***International Business***

**Chapter 11 The Strategy of International Business**

1) Which of the following statements about Zara is most likely FALSE?

A) Zara puts fewer products on clearance racks than most of its competitors in the industry.

B) Zara's large advertising budget generates word-of-mouth and attracts new buyers.

C) New products and designs are delivered to Zara stores every three to four weeks.

D) Most of Zara's products move through the firm's distribution center in Spain.

Answer: B

2) Political, legal, economic, monetary, and institutional forces comprise the \_\_\_\_\_\_\_\_ of international business and influence managers' actions.

A) environment

B) competition

C) culture

D) threat

Answer: A

Learning Outcome: Describe the process of selecting and developing an international business strategy

3) Phillip is an international business manager with Corbin Manufacturing. Which of the following serves as an external influence on the business decisions that Phillip makes?

A) production plant locations

B) host country monetary policy

C) supply chain linkages

D) product design standards

Answer: B

Learning Outcome: Describe the process of selecting and developing an international business strategy

4) \_\_\_\_\_\_\_\_ is the framework that managers apply to determine the competitive moves and business approaches that run the company.

A) Competition

B) Growth

C) Strategy

D) Vision

Answer: C

5) Which force in Toyota's immediate environment would most likely have the greatest impact on its strategy?

A) interest rate trends

B) technology developments

C) shifts in U.S. political attitudes

D) actions taken by Honda and Mercedes Benz

Answer: D

Learning Outcome: Describe the process of selecting and developing an international business strategy

6) Which of the following is NOT among the five forces in the Five-Forces Model of Industry Structure?

A) governments

B) substitute products

C) potential new entrants

D) suppliers of raw materials

Answer: A

7) Which of the following is the best example of a product disruption driving industry change?

A) redesign of Toyota's Prius

B) introduction of Apple's iPad

C) AT&T's purchase of T-Mobile

D) merger of United and Continental

Answer: B

8) The industry organization (IO) paradigm reports that, on average, the best predictor of firm strategy is the \_\_\_\_\_\_\_\_.

A) company's stockpile of assets, skills, and capabilities

B) aggressiveness of a company's marketing objectives

C) link between a company's products and processes

D) structure of the industry in which it competes

Answer: D

Learning Outcome: Describe the process of selecting and developing an international business strategy

9) The Industry Organization (IO) paradigm assumes which of the following?

A) stable political and cultural trends

B) shifting foreign exchange rates

C) perfect competition

D) unequal value

Answer: C

10) Which of the following is the most important constraint on the explanatory power of the IO paradigm?

A) Many industries are imperfectly competitive.

B) Many companies are locally but not internationally competitive.

C) Most customers have perfect knowledge of the products they select.

D) Most industries have many firms that each have small market shares.

Answer: A

11) Improving explanatory power of the IO paradigm can be done by considering the potential for \_\_\_\_\_\_\_\_ to lead to a company's sustained competitive advantage.

A) bright, motivated managers

B) political trends and events

C) cultural institutions

D) new markets

Answer: A

12) As a result of the global economic crisis, the potential for profitability in all sorts of industries has \_\_\_\_\_\_\_\_.

A) decreased

B) increased

C) become less predictable

D) become more projectable

Answer: C

13) Which of the following has the greatest potential to transform an industry's structure?

A) a change in a competitor's management

B) a change in a competitor's pricing structure

C) the expansion of a distribution channel

D) the exit of a competitor from the industry

Answer: D

14) Which of the following is the purpose of a company's value proposition?

A) to exceed customers' expectations

B) to force competitors into a price war

C) to identify consumers for whom the company creates products

D) to explain why a consumer should buy the company's products

Answer: D

15) A strategy that focuses on lowering operating costs is referred to as a \_\_\_\_\_\_\_\_ strategy.

A) differentiation

B) cost leadership

C) niche market

D) diversification

Answer: B

Learning Outcome: Describe the process of selecting and developing an international business strategy

16) Value-Mart has achieved the status of overall low-cost producer in its industry, which means that Value-Mart \_\_\_\_\_\_\_\_.

A) can strongly defend its market position in the event of a price war

B) will earn the largest profits of any company in the industry

C) makes the most appealing product in its industry

D) can block the entry of new firms into the industry

Answer: A

Learning Outcome: Describe the process of selecting and developing an international business strategy

17) \_\_\_\_\_\_\_\_ are the two basic strategies for creating value and attaining a competitive advantage in an industry.

A) Diversification and niche marketing

B) Industry leadership and market dominance

C) Customer satisfaction and product innovation

D) Cost leadership and differentiation

Answer: D

Learning Outcome: Describe the process of selecting and developing an international business strategy

18) A company that employs a \_\_\_\_\_\_\_\_ strategy creates value by generating customer insights and translating those insights into innovations.

A) differentiation

B) diversification

C) cost leadership

D) innovation

Answer: A

Learning Outcome: Describe the process of selecting and developing an international business strategy

19) The essence of a differentiation strategy is to \_\_\_\_\_\_\_\_.

A) target the most sophisticated segment of the market

B) incorporate the greatest number of features into a product

C) offer a unique product that supports a premium price

D) outspend rivals on product advertising

Answer: C

Learning Outcome: Describe the process of selecting and developing an international business strategy

20) A differentiation strategy works well when \_\_\_\_\_\_\_\_.

A) a company designs a universal product for a broad market

B) buyers believe minor product differences are irrelevant to price

C) buyers are highly sensitive to price shifts and quality control

D) a company can continually develop products that have unique features

Answer: D

Learning Outcome: Describe the process of selecting and developing an international business strategy

21) Successful implementation of a(n) \_\_\_\_\_\_\_\_ strategy requires a company to develop unique competencies that rivals find hard, if not impossible, to match or copy.

A) differentiation

B) cost leadership

C) globalization

D) marketing

Answer: A

Learning Outcome: Describe the process of selecting and developing an international business strategy

22) A useful way to understanding the purpose of strategy is to think of the firm as a(n) \_\_\_\_\_\_\_\_, composed of a series of distinct activities, including production, marketing, materials management, R & D, human resources, information systems, and the firm infrastructure.

A) activity network

B) value constellation

C) task succession

D) value chain

Answer: D

23) A company's value chain is best described as the \_\_\_\_\_\_\_\_.

A) variable sequence of converting product ideas into value for shareholders

B) mixture of activities taken to define product value standards and price points

C) discrete series of steps taken to move a product from conception to end-users

D) blueprint that must be followed to leverage the core capabilities of a global firm

Answer: C

24) In the context of value chain analysis, the support activities of a firm include \_\_\_\_\_\_\_\_.

A) outbound logistics, human resources, and information systems

B) production, marketing, and operations

C) shipping and customer service

D) research and development

Answer: C

25) Which of the following is considered a primary activity in a company's value chain?

A) shipping

B) product design

C) systems and solutions

D) materials and equipment

Answer: B

26) Dispersing value activities where and in how many places in the world is the issue of \_\_\_\_\_\_\_\_.

A) logistics

B) clustering

C) coordination

D) configuration

Answer: D

27) Citibank decides to open a call center in Mumbai, India because a detailed analysis of the country-specific advantages suggests that India is the optimal place for responding to customers' calls. Citibank is exploiting \_\_\_\_\_\_\_\_ by running a call center in India.

A) value configuration synergies

B) location economies

C) geographic arbitrage

D) value offshoring

Answer: B

Learning Outcome: Describe the process of selecting and developing an international business strategy

28) Zara creates, produces, and distributes most of its products from its headquarters in Spain. Zara is most likely using a \_\_\_\_\_\_\_\_ configuration.

A) concentrated

B) coordinated

C) dispersed

D) logical

Answer: A

29) Johnson Enterprises manufactures computer chips used in cell phones. The MNE has long production runs that lower the per unit cost of each chip. The firm also purchases materials in bulk from its suppliers with whom Johnson has long-term contracts. Johnson is most likely benefiting from \_\_\_\_\_\_\_\_.

A) economies of scale

B) the cluster effect

C) digitization

D) location economies

Answer: A

30) A \_\_\_\_\_\_\_\_ is a special outlook, skill, capability, or technology that runs through the firm's operations, weaving together all value activities into an integrated value chain.

A) core competency

B) value proposition

C) mission statement

D) learning curve

Answer: A

31) Which of the following refers to the means by which management applies the systems that link a company's value activities, whether those activities are performed in one or in many countries?

A) configuration

B) logistics

C) coordination

D) core competency

Answer: C

32) Social network analysis indicates that information flows more efficiently in a(n) \_\_\_\_\_\_\_\_ manner.

A) collaborative

B) competitive

C) hierarchical

D) impersonal

Answer: A

AACSB: Communication abilities

33) Firms that compete in the global marketplace typically face the asymmetric forces of pressures for \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_.

A) global integration; local responsiveness

B) price reductions; cost reductions

C) politically sensitivity; market leadership

D) cost reductions; customer satisfaction

Answer: A

34) No matter the country or culture, money has three fundamental features that motivate consumers around the world to maximize purchasing power by buying the highest possible quality product for the lowest possible price. These three features include all of the following EXCEPT which one?

A) scarcity

B) difficulty of acquisition

C) difficulty of allocation

D) difficulty of saving

Answer: C

35) In the demand-pull versus supply-push views of the market, which of the following is best classified as a push dynamic that drives supply in the global market?

A) digitization

B) media access

C) standardization

D) market globalization

Answer: C

36) Which of the following would most likely pressure an MNE to globally integrate its value activities?

A) costs of producing in separate facilities exceeding those of producing in a single facility

B) variability in consumers' tastes and preferences shifting across countries

C) market pressures to add new product features continually

D) demands imposed by host country governments

Answer: A

Learning Outcome: Describe the process of selecting and developing an international business strategy

37) Which of the following is LEAST likely to trigger the standardization of consumer preferences?

A) intrinsic functions of money

B) global access to common media

C) increasing nationalism

D) improved communications technologies

Answer: C

Learning Outcome: Describe the process of selecting and developing an international business strategy

38) Which of the following is NOT a factor driving local responsiveness among global firms?

A) cross-national differences in distribution channels

B) diverging consumer tastes and preferences

C) cross-national differences in product standards

D) host government support of freer international trade

Answer: D

Learning Outcome: Describe the process of selecting and developing an international business strategy

39) Advantages of following a strategy of local responsiveness include the \_\_\_\_\_\_\_\_.

A) improved ability to transfer skills to employees in different locations

B) opportunity to adopt a global advertising program

C) ease in standardizing manufacturing methods across countries

D) flexibility to apply location-specific skills to local opportunities

Answer: D

Learning Outcome: Describe the process of selecting and developing an international business strategy

40) Host governments' growing demands for increasing operational transparency will most likely spur companies to make their value chains more \_\_\_\_\_\_\_\_.

A) locally responsive

B) globally integrated

C) concise

D) complex

Answer: A

41) According to the integration-responsiveness (IR) grid, consumer electronics and corporate banking are two types of industries with \_\_\_\_\_\_\_\_ industry pressure for global integration and \_\_\_\_\_\_\_\_ industry pressure for local responsiveness.

A) low; low

B) high; high

C) low; high

D) high; low

Answer: B

42) In the global environment, firms use an international strategy, a multidomestic strategy, a global strategy, or a \_\_\_\_\_\_\_\_ strategy.

A) regional

B) standardization

C) transnational

D) locational

Answer: C

Learning Outcome: Describe the process of selecting and developing an international business strategy

43) The integration-responsiveness (IR) expresses how a company's \_\_\_\_\_\_\_\_ is a function of the relationship between its value chain and the prevailing pressures for global integration or local responsiveness in its industry.

A) value proposition

B) target market

C) mission

D) strategy

Answer: D

Learning Outcome: Describe the process of selecting and developing an international business strategy

44) When the pressure for global integration is high and the pressure for local responsiveness is low, a company is most likely to pursue a(n) \_\_\_\_\_\_\_\_ strategy.

A) global

B) transnational

C) multidomestic

D) international

Answer: D

Learning Outcome: Describe the process of selecting and developing an international business strategy

45) Firms that pursue a(n) \_\_\_\_\_\_\_\_ strategy create value by transferring core competencies from the home market to foreign markets in which local rivals lack a competitive alternative.

A) transnational

B) multidomestic

C) global

D) international

Answer: D

Learning Outcome: Describe the process of selecting and developing an international business strategy

46) Which of the following is NOT a disadvantage of the international strategy?

A) Headquarters can misread foreign-market opportunities and threats.

B) The transfer of core competencies to foreign markets is complicated by the need to adapt to local needs.

C) Local subsidiaries are not given the opportunity to adapt value activities and share what they have learned with headquarters.

D) The company can be blindsided by an unexpectedly innovative rival in a foreign market.

Answer: B

Learning Outcome: Describe the process of selecting and developing an international business strategy

47) A distinct advantage of an international strategy is \_\_\_\_\_\_\_\_.

A) transferring core competencies to foreign markets

B) reaping benefits of global learning

C) customizing product offerings to local conditions

D) leveraging local managers' knowledge of their markets

Answer: A

Learning Outcome: Describe the process of selecting and developing an international business strategy

48) A distinct disadvantage of an international strategy is \_\_\_\_\_\_\_\_.

A) restricting the movement of core competencies to local markets

B) capitalizing on the benefits of global learning

C) customizing product offerings to local conditions

D) relying on home managers' knowledge of foreign markets

Answer: D

Learning Outcome: Describe the process of selecting and developing an international business strategy

49) Darvin Foods is an MNE that is in the process of revising its international business strategy. Most of the firm's top executives believe that Darvin should implement a multidomestic strategy. Which of the following conditions would most likely support this type of strategy?

A) a high need for local responsiveness and a low need to reduce costs via global integration

B) a high need for local responsiveness and a high need to create efficiencies via global integration

C) a low need for local responsiveness and a low need to reduce costs via global integration

D) a low need for local responsiveness and a high need to create efficiencies via global integration

Answer: A

Learning Outcome: Describe the process of selecting and developing an international business strategy

50) Preston Electronics is an MNE with facilities located in Taiwan, Singapore, and Germany. Preston gives its local operations the authority to adapt value activities to prevailing local economic, political, legal, and cultural conditions. Preston is most likely using a(n) \_\_\_\_\_\_\_\_ strategy.

A) global

B) multidomestic

C) international

D) continental

Answer: B

51) Johnson & Johnson delegates to its subsidiaries a great deal of authority to respond to local conditions. Many subsidiaries have their own manufacturing, marketing, research, and human resource functions. This value chain configuration illustrates the \_\_\_\_\_\_\_\_ strategy.

A) transnational

B) global

C) multidomestic

D) international

Answer: C

52) A disadvantage of the \_\_\_\_\_\_\_\_ strategy is that firms that adopt this strategy can decentralize too much autonomy to national subsidiaries.

A) multidomestic

B) continental

C) international

D) transnational

Answer: A

Learning Outcome: Describe the process of selecting and developing an international business strategy

53) Google essentially views the entire world as one market and assumes that there are no fundamental differences among countries with regard to consumers' preferences. Google is engaging a(n) \_\_\_\_\_\_\_\_ strategy.

A) international

B) multidomestic

C) transnational

D) global

Answer: D

54) A global strategy tends to be more successful when \_\_\_\_\_\_\_\_.

A) buyers are looking for customized products at bargain prices

B) the industry's product is a commodity

C) entry barriers are low for new firms

D) suppliers have little bargaining power

Answer: B

Learning Outcome: Describe the process of selecting and developing an international business strategy

55) The MNE that applies a global strategy aims to \_\_\_\_\_\_\_\_.

A) compete essentially the same way wherever the company does business

B) empower local operations to make decisions about value activities

C) adapt activities to the industry standards in critical markets

D) customize its business practices to consumer expectations

Answer: A

Learning Outcome: Describe the process of selecting and developing an international business strategy

56) Which strategy champions worldwide consistency and standardization to support the firm's goal to become the low-cost leader?

A) international strategy

B) multidomestic strategy

C) global strategy

D) transnational strategy

Answer: C

Learning Outcome: Describe the process of selecting and developing an international business strategy

57) An MNE in which new knowledge and capabilities are developed in both domestic and foreign locations, both independently and jointly, and then diffused throughout the worldwide organization, is following a \_\_\_\_\_\_\_\_ strategy.

A) transnational

B) multidomestic

C) global

D) matrix

Answer: A

Learning Outcome: Describe the process of selecting and developing an international business strategy

58) Which of the following is the primary limitation of the transnational strategy?

A) poor local adaptation

B) cross-unit coordination difficulties

C) duplication of subsidiary activities

D) inability to leverage core competencies

Answer: B

Learning Outcome: Describe the process of selecting and developing an international business strategy

59) Marrin Associates is an MNE with operations in Hong Kong, India, and Canada. The firm strives to leverage its core competencies worldwide, reduce costs by exploiting location economics, and adapt when efficient to local conditions. Marrin is most likely following a(n) \_\_\_\_\_\_\_\_ strategy.

A) global

B) multidomestic

C) transnational

D) international

Answer: C

Learning Outcome: Describe the process of selecting and developing an international business strategy

60) The term \_\_\_\_\_\_\_\_ refers to a global company that thrives on seeking unique ideas and insights from locations around the world and then leveraging that knowledge in international markets.

A) multidomestic

B) domestic

C) metanational

D) cross-cultural

Answer: C

61) The framework that managers use to make decisions that maximize their companies' value creation performance is referred to as a strategy.

Answer: TRUE

62) Markets are not always perfectly competitive and some firms consistently outperform industry averages. This suggests that firm performance is also influenced by the presence of bright, motivated managers and their keen sense of innovative products or processes.

Answer: TRUE

63) According to the Industry Organization perspective, firm performance is determined by the presence of motivated managers and their ability to identify and develop innovative products for emerging markets.

Answer: FALSE

64) The potential of new entrants in an industry is one of the forces in the Five-Forces Model of Industry Structure.

Answer: TRUE

65) Change in the long-term industry growth rate has the potential to transform an industry's structure.

Answer: TRUE

66) Some companies that opt for the cost leadership strategy plan to sell products below the average industry prices in order to capture market share.

Answer: TRUE

Learning Outcome: Describe the process of selecting and developing an international business strategy

67) When different companies produce the same commodity, their costs are essentially the same.

Answer: FALSE

68) A differentiation strategy is a unique mixture of the multidomestic and global strategies whereby the company attempts to capture the advantages of both.

Answer: FALSE

Learning Outcome: Describe the process of selecting and developing an international business strategy

69) A differentiation strategy works well in situations where there are many ways to differentiate a product or service and many buyers perceive these differences as having value.

Answer: TRUE

70) Managers use a value chain analysis to determine how the company will design, make, move, and sell products; how it will find efficiencies in doing so; and how it will coordinate the decisions in one part of the business with those made in other parts.

Answer: TRUE

71) Support activities define the infrastructure of the firm and serve as the basis for the daily implementation of primary activities in the value chain.

Answer: TRUE

72) Using a concentrated configuration, an MNE performs value activities in different countries.

Answer: FALSE

73) Dispersed value chains make sense when costs vary across countries.

Answer: TRUE

74) A core competency gives every employee in an MNE a principle that helps them coordinate transactions between value activities.

Answer: TRUE

75) Digitization has altered location economics and established a new global model for service providers in the financial and legal industries.

Answer: FALSE

76) Pressures for global integration include economic integration, convergent consumer preferences, and political demands imposed by host countries.

Answer: FALSE

77) The quest to maximize individual purchasing power compels local responsiveness.

Answer: FALSE

78) Pressures for local responsiveness are especially important in industries where value creation is a function of a company's capacity to adapt to local market conditions.

Answer: TRUE

Learning Outcome: Describe the process of selecting and developing an international business strategy

79) Pressures for local responsiveness include cross-national differences in terms of consumer preferences, advances in technology, and government regulations.

Answer: FALSE

Learning Outcome: Describe the process of selecting and developing an international business strategy

80) The fundamental outlook of the multidomestic strategy is standardization.

Answer: FALSE

81) The fundamental outlook of the global strategy is adaptation.

Answer: FALSE

82) The strategy of a firm using an international strategy is likely to entail producing and marketing mostly standardized products worldwide, with some customization where and when necessary.

Answer: TRUE

Learning Outcome: Describe the process of selecting and developing an international business strategy

83) Tel-Comm Tek is a company that believes it has core competencies that its competitors in foreign markets lack and that it faces relatively weak pressures for local responsiveness and cost reductions. Tel-Comm Tek is likely to adopt an international strategy.

Answer: TRUE

Learning Outcome: Describe the process of selecting and developing an international business strategy

84) A multidomestic strategy makes the most sense for companies that see high pressures for local responsiveness and low pressures for cost reductions.

Answer: TRUE

Learning Outcome: Describe the process of selecting and developing an international business strategy

85) Tel-Comm Tek is a company that sees the world as a single market, assuming that consumer preferences and industry conditions do not vary much among countries. Tel-Comm Tek is likely to adopt a multidomestic strategy.

Answer: FALSE

Learning Outcome: Describe the process of selecting and developing an international business strategy

86) Mobile Technology is a company that sees the world as a single market, assuming that consumer preferences and industry conditions do not vary much among countries. Mobile Technology is likely to adopt a global strategy.

Answer: TRUE

Learning Outcome: Describe the process of selecting and developing an international business strategy

87) A company that develops different capabilities and contributions from different countries and shares them in integrated worldwide operations is using a transnational strategy.

Answer: TRUE

Learning Outcome: Describe the process of selecting and developing an international business strategy

88) Using a transnational strategy pushes a company to centralize some functions in optimal locations, base some functions in national subsidiaries to ensure local responsiveness, and develop wide-ranging communications among various units.

Answer: TRUE

Learning Outcome: Describe the process of selecting and developing an international business strategy

89) Organizational challenges are comparatively more difficult for the firm pursuing a transnational strategy than for the firm pursuing an international strategy.

Answer: TRUE

Learning Outcome: Describe the process of selecting and developing an international business strategy

90) Micro-multinationals are firms that globalize immediately and enter countries with numerous customers, productive workers, and attractive industries.

Answer: TRUE

91) What is the Industry Organization (IO) paradigm? Discuss the underlying assumptions of this model.

Answer: According to the Industry Organization (IO) paradigm, an industry's structure shapes a firm's conduct, namely its strategic and tactical choices regarding research and innovation, product strategy, plant investment, pricing behavior, and other value activities. The assumptions underlying this model are that markets demonstrate perfect competition and that firm performance is a function of its conduct. However, these two assumptions are not always true. Markets are not always perfectly competitive, and some firms consistently outperform industry averages. In this light, industry structure is not entirely deterministic of firm performance. Rather, firm performance is influenced by the presence of bright, motivated managers and their keen sense of innovative products and processes.

Learning Outcome: Describe the process of selecting and developing an international business strategy

92) Describe the two basic ways that companies can create value. What role does the value chain play in these methods?

Answer: Companies create value in two basic ways -- cost leadership and differentiation. Cost leadership emphasizes high production volumes, low costs, and low prices to attract customers. Firms that choose this strategy strive to be the low-cost producer in an industry for a given level of quality. This strategy pushes a firm to sell its products either at average industry prices to earn a profit higher than that of rivals or below average industry prices to capture market share. A differentiation strategy spurs the company to provide a unique good or service that rivals find hard, if not impossible, to match or copy. Firms that choose this strategy aspire to develop products that offer unique attributes that they reason are highly valued by customers and that customers perceive to be better than or sufficiently different from products offered by other companies. The practices of successful MNEs advise managers to interpret the activities the firm performs as elements of a value chain. The value chain follows from the principle that "every firm is a collection of discrete activities performed to do business that occur within the scope of the firm." It specifies a clear-cut framework that lets managers deconstruct the abstraction of "create value" into a step-by-step system. Modeling its sequence requires MNEs configure functions and coordinate processes that move products from conception in R&D through sourcing materials, organizing manufacturing, supervising logistics, applying marketing, and setting-up service options.

Learning Outcome: Describe the process of selecting and developing an international business strategy

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93) What is the difference between primary and secondary activities in the value chain? Describe the functions of configuration and coordination in these value activities.

Answer: A value chain has primary and secondary activities. Primary activities are those involved in the physical movement of raw materials and finished products, in the production of goods and services, and in the marketing, sales, and subsequent services of the outputs of the business. Secondary activities make up the managerial infrastructure of the firm that supports carrying out the primary activities. The support activities include the processes and systems installed to coordinate decisions and transactions among the various value activities. Secondary activities apply to each primary activity. An MNEs competitiveness depends on efficiently distributing value activities and effectively linking them. Distributing value activities around the world is the matter of configuration. Linking them is the matter of coordination. Configuration and coordination, flip sides of the value chain coin, are intrinsically related.

Learning Outcome: Describe the process of selecting and developing an international business strategy

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94) What is configuration? Briefly list and discuss the factors that influence value chain configuration.

Answer: Configuration is the way that managers arrange the activities of the value chain. MNEs greatly improve their competitiveness and performance by configuring value activities to capture potential location economies—namely, the economies that arise from performing a value creation activity in the optimal location for that activity, given prevailing economic, political, and cultural conditions. Therefore, several conditions shape how managers configure value chains worldwide, most notably, cost factors, cluster effects, logistics, digitization, economies of scale, and business environments.

a. Differences in cost factors, such as wage rates, worker productivity, inflation rates, and government regulations, create significant variations in production costs from country to country.

b. The cluster effect is when a particular industry gradually clusters more and more related value creation effects in a specific location. Each economic cluster creates unique location advantages that offer firms in that locale access to specialized resources that can dramatically improve the potential for innovation.

c. Logistics is how companies obtain, produce, and exchange material and services in the proper place and in proper quantities for the proper value activity.

d. Degree of digitization, or the degree to which an analog product can be converted into a string of zeros and ones, influences how a company configures its value chain.

e. An economy of scale refers to the reductions in unit cost achieved by producing a large volume of a product. Generally, economies of scale occur in industries with high capital costs in which those costs can be distributed across a large number of units of production, thereby resulting in lower per-unit costs.

f. The business environment is influenced by government policies, and these policies can make a country more or less attractive for an MNE.

Learning Outcome: Describe the process of selecting and developing an international business strategy

95) What is coordination? Describe the factors that influence value chain coordination.

Answer: Coordination is the way that managers connect the discrete activities of the value chain.

Several factors influence value chain coordination:

a. Operational obstacles: MNEs regularly run into problems when trying to get the various links of their global value chain to deal with each other. Communication challenges especially arise when trying to synchronize languages or deal with different time zones. Well-planned coordination preempts these threats, letting workers worry less about what is supposed to happen with material transfers and product delivery and worry more about creating value.

b. National cultures: National cultures can also impose higher hurdles in coordinating a transaction from one stage of the value chain with another. Units anchored in different cultures may disagree over how much information they should share or who should take lead responsibility. Coordination can then suffer from conflict.

c. Learning effects: Learning effects refer to cost savings that come from learning by doing. Managers, for example, learn by recurrence how to transfer best practices from one country to another, such as innovative ways to improve internal and external customer service. Successfully transferred, an MNE can convert higher productivity into lower costs or higher customer satisfaction into higher prices.

d. Subsidiary networks: The current culmination of globalization trends is a world marked by real-time connectivity among the subsidiaries of an MNE. Subsidiaries around the world can exchange information freely through communication networks. Moreover, there are an astounding number of companies, including their affiliates, which engage in international business. Skills, ideas, and technologies can be created anywhere within an MNE's global network of subsidiaries. An increasingly vital task for managers, then, is to coordinate the company's value chain so that it can leverage the competencies developed within any subsidiary and apply them wherever they can create value within the firm's global network.

Learning Outcome: Describe the process of selecting and developing an international business strategy

96) Describe the pressures for local responsiveness that international companies face.

Answer: The two main pressures for local responsiveness that international companies face are consumer divergence and host-government policies.

a. Consumer divergence: Some maintain that fundamental divergences in consumer tastes and preferences across countries have and will continue to exert strong pressure for local responsiveness. Many think that differences in consumer tastes and preferences across countries emerge and endure due to several factors, including cultural predisposition, historical legacy, emergent nationalism (i.e., "buy local" campaigns), and economic prosperity. No matter the cause, proponents of customer divergence say the outcome is the same: consumers prefer goods that are sensitive to their way of life.

b. Host-government policies: Host-country governments mandate policies that differ widely from each other, causing variability in political, legal, and economic situations around the world. The movement toward privatization, economic freedom, and deregulation has reduced the variability among countries, but differences among countries remain. In light of the recent economic crisis, these differences are again growing as countries take more steps to intervene in an unstable marketplace. These differences push firms to determine how to best configure and coordinate their value chain so that they provide the necessary degree of local responsiveness without jeopardizing their capability to create value. Host governments also have a range of aggressive tools to ensure that an MNE is locally responsive. These tools can be broad policy directives, explicit threats or acts of trade protectionism, local content rules, or simply national product standards that can be met only by local operations. Each policy boosts the pressure on companies to make sure that part or all of its value chain can respond to the local pressures.

Learning Outcome: Describe the process of selecting and developing an international business strategy

97) Discuss the characteristics of international, multidomestic, global, and transnational strategies. Include situations and a specific example in which each strategy would be most appropriate.

Answer:

a. International strategy: Companies adopt the international strategy when they aim to leverage their core competencies by expanding opportunistically into foreign markets. The international model relies on local subsidiaries in each country to administer business as instructed by headquarters. Some subsidiaries may have latitude to adapt products to local conditions as well as set up some light assembly operations or promotion programs. Still, ultimate and absolute control resides with managers at headquarters who reason they know best the basis and potential extension of the company's core competencies.

b. Multidomestic strategy: A strategy in which the company allows each of its foreign country operations to act fairly independently, such as designing and producing a product or service in France for the French market and in Japan for the Japanese market. The main reason for adopting a multidomestic strategy is that in some cases, cultural, legal-political, and economic conditions may dictate very different optimum operating practices from one country to another.

c. Global strategy: A strategy in which a company integrates its operations located in different countries. For example, it might design a product or service with a global market segment in mind. Or it might depend on its operations in different countries to produce the components used in the products and services. In this type of company, managers in the company's home country essentially develop capabilities and make decisions to diffuse them globally.

d. Transnational strategy: A strategy in which a company develops different capabilities and contributions from different countries and shares them in integrated worldwide operations. In essence, this is a hybrid of multidomestic and global strategies in that the company attempts to gain the advantages of both. This strategy is ideal for companies that gain a great deal from global integration and need a great deal of adaptation to local markets. Such industries as pharmaceuticals and automobiles fall into this category.

Learning Outcome: Describe the process of selecting and developing an international business strategy

98) In a brief essay, discuss the strategy used by Zara, the firm described in the opening case. Also discuss the features of Zara's value chain.

Answer: Zara realized that offering standardized fashion styles at reasonable prices neutralized stubborn local preferences. Its global network, supported by state-of-the-art logistics, gave customers worldwide real-time access to the newest, coolest fashion trends. Global markets let Zara leverage its global scale investment in design, manufacturing, distribution, and retail activities. The resulting efficiencies, in turn, supported making high-quality, low-cost products that, by offering compelling value, re-powered the cycle. Zara does not adapt products to a particular country's preferences. The convergence of fashion and taste across national boundaries endorses management's bias toward standardization. However, some product designs cater to physical, cultural, or climate differences—smaller sizes in Japan, special women's clothing in Arab countries, and different seasonal weights in South America. Still, Zara standardized about 85 percent of its designs for the global market. The firm has a concentrated value chain with its product design, manufacturing, and logistics activities located in Spain at the firm's headquarters.

Learning Outcome: Describe the process of selecting and developing an international business strategy

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99) What is the relationship between the five-forces model and a firm's international business strategy? Provide examples to illustrate your answer.

Answer: The five-forces model maps the relationship among companies within an industry, highlighting how competitors, new entrants, suppliers, buyers, and substitute products affect profitability. It holds that firm performance is a function of its strategy, which is determined by industry factors that shape the corresponding pattern of competition. For example, an industry with few entry barriers, lots of accessible buyers, and an expanding supply of low-cost, powerful technologies tends to have many firms competing for profits. Think of, for example, cell phones, e-commerce, financial services, or entertainment. Conversely, an industry with high entry barriers, steep capital requirements, and extreme research and development standards tends to have few firms competing for profits. Think of, for example, the pharmaceutical, energy, aircraft, or automobile industries. In both types, the prevailing industry structure shapes an MNE's choices regarding research and innovation, product strategy, plant investment, pricing behavior, among others. These choices ultimately influence its performance.

Learning Outcome: Describe the process of selecting and developing an international business strategy

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100) What are core competencies? How do firms that adopt an international strategy utilize their core competencies? How do firms that adopt a transnational strategy utilize their core competencies?

Answer: A core competency is the special outlook, skill, capability, or technology that runs through the firm's operations, threading disconnected activities into an integrated value chain. The competitive imperative of necessity of leveraging core competencies throughout the value chain intensifies the importance of skillfully coordinating activities. Companies adopt an international strategy when they leverage core competencies internationally in an industry marked by low pressure for global integration and local responsiveness. The transnational strategy holds that in today's environment of interconnected consumers, industries, and markets, an MNE must configure a value chain that exploits location economies as well as coordinates value activities in order to leverage core competencies while simultaneously reconciling global and local pressures.

Learning Outcome: Describe the process of selecting and developing an international business strategy

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