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International Business: Chapter 13 Evaluation of Countries for Operations

- 1) Comparing countries in international business is LEAST useful for determining the _____.
 - A) best location for sales and production
 - B) sequence of entering different countries
 - C) amount of resources to allocate in each country
 - D) selection of which managers to send to which countries
- 2) International managers most likely need to understand how to evaluate international geographic alternatives because _____.
 - A) they usually have a surplus of resources and need to take advantage of all opportunities
 - B) many regional trading groups prohibit companies from outside of the trading group from manufacturing in more than one member country
 - C) the commitment of resources to one locale may require forgoing projects in other locales
 - D) decreased worldwide transportation costs and increased trade liberalization now allow companies to serve worldwide markets from a single production location
- 3) Executives at Wilson Enterprises need to determine how to leverage and improve the firm's existing competencies on a global basis. What are the two most basic questions that they must answer?
 - A) Which markets should we serve and where should production be located to serve those markets?
 - B) What are the short-term competitive advantages of the project and what is the return on investment?
 - C) What is the total investment required and what are the managerial resources needed to supervise the investment?
 - D) What is the availability of land and what is the cost of labor?
- 4) A company's overall geographic strategy should be flexible enough to _____.
 - A) implement concentration strategies instead of diversification strategies
 - B) respond to new opportunities and withdraw from less profitable ones
 - C) import from anywhere in the world to a single production location
 - D) export anywhere in the world from a single production location
- 5) Elison Enterprises is planning international geographic expansion. A manager at Elison has been given the task of scanning for locations primarily to _____.
 - A) reduce the number of options available to a manageable number for further detailed analysis
 - B) assure the compatibility between the mode of corporate operation and the country
 - C) assure that all countries within a region have similar investment climates
 - D) decide whether to use a concentration or a diversification strategy
- 6) Which of the following most accurately compares the techniques of scanning versus detailed analysis of countries?
 - A) Scanning is used for planning and detailed analysis is used for control.
 - B) Detailed analysis is used to consider countries overlooked in the scanning process.
 - C) Scanning considers a large number of countries so that only the most promising ones undergo a detailed analysis.
 - D) Scanning compares one country to another, whereas detailed analysis compares regions within a single country.
- 7) Opal Computers is considering international production expansion. After scanning to decide on a few countries to consider more closely, Opal managers will most likely need to _____.
 - A) identify firms with which to form joint ventures
 - B) add some more countries for closer consideration
 - C) travel to the locations to analyze and collect specific data
 - D) make final decisions by expanding in locations near their rivals

- 8) Escalation of commitment is best described as the _____.
- A) strategy of first entering a country on a small scale
 - B) process of entering a country because "everyone else is going there"
 - C) expectation of a higher return in more politically risky environments
 - D) increased likelihood of investing in a country because of having spent considerable time and money in examining it
- 9) Sales expansion is probably the most important variable in determining international location decisions. This statement is most likely based on the assumption that _____.
- A) consumer demand exceeds supply
 - B) increased sales will lead to more profits
 - C) the company will have a first-mover advantage
 - D) raw materials are available in the country targeted for sales
- 10) Dawson Manufacturing produces and sells DVD players and is planning to expand sales internationally. Dawson has narrowed down the list of potential countries to India and Guatemala. A Dawson manager has the task of obtaining data regarding the number of DVD players sold annually in India and Guatemala. If unable to locate this information, she might most likely estimate the sales potential of these two countries by _____.
- A) determining average wages
 - B) calculating future inflation rates
 - C) reviewing the countries' dependence on steel imports
 - D) examining the sales history of flat-screen televisions
- 11) Gucci, a maker of luxury fashion and leather goods, plans to expand its sales market. The firm needs to compare countries for the market potential of its products. Which of the following is the best indicator for Gucci to use?
- A) per capita income in each country
 - B) population size of each country
 - C) the number of millionaires in each country
 - D) gross domestic product for each country
- 12) When examining economic and demographic variables to compare countries' sales potential for your product, you should also consider all the following EXCEPT which one?
- A) If countries depend heavily on the import of raw materials, what is the price of elasticity for the demand?
 - B) Consumers in some countries may more conveniently substitute certain products than consumers in some other countries.
 - C) Consumers in developing countries may leapfrog technologies by first purchasing the latest products.
 - D) Trading blocs may enhance sales potential above what is indicated in individual country
- 13) Which of the following is most likely a true statement about companies' acquisition of resources/assets abroad?
- A) Regardless of industry, cheap labor is the most sought after resource.
 - B) Resource availability limits a firm's production location choices.
 - C) Regardless of industry, raw materials are the most sought after resource.
 - D) Risks are higher for resource-seeking than for sales-seeking foreign operations.
- 14) The ability to compare production costs among countries in an effort to determine where to locate production is significantly hampered by all of the following EXCEPT _____.
- A) the number of ways the same product can be made
 - B) restrictions on the international flow of data
 - C) the ways that laws may be enforced
 - D) future costs from exchange rate changes

- 15) In which of the following situations would tax rate differences among countries be most important for deciding where to place an investment?
- A) Companies find advantages in being located near specialized private and public institutions.
 - B) Companies must compare the benefits of labor- versus capital-intensive production.
 - C) Companies want to serve an entire region within a regional trading bloc.
 - D) Companies must deal with difficult start-up regulations.
- 16) Labor cost advantages gained by moving into a country with low wages may be short-lived because _____.
- A) transport costs go up to cancel out the cost savings
 - B) tax increases cancel out all labor cost differentials
 - C) rivals adopt capital-intensive production methods
 - D) competitors follow leaders into low-wage areas
- 17) Which of the following statements is NOT true about risk as it affects companies' choice of locations for foreign operations?
- A) Companies and their managers differ in their perception of what is risky.
 - B) One company's risk may be another company's opportunity.
 - C) There are means to reduce risk other than avoiding locations.
 - D) Companies choose the cheapest location regardless of risks.
- 18) A company's operations are most likely to be taken over by a host government when _____.
- A) the operations are relatively small and, thus, unlikely to incur the wrath of the company's home government
 - B) the operations are substantial and have a widespread effect on the country because of the company's size
 - C) the host country becomes involved in a regional war
 - D) the firm produces discretionary rather than essential products
- 19) In terms of political risk, it is most accurate to state that high risk _____.
- A) affects all geographic regions of a country equally
 - B) affects all foreign companies in the same manner
 - C) if avoided, may lead to higher competitive risk
 - D) triggers government turnovers
- 20) Fidelity Manufacturing is considering expanding its operations into the Philippines. A manager at Fidelity has the task of predicting political risk in the Philippines. Which of the following approaches should the manager LEAST use to accomplish the task?
- A) analyzing the market share of competitors in the country
 - B) analyzing the country's past political patterns and trends
 - C) seeking and analyzing opinions of influential people in the country
 - D) examining social and economic conditions within the country
- 21) The concept of liquidity preference in international operations refers to _____.
- A) a company's willingness to accept a lower rate of return on investments in countries where it can more easily sell them and convert the proceeds at a favorable rate
 - B) a company's willingness to accept lower rates of return in poor countries that really need the investments
 - C) management's need to maintain sufficient funds, preferably in local currency, in each country of operation to ensure meeting daily cash needs
 - D) investors' preference for foreign stocks over foreign bonds because of the larger market for them
- 22) Risks to companies from natural disasters and communicable diseases are _____.
- A) evenly distributed around the world
 - B) more complicated today because of publicity
 - C) a minor issue to global firms because of insurance
 - D) most prevalent in the poorest countries of the world

- 23) U.S. companies generally put earlier and more sales-seeking emphasis on countries _____.
- A) with the largest economies
 - B) with regional trading blocs and high tariffs
 - C) where governments give operating incentives
 - D) where operating conditions seem similar to those at home
- 24) The lower survival rate of foreign companies in comparison to local firms for many years after they begin operations is known as _____.
- A) ethnocentric reaction
 - B) polycentric reaction
 - C) liability of foreignness
 - D) most-favored-nation behavior
- 25) Which of the following best explains why U.S. firms typically place earlier and greater emphasis on expansion into Canada and the U.K.?
- A) most significant sales opportunities
 - B) similarities in culture and legal systems
 - C) availability of necessary natural resources
 - D) government incentives for allied nations
- 26) Which of the following best explains Blockbuster's failed expansion into Germany?
- A) laws limiting hours of operation
 - B) lack of public interest in films
 - C) inadequate tax incentives
 - D) communication problems
- 27) The crowding of a foreign market to prevent competitors' advantages is known as _____.
- A) oligopolistic reaction
 - B) concentration strategy
 - C) liability of foreignness
 - D) a harvesting strategy
- 28) Companies are more likely to gain advantages by locating near competitors for all the following reasons EXCEPT to _____.
- A) take advantage of competitors' research to pick an ideal location
 - B) attract multiple suppliers and personnel with specialized skills
 - C) agree with competitors on production limitations
 - D) attract buyers who want to compare suppliers
- 29) An example of a first-mover advantage in international operations is _____.
- A) gaining economies of scale at a lower output level than competitors
 - B) increasing sales response functions and customer service
 - C) using a small country for market tests prior to entering a large country
 - D) lining up the best suppliers and distributors before competitors enter the market
- 30) Which of the following describes a company's strategy of moving first to those countries where local competitors are most likely to catch up to the firm's innovative advantage?
- A) lead country strategy
 - B) imitation lag strategy
 - C) oligopolistic reaction strategy
 - D) liability of foreignness strategy

31) A manager has the task of collecting and analyzing data that will help the firm decide where to locate its international operations. Which of the following best describes how the manager should handle this task?

- A) conduct extensive research, regardless of the expense, in order to avoid costly mistakes
- B) compare the costs of data collection with the probable payoff for the firm in order to budget and schedule the collection
- C) continue data gathering until all data have been collected, regardless of how long this takes
- D) focus all data collection on governmental resources because they have the highest reliability

32) Which of the following is the LEAST likely reason for inaccuracies in published governmental data?

- A) translation errors from the host country language
- B) limitations of government resources and finances
- C) purposeful publication of misleading information
- D) false information provided to data collectors

33) Which of the following is the LEAST likely reason that inaccuracies appear in published information about countries?

- A) inclusion of both legal and illegal economic activities
- B) inclusion of both market and non-market economic activities
- C) poor methodology used in data collection
- D) use of different translation software

34) Which of the following is generally the most costly information source for companies?

- A) individualized reports
- B) reports from international agencies
- C) reports from government agencies
- D) published reports by accounting firms

35) Top executives at Jordan, a U.S. consulting firm, are debating whether or not to expand into a country with a great deal of violence by staffing mostly with U.S. personnel. A vice president argues that Jordan should forego sending its employees there because of the high risk for them of kidnappings in the region. Which of the following statements best supports the vice president's position?

- A) There is a high correlation between violence and life-threatening natural disasters.
- B) Violence is a harbinger of additional risks that affect operations negatively.
- C) Local personnel are immune from violence and are capable of filling positions.
- D) The ability to evacuate people when necessary is much slower than it was in the past.

36) Top executives at Jordan, a U.S. consulting firm, are debating whether or not to expand operations into a country with a great deal of violence by staffing mostly with U.S. personnel. A vice president argues that Jordan should send its employees there. Which of the following statements LEAST supports the vice president's position?

- A) Jordan can evacuate personnel more quickly than in earlier eras in case of a real emergency.
- B) It is hard to identify countries without a possibility for violence.
- C) Operating costs are lower in violent areas.
- D) Jordan's industry does not allow the firm the luxury of avoiding high risk locations.

37) Grids are a useful method of comparing countries for international business expansion because they _____.

- A) generally show how countries will perform in the future
- B) show risk on one axis and opportunity on another
- C) set minimum scores for proceeding further
- D) highlight first-mover advantages

- 38) A manager needs to prepare a grid to compare countries for location of the firm's international operations. It would be most useful for the manager to _____.
- A) prepare an opportunity analysis in-house, but out-source the risk analysis
 - B) have agents within each country supply governmental data
 - C) prepare the risk analysis in-house, but out-source the opportunity analysis
 - D) use a team made up of people from different functions within the company
- 39) Which of the following best describes the purpose of using of an opportunity-risk matrix for comparing countries?
- A) narrow alternatives so decision makers can make a detailed analysis of the strongest candidates
 - B) eliminate countries that have specific unacceptable conditions
 - C) determine whether to use a concentration versus diversification strategy for international expansion
 - D) estimate where competitors are most likely to globalize
- 40) The major use of the matrix as a tool in international location strategy is to _____.
- A) pinpoint acceptable and unacceptable characteristics of countries
 - B) indicate the relative placement of countries in terms of attributes
 - C) rank countries on the basis of expected investment return
 - D) show the degree of certainty for projected returns
- 41) In a concentration strategy of foreign expansion, a company would go to _____.
- A) many countries very rapidly, and then build up slowly in each
 - B) a foreign country with one product and not sell other products in that country until a target market share is reached
 - C) a reporting system that measures performance on a regional rather than a country-by-country basis
 - D) one or a few foreign countries and build a strong involvement there before going to other countries
- 42) In a diversification strategy for international expansion, a company would move _____.
- A) rapidly into many foreign countries, and then gradually increase its presence in those countries
 - B) rapidly into a few foreign countries with many of its products and most of its resources
 - C) into one foreign country and fully expand its product lines in that country before moving to another country
 - D) quickly into a regional foreign market but build up its resources in only a few of the countries in the region
- 43) A company should probably use a concentration strategy for international expansion when there are _____.
- A) high needs for product adaptation and low growth in each market
 - B) short competitive lead times and low spillover effects
 - C) high growth rate and long competitive lead times
 - D) low sales stability and short competitive lead times
- 44) The decision-making process for a company's reinvestment choices is often different from those for new investment choices because _____.
- A) internal rate of return and other financial measurement criteria are more difficult to compile and analyze on existing operations, given currency translation distortions
 - B) failure to support an existing investment may jeopardize the firm's operations and competitiveness in that country
 - C) most of the net value of foreign investment comes from new international capital transfers rather than from reinvestment of earnings abroad
 - D) corporate management feels that country managers are best able to make divestment decisions

- 45) Which of the following is NOT true about the harvesting or divestment of foreign operations?
- A) One of the motives is to use resources where the performance prospects are better.
 - B) Companies can harvest or divest by selling existing facilities.
 - C) Closing a facility can be difficult because of governmental performance contracts.
 - D) Companies have tended to divest too soon, rather than working to improve performance.
- 46) Which of the following best explains why foreign subsidiary managers are often reluctant to propose divestments in the countries where they are working?
- A) They are afraid of proposing the elimination of their jobs.
 - B) They are usually poorly trained in how to sell units or how to close them down.
 - C) They are too nationalistic to examine political risk objectively.
 - D) Many are in countries where the cultural attribute of power-distance is very high.
- 47) The origin of investment proposals differs from the origin of divestment proposals in that the divestment proposals are more likely to come from _____.
- A) subsidiary management
 - B) outside the organization
 - C) higher up in the organization
 - D) line personnel as opposed to staff personnel
- 48) A go/no-go decision means _____.
- A) an individual project decision is based on whether the project meets threshold criteria
 - B) projects are ranked and approved from the top of the list down until available resources are exhausted
 - C) management reviews existing information and decides whether additional individualized feasibility studies are warranted
 - D) projects are approved or disapproved based on the potential ease of divestment
- 49) Instead of comparing different proposals involving foreign operations, companies often make decisions by looking at proposals one at a time. All of the following are reasons for this behavior EXCEPT which one?
- A) Companies need to respond quickly to opportunities.
 - B) Defensive decisions typically need to be made rapidly.
 - C) A lack of comparable data on different countries renders comparison impossible.
 - D) Conclusion of different proposals or studies does not usually happen simultaneously.
- 50) Assume Company A receives a proposal from Company B to be a joint venture partner abroad. Company A is most likely to make its decision based on _____.
- A) an opportunity-risk matrix
 - B) a go/no-go basis
 - C) a global matrix comparison
 - D) an oligopolistic reaction
- 51) Which of the following reasons most compels companies to make location decisions on one international opportunity at a time rather than comparing among two or more?
- A) The lack of comparability in data among countries renders comparison unfeasible.
 - B) The information on some countries is so unreliable that companies must deal with these countries separately.
 - C) Decisions are made by teams, and it is usually not feasible to give so many people time away from their usual duties to examine multiple proposals.
 - D) If an important customer develops opportunities in a foreign country, a company may have little alternative except to follow that customer's lead.

52) Demographers project that the share (percentage of population) of what we now consider the working-age population in developed countries will decrease up to the year 2050. Which of the following is the most likely result of this trend?

- A) an increase in foreign exchange among trading blocs
- B) an increase in FDI provided by developed economies
- C) a higher percentage in per capita GDP in today's developing economies than in today's developed economies
- D) a higher percentage in per capita GDP in today's developed economies than in today's developing economies

53) Which of the following is true about projected demographic changes up to the year 2050 that could affect future production and sales locations?

- A) The share of the working population should rise in developed countries and fall in developing countries.
- B) The growth in per capita GDP should be higher in today's developing economies than in today's developed economies.
- C) The percentage of the world population living in today's developed countries is expected to increase.
- D) The population should fall in sub-Saharan Africa.

54) We now have technology to allow people to communicate globally without traveling as much. Leading researchers on urbanization and planning suggest that the most likely consequence of this is _____.

- A) a decrease in international airline travel
- B) a decreased need for immigration restrictions
- C) a smaller number of retirees living in urban areas
- D) a greater number of self-motivated workers e-mailing and teleconferencing with colleagues

55) All of the following have been predicted to occur in the future as the result of advances in global communications EXCEPT which one?

- A) In spite of being able to work anywhere, people will choose to live primarily where their employers are headquartered.
- B) The brightest minds will work more at home but will still need face-to-face interaction with their colleagues.
- C) People will be drawn to live in the same places that attract people as tourists.
- D) People who are both highly motivated and highly creative will continue to be attracted to interact with people like themselves.

56) Carrefour has been more successful than Walmart in Europe, whereas Walmart has been more successful than Carrefour in the United States. What is the most likely reason for these results?

- A) first-mover advantages
- B) nationalistic preferences of consumers
- C) lack of knowing how to adapt products
- D) increased exporting fees and transportation costs

57) Carrefour expanded internationally by first _____.

- A) entering adjacent countries
- B) licensing its name to other companies
- C) buying companies in foreign countries
- D) entering many countries simultaneously with small commitments in each

58) Which of the following best explains why Burger King has developed such a strong presence in many of the small countries of Latin America and the Caribbean?

- A) These business environments allowed Burger King to take advantage of economies of scale.
- B) These countries are close to a Burger King's headquarters.
- C) These countries offered greater mobility of funds than countries in the European Union.
- D) Unlike the BRIC countries, these business environments did not require escalation of commitment.

Short answer questions:

59) What is the relationship between a company's international market and its production location decisions? How do firms benefit from the use of scanning techniques when making location decisions?

60) What is scanning? What opportunities and risks are most relevant to scanning?

61) In a short essay, discuss why simply examining a country's per capita GDP and its population doesn't necessarily lead to a good estimate for potential demand.

62) In a short essay, discuss liquidity preference as it relates to monetary risk.

Answer: If a company's expansion occurs through direct investment abroad, exchange rates and access to the invested capital and earnings are key considerations. Liquidity preference is the theory that investors usually want some of their holdings to be in highly liquid assets, on which they are willing to take a lower return. Liquidity is needed in part to make near-term payments, such as paying out dividends; in part to cover unexpected contingencies, such as stockpiling materials if a strike threatens supply; and in part to be able to shift funds to even more profitable opportunities, such as purchasing materials at a discount during a temporary price depression.

63) What is meant by liability of foreignness? How might this influence location and allocation decisions?

64) Compare the advantages of locating foreign operations to avoid where competitors have gone versus locating where competitors are.

65) What problems are common with the published data available about different countries?

66) What are the major types of published data that managers can use to compare countries? Describe the tools available to managers for making country comparisons.

67) In a short essay, compare the strategies of diversification versus concentration and provide examples of situations in which each would be used.

68) Why do companies often treat foreign reinvestment decisions differently than new foreign investment decisions?

69) Why do companies engage in international harvesting or divestment?

70) Why do most companies examine expansion proposals one at a time rather than comparing various expansion proposals? Do you think this is effective? Why or why not?