

Chapter One: Market and Nonmarket Environments

True/False Questions:

1) Firms have more control over their future in their nonmarket environment than they have in the markets in which they operate.

Answer: False

Page reference: 1

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

2) The long-run sustainability of competitive advantage requires managing effectively in the nonmarket environment.

Answer: True

Page reference: 1

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

3) Effective management in the market environment is sufficient for superior performance of the firm over its competitors.

Answer: False

Page reference: 2

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

4) The nonmarket environment is characterized by the social, political, and legal arrangements that structure interactions outside of, but in conjunction, with markets and private agreements.

Answer: True

Page reference: 2

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

5) Activities in the nonmarket environment may be voluntary, as when the firm cooperates with government officials or an environmental group, or involuntary, as in the case of government regulation or a boycott of a firm's product led by an activist group.

Answer: True

Page reference: 2

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

6) Nonmarket issues high on firms' agendas include environmental protection, health and safety, regulation and deregulation, intellectual property protection, international trade policy, antitrust as well as other issues such as human rights.

Answer: True

Page reference: 2

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

7) Managers do not participate in the implementation of nonmarket strategies.

Answer: False

Page reference: 3

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

8) In formulating nonmarket strategies, managers may draw on the expertise of lawyers, communications specialists, Washington representatives, and community relations specialists.

Answer: True

Page reference: 3

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

9) In the nonmarket environment, legislation, regulation, administrative decisions, and public pressure are the result of competition involving individuals, activists, interest groups, and firms.

Answer: True

Page reference: 4

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

10) In the market environment, strategies are intermediated by public and private institutions, whereas in the nonmarket environment, strategies are intermediated by markets.

Answer: False

Page reference: 4

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

11) The nonmarket environment of a firm is characterized by four I's: independence, individuality, ideas and income.

Answer: False

Page reference: 4

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

12) Information is the basic unit of analysis and the focus of nonmarket action.

Answer: False

Page reference: 4

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

13) Nongovernmental institutions include the news media that provides information to society as well as public sentiment composed of societal expectations and norms of behavior that arise from ethics and culture.

Answer: True

Page reference: 4

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

14) Institutions include only principal government institutions and cannot be established by private parties.

Answer: False

Page reference: 9-10

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

15) Institutions are not unitary bodies.

Answer: True

Page reference: 10

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

16) All institutions represent a set of countries.

Answer: False

Page reference: 10

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

17) Nonmarket issues come from both external forces and the firm's actions.

Answer: True

Page reference: 11

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

18) Renewed confidence in markets and the failure of socialist economic systems spurred a wave of privatization in both developed and developing countries.

Answer: True

Page reference: 12

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

19) Change in the nonmarket environment does not come from market forces.

Answer: False

Page reference: 12

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

20) One of the approaches to effectively manage nonmarket issues is to respond to nonmarket issues *only* when they are strong enough to force the firm to act.

Answer: True

Page reference: 13

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

21) The nonmarket issue life cycle is a theory that relates the stage of development of an issue to its impact on a firm.

Answer: True

Page reference: 14

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

22) The first step that a nonmarket issue passes through is issue identification.

Answer: True

Page reference: 14

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

23) As an issue progresses through its life cycle, management's range of discretion in addressing the issue correspondingly increases.

Answer: False

Page reference: 14

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

24) All nonmarket issues pass through the five stages of the nonmarket issue life cycle.

Answer: False

Page reference: 15

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

25) The progress of an issue is shaped by the actions of firms and other interests and by the characteristics of the institutions in whose arenas the issue is addressed.

Answer: True

Page reference: 15

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

Multiple Choice Questions:

26) The market environment of business includes _____.

- a) social, political, and legal arrangements that structure interactions in conjunction with markets and contracts
- b) interactions between firms, suppliers, and customers that are governed by markets and contracts
- c) interactions between the firm and individuals, and interest groups that are intermediated by private institutions
- d) interactions between the firm and government entities, and the public that are intermediated by public institutions

Answer: B

Page reference: 2

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

27) Which of the following characterizes the nonmarket component of business environment?

- a) It includes those interactions between firms, suppliers, and customers that are governed by markets and contracts.
- b) The interactions of firms typically involve voluntary economic transactions and the exchange of property.
- c) Activities in the nonmarket environment may be voluntary or involuntary.
- d) Effective management in the nonmarket environment is not a necessary condition for superior performance.

Answer: C

Page reference: 2

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

28) Which of the following is a nonmarket issue high on firms' agendas?

- a) intellectual property protection
- b) channel selection
- c) advertising and promotion
- d) pricing strategies

Answer: A

Page reference: 2

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

29) Due to its importance for managerial and organizational performance, nonmarket strategy is the responsibility of _____.

- a) managers
- b) clerks
- c) lobbyists
- d) the board of directors

Answer: A

Page reference: 3

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

30) Firms typically deal with nonmarket issues in proportion to their potential impacts on _____.

- a) human resources
- b) inventory control
- c) public relations
- d) performance

Answer: D

Page reference: 3

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

31) Which of the following characterizes the competition in a nonmarket environment?

- a) Firms compete through their market or competitive strategies.
- b) The competitive strategies are intermediated by markets.
- c) Public pressure leads to competition involving individuals, activists, interest groups, and firms.
- d) The nonmarket environment neither changes nor the issues on a firm's nonmarket agenda evolve.

Answer: C

Page reference: 4

Difficulty: Moderate

AACSB:

Learning Outcome: Describe the components of the management environment

32) The nonmarket environment of a firm is characterized by four I's: issues, interests, institutions, and _____.

- a) innovation
- b) information
- c) ideas
- d) independence

Answer: B

Page reference: 4

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

33) _____ are the basic unit of analysis and the focus of nonmarket action.

- a) Interests
- b) Institutions
- c) Issues
- d) Information

Answer: C

Page reference: 4

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

34) _____ include the individuals and groups with preferences about, or a stake in, the issue.

- a) Institutions
- b) Interests
- c) Innovation
- d) Information

Answer: B

Page reference: 4

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

35) _____ is/are defined as the rules of the game in a society that shape human interactions and provide arenas in which interests seek to influence the outcomes on issues.

- a) Institutions
- b) Individualism
- c) Collectivism
- d) Issue identification

Answer: A

Page reference: 4

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

36) Which of the following are government institutions?

- a) labor unions
- b) regulatory agencies
- c) news agencies
- d) for-profit organizations

Answer: B

Page reference: 4

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

37) _____ pertains to what the interests and institutional officeholders know or believe about the issues and the forces affecting their development.

- a) Independence
- b) Individualism
- c) Ideas
- d) Information

Answer: D

Page reference: 5

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

38) Special interest groups _____.

- a) pursue issues because of the benefits that accrue to their members
- b) monitor the activities of firms and call those activities to the attention of the media, government, and public

- c) represent the interests of individuals, such as those affected by pollution
- d) take direct action against firms to force them to change their policies or can appeal to the public for support

Answer: A

Page reference: 9

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

39) _____ monitor the activities of firms and call those activities to the attention of the media, government, and public.

- a) Advocacy groups
- b) Activist groups
- c) Special interest groups
- d) Watchdog groups

Answer: D

Page reference: 9

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

40) Which of the following characterizes advocacy groups?

- a) They pursue issues because of the benefits that accrue to their members.
- b) They monitor the activities of firms and call those activities to the attention of the media, government, and public.
- c) They represent the interests of individuals, such as those affected by pollution.
- d) They take direct action against firms to force them to change their policies or can appeal to the public for support.

Answer: C

Page reference: 9

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

41) _____ can take direct action against firms to force them to change their policies or can appeal to the public for support.

- a) Special interest groups
- b) Watchdog groups
- c) Advocacy groups
- d) Activist groups

Answer: D

Page reference: 9

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

42) Which of the following is an example of a nongovernmental institution in the nonmarket environment?

- a) WTO
- b) the social media
- c) the judiciary
- d) the executive branch

Answer: B

Page reference: 10

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

43) Which of the following is an example of an institution specific to the United States?

- a) Congress
- b) KORUS
- c) Kyoto Treaty
- d) News Media

Answer: A

Page reference: 10

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

44) Which of the following is an example of a global institution?

- a) Department of Homeland Security
- b) Environmental Protection Agency
- c) Mercosur
- d) Kyoto Treaty

Answer: D

Page reference: 10

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

45) _____ involves providing information to officeholders about the likely consequences of policy alternatives.

- a) Corporate social responsibility
- b) Channel selection
- c) Lobbying
- d) Public relations

Answer: C

Page reference: 11

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

46) Under the new theory of _____, firms could be held liable if their stock prices fell significantly when the firms' projections of future earnings had been favorable.

- a) fraud on the market
- b) fraud on the nonmarket
- c) the common factor
- d) collective deception

Answer: A

Page reference: 12

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

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

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

Answer: C

Page reference: 14

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

48) Which of the following steps follows the identification of the nonmarket issue in the nonmarket issue life cycle?

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

Answer: B

Page reference: 14

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

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

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

Answer: D

Page reference: 14

Difficulty: Easy

AACSB:

Learning Outcome: Describe the components of the management environment

Essay and Review Questions:

50) Describe the nonmarket environment. Why has the nonmarket environment grown in importance and complexity over time?

Answer: The performance of a firm, and of its management, depends on its nonmarket environment. The nonmarket environment is composed of the social, political, and legal arrangements that structure interactions outside of, but in conjunction with, markets and contracts. The nonmarket environment encompasses those interactions between the firm and individuals, interest groups, government entities, and the public that are intermediated not by markets but by public and private institutions. Public institutions differ from markets because of characteristics such as majority rule, due process, broad enfranchisement, collective action, and access by the public. Activities in the nonmarket environment may be voluntary, as when the firm cooperates with government officials or an environmental group, or involuntary, as in the case of government regulation or a boycott of a firm's product led by an activist group. Effective management in the nonmarket environment has become a necessary condition for superior performance just as is effective management in the market environment.

The nonmarket environment has grown in importance and complexity over time and Commands increased managerial attention. Nonmarket issues high on firms' agendas include sustainability, global climate change, security, health and safety, regulation and deregulation, intellectual property protection, human rights, international trade policy, antitrust, social pressure from nongovernmental organizations (NGOs) and social activists, news media coverage, social media, corporate social responsibility, and ethics. Although the saliency of particular issues ebbs and flows, nonmarket issues arise sufficiently often to have important consequences for managerial and firm performance. Nonmarket issues, the forces that influence their development, and the strategies for addressing them are the focus of the field of business and its environment. The managerial objective is to achieve superior overall performance by effectively addressing nonmarket issue and the forces associated with them and using nonmarket strategies to unlock opportunities. Developments in the nonmarket environment affect performance on a number of dimensions. In the automobile industry, emissions and fuel economy standards affect research and development, design, production, pricing, and marketing. Safety regulation and liability standards have similar broad effects. Access to international markets affects competitive strategies involving product design, pricing, and capacity planning.

Page reference: 2

Difficulty: Difficult

AACSB: Analytic skills

Learning Outcome: Describe the components of the management environment

51) Describe, with examples, the characteristics of a nonmarket environment.

Answer: The nonmarket environment of a firm is characterized by four I's:

- Issues

Issues are the basic unit of analysis and the focus of nonmarket action. Using the

Agricultural biotechnology industry as an example, the central nonmarket issues have been the formulation of regulatory policies for bioengineered foods and the public reaction to those foods.

- Interests

Interests include the individuals and groups with preferences about, or a stake in, the issue. The principal interests are the agricultural biotechnology companies, the interest groups and activists concerned about biotechnology issues, and the public.

- Institutions

Institutions are defined by Douglass North (1990) as “the rules of the game in a society... that shape human interactions,” and these institutions provide arenas in which interests seek to influence the outcomes on issues. Government institutions include entities such as legislatures and regulatory agencies. Nongovernmental institutions include those such as the news media that provides information to society as well as public sentiment composed of societal expectations and norms of behavior that arise from ethics and culture. The Environmental Protection Agency, the Department of Agriculture, the Food and Drug Administration, and Congress are the principal public institutions in whose arenas agricultural biotechnology issues are addressed. The public sentiment about bioengineered foods is influenced by market forces as well. As the prices of agricultural products and foods rose in the late 2000s, some consumers and firms that had shunned bioengineered foods began to change their policies in response to their lower prices resulting from higher productivity and resistance to crop damage.

- Information

Information pertains to what the interests and institutional officeholders know or believe about the issues and the forces affecting their development. In the case of agricultural biotechnology, information pertains to the risks associated with individual products and with the technology itself. The public acceptance of bioengineered crops and animals is influenced by both scientific knowledge and concerns about the unknown and can differ across countries and cultures. Information is provided by firms, activists, government institutions, and the media.

Page reference: 4 – 5

Difficulty: Difficult

AACSB: Analytic skills

Learning Outcome: Describe the components of the management environment

52) Explain, with examples, how nonmarket issues originate.

Answer: Nonmarket issues originate from both external forces and a firm’s own actions.

Nonmarket issues have five basic sources:

Scientific discovery and technological advancement can produce fundamental changes in both the market and nonmarket environments. In the market environment, they create opportunities for new products and processes, new applications of existing knowledge, and the foundations for future discoveries. They also give rise to nonmarket issues.

Nonmarket issues can also arise from new technology and scientific uncertainty.

Nonmarket issues also arise from changes in understandings. The environmental Movement brought to the attention of the public damage to the natural environment and the associated health risks. Renewed confidence in markets and the failure of socialist economic systems spurred a wave of privatization in both developed and developing

countries. Increasing evidence of the economic benefits of international trade led not only to further reductions in trade barriers through the WTO but also to market integration in North America through the North American Free Trade Agreement (NAFTA) and in the European Union through the Single European Act.

Nonmarket issues also arise because of institutional actions. A Supreme Court decision in 1988 supported a new theory of “fraud on the market,” under which a firm could be held liable if its stock price fell significantly when the firm’s projections of future earnings had been favorable. This provided incentives for trial lawyers to file class action lawsuits against high-technology companies when their naturally volatile stock price fell. No evidence of fraud was required to file a lawsuit, and filing allowed the lawyers to conduct discovery and depose company executives.

Change in the nonmarket environment also comes from market forces. In the mid-1990s, new markets associated with the Internet, wireless systems, and integrated services resulted in a restructuring of the telecommunications industry, including mergers, acquisitions, and strategic alliances. Congress then struggled with legislation to lift the archaic restrictions on competition left over from the era of regulation. The demand for mobile communications technology and social media led automakers to equip cars with devices ranging from GPS navigation systems to handless communications systems to onboard televisions. Those market forces contributed to the issue of distracted driving, which accounted for a growing share of traffic fatalities and injuries.

Nonmarket issues also arise because of heightened moral concerns. Privacy concerns associated with the Internet resulted in both self-regulation by Internet service providers and Web sites and calls for new legislation. In the European Union, privacy concerns led to strong legislation on the handling and use of personal information on the Internet.

Moral concerns were also raised about subprime lending to borrowers who did not qualify for bank loans, leading to regulations to limit predatory lending. Moral concerns about the spread of AIDS in developing countries and the suffering of its victims resulted in pressure on pharmaceutical firms to lower their prices for AIDS drugs.

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Difficulty: Difficult

AACSB: Analytic skills

Learning Outcome: Describe the components of the management environment

53) Explain the different approaches used by managers to address nonmarket issues.

Answer: The effectiveness with which a firm and its managers address nonmarket issues depends on their approach to the nonmarket environment. One approach is to respond to nonmarket issues only when they are strong enough to force the firm to act. A second approach emphasizes limiting the extent of the damage once the firm has been challenged by an issue. A third approach is anticipatory and is intended to prepare the firm to take advantage of opportunities as they arise and address issues before they become problems. A fourth approach is proactive with the firm and its managers not only anticipating nonmarket issues but also acting to affect which issues arise and how they will be framed. This approach recognizes that nonmarket issues and their development are affected by the way business is conducted. The fourth approach is the most effective, but it requires considerable sensitivity to the sources of nonmarket issues and how they progress. A fundamental step in anticipating nonmarket issues is to view the potential issue or

business practice from the perspective of others who might be concerned about it.

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Difficulty: Moderate

AACSB: Analytic skills

Learning Outcome: Describe the components of the management environment

54) Describe the nonmarket issue life cycle. List and explain the different stages.

Answer: The progression of nonmarket issues can be understood in terms of a life cycle. The nonmarket issue life cycle relates the stage of development of an issue to its impact on a firm.

Nonmarket issues can progress through five stages: (1) issue identification, (2) interest group formation, (3) legislation, (4) administration, and (5) enforcement. As an issue progresses through its life cycle, its impact on the firm tends to increase. As the impact increases, management's range of discretion in addressing the issue correspondingly decreases. The impact may take the form of government actions such as regulation or changes in public sentiment that limit the alternatives available to management.

Nonmarket issues that complete their life cycles do not always result in more restrictions on business, as evidenced by the issue of airline deregulation. Not all nonmarket issues, of course, garner enough support to pass through all five stages, and many do not survive the legislative stage. The fact that an issue does not pass through all the stages does not mean that it has no impact. The attention an issue receives can produce change even in the absence of institutional action.

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Difficulty: Moderate

AACSB: Analytic skills

Learning Outcome: Describe the components of the management environment