

Chapter 2—The Global Business Environment

MULTIPLE CHOICE

1. Which of the following statements is true about businesses and their leaders?
- Some leaders focus their efforts on lobbying to influence the government's role in business.
 - Businesses and their leaders often operate in isolation.
 - Business leaders are often reactive to their changing environment but not proactive in adapting their strategies accordingly.
 - Successful business leaders usually do not try to influence the global business environment.

ANS: A PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Leadership Principles TOP: A-head: Introduction
KEY: Bloom's: Comprehension

2. To remain competitive, companies:
- shouldn't be proactive to its changing environment.
 - should not try to influence the global business environment.
 - can no longer sell exclusively in their domestic markets.
 - should not make any attempts to expand globally.

ANS: C PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Strategy TOP: A-head: Introduction
KEY: Bloom's: Comprehension

3. _____ refers to the integration and interdependence of economic, technological, socio-cultural, and political systems across diverse geographic regions.
- Innovation
 - Globalization
 - Proliferation
 - Competition

ANS: B PTS: 1 DIF: Easy NAT: BUSPROG: Diversity
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Knowledge

4. Identify the country that is represented by NAFTA.
- United Kingdom
 - Zimbabwe
 - Costa Rica
 - Mexico

ANS: D PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Knowledge

5. Which of the following countries is one of the original members of ASEAN?
- Canada
 - Philippines
 - Guatemala
 - Nigeria

ANS: B PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Knowledge

6. Which of the following trade agreements does Costa Rica belong to?
- North American Free Trade Agreement
 - Gulf Cooperation Council
 - European Union
 - Central American Common Market

ANS: D PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Knowledge

7. Which of the following is one of the primary goals of ASEAN?
- Eliminating tariffs among countries
 - Easing travel of citizens and goods
 - Creating a single financial market
 - Ensuring peace and stability

ANS: D PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Comprehension

8. The fourth largest regional trading group, MERCOSUR, comprises the countries of:
- Argentina, Brazil, Paraguay, Uruguay, and Venezuela.
 - Bahrain, Kuwait, Oman, and Qatar.
 - Canada, Mexico, and United States.
 - Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

ANS: A PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Knowledge

9. Which of the following statements about the various trade agreements is true?
- MERCOSUR seeks to create an economic juggernaut in United Kingdom.
 - CACM comprises the countries of Canada, Mexico, and the United States.
 - ASEAN's primary goal is to promote social and cultural development.
 - NAFTA was originally known as the European Coal and Steel Community.

ANS: C PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Comprehension

10. Of the three main principles of GATT, the most favored nation principle meant that:
- a tariff rate granted to one member of GATT would be extended to all members.
 - foreign firms would be subject to the same rules and regulations as a country's domestic firms.
 - trade disputes would be settled by the unanimous agreement of all parties to the dispute.
 - countries should specialize in producing goods for which they have the lowest opportunity cost of production.

ANS: A PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Comprehension

11. The _____ was formed to deal with the rules of trade between nations and is responsible for negotiating and implementing new trade agreements and policing member countries' adherence to them.
- General Agreement on Tariffs and Trade
 - World Trade Organization
 - Association of South East Asian Nations
 - European Union

ANS: B PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Knowledge

12. Identify the trade agreement that created a single market by a system of laws that apply in all member states, guaranteeing the freedom of movement of people, goods, services, and capital.
- North American Free Trade Agreement
 - Economic Community of West African States
 - European Union
 - Central American Common Market

ANS: C PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Knowledge

13. Which of the following countries was admitted to MERCOSUR in 2012 and is likely to increase the importance of fuel trade both within and outside the region?
- Venezuela
 - Argentina
 - Paraguay
 - Brazil

ANS: A PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Knowledge

14. A firm's task environment includes:
- owners and the board of directors.
 - competitors, suppliers, and customers.
 - employees and culture.
 - economic and socio-cultural factors.

ANS: B PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: External Environment
KEY: Bloom's: Knowledge

15. Which of the following entities belongs to the general environment of an organization?
- Culture
 - Technology
 - Customers
 - Employees

ANS: B PTS: 1 DIF: Easy NAT: BUSPROG: Technology
STA: DISC: Environmental Influence TOP: A-head: External Environment
KEY: Bloom's: Knowledge

16. Sam, the top manager of TechPark, decides to expand his business globally and creates a new market in Erbia, a neighboring country. Eventually, the company faces issues related to unskilled labor and poor resource positions such as unreliable highway systems and improper communication networks. From this scenario it can be inferred that Sam failed to focus on the _____ dimension of the external environment affecting business.
- a. socio-cultural
 - b. political
 - c. legal
 - d. economic

ANS: D PTS: 1 DIF: Challenging
NAT: BUSPROG: Reflective Thinking STA: DISC: Environmental Influence
TOP: A-head: External Environment KEY: Bloom's: Application

17. Which of the following is a best example of Hofstede's small versus large power distance dimension?
- a. In an organization, it was mandatory for managers to make decisions by giving more importance to the future than the present.
 - b. The members of a particular society often prefer more rules and structure and are incapable to adapt to quick changes.
 - c. The host country employees of an organization prefer to unquestionably abide by the rules of the top management.
 - d. People in Erbia believe that competition, ambition, and accumulation of wealth are typical masculine qualities.

ANS: C PTS: 1 DIF: Challenging
NAT: BUSPROG: Reflective Thinking STA: DISC: Environmental Influence
TOP: A-head: External Environment KEY: Bloom's: Application

18. The members of a particular society in Rhodia often find it hard to adapt themselves to the changing situations. Therefore, they prefer to follow standard rules and procedures in an attempt to reduce the occurrences of any anxiety causing situations. Which of the following Hofstede's social dimensions is described in the above example?
- a. Uncertainty avoidance
 - b. Long- versus short-term orientation
 - c. Small versus large power distance
 - d. Individualism versus collectivism

ANS: A PTS: 1 DIF: Challenging
NAT: BUSPROG: Reflective Thinking STA: DISC: Environmental Influence
TOP: A-head: External Environment KEY: Bloom's: Application

19. Which of the following is the best example of Hofstede's long- versus short-term orientation dimension?
- a. People in Erbia believed that competition, ambition, and accumulation of wealth are typical masculine qualities.
 - b. The members of a particular society often prefer more rules and structure and are incapable to adapt to quick changes.
 - c. In an organization, it was mandatory for managers to make decisions by giving more importance to the future than the present.
 - d. The host country employees of an organization prefer to unquestionably abide by the rules of the top management.

ANS: C PTS: 1 DIF: Challenging
NAT: BUSPROG: Reflective Thinking STA: DISC: Environmental Influence
TOP: A-head: External Environment KEY: Bloom's: Application

20. The factor that distinguishes an internal environment of an organization from an external environment is that:
- the internal environment consists of the general environment and the task environment.
 - the internal environment includes owners, the board of directors, employees, and culture.
 - the internal environment includes entities that directly affect a firm on a continuous basis.
 - the internal environment consists of the technological, economic, and socio-cultural factors.

ANS: B PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Internal Environment
KEY: Bloom's: Comprehension

21. Which of the following entities belongs to the internal environment of an organization?
- Technology
 - Suppliers
 - Employees
 - Customers

ANS: C PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Internal Environment
KEY: Bloom's: Knowledge

22. The responsibility of James and Henry in an organization is to direct and oversee managers to ensure that the jobs are properly done. Both were elected by the shareholders of the organization to serve as an intermediate group. From this scenario it can be inferred that James and Henry are the _____ of the organization.
- employees
 - board of directors
 - institutional shareholders
 - owners

ANS: B PTS: 1 DIF: Challenging
NAT: BUSPROG: Reflective Thinking STA: DISC: Environmental Influence
TOP: A-head: Internal Environment KEY: Bloom's: Application

23. Which of the following statements is true about the dimensions of internal environment?
- Owners serve as an intermediate group for shareholders.
 - Employees cannot directly impact a firm's competitive position.
 - Legal control of an organization is maintained by the board of directors.
 - Cultures at firms develop over a long period of time.

ANS: D PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Internal Environment
KEY: Bloom's: Comprehension

24. The factor that distinguishes owners from the board of directors is that:
- the owners serve as an intermediate group for shareholders.
 - the owners maintain legal control of the organization.
 - the owners are charged with overseeing the general direction of the firm.
 - the owners are elected by the shareholders.

ANS: B PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Internal Environment
KEY: Bloom's: Comprehension

25. Culture belongs to the _____ environment of an organization.

- a. task
- b. economic
- c. internal
- d. general

ANS: C PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Internal Environment
KEY: Bloom's: Knowledge

TRUE/FALSE

26. Successful business leaders not only respond to changes in the global business environment but also try to influence it.

ANS: T PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Introduction
KEY: Bloom's: Knowledge

27. Globalization has presented challenges including emergence of new, powerful competitors in many industries.

ANS: T PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Introduction
KEY: Bloom's: Knowledge

28. The consensus principle meant that foreign firms would be subject to the same rules and regulations as a country's domestic firms.

ANS: F PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Knowledge

29. The Uruguay Round is noteworthy because it created the successor to World Trade Organization.

ANS: F PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Knowledge

30. Fuel and mining products are increasingly important components of MERCOSUR's export base.

ANS: T PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Globalization
KEY: Bloom's: Knowledge

31. The theory of comparative advantage proclaims that countries should specialize in producing goods for which they have the lowest opportunity cost of production.

ANS: T PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Strategy TOP: A-head: Globalization
KEY: Bloom's: Knowledge

32. The socio-cultural dimension of a firm's environment includes interest rates of all the countries where it sells its products and services.

ANS: F PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: External Environment
KEY: Bloom's: Knowledge

33. Social values often pose a much lesser challenge than language barriers for a company wanting to expand globally.

ANS: F PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: External Environment
KEY: Bloom's: Knowledge

34. In contrast to the dimensions of the task environment, the general environment has the ability to exert a greater influence over a firm.

ANS: F PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: External Environment
KEY: Bloom's: Knowledge

35. A firm's employees are the people who make the products and provide the services that allow the firm to exist.

ANS: T PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Internal Environment
KEY: Bloom's: Knowledge

ESSAY

36. How do successful business leaders respond to the changing business environment?

ANS:

Businesses and their leaders do not operate in isolation. They are part of a much larger ecosystem that is constantly changing and evolving. Successful business leaders not only respond to changes in the global business environment but also try to influence it. Some leaders focus their efforts on lobbying to influence the government's role in business. Other leaders identify growing market niches or target consumer segments and develop products or services to fill specific needs. Still other leaders invest in research and development to commercialize technological innovations. In these ways, business leaders take a proactive stance in not just reacting to but also managing their environment and adapting their strategies accordingly.

PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Leadership Principles TOP: A-head: Introduction
KEY: Bloom's: Comprehension

37. Explain the features of the European Union.

ANS:

The European Union traces its roots back to the 1950s, when Europeans were searching for a way to promote political and economic stability in their region. The organization was originally known as the European Coal and Steel Community, which sought to reduce trade barriers in coal and steel trading. The organization eventually developed into its current form in 1993 with the signing of the Maastricht Treaty, which established the legal framework for the EU. The formation of the EU created a single market by a system of laws that apply in all member states, guaranteeing the freedom of movement of people, goods, services, and capital. In 1999, the EU introduced a common currency, the euro, which has been adopted by 17 member states of the eurozone, which is an economic union of 27 of Europe's major economic states. The single European currency replaced numerous national currencies and unified a common marketplace, which created a competitive economy on par with the United States. The euro was designed to help build the single market by, for example, easing travel of citizens and goods, eliminating exchange rate problems, providing price transparency, creating a single financial market, and supporting price stability and low interest rates.

PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
 STA: DISC: Environmental Influence TOP: A-head: Globalization
 KEY: Bloom's: Comprehension

38. Briefly describe the different dimensions of the general environment.

ANS:

The general environment includes the technological, economic, political/legal, and socio-cultural dimensions that affect a firm's external environment.

The technological dimension of the general environment refers to the processes, technologies, or systems that a firm can use to produce outputs.

The economic dimension of a firm's environment often includes inflation, unemployment, consumer sentiment, and interest rates of all the countries where it sells its products and services.

The political dimension of the external environment refers to the political events and activities in a market that affect a firm. The legal dimension refers to the regulations and laws that a firm encounters in its markets.

The socio-cultural dimension of the external environment refers to demographic characteristics as well as to the values and customs of a society.

PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
 STA: DISC: Environmental Influence TOP: A-head: External Environment
 KEY: Bloom's: Comprehension

39. Define task environment and its dimensions.

ANS:

The task environment includes entities that directly affect a firm on a constant basis and include competitors, suppliers, and customers. A competitor of a firm is any organization that creates goods or services targeted at a similar group of customers. A supplier provides resources or services for a firm to help in its creation of products and services. The customers of a firm are the people or other organizations that buy the firm's products and services.

PTS: 1 DIF: Easy NAT: BUSPROG: Analytic
 STA: DISC: Environmental Influence TOP: A-head: External Environment
 KEY: Bloom's: Knowledge

40. Outline the components of a firm's internal environment.

ANS:

A firm's internal environment consists of several dimensions that affect the firm from within its boundaries. The typical components of a firm's internal environment include owners, the board of directors, employees, and culture. Each of these dimensions can directly impact a firm's performance and competitive position. The owners of a firm are the people or institutions that maintain legal control of the organization. The board of directors is a group of individuals elected by the shareholders and charged with overseeing the general direction of the firm. A firm's employees are an extremely important component of a firm's internal environment. The firm's employees are the people who make the products and provide the services that allow the firm to exist. Culture is a pattern of basic assumptions about the way an organization should work and the manner in which individuals in an organization should interact with each other.

PTS: 1 DIF: Moderate NAT: BUSPROG: Analytic
STA: DISC: Environmental Influence TOP: A-head: Internal Environment
KEY: Bloom's: Comprehension