

Chapter 2: The External Environment

Chapter 2
The External Environment

TRUE/FALSE QUESTIONS

1. Individual organizations typically have only a marginal impact on the broad environment.
Answer: T
2. The broad environment consists of sociocultural forces, competitive forces, technological trends, and political/legal forces.
Answer: F
3. Awareness of and compliance with the attitudes of society can help an organization avoid problems associated with a bad ethical reputation.
Answer: T
4. Exchange rates can influence the ability of a firm profitably to remove profits from foreign countries.
Answer: T
5. Technology is human knowledge about products and services and the ways they are made and delivered.
Answer: T
6. Government intervention in business is increasing worldwide.
Answer: T
7. The task environment consists of stakeholders with whom organizations interact on a fairly regular basis.
Answer: T
8. Industries may be defined as a group of organizations that compete directly with one another to win orders or sales in the marketplace.
Answer: T
9. The three major forces that drive industry competition and profitability are government regulators, direct competitors and social forces.
Answer: F
10. The power of a single customer is greater when there are many customers than when

there are few.

Answer: F

11. Organizations that are in a weak position relative to their suppliers can attempt to balance power through vertical integration.

Answer: T

12. Low levels of competition may be caused by high fixed costs.

Answer: F

13. A strategic group map involves plotting industry rivals based on two or more strategic dimensions that are important to the industry.

Answer: T

14. The higher the entry barriers, the more intense is competition in an industry.

Answer: F

15. Discriminating and demanding buyers in the home country of a firm can help the firm to succeed as it competes in foreign markets.

Answer: T

MULTIPLE CHOICE QUESTIONS

16. What is a primary reason that an organization should monitor the broad environment?

- A. To anticipate concerns and trends
- B. To determine the firm's internal strengths
- C. To determine the firm's internal weaknesses
- D. To identify key employees within the firm
- E. To determine the firm's focus on manufacturing and materials management

Answer: A

17. An organization can typically have:

- A. Little influence over events in its task environment
- B. Little influence over major occurrences and patterns in the broad environment
- C. Significant influence over major occurrences and patterns in the remote environment
- D. Significant influence over major social trends
- E. Significant influence on government policy in a nation as a whole

Answer: B

18. The broad environment consists of all of the following *except*:

- A. Technological trends

Chapter 2: The External Environment

- B. Political and legal forces
- C. Competitors
- D. Economic forces
- E. Sociocultural forces

Answer: C

19. Which of the following is part of the broad environment?

- A. Competitors
- B. Suppliers
- C. Technological forces
- D. Government agencies
- E. Unions

Answer: C

20. Analysis of society is important for all of the following reasons *except*:

- A. Awareness of what is happening in society virtually guarantees that an organization will be able to successfully compete in its own industry
- B. Most of the other stakeholder groups are also members of society
- C. Awareness of and compliance with the attitudes of society can help an organization avoid problems associated with being a bad corporate citizen
- D. Changes in society can provide opportunities for organizations
- E. Correct assessment of social trends can help businesses avoid restrictive legislation

Answer: A

21. Analysis of social trends is important because:

- A. The values and beliefs of key stakeholders are derived from societal influences
- B. Correct assessment of social trends can help businesses avoid restrictive legislation
- C. Changes in society can create either opportunities or threats for organizations
- D. All of these are correct
- E. Only A and C are correct

Answer: D

22. Among the most critical economic factors to monitor are:

- A. Interest rates
- B. Economic growth
- C. Foreign trade balances
- D. Inflation rates
- E. All of these factors are important

Answer: E

Chapter 2: The External Environment

23. Among the following, the best definition of technology is:
- A. Human knowledge about products and services and the ways they are made and delivered
 - B. Technical equipment such as computers and electronics
 - C. Knowledge about computers, electronics, and information systems
 - D. Knowledge about computers, electronics, and information systems as well as the equipment and systems themselves
 - E. All equipment that is used to create products and services
- Answer: A**
24. Which of the following is not included as a major force that drives industry competition and profitability?
- A. Existing competitors
 - B. Economic power of suppliers
 - C. Potential competitors
 - D. Unions
 - E. Indirect competitors
- Answer: D**
25. Suppliers tend to exhibit greater power if:
- A. There are few suppliers of the raw material, product, or service
 - B. There are many substitutes for the product or service that suppliers sell
 - C. Suppliers are small businesses with regards to total sales volume
 - D. The suppliers' products are undifferentiated and plentiful
 - E. Suppliers cannot integrate forward
- Answer: A**
26. The influence of potential competitors on industry competition is determined primarily by:
- A. Buyer power
 - B. Supplier power
 - C. Strength of entry barriers
 - D. Strength of exit barriers
 - E. Threat of substitutes
- Answer: C**
27. Customers tend to exhibit a powerful force on competition in the industry if:
- A. There are a large number of customers that buy the product
 - B. Few similar products exist
 - C. Purchases customers make from the industry are large relative to the amount spent for items from other industries
 - D. The sellers' products are highly differentiated

- E. The customers are earning high profits
Answer: C
28. High levels of competition may be caused by:
A. Rapid industry growth
B. Low fixed costs
C. A small number of competitors
D. A lack of product differentiation
E. Low exit barriers
Answer: D
29. Which of the following makes an industry more attractive to enter?
A. Strong supplier power
B. Strong customer power
C. No close substitutes
D. Many strong competitors
E. Low sales growth
Answer: C
30. All of the following are true about environmental uncertainty *except*:
A. It makes managerial decision making more difficult
B. Organizations feel most of its influence directly from the broad environment
C. Political power of stakeholders influences it
D. Economic power of stakeholders influences it
E. Network centrality of stakeholders influences it
Answer: B
31. What should organizations do with stakeholders that have a large influence on environmental uncertainty?
A. Fight against them with competitive weapons
B. Ignore them
C. Just monitor their activities
D. Cooperate with them
E. None of the above
Answer: D
32. When two or more firms form a legally independent company to pursue common objectives, in is called:
A. A semiautonomous partnership
B. A social network
C. An equity alliance
D. A business network

E. None of these

Answer: C

33. According to Michael Porter, all of the following are conditions that create advantages for firms in certain countries and industries *except*:

- A. Suppliers to a particular industry are the very best in the world
- B. Strong industry competition
- C. Buyers are among the most demanding in the world
- D. Shortages of critical raw materials or other supplies
- E. Ability to attract the most talented managers

Answer: D

34. According to Michael Porter, conditions that create advantages for firms in certain countries and industries include:

- A. Suppliers to a particular industry are the very best in the world
- B. Strong industry competition
- C. Buyers are among the most demanding in the world
- D. Ability to attract the most talented managers
- E. All of the above

Answer: E

ESSAY QUESTIONS

35. What is a firm's broad environment? To what extent can the broad environment influence a firm? To what extent can one firm influence the broad environment?

Answer: The broad environment is made up of sociocultural forces, economic forces, technological trends, and political/legal forces. In general, although the broad environment can have a large influence on a firm and its outcomes, any one firm can have only a marginal influence on its broad environment.

36. Why is analysis of social trends important? Give examples.

Answer: First, the values and beliefs of key stakeholders are derived from broader societal influences. Second, awareness of and compliance with the attitudes of society can help an organization avoid problems associated with being a "bad corporate citizen." Third, correct assessment of social trends can help businesses avoid restrictive legislation. Industries and organizations that police themselves are less likely to be the target of legislative activity. Legislative activity is often in response to a public outcry against the actions of firms or industries, as has been the case with some intrusive and unethical telemarketing activity. The fourth reason that analysis of social values is important is that changes in society can create either opportunities for or threats to an organization's revenue growth and profit prospects.

37. What are some of the most critical economic factors for a firm to track? Why are they important?

Answer: Economic growth, interest rates, the availability of credit, inflation rates, foreign exchange rates, and foreign trade balances are among the most critical economic factors.

Economic growth can have a large impact on consumer demand for products and services. Inflation and the availability of credit, among other factors, influence interest rates that organizations have to pay. High interest payments can constrain the strategic flexibility of firms by making new ventures and capacity expansions prohibitively expensive. On the other hand, low interest rates can increase strategic flexibility for organizations and also influence demand by encouraging customers to purchase goods and services on credit. Foreign exchange rates are another major source of uncertainty for global organizations. Organizations sometimes earn a profit in a foreign country, only to see the profit turn into a loss due to unfavorable currency translations. Finally, foreign trade balances are highly relevant to both domestic and global organizations because they are an indication of the nature of trade legislation that might be expected in the future.

38. When do customers exhibit a powerful force on competition in an industry?

Answer: Customers tend to exhibit a powerful force on competition in an industry if: (1) There are a small number of customers. In this case, losing one customer makes a big difference. (2) Many similar products exist. (3) The purchases customers make from the industry are high in volume. (4) The customers can easily get accurate information on the selling industry's costs and demand. This gives them a real edge during negotiations. (5) The products customers are buying are undifferentiated (also known as standard or generic). This means that customers are not concerned about which company they buy from. (6) The customers can easily integrate backward and become their own suppliers. (7) Customers can easily switch from one seller to another.

39. What are strategic groups? Why are strategic group maps useful?

Answer: Strategic groups consist of firms that end up in the same general location of a strategic group map. This map is constructed by plotting industry rivals based on two or more strategic dimensions that are important to strategy in the industry. The axes of the map describe strategy, not performance. The companies in each strategic group respond to external forces in a way that is similar to each other and different from companies in other strategic groups. Strategic group maps are useful in tracking the evolution of an industry over time. Companies may move from one group to another, and groups may change their position based on the strategic dimensions. However, organizations can belong to several different

Chapter 2: The External Environment

strategic groups, depending on the dimensions that are used to form the groups. This subjectivity of strategic group maps may be a weakness, but the use of the maps can help a firm address competitive rivalry issues.

40. According to Michael Porter, what are the conditions that create advantages for firms in certain countries and industries? Please explain each of them.

Answer: (1) *Factor conditions*. These are endowments enjoyed by specific nations such as uncommon raw materials or laborers with specific skills that can lead to advantages in particular industries. Other factor conditions that can lead to advantage are superior factor-producing mechanisms such as excellent schools or universities. (2) *Demand conditions*. If buyers of a product or service in a particular country are among the most discriminating and demanding in the world, competitors in that industry have to work harder to please them. (3) *Related and supporting industries*. If suppliers to an industry are the very best in the world, their excellence is passed on to the buyers who use their products. Advantages can also be obtained if firms in related industries are also global leaders. (4) *Firm strategy, structure, and rivalry*. Sometimes the management techniques that are customary in a nation's businesses are conducive to success in particular industries. Also, particular industries may attract the most talented managers in the nation. In addition, strong competition can force competitors to excel, thus making them stronger in world markets.