

TEST BANK

**BUSINESS AND
ITS ENVIRONMENT**



SEVENTH EDITION

DAVID P. BARON

Chapter Two: Integrated Strategy

True/False Questions:

1) A business strategy serves as a firm's navigational guide in its market and nonmarket environments.

Answer: True

Page reference: 30

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

2) A firm that decides to enter a country that has open markets relies primarily on a nonmarket strategy.

Answer: False

Page reference: 30

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

3) A firm that decides to enter a country that has erected trade barriers requires only a simple market strategy.

Answer: False

Page reference: 30

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

4) Opportunities can be controlled by government at one extreme and markets at the other extreme.

Answer: True

Page reference: 31

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

5) Nonmarket strategies are more important when opportunities are controlled by markets.

Answer: False

Page reference: 31

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

6) Government exercises relatively little control over pharmaceutical firms and their activities.

Answer: False

Page reference: 31

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

7) Opportunities can be controlled by actions such as protests, boycotts, and public criticism.

Answer: True

Page reference: 31

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

8) The more intense is private politics, the more important is the nonmarket strategy.

Answer: True

Page reference: 31

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

9) Issues such as the environment, sustainability, human rights, privacy, health, and safety seldom attract private politics but are the subject of public politics.

Answer: False

Page reference: 32

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

10) When a firm chooses a market strategy and a nonmarket strategy, the strategies compete with the strategies of other participants in the market.

Answer: True

Page reference: 32

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

11) Nonmarket strategy is essential because in its absence competitors in the nonmarket environment will influence the outcome of issues and shape the rules of the game to their advantage.

Answer: True

Page reference: 32

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

12) If a firm addresses the nonmarket issue in the legislative stage, the firm has more flexibility and its range of alternatives is wider.

Answer: False

Page reference: 33

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

13) Nonmarket strategies serve the objective of superior performance by developing and sustaining the competitive advantage required to take advantage of market opportunities.

Answer: False

Page reference: 34

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

14) A synergy is present between market and nonmarket strategies if a nonmarket action increases the return from a market action.

Answer: True

Page reference: 36

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

15) Nonmarket positioning should be a conscious choice rather than dictated by a firm's market positioning or by those in its environment.

Answer: True

Page reference: 38

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

16) The pharmaceutical companies tend to seek visibility rather than covering their activities through an association or other means.

Answer: False

Page reference: 40

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

17) Positioning in political space affects the opportunity to participate effectively in lawmaking and rule-making processes.

Answer: True

Page reference: 41

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

18) Positioning in legal space affects not only the liabilities to which a company is exposed but also a company's market and nonmarket strategies.

Answer: True

Page reference: 41

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

19) Expertise in dealing with the news media is a market asset.

Answer: False

Page reference: 42

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

20) The value of a nonmarket capability depends on the effectiveness of a firm's allies in addressing nonmarket issues.

Answer: True

Page reference: 43

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

21) The framework for analysis of nonmarket issues includes the screening of generated alternatives, the analysis of those alternatives, and the choice of a strategy.

Answer: True

Page reference: 43

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

22) Moral motivations are analyzed in the screening phase of analysis.

Answer: False

Page reference: 44

Difficulty: Easy

AACSB:

Learning Outcomes:

23) Granted rights are to be used to screen out alternatives in the analysis stage, whereas claimed rights are to be evaluated in the screening stage.

Answer: False

Page reference: 44

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

24) The responsibility for addressing nonmarket issues should reside with operating managers and not with a separate staff unit.

Answer: True

Page reference: 46

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

25) The nonmarket environment is often more complex than the market environment, because public institutions are complex and a larger set of interests participate.

Answer: True

Page reference: 46

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

Multiple Choice Questions:

26) A market strategy is _____

- a) a concerted pattern of actions taken in the market environment to create value by improving the firm's economic performance
- b) a concerted pattern of actions taken in the nonmarket environment to create value by improving the overall performance of a firm
- c) an elaborate and systematic plan of actions to achieve successful market capitalization
- d) usually never used by firms that decide to enter a country that has open markets or trade barriers

Answer: A

Page reference: 30

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

27) A firm that decides to enter a country that has open markets relies primarily on _____.

- a) a nonmarket strategy
- b) a market strategy
- c) a communist economic strategy
- d) a mercantile strategy

Answer: B

Page reference: 30

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

28) Opportunities can be controlled by _____ at one extreme and _____ at the other extreme.

- a) competitors; customers
- b) customers; suppliers
- c) government; markets
- d) markets; buyers

Answer: C

Page reference: 31

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

29) Governments often exercise considerable control over which of the following industries?

- a) consumer electronics
- b) software
- c) local telecommunications
- d) automobile

Answer: C

Page reference: 31

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

30) Which of the following industries has the least government control?

- a) Local communications service
- b) Biotechnology
- c) Automobile
- d) Consumer electronics

Answer: D

Page reference: 31

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

31) In the United States, the regulation of telecommunications is being replaced by _____.

- a) nationalization
- b) market competition
- c) monopolization
- d) privatization

Answer: B

Page reference: 31

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

32) Which of the following characterizes nonmarket strategies?

- a) They are less important when opportunities are controlled by government.
- b) They are important when opportunities are controlled by markets.
- c) They are less important when protests, boycotts, and public criticism are more intense.
- d) They are decreasingly important due to issues such as privacy and protection of IP.

Answer: B

Page reference: 31

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

33) Which of the following issues is most often the subject of private politics?

- a) intellectual property protection
- b) privacy
- c) liability reform
- d) antitrust laws

Answer: B

Page reference: 32

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

34) Which of the following issues is most often the subject of public politics?

- a) environmental laws
- b) human rights
- c) health and safety
- d) copyright laws

Answer: D

Page reference: 32

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

35) Which of the following is the first stage of the nonmarket issue life cycle?

- a) issue identification
- b) interest group formation
- c) legislation
- d) administration

Answer: A

Page reference: 33

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

36) The nonmarket strategies focus on adaptation to change during which of the following stages in the nonmarket issue life cycle?

- a) interest group formation
- b) legislation
- c) administration
- d) enforcement

Answer: B

Page reference: 33

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

37) Which of the following is the final stage of the nonmarket issue life cycle?

- a) interest group formation
- b) legislation
- c) administration
- d) enforcement

Answer: D

Page reference: 33

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

38) Which of the following is an example of a global market strategy?

- a) universal ethics principles
- b) intellectual property rights enforcement
- c) tax policy
- d) pharmaceuticals approval

Answer: A

Page reference: 33

Difficulty: Moderate

AACSB: Ethical Reasoning

Learning Outcomes:

39) The most effective means of integrating market and nonmarket strategies is

_____.

- a) to incorporate nonmarket strategy formulation into the process of developing a market strategy
- b) to incorporate market strategy formulation into the process of developing a nonmarket strategy
- c) to incorporate both into the business strategy process
- d) to view both as separate strategies unified by the goal of profit maximization

Answer: C

Page reference: 37

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

40) Which of the following is true of nonmarket positioning?

- a) It should be dictated by a firm's market positioning or by those in its environment.

- b) It provides a platform on which both market and nonmarket strategies can be constructed.
- c) It is not influenced by the firm's market strategy.
- d) It should neither be a conscious nor a strategic choice.

Answer: B

Page reference: 38

Difficulty: Moderate

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

41) _____ is determined by the diverse interests, viewpoints, and preferences of the individuals in a society.

- a) Ethnic diversity
- b) Corporate social responsibility
- c) Public sentiment
- d) Public relations

Answer: C

Page reference: 41

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

42) Lawmaking and rulemaking take place in _____, where the formal rules of the game are made.

- a) political space
- b) legal space
- c) social place
- d) the space of public sentiment

Answer: A

Page reference: 41

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

43) In legal space, _____ provide the most important protection for intellectual property for many industries.

- a) trademarks
- b) patents
- c) copyright laws
- d) logos

Answer: B

Page reference: 41

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

44) What space had Microsoft largely ignored, relying instead on its aggressive approach to markets?

- a) legal
- b) public sentiment
- c) political
- d) commercial

Answer: A

Page reference: 41

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

45) Positioning is often perilous. Which of the following companies had been lobbied heavily to increase its commitment to its own causes?

- a) Xerox
- b) GM
- c) Microsoft
- d) Starbucks

Answer: D

Page reference: 42

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

46) Firms deploy nonmarket capabilities to _____.

- a) beat the competition
- b) create new markets
- c) test new strategies
- d) add value

Answer: D

Page reference: 42

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

47) Alternatives that are contrary to the law or company policy are eliminated in the _____ stage of the framework for the analysis of nonmarket issues.

- a) analysis
- b) choice

- c) enforcement
- d) screening

Answer: D

Page reference: 43

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

48) Which of the following stages in the framework for the analysis of nonmarket issues is based on the methods of economics, political science, and other social sciences and focuses on predicting the actions of interests and the consequences of alternative strategies?

- a) identification
- b) analysis
- c) choice
- d) screening

Answer: B

Page reference: 44

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

49) The evaluations of ethics claims and the application of normative principles occur in which stage of the framework for the analysis of nonmarket issues?

- a) screening
- b) identification
- c) analysis
- d) choice

Answer: D

Page reference: 44

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

50) According to Wartick and Rude, who, among the following, must be involved for successful issues management?

- a) competitors
- b) government
- c) suppliers
- d) top management

Answer: D

Page reference: 44

Difficulty: Easy

AACSB:

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

Essay and Review Questions:

51) Describe market and nonmarket strategies. Explain the significance of a nonmarket strategy.

Answer: A business strategy has both market and nonmarket components. A market strategy is a concerted pattern of actions taken in the market environment to create value by improving the economic performance of a firm. A nonmarket strategy is a concerted pattern of actions taken in the nonmarket environment to create value by improving overall performance. A firm that decides to enter a country that has open markets relies primarily on a market strategy. A firm that decides to enter a country that has erected trade barriers needs a nonmarket strategy in addition to a market strategy. An effective business strategy integrates these two components and tailors them to the firm's market and nonmarket environments as well as to its capabilities. Market and nonmarket strategies focus on the pursuit of opportunity and advantage in the face of market and nonmarket competition with the objective of achieving superior performance. The importance of a nonmarket strategy is related to the control of a firm's opportunities. Opportunities can be controlled by government at one extreme and markets at the other extreme. Nonmarket strategies are more important the more opportunities are controlled by government and are less important, but often still important, when opportunities are controlled by markets. In some industries, such as consumer electronics and computer software, government exercises relatively little control over firms and their activities. In contrast, government exercises considerable control over pharmaceuticals and local telecommunications services. The automobile industry is somewhere in between. One important role of nonmarket strategy is to unlock opportunities controlled by government, as illustrated by the strategies of firms to deregulate the telecommunications industry. Another important role of nonmarket strategy is to avoid the control of opportunities by government, as in the case of self-regulation by companies on Internet privacy protection. In addition to government and markets, two other factors affect opportunities. First, opportunities can be controlled by private politics, which includes actions such as protests, boycotts, and public criticism by activist, advocacy, and interest groups, as well as public sentiment regarding business. The more intense is private politics, the more important is nonmarket strategy. Second, opportunities can be affected by moral concerns, which can require restraint.

Page reference: 30-32

Difficulty: Moderate

AACSB: Analytic Skills

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

52) Bartlett and Ghoshal characterized market strategies as multidomestic, international, and global. Compare and contrast between the three types.

Answer: Bartlett and Ghoshal characterize market strategies as multidomestic (multinational), international, and global. A global market strategy is one in which “products and strategies are developed to exploit an integrated unitary world market.” Global market strategies often focus on achieving cost advantages through global-scale operations, as exemplified by Honda’s early strategy of selling the same motorcycles in all the markets it entered. In the nonmarket environment, examples of global strategies are (1) working for free trade globally, (2) applying universal ethics principles, and (3) implementing the same environmental standards in all countries.

An international strategy centers on transferring the parent company’s expertise to foreign markets. eBay, for example, took its online auction service to other countries, with mixed success. International strategies are specific applications of distinctive competences in other countries.

For many nonmarket issues, a global or international nonmarket strategy may not be successful because strategies must take into account the institutions in whose context the issues are addressed, the organization of interests, and other country-specific factors.

Many nonmarket issues have a strong domestic component, so nonmarket strategies are more likely than market strategies to be multidomestic when issues, institutions, and interests differ across countries.

The success of a multidomestic strategy requires issue-specific action plans tailored to the institutions and the organization of interests in individual countries. Examples of nonmarket issues that require a multidomestic approach include tax policy, antitrust policy, safety regulation, pharmaceuticals approval, intellectual property rights enforcement, and environmental regulation. Although there are common principles, such as information provision as the key to effective lobbying, that underlie the strategies used to address these issues, differences in the institutions across countries typically require country-specific strategies.

Page reference: 33-34

Difficulty: Moderate

AACSB: Dynamics of the Global Economy

Learning Outcomes: Identify the fundamental concepts and issues of international business and management

53) Describe the different approaches to integrate market and nonmarket strategies.

Answer: One approach to developing an integrated strategy is to incorporate nonmarket strategy formulation into the process of developing a market strategy. For example, regulation pertaining to who may provide services, as in telecommunications, could be incorporated into the analysis of the rivalry among incumbent firms and potential new entrants. The drawback to this approach is that the institutions in which regulatory policies are established are quite different from markets, so the nature of the analysis is different. Moreover, in markets only the parties that transact play a role, whereas in nonmarket institutions, a wide range of interests are enfranchised to participate. Market and nonmarket strategies could also be viewed as separate. Just as market analysis focuses on competitive forces, nonmarket analysis can focus on assessing threats (such as those arising from government, interest groups, and activist pressures) and on unlocking market opportunities. Viewing nonmarket issues as a separate force, however,

risks missing the interrelationships between market and nonmarket issues and the complementarities between strategies to address those issues.

The most effective means of integrating market and nonmarket strategies is to incorporate both into the business strategy process. That is, market and nonmarket strategies should be chosen together in addressing forces in the market and nonmarket environments.

The nonmarket strategy component then focuses on specific nonmarket issues that affect market threats and opportunities and on nonmarket actions as complements to market actions.

For some companies such as those in the pharmaceutical industry, integrated market and nonmarket strategies are a conscious part of everyday management. For other companies Strategy formulation is periodic but nevertheless when market strategies must be developed, nonmarket strategies should be developed at the same time.

Page reference: 37

Difficulty: Moderate

AACSB: Analytic skills

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

54) Explain, with examples, the nonmarket positioning that takes place in public sentiment, political and legal spaces.

Answer: Nonmarket positioning takes place in three interrelated spaces: public sentiment, political (lawmaking and rule making), and legal (enforcement of existing laws and regulation).

Public sentiment is determined by the diverse interests, viewpoints, and preferences of the individuals in a society. Public sentiment toward a company or industry can affect the public's response to a company's actions and whether social pressure is directed at the company. Favorable public sentiment can not only allow a company to avoid nonmarket issues, but also affect its reception in the market place. Chrysler and General Motors had to be bailed out by the government, whereas Ford avoided bankruptcy during the financial crisis and recession. Some car buyers favored Ford, and the company had more credibility with the public and government.

Lawmaking and rule making take place in political space, where the formal rules of the game are made. Positioning in political space can affect the opportunity to participate effectively in lawmaking and rule-making processes. Because of the importance of nonmarket issues to the profitability of the industry, the pharmaceutical industry has developed a position of strength in political space. The industry has positioned itself by building relationships with members of Congress and the executive branch. This positioned the industry well for the politics and negotiations over health care reform in 2009 and 2010. Major pharmaceutical companies were invited to the bargaining table, and the reforms were favorable to the industry, leading it to support the health care reform legislation. In contrast, the generic pharmaceutical companies were not invited to the bargaining table.

Positioning in legal space affects not only the liabilities to which a company is exposed but also a company's market and nonmarket strategies. eBay's positioning as an ISP provides protection in the United States under the CDA, but it also means that the company is limited in its ability to provide content on its Web site. In legal space, patents

provide the most important protection for intellectual property for many industries, and perhaps nowhere are patents more important than in the pharmaceutical industry. The pharmaceutical industry regularly seeks stronger patent protection and was successful in obtaining a 6-month patent extension for approved drugs that were subsequently tested for use by children.

Page reference: 41

Difficulty: Difficult

AACSB: Analytic skills

Learning Outcomes: Identify the steps of the strategic management process and describe common organizational and business strategies

55) Illustrate, with examples, the framework for the analysis of nonmarket issues.

Answer: Nonmarket issues are typically complex and require conceptual frameworks to guide analysis and strategy formulation. In this framework the unit of analysis is the nonmarket issue. The initial step involves generating strategy alternatives. Managers must exercise creativity in generating alternatives beyond those that immediately suggest themselves. For example, to spur the use of mobile devices, Google proposed opening the C-band of the radio spectrum and the white spaces of the television for the development of open networks for mobile devices. As an alternative to higher fuel economy standards, General Motors advocated a tax on carbon fuels as a means of addressing the global climate change issue.

Once alternatives have been identified, they can be evaluated in three stages—screening, analysis, and choice. In the screening stage, alternatives that are contrary to the law, widely shared ethics principles, or a well-evaluated company policy are eliminated. In the case of the automobile industry, an alternative involving noncompliance with mandatory NHTSA safety standards would be screened out. Several automobile companies, however, have routinely paid a fine, as provided for by law, for not meeting fuel economy standards.

The alternatives that remain after the screening stage are then analyzed to predict their likely consequences. The analysis stage is based on the methods of economics, political science, and other social sciences and focuses on predicting the actions of interests and the consequences of alternative strategies. For example, pharmaceutical companies had to predict how strong the opposition to their direct-to-consumer advertising in the broadcast media might be. Prediction focuses on interests, institutions and their officeholders, and information and takes into account the likely actions of the other interested parties. The analysis stage also considers moral motivations of nonmarket behavior and how others evaluate the firm's actions.

The alternatives are evaluated and a choice made in the third stage. On issues that do not involve significant moral concerns, choice is based on the interests of the firm and its stakeholders. The objective is typically value creation, taking into account the impact of alternatives on stakeholders who are important to sustainable performance. If the issue involves significant moral concerns, normative principles pertaining to well-being, rights, and justice are to be applied.

In the nonmarket environment, moral claims about rights are frequently made. Some rights are “granted” in the sense that the government or moral consensus has both established them and clearly assigned the associated duty to respect them. When the duty

has not been clearly assigned or the right itself has not been established by government or through moral consensus, the right is said to be “claimed.” Granted rights are to be used to screen out alternatives in the first stage, whereas claimed rights are to be evaluated in the choice stage.

Page reference: 43-44

Difficulty: Difficult

AACSB: Analytic skills

Learning Outcomes: Identify the fundamental concepts and issues of international business and management