

Chapter 1 Expanding Abroad: Motivations, Means, and Mentalities

True/False

1. The largest MNEs are equivalent in their economic importance to less developed economies such as Cameroon, Paraguay, or Barbados.

Answer: False (Sales of the largest MNEs *exceed* the GDPs of less developed countries.)

Difficulty: Easy

Page: 4 and Table 1-3 on page 6; ppt slide 1-6

Topic: MNE influence in the global economy

2. The process of internationalization followed by most firms is usually well-thought out in advance and typically builds on a combination of rational analysis, planning and implementation.

Answer: False (It is more likely a combination of rational analysis, opportunism, and luck. In regards to opportunism, several studies have found that most firms begin exporting due to an unsolicited export order.)

Difficulty: Moderate

Page: 10-11

Topic: The process of internationalization

3. All companies internationalize in an incremental manner. First, they make an initial commitment of resources to the foreign market in order to secure local market knowledge. Building on this knowledge, they make subsequent resource commitments, eventually leading to higher levels of investment in the foreign market.

Answer: False (There are many exceptions to the incremental approach. Some firms are “born globals”. Other firms retain the same mode, including level of subsidiary involvement, in all foreign markets.)

Difficulty: Moderate

Page: 11-12; ppt slides 1-13 to 1-15

Topic: The process of internationalization

4. A joint venture is a contractual mode of foreign entry involving a high level of resource commitment by all partners.

Answer: False (A JV will not typically require as high a resource commitment as we would see in wholly owned subsidiaries. In addition, there is significant variability in the level of resources contributed by partners.)

Difficulty: Moderate

Page: 12 and Fig 1-2; ppt slides 1-16, 1-17

Topic: The process of internationalization

5. Emerging motivations for internationalization include the desire to enhance the firm's competitive position and the desire to develop global scanning capabilities.

Answer: True

Difficulty: Easy

Page: 8-9; ppt slides 1-9, 1-10

Topic: Emerging motivations

6. For an MNE to exist, first foreign countries must provide location-specific advantages to attract the company to invest there, second the company must have ownership-specific advantages that counteract its liability of foreignness, third the company must have the organizational capability to leverage its strategic advantages more effectively internally than externally.

Answer: True

Difficulty: Moderate

Page: 10; ppt slides 1-11, 1-12

Topic: Prerequisites for internationalization

7. An MNE with an 'international mentality' will typically be managed as a coordinated federation.

Answer: True

Difficulty: Moderate

Page: 13; ppt slides 1-18, 1-19

Topic: The evolving mentality: international to transnational

8. An MNE with a 'multinational mentality' will typically be managed as a coordinated federation.

Answer: False (It will typically be managed as a *decentralized* federation.)

Difficulty: Moderate

Page: 14; ppt slides 1-18, 1-19

Topic: The evolving mentality: international to transnational

9. An MNE with a 'global mentality' will typically manage its operations centrally.

Answer: True

Difficulty: Moderate

Page: 14-15; ppt slides 1-18, 1-19

Topic: The evolving mentality: international to transnational

10. An MNE with a 'transnational mentality' will typically be managed as an integrated network.

Answer: True

Difficulty: Moderate

Page: 15-16; ppt slides 1-18, 1-19

Topic: The evolving mentality: international to transnational

11. The main advantage multinational mentality has over global mentality is more efficient manufacturing.

Answer: False (it is the other way around)

Difficulty: Moderate

Page: 14; ppt slide 1-18

Topic: The evolving mentality: international to transnational

Multiple Choice

12. An MNE is a(n):

- a. import-export company that actively trades in foreign markets.
- b. company that passively manages its substantial foreign direct investment.
- c. import-export company that actively manages its foreign investment portfolio.
- d. company that actively manages substantial foreign direct investment.

Answer: d (A true MNE is a company that has substantial direct investment in foreign countries, and that actively manages and regards its foreign operations as integral parts of the company, both strategically and organizationally. Companies that either do not hold equity positions or hold minor equity positions in overseas ventures without or with very low management involvement may be viewed as “international” companies but would not be regarded as multinational enterprises.)

Difficulty: Moderate

Page: 2; ppt slide 1-3

Topic: MNE definition

13. Three prerequisites that must be satisfied before a national firm can transform itself into a multinational firm include:

- a. scale-based advantages, ownership-specific advantages, and contractual capabilities.
- b. location-specific advantages, ownership-specific advantages, and organizational capabilities.
- c. scale-based advantages, ownership-specific advantages, and organizational capabilities.
- d. location-specific advantages, knowledge advantages, and organizational capabilities.

Answer: b (a, c, and d are incorrect because scale-based advantages, knowledge-based advantages, and contractual capabilities are, by themselves, insufficient to justify the internationalization of operations. With much less effort a company often can sell or license its technology to foreign producers, franchise its brand name internationally, or sell its products abroad through local distributors, without having to set up its own offshore operations.)

Difficulty: Moderate to hard

Page: 9-10; ppt slide 1- 12

Topic: Prerequisites for internationalization

14. Which of the following correctly describes the sequential evolution in management thinking with respect to the strategic role of foreign operations in emerging MNEs?

- a. global mentality, multinational mentality, international mentality, transnational mentality.
- b. international mentality, global mentality, transnational mentality, multinational mentality.
- c. multinational mentality, global mentality, international mentality, transnational mentality.
- d. international mentality, multinational mentality, global mentality, transnational mentality.

Answer: d (a, b, and c are incorrect because, although they describe the different ways of management thinking regarding the strategic role of foreign operations in emerging MNEs, they do not describe the evolution of this thinking in the correct sequence.)

Difficulty: Moderate

Page: 13-16; ppt slides 1-18, 1-19

Topic: The evolving mentality: International to transnational

15. A franchise, such as McDonald's, is a _____ mode of foreign entry.
- a. low commitment, low control
 - b. low commitment, moderate control
 - c. low commitment, high control
 - d. moderate commitment, moderate control

Answer: b (a, c, and d would describe indirect export, contract manufacturing, and joint venture foreign modes of entry respectively.)

Difficulty: Moderate

Page: 12 and Figure 1-2; ppt slides 1-16, 1-17

Topic: The process of internationalization

16. A joint venture is a _____ mode of foreign entry.
- a. low commitment, low control
 - b. low commitment, moderate control
 - c. low commitment, high control
 - d. moderate commitment, moderate control

Answer: d (a, b, and c would describe indirect export, franchise, and contract manufacturing foreign modes of entry respectively.)

Difficulty: Moderate

Page: 12 and Figure 1-2; ppt slides 1-16, 1-17

Topic: The Process of Internationalization

17. HomeAppliances Co. is a new manufacturer of home appliances. HomeAppliances wants to go international. Some of its traditional motivations for pursuing internationalization include:
- a. securing key supplies, seeking new markets, and raising global scanning and learning capabilities
 - b. securing key supplies, seeking new markets, and improving competitive positioning
 - c. securing key supplies, seeking new markets and accessing low-cost factors of production
 - d. securing key supplies, improving competitive positioning, and accessing low-cost factors of production

Answer: c (a, b, and d are incorrect because ‘raising global scanning and learning capabilities’ and ‘improving competitive positioning’ are not *traditional* motivations for pursuing internationalization, they are *emerging* motivations.)

Difficulty: Moderate

Page: 5-9; ppt slides 1-9, 1-10

Topic: The motivations: Pushes and pulls to internationalize

18. One motivation behind internationalization is to sustain the firm’s competitive position. To pursue a sustainable competitive position relative to its rivals in the athletic clothing industry, Nike attempts to:
- preempt markets, capture global scale, and secure raw materials
 - capture global scale, access scarce knowledge, and match competitors
 - match competitors, capture global scale, and preempt markets
 - exploit factor cost differences, preempt markets, and match competitors

Answer: c (a, b, and d are incorrect because ‘securing raw materials’, ‘accessing scarce knowledge’, and ‘exploiting factor cost differences’ may give a company a temporary competitive advantage but not a sustainable competitive advantage.)

Difficulty: Hard

Page: 5-9; ppt slides 1-9, 1-10

Topic: The motivations: Pushes and pulls to internationalize

19. _____ suggests that in the first stage innovations are produced in the home developed country; in the second stage they are exported to other similarly developed countries; in the third stage, they start being produced in these developed countries; in the fourth stage they start being produced in low-wage developing countries.
- Vernon’s product cycle theory
 - Johanson and Vahlne’s stages theory
 - Dunning’s eclectic theory
 - Levitt’s globalization theory

Answer: a

Difficulty: Moderate

Page: 7-8, 10-11; ppt slide 1-11

Topic: The motivations: Pushes and pulls to internationalize; The means of internationalization: Prerequisites and processes

20. Which of the following constitutes a list of foreign entry modes that involve the MNE to make a foreign investment
- Wholly owned, joint venture
 - Wholly owned, license
 - Franchising, joint venture
 - Franchising, license

Answer: a (Licensing, franchising, and many forms of cooperation may not entail an MNE making an investment.)

Difficulty: Easy

Page: 12 and Fig 1-2; ppt slides 1-16, 1-17

Topic: The process of internationalization

21. OfficeWare Corp. is an MNE that produces and sells office equipment. If the company's CEO employs a 'global mentality' toward the strategic role of the company's foreign operations, then we would expect that OfficeWare:
- regards its overseas markets as a portfolio of local opportunities.
 - leverages its domestic capabilities worldwide.
 - regards the world as a single unit of analysis.
 - simultaneously responds to local needs, global demands and cross-border learning opportunities.

Answer: c (a, b, and d would represent multinational, international, and transnational mentalities respectively.)

Difficulty: Moderate

Page: 13-16; ppt slides 1-18, 1-19

Topic: The evolving mentality: International to transnational

22. The demand for the Italy-based Sparkly Fashion Manufacturing's unisex pants has been continually increasing. Sparkos, the CEO of the company, intends to take his company international by producing these unisex pants mainly in Italy and selling them in the same way all over the world. Sparkos is operating with a(n):
- multinational mentality
 - global mentality
 - international mentality
 - transnational mentality

Answer: b (it is the only mentality that supports "make and sell the same thing, the same way, everywhere")

Difficulty: Moderate

Page: 13-16; ppt slides 1-18, 1-19

Topic: The evolving mentality: International to transnational (Global mentality)

Essay

23. The CEO of Paragon Ltd. wants to take his company international. What are the three big questions he must answer before expanding abroad?

Answer:

The three questions this CEO must answer before expanding abroad are:

- a. What market opportunities, sourcing advantages or strategic imperatives will *motivate* the company's international expansion?
- b. How will the company expand its foreign presence – through exports, licensing, joint ventures, wholly owned subsidiaries or some other *means*?
- c. How will the *mentalities* – attitudes, assumptions and beliefs – of Paragon's management and employees impact the probability of the company succeeding in its efforts to internationalize?

Difficulty: Moderate

Page: 1 (box insert)

Topic: Expanding abroad

24. Rana manages an Italian fashion design company. What would motivate Rana's company to internationalize?

Answer:

(i) Traditional motivations might include: securing key supplies, seeking new markets and accessing low-cost factors of production (e.g. labor, capital, etc.); (ii) Emerging motivations might include: increasing scale economies to offset significant R&D investments, shortening product life cycles, improving a company's competitive position and enhancing a company's global scanning and learning capabilities.

Difficulty: Easy

Page: 5-9; ppt slides 1-9, 1-10

Topic: The motivations: Pushes and pulls to internationalize

25. Briefly explain the product cycle of smart phones using Raymond Vernon's product cycle theory.

Answer:

This theory suggests that early in a product's life-cycle, all the parts and labor needed to manufacture the product will be sourced from the locale in which the product was invented. As the product is increasingly adopted and distributed in global markets, production gradually shifts away from the point of origin. In some cases, the product ultimately becomes a good that is imported into the country in which it was originally invented. For example, in the case of smart phones, during the new product stage, the phones were produced and purchased by consumers in the United States and Canada and little export trade occurred. During the maturing product stage, mass-production techniques were developed and foreign demand (in developed countries) expanded. At this point, the U.S. and Canada began to export the product to other developed countries. In the standardized product stage, production moved to developing countries, which then export the product to developed countries.

Difficulty: Moderate

Page: 7-8; ppt slide 1-11

Topic: Traditional motivations: Product cycle theory

26. Briefly compare and contrast the Uppsala Internationalization Model and the Born Global Model. Under what circumstances is each model most applicable? Give examples to support your arguments.

Answer: According to the Uppsala Model, companies internationalize in an incremental fashion. Typically, they start by utilizing foreign entry modes that require low levels of resource commitment and low levels of control over foreign activities (e.g. exporting). The model conceptualizes subsequent stages in the internationalization process as requiring higher levels of resource commitment and providing higher levels of control over foreign activities (e.g. wholly owned subsidiary). The experience of Toyota is consistent with the Uppsala Model.

According to the Born Global Model, some companies are born global, establishing significant international operations immediately or shortly after the company is launched. These firms do not employ an incremental approach. Instead, these firms aggressively pursue internationalization due to their internal orientation or the need to move quickly due to the nature of their products or services. The experience of many internet companies such as Facebook and Google is consistent with the Born Global Model.

Difficulty: Moderate

Page: 11-12; ppt slides 1-13 to 1-15

Topic: The process of internationalization

27. Roy is the CEO of a multinational apparel company. How would he conceptualize the strategic role of his firm's foreign operations if he embraced a 'global mentality'? If he embraced a 'multinational mentality'?

Answer:

If Roy embraced a global mentality, he would view the world as a single unit of analysis and he would centralize the management of the firm's foreign operations. Thus, he would drive the firm to create products for a world market and manufacture them on a global scale in a few highly efficient plants, often located at the corporate center. However, if Roy embraced a multinational mentality, he would regard foreign markets as a portfolio of local opportunities and manage his company as a decentralized federation. Thus, he would recognize and emphasize the differences between national markets and operating environments and modify his products, strategies and management practices on a country-by-country basis.

Difficulty: Moderate

Page: 13-16; ppt slides 1-18, 1-19

Topic: The evolving mentality: International to transnational

28. What is an MNE? Give examples to explain the difference between companies that are considered MNEs and those that are not.

Answer:

An MNE is a company that engages in the *active management* of *substantial direct investment* in one or more foreign countries and that considers those investments/operations as integral parts of the company, both strategically and organizationally. Thus, companies that solely rely on import-export business are not considered MNEs. They may be considered international companies but not multi-national enterprises (MNEs). Moreover, companies that passively manage an investment portfolio (as opposed to those that actively manage foreign assets) are not considered MNEs.

Difficulty: Easy

Page: 2; ppt slide 1-3

Topic: MNE definition

29. Briefly compare and contrast the four mentalities toward internationalization.

Answer:

Companies that have an international mentality produce products for the domestic market and only subsequently sell these products overseas. They transfer innovation and knowledge from the parent company to the foreign operators. These companies view themselves essentially as domestic with some foreign appendages.

Companies that have a multinational mentality modify their products, strategies, and management practices country-by-country. These companies view themselves as nationally sensitive and responsive, thus the term multinational.

Companies that have a global mentality create products for a world market and manufacture them on a global level in a few highly efficient plants. These companies view the world, not just individual national markets, as their unit of analysis.

Companies that have a transnational mentality are responsive to country-level operations; however, they coordinate these operations to sustain competitive effectiveness and economic efficiency. These companies view themselves as an integrated network.

Difficulty: Moderate

Page: 13-16; ppt slides 1-18, 1-19

Topic: The evolving mentality: International to transnational

30. If you had been the founder of Dunkin Donuts, would you have chosen to heavily rely on franchising, the strategy used by Rosenberg, as your entry mode to foreign countries? Or would you have chosen to rely on wholly owned subsidiaries as your foreign entry mode? Why?

Answer:

Franchising. Franchising can help a company expand internationally faster than wholly owned subsidiaries. This mode does not require commitment of high amounts of resources to the foreign countries. Also this line of business would not require (1) substantial direct investment in foreign countries, (2) active management of these foreign assets, and (3) capability of the organization to leverage its strategic assets more effectively through its own subsidiaries than through contractual relations with outside parties.

Difficulty: Moderate

Page: 9 -12; ppt slides 1-12 to 1-17

Topic: The means of internationalization: Prerequisites and processes