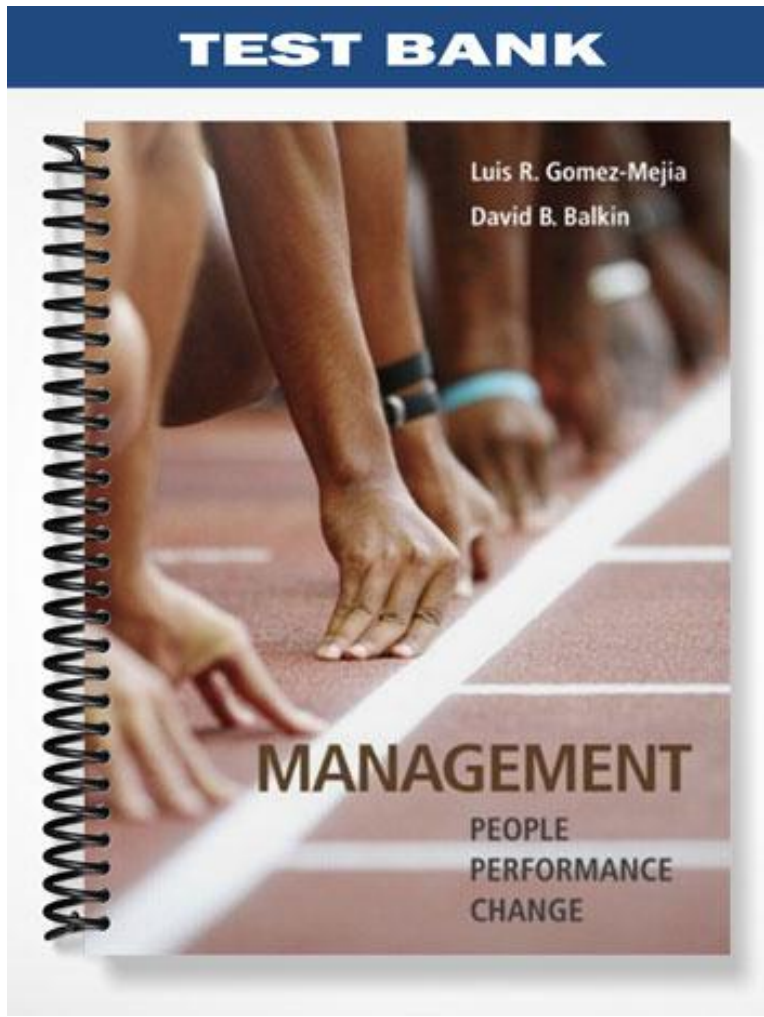


TEST BANK

Luis R. Gomez-Mejia
David B. Balkin

MANAGEMENT

PEOPLE
PERFORMANCE
CHANGE



Management (Gomez-Mejia/Balkin)
Chapter 2 The Culture of Management

- 1) The term *global shift* refers to
- A) the growing importance of national barriers.
 - B) the effects of changes in the competitive landscape prompted by worldwide competition.
 - C) the focus on individual national markets.
 - D) the shift of markets to the EU.

Answer: B

Diff: 2 Page Ref: 36

Objective: LO1

AACSB: Dynamics of the global economy

- 2) Which of the following reflects a major development in the global business community?
- A) Higher trade barriers
 - B) The United States no longer dominates the world economy
 - C) Stable world output
 - D) Isolated economic markets

Answer: B

Diff: 1 Page Ref: 36

Objective: LO1

AACSB: Dynamics of the global economy

- 3) With the global economy becoming more knowledge- intensive and falling national barriers to labor markets, which of the following is most likely to be true?
- A) More firms consider the entire world their labor market.
 - B) More firms are likely to hire only college-educated workers.
 - C) Only large, multinational firms can recruit global talent.
 - D) More developed nations have an advantage over the less developed nations in recruiting talent.

Answer: A

Diff: 2 Page Ref: 36

Objective: LO1

AACSB: Dynamics of the global economy

- 4) Which of the following is true of changing demographics?
- A) Diversity has become less important with less immigration.
 - B) The birthrate continues to trend upward globally.
 - C) The population is getting older in the industrialized nations.
 - D) More developed countries have younger populations in general.

Answer: C

Diff: 3 Page Ref: 38

Objective: LO1

AACSB: Multicultural and diversity understanding

5) When developing countries establish artificially high prices for foreign producers, it is known as

- A) buy American.
- B) NAFTA.
- C) an anti-nationalistic policy.
- D) import substitution.

Answer: D

Diff: 2 Page Ref: 39

Objective: LO1

AACSB: Dynamics of the global economy

6) The comprehensive treaty signed by 120 nations to remove tariffs is

- A) NAFTA.
- B) GATT.
- C) WTO.
- D) APEC.

Answer: B

Diff: 1 Page Ref: 39

Objective: LO1

AACSB: Dynamics of the global economy

7) Which of the following countries is not a member of the EU?

- A) The United Kingdom
- B) Ireland
- C) China
- D) France

Answer: C

Diff: 2 Page Ref: 40

Objective: LO1

AACSB: Reflective thinking skills

8) The trade agreement that allows the free flow of agricultural products between the United States and Mexico is

- A) NAFTA.
- B) GATT.
- C) WTO.
- D) APEC.

Answer: A

Diff: 1 Page Ref: 40

Objective: LO1

AACSB: Dynamics of the global economy

9) Two major Asian regional economic groups are

- A) NAFTA and APEC.
- B) APEC and ASEAN.
- C) NAFTA and CAFTA.
- D) CAFTA and ASEAN.

Answer: B

Diff: 2 Page Ref: 41

Objective: LO1

AACSB: Dynamics of the global economy

10) The success of Coca Cola globally demonstrates the trend toward

- A) the dominance of American firms in the global economy.
- B) customized products in the global arena.
- C) converging global consumer tastes and preferences.
- D) less global production.

Answer: C

Diff: 3 Page Ref: 41

Objective: LO1

AACSB: Dynamics of the global economy

11) Which of the following factors is not one of the factors which has made today's large international businesses feasible?

- A) Advances in communication
- B) Advances in transportation technology
- C) Advances in cross-cultural management
- D) Advances in information processing

Answer: C

Diff: 2 Page Ref: 42

Objective: LO1

AACSB: Dynamics of the global economy

12) Which of the following is an example of an international firm that has responded to local needs by customizing their products?

- A) Mattel
- B) Coca Cola
- C) Levi Strauss
- D) Sony

Answer: A

Diff: 1 Page Ref: 42

Objective: LO1

AACSB: Dynamics of the global economy

13) When a firm is going global, its attention to the size of the market, the future wealth of consumers, and the purchasing power of the population are components of which factor affecting international business?

- A) The legal system
- B) Cultural norms
- C) Economic norms
- D) The general business environment

Answer: D

Diff: 3 Page Ref: 44

Objective: LO2

AACSB: Dynamics of the global economy

14) The three forms of risk involved in international operations are

- A) economic, consumer, and exchange rate risk.
- B) political, economic, and legal risk.
- C) exchange rate risk, intellectual property, and political risk.
- D) economic, intellectual property, and legal risk.

Answer: B

Diff: 2 Page Ref: 44

Objective: LO2

AACSB: Dynamics of the global economy

15) Which type of risk is represented by government changes, terrorism, and social unrest?

- A) Economic
- B) Political
- C) Demographic
- D) Legal

Answer: B

Diff: 1 Page Ref: 44

Objective: LO2

AACSB: Dynamics of the global economy

16) The concern with software piracy in some Asian countries is an example of _____ risk.

- A) economic
- B) political
- C) demographic
- D) legal

Answer: D

Diff: 1 Page Ref: 44

Objective: LO2

AACSB: Dynamics of the global economy

17) The legal system in which the interpretation of meaning and intent of legal statutes is based on past decisions is referred to as

- A) civil law.
- B) common law.
- C) Muslim law.
- D) Anglo-Saxon law.

Answer: B

Diff: 2 Page Ref: 45

Objective: LO2

18) The legal system of the United States is considered

- A) civil law.
- B) common law.
- C) Muslim law.
- D) Anglo-Saxon law.

Answer: B

Diff: 2 Page Ref: 45

Objective: LO2

19) Taxation and the fluctuation of exchange rates are examples of what factor affecting global business?

- A) General business environment
- B) The legal system
- C) Economic conditions
- D) Cultural norms

Answer: C

Diff: 1 Page Ref: 45

Objective: LO2

AACSB: Dynamics of the global economy

20) The Paris Union addresses

- A) the protection of industrial property.
- B) currency exchange rates.
- C) taxation of expatriate managers.
- D) the repatriation of corporate profits.

Answer: A

Diff: 3 Page Ref: 46

Objective: LO2

AACSB: Dynamics of the global economy

21) When Mary has difficulty adjusting to her new assignment in Shanghai after living and working in New York all her life, she is likely to be experiencing

- A) uncertainty avoidance.
- B) repatriation difficulties.
- C) power distance.
- D) culture shock.

Answer: B

Diff: 1 Page Ref: 46

Objective: LO2

AACSB: Dynamics of the global economy

22) According to Hofstede, countries whose employees believe they should attend to their own interests are high in which culture dimension?

- A) Power distance
- B) Individualism
- C) Uncertainty avoidance
- D) Masculinity

Answer: B

Diff: 2 Page Ref: 46

Objective: LO2

AACSB: Dynamics of the global economy

23) Which of the following is not one of the cultural dimensions identified by Hofstede?

- A) Power distance
- B) Uncertainty avoidance
- C) Aggressiveness
- D) Long-term/short-term orientation

Answer: C

Diff: 1 Page Ref: 46

Objective: LO2

AACSB: Dynamics of the global economy

24) When an international HR manager from an American multinational firm researches the cultural dimensions of a country in which they are establishing new operations, what advice would most likely lead to success for the operation?

- A) Ensure management practices conform to prevailing societal norms.
- B) Disregard how other countries' cultural values mesh with the new location's values.
- C) Ensure the culture scores high on individualism.
- D) Ensure the culture scores high on uncertainty avoidance.

Answer: A

Diff: 2 Page Ref: 46

Objective: LO2

AACSB: Dynamics of the global economy

25) Employees from a culture that is high in individualism would likely value which of the following?

- A) Team accomplishment
- B) Belief in the hand of fate
- C) Personal accomplishment
- D) Sacrifice for others

Answer: C

Diff: 3 Page Ref: 48

Objective: LO2

AACSB: Dynamics of the global economy

26) In giving advice to employees of an American firm entering a joint venture with a company in another country, which of the following would you recommend?

- A) Remember that you may need to take responsibility for more rather than sharing responsibilities.
- B) Be prepared to work with others who may be very dissimilar to you.
- C) Focus on the technical issue or task at hand and avoid wasting time on social ties.
- D) Create a position of superiority as an American.

Answer: B

Diff: 3 Page Ref: 49

Objective: LO2

AACSB: Dynamics of the global economy

27) When deciding what country in which to sell products when going global, the decision should be based on

- A) language.
- B) cultural alignment.
- C) distance.
- D) long-term profit potential.

Answer: D

Diff: 1 Page Ref: 49

Objective: LO3

AACSB: Dynamics of the global economy

28) Starbucks' decision to enter the Chinese market was based on

- A) the present high wealth of consumers in the market.
- B) the large size of the market.
- C) the existence of a positive business climate.
- D) the readily available needed resources.

Answer: B

Diff: 3 Page Ref: 49

Objective: LO3

AACSB: Dynamics of the global economy

- 29) When choosing which foreign country to enter, a country will be less appealing when
- A) the size of the domestic market is large.
 - B) the purchasing power of consumers is projected to grow.
 - C) long-term profit potential is low.
 - D) political risk is high.

Answer: D

Diff: 2 Page Ref: 49-50

Objective: LO3

AACSB: Dynamics of the global economy

- 30) A first-mover advantage
- A) preempts rivals.
 - B) captures demand by establishing a strong brand name.
 - C) makes it difficult for later entrants to win business.
 - D) all of the above

Answer: D

Diff: 1 Page Ref: 50

Objective: LO3

- 31) Late entrants to a market
- A) face higher pioneering costs.
 - B) preempt rivals.
 - C) may learn from the experience of first movers.
 - D) have no advantages.

Answer: C

Diff: 2 Page Ref: 50

Objective: LO3

- 32) In the international razor blade market, Gillette was considered
- A) to have no advantage in market timing.
 - B) a first-mover.
 - C) the lowest cost provider.
 - D) a late mover.

Answer: B

Diff: 3 Page Ref: 50

Objective: LO3

- 33) Scale of involvement is
- A) lowest when the firm exports its products to the foreign country.
 - B) lowest when the firm has a wholly owned subsidiary in the foreign country.
 - C) unrelated to the mode of entry.
 - D) highest with franchising in the foreign country.

Answer: A

Diff: 3 Page Ref: 52

Objective: LO3

AACSB: Dynamics of the global economy

34) Which of the following is not considered a mode of entry to foreign markets?

- A) Exporting
- B) Pioneering
- C) Turnkey projects
- D) Strategic alliances

Answer: B

Diff: 1 Page Ref: 52

Objective: LO4

AACSB: Dynamics of the global economy

35) A manufacturing firm might be expected to begin globalization by which entry mode?

- A) Turnkey projects
- B) Franchising
- C) Wholly owned subsidiaries
- D) Exporting

Answer: D

Diff: 2 Page Ref: 53

Objective: LO4

AACSB: Dynamics of the global economy

36) What is considered a major advantage of exporting?

- A) The exporting firm receives high royalties.
- B) A local partner provides important local know-how.
- C) Savings are realized through economies of scale.
- D) Firms share development costs.

Answer: C

Diff: 2 Page Ref: 53

Objective: LO4

AACSB: Dynamics of the global economy

37) Turnkey projects

- A) involve a company transferring the rights to produce products overseas to a foreign firm.
- B) result in two independent firms establishing a separate firm.
- C) are a specialized type of exporting.
- D) are cooperative arrangements.

Answer: C

Diff: 3 Page Ref: 53

Objective: LO4

AACSB: Dynamics of the global economy

38) Which mode of international entry is Prestwick House using if it handles the design, construction, start-up operations and workforce training of a foreign plant?

- A) Strategic alliance
- B) Joint venture
- C) Exporting
- D) Turnkey project

Answer: D

Diff: 2 Page Ref: 53

Objective: LO4

AACSB: Dynamics of the global economy

39) Which mode of international entry is Prestwick House using if they decide to transfer the rights to produce and sell their products overseas to a foreign firm in return for a royalty?

- A) Exporting
- B) Turnkey project
- C) Licensing
- D) Strategic alliance

Answer: C

Diff: 2 Page Ref: 54

Objective: LO4

AACSB: Dynamics of the global economy

40) A mode of international entry frequently used by McDonald's whereby the cooking methods, ingredients, and physical appearance of their restaurants comply with McDonald's standards is known as

- A) strategic alliances.
- B) franchising.
- C) exporting.
- D) turnkey projects.

Answer: B

Diff: 3 Page Ref: 54

Objective: LO4

AACSB: Dynamics of the global economy

41) A major advantage of using joint ventures in the international arena is

- A) achieving economies of scale.
- B) gaining local know-how.
- C) reducing risk.
- D) reducing government interference.

Answer: B

Diff: 2 Page Ref: 54

Objective: LO4

AACSB: Dynamics of the global economy

42) When Toshiba and IBM shared the \$1 billion of developing a memory chip facility to transfer to a new IBM plant in Virginia, which entry mode were the firms using?

- A) Franchising
- B) Licensing
- C) Strategic alliance
- D) Exporting

Answer: C

Diff: 2 Page Ref: 55

Objective: LO4

AACSB: Dynamics of the global economy

43) Which of the following is a key reason for the recent growth of strategic alliances?

- A) Pooling resources enables firms to keep pace with technological change that they may not have been able to afford alone.
- B) It allows firms to expand rapidly with little risk.
- C) It enables firms to borrow technological know-how for other firms.
- D) The firm does not have to open a facility overseas.

Answer: A

Diff: 2 Page Ref: 55

Objective: LO4

44) Which mode of entry involves a collaborative effort between firms on specific projects such as the sharing of laser printing technology between Canon and Hewlett Packard?

- A) Licensing
- B) Franchising
- C) Strategic alliances
- D) Turnkey projects

Answer: C

Diff: 2 Page Ref: 55

Objective: LO4

AACSB: Dynamics of the global economy

45) A major disadvantage of a strategic alliance is that

- A) the firm runs the risk of quality control standards not being uniformly met and thus hurting the reputation of the firm.
- B) the firm runs the risk of losing its competitive advantage by giving away proprietary know-how to the partner.
- C) demand will be reduced as other firms develop manufacturing facilities.
- D) the firm may lose its cost advantage.

Answer: B

Diff: 3 Page Ref: 56

Objective: LO4

AACSB: Dynamics of the global economy

46) An example of a multinational firm that engages in wholly owned subsidiaries is

- A) McDonald's.
- B) Walmart.
- C) Canon-Hewlett Packard.
- D) Fuji-Xerox.

Answer: B

Diff: 2 Page Ref: 56

Objective: LO4

AACSB: Dynamics of the global economy

47) The most expensive way of operating in foreign markets is

- A) strategic alliances.
- B) wholly owned subsidiaries.
- C) exporting.
- D) franchising.

Answer: B

Diff: 3 Page Ref: 56

Objective: LO4

AACSB: Dynamics of the global economy

48) Which mode of international entry requires that the firm bears the full business risk since there is no local partner?

- A) Franchising
- B) Strategic alliance
- C) Licensing
- D) Wholly owned subsidiary

Answer: D

Diff: 2 Page Ref: 56

Objective: LO4

AACSB: Dynamics of the global economy

49) Which approach to managing an international subsidiary involves filling top management and key positions with people from the home country?

- A) Ethnocentric approach
- B) Expatriate approach
- C) Polycentric approach
- D) Geocentric approach

Answer: A

Diff: 2 Page Ref: 56

Objective: LO5

AACSB: Dynamics of the global economy

50) Martin works for the Acme Company which is based in the United States. He is interested in a marketing director's position in the company's new Paris facility, but recognizes that he stands little chance of being considered since the firm regularly staffs international facilities with local nationals. Which approach to managing the international subsidiary is the Acme Company taking?

- A) Ethnocentric approach
- B) Expatriate approach
- C) Polycentric approach
- D) Geocentric approach

Answer: C

Diff: 2 Page Ref: 56

Objective: LO5

AACSB: Dynamics of the global economy

51) Which of the following is considered an advantage of hiring expatriates?

- A) It lowers labor costs.
- B) It permits closer control and coordination of international subsidiaries.
- C) It increases the acceptance of the company by the local community.
- D) It demonstrates trust in local citizenry.

Answer: B

Diff: 2 Page Ref: 58

Objective: LO5

AACSB: Dynamics of the global economy

52) Which of the following is not considered a reason why international assignments end in failure?

- A) Family problems
- B) Culture shock
- C) A poor benefits package
- D) Lack of pre-departure cross-cultural training

Answer: C

Diff: 2 Page Ref: 59

Objective: LO6

AACSB: Dynamics of the global economy

53) A recent trend in U.S. expatriate assignments to reduce costs and trauma for families is to

- A) use more short-term assignments.
- B) provide housing costs.
- C) offer fewer expatriate assignments.
- D) use more locals.

Answer: A

Diff: 2 Page Ref: 61

Objective: LO6

AACSB: Dynamics of the global economy

54) Two considerations when developing expatriate compensation plans are
A) hazard pay for less desirable locations and distance from home country.
B) distance from home country and number of family members moving.
C) children's education and length of international assignment.
D) disposable income equivalent to what would be earned in the home office and add-on incentives.

Answer: D

Diff: 3 Page Ref: 62

Objective: LO6

AACSB: Dynamics of the global economy

55) The law that governs international business and forbids payments by American firms to foreign officials to influence decisions is

- A) the Napoleonic Code.
- B) the U.S. Foreign Corrupt Practices Act of 1977.
- C) the North American Free Trade Agreement.
- D) the General Agreement on Tariffs and Trade.

Answer: B

Diff: 3 Page Ref: 63

Objective: LO7

AACSB: Dynamics of the global economy

56) With the shift in dominance of the world economy, many small and medium-sized businesses from rapidly industrializing Asian countries are becoming mini-multinationals.

Answer: TRUE

Diff: 2 Page Ref: 37

Objective: LO1

AACSB: Dynamics of the global economy

57) The upward trend in birth rates worldwide is having a significant impact on global workforces.

Answer: FALSE

Diff: 1 Page Ref: 41

Objective: LO1

AACSB: Dynamics of the global economy

58) To be more cost efficient, companies today are consolidating their production facilities in central locations.

Answer: FALSE

Diff: 2 Page Ref: 41

Objective: LO1

59) IKEA is an example of a company that has successfully responded to local customer needs and tastes by customizing their products.

Answer: TRUE

Diff: 2 Page Ref: 42

Objective: LO1

AACSB: Dynamics of the global economy

60) The rules of the International Convention for the Protection of Industrial Property have enabled countries to agree on what constitutes industrial espionage.

Answer: FALSE

Diff: 3 Page Ref: 46

Objective: LO2

AACSB: Dynamics of the global economy

61) The trend today is for multinational organizations to hire fewer executives from foreign countries.

Answer: FALSE

Diff: 2 Page Ref: 49

Objective: LO3

AACSB: Dynamics of the global economy

62) A potential disadvantage of turnkey projects is that the selling firm may be creating a competitor by giving away its technological superiority.

Answer: TRUE

Diff: 3 Page Ref: 53

Objective: LO4

AACSB: Dynamics of the global economy

63) The geocentric approach to managing an international subsidiary is likely to result in the hiring of more third-country nationals.

Answer: TRUE

Diff: 1 Page Ref: 57-58

Objective: LO5

AACSB: Dynamics of the global economy

64) The selection criteria for an expatriate manager should include cultural sensitivity.

Answer: TRUE

Diff: 1 Page Ref: 58

Objective: LO5

AACSB: Dynamics of the global economy

65) Globalization reduces the possibility that a manager will face an ethical dilemma.

Answer: FALSE

Diff: 2 Page Ref: 62

Objective: LO7

AACSB: Dynamics of the global economy

66) What are the four major changes in the world output and world trade picture that have occurred over the last few decades?

Answer: Four major changes in the world output and world trade picture occurred during the last few decades. First, the United States no longer dominates the world economy. Second, large U.S. multinationals no longer dominate international business. Third, the centrally planned communist economies that made up roughly half the world suddenly became accessible to Western businesses during the late 1980s. Finally, the global economy has become more knowledge-intensive and national barriers to labor markets are falling. This means that a growing number of firms consider the entire world their labor market, and companies now hire talent wherever it may be found.

Diff: 2 Page Ref: 36-37

Objective: LO1

AACSB: Dynamics of the global economy

67) Discuss two integrated economic markets.

Answer: In the Americas, the major economic alliance is the North American Free Trade Act (NAFTA). Ratified in 1994 by the United States, Mexico, and Canada, NAFTA eliminated tariff and most nontariff barriers among member nations in 2004. It allows for the free flow of agricultural products between the United States and Mexico.

The Central American-Dominican Republic Free Trade Agreement (CAFTA) was ratified in 2005 between the United States, five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), and the Dominican Republic.

Other economic unions in the Americas include Mercosur (involving Brazil, Uruguay, Paraguay, and Chile) and the Andean Pact (between Bolivia, Peru, Columbia, Ecuador, and Venezuela).

Two major regional economic groups in Asia are the Association of Southeast Asian Nations (ASEAN) founded in 1967 and APEC. ASEAN includes Brunei, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. The Asia Pacific Economic Cooperation (APEC) includes 18 countries including China, Japan, and the United States.

Diff: 3 Page Ref: 40

Objective: LO1

AACSB: Dynamics of the global economy

68) What are the three forms of risk companies face when operating in a foreign country?

Answer: Risks in the international arena come in three forms: political, economic, and legal. Political risk may involve government changes, social unrest, strikes, terrorism, and violent conflict. Political risk may also be more subtle (such as threats). Economic risk includes inflation rates, repatriation of profits, and corruption. Legal risks include local ownership requirements and the protection of intellectual property rights.

Diff: 2 Page Ref: 44-45

Objective: LO2

AACSB: Dynamics of the global economy

69) Discuss the five dimensions of culture identified by Hofstede.

Answer: Hofstede identified five dimensions of cultural differences. Power distance is the extent to which individuals expect a hierarchical structure that emphasizes status differences between subordinates and superiors. Individualism is the degree to which a society values personal goals, autonomy, and privacy over group loyalty, commitment to group norms, involvement in collective activities, social cohesiveness, and intense socialization. Uncertainty avoidance is the extent to which a society places a high value on reducing risk and instability. Masculinity/femininity is the degree to which a society views assertive or "masculine" behavior as important to success and encourages rigidly stereotyped gender roles. Long-term/short-term orientation is the extent to which values are oriented toward the future as opposed to the past or present.

Diff: 2 Page Ref: 46

Objective: LO2

AACSB: Dynamics of the global economy

70) What are the three key entry decisions firms must make when considering international expansion?

Answer: A firm contemplating foreign expansion faces three key entry decisions: which countries to enter, when to enter, and scale of involvement.

Diff: 2 Page Ref: 49

Objective: LO3

AACSB: Dynamics of the global economy

71) Discuss the advantages of a first-mover and a late mover.

Answer: A first mover is the first to enter a market. This firm is able to preempt rivals, capture demand by establishing a strong brand name, and in general makes it difficult for later entrants to win business. First movers also face higher pioneering costs, such as the effort, time, and expense of entering a national market and educating consumers.

Late entrants may learn from the experience of the first movers and perform better as a result. Local companies can often quickly learn the ropes from foreign firms and become major competitors.

Diff: 2 Page Ref: 50

Objective: LO3

72) List the seven modes of entry to foreign markets.

Answer: The seven modes of entry to foreign markets are exporting, turnkey projects, licensing, franchising, joint ventures, wholly owned subsidiaries, and strategic alliances.

Diff: 2 Page Ref: 52

Objective: LO4

AACSB: Dynamics of the global economy

73) Discuss the advantages and disadvantages of exporting.

Answer: The advantages of exporting are that the firm may realize substantial savings through economies of scale and the firm avoids the expenses of establishing, controlling, and coordinating manufacturing operations on foreign soil. The most obvious limitation of exporting is that foreign competitors may enjoy a cost advantage that far exceeds the economies of scale the company realizes. Bulk products may be expensive to transport from the home country to distant locations. And imports are a politically sensitive issue in many countries and tariffs may be imposed on imported goods.

Diff: 2 Page Ref: 53

Objective: LO4

AACSB: Dynamics of the global economy

74) What is a joint venture?

Answer: In a joint venture, two or more independent firms agree to establish a separate firm that is owned by the participating companies. The firms normally own equivalent shares of the joint venture and contribute a corresponding proportion of the management team.

Diff: 1 Page Ref: 54

Objective: LO4

75) What are the disadvantages of a wholly owned subsidiary as an entry mode to foreign markets?

Answer: A wholly owned subsidiary offers a firm maximum control over proprietary knowledge and technology, so that competitors cannot gain access. The foreign company retains full discretion to move resources to other countries and thereby enjoys greater strategic flexibility. A disadvantage is that wholly owned subsidiaries require large capital outlays and ownership is thus the most expensive method of operating in foreign markets. The firm bears the full brunt of business risks. Corporate managers may not sufficiently understand local conditions. If the firm exclusively uses wholly owned subsidiaries, the firm may not be able to operate in markets where legal or political imperatives require foreign firms to establish joint ventures with local partners.

Diff: 3 Page Ref: 56

Objective: LO4

AACSB: Dynamics of the global economy

76) Describe the three approaches to managing an international subsidiary.

Answer: The three approaches to managing an international subsidiary are the ethnocentric, polycentric, and geocentric approaches. The ethnocentric approach involves filling top management and other key positions with people from the home country — known as expatriates. In the polycentric approach, international subsidiaries are managed and staffed by personnel from the host country (known as local nationals). The geocentric approach involves the firm actively searching on a worldwide or regional basis for the best people to fill key positions. Many of these individuals are likely to be third-country nationals.

Diff: 1 Page Ref: 56-58

Objective: LO5

AACSB: Dynamics of the global economy

77) Discuss the advantages and disadvantages of using locals to staff international subsidiaries.
Answer: There are a number of advantages to using locals to staff international subsidiaries. Using locals may lower labor costs, demonstrate trust in local citizenry, increase acceptance of the company by the local community, maximize the number of options available in the local environment, lead to recognition of the company as a legitimate participant in the local economy, and effectively represents local considerations and constraints in the decision-making process. However, using locals may make it difficult to balance local demand and global priorities, lead to postponement of difficult local decisions until they are unavoidable, may make it difficult to recruit qualified personnel, and may reduce the amount of control exercised by headquarters.

Diff: 2 Page Ref: 58

Objective: LO5

AACSB: Dynamics of the global economy

78) What are the reasons for the failure of international assignments?

Answer: There are a number of reasons for the failure of international assignments. Many expatriates feel that the home office has forgotten them and their career has been sidetracked or blocked. Many cannot adjust to a different cultural environment (experiencing culture shock). Nearly two-thirds of multinationals provide cross-cultural training for expatriates prior to departure. The criteria used for selection often focuses on an overemphasis on technical qualifications (instead of cultural adaptability). Getting rid of troublesome employees by sending them overseas brings a significant cost to the firm's international operations. The inability of the expatriate's family to adapt to life in another country often leads to failure (in nearly half of all early returns).

Diff: 2 Page Ref: 59

Objective: LO5

AACSB: Dynamics of the global economy

79) Discuss today's trend toward short-term expatriate assignments.

Answer: One recent trend has been the use of short-term expatriate assignments. Instead of using two- or three-year assignments, the length has been shortened. The duration can be from several weeks to a year with the family left behind (instead of accompanying the expatriate in longer assignments). There are cost savings to the firm and fewer expatriates renege on their contract (perhaps as a result of less trauma on the family). In addition, with more dual career families, the spouse can continue to work at home while the expatriate is away on assignment. The downside is that it takes time to learn a foreign culture and the expatriate may leave for home before that is accomplished and has made his or her mark. If the assignment has to be lengthened, the family is often unhappy and shocked — especially the parent left behind parenting alone.

Diff: 1 Page Ref: 61

Objective: LO6

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80) Discuss the impact of globalization on ethical dilemmas for managers.

Answer: Globalization greatly increases the possibility that a manager will face an ethical dilemma. Different cultures have different notions of right and wrong. A dilemma may be created when a firm must choose whether to lose business if it applies a stricter code of ethics than foreign competitors follow. Firms have continued to face many ethical issues when they go overseas in search of cheaper labor. These include child labor issues, gender discrimination issues, unsafe working conditions, and environmental contamination.

Diff: 2 Page Ref: 62-63

Objective: LO7

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