

# Chapter 11

Student: \_\_\_\_\_

1. As coca-cola faced problems in the late 1990s, Douglas Daft changed strategies and focussed on \_\_\_\_\_?
  - A. price
  - B. quantity
  - C. quality
  - D. tailoring strategy to meet local needs
  - E. centralizing firm decisions in Atlanta
2. Profit can be defined as:
  - A. costs minus profits
  - B. the difference between time and money
  - C. quantity times profit
  - D. sales plus costs
  - E. the difference between TR and TC
3. A firm's \_\_\_\_\_ can be defined as the actions that managers take to attain the goals of the firm.
  - A. systems
  - B. value chain
  - C. operations
  - D. strategy
  - E. plans
4. Sally creates \_\_\_\_\_, when she develops a way to maximize long-term profitability.
  - A. a strategy
  - B. a mission
  - C. competitors
  - D. a design
  - E. competitive advantage
5. \_\_\_\_\_ is the difference between total revenues and total costs.
  - A. Strategy
  - B. Profit
  - C. Asset
  - D. Economies of scale
  - E. Gross margin
6. A simple example of \_\_\_\_\_ is rate of return on sales.
  - A. strategy
  - B. economies of scale
  - C. profitability
  - D. primary activity
  - E. profit
7. A basic condition that determines a firm's profits is:
  - A. the firm's costs of distribution.
  - B. taxes.
  - C. the amount of value customers place on the firm's goods.
  - D. government regulations.
  - E. variable costs

8. Actions that managers take to attain the firm's goals are referred to as \_\_\_\_\_.  
A. value chain activities  
B. strategies  
C. systems  
D. operations  
E. tactics
9. There are two basic strategies for improving a firm's profitability. These are:  
A. a differentiation strategy and a low-cost strategy  
B. a premier strategy and a generic strategy  
C. a high-cost strategy and a low-cost strategy  
D. a comparison strategy and a low-cost strategy  
E. a diversification strategy and a low-cost strategy
10. A company creates \_\_\_\_\_ by converting inputs that cost C into a product on which consumers place a value of V.  
A. value  
B. wants  
C. profits  
D. demand  
E. profitability
11. According to the textbook, it is useful 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. functional stream  
B. momentum machine  
C. inert chain  
D. value chain  
E. business chain
12. Value chain activities can be categorized as:  
A. primary activities and secondary activities  
B. input activities and throughput activities  
C. profitable activities and unprofitable activities  
D. primary activities and support activities  
E. value creation and value delivery
13. The \_\_\_\_\_ activities of a firm have to do with creating the product, marketing and delivering the product to buyers, and providing support and after-sales service to the buyers of the product.  
A. support  
B. subordinate  
C. ancillary  
D. primary  
E. distribution
14. In the context of value chain analysis, the primary activities of a firm include:  
A. manufacturing, materials management, marketing and sales, and service  
B. infrastructure (structure and leadership), human resources, and R&D  
C. R&D, sales, and materials management  
D. manufacturing, human resources, and materials management  
E. production, marketing & service, and sales
15. In the context of value chain analysis, which of the following is an example of a "primary" activity?  
A. materials management  
B. research and development  
C. manufacturing  
D. human relations  
E. information systems

16. \_\_\_\_\_ is concerned with the creation of goods or service.
- A. Profitability
  - B. Marketing
  - C. Sales
  - D. Production
  - E. R&D
17. In the context of value chain analysis, the support activities of a firm include:
- A. human resources, management information systems, materials management, and accounting
  - B. accounting, infrastructure, R&D, and materials management
  - C. manufacturing, marketing and service, R&D, and management information systems
  - D. human resources, materials management, infrastructure, and information systems
  - E. infrastructure, R&D, human resources, and information systems
18. In the context of value chain analysis, \_\_\_\_\_ activities allow the primary activities of production and marketing to occur.
- A. complementary
  - B. secondary
  - C. support
  - D. subsidiary
  - E. staff
19. Which function ensures that the company has the right mix of skilled people to perform its value creation activities effectively?
- A. Accounting
  - B. Human resources
  - C. Materials management
  - D. Infrastructure
  - E. information services
20. The \_\_\_\_\_ function controls the transmission of physical materials through the value chain.
- A. human resources
  - B. infrastructure
  - C. R & D
  - D. materials management
  - E. distribution
21. All of the following, except \_\_\_\_\_, are included in infrastructure.
- A. structure
  - B. employee relations
  - C. culture
  - D. control systems
  - E. all of these answers are correct
22. Which of the following is not something firms that operate internationally are able to do?
- A Earn a greater return from the firm's distinctive skills or core competencies by leveraging those skills and . applying them to new geographic markets.
  - B Earn a greater return by leveraging any valuable skills developed in foreign operations and transferring . them to other entities within the firm's global network of operations.
  - C Realize location economies by dispersing individual creation activities to those locations around the . globe where they can be performed most efficiently.
  - D Realize greater cost economies from experience effects by serving an expanded global market from a . central location, and increasing the costs of value creation.
  - E. None of these answers is correct

23. All of the provinces of Canada export about 75% percent of their production to the U.S. except for.
- A. Quebec
  - B. Newfoundland
  - C. Alberta
  - D. Prince Edward Island
  - E. British Columbia
24. \_\_\_\_\_ permitting, the firm will benefit by basing each value creation activity it performs at that location where economic, political, and cultural positions are most conducive to the performance of that activity.
- A. Production regulations
  - B. Resources and revenues
  - C. Trade barriers and transportation costs
  - D. Distribution and resource availability
  - E. Exchange rates and transportation costs
25. Economies that arise from performing a value creation activity in the optimal location for that activity are called \_\_\_\_\_.
- A. site expediencies
  - B. location economies
  - C. site commerce
  - D. location synergies
  - E. offshore savings
26. Suppose General Motors decided to manufacture brakes in Ireland, because a detailed analysis of country specific advantages indicated that Ireland is the optimal place in the world to produce brakes. In this example, General Motors is capturing \_\_\_\_\_ by manufacturing brakes in Ireland.
- A. location synergies
  - B. site expediencies
  - C. site commerce
  - D. location economies
  - E. offshore profits
27. Locating a value creation activity in the optimal location for that activity can have one or two effects. First, it can lower the costs of value creation and help the firm to achieve a low-cost position, and/or:
- A. it can enable a firm to differentiate its product offering from that of competitors
  - B. it can lower the cost of marketing and service
  - C. it can expedite the research and development process
  - D. it can create political good will
  - E. all of these answers are correct
28. According to our textbook, a firm creates a(n) \_\_\_\_\_ by dispersing the stages of its value chain to those locations around the globe where the value added is maximized or where the costs of value creation are minimized.
- A. integrate circle
  - B. disperse chain
  - C. global web
  - D. international mesh
  - E. global conglomerate
29. In theory, a firm that realizes \_\_\_\_\_ by dispersing each of its value creation activities to its optimal location should have a competitive advantage vis-à-vis a firm that bases all its value creation activities at a single location.
- A. multi-domestic strategies
  - B. site synergies
  - C. site commerce
  - D. geographical distinctiveness
  - E. location economies

30. All of the following are distinct advantages Mexico has over many Asian countries as a location for value creation activities, except:
- A. low-labour costs.
  - B. more hard workers are found in Mexico than in Asia.
  - C. NAFTA has removed many trade barriers between Mexico, the U.S., and Canada.
  - D. proximity to the large U.S. market.
  - E. all of these answers are correct
31. The \_\_\_\_\_ refers to the systematic reductions in production costs that have been observed to occur over the life of a product.
- A. experience curve
  - B. forward advantage
  - C. positive-sum result
  - D. managed advantage
  - E. economies of scale
32. If Goodyear Tire Corporation experienced systematic reductions in the production costs of a particular product over the life of the product, they would be realizing \_\_\_\_\_ effects.
- A. managed production
  - B. forward advantage
  - C. experience curve
  - D. value chain
  - E. economies of scale
33. A number of studies have observed that a product's \_\_\_\_\_ decline by some characteristic each time accumulated output doubles.
- A. financing costs
  - B. production costs
  - C. marketing costs
  - D. R&D costs
  - E. distribution costs
34. \_\_\_\_\_ refer to cost savings that come from learning by doing.
- A. Learning effects
  - B. Exponential effects
  - C. Ancillary effects
  - D. Indirect effects
  - E. R&D effects
35. Learning effects tend to be more significant when a \_\_\_\_\_ task is repeated because there is more than can be learned about the task.
- A. repetitive manufacturing
  - B. standardized manufacturing
  - C. technologically complex
  - D. standardized service
  - E. multi-level
36. The term \_\_\_\_\_ refers to the reduction in unit cost achieved by producing a large volume of a product.
- A. volume synergies
  - B. captured savings
  - C. economies of scale
  - D. rent effects
  - E. cost efficiencies

37. If Honda noticed that the unit costs of Honda Accords went down as the number of Accord's produced went up, Honda would be realizing the benefits of \_\_\_\_\_.  
A. captured savings  
B. volume synergies  
C. economies of scale  
D. rent effects  
E. learning effects
38. The ability to spread fixed costs over a large volume results in a cost-savings phenomenon referred to as:  
A. volume synergies  
B. economies of scale  
C. captured savings  
D. size effects  
E. volume discounts
39. Moving down the experience curve allows a firm to reduce its cost of:  
A. raw materials.  
B. creating value.  
C. distribution.  
D. R & D.  
E. production
40. Skills within the firm that competitors cannot easily match or imitate are referred to as  
A. core competencies.  
B. global competencies.  
C. in-born skills.  
D. competitive threats.  
E. competitive competencies
41. Mcdonald's core competencies are  
A. materials management  
B. developing and marketing brand name products  
C. information systems and logistics  
D. developing and managing customer loyalty programs  
E. managing fast-food operations
42. \_\_\_\_\_ is a way of further exploiting the value creation potential of a company's skills and product offerings by applying these skills and products in a larger market.  
A. Retrenchment  
B. Marketing  
C. Global expansion  
D. Brand name  
E. Diversification
43. The term \_\_\_\_\_ refers to skills within a firm that competitors cannot easily match.  
A. core competencies  
B. indigenous properties  
C. value chain  
D. discriminate attributes  
E. competitive advantages
44. According to our textbook, a firm's \_\_\_\_\_ allow it to reduce the costs of value creation and/or to create value in such a way that premium pricing is possible.  
A. special attributes  
B. discriminate attributes  
C. indigenous properties  
D. core competencies  
E. economies of scale

45. \_\_\_\_\_ the skills created within subsidiaries and applying them to other operations within the firm's global network creates value.
- A. Eliminating
  - B. Leveraging
  - C. Reducing
  - D. Cross-licensing
  - E. Expanding
46. Firms that compete in the global marketplace typically face two types of competitive pressures. They face pressures for cost reductions and:
- A. pressures for volume increases
  - B. pressures to be locally responsive
  - C. pressures to be politically savvy
  - D. pressures for price reductions
  - E. pressures to reduce costs
47. As a result of cost pressures, tire firms are now trying to rationalize their operations to attain what?
- A. locations closer to markets
  - B. locations with lower trade barriers
  - C. locations that are locally responsive
  - D. locations where they received a large grant from the government to locate here
  - E. low cost positions
48. Pressures for cost reductions can be particularly intense in industries producing commodity products where meaningful differentiation on non-price factors is difficult and \_\_\_\_\_ is the main competitive weapon.
- A. quality
  - B. distribution efficiency
  - C. sales and service
  - D. price
  - E. product attributes
49. Among global firms, which of the following is not a factor that is driving pressures for local responsiveness?
- A. Differences in distribution channels
  - B. Differences in infrastructure
  - C. Similarities in consumer tastes and preferences
  - D. Host government demands
  - E. Differences in traditional practices
50. Which of the following is not a factor that is driving pressures for local responsiveness among global firms?
- A. Similarities in distribution channels
  - B. Host government demands
  - C. Differences in infrastructure
  - D. Differences in consumer tastes and preferences
  - E. Differences traditional practices
51. Differences in consumer tastes and preferences, differences in infrastructure and traditional practices, differences in distribution channels, and host government demands are factors pressuring firms to be sensitive to \_\_\_\_\_ in their international strategies.
- A. be locally responsive
  - B. be globally standardized
  - C. be cost sensitive
  - D. to integrate more "commodity" like features
  - E. be politically neutral

52. Harvard Business School Professor Theodore Levitt has argued that consumer demands for local customization are \_\_\_\_\_ worldwide.
- A. declining
  - B. levelling out
  - C. increasing
  - D. a myth
  - E. diversifying
53. Pressures for \_\_\_\_\_ emerge when there are differences in infrastructure and/or traditional practices between companies.
- A. government support
  - B. consumer support
  - C. local responsiveness
  - D. global cutbacks
  - E. Internal Responsiveness
54. Threats of protectionism, economic nationalism, and local content rules:
- A. try to keep foreign companies out.
  - B. dictate that international businesses manufacture locally.
  - C. put harsh regulations on distribution.
  - D. strictly regulate the raw materials that foreign companies use.
  - E. make foreign markets unattractive
55. Pressures for \_\_\_\_\_ imply that it may not be possible for a firm to realize the full benefits from experience curve and location economies.
- A. government approval
  - B. consumer guidance
  - C. national recognition
  - D. local responsiveness
  - E. local development
56. Firms use four basic strategies to compete in the international environment. These are:
- A. a cultural literacy, an ethnocentric strategy, a nationalistic strategy, a global strategy
  - B. a cross-cultural strategy, a trade block strategy, a regional strategy, and a world strategy
  - C. a domestic-based strategy, an international-focused strategy, a local/regional-based strategy, and a cultural-based strategy
  - D. an international strategy, a regional strategy, a global strategy, and a world strategy
  - E. an international strategy, a multi-domestic strategy, a global strategy, and a transnational strategy
57. The appropriateness of the strategy that a firm uses in an international market varies with the extent of pressures for \_\_\_\_\_ and \_\_\_\_\_.
- A. cost reductions; availability of financing.
  - B. price concessions; quality improvements
  - C. availability of financing; product standardization
  - D. cost reductions; local responsiveness
  - E. market size; market characteristics
58. Firms that pursue a(n) \_\_\_\_\_ strategy try to create value by transferring valuable skills and products to foreign markets where indigenous competitors lack those skills and products.
- A. multi-domestic
  - B. transnational
  - C. global
  - D. international
  - E. multinational



59. A(n) \_\_\_\_\_ strategy makes sense if a firm has a valuable core competence that indigenous competitors in foreign markets lack.
- A. global
  - B. international
  - C. multi-domestic
  - D. transnational
  - E. multinational
60. When cost pressures are low and pressures for local responsiveness are low, a(n) \_\_\_\_\_ strategy is the most appropriate.
- A. multi-domestic
  - B. transnational
  - C. global
  - D. international
  - E. multinational
61. A(n) \_\_\_\_\_ strategy makes sense if a firm has valuable core competencies that indigenous competitors in foreign markets lack, and if the firm faces relatively weak pressures for local responsiveness and cost reductions.
- A. international
  - B. global
  - C. multi-domestic
  - D. transnational
  - E. multinational
62. The distinguishing feature of \_\_\_\_\_ firms is that they extensively customize both their product offerings and their marketing strategy to match national conditions.
- A. multi-domestic
  - B. global
  - C. transnational
  - D. international
  - E. multinational
63. Firms pursuing a(n) \_\_\_\_\_ strategy orient themselves toward achieving maximum local responsiveness.
- A. international
  - B. domestic
  - C. multi-domestic
  - D. global
  - E. multinational
64. When cost pressures are low and the pressures for local responsiveness are high a(n) \_\_\_\_\_ strategy is the most appropriate.
- A. multi-domestic
  - B. global
  - C. transnational
  - D. international
  - E. multinational
65. Firms pursuing a(n) \_\_\_\_\_ strategy orient themselves towards achieving maximum local responsiveness.
- A. international
  - B. global
  - C. transnational
  - D. multi-domestic
  - E. multinational

66. Which of the following is not a typical characteristic of multi-domestic firms?
- A. Extensively customize both their product offerings
  - B. Try to establish a complete set of value creation activities in each major national market in which they do business
  - C. Have a low cost structure
  - D. Do a poor job of leveraging core competencies within the firm
  - E. Extensively customize their marketing strategy to match different national conditions
67. A weakness of the \_\_\_\_\_ strategy is that many of the firms that pursue this strategy have developed into decentralized federations in which each national subsidiary functions in a largely autonomous manner.
- A. multinational
  - B. global
  - C. international
  - D. transnational
  - E. multi-domestic
68. Firms that pursue a(n) \_\_\_\_\_ strategy focus on increasing profitability by reaping the cost reductions that come from experience curve effects and location economies.
- A. multi-domestic
  - B. multinational
  - C. international
  - D. global
  - E. transnational
69. One of the mistakes that Vodafone made when entering the Japanese market was
- A. not reducing its prices
  - B. ignoring growth in its global brand
  - C. not concentrating on economies of scale
  - D. initially the J-phone was not considered to be a hot property
  - E. ignoring local market conditions
70. The production, marketing, and R&D activities of firms pursuing a(n) \_\_\_\_\_ strategy are concentrated in a few favourable locations.
- A. international
  - B. transnational
  - C. global
  - D. multi-domestic
  - E. multinational
71. A(n) \_\_\_\_\_ strategy makes sense when there are strong pressures for cost reductions and where demands for local responsiveness are minimal.
- A. global
  - B. multi-domestic
  - C. transnational
  - D. international
  - E. multinational
72. Pursuing a(n) \_\_\_\_\_ strategy involves a simultaneous focus on reducing costs, transferring skills and products, and being locally responsive.
- A. global
  - B. multi-domestic
  - C. transnational
  - D. international
  - E. multinational

73. According to Christopher Barlett and Sumantra Ghoshal, the flow of skills and product offerings should not be all one way, from home firm to foreign subsidiary. Rather, they argue that the flow should also be from foreign subsidiary to home country, and from foreign subsidiary to foreign subsidiary-a process they call:
- A. adaptive learning effect
  - B. international education.
  - C. international lore.
  - D. worldwide effect.
  - E. global learning.
74. The work of Christopher Barlett and Sumantra Ghoshal is associated with:
- A. global strategy.
  - B. strategy.
  - C. transnational strategy.
  - D. international strategy.
  - E. multinational strategy
75. According to the textbook, which of the following strategies is difficult to implement due to organizational problems?
- A. Multinational
  - B. International
  - C. Global
  - D. Multi-domestic
  - E. Transnational
76. According to Barlett and Ghoshal, the \_\_\_\_\_ strategy is the only viable international strategy.
- A. multi-domestic
  - B. international
  - C. transnational
  - D. global
  - E. multinational
77. A lack of local responsiveness, an inability to realize location economies, and a failure to exploit experience curve effects are disadvantages of a(n) \_\_\_\_\_ strategy.
- A. international
  - B. global
  - C. transnational
  - D. multi-domestic
  - E. multinational
78. Which of the following two international strategies are disadvantaged by a lack of local responsiveness?
- A. Global and international
  - B. multi-domestic and transnational
  - C. Transnational and global
  - D. multi-domestic and international
  - E. multi-domestic and multinational
79. Which of the following two strategies suffer from a failure to exploit experience curve effects?
- A. International and transnational
  - B. multi-domestic and international
  - C. Transnational and global
  - D. Global and international
  - E. multi-domestic and multinational

80. The term \_\_\_\_\_ refers to cooperative agreements between potential or actual competitors.
- A. tactical union
  - B. strategic alliance
  - C. political affiliation
  - D. economic association
  - E. global partnership
81. According to the textbook, the 1980s and 1990s saw:
- A. a rapid decline in the number of strategic alliances.
  - B. an explosion in the number of strategic alliances.
  - C. a decline in the number of strategic alliances for international firms and an increase in the number of strategic alliances for firms.
  - D. an increase in the number of strategic alliances for transnational firms and a decline in the number of strategic alliances for global firms.
  - E. ant-combines legislation that reduced the growth of strategic alliances
82. Cooperative agreements between potential or actual competitors are called:
- A. economic associations.
  - B. tactical unions.
  - C. trade unions.
  - D. strategic alliances.
  - E. partnerships
83. \_\_\_\_\_ run the range from formal joint ventures to short-term contractual agreements.
- A. Cooperative synergies
  - B. Strategic alliances
  - C. Franchise organizations
  - D. Tactical partnerships
  - E. Partnerships
84. Which of the following is not an advantage of a strategic alliance?
- A. Alliances help facilitate entry into foreign markets
  - B. Allows a firm to share the fixed costs of developing new products or services with another firm
  - C. Provides a forum for firms to bring together complementary skills and assets that neither company could easily develop on its own
  - D. Helps a firm guard its proprietary technology
  - E. Helps establish technical standards in an industry
85. There are three major advantages that strategic alliances enjoy. These are (1) may facilitate trade into a foreign market, (2) allows firms to share the fixed costs and developing new products or processes, and (3):
- A. an alliance is a way to bring together the complementary skills and assets of the participants
  - B. gives competitors a low cost route to new technology
  - C. a firm never gives away more than it gains by participating in a strategic alliance
  - D. give competitors a low cost route to new markets
  - E. protects the proprietary technology of the partners
86. \_\_\_\_\_ allow firms to share the fixed costs of developing new products or processes.
- A. Strategic alliances
  - B. Subsidiaries
  - C. New ventures
  - D. Green-field ventures
  - E. Partnerships

87. Robert Reich and Eric Making have argued that \_\_\_\_\_ between U.S. and Japanese firms are part of an implicit Japanese strategy to keep higher-paying, higher-value added jobs in Japan while gaining the project engineering and production process skills that underlie the competitive success of many U.S. companies.
- licensing agreements
  - strategic alliances
  - turnkey projects
  - franchise arrangements
  - joint ventures
88. One of the principle risks with strategic alliances is:
- that they bring together the complementary skills of alliances partners
  - alliances may facilitate entry into foreign markets
  - a firm can give away more than it receives
  - that they allow firms to share fixed costs
  - can establish technological standards that are not compatible with one of the partners
89. One recent study of 49 international strategic alliances found that \_\_\_\_\_ ran into serious managerial and financial troubles within two years of their formation.
- 10
  - 12
  - 1/2
  - 2/3
  - 3/4
90. According to the textbook, the success of a strategic alliance is a function of three factors. These are: partner selection, alliance structure, and \_\_\_\_\_.
- similarity in size of the alliance partners
  - geographic distance between the alliance partners
  - the manner in which the alliance is managed
  - government support
  - the corporate culture of the partners
91. Which of the following is not an attribute of a good strategic alliance partner?
- Is unlikely to opportunistically exploit the alliances for its own ends
  - Shares the firm's vision for the purpose of the alliance
  - Must have capabilities identical to its partner
  - Helps the firm achieve its strategic goals
  - None of these answers is correct
92. The four safeguards against opportunism by alliance partners include:
- A retaining a CPA to audit the alliance's books, agreeing to share valuable skills and technologies, seeking . credible commitments, and shared leadership in alliance activities
  - B walling off critical technology, establishing contractual safeguards, agreeing to swap valuable skills and . technologies, and seeking credible commitments
  - C restricting the alliance to activities outside the partner's distinctive competencies, maintaining an . atmosphere of secrecy, shared leadership in alliance activities, and seeking credible commitments
  - D establishing contractual safeguards, maintaining an atmosphere of secrecy, retaining a CPA to audit the . alliance's books, and shared leadership in alliance activities
  - E ensuring partner selection is right, restricting technical knowledge to loyal employees, signing a . comprehensive contract, and ensuring equal power sharing

93. The four safeguards against opportunism by alliance partners include: walling off critical technology, establishing contractual safeguards, agreeing to swap valuable skills and technologies, and \_\_\_\_\_.
- seeking credible commitments
  - maintaining an atmosphere of secrecy
  - retaining a CPA to audit the alliance's books
  - restricting the life span of the alliance to three years or less
  - picking the right partner
94. Which of the following is not one of the four safeguards against opportunism by alliance partners mentioned in our textbook?
- seeking credible commitments
  - establishing contractual safeguards
  - avoiding the practice of swapping valuable skills and technologies
  - walling off critical technologies
  - none of these answers is correct
95. \_\_\_\_\_ agreements are one way to achieve the goal of swapping skills and technologies that each company in a strategic alliance covets, and ensuring a chance for equitable gain.
- Join venture
  - Sharing
  - Cross-licensing
  - Learning
  - Contractual
96. According to the textbook, there are three important factors that help to maximizing the benefits of strategic alliances. These are:
- shared cultural values, contractual trust, and a learning environment
  - joint planning, complete disclosure of proprietary technology, limiting the number of alliance partners
  - restricting the alliance to issues dealing with the core competencies of the alliance partners, complete disclosure of proprietary technology, and learning from partners
  - joint planning, building trust, and limiting the number of alliance partners
  - make allowances for cultural differences, building trust, and learning from partners
97. After a five-year study of 15 strategic alliances between major multinationals, Gary Hamel, Yves Doz, and C.K. Prahalad concluded that a major determinant of how much a company gains from an alliance is:
- its ability to enhance its reputation.
  - its ability to realize cost savings.
  - its ability to learn from alliance partners.
  - its ability to achieve greater economies of scale.
  - its ability to protect its advantages while learning its partners advantages
98. By 2007 most of Coca-Cola's volume came from the United States.  
True False
99. The actions that managers take to attain the goals of the firm are referred to as a firm's strategy.  
True False
100. Strategy is a ratio or rate of return concept.  
True False
101. There are two basic strategies for improving a firm's profitability-a differentiation strategy and a diversification strategy.  
True False
102. To contain costs, one must not think of the firm as a value chain composed of a series of distinct value creation activities.  
True False

103. Human resources, materials management, and manufacturing are included as the primary activities in a firm's value chain.  
True False
104. In the context of the value chain analysis, support activities provide the inputs that allow the primary activities of production and marketing to occur.  
True False
105. The support activities of the value chain provide outputs that allow all activities to take place.  
True False
106. Strategy is often concerned with identifying and taking actions that will lower the costs of value creation and will differentiate the firm's product offering through superior design, quality, service, and functionality.  
True False
107. Firms that operate internationally are able to reduce the costs of value creation because they realize greater cost economies from experience effects by serving an expanded global market from a central location.  
True False
108. Locating a value creation activity in the optimal location for that activity can lower the costs of value creation and help the firm to achieve a low cost position, and/or enable a firm to differentiate its product offering from the offerings of competitors.  
True False
109. A firm that realizes location economies by dispersing each of its value creation activities to its optimal location should have a comparative advantage vis-à-vis a firm that bases all of its value creation activities at a single location.  
True False
110. The system curve refers to systematic reductions in production costs that have been observed to occur over the life of a product.  
True False
111. Labour relations increase over time as individuals learn the most efficient ways to perform particular tasks.  
True False
112. To get down the experience curve rapidly, a firm may need to price and market aggressively so demand will expand rapidly.  
True False
113. Skills within the firm that competitors can easily match or imitate are called core competence.  
True False
114. The experience curve refers to the systematic reductions in production costs that have been observed to occur over the life of a product.  
True False
115. A firm increases its cost of creating value when it moves down the experience curve.  
True False
116. The reduction in unit costs achieved by producing a large volume of a product is referred to as economies of scale.  
True False
117. Firms that compete in the global markets typically face two types of competitive pressure: to be globally responsive and pressures for cost reductions.  
True False

118. According to Theodore Levitt, consumer demands for local customization are on the increase worldwide.  
True False
119. When there are differences in infrastructure and/or traditional practices between countries, pressures for local responsiveness emerge.  
True False
120. Firms pursuing a multi-domestic strategy orient themselves toward achieving maximum local responsiveness.  
True False
121. A multi-domestic strategy makes most sense when there are low pressures for local responsiveness and high pressures for cost reductions.  
True False
122. A business strategy that seeks experience-based economies and location economies, transfers distinctive competencies within the firm, and pays attention to pressures for local responsiveness is a transnational strategy.  
True False
123. A transnational strategy makes sense when a firm faces low pressures for cost reductions and low pressures for local responsiveness.  
True False
124. Due to organizational problems, a transnational strategy is difficult to implement.  
True False
125. Describe the concept of "core competence." What types of core competencies are the most valuable for penetrating foreign markets?
126. What is the experience curve? How can an involvement in overseas markets help a firm capture experience curve advantages more rapidly?
127. What is the difference between learning effects and economies of scale?



128. Firms that compete in global markets often face pressures for local responsiveness. Describe what is meant by local responsiveness, and identify the underlying reasons that local responsiveness pressures exist.
129. Describe the four basic strategies that firms use to compete in international markets. Which strategy is the best?
130. What are strategic alliances? Are strategic alliances on the rise or decline?
131. Under what circumstances is entering into strategic alliances a risky undertaking?

132. For Callaway Golf, one of the largest American golf club equipment manufacturers, the world market is a very big part of its total market for clubs. Global sales were \$837.6 million in 2000 with 40 percent of all sales coming from golfers in countries outside the United States, up from 35 percent in 1997. The golf equipment market is a highly congested and very competitive marketplace.

The golf industry has a strong worldwide appeal. The game is extremely popular in countries around the world including Scotland (golf's birthplace), England, Sweden, Spain, South Africa, South America, Australia, New Zealand, and Japan, where golf enthusiasm rises to unheard of levels. Many countries and continents from around the world are represented both professionally and at the amateur level in worldwide competitions.

Golf enthusiasts from around the world follow the sport through televised tournaments, daily newspaper coverage, golf magazines, weekly golf journals, sports reports, as well as Internet websites. Golf-related websites are among the largest categories of Internet sites. Which Global strategic market choice should Calloway use? Explain.

133. A Canadian company that manufactures sophisticated weather monitoring devices has seen demand for its product grow in SE Asia and South America. This growth is primarily the result of concerns about the impact of global warming on climate. This increase in demand has meant that the current production facility cannot produce any more. What Global strategy would you recommend they base their decision on?

134. Most companies have different business strategies from that of their competitors or partners. Business strategy is the process of identifying and determining an organization's objectives, and then developing policies and plans to achieve these objectives. Business strategy sets the overall direction of the firm. How do firms with differences in business strategy manage and cooperate with respect to their alliance strategy?

## Chapter 11 Key

1. (p. 367) D
2. (p. 369) E
3. (p. 369) D
4. (p. 369) A
5. (p. 369) B
6. (p. 369) C
7. (p. 370) C
8. (p. 369) B
9. (p. 371) A
10. (p. 370) A
11. (p. 371) D
12. (p. 371) D
13. (p. 371) D
14. (p. 371) E
15. (p. 371) B
16. (p. 372) D
17. (p. 372) D
18. (p. 372) C
19. (p. 372, 373) B
20. (p. 372) D
21. (p. 373) B
22. (p. 373) D
23. (p. 373) E
24. (p. 374, 375) C
25. (p. 375) B
26. (p. 375) D
27. (p. 371) A
28. (p. 375) C
29. (p. 375) E
30. (p. 376) B
31. (p. 376) A
32. (p. 376) C
33. (p. 376) B
34. (p. 376) A
35. (p. 377) C
36. (p. 377) C

37. (p. 377) C
38. (p. 377) B
39. (p. 377) B
40. (p. 379) A
41. (p. 379) E
42. (p. 379) C
43. (p. 379) A
44. (p. 379) D
45. (p. 380) B
46. (p. 381) B
47. (p. 382) E
48. (p. 382) D
49. (p. 382) C
50. (p. 382) A
51. (p. 383) A
52. (p. 383) A
53. (p. 383) C
54. (p. 384) B
55. (p. 383) D
56. (p. 385) E
57. (p. 385) D
58. (p. 385, 386) D
59. (p. 385, 386) B
60. (p. 385, 386) D
61. (p. 385, 386) A
62. (p. 387) A
63. (p. 387) C
64. (p. 387) A
65. (p. 387) D
66. (p. 387) C
67. (p. 387) E
68. (p. 387) D
69. (p. 386) E
70. (p. 388) C
71. (p. 388) A
72. (p. 388) C
73. (p. 388) E
74. (p. 388) C

75. (p. 390) E
76. (p. 388) C
77. (p. 390) A
78. (p. 390) A
79. (p. 390) B
80. (p. 390) B
81. (p. 391) B
82. (p. 390) D
83. (p. 390) B
84. (p. 391) D
85. (p. 391) A
86. (p. 390) A
87. (p. 392) B
88. (p. 392) C
89. (p. 393) D
90. (p. 395) C
91. (p. 393, 395) C
92. (p. 394) B
93. (p. 394) A
94. (p. 394) C
95. (p. 395) C
96. (p. 395, 396) E
97. (p. 395) C
98. (p. 366) FALSE
99. (p. 369) TRUE
100. (p. 369) FALSE
101. (p. 370) FALSE
102. (p. 371) FALSE
103. (p. 371) FALSE
104. (p. 372, 373) TRUE
105. (p. 372) FALSE
106. (p. 373) TRUE
107. (p. 374, 375) TRUE
108. (p. 375) TRUE
109. (p. 375) FALSE
110. (p. 376) FALSE
111. (p. 376) FALSE
112. (p. 376, 377) TRUE

113. (p. 379) FALSE
114. (p. 376) TRUE
115. (p. 376, 377) FALSE
116. (p. 377) TRUE
117. (p. 381) FALSE
118. (p. 383) FALSE
119. (p. 384) TRUE
120. (p. 387) TRUE
121. (p. 387) FALSE
122. (p. 388) TRUE
123. (p. 388) FALSE
124. (p. 390) TRUE

Core competencies are the most valuable as a tool for helping firms enter foreign markets when they are unique, when the value placed on them by consumers is great, and when there are very few capable competitors with similar skills and/or products in foreign markets. According to the textbook, firms with unique and valuable skills can often realize enormous returns by applying those skills, and the products they produce, to foreign markets where indigenous competitors lack similar skills and products.

125. (p. 379) The term core competence refers to the skills within the firms that competitors cannot easily match or imitate. These skills may exist in any of the firm's value creation activities (i.e. manufacturing, marketing, sales, materials management, etc.). These skills typically enable a firm to produce a product or service that competitors find difficult to duplicate. For instance, Home Depot has a core competence in managing home improvement superstores. Home Depot's competitors have found this core competence difficult to imitate.

Firms can typically move down the experience curve (i.e. realize a reduction in production costs by selling more of a product) faster through involvement in overseas markets. The simple logic is that by going global, a firm expands its customer base and is able to sell a higher volume of its product. By selling a higher volume of its product, a firm can experience learning effects and economies of scale benefits more rapidly.

126. (p. 376) The experience curve refers to the systematic reductions in production costs that have been observed to occur over the life of a product. In general, the experience curve suggests that as a firm produces more of a particular product, the unit price of the product drops. This phenomenon occurs because of learning effects and economies of scale. Learning effects refer to the cost savings that come from learning by doing. Economies of scale refers to the reduction in unit costs achieved by producing a large volume of a product as a result of the ability to spread fixed costs over a larger volume.

127. (p. 376-378) Learning effects refer to cost savings that come from learning by doing. Labour, for example, learns by repetition how to carry out a task, such as assembling airframes, most efficiently. The term economies of scale refers to the reduction in unit cost achieved by producing a large volume of a product. Economies of scale have a number of sources, one of the most important of which seem to be the ability to spread fixed costs over a large volume.

Pressures for local responsiveness arise from a number of sources. These sources include: (1) Differences in consumer tastes and preferences across markets; (2) Differences in infrastructure and traditional practices across markets; (3) Differences in distribution channels across markets; and (4) Host government demands.

128. (p. 382, 383) Many firms enter global markets with the idea of selling essentially the same product in each market that they enter. This approach becomes problematic when the citizens of a particular country ask that the product be customized to fit their particular needs. When the consumer in a country ask that a product be modified to suite their particular tastes, they are in effect asking the international company to be "locally responsive" to their needs. This is where the term local responsiveness comes from.

Which strategy is the best? There is no compelling answer to this question. The most advantageous strategy is the one that best complements a firm's distinctive competencies and its ultimate goals and objectives.

*Transnational Strategy*-A transnational strategy is an ambitious strategy in which a firm tries to simultaneously exploit experience-base cost economies and location economies, transfer distinctive competencies within the firm, and pay attention to pressures for local responsiveness. This type of strategy makes sense when a firm faces high pressures for cost reductions and high pressures for local responsiveness. Barlett and Ghoshal admit that building an organization that is capable of supporting a transnational strategic posture is complex and difficult. In essence, a transnational strategy requires a firm to simultaneously achieve cost efficiencies, global learning, and local responsiveness. These are contradictory demands that are difficult to achieve at the same time in practice.

*Global Strategy*-Firms that pursue a global strategy focus upon increasing profitability by reaping the cost reductions that come from experience curve effects and location economies. That is, they are pursuing a low cost strategy. The majority of the value chain activities for a global firm are concentrated in a few favourable locations. Global firms are not very locally responsive. Instead, they prefer to market a standardized product worldwide. This strategy makes most sense in those cases where there are strong pressures for cost reductions, and where demands for local responsiveness are minimal.

*Multidomestic Strategy*-Firms pursuing a strategy orient themselves toward achieving maximum local responsiveness. These firms tend to transfer skills and products developed at home to foreign markets. Consistent with their strategy of local responsiveness, however, they tend to establish a complete set of value creation activities-including production, marketing, and R&D-in each major market in which they do business. A strategy makes sense when there are high pressures for local responsiveness and low pressures for cost reductions. The high cost structure associated with the duplication of production facilities makes this strategy inappropriate in industries where cost pressures are intense.

*International Strategy*-Firms that pursue an international strategy try to create value by transferring valuable skills and products to foreign markets where indigenous competitors lack those skills and products. These firms tend to centralize product development functions at home, and establish manufacturing and marketing functions in each major country in which they do business. An international strategy makes sense if a firm has a valuable core competence that indigenous competitors in foreign markets lack and if the firm faces relatively weak pressures for local responsiveness and cost reductions. Typically, local responsiveness is fairly modest.

129. (p. 385-390) The four basic strategies that firms use to compete in international markets are: an international strategy, a strategy, a global strategy, and a transnational strategy. Each of the strategies is briefly described below.

130. (p. 390-393) Strategic alliances are cooperative agreements between potential or actual competitors. Strategic alliances run the range from formal joint ventures, in which two or more firms have equity stakes, to short-term contractual arrangements, in which two companies agree to cooperate on a particular task. Strategic alliances are definitely on the rise. The 1980s and 1990s have seen an explosion in the number of strategic alliances that have been formed worldwide.

131. (p. 392, 393) This question is designed to encourage classroom discussion and/or to encourage students to "think" about the potential hazards of alliance formation. There are many compelling reasons to enter into a strategic alliance with another company. For example, an American firm may find the Japanese market tough to crack without finding a Japanese company to partner with. Similarly, if a company like General Motors decided to speed up its R&D in the area of electric cars, it would be awful tempting to develop an alliance with a foreign producer like Honda or Mazda to share the development expense. The primary disadvantage of entering into strategic alliances is that they often compel firms to share sensitive proprietary information with their alliance partners. This practice can give a potential competitor a low cost route to new technology and markets.

132. (p. 388) The golf market is global in nature, with only minor variations between different countries so there is a likely little pressure to increase local responsiveness. At the same time the golf market is highly competitive and likely there are significant cost pressures on the manufacturers. This would mean that the best choice for Calloway would be a global approach, that would allow them to realize experience curve effects and their production, marketing and R&D are concentrated in a few favourable locations.

133. (p. 388) The product they are developing is a B2B product that is likely to have little pressure for local responsiveness. However, the buyers of this product are most likely going to be government agencies that may pressure the company to manufacture locally. This product also demands a high degree of continuous innovation, so will be helped the more input and diverse views are shared. This would suggest that the firm should pursue a transnational strategy.

134. (p. 393, 394) In the partner selection process there must be a realization that both companies are pursuing different strategies and an understanding reached of the impact of those differences on the strategic process. The alliance structure must reflect these strategic differences by allowing each company to include its strategic approach.

# Chapter 11 Summary

<u>Category</u>	<u># of Questions</u>
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Difficulty: Hard	27
Difficulty: Medium	83
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