 4*

92. What control problem do global firms face?

Please see the discussion titled “Control Problems of the Global Firm” on page 131.

*Learning Objective: 2*

93. What is a multidomestic industry? What factors increase the degree to which an industry is multidomestic?

Please see the discussion on "Multidomestic Industries" on page 133.

*Learning Objective: 4*

94. What is a global industry? What are the reasons strategic management planning must be global?

Please see the discussion titled “Global Industries” on pages 133-134.

*Learning Objective: 4*

95. What are the location and coordination issues that global firms face?

Please see the discussion on “Location and Coordination of Functional Activities” on pages 134-136.

*Learning Objective: 4*

96. Briefly explain the factors that drive the success of global companies.

Please see Exhibit 5.8 on page 135.

*Learning Objective: 4*

97. Describe the market requirement and product characteristics in global competition.

Please see the discussion on "Market Requirement and Product Characteristics" on page 136.

*Learning Objective: 5*

98. Describe the competitive strategy of niche market exporting.

Please see the discussion on “Niche Market Exporting” on pages 137-138.

*Learning Objective: 5*

99. Identify and briefly explain the lowest to the highest commitment strategies a firm may have to international markets.

Please see the discussion on "Competitive Strategies for firms in foreign markets" on pages 137-143.

*Learning Objective: 6*

100. Compare and contrast licensing and franchising.

Please refer to the discussions on "Licensing and Contract Manufacturing" and "Franchising" 138-139.

*Learning Objective: 6*

101. Differentiate between foreign branching, equity investment and wholly owned subsidiaries. What risks firms face with foreign subsidiary strategy? Explain.

Please see the discussions on "Foreign Branching", "Equity Investment" and "Wholly Owned Subsidiaries" on pages 140-142.

*Learning Objective: 6*