

## **Chapter 2**

### **Understanding the International Context: Responding to Conflicting Environmental Forces**

#### **True/False**

1. MNEs from emerging markets seem to be more poorly equipped to compete in other emerging markets when compared to their counterparts from developed markets.

Answer: False (Increasingly, it is MNEs from emerging markets that seem best equipped to compete in other emerging markets. This is due in part to the experience they already possess in dealing with customers with similar income levels as well as with markets with similar institutions.)

Difficulty: Moderate

Page: 110; ppt slide 2-25

Topic: Growing pressures for localization

2. The three conflicting environmental forces that MNEs encounter are cross-border integration and coordination, national differentiation and responsiveness, and worldwide innovation and learning.

Answer: True

Difficulty: Easy

Page: 101-102; ppt slide 2-21

Topic: Responding to conflicting environmental forces

3. Global integration and coordination forces encountered by MNEs include economies of scale, government demands, and the expanding spiral of globalization.

Answer: False (Government demands are part of the 'forces for local differentiation and responsiveness'.)

Difficulty: Moderate

Page: 102-105; ppt slides 2-22 to 2-24

Topic: Forces for global integration and coordination

4. Local responsiveness forces encountered by MNEs include cultural differences, government demands and economies of scope.

Answer: False (Economies of scope is part of 'global integration and coordination forces'.)

Difficulty: Moderate

Page: 106 - 111; ppt slides 2-25 to 2-29

Topic: Forces for local differentiation and responsiveness

5. Worldwide innovation and learning forces that are encountered by MNEs are driven by factor costs.

Answer: False (It is mainly driven by the simultaneity of the globalizing and localizing forces, in general, and the increasing cost of R&D coupled with shortening life cycles of technologies and the products they spawn, in particular.)

Difficulty: Moderate

Page: 111-112; ppt slide 2-33

Topic: Forces for worldwide innovation and learning

6. A global industry is characterized by low national responsiveness and high global integration.

Answer: True

Difficulty: Easy

Page: 113; ppt slides 2-34 to 2-38

Topic: Global, multinational, and international industries

7. A multinational industry is characterized by low national responsiveness and high global integration.

Answer: False (A multinational industry is characterized by high national responsiveness and low global integration.)

Difficulty: Easy

Page: 113; ppt slides 2-34 to 2-38

Topic: Global, multinational, and international industries

8. An international industry is characterized by low national responsiveness and moderate global integration.

Answer: False (An international industry is characterized by moderate national responsiveness and moderate global integration.)

Difficulty: Easy

Page: 113; ppt slides 2-34 to 2-38

Topic: Global, multinational, and international industries

9. A transnational industry is characterized by moderate national responsiveness and moderate global integration.

Answer: False (A transnational industry is characterized by high national responsiveness and high global integration.)

Difficulty: Moderate

Page: 114-115; ppt slide 2-39

Topic: Transition to transnationality

10. The search for global competitiveness is a major source of conflict between MNEs and host governments.

Answer: True (Although MNEs and host governments might be partners in the search for global competitiveness, the former strives to achieve this objective within its global system, whereas the latter tries to capture it within its national boundaries.)

Difficulty: Moderate

Page: 107-110; ppt slides 2-25 to 2-29

Topic: Government demands

11. A firm's decision with respect to whether it should adopt a global, multinational or international strategy should be made without any consideration of the industry in which the firm operates.

Answer: False (An industry's (a) economic forces of globalization, (b) national, cultural, social, and political forces of localization, and (c) technological and diffusion forces of innovation are central determinants for whether to adopt a global, multinational or international strategy.)

Difficulty: Moderate

Page: 113; ppt slides 2-34 to 2-38

Topic: Global, multinational, and international industries

12. In the emerging international environment, most industries can be categorized as multinational, global or international.

Answer: False (In the emerging international environment there are fewer and fewer examples of pure global, textbook multinational or classic international industries. Instead more and more businesses are driven to a greater or lesser extent by simultaneous demands for global efficiency, national responsiveness, and worldwide innovation. These are the characteristics of what we call a transnational industry . . .)

Difficulty: Moderate

Page: 114-115; ppt slide 2-39

Topic: Transition to transnationality

13. Globalization is a phenomenon that took most industries by surprise.

Answer: False (For most industries globalization was simply the latest change in economic, technological, and competitive factors over the past 100 years)

Difficulty: Easy

Page: 102

Topic: Forces for global integration and coordination

### Multiple Choice

14. Which global integration and coordination forces would MNEs, such as Mercedes-Benz, encounter?

- a. Economies of scale, increasingly liberalized trade environments and government demands
- b. Economies of scope, factor costs and increasingly liberalized trade environments
- c. Economies of scale, expanding spiral of globalization and local competitors
- d. Economies of scale, economies of scope and government demands

Answer: b (a, c, and d are incorrect because government demands and local competitors are part of 'forces for local differentiation and responsiveness'.)

Difficulty: Moderate

Page: 102-105; ppt slides 2-22 to 2-24

Topic: Forces for global integration and coordination

15. Philips, a multinational electronics corporation based in the Netherlands and diversified in the consumer electronics, domestic appliance, lighting, medical systems and medical technology industries would encounter the following forces of local responsiveness:
- Cultural differences, government demands, and economies of scope
  - Cultural differences, government demands and factor costs
  - Cultural differences, government demands, and local competitors
  - Cultural differences, government demands, and increasingly liberalized trade environments

Answer: c (a, b, and d are incorrect because economies of scope, factor costs, and increasingly liberalized trade environments are part of 'global integration and coordination forces'.)

Difficulty: Moderate

Page: 106-111; ppt slides 2-25 to 2-29

Topic: Forces for local differentiation and responsiveness

16. The pressures that drive book publishers such as McGraw-Hill to integrate and coordinate their activities across national boundaries are primarily \_\_\_\_\_.
- Economic
  - political
  - social
  - organizational

Answer: a (Forces for global integration and coordination are primarily economic rather than political, social, or organizational.)

Difficulty: Moderate

Page: 102-105; ppt slides 2-22 to 2-24

Topic: Forces for global integration and coordination

17. What are the main forces that motivate MNEs such as Dell Computers to disaggregate their operations and activities to respond to national, regional and local needs and demands?
- Social and economic forces.
  - Social and political forces.
  - Political and economic forces.
  - Economic and psychological forces.

Answer: b (Forces for local differentiation and responsiveness are mainly social and political. They are not always economic because many times they make MNEs less efficient.)

Difficulty: Moderate

Page: 106-111; ppt slides 2-25 to 2-29

Topic: Forces for local differentiation and responsiveness

18. What are the main forces that drive MNEs such as Nokia, the mobile communications company, to innovate and learn on a global scale?
- Economic and political forces.
  - Political and social forces.
  - Social and informational forces.
  - Technological and informational forces.

Answer: d (a, b, and c are incorrect because political forces and social forces are forces for local differentiation and responsiveness.)

Difficulty: Easy

Page: 111-112; ppt slide 2-33

Topic: Forces for worldwide innovation and learning

19. An industry that is characterized by low national responsiveness and high global integration is a(n)
- multinational industry.
  - global industry.
  - international industry.
  - transnational industry.

Answer: b

Difficulty: Easy

Page: 113; ppt slides 2-34 to 2-38

Topic: Global, multinational, and international industries

20. A multinational industry is characterized by \_\_\_\_\_.
- low national responsiveness and low global integration
  - low national responsiveness and high global integration
  - high national responsiveness and low global integration
  - high national responsiveness and high global integration

Answer: c

Difficulty: Easy

Page: 113; ppt slides 2-34 to 2-38

Topic: Global, multinational, and international industries

21. An industry that is characterized by moderate national responsiveness and moderate global integration is a(n)
- international industry.
  - global industry.
  - transnational industry.
  - multinational industry.

Answer: a

Difficulty: Easy

Page: 113; ppt slides 2-34 to 2-38

Topic: Global, multinational, and international industries

22. A transnational industry is characterized by \_\_\_\_\_.
- low national responsiveness and low global integration
  - low national responsiveness and high global integration
  - high national responsiveness and low global integration
  - high national responsiveness and high global integration

Answer: d

Difficulty: Easy

Page: 114-115; ppt slide 2-39

Topic: Transition to transnationality

23. In a transnational industry, MNEs are expected to
- collaborate with their competitors to increase the prices of their products.
  - build the capability to learn from the many environments in which they operate.
  - acquire their competitors to increase their pool of resources.
  - decentralize decisions to better respond to local demands.

Answer: b

Difficulty: Moderate

Page: 114-115; ppt slide 2-39

Topic: Transition to transnationality

24. Kentucky Fried Chicken (KFC) suffered a major chicken sales decrease in Hong Kong immediately after running the Chinese version of their successful worldwide advertising campaign “Finger lickin’ good” that supposedly highlights the tastiness of their chicken. This is most likely an issue of:
- Cultural differences and localization pressures
  - Government demands and factor costs
  - Localization pressures and economies of scale
  - Cultural differences and global competition

Answer: a (Very similar to the Pepsi and Chevrolet’s examples in the text book; the Chinese translation came out as ‘eat your fingers off’, needless to say, most customers opted for the fries instead of the chicken!)

Difficulty: Moderate

Page: 106-111; ppt slides 2-25 to 2-29

Topic: Forces for local differentiation and responsiveness

### Essay

25. Apple is a U.S. MNE. Briefly describe three conflicting sets of external demands that its international operations might face.

Answer:

Three conflicting sets of external demands that Apple might face are:

- Forces for global integration and coordination. These forces include economies of scale, economies of scope, factor costs, an increasingly liberalized trade environment and an expanding spiral of globalization.
- Forces for national differentiation and responsiveness. These forces include cultural differences, national infrastructure, government demands and local competitors.
- Forces for worldwide innovation and learning. These forces stem from the increased need for rapid and coordinated worldwide innovation driven by shortening product life-cycles, increased costs of R&D, the emergence of global technology standards and competitors’ ability to develop and diffuse innovation globally.

Difficulty: Moderate

Page: 101-115; ppt slides 2-21 to 2-39

Topic: Responding to conflicting environmental forces



26. Briefly describe the global integration and coordination forces encountered by MNEs.

Answer:

The global integration and coordination forces encountered by MNEs include:

- a. Economies of scale. In many industries, such as automotive manufacturing, production at scale-economy volumes often exceeded the domestic sales levels that individual companies could achieve which motivated these manufacturers to penetrate foreign markets which lead to the global integration and coordination of these markets.
- b. Economies of scope. More efficient worldwide communication and transportation networks provided opportunities for economies of scope which precipitated increased global integration and coordination.
- c. Factor costs. The need for access to new resources at the best possible prices results in factor cost differentials becoming a powerful driver of global integration and coordination.
- d. Increasingly trade liberalized environments.
- e. The expanding spiral of globalization.

Difficulty: Moderate

Page: 102-105; ppt slides 2-22 to 2-24

Topic: Forces for global integration and coordination

27. Briefly describe the local differentiation and responsiveness forces encountered by Samsung, a multinational electronics and home appliances manufacturer and retailer.

Answer:

The local differentiation and responsiveness forces encountered by MNEs such as Samsung include:

- a. Cultural differences. Cultural differences include variances in consumer tastes and preferences, as well as differences in business customs. As such, Samsung will need to respond to the variance in customer preferences between countries and learn to conduct business in accordance with local expectations.
- b. National infrastructure. This includes differences in technical standards (e.g., voltage, TV broadcast, etc.) and distribution channels (e.g., supermarkets, malls or home appliance stores).
- c. Government demands. These include national laws and regulations, as well as host country pressures and demands. As such, Samsung will need to abide by the unique set of national laws and regulations in each of its markets and to satisfy the demands of each host country's government.
- d. Local competitors. Host country competitors may appeal to consumers' sense of patriotism when competing against foreign products. As such, Samsung will encounter this competitive pressure when competing against U.S. home appliance manufacturers in the U.S. or against Japanese home appliance manufacturers in Japan.

Difficulty: Moderate

Page: 106-111; ppt slides 2-25 to 2-29

Topic: Forces for local differentiation and responsiveness

28. Briefly describe the worldwide innovation and learning force that Microsoft encounters.

Answer:

The main worldwide innovation and learning force encountered by MNEs such as Microsoft is the increased need for rapid and coordinated worldwide innovation. This need is driven by shortened product life-cycles, increased costs of R&D and the emergence of global technology standards. For instance, the increased costs of R&D coupled with the shortened life-cycles of new technologies have combined to reinforce the need for companies to seek global volume to amortize their substantial investments as quickly as possible. Moreover, the emergence of global technology standards have encouraged MNEs such as Microsoft to aggressively diffuse their software with the goal of making the software the global standard which will impart a significant global competitive advantage on the company.

Difficulty: Moderate

Page: 111-112; ppt slide 2-33

Topic: Forces for worldwide innovation and learning

29. Explain (1) what is meant by 'global chess' and (2) why companies that are adept at playing global chess have an advantage over their competitors.

Answer:

'Global chess' refers to a competitive strategy that could be played only by companies that manage their worldwide operations as interdependent units and that implement a coordinated global strategy. Unlike the multinational strategic approach which assumes that each national market is unique and independent of the others, the global chess approach assumes that a company's competitive position in all markets is linked by financial and strategic interdependence. Companies that are skilled at playing global chess have an advantage over their national competitors because they can benefit from cross-subsidization, that is, they can use funds generated in one market to subsidize their position in another.

Difficulty: Moderate to Hard

Page: 104-105

Topic: Global competitors as change agents

30. Briefly discuss whether the type of industry a company belongs to affects that company's decision to adopt an international, multinational, or global strategy. Explain why you believe that industry type affects/does not affect strategy choice.

The industry a company belongs to affects that company's decision to adopt an international, multinational, or global strategy, because different industries encounter different forces and different forces lead to the adoption of different strategies. For instance, in some businesses the economic forces of globalization were historically strong and dominated other environmental demands. Such industries are designated as global industries. Businesses in such industries perform best when they follow a global strategy. In other businesses, the localizing forces of national, cultural, social, and political differences dominate the development of industry characteristics. Such industries are designated as multinational industries. Businesses in such industries perform best when they follow a multinational strategy. In some other industries technological forces are central and the need to develop and diffuse innovations is the dominant source of competitive advantage. Such industries are designated as international industries. Businesses in such industries perform best when they follow an international strategy. In recent years many industries are experiencing the above 3 sets of forces simultaneously. Such industries are designated as transnational industries. Businesses in such industries perform best when they follow a transnational strategy.

Difficulty: Moderate to Hard

Page: 112-115; ppt slides 2-34 to 2-38

Topic: Responding to the diverse forces simultaneously

31. Interactions between host governments and MNEs have been sometimes compared to love-hate relationships. Could you please explain both parts of this equation and how host governments and MNEs relationships have evolved in the 2010s?

The “love” of this equation was built on the benefits that each could bring to the other. To the host government, the MNE represented an important source of taxation revenue, technology, and expertise that could help further national priorities, such as regional development, employment, import substitution, and export promotion. To the MNE, the host government represented the key to local market or resource access, which provided new opportunities for profit, growth, and improvement of its competitive position.

The “hate” side of the relationship - more often emerging as frustration rather than outright antagonism - arose from the differences in the motivations and objectives of the two partners. To be effective global competitors, MNEs sought three important operating objectives: unrestricted access to resources and markets throughout the world; the freedom to integrate manufacturing and other operations across national boundaries; and the unimpeded right to coordinate and control all aspects of the company on a worldwide basis. The host government, in contrast, sought to develop an economy that could survive and prosper in a competitive international environment. At times, this objective led to the designation of another company - perhaps a “national champion”—as its standard bearer in the specific industry, bringing it into direct conflict with the MNE.

A new trend is emerging that is set to alter the MNE-government relationship during the 2010s. Cash-rich governments and their nationally owned corporations in emerging markets, particularly China, are looking to invest in foreign resources, with such investments often packaged as part of a government-to-government diplomatic relationship. Not only are the government investors looking to earn returns on investment, but perhaps more importantly, they are securing the natural resources to ensure the future economic security of their own countries. This policy-based partnership of governments and national corporations engaging in the global business arena via such mechanisms as sovereign wealth funds is significantly different from the “national champion” strategy of an earlier era, and it is certain to have important global competitive implications over the next decades.

Difficulty: Moderate

Page: 107-110; ppt slides 2-25 to 2-29

Topic: Forces for local differentiation and responsiveness (Subsection: Government demands)