

Chapter 02

The External and Internal Environments

True / False Questions

1. Organizations are open systems that affect and are affected by their external environments.
True False
2. The external environment includes all relevant forces outside an organization's boundaries.
True False
3. Inputs are the goods and services organizations take in and use to create products or services.
True False
4. A firm's competitive environment includes new entrants, substitutes, and rivals.
True False
5. An organization's macroenvironment includes its customers and suppliers.
True False
6. When investors bid up stock prices, companies have less capital to fuel their strategies.
True False
7. While the stock market can impact a firm, it has no effect on the behavior of individual managers.
True False
8. Firms that develop strategies that do not include technological advances run the risk of becoming obsolescent.
True False
9. U.S. government policies both impose strategic constraints and provide opportunities for organizations.
True False

10. Regulatory agencies set rules but are typically weak institutions since they do not have the power to investigate company practices or to take legal action to ensure compliance with the law.

True False

11. Social metrics are measures of various characteristics of the people who make up groups or other social units.

True False

12. Immigration is a factor that significantly influences the U.S. population and labor force.

True False

13. Population growth is unrelated to the size and composition of the labor force.

True False

14. A more diverse workforce presents managers with challenges as well as opportunities.

True False

15. Family leave, flexible working hours, and child care assistance have been introduced as a result of the evolving societal trends.

True False

16. Michael Porter's model for competitive analysis is one example of analyzing the competitive environment for adapting to and even influencing the nature of competition.

True False

17. According to Michael Porter's model, the competitive environment includes rivalry among current competitors and the impact of new entrants, substitute and complementary products, suppliers, and customers.

True False

18. As a first step in understanding their competitive environment, organizations must analyze how the competitors compete.

True False

19. A barrier to entry is a condition that prevents customers from using a firm's products or services.

True False

20. Cost is often a major barrier to entry into the marketplace.
- True False
21. Organizations are at a disadvantage if they become overly dependent on any powerful supplier.
- True False
22. Needing to learn a new software program as a result of changing suppliers is an example of a switching cost.
- True False
23. Strategic maneuvering is the managing of the network of facilities and people that obtain materials from outside the organization, transform them into products, and distribute them to customers.
- True False
24. The goal of supply chain management is having the right product in the right quantity at the right place at the right cost.
- True False
25. The Internet has empowered customers by providing an easy source of information.
- True False
26. Environmental uncertainty refers to the lack of information needed to understand or predict the future.
- True False
27. Environmental scanning means searching for and sorting through information about the environment.
- True False
28. Cognitive intelligence is the information that helps managers determine how to compete better.
- True False
29. Benchmarking means identifying the best-in-class performance by a company in a given area and then comparing one's processes to theirs.
- True False

30. Organizations that are defenders are more likely to engage in strategic maneuvering than are prospectors.
- True False
31. April, a manager in a call center, encourages her employees to solve customers' problems without her approval of the particular situation. In this case, April is trying to empower her employees.
- True False
32. In an organization, buffering refers to leveling normal fluctuations at the boundaries of the environment.
- True False
33. In a dynamic environment, bureaucratic organizations are more efficient than organic organizations.
- True False
34. A strong organization culture is one in which everyone understands and believes in the firm's goals, priorities, and practices.
- True False
35. Stories told by employees almost never have any connection to the true culture of the organization.
- True False

Multiple Choice Questions

36. Organizations are _____ systems, which means that they are affected by and in turn affect their external environments.
- A. input
B. output
C. open
D. closed
E. social

37. Liz, a new manager at a company, has been asked to focus on the competitive environment of the organization. Which of the following is a factor Liz should focus on?
- A. Government legislation
 - B. Culture
 - C. Demographics
 - D. Buyers
 - E. Technology
38. The immediate environment surrounding a firm is known as its:
- A. macroenvironment.
 - B. demographic environment.
 - C. competitive environment.
 - D. internal environment.
 - E. economic environment.
39. _____ lead to new products, advanced production facilities, and better ways of managing and communicating.
- A. Demographic shifts
 - B. Societal preferences
 - C. Political changes
 - D. Technological advances
 - E. Economic turbulences
40. Advances in genetic and bioengineering are expected to produce food products that will be available year-round even in unsuitable Northern climates. This provides grocers an opportunity to reduce shipping costs and provide fresher products to customers. These advances are an example of changes in the _____ environment.
- A. technological
 - B. economic
 - C. political
 - D. demographic
 - E. biophysical

41. Using bribery as a business tactic may result in fines for U.S. firms. Which of the following types of environmental forces at work does this reflect?
- A. Competitive
 - B. Economic
 - C. Legal
 - D. Technological
 - E. Demographic
42. _____ are specific government organizations in a firm's more immediate task environment.
- A. Open systems
 - B. Regulators
 - C. Prospectors
 - D. Stakeholders
 - E. Defenders
43. _____ are measures of various characteristics of the people who make up groups or other social units.
- A. Psychographics
 - B. Demographics
 - C. Domain selections
 - D. Lifestyle analytics
 - E. Group dynamics
44. _____ trends regarding how people think and behave have major implications for management of the labor force, corporate social actions, and strategic decisions about products and markets.
- A. Psychological
 - B. Political
 - C. Economic
 - D. Technological
 - E. Societal

45. Which of the following is an element of Michael Porter's model for analyzing the competitive environment of an organization?
- A. Substitutes
 - B. Cost strategy
 - C. Societal trends
 - D. Regulatory forces
 - E. Demographics
46. A firm's current competition, suppliers, customers, and the threat of new entrants or of substitutes are all elements in the ____.
- A. task environment
 - B. Peter's model for organizational excellence
 - C. microenvironment
 - D. Porter's model for competitive environment
 - E. supply chain management
47. Venus was a low-cost airline that was functional in the 1980s. Industry analysts state that although Venus was able to provide all the services the customers wanted, it was thrown out of business because of aggressive pricing from larger airline firms. Which of the following aspects of the competitive environment does this scenario illustrate?
- A. Customers
 - B. Rivals
 - C. Regulators
 - D. The economy
 - E. Social trends
48. Conditions that may prevent new firms from entering an industry are referred to as ____.
- A. barriers to entry
 - B. strategic maneuvers
 - C. unfair trade practices
 - D. industry regulators
 - E. entry inhibitors

49. Hospitals and universities are very expensive to run not only due to the capital equipment that is required for each but also due to the personnel such as specialized medical doctors and researchers. The cost of these types of institutions is an example of ____.
- A. a barrier to entry
 - B. environmental uncertainty
 - C. unfair competition
 - D. high switching costs
 - E. strategic maneuvering
50. A(n) _____ is a potential threat; customers use it as an alternative, buying less of one kind of product but more of another.
- A. new entrant
 - B. substitute
 - C. ensemble
 - D. divestiture
 - E. complement
51. If many factors prevent new companies from entering an industry, the:
- A. threat of new entrants is more serious.
 - B. threat of competitive rivalry is high.
 - C. threat to established firms is less serious.
 - D. new companies can easily compete with the established ones.
 - E. industry is said to have just a few barriers to entry.
52. Which of the following is an example of a potential substitute product?
- A. Hand sanitizer for soaps
 - B. Ink cartridges for printers
 - C. Mops for detergent
 - D. iTunes for iPods
 - E. Furniture for apartments

53. Organizations must acquire a variety of resources in order to produce a product or service of value. These resources may include materials, equipment, financing, or even employees. The sources that provide these various resources are referred to as ____.
- A. warehouse clubs
 - B. regulators
 - C. retailers
 - D. suppliers
 - E. prospectors
54. ____ are fixed costs buyers face if they change suppliers.
- A. Changing costs
 - B. Switching costs
 - C. Renewable costs
 - D. Exchange costs
 - E. Sunk costs
55. Laredo Bank & Trust uses the janitorial services of ProKleen, which provides necessary cleaning supplies, personnel training, and maintenance services. The other available janitorial services do not provide maintenance services. In this case, if Laredo decides to terminate ProKleen's services and shift to some other agency, it is likely to create ____.
- A. high employment costs
 - B. redemption costs
 - C. favorable quality status
 - D. complementary products
 - E. high switching costs
56. ____ refers to management of the network of facilities and people that obtain materials from the outside, transform them into products, and distribute the products to customers.
- A. Inventory management
 - B. Strategic maneuvering
 - C. Human resource management
 - D. Customer service
 - E. Supply chain management

57. A customer who purchases raw materials or wholesale products before selling them to other parties is known as a(n) _____.

A. final purchaser
B. intermediate consumer
C. final customer
D. first-tier supplier
E. preliminary customer
58. The main difference between a final consumer and an intermediate consumer is that:

A. the final consumer purchases finished products, whereas an intermediate consumer only buys raw materials.
B. intermediate consumers buy raw materials and sell finished products to final consumers, whereas final consumers use the finished products.
C. final consumers make more purchases than the intermediate consumers.
D. unlike final consumers, intermediate consumers provide monetary benefits to organizations by purchasing their products.
E. final consumers tend to have more bargaining power than intermediate consumers.
59. Giving consumers what they want or need, the way they want it, the first time is known as _____.

A. planned merchandise
B. planned obsolescence
C. customer service
D. cause marketing
E. operations management
60. Environmental _____ refers to the degree of discontinuous change that occurs within the industry.

A. complexity
B. dysfunction
C. contracting
D. cooptation
E. dynamism

61. Ranier Outdoor Clothing managers engage in an annual organizational assessment, trying to predict industry changes as well as possible opportunities and threats. They look at issues such as who their competitors are, current entry barriers, and what substitutes exist for their products. This assessment is called _____.

A. scenario development
B. forecasting
C. benchmarking
D. environmental scanning
E. strategic maneuvering
62. An outcome of environmental scanning is _____, the information necessary to decide how best to manage in the competitive environment managers have identified.

A. corporate governance
B. strategic vision
C. competitive intelligence
D. corporate espionage
E. competitive dissertation
63. _____ refers to a narrative that describes a particular set of future conditions for a business.

A. Benchmarking
B. A scenario
C. Strategic maneuvering
D. A divestiture
E. Strategic vision
64. _____ create alternative combinations of different factors into a total picture of the environment and a firm.

A. Scenarios
B. Forecasts
C. Benchmarks
D. Competitive intelligences
E. Strategic maneuvers

65. Which of the following combinations can result in a best-case scenario?
- A. Many competitors, high threat with few entry barriers, and few customers
 - B. Many competitors, high threat with few entry barriers, and many customers
 - C. Few entry barriers, many substitutes, many customers
 - D. High industry growth, low threat with many entry barriers, and customers with low bargaining power
 - E. Low industry growth, high threat with few entry barriers, and suppliers with low bargaining power
66. The method for predicting how variables will change in the future is known as ____.
- A. budgeting
 - B. buffering
 - C. forecasting
 - D. benchmarking
 - E. scanning
67. Which of the following is true about using forecasts?
- A. Multiple forecasts are best, and their predictions can be averaged.
 - B. Forecasts become more accurate while predicting further into the future.
 - C. Forecasts are useless when the future will look radically different from the past.
 - D. The more complex the forecast, the more accurate are the predictions.
 - E. The accuracy of forecasts does not vary from one application to another.
68. ____ refers to the process of comparing an organization's practices and technologies with those of other companies.
- A. Scenario planning
 - B. Forecasting
 - C. Benchmarking
 - D. Environmental scanning
 - E. Strategic maneuvering

69. To improve customer service in its overseas call center, Jansen Electronics decided to investigate the call center practices of competing companies. The team discovered that a smaller company, Gorilla Devices Inc., seemed to have outstanding customer service. The team then determined differences between the organizations and developed a plan to incorporate the best elements of Gorilla into Jansen. This illustrates _____.
- A. environmental dynamism
 - B. benchmarking
 - C. strategic maneuvering
 - D. cooperative action
 - E. forecasting
70. Domain selection, diversification, mergers/acquisitions, and divestiture are all examples of _____.
- A. illegal boundary management
 - B. maneuvering the competition
 - C. strategic maneuvering
 - D. independent strategies
 - E. portfolio maneuvering
71. _____ occurs when a firm invests in different types of businesses or products or when it expands geographically to reduce its dependence on a single market or technology.
- A. Domain selection
 - B. Diversification
 - C. Acquisition
 - D. Divestiture
 - E. Empowerment
72. The entrance by a company into another market or industry for which it has an existing expertise is called _____.
- A. benchmarking
 - B. strategic positioning
 - C. outsourcing
 - D. domain selection
 - E. cooptation

73. One firm buying another is called a(n) _____.

A. merger
B. acquisition
C. divestiture
D. prospective
E. defender
74. Valley Organic Meats recently announced that it was selling off its pork division in order to realign itself more competitively in the marketing of its other products. Which of the following strategic maneuvers is illustrated in this scenario?

A. Diversification
B. An acquisition
C. A merger
D. Divestiture
E. Domain selection
75. Two general types of proactive strategies for influencing an organization's environment are _____

A. dependent strategies and independent strategies.
B. independent action and cooperative action.
C. cooperative strategies and strategic maneuvering.
D. strategic maneuvering and dependent strategies.
E. independent action and strategic maneuvering.
76. _____ strategies are used by an organization acting on its own to change some aspect of its current environment.

A. Flexible
B. Buffering
C. Independent
D. Smoothing
E. Cooperative

77. Purple Lotus and GreenBolt are two leading e-commerce companies. Recently, Purple Lotus engaged in an online price war with GreenBolt in order to gain greater market share. This is an example of _____ on the part of Purple Lotus.
- A. cooptation
 - B. voluntary action
 - C. competitive pacification
 - D. competitive aggression
 - E. environmental scanning
78. Dan's FroYo is a company that sells different varieties of frozen yogurt. When Dan's FroYo spends its own money to promote the frozen yogurt industry as a whole, the company is practicing _____.
- A. competitive aggression
 - B. competitive pacification
 - C. public relations
 - D. voluntary cooptation
 - E. comparative action
79. When a brand advertises its products as being superior to that of its competitors, it is demonstrating _____.
- A. competitive aggression
 - B. competitive pacification
 - C. benchmarking
 - D. political action
 - E. cooptation
80. When two or more companies work together to manage their external environment, they are using _____.
- A. monopolistic strategies
 - B. strategic maneuvering
 - C. cooperative strategies
 - D. dependent strategies
 - E. competitive strategies

81. Quartermaine University has just formed a board of trustees and invited 25 of its wealthiest alumni to join. In this example, Quartermaine University is demonstrating _____.

- A. contraction
- B. cooptation
- C. coalition
- D. political action
- E. voluntary action

82. Western Allied Heath and Grant Pharmaceuticals are two pharmaceutical companies that have joined forces with one another to lobby against a controversial Medicare reform. This action is referred to as _____.

- A. contraction
- B. coalition
- C. cooptation
- D. domain selection
- E. benchmarking

83. The process of sharing power with employees is called _____.

- A. empowerment
- B. downgrading
- C. benchmarking
- D. vertical synergy
- E. power building

84. Candace recently got promoted to a managerial role in a bureaucratic organization. The industry had been changing dramatically, and Candace suggested that the management team encourage employees to develop confidence by giving them some control and authority in order to create a more flexible, adaptable organization. Here, Candace is suggesting the use of _____ with employees.

- A. smoothing
- B. benchmarking
- C. empowerment
- D. cooptation
- E. coalition

85. Creating supplies of excess resources in case of unpredictable needs is known as ____.
- A. cooptation
 - B. smoothing
 - C. flexible processing
 - D. empowering
 - E. buffering
86. Alyssa owns Carver Gifts, a handmade greeting cards store. She is projecting that the economy will rebound this fall. She ordered additional holiday gift merchandise in February in anticipation of possible surge in sales during the holiday season. In this case, which of the following methods is Alyssa using to be sure she has enough gifts for those extra holiday customers?
- A. Just-in-time inventory management
 - B. Smoothing
 - C. Benchmarking
 - D. Buffering
 - E. Diversification
87. Leveling normal fluctuations at the boundaries of the environment is called ____.
- A. buffering
 - B. smoothing
 - C. flexible processing
 - D. empowerment
 - E. coalition
88. Methods for adapting the technical core to changes in the environment are known as ____.
- A. flexible processes
 - B. smoothing effects
 - C. buffering techniques
 - D. benchmarking tools
 - E. environmental scanners

89. NBIC (National Bicycle Industrial Company) of Japan specializes in mass customization in order to cater to the changing demands of its customers. Customers can choose the frame and other parts of the bicycle and it is made according to their order. This is one example of how NBIC uses _____.
- A. cooptation
 - B. flexible processes
 - C. smoothing techniques
 - D. benchmarking
 - E. diversification
90. The set of important assumptions about an organization and its goals and practices that members of the company share is called organization _____.
- A. culture
 - B. design
 - C. climate
 - D. layout
 - E. structure
91. Purple Technology is a communication and information technology corporation. The company makes it a point to stress to its employees that innovation is its core strength. The employees even get an hour a day to brainstorm and come up with out-of-the-box ideas. This highlights the _____ of the company.
- A. cooperative strategies
 - B. external environment
 - C. organization culture
 - D. competitive pacification
 - E. domain selection
92. Which of the following can be a useful clue about an organization's culture?
- A. The way employees interact with each other
 - B. Information printed in the media about stock prices
 - C. The macroenvironment
 - D. The personality characteristics of employees
 - E. The industrial environment

93. Which of the following statements about organizational culture is true?
- A. Corporate mission statements are always a true expression of a firm's culture.
 - B. Who is hired and fired and why indicate the firm's real value and are a clue to the culture.
 - C. A firm with a strong culture will have different people holding different values.
 - D. A culture that was advantageous in a prior era continues to be so in a new environment.
 - E. It is unnecessary to consider culture when considering a merger.
94. According to the competing values model, if an organization's culture is internally oriented and flexible and tends to be based on the values and norms associated with affiliation, it could be best described as a(n) ____.
- A. group culture
 - B. hierarchical culture
 - C. rational culture
 - D. adhocracy
 - E. closed system
95. According to the competing values model, if an organization's culture is externally oriented and focused on control with its primary objectives as productivity, planning, and efficiency, it could be best described as a(n) _____ culture.
- A. group
 - B. hierarchical
 - C. rational
 - D. adhocracy
 - E. values-oriented
96. The attitude and behavior patterns that shape people's experience of an organization is called an organizational ____.
- A. culture
 - B. climate
 - C. environment
 - D. strategy
 - E. adhocracy

Scenario A. Connie's Collectibles is a small retail store that specializes in antique jewelry. In analyzing the environment, Connie has uncovered the following interesting findings:

1. Connie has recently purchased more inventory than in the past. The people from whom she buys are selling off more jewelry because their children are not interested in this type of jewelry and they would prefer to liquidate their jewelry to help them with their daily expenses since they no longer wear most of it.
2. Connie discovered that her business is in a historical preservation district. As she considers remodeling the shop, she realized that she must pay attention to the guidelines set forth in the governing laws.
3. Connie's buyer-customer base seems to be changing. The tastes of the younger generation near her shop are shifting to modern jewelry, so the customer base to which she sells is shrinking.
4. Connie has been told that she should consider selling her inventory via the Internet, but she does not own (or understand how to use) a computer.
5. In reading a survey of regional business, Connie discovered that there are no other antique jewelry stores within a 200-mile radius of hers.

97. In Scenario A, which of the following elements of the macroenvironment was part of Connie's findings?

- A. Sustainability
- B. Psychology
- C. Corporate governance
- D. Sociology
- E. Technology

98. When Connie read the survey of regional businesses, she was investigating _____.

- A. the competitive environment
- B. the macroenvironment
- C. a closed environment
- D. the internal environment
- E. the social environment

99. Findings about changing customer preferences and others who sell antique jewelry are associated with the:

- A. competitive environment as described by Porter.
- B. macroenvironmental economic trends.
- C. macroenvironmental political trends.
- D. amount of rivalry in Connie's internal environment.
- E. barriers to entry in Connie's competitive environment.

100. Which of the following elements of the macroenvironment is most closely associated with the findings about the historical preservation district?

- A. Laws and regulations
- B. The economy
- C. Demographics
- D. Technology
- E. The natural environment

Scenario B. Jack and a fellow investor are investigating the possibility of starting a new casino in Black Hawk, a small town in the Rocky Mountains, Colorado. It has been Jack's lifelong dream. Jack has won a lottery and is trying to decide if this is what he wants to do with the prize money. He decides to do an analysis of the competitive environment. After his analysis, he discovers several important issues. First, it will cost most of Jack's lottery winnings to finance a casino in Black Hawk. Second, it will be difficult to attract new customers because they have so many choices available to them in Black Hawk and the surrounding small towns. Finally, the competition in the casino industry is considered fierce by industry analysts and this is frightening to someone, like Jack, who has never worked in the casino industry.

101. Which of the following factors would have Jack considered while analyzing the competitive environment?

- A. Technology
- B. Substitutes
- C. Legal factors
- D. Economic factors
- E. Demographics

102. The information that Jack has collected in his competitive analysis can be referred to as ____.

- A. corporate espionage
- B. competitive intelligence
- C. domain selection
- D. strategic vision
- E. mission statement

103. From Scenario B, based on Jack's analysis of the competitive environment, it can be inferred that:

- A. the customers will face switching costs.
- B. there are no competitors.
- C. there are many substitutes.
- D. there are no barriers to entry.
- E. the threat of new entrants is high.

104. Which of the following factors is indicated by the fact that it will require a large capital investment to start a new casino?

- A. High bargaining power of customers
- B. Low threat of new entrants
- C. High threat of new entrants
- D. Many substitute products
- E. Low bargaining power of customers

Scenario C. Smash Marketing is a consulting firm located in the Midwest. Mr. William "Bill" Smash started the firm as a young man in the early 1950s. The firm has grown, but with growth, it has never forgotten the vision of Mr. Smash: to be creative in all that the firm does while delighting the client. Each year the Smash Award for Advertising Creativity is given to the employee who most exemplifies Mr. Smash's vision. New employees are told of the organization's greatest accomplishments and are taken on a tour of the "Wall of Memories," where pictures of the company taken over the years are hung. One is even included to remind everyone of the disastrous fire that the company not only survived but also built upon to strengthen the sense of teamwork, which is clearly evident throughout the firm. Managers at the firm tend to be more like mentors and facilitators. In fact, there is a long tradition of employee participation in decision making, and all employees consider themselves to be part of the "Smash Family."

105. The stories about Bill Smash and his vision influencing the employees of the organization are all clues to understanding the _____.

- A. organization culture
- B. company's macroenvironment
- C. organization's competitive environment
- D. collective competitive intelligence
- E. organizational structure

106. The culture at Smash Marketing can be best described as a _____ culture.

- A. group
- B. hierarchical
- C. rational
- D. bureaucratic
- E. rigid

107. Based on the information in Scenario C, which of the following is likely to be the dominant attribute of Smash Marketing?

- A. Rules and regulations
- B. Cohesiveness
- C. Competitiveness
- D. Risk taking
- E. Entrepreneurship

Scenario D. Margarita works for a small company that deals with processed and canned tomatoes and other vegetables. She reports to the CFO. It is her job to predict the costs of raw materials for the next five years. She uses various research sources, including the news, to learn who the competitors are and what they have been doing. In fact, she subscribes to an analyst e-newsletter that tells her about crop availability and weather conditions all around the globe. Every month she develops a spreadsheet for her boss indicating the likely costs of vegetables given the type of weather conditions expected in each area of the world and thus the availability of particular crops. She is also involved in a team that is investigating how to cut canning costs. They have recently met with Good Cans, a company that manufactures and cans tennis balls. Good Cans is considered the top company in the canning industry, especially in canning process knowledge. Margarita's team is comparing their processes to those of Good Cans to see how they might improve.

108. When predicting the costs for her company, Margarita is engaging in _____.

- A. forecasting
- B. competitive intelligence
- C. environmental scanning
- D. benchmarking
- E. scenario development

109. The information Margarita is using to compete in a better way is called _____.
A. mission statement
B. competitive intelligence
C. best-case scenario
D. organizational database
E. knowledge document
110. The spreadsheet that Margarita uses gives her a chance to examine different projections, which is a form of _____.
A. divestiture
B. strategic maneuvering
C. domain selection
D. benchmarking
E. scenario development
111. Which of the following is Margarita and her team using when they learn from Good Cans about its canning process?
A. Forecasting
B. Strategic maneuvering
C. Domain selection
D. Benchmarking
E. Scenario development

Essay Questions

112. List the elements of a firm's macroenvironment and illustrate how each affects the firm.

113. Explain how a company can work societal trends to its advantage.

114. Explain how technology can help an organization.

115. Discuss how immigration patterns influence the management of the U.S. labor force.

116. Explain how sustainability and natural environment affect the management of an organization.

117. Describe the five forces in Michael Porter's model of the competitive environment.

118. List actions and attitudes that result in excellent customer service.

119. As environmental uncertainties increase, managers must develop techniques and methods for collecting, sorting through, and interpreting information about the environment. Discuss four of these methods, explaining when and why each would be used.

120. Differentiate between unattractive and attractive competitive environments, using Porter's model of the competitive environment.

121. Briefly describe the three categories of options managers and companies have when responding to their environment.

122. Summarize the different approaches of strategic maneuvering that organizations can take to change the environment they are in.

123. Explain two general types of proactive responses that managers and organizations can take to change the environment.

124. Contrast bureaucratic and organic organizations.

125. What are the clues to understanding an organization's culture? List the characteristics of a strong culture.

126. Describe the culture of an organization that you have either worked in or studied about. Which of the four types of organizational culture described in the chapter does the organization illustrate? Justify your answer.

Chapter 02 The External and Internal Environments **Answer Key**

True / False Questions

1. Organizations are open systems that affect and are affected by their external environments.

TRUE

Organizations are open systems—that is, they are affected by and in turn affect their external environments. For example, they take in inputs from their environment and use them to create products and services that are outputs to their environment.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.

Level of Difficulty: 1 Easy

Topic: Introduction

2. The external environment includes all relevant forces outside an organization's boundaries.

TRUE

The term external environment means more than an organization's clients or customers. The external environment includes all relevant forces outside the organization's boundaries.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.

Level of Difficulty: 1 Easy

Topic: Introduction

3. Inputs are the goods and services organizations take in and use to create products or services.

TRUE

Inputs are the goods and services organizations take in and use to create products or services. Outputs are the products and services organizations create.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.

Level of Difficulty: 1 Easy

Topic: Introduction

4. A firm's competitive environment includes new entrants, substitutes, and rivals.

TRUE

An organization exists in its competitive environment, which is composed of the firm and its rivals, suppliers, customers (buyers), new entrants, and substitute or complementary products.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.

Level of Difficulty: 1 Easy

Topic: Introduction

5. An organization's macroenvironment includes its customers and suppliers.

FALSE

An organization exists in its competitive environment. At the more general level is the macroenvironment, which includes legal, political, economic, technological, demographic, and social and natural factors that generally affect all organizations.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.

Level of Difficulty: 2 Medium

Topic: Introduction

6. When investors bid up stock prices, companies have less capital to fuel their strategies.

FALSE

An important economic influence on a company is the stock market. When investors bid up stock prices, they are paying more to own shares in companies, which means the companies have more capital to fuel their strategies.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.

7. While the stock market can impact a firm, it has no effect on the behavior of individual managers.

FALSE

The stock market can have a profound effect on the behavior of individual managers. In publicly held companies, managers throughout the organization may feel required to meet the stock market's earnings expectations.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: 2 Medium
Topic: The Macroenvironment

8. Firms that develop strategies that do not include technological advances run the risk of becoming obsolescent.

TRUE

Today a company cannot succeed without incorporating into its strategy the astonishing technologies that exist and continue to evolve. Technological advances create new products, advanced production techniques, and better ways of managing and communicating.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: 2 Medium
Topic: The Macroenvironment

9. U.S. government policies both impose strategic constraints and provide opportunities for organizations.

TRUE

U.S. government policies impose strategic constraints on organizations but may also provide opportunities. The government can affect business opportunities through tax laws, economic policies, and international trade rulings. An example of restraint on business action is the U.S. government's standards regarding bribery.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.

10. Regulatory agencies set rules but are typically weak institutions since they do not have the power to investigate company practices or to take legal action to ensure compliance with the law.

FALSE

Regulators are specific government organizations in a firm's more immediate task environment. Regulatory agencies have the power to investigate company practices and take legal action to ensure compliance with laws.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.

Level of Difficulty: 2 Medium
Topic: The Macroenvironment

11. Social metrics are measures of various characteristics of the people who make up groups or other social units.

FALSE

Demographics are measures of various characteristics of the people who make up groups or other social units. Work groups, organizations, countries, markets, and societies can be described statistically by referring to demographic measures such as their members' age, gender, family size, income, education, occupation, and so forth.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.

Level of Difficulty: 1 Easy
Topic: The Macroenvironment

12. Immigration is a factor that significantly influences the U.S. population and labor force.

FALSE

A factor that significantly influences the U.S. population and labor force is immigration. Immigrants represent over 15 percent of the U.S. workforce, although they are a stronger presence in the West (almost 24 percent of the workforce) than in the Midwest (less than 8 percent).

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: 1 Easy
Topic: The Macroenvironment

13. Population growth is unrelated to the size and composition of the labor force.

FALSE

Managers must consider workforce demographics in formulating their human resources strategies. Population growth influences the size and composition of the labor force.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: 2 Medium
Topic: The Macroenvironment

14. A more diverse workforce presents managers with challenges as well as opportunities.

TRUE

A more diverse workforce has many advantages, but managers have to make certain they provide equality for women and minorities with respect to employment, advancement, opportunities, and compensation.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: 2 Medium
Topic: The Macroenvironment

15. Family leave, flexible working hours, and child care assistance have been introduced as a result of the evolving societal trends.

TRUE

Societal trends regarding how people think and behave have major implications for management of the labor force, corporate social actions, and strategic decisions about products and markets. For example, today more women are having children and then returning to the workforce. As a result companies have introduced more supportive policies, including family leave, flexible working hours, and child care assistance.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.

16. Michael Porter's model for competitive analysis is one example of analyzing the competitive environment for adapting to and even influencing the nature of competition.

TRUE

In strategic decision making, Michael Porter's model is an excellent method to help managers analyze the competitive environment and adapt to or influence the nature of their competition.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

17. According to Michael Porter's model, the competitive environment includes rivalry among current competitors and the impact of new entrants, substitute and complementary products, suppliers, and customers.

TRUE

Michael Porter's model says that the competitive environment includes rivalry among current competitors and the impact of new entrants, substitute and complementary products, suppliers, and customers. According to Porter, successful managers do more than simply react to the environment; they act in ways that actually shape or change the organization's environment.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

18. As a first step in understanding their competitive environment, organizations must analyze how the competitors compete.

FALSE

As a first step in understanding the competitive environment, organizations must identify their competitors. Once competitors have been identified, the next step is to analyze how they compete.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Identify elements of the competitive environment.

19. A barrier to entry is a condition that prevents customers from using a firm's products or services.

FALSE

Barriers to entry are conditions that prevent new companies from entering an industry. Some major barriers to entry are government policy, capital requirements, brand identification, cost disadvantages, and distribution channels.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

20. Cost is often a major barrier to entry into the marketplace.

TRUE

Barriers to entry are conditions that prevent new companies from entering an industry. Some major barriers to entry are government policy, capital requirements, brand identification, cost disadvantages, and distribution channels.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

21. Organizations are at a disadvantage if they become overly dependent on any powerful supplier.

TRUE

Organizations are at a disadvantage if they become overly dependent on any powerful supplier. A supplier is powerful if the buyer has few other sources of supply or if the supplier has many other buyers.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

22. Needing to learn a new software program as a result of changing suppliers is an example of a switching cost.

TRUE

Dependence on suppliers results from high switching costs—the fixed costs buyers face if they change suppliers. For example, once a buyer learns how to operate a supplier's equipment, such as computer software, the buyer faces both economic and psychological costs in changing to a new supplier.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

23. Strategic maneuvering is the managing of the network of facilities and people that obtain materials from outside the organization, transform them into products, and distribute them to customers.

FALSE

Supply chain management is the managing of the entire network of facilities and people that obtain raw materials from outside the organization, transform them into products, and distribute them to customers.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

24. The goal of supply chain management is having the right product in the right quantity at the right place at the right cost.

TRUE

Today the goal of effective supply chain management is to have the right product in the right quantity available at the right place at the right cost. In recent years, supply chain management has become an increasingly important contributor to a company's competitiveness and profitability.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

25. The Internet has empowered customers by providing an easy source of information.

TRUE

The Internet has empowered customers. It provides an easy source of information, both about product features and about pricing.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

26. Environmental uncertainty refers to the lack of information needed to understand or predict the future.

TRUE

Environmental uncertainty refers to the lack of information needed to understand or predict the future.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Environmental Analysis

27. Environmental scanning means searching for and sorting through information about the environment.

TRUE

Environmental scanning means both searching out information that is unavailable to most people and sorting through that information to interpret what is important and what is not.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Environmental Analysis

28. Cognitive intelligence is the information that helps managers determine how to compete better.

FALSE

Competitive intelligence is the information that helps managers determine how to compete better. Using environmental scanning, managers develop competitive intelligence, the information necessary to decide how best to manage in the competitive environment they have identified.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Environmental Analysis

29. Benchmarking means identifying the best-in-class performance by a company in a given area and then comparing one's processes to theirs.

TRUE

Benchmarking means identifying the best-in-class performance by a company in a given area, say, product development or customer service, and then comparing your processes to theirs. To accomplish this, a benchmarking team would collect information on its own company's operations and those of the other firm to determine gaps.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Environmental Analysis

30. Organizations that are defenders are more likely to engage in strategic maneuvering than are prospectors.

FALSE

Organizations engage in strategic maneuvering when they move into different environments. Some companies, called prospectors, are more likely than others to engage in strategic maneuvering. Defenders, in contrast, stay within a more limited, stable product domain.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

31. April, a manager in a call center, encourages her employees to solve customers' problems without her approval of the particular situation. In this case, April is trying to empower her employees.

TRUE

The process of sharing power with employees, thereby enhancing their confidence in their ability to perform their jobs and their belief that they are influential contributors to the organization is called empowerment.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 3 Hard

Topic: Responding to the Environment

32. In an organization, buffering refers to leveling normal fluctuations at the boundaries of the environment.

FALSE

In an organization, smoothing refers to leveling normal fluctuations at the boundaries of the environment. Buffering creates supplies of excess resources to meet unpredictable needs.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

33. In a dynamic environment, bureaucratic organizations are more efficient than organic organizations.

FALSE

While bureaucratic organizations may be efficient and controlled if the environment is stable, they tend to be slow-moving and plodding in a dynamic environment in which products, technologies, customers, or competitors are changing over time. In these cases, more organic structures give organizations the flexibility to adjust to change.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 2 Medium

Topic: Responding to the Environment

34. A strong organization culture is one in which everyone understands and believes in the firm's goals, priorities, and practices.

TRUE

Cultures can be strong or weak; strong cultures can have great influence on how people think and behave. A strong culture is one in which everyone understands and believes in the firm's goals, priorities, and practices.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-07 Discuss how an organization's culture and climate affect its response to its external environment.

Level of Difficulty: 2 Medium

Topic: The Internal Environment of Organizations: Culture and Climate

35. Stories told by employees almost never have any connection to the true culture of the organization.

FALSE

The stories people tell carry a lot of information about the company's culture. Every company has its myths, legends, and true stories about important past decisions and actions that convey the company's main values.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-07 Discuss how an organization's culture and climate affect its response to its external environment.

Level of Difficulty: 2 Medium

Topic: The Internal Environment of Organizations: Culture and Climate

Multiple Choice Questions

36. Organizations are _____ systems, which means that they are affected by and in turn affect their external environments.

A. input
B. output
C. open
D. closed
E. social

Organizations are open systems; that is, they are affected by and in turn affect their external environments. For example, they take in inputs from their environment and use them to create products and services that are outputs to their environment.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.

Level of Difficulty: 1 Easy

Topic: Introduction

37. Liz, a new manager at a company, has been asked to focus on the competitive environment of the organization. Which of the following is a factor Liz should focus on?

A. Government legislation
B. Culture
C. Demographics
D. Buyers
E. Technology

The competitive environment is composed of the firm and its rivals, suppliers, customers (buyers), new entrants, and substitute or complementary products. At the more general level is the macroenvironment, which includes legal, political, economic, technological, demographic, and social and natural factors that generally affect all organizations.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.

Level of Difficulty: 3 Hard

Topic: Introduction

38. The immediate environment surrounding a firm is known as its:

- A. macroenvironment.
- B. demographic environment.
- C. competitive environment.**
- D. internal environment.
- E. economic environment.

Competitive environment is the immediate environment surrounding a firm; it includes suppliers, customers, rivals, and the like.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.

Level of Difficulty: 1 Easy

Topic: Introduction

39. _____ lead to new products, advanced production facilities, and better ways of managing and communicating.

- A. Demographic shifts
- B. Societal preferences
- C. Political changes
- D. Technological advances**
- E. Economic turbulences

Technological advances create new products, advanced production techniques, and better ways of managing and communicating. In addition, as technology evolves, new industries, markets, and competitive niches develop.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.

Level of Difficulty: 2 Medium

Topic: The Macroenvironment

40. Advances in genetic and bioengineering are expected to produce food products that will be available year-round even in unsuitable Northern climates. This provides grocers an opportunity to reduce shipping costs and provide fresher products to customers. These advances are an example of changes in the _____ environment.

- A.** technological
- B. economic
- C. political
- D. demographic
- E. biophysical

Technological advances create new products, advanced production techniques, and better ways of managing and communicating. In addition, as technology evolves, new industries, markets, and competitive niches develop.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.

Level of Difficulty: 3 Hard

Topic: The Macroenvironment

41. Using bribery as a business tactic may result in fines for U.S. firms. Which of the following types of environmental forces at work does this reflect?

- A. Competitive
- B. Economic
- C.** Legal
- D. Technological
- E. Demographic

An example of laws and regulations in the macroenvironment is the U.S. government's standards regarding bribery. In some countries, bribes and kickbacks are common and expected ways of doing business, but for U.S. firms they are illegal practices.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.

Level of Difficulty: 2 Medium

Topic: The Macroenvironment

42. _____ are specific government organizations in a firm's more immediate task environment.

- A. Open systems
- B. Regulators**
- C. Prospectors
- D. Stakeholders
- E. Defenders

Regulators are specific government organizations in a firm's more immediate task environment. Regulatory agencies have the power to investigate company practices and take legal action to ensure compliance with laws. The Securities and Exchange Commission is a regulatory agency.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.

Level of Difficulty: 1 Easy

Topic: The Macroenvironment

43. _____ are measures of various characteristics of the people who make up groups or other social units.

- A. Psychographics
- B. Demographics**
- C. Domain selections
- D. Lifestyle analytics
- E. Group dynamics

Demographics are measures of various characteristics of the people who make up groups or other social units. Work groups, organizations, countries, markets, and societies can be described statistically by referring to demographic measures such as their members' age, gender, family size, income, education, occupation, and so forth.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.

Level of Difficulty: 1 Easy

Topic: The Macroenvironment

44. _____ trends regarding how people think and behave have major implications for management of the labor force, corporate social actions, and strategic decisions about products and markets.

- A. Psychological
- B. Political
- C. Economic
- D. Technological
- E. Societal**

Societal trends regarding how people think and behave have major implications for management of the labor force, corporate social actions, and strategic decisions about products and markets. How companies respond to societal trends may affect their reputation in the marketplace.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember

Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: 1 Easy
Topic: The Macroenvironment

45. Which of the following is an element of Michael Porter's model for analyzing the competitive environment of an organization?

- A. Substitutes**
- B. Cost strategy
- C. Societal trends
- D. Regulatory forces
- E. Demographics

According to Michael Porter's model, the competitive environment of an organization includes rivalry among current competitors and the impact of new entrants, substitute and complementary products, suppliers, and customers.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember

Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

46. A firm's current competition, suppliers, customers, and the threat of new entrants or of substitutes are all elements in the _____.

A. task environment
B. Peter's model for organizational excellence
C. microenvironment
D. Porter's model for competitive environment
E. supply chain management

Michael Porter's model of the competitive environment includes rivalry among current competitors and the impact of new entrants, substitute and complementary products, suppliers, and customers.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

47. Venus was a low-cost airline that was functional in the 1980s. Industry analysts state that although Venus was able to provide all the services the customers wanted, it was thrown out of business because of aggressive pricing from larger airline firms. Which of the following aspects of the competitive environment does this scenario illustrate?

A. Customers
B. Rivals
C. Regulators
D. The economy
E. Social trends

The competitive environment includes rivalry among current competitors and the impact of new entrants, substitute and complementary products, suppliers, and customers. In this scenario, the larger airlines constitute the rivals of Venus. The competitive environment is composed in part of rival firms such as the larger airlines in this example.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 3 Hard

Topic: The Competitive Environment

48. Conditions that may prevent new firms from entering an industry are referred to as _____.

- A.** barriers to entry
- B. strategic maneuvers
- C. unfair trade practices
- D. industry regulators
- E. entry inhibitors

Barriers to entry are conditions that prevent new companies from entering an industry. Patents are an example of a barrier to entry.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

49. Hospitals and universities are very expensive to run not only due to the capital equipment that is required for each but also due to the personnel such as specialized medical doctors and researchers. The cost of these types of institutions is an example of _____.

- A.** a barrier to entry
- B. environmental uncertainty
- C. unfair competition
- D. high switching costs
- E. strategic maneuvering

Barriers to entry are conditions that prevent new companies from entering an industry. In this case, the industries are medicine and education, and the equipment and personnel are extremely expensive and perhaps scarce, leading to barriers to entry.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 3 Hard

Topic: The Competitive Environment

50. A(n) _____ is a potential threat; customers use it as an alternative, buying less of one kind of product but more of another.

A. new entrant
B. substitute
C. ensemble
D. divestiture
E. complement

A substitute is a potential threat; customers use it as an alternative, buying less of one kind of product but more of another. A complement is a potential opportunity because customers buy more of a given product if they also demand more of the complementary product.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

51. If many factors prevent new companies from entering an industry, the:

A. threat of new entrants is more serious.
B. threat of competitive rivalry is high.
C. threat to established firms is less serious.
D. new companies can easily compete with the established ones.
E. industry is said to have just a few barriers to entry.

If many factors prevent new companies from entering an industry, the threat to established firms is less serious. If there are few such barriers to entry, the threat of new entrants is more serious.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

52. Which of the following is an example of a potential substitute product?

- A.** Hand sanitizer for soaps
- B. Ink cartridges for printers
- C. Mops for detergent
- D. iTunes for iPods
- E. Furniture for apartments

A substitute is a potential threat; customers use it as an alternative, buying less of one kind of product but more of another. Hand sanitizer is a substitute for soap, where customers can use it as an alternative. The remaining choices are examples of complements.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 3 Hard

Topic: The Competitive Environment

53. Organizations must acquire a variety of resources in order to produce a product or service of value. These resources may include materials, equipment, financing, or even employees. The sources that provide these various resources are referred to as _____.

- A. warehouse clubs
- B. regulators
- C. retailers
- D.** suppliers
- E. prospectors

Organizations must acquire resources (inputs) from their environment and convert them into products or services (outputs) to sell. Suppliers provide resources needed for production in the form of people (trade schools and universities), raw materials (producers, wholesalers, and distributors), information (researchers and consulting firms), and financial capital (banks).

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

54. _____ are fixed costs buyers face if they change suppliers.

- A. Changing costs
- B. Switching costs**
- C. Renewable costs
- D. Exchange costs
- E. Sunk costs

Dependence on suppliers can result from high switching costs—the fixed costs buyers face if they change suppliers.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

55. Laredo Bank & Trust uses the janitorial services of ProKleen, which provides necessary cleaning supplies, personnel training, and maintenance services. The other available janitorial services do not provide maintenance services. In this case, if Laredo decides to terminate ProKleen's services and shift to some other agency, it is likely to create _____.

- A. high employment costs
- B. redemption costs
- C. favorable quality status
- D. complementary products
- E. high switching costs**

Switching costs are fixed costs buyers face if they change suppliers. In this case, if the bank terminates ProKleen and hires a new agency, it would result in high switching costs, since it will have to spend additionally on maintenance.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 3 Hard

Topic: The Competitive Environment

56. _____ refers to management of the network of facilities and people that obtain materials from the outside, transform them into products, and distribute the products to customers.

- A. Inventory management
- B. Strategic maneuvering
- C. Human resource management
- D. Customer service
- E. Supply chain management**

Supply chain management refers to managing the entire network of facilities and people that obtain raw materials from outside the organization, transform them into products, and distribute them to customers. In recent years, supply chain management has become an increasingly important contributor to a company's competitiveness and profitability.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

57. A customer who purchases raw materials or wholesale products before selling them to other parties is known as a(n) _____.

- A. final purchaser
- B. intermediate consumer**
- C. final customer
- D. first-tier supplier
- E. preliminary customer

Intermediate consumers buy raw materials or wholesale products and then sell to final consumers, as when Sony buys components from IBM and uses them to make PS3 consoles.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

58. The main difference between a final consumer and an intermediate consumer is that:

- A. the final consumer purchases finished products, whereas an intermediate consumer only buys raw materials.
- B.** intermediate consumers buy raw materials and sell finished products to final consumers, whereas final consumers use the finished products.
- C. final consumers make more purchases than the intermediate consumers.
- D. unlike final consumers, intermediate consumers provide monetary benefits to organizations by purchasing their products.
- E. final consumers tend to have more bargaining power than intermediate consumers.

Intermediate consumers buy raw materials or wholesale products and then sell to final consumers, as when Sony buys components from IBM and uses them to make PS3 consoles. A final consumer is a customer who purchases products in their finished form.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

59. Giving consumers what they want or need, the way they want it, the first time is known as _____.

- A. planned merchandise
- B. planned obsolescence
- C.** customer service
- D. cause marketing
- E. operations management

Customer service means giving customers what they want or need, the way they want it, the first time. This usually depends on the speed and dependability with which an organization can deliver its products.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

60. Environmental _____ refers to the degree of discontinuous change that occurs within the industry.

A. complexity
B. dysfunction
C. contracting
D. cooptation
E. dynamism

Environmental dynamism refers to the degree of discontinuous change that occurs within the industry. High-growth industries with products and technologies that change rapidly tend to be more uncertain than stable industries where change is less dramatic and more predictable.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Environmental Analysis

61. Ranier Outdoor Clothing managers engage in an annual organizational assessment, trying to predict industry changes as well as possible opportunities and threats. They look at issues such as who their competitors are, current entry barriers, and what substitutes exist for their products. This assessment is called _____.

A. scenario development
B. forecasting
C. benchmarking
D. environmental scanning
E. strategic maneuvering

Environmental scanning means both searching out information that is unavailable to most people and sorting through that information to interpret what is important and what is not. Managers ask questions such as these: "Who are our current competitors?" "Are there few or many entry barriers to our industry?" and "What substitutes exist for our product or service?"

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 2 Medium

Topic: Environmental Analysis

62. An outcome of environmental scanning is _____, the information necessary to decide how best to manage in the competitive environment managers have identified.

A. corporate governance
B. strategic vision
C. competitive intelligence
D. corporate espionage
E. competitive dissertation

Answers to environmental scanning questions help managers develop competitive intelligence, the information necessary to decide how best to manage in the competitive environment they have identified.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: 1 Easy
Topic: Environmental Analysis

63. _____ refers to a narrative that describes a particular set of future conditions for a business.

A. Benchmarking
B. A scenario
C. Strategic maneuvering
D. A divestiture
E. Strategic vision

As managers attempt to determine the effect of environmental forces on their organizations, they frequently develop scenarios of the future. A scenario is a narrative that describes a particular set of future conditions.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: 1 Easy
Topic: Environmental Analysis

64. _____ create alternative combinations of different factors into a total picture of the environment and a firm.

- A.** Scenarios
- B. Forecasts
- C. Benchmarks
- D. Competitive intelligences
- E. Strategic maneuvers

As managers attempt to determine the effect of environmental forces on their organizations, they frequently develop scenarios of the future. Scenarios create alternative combinations of different factors into a total picture of the environment and the firm.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Environmental Analysis

65. Which of the following combinations can result in a best-case scenario?

- A. Many competitors, high threat with few entry barriers, and few customers
- B. Many competitors, high threat with few entry barriers, and many customers
- C. Few entry barriers, many substitutes, many customers
- D.** High industry growth, low threat with many entry barriers, and customers with low bargaining power
- E. Low industry growth, high threat with few entry barriers, and suppliers with low bargaining power

High industry growth, many barriers to entry, and a situation where customers have low bargaining power are all events that are favorable to a firm and therefore can be considered as a best-case scenario.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 3 Hard

Topic: Environmental Analysis

66. The method for predicting how variables will change in the future is known as _____.

- A. budgeting
- B. buffering
- C. forecasting**
- D. benchmarking
- E. scanning

Forecasting is used to predict exactly how some variable or variables will change in the future. For example, in making capital investments, firms may try to forecast how interest rates will change.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: 1 Easy
Topic: Environmental Analysis

67. Which of the following is true about using forecasts?

- A. Multiple forecasts are best, and their predictions can be averaged.**
- B. Forecasts become more accurate while predicting further into the future.
- C. Forecasts are useless when the future will look radically different from the past.
- D. The more complex the forecast, the more accurate are the predictions.
- E. The accuracy of forecasts does not vary from one application to another.

Forecasting is a method for predicting how will change in the future. The best advice for using forecasts includes using multiple forecasts and averaging their predictions.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: 2 Medium
Topic: Environmental Analysis

68. _____ refers to the process of comparing an organization's practices and technologies with those of other companies.

- A. Scenario planning
- B. Forecasting
- C. Benchmarking**
- D. Environmental scanning
- E. Strategic maneuvering

Benchmarking refers to the process of comparing an organization's practices and technologies with those of other companies. To accomplish this, a benchmarking team would collect information on its own company's operations and those of the other firm to determine gaps.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Environmental Analysis

69. To improve customer service in its overseas call center, Jansen Electronics decided to investigate the call center practices of competing companies. The team discovered that a smaller company, Gorilla Devices Inc., seemed to have outstanding customer service. The team then determined differences between the organizations and developed a plan to incorporate the best elements of Gorilla into Jansen. This illustrates _____.

- A. environmental dynamism
- B. benchmarking**
- C. strategic maneuvering
- D. cooperative action
- E. forecasting

Benchmarking refers to the process of comparing an organization's practices and technologies with those of other companies. To accomplish this, a benchmarking team would collect information on its own company's operations and those of the other firm to determine gaps.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 3 Hard

Topic: Environmental Analysis

70. Domain selection, diversification, mergers/acquisitions, and divestiture are all examples of _____.

- A. illegal boundary management
- B. maneuvering the competition
- C. strategic maneuvering**
- D. independent strategies
- E. portfolio maneuvering

Strategic maneuvering is an organization's conscious efforts to change the boundaries of its task environment. Managers can use several strategic maneuvers, including domain selection, diversification, merger and acquisition, and divestiture.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 2 Medium

Topic: Responding to the Environment

71. _____ occurs when a firm invests in different types of businesses or products or when it expands geographically to reduce its dependence on a single market or technology.

- A. Domain selection
- B. Diversification**
- C. Acquisition
- D. Divestiture
- E. Empowerment

Diversification occurs when a firm invests in different types of businesses or products or when it expands geographically to reduce its dependence on a single market or technology. Apple successfully diversified its product line when it added the iPod, iTouch, iPad, and iPhone to its offerings of personal computers.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

72. The entrance by a company into another market or industry for which it has an existing expertise is called _____.

- A. benchmarking
- B. strategic positioning
- C. outsourcing
- D. domain selection**
- E. cooptation

Domain selection is the entrance by a company with an existing expertise into another suitable market or industry. For example, the market may have limited competition or regulation, ample suppliers and customers, or high growth.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

73. One firm buying another is called a(n) _____.

- A. merger
- B. acquisition**
- C. divestiture
- D. prospective
- E. defender

An acquisition is one firm buying another. Acquisitions can offer greater efficiency from combined operations or can give companies relatively quick access to new markets or industries.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

74. Valley Organic Meats recently announced that it was selling off its pork division in order to realign itself more competitively in the marketing of its other products. Which of the following strategic maneuvers is illustrated in this scenario?

A. Diversification
B. An acquisition
C. A merger
D. Divestiture
E. Domain selection

Divestiture occurs when a firm sells one or more of its businesses. In the given scenario, Valley Organic Meats selling one or more businesses, such as its pork division, is an example of divestiture.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 3 Hard

Topic: Responding to the Environment

75. Two general types of proactive strategies for influencing an organization's environment are _____

A. dependent strategies and independent strategies.
B. independent action and cooperative action.
C. cooperative strategies and strategic maneuvering.
D. strategic maneuvering and dependent strategies.
E. independent action and strategic maneuvering.

Managers and organizations can develop proactive responses aimed at changing the environment. Two general types of proactive responses are independent action and cooperative action.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

76. _____ strategies are used by an organization acting on its own to change some aspect of its current environment.

- A. Flexible
- B. Buffering
- C. Independent**
- D. Smoothing
- E. Cooperative

Two general types of proactive responses are independent action and cooperative action. A company uses independent strategies when it acts on its own to change some aspect of its current environment.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

77. Purple Lotus and GreenBolt are two leading e-commerce companies. Recently, Purple Lotus engaged in an online price war with GreenBolt in order to gain greater market share. This is an example of _____ on the part of Purple Lotus.

- A. cooptation
- B. voluntary action
- C. competitive pacification
- D. competitive aggression**
- E. environmental scanning

Competitive aggression is exploiting a distinctive competence (such as Walmart being the world's largest retailer and offering aggressive pricing) or improving internal efficiency for competitive advantage. Examples include aggressive pricing and comparative advertising.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 3 Hard

Topic: Responding to the Environment

78. Dan's FroYo is a company that sells different varieties of frozen yogurt. When Dan's FroYo spends its own money to promote the frozen yogurt industry as a whole, the company is practicing _____.

A. competitive aggression
B. competitive pacification
C. public relations
D. voluntary cooptation
E. comparative action

Competitive pacification is an independent action to improve relations with competitors, such as FroYo's promotion of the frozen yogurt industry as a whole.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 3 Hard

Topic: Responding to the Environment

79. When a brand advertises its products as being superior to that of its competitors, it is demonstrating _____.

A. competitive aggression
B. competitive pacification
C. benchmarking
D. political action
E. cooptation

Competitive aggression is exploiting a distinctive competence or improving internal efficiency for competitive advantage. Aggressive pricing and comparative advertising are examples of competitive aggression.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 2 Medium

Topic: Responding to the Environment

80. When two or more companies work together to manage their external environment, they are using _____.

- A. monopolistic strategies
- B. strategic maneuvering
- C. cooperative strategies**
- D. dependent strategies
- E. competitive strategies

In some situations, two or more organizations work together to influence the environment. This is referred to as cooperative strategy. These strategies include cooptation, coalition, and contraction.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

81. Quartermaine University has just formed a board of trustees and invited 25 of its wealthiest alumni to join. In this example, Quartermaine University is demonstrating _____.

- A. contraction
- B. cooptation**
- C. coalition
- D. political action
- E. voluntary action

Cooptation is absorbing new elements into the organization's leadership structure to avert threats to its stability or existence. An example of cooptation might occur when universities invite wealthy alumni to join their boards of directors.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 2 Medium

Topic: Responding to the Environment

82. Western Allied Heath and Grant Pharmaceuticals are two pharmaceutical companies that have joined forces with one another to lobby against a controversial Medicare reform. This action is referred to as _____.

- A. contraction
- B. coalition**
- C. cooptation
- D. domain selection
- E. benchmarking

A coalition is two or more groups that coalesce and act jointly with respect to some set of issues for some period of time. An example of coalition formation might be when local businesses band together to curb the rise of employee health care costs and when organizations in the same industry form industry associations and special interest groups.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 3 Hard

Topic: Responding to the Environment

83. The process of sharing power with employees is called _____.

- A. empowerment**
- B. downgrading
- C. benchmarking
- D. vertical synergy
- E. power building

Empowerment is the process of sharing power with employees, thereby enhancing their confidence in their ability to perform their jobs and their belief that they are influential contributors to the organization.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

84. Candace recently got promoted to a managerial role in a bureaucratic organization. The industry had been changing dramatically, and Candace suggested that the management team encourage employees to develop confidence by giving them some control and authority in order to create a more flexible, adaptable organization. Here, Candace is suggesting the use of _____ with employees.

A. smoothing
B. benchmarking
C. empowerment
D. cooptation
E. coalition

Empowerment is the process of sharing power with employees, thereby enhancing their confidence in their ability to perform their jobs and their belief that they are influential contributors to the organization.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 3 Hard

Topic: Responding to the Environment

85. Creating supplies of excess resources in case of unpredictable needs is known as _____.

A. cooptation
B. smoothing
C. flexible processing
D. empowering
E. buffering

To help organizations compete, they can create buffers on both the input and output boundaries with the environment. Buffering creates supplies of excess resources to meet unpredictable needs.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

86. Alyssa owns Carver Gifts, a handmade greeting cards store. She is projecting that the economy will rebound this fall. She ordered additional holiday gift merchandise in February in anticipation of possible surge in sales during the holiday season. In this case, which of the following methods is Alyssa using to be sure she has enough gifts for those extra holiday customers?

- A. Just-in-time inventory management
- B. Smoothing
- C. Benchmarking
- D. Buffering**
- E. Diversification

Buffering is creating supplies of excess resources in case of unpredictable needs. In Alyssa's case, she has accumulated additional inventory to sell during the holiday season because demand is unpredictable.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 3 Hard

Topic: Responding to the Environment

87. Leveling normal fluctuations at the boundaries of the environment is called _____.

- A. buffering
- B. smoothing**
- C. flexible processing
- D. empowerment
- E. coalition

Smoothing refers to the process of leveling normal fluctuations at the boundaries of the environment. For example, during winter months in the north, when automobile sales drop off, it is not uncommon for dealers to cut the price of their in-stock vehicles to increase demand.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

88. Methods for adapting the technical core to changes in the environment are known as _____.

- A.** flexible processes
- B. smoothing effects
- C. buffering techniques
- D. benchmarking tools
- E. environmental scanners

Flexible processes are methods for adapting the technical core to changes in the environment. For example, firms increasingly try to customize their goods and services to meet the varied and changing demands of customers.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 1 Easy

Topic: Responding to the Environment

89. NBIC (National Bicycle Industrial Company) of Japan specializes in mass customization in order to cater to the changing demands of its customers. Customers can choose the frame and other parts of the bicycle and it is made according to their order. This is one example of how NBIC uses _____.

- A. cooptation
- B.** flexible processes
- C. smoothing techniques
- D. benchmarking
- E. diversification

Flexible processes are methods for adapting the technical core to changes in the environment. For example, firms increasingly try to customize their goods and services to meet the varied and changing demands of customers.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 3 Hard

Topic: Responding to the Environment

90. The set of important assumptions about an organization and its goals and practices that members of the company share is called organization _____.

A. culture
B. design
C. climate
D. layout
E. structure

Organization culture is the set of important assumptions about an organization and its goals and practices that members of the company share. It is a system of shared values about what is important and beliefs about how the world works.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-06 Define elements of an organization's culture.

Level of Difficulty: 1 Easy

Topic: The Internal Environment of Organizations: Culture and Climate

91. Purple Technology is a communication and information technology corporation. The company makes it a point to stress to its employees that innovation is its core strength. The employees even get an hour a day to brainstorm and come up with out-of-the-box ideas. This highlights the _____ of the company.

A. cooperative strategies
B. external environment
C. organization culture
D. competitive pacification
E. domain selection

The organization culture is the set of important assumptions about the organization and its goals and the practices that members of the company share. It is a system of shared values about what is important and beliefs about how the world works. In this way, a company's culture provides a framework that organizes and directs people's behavior on the job.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-06 Define elements of an organization's culture.

Level of Difficulty: 2 Medium

Topic: The Internal Environment of Organizations: Culture and Climate

92. Which of the following can be a useful clue about an organization's culture?

- A.** The way employees interact with each other
- B. Information printed in the media about stock prices
- C. The macroenvironment
- D. The personality characteristics of employees
- E. The industrial environment

The culture of an organization may be difficult for an observer to define easily, yet it can often be sensed almost immediately. The ways people dress and behave or the ways they interact with each other and with customers are clues to an organization culture.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-06 Define elements of an organization's culture.

Level of Difficulty: 2 Medium

Topic: The Internal Environment of Organizations: Culture and Climate

93. Which of the following statements about organizational culture is true?

- A. Corporate mission statements are always a true expression of a firm's culture.
- B.** Who is hired and fired and why indicate the firm's real value and are a clue to the culture.
- C. A firm with a strong culture will have different people holding different values.
- D. A culture that was advantageous in a prior era continues to be so in a new environment.
- E. It is unnecessary to consider culture when considering a merger.

For diagnosing a culture, status symbols can give an individual a feel for how rigid the hierarchy is and for the nature of relationships between lower and higher levels. Who is hired and fired—and why—and the activities that are rewarded indicate the firm's real values.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-07 Discuss how an organization's culture and climate affect its response to its external environment.

Level of Difficulty: 2 Medium

Topic: The Internal Environment of Organizations: Culture and Climate

94. According to the competing values model, if an organization's culture is internally oriented and flexible and tends to be based on the values and norms associated with affiliation, it could be best described as a(n) _____.

A. group culture
B. hierarchical culture
C. rational culture
D. adhocracy
E. closed system

A group culture is internally oriented and flexible, and it is based on values and norms associated with affiliation. Compliance flows from trust, tradition, and long-term commitment.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember

Learning Objective: 02-07 Discuss how an organization's culture and climate affect its response to its external environment.

Level of Difficulty: 1 Easy

Topic: The Internal Environment of Organizations: Culture and Climate

95. According to the competing values model, if an organization's culture is externally oriented and focused on control with its primary objectives as productivity, planning, and efficiency, it could be best described as a(n) _____ culture.

A. group
B. hierarchical
C. rational
D. adhocracy
E. values-oriented

The rational culture is externally oriented and focused on control. Its primary objectives are productivity, planning, and efficiency, with members being motivated by rewards.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Remember

Learning Objective: 02-07 Discuss how an organization's culture and climate affect its response to its external environment.

Level of Difficulty: 1 Easy

Topic: The Internal Environment of Organizations: Culture and Climate

96. The attitude and behavior patterns that shape people's experience of an organization is called an organizational _____.

- A. culture
- B. climate**
- C. environment
- D. strategy
- E. adhocracy

Organizational climate consists of the patterns of attitudes and behavior that shape people's experience of an organization. In contrast to a culture's deeply held beliefs, values, and so on, an organization's climate can be measured more readily.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 02-07 Discuss how an organization's culture and climate affect its response to its external environment.

Level of Difficulty: 2 Medium

Topic: The Internal Environment of Organizations: Culture and Climate

Scenario A. Connie's Collectibles is a small retail store that specializes in antique jewelry. In analyzing the environment, Connie has uncovered the following interesting findings:

1. Connie has recently purchased more inventory than in the past. The people from whom she buys are selling off more jewelry because their children are not interested in this type of jewelry and they would prefer to liquidate their jewelry to help them with their daily expenses since they no longer wear most of it.
2. Connie discovered that her business is in a historical preservation district. As she considers remodeling the shop, she realized that she must pay attention to the guidelines set forth in the governing laws.
3. Connie's buyer-customer base seems to be changing. The tastes of the younger generation near her shop are shifting to modern jewelry, so the customer base to which she sells is shrinking.
4. Connie has been told that she should consider selling her inventory via the Internet, but she does not own (or understand how to use) a computer.
5. In reading a survey of regional business, Connie discovered that there are no other antique jewelry stores within a 200-mile radius of hers.

97. In Scenario A, which of the following elements of the macroenvironment was part of Connie's findings?

- A. Sustainability
- B. Psychology
- C. Corporate governance
- D. Sociology
- E. Technology**

The macroenvironment includes legal and political, economic, technological, demographic, social, and natural factors that generally affect all organizations. The only one of these categories mentioned in the question is technology, illustrated by selling on the Internet.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.

Level of Difficulty: 3 Hard

Topic: Introduction

98. When Connie read the survey of regional businesses, she was investigating _____.

- A. the competitive environment**
- B. the macroenvironment
- C. a closed environment
- D. the internal environment
- E. the social environment

The competitive environment is composed of current competitors, suppliers, customers (buyers), new entrants, and substitute or complementary products.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.

Level of Difficulty: 3 Hard

Topic: Introduction

99. Findings about changing customer preferences and others who sell antique jewelry are associated with the:

- A.** competitive environment as described by Porter.
- B. macroenvironmental economic trends.
- C. macroenvironmental political trends.
- D. amount of rivalry in Connie's internal environment.
- E. barriers to entry in Connie's competitive environment.

The competitive environment as described by Porter includes both suppliers (those selling the jewelry) and customers (those buying the jewelry). The competitive environment also includes new entrants, substitutes and complements, as well as rival firms.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-04 Identify elements of the competitive environment.

Level of Difficulty: 3 Hard

Topic: The Competitive Environment

100. Which of the following elements of the macroenvironment is most closely associated with the findings about the historical preservation district?

- A.** Laws and regulations
- B. The economy
- C. Demographics
- D. Technology
- E. The natural environment

The macroenvironment is the general environment, including governments, economic conditions, and other fundamental factors that generally affects all organizations. Laws and regulations are part of the macroenvironment and affect Connie by dictating how she can renovate her shop based on the prevailing rules of the historical preservation district her shop is in.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-02 Distinguish between the macroenvironment and the competitive environment.

Level of Difficulty: 3 Hard

Topic: The Macroenvironment

Scenario B. Jack and a fellow investor are investigating the possibility of starting a new casino in Black Hawk, a small town in the Rocky Mountains, Colorado. It has been Jack's lifelong dream. Jack has won a lottery and is trying to decide if this is what he wants to do with the prize money. He decides to do an analysis of the competitive environment. After his analysis, he discovers several important issues. First, it will cost most of Jack's lottery winnings to finance a casino in Black Hawk. Second, it will be difficult to attract new customers because they have so many choices available to them in Black Hawk and the surrounding small towns. Finally, the competition in the casino industry is considered fierce by industry analysts and this is frightening to someone, like Jack, who has never worked in the casino industry.

101. Which of the following factors would have Jack considered while analyzing the competitive environment?

A. Technology
B. Substitutes
C. Legal factors
D. Economic factors
E. Demographics

The competitive environment as described by Michael Porter includes suppliers, customers, new entrants, substitutes and complements, as well as rival firms.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

102. The information that Jack has collected in his competitive analysis can be referred to as _____.

A. corporate espionage
B. competitive intelligence
C. domain selection
D. strategic vision
E. mission statement

Competitive intelligence is the information necessary to decide how best to manage in the competitive environment managers have identified.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

103. From Scenario B, based on Jack's analysis of the competitive environment, it can be inferred that:

- A. the customers will face switching costs.
- B. there are no competitors.
- C.** there are many substitutes.
- D. there are no barriers to entry.
- E. the threat of new entrants is high.

The competitive environment includes rivalry among current competitors and the impact of new entrants, substitute and complementary products, suppliers, and customers. Based on Jack's analysis of the competitive environment, it can be inferred that there are many substitutes.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 3 Hard
Topic: The Competitive Environment

104. Which of the following factors is indicated by the fact that it will require a large capital investment to start a new casino?

- A. High bargaining power of customers
- B.** Low threat of new entrants
- C. High threat of new entrants
- D. Many substitute products
- E. Low bargaining power of customers

New entrants into an industry compete with established companies. The high cost of entering the casino industry forms a barrier to entry that diminishes the threat of new entrants.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

Scenario C. Smash Marketing is a consulting firm located in the Midwest. Mr. William "Bill" Smash started the firm as a young man in the early 1950s. The firm has grown, but with growth, it has never forgotten the vision of Mr. Smash: to be creative in all that the firm does while delighting the client. Each year the Smash Award for Advertising Creativity is given to the employee who most exemplifies Mr. Smash's vision. New employees are told of the organization's greatest accomplishments and are taken on a tour of the "Wall of Memories," where pictures of the company taken over the years are hung. One is even included to remind everyone of the disastrous fire that the company not only survived but also built upon to strengthen the sense of teamwork, which is clearly evident throughout the firm. Managers at the firm tend to be more like mentors and facilitators. In fact, there is a long tradition of employee participation in decision making, and all employees consider themselves to be part of the "Smash Family."

105. The stories about Bill Smash and his vision influencing the employees of the organization are all clues to understanding the _____.

- A.** organization culture
- B. company's macroenvironment
- C. organization's competitive environment
- D. collective competitive intelligence
- E. organizational structure

Organization culture refers to the set of important assumptions about the organization and its goals and practices that members of the company share. The scenario explains the organization culture of the company.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-06 Define elements of an organization's culture.

Level of Difficulty: 3 Hard

Topic: The Internal Environment of Organizations: Culture and Climate

106. The culture at Smash Marketing can be best described as a _____ culture.

- A.** group
- B. hierarchical
- C. rational
- D. bureaucratic
- E. rigid

A group culture is internally oriented and flexible. It tends to be based on the values and norms associated with affiliation. It has a dominant attribute of participation, teamwork, and a sense of family, all of which are mentioned in the scenario.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-07 Discuss how an organization's culture and climate affect its response to its external environment.

Level of Difficulty: 3 Hard

Topic: The Internal Environment of Organizations: Culture and Climate

107. Based on the information in Scenario C, which of the following is likely to be the dominant attribute of Smash Marketing?

- A. Rules and regulations
- B.** Cohesiveness
- C. Competitiveness
- D. Risk taking
- E. Entrepreneurship

In a group culture, like the one at Smash Marketing, there are loyalty, tradition, and interpersonal cohesion. A group culture is internally oriented and flexible. It tends to be based on the values and norms associated with affiliation. An organizational member's compliance with organizational directives flows from trust, tradition, and long-term commitment.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Apply

Learning Objective: 02-07 Discuss how an organization's culture and climate affect its response to its external environment.

Level of Difficulty: 3 Hard

Topic: The Internal Environment of Organizations: Culture and Climate

Scenario D. Margarita works for a small company that deals with processed and canned tomatoes and other vegetables. She reports to the CFO. It is her job to predict the costs of raw materials for the next five years. She uses various research sources, including the news, to learn who the competitors are and what they have been doing. In fact, she subscribes to an analyst e-newsletter that tells her about crop availability and weather conditions all around the globe. Every month she develops a spreadsheet for her boss indicating the likely costs of vegetables given the type of weather conditions expected in each area of the world and thus the availability of particular crops. She is also involved in a team that is investigating how to cut canning costs. They have recently met with Good Cans, a company that manufactures and cans tennis balls. Good Cans is considered the top company in the canning industry, especially in canning process knowledge. Margarita's team is comparing their processes to those of Good Cans to see how they might improve.

108. When predicting the costs for her company, Margarita is engaging in _____.

- A.** forecasting
- B. competitive intelligence
- C. environmental scanning
- D. benchmarking
- E. scenario development

Forecasting is a method for predicting how variables will change the future. In this scenario, Margarita is trying to determine costs in the future.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: 3 Hard
Topic: Environmental Analysis

109. The information Margarita is using to compete in a better way is called _____.

- A. mission statement
- B.** competitive intelligence
- C. best-case scenario
- D. organizational database
- E. knowledge document

Competitive intelligence is information that helps managers determine how to compete better. In this scenario, Margarita is collecting information about crops so she can find the best value for the company.

AACSB: Analytic
Accessibility: Keyboard Navigation

Blooms: Understand
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: 2 Medium
Topic: Environmental Analysis

110. The spreadsheet that Margarita uses gives her a chance to examine different projections, which is a form of _____.

- A. divestiture
- B. strategic maneuvering
- C. domain selection
- D. benchmarking
- E. scenario development**

Scenario development creates alternative combinations of different factors (such as the weather and harvest of various crops) into a total picture of the environment and the firm. It is a narrative that describes a particular set of future conditions.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: 3 Hard
Topic: Environmental Analysis

111. Which of the following is Margarita and her team using when they learn from Good Cans about its canning process?

- A. Forecasting
- B. Strategic maneuvering
- C. Domain selection
- D. Benchmarking**
- E. Scenario development

Benchmarking means identifying the best-in-class performance by a company (Good Cans) in a given area (canning) and then comparing one's processes to theirs. Margarita is comparing her company's process of canning to that of Good Cans.

AACSB: Analytic
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: 3 Hard
Topic: Environmental Analysis

Essay Questions

112. List the elements of a firm's macroenvironment and illustrate how each affects the firm.

Answers will vary.

*AACSB: Analytic
Blooms: Understand
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: 2 Medium
Topic: The Macroevironment*

113. Explain how a company can work societal trends to its advantage.

Answers will vary.

*AACSB: Analytic
Blooms: Apply
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: 3 Hard
Topic: The Macroevironment*

114. Explain how technology can help an organization.

Answers will vary.

*AACSB: Analytic
Blooms: Understand
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: 2 Medium
Topic: The Macroevironment*

115. Discuss how immigration patterns influence the management of the U.S. labor force.

Answers will vary.

AACSB: Analytic
Blooms: Understand
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: 2 Medium
Topic: The Macroenvironment

116. Explain how sustainability and natural environment affect the management of an organization.

Answers will vary.

AACSB: Analytic
Blooms: Apply
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: 3 Hard
Topic: The Macroenvironment

117. Describe the five forces in Michael Porter's model of the competitive environment.

Answers will vary.

AACSB: Analytic
Blooms: Understand
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

118. List actions and attitudes that result in excellent customer service.

Answers will vary.

AACSB: Analytic
Blooms: Apply
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 3 Hard
Topic: The Competitive Environment

119. As environmental uncertainties increase, managers must develop techniques and methods for collecting, sorting through, and interpreting information about the environment. Discuss four of these methods, explaining when and why each would be used.

Answers will vary.

AACSB: Analytic
Blooms: Understand
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: 2 Medium
Topic: Environmental Analysis

120. Differentiate between unattractive and attractive competitive environments, using Porter's model of the competitive environment.

Answers will vary.

AACSB: Analytic
Blooms: Apply
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: 3 Hard
Topic: Environmental Analysis

121. Briefly describe the three categories of options managers and companies have when responding to their environment.

Answers will vary.

AACSB: Analytic
Blooms: Understand
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: 2 Medium
Topic: Responding to the Environment

122. Summarize the different approaches of strategic maneuvering that organizations can take to change the environment they are in.

Answers will vary.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 2 Medium

Topic: Responding to the Environment

123. Explain two general types of proactive responses that managers and organizations can take to change the environment.

Answers will vary.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 2 Medium

Topic: Responding to the Environment

124. Contrast bureaucratic and organic organizations.

Answers will vary.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.

Level of Difficulty: 2 Medium

Topic: Responding to the Environment

125. What are the clues to understanding an organization's culture? List the characteristics of a strong culture.

Answers will vary.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-07 Discuss how an organization's culture and climate affect its response to its external environment.

Level of Difficulty: 2 Medium

Topic: The Internal Environment of Organizations: Culture and Climate

126. Describe the culture of an organization that you have either worked in or studied about. Which of the four types of organizational culture described in the chapter does the organization illustrate? Justify your answer.

Answers will vary.

AACSB: Analytic

Blooms: Apply

Learning Objective: 02-07 Discuss how an organization's culture and climate affect its response to its external environment.

Level of Difficulty: 3 Hard

Topic: The Internal Environment of Organizations: Culture and Climate