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BATEMAN / SNELL

M management

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second edition

Chapter 02
The Environment of Business

True / False Questions

1. The external environment includes all relevant forces outside the organization's boundaries.
True   False

2. Organizations are open systems that affect and are affected by their external environments.
True   False

3. A firm's competitive environment is composed of the firm, its competitors, suppliers and distributors.
True   False

4. All organizations operate in a macro environment.
True   False

5. U.S. government policies both impose strategic constraints and provide opportunities for organizations.
True   False

6. There are complex interconnections among the economies of different countries that affect an organization's economic environment.
True   False

7. Firms that develop strategies that don't include technological advances will realize obsolescence and extinction.
True   False

8. The fastest-growing age group in the U.S. civilian labor force is the group between 30 and 40 years old.
True   False

9. One reason that the labor force will not be more ethnically diverse than it is today is due to the immigration situation.
True   False

10. A more diverse workforce presents managers with challenges as well as opportunities.
True   False

11. 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

12. Successful managers must be able to do more than react to the environment; they act in ways that actually shape or change the organization's environment.
True   False

13. The first question in understanding competitive environments is: "Who is the competition?"
True   False

14. It is helpful, but not essential, to understand what competitors are doing when a business is developing its own strategy.
True   False

15. When barriers to entry are low, new entrants arise.
True   False

16. Given that unionization in the U.S. has dropped to about 10 percent of the private labor force, the power of unions has faded away from all major industries.
True   False

17. Customer service means giving customers what they want, the way they want it, the first time.
True   False

18. Environmental scanning means sorting through information available to the public to interpret what is important and what is not.
True   False

19. Competitive intelligence is the information necessary to decide how best to manage in the competitive environment.
True   False

20. Benchmarking is the process of identifying alternative combinations of different factors into a total picture of the environment and the firm.
True   False

21. In a dynamic environment, bureaucratic organizations are more efficient than organic organizations.
True   False

22. Defenders are more likely to engage in strategic maneuvering than prospectors.
True   False

23. Three general considerations that help guide management's response to the environment are: (1) change appropriate elements in the organization, (2) choose responses that focus on pertinent elements of the environment and (3) choose responses that offer the most benefit at the lowest cost.
True   False

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

25. Stories told by employees almost never have any relevance to the True culture of the organization.
True   False

Multiple Choice Questions

26. Organizations that are affected by and that affect their environment are called
A. inputs.
B. outputs.
C. open systems.
D. closed systems.
E. social systems.

27. Mary Jane, a new manager at Deli Delight, has been asked to focus on the competitive environment of the organization. Which of these factors is among those that Mary Jane should focus on?
A. Government policies
B. Demographics
C. Suppliers
D. Technology
E. Social factors

28. Using international bribery as a business tactic is illegal for U.S. firms. This statement reflects which type of environmental force at work?
A. Competitive
B. Economic
C. Legal/Political
D. Societal values
E. Demographics

29. Roberta was recently hired as the workplace safety compliance officer at Diligent Drilling Company. Roberta will have the responsibility to monitor regulations from which of these government agencies
A. FCC
B. EPA
C. SEC
D. OSHA
E. NLRB

30. The SEC recently proposed regulations requiring companies to disclose more details about executive compensation. This illustrates an important interaction between organizations and their relevant
A. demographics.
B. regulators.
C. attorneys.
D. labor officials.
E. suppliers.

31. Specific government organizations in a firm's immediate task environment are called
A. substitutes.
B. new entrants.
C. regulators.
D. economic indicators.
E. demographics.

32. The economy is a crucial component of the macroenvironment. Which of the following statements is most True about economic macro effects?
A. The impact of changes in the economy is predictable to competitors.
B. Changes in the economy are impossible to quantify.
C. There are complex interconnections among the economies of different countries.
D. High-level managers have little awareness of economic indicators.
E. The economy has no macro effects on managers.

33. Interest rates, the inflation rate, the federal deficit and the stock market are all elements in which aspect of the macroenvironment?
A. The social environment
B. The international environment
C. The regulatory environment
D. The economic environment
E. Demographics

34. New methods of communication, production and even the development of entire new industries are the results of the changes in
A. demographics.
B. societal preferences.
C. technology.
D. the economy.
E. politics.

35. Advances in genetic engineering and biotechnology are expected to produce some food products that will become available year-round even in northern climates. These changes will provide grocers with an opportunity to reduce their shipping costs while at the same time, offering fresher produce to their customers. These advances are an example of changes in the
A. technological environment.
B. economic environment.
C. political environment.
D. demographic environment.
E. international environment.

36. In the decade from 2004 to 2014, the U.S. civilian labor force is expected to
A. grow 10%.
B. grow 20%.
C. stay the same.
D. shrink 10%.
E. shrink 20%.

37. Measures of various characteristics of the people who make up groups or other social units are called
A. psychographics.
B. demographics.
C. social characteristics.
D. lifestyle analytics.
E. unit characterization.

38. By 2014, the number of workers 55 and above is expected to rise to about _____ percent of the U.S. labor force.
A. 42
B. 63
C. 31
D. 20
E. 4

39. _____ trends regarding how people think and behave have major implications for management of the labor force, corporate actions and strategic decisions about products and markets.
A. Political
B. International
C. Economic
D. Technological
E. Societal

40. Which of the following is an element of Michael Porter's model for analyzing the competitive environment?
A. Substitutes and complements
B. Non-suppliers
C. Non-customers
D. Regulatory forces
E. SBU strategy

41. The competitive environment consists of
A. the firm, and its rivals, suppliers, customers (buyers), new entrants, and substitute or complementary products.
B. only those organizations which the focal organization relies upon to provide supplies and materials.
C. those people who comprise the workers of the organization that complete the organization's activities.
D. those organizations that hold the firm accountable to their stakeholders.
E. those broader influences that affect a firm's competitive advantage.

42. A firm's current competition, suppliers, customers and the threat of new entrants or of substitutes are all elements in the
A. Porter model for competitive analysis.
B. task environment.
C. microenvironment.
D. industrial microenvironment.
E. Peters model for organizational excellence.

43. Which of the following is a competitor which a mass merchandiser like Target must identify and anticipate the actions of?
A. Consumer advocacy groups
B. Mass merchandiser suppliers
C. Wholesale outlets like Sam's or Price Club
D. Companies entering new markets
E. All of the above are potential competitors.

44. A low-cost airline described as one of the excellent companies in the bestseller of the early 1980s, *In Search of Excellence* is no longer in business. Industry analysts state that although the service and price provided by the airline was what customers wanted, the larger airlines were able to drive the low-cost airline out of business through an aggressive price war. This scenario is illustrative of which aspect of the competitive environment?
A. Customers
B. Competitors
C. Regulators
D. The economy
E. The political environment of the time

45. Conditions which may prevent new firms from entering an industry (e.g., the use of patents) are referred to as
A. barriers to entry.
B. roadblocks.
C. unfair trade practices.
D. insider trading.
E. trade protectionism.

46. Hospitals and universities are very expensive to run due not only 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. enhancing barriers to entry.
B. eliminating protectionism.
C. unfair competition.
D. enhancing trade protectionism.
E. eliminating barriers to entry.

47. The highest barrier to entry of the following list of items is
A. brand identification.
B. competitor experience.
C. pricing practices.
D. the economy.
E. technology.

48. The development of new products that may replace sales of existing products is referred to as the threat of
A. new entrants.
B. substitutes.
C. diminished supply.
D. technology.
E. complements.

49. Kellogg's cereals are a major supplier to almost all grocery store chains. They share most of the valuable shelf space in the cereal aisle with General Mills. Based on this information
A. the threat of new entrants to the cereal manufacturing industry is high.
B. the threat of government regulation of cereal is high.
C. the threat of new entrants to the cereal manufacturing industry is low.
D. the threat of substitutes for either type of cereal is high.
E. the regulatory influence on cereal is high and changing.

50. 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. resource firms.
B. placement centers.
C. retailers.
D. suppliers.
E. customs houses.

51. The fixed costs buyers face if they change suppliers are called
A. changing costs.
B. switching costs.
C. supplier costs.
D. retailer costs.
E. sunk costs.

52. Bank 'o Bucks utilizes the janitorial services of Bob's Scrub-A-Dub-Dub to keep their buildings clean. Bob's provides all the necessary cleaning supplies, training of crews, background security checks (since the crews work after hours) and all other associated expenses. The other available janitorial services do not typically provide security checks and a client such as a bank would have to hire guards to watch the work of the janitors. This expense effectively limits the bank to utilizing only Bob's services. This illustrates the concept of
A. high employment costs.
B. unfavorable supplier status.
C. high switching costs.
D. favorable quality status.
E. complementary products.

53. Management of the network of facilities and people that obtains materials from the outside, transforms them into products and distributes the products to customers is called
A. collaboration.
B. switching costs.
C. cooptation.
D. supply chain management.
E. customer service.

54. A customer who purchases raw materials or wholesale products before selling them is called a(n)
A. final customer.
B. middle customer.
C. intermediate consumer.
D. first tier supplier.
E. preliminary customer.

55. The main difference between a final consumer and an intermediate consumer is
A. the final consumer usually pays cash for the purchase whereas the intermediate customer uses a credit card.
B. an intermediate consumer will utilize the purchase in order to sell their product/service to final consumers whereas a final customer use the product him/herself.
C. final consumers purchase more (in dollar value) than do intermediate consumers.
D. intermediate consumers are usually more flexible than final consumers.
E. final consumers have more bargaining power than intermediate customers.

56. Which of the following would be considered a consumer?
A. OSHA
B. Neiman Marcus
C. An individual
D. IBM
E. All of the above would be considered a consumer.

57. Sam's Siding traditionally provides sub-contracting services to construction firms. There are many firms like Sam's in the marketplace and Sam's does about 85% of their work for Bill's Building. Bill typically negotiates quite heavily with his prospective customers, which ultimately reduces Sam's profits. This situation is indicative of the high bargaining power of
A. customers.
B. suppliers.
C. substitute companies.
D. competitors.
E. new construction companies.

58. Giving customers what they want or need, the way they want it, the first time is known as
A. planned giving.
B. planned obsolescence.
C. customer service.
D. premier service.
E. operations management.

59. Environmental uncertainty results from
A. complexity.
B. simplicity.
C. cooperation.
D. simple issues.
E. an incrementally changing environment.

60. _____ refers to the degree of discontinuous change that occurs within the industry.
A. Environmental complexity
B. Environmental disfunction
C. Environmental contracting
D. Cooptation
E. Environmental dynamism

61. Managers at Molly's Closet, a clothing retailer, engage in an annual organizational assessment as part of an attempt to predict changes as well as possible opportunities and threats. They look at issues such as who their competitors are, how many entry barriers there are in the industry and what substitutes exist for their products. This assessment is called
A. scenario development.
B. forecasting.
C. benchmarking.
D. environmental scanning.
E. SWOT 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. an organizational plan
B. entry barrier concepts
C. competitive intelligence
D. corporate espionage plans
E. competitive counter-plans

63. A narrative that describes a particular set of future conditions is called
A. benchmarking.
B. a scenario.
C. forecasting.
D. managerial outcomes analysis.
E. competitive intelligence.

64. _____ create(s) alternative combinations of different factors into a total picture of the environment and the firm.
A. Scenarios
B. Forecasting
C. Benchmarking
D. Competitive intelligence
E. Buffering

65. The method for predicting how variables will change the future is called
A. budgeting.
B. scenario development.
C. forecasting.
D. benchmarking.
E. environmental scanning.

66. In determining how interest rates will change in the future, a manager would use
A. budgeting.
B. scenario development.
C. forecasting.
D. benchmarking.
E. environmental scanning.

67. The best advice for using forecasts is
A. Use multiple forecasts and perhaps average their predictions.
B. Forecasts become more accurate the further into the future you predict.
C. Forecasts improve the data used to construct them.
D. The more complex the forecast, the more accurate it is.
E. Unexpected events are all the more reason to stick to the forecast.

68. Which of the following scenarios would be the most favorable to an existing firm in the industry according to the Porter model of the competitive environment?
A. Many competitors, few entry barriers, and few customers.
B. Many competitors, high threat of entry, many customers.
C. Few entry barriers, many substitutes, many customers.
D. High industry growth, many barriers to entry, customers have low bargaining power.
E. Low industry growth, few barriers to entry, suppliers have low bargaining power.

69. _____ means identifying the best-in-class performance by a company in your area and then comparing your processes to theirs.
A. Scenario planning
B. Forecasting
C. Benchmarking
D. Environmental scanning
E. Adapting

70. In an attempt to improve upon customer service, Terrapin Toys decided to assign a team to investigate what kinds of services competing companies offered. The team discovered that a smaller company, Gorilla Games, Inc., seemed to have outstanding customer service. The team then determined the major differences between the two companies and developed a plan to incorporate the best elements of Gorilla Games, Inc into Terrapin Toys. This illustrates effective
A. environmental dynamism.
B. benchmarking.
C. strategic maneuvering.
D. cooperative action.
E. forecasting.

71. The process of sharing power with employees is called
A. empowerment.
B. job sharing.
C. benchmarking.
D. vertical synergy.
E. team building.

72. Creating supplies of excess resources in case of unpredictable needs is called
A. just-in-time inventory management.
B. smoothing.
C. flexible processes.
D. kanban.
E. buffering.

73. Cara owns a small gift shop on the West Coast. She is hoping the economy rebounds this fall as she had to order her Christmas and other holiday gifts in February to be sure she has enough inventory for the surge in sales that the holiday season usually but not always brings to her retail store. In this example, Cara is using _____ to be sure she has enough gifts for those extra holiday customers that she hopes will brave the economic woes and shop for holiday gifts.
A. just-in-time inventory management
B. smoothing
C. kanban
D. buffering
E. adapting at the core

74. The growth of contingent workers in the U.S. labor force due to unpredictable labor demand is an illustration of
A. adapting at the core.
B. flexible processes.
C. buffering.
D. smoothing.
E. empowerment.

75. Leveling normal fluctuations at the boundaries of the environment is called
A. buffering.
B. smoothing.
C. flexible processes.
D. empowerment.
E. kanban.

76. Methods for adapting the technical core to changes in the environment are called
A. flexible processes.
B. smoothing effects.
C. buffering.
D. benchmarking.
E. environmental scanning.

77. When Yancy's Yogurt Company acts on its own to promote the yogurt industry as a whole, the company is practicing
A. competitive aggression.
B. competitive pacification.
C. public relations.
D. voluntary cooptation.
E. cooperative action.

78. When Sudsy Company advertises its soap products as better than Bubble Company's soap products, Sudsy Co. is demonstrating
A. competitive aggression.
B. competitive pacification.
C. benchmarking.
D. political action.
E. cooptation.

79. Strategies that an organization acting on its own uses to change some aspect of its current environment are called
A. flexible strategies.
B. buffering strategies.
C. independent strategies.
D. smoothing strategies.
E. cooperative strategies.

80. The two types of proactive strategies for influencing an organization's environment include
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.

81. When two or more companies work together to alter their current environment they are using
A. monopolistic strategies.
B. strategic maneuvering.
C. cooperative strategies.
D. dependent strategies.
E. codependent strategies.

82. Higher Place University has just formed a board of trustees and invited 25 of its wealthiest alumni to join. In this example HPU is demonstrating
A. contraction.
B. cooptation.
C. coalition.
D. political action.
E. voluntary action.

83. PharmaCo and Allbest Meds have joined forces with one another to lobby against health care reform. This action is referred to as
A. contraction.
B. coalition.
C. cooptation.
D. domain selection.
E. benchmarking.

84. 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.

85. The entrance by a company into another market or industry for which it has an existing expertise is called
A. a cooperative strategy.
B. strategic maneuvering.
C. a strategic alliance.
D. domain selection.
E. cooptation.

86. Prospectors are
A. companies that continually change the boundaries for their task environments by seeking new products and markets, diversifying and merging, or acquiring new enterprises.
B. companies that aggressively monitor and protect the established boundaries of their competitive environment.
C. financially sound in unstable industries.
D. firms that sell one or more businesses.
E. in the mature stage of the product life cycle.

87. One firm buying another is called a(n)
A. merger.
B. acquisition.
C. divestiture.
D. prospective.
E. defender.

88. It was recently announced that Animal Organics was selling off its pork division in order to realign itself more competitively in the marketing of its other products. This is an example of managing the task environment through
A. diversification.
B. acquisition.
C. merger.
D. divestiture.
E. domain selection.

89. The set of important assumptions about the organization and its goals and practices that members of the company share is called
A. organization culture.
B. organization norms.
C. industrial environment.
D. a closed system.
E. an open system.

90. The five-by-eight inch card with one rule on it—"Use good judgment in all situations"—that employees at Nordstrom receive as the employee handbook tells the employees a great deal about their company's
A. organizational location.
B. business environment.
C. organization culture.
D. environmental scanning.
E. macroenvironment.

91. Which of the following can be a useful clue about an organization's culture?
A. Who is hired and fired
B. Information printed in the media from sources outside the company
C. The macroenvironment
D. Environmental scanning
E. The industrial environment

92. A(n) _____ culture is one in which everyone understands and believes in the firm's goals, priorities, and practices.
A. informal
B. formal
C. strong
D. weak
E. influential

93. If an organization's culture is internally oriented, flexible and tends to be based on the values and norms associated with affiliation, it could best be described as a _____ type of culture.
A. group culture
B. hierarchical culture
C. rational culture
D. adhocracy
E. values-oriented

94. If an organization's culture is externally oriented and focused on control with its primary objectives as productivity, planning and efficiency, it could best be described as a _____ type of culture.
A. group
B. hierarchical
C. rational
D. adhocracy
E. values-oriented

95. The two dimensions upon which the competing-values model of culture is defined are
A. flexibility vs. control AND internal vs. external focus of the organization.
B. levels of hierarchy vs. levels of empowerment.
C. leadership type vs. levels of hierarchy.
D. degree of environmental scanning vs. level of empowerment.
E. level of environmental scanning vs. level of environmental influence.

96. Which of the following approaches is effective for top management to use to manage the positive corporate culture effectively?
A. Executives must not give too much attention to the mundane details of daily affairs.
B. Executives must allow the organization to develop lofty ideas and visions for the company and then it is up to others in the organization to follow through on these ideas and visions, not the executives.
C. CEOS and other executives should always make choices that contribute to profit even if this means not quite living up to the company's values.
D. Hire and promote employees on the basis of the organization's corporate values.
E. All of the above are effective for top management to use to manage the corporate culture effectively.

Short Answer Questions

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

98. Immigration patterns influence the management of the U.S. labor force. Discuss.

99. Provide an example and explanation of a social trend's effect upon the management of a specific organization.

100. Describe the five forces in Porter's Model for competitive analysis.

101. List actions and attitudes that mean excellent customer service. Illustrate each from your own experiences as either a customer or a service provider.

102. Differentiate between unattractive and attractive competitive environments, using Porter's Model of the competitive environment and give an example for each situation.

103. As environmental uncertainty increases, 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.

104. To respond to their environment, managers and companies have a number of options, which can be grouped into three categories. Describe each category.

105. Summarize the four different approaches that organizations can take in adapting to environmental uncertainty.

106. Discuss three independent strategies that a firm may use as a proactive response to its environment.

107. Differentiate between the following four strategic maneuvers: domain selection, diversification, merger and acquisition, and divestiture.

108. Discuss the clues utilized to diagnose a culture.

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

Multiple Choice Questions

Scenario A. Alice's Antique Jewelry is a small antique jewelry store that specializes in antique jewelry. In analyzing the environment, Alice has uncovered several interesting findings:

1. Alice has recently purchased more inventory than in the past. The customers from whom she buys are selling off more jewelry because their children are not interested in this type of jewelry and these customers would prefer to liquidate their jewelry to help them with their daily expenses since they no longer wear most of it.

2. Alice has recently discovered that her business is in a historical preservation district so as she considers remodeling the shop, she has found she must pay attention to the guidelines set forth in the governing laws.

3. Alice'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. Alice has been told that she should investigate 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, Alice discovered that there are no other antique jewelry stores within a 200 mile radius of hers.

110. Given the information in Scenario A, which of the following elements of the macroenvironment was part of Alice's findings?
A. Sustainability
B. Psychology
C. Corporate laws
D. Sociology
E. Technology

111. When Alice read the survey of regional businesses, she was investigating
A. the competitive environment.
B. the macroenvironment.
C. a closed environment.
D. their internal environment.
E. the social environment.

112. Findings 1 and 3 are both associated with the
A. competitive environment as described by Porter.
B. macroenvironmental economic trends.
C. macroenvironmental political trends.
D. amount of rivalry in Alice's competitive environment.
E. barriers to entry in Alice's competitive environment.

113. Finding 2 is most closely associated with which element of the macroenvironment?
A. Laws and regulations
B. The economy
C. Demographics
D. Technology
E. The natural environment

Scenario B. You and a fellow investor are investigating the possibility of starting a new casino in Black Hawk, Colorado, a small town in the Rocky Mountains. It has been your lifelong dream. You have won the lottery and are trying to decide if this is what you want to do with your prize money. You decide to do an analysis of the competitive environment. After your analysis, you discover several important issues. First, it will cost most of your 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 who has never even worked in the casino industry.

114. The analysis of the competitive environment that you have conducted utilized the work of
A. Frederick Taylor.
B. Michael Porter.
C. Abraham Maslow.
D. Douglas McGregor.
E. Lillian Gilbreth.

115. The information that you have collected in your competitive analysis can be referred to as
A. forecasting.
B. competitive intelligence.
C. environmental scanning.
D. benchmarking.
E. scenario development.

116. The existence of savvy customers in an industry is an indication of
A. high bargaining power of suppliers.
B. low bargaining power of suppliers.
C. high bargaining power of customers.
D. low bargaining power of customers.
E. low threat of new entry.

117. The fact that it will require such a large capital investment to start a new casino is an example of which of the following factors?
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, the Smash employees have never forgotten the vision of Mr. Smash—to be creative in all they do 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 that have been 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 clearly evident throughout the firm. In fact, there is a long tradition of employee participation in decision making and all consider themselves to be part of the "Smash Family."

118. The photo of the fire is an example of a(n)
A. story.
B. value.
C. legend.
D. symbol.
E. rite.

119. When the new employees are told of the organization's great accomplishments and history, it is an example of (an)
A. mission statement.
B. official goal.
C. story.
D. ceremony.
E. rite.

120. The culture at Smash Marketing can best be described as a(n)
A. group culture.
B. hierarchical culture.
C. rational culture.
D. adhocracy.
E. team culture.

121. Based on the information in the above scenario, which of the following outcomes would you most expect if business dropped off dramatically for Smash Marketing?
A. Mr. Smash would lay off most of his workforce.
B. The members of the entire company would agree that they should each cut their hours by 15% so that no one is laid off.
C. Mr. Smash would sell the company and move to Hawaii.
D. The members of the company would go on strike.
E. Mr. Smash would charge more for the consulting services so that he can make ends meet.

Scenario D. Margarita works for a small company, which processes and cans 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 competition is 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 type of weather conditions expected in each area of the world and thus the availability of particular crops and likely costs of these vegetables. 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 around canning process knowledge and Margarita's team is comparing their processes to those of Good Cans to see how they might improve.

122. When predicting the costs for her company, Margarita is engaging in
A. forecasting.
B. competitive intelligence.
C. environmental scanning.
D. benchmarking.
E. scenario development.

123. The research Margarita is using is called
A. forecasting.
B. competitive intelligence.
C. environmental scanning.
D. benchmarking.
E. scenario development.

124. The spreadsheet that Margarita uses gives her a chance to use
A. forecasting.
B. competitive intelligence.
C. environmental scanning.
D. benchmarking.
E. scenario development.

125. Margarita and her team are using _____ when they learn from Good Cans about its canning process.
A. forecasting
B. competitive intelligence
C. environmental scanning
D. benchmarking
E. scenario development

Chapter 02 The Environment of Business Answer Key

True / False Questions

1. *(p. 28)* The external environment includes all relevant forces outside the organization's boundaries.
TRUE

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.
Level of Difficulty: Easy
Topic: The Environment of Business

2. *(p. 28)* Organizations are open systems that affect and are affected by their external environments.
TRUE

An open system is affected by and affects its environment. Organizations are open systems because, for example they take inputs such as goods or services from the environment and convert them into outputs to the environment.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.
Level of Difficulty: Medium
Topic: The Environment of Business

3. *(p. 28)* A firm's competitive environment is composed of the firm, its competitors, suppliers and distributors.
TRUE

4. *(p. 28)* All organizations operate in a macro environment.
TRUE

The macroenvironment is the general environment; including governments, economic conditions, and other fundamental factors that generally affect all organizations.

5. *(p. 28)* U.S. government policies both impose strategic constraints and provide opportunities for organizations.
TRUE

The government can affect business opportunities through tax laws, economic policies, and international trade rulings.

6. *(p. 30)* There are complex interconnections among the economies of different countries that affect an organization's economic environment.
TRUE

Although most Americans think in terms of the U.S. economy, the economic environment for organizations is much larger—created by complex interconnections among the economies of different countries.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Medium
Topic: The Macroenvironment

7. *(p. 31)* Firms that develop strategies that don't include technological advances will realize obsolescence and extinction.
TRUE

Today a company cannot succeed without incorporating into its strategy the astonishing technologies that exist and continue to evolve.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Medium
Topic: The Macroenvironment

8. *(p. 31)* The fastest-growing age group in the U.S. civilian labor force is the group between 30 and 40 years old.
FALSE

The fastest-growing age group will be workers who are 55 and older, who are expected to represent more than one-fifth of the labor force in 2014.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Medium
Topic: The Macroenvironment

9. *(p. 32)* One reason that the labor force will not be more ethnically diverse than it is today is due to the immigration situation.
FALSE

Immigrants are frequently of working age but have different educational and occupational backgrounds from the rest of the labor force. Immigration is one reason the labor force in the future will be more ethnically diverse than it is today.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Medium
Topic: The Macroenvironment

10. *(p. 32)* 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
Bloom's: Comprehension
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Medium
Topic: The Macroenvironment

11. *(p. 33)* 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

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Easy
Topic: The Competitive Environment

12. *(p. 33)* Successful managers must be able to do more than react to the environment; they act in ways that actually shape or change the organization's environment.
TRUE

According to Michael 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
Bloom's: Comprehension
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Medium
Topic: The Competitive Environment

13. *(p. 34)* The first question in understanding competitive environments is: "Who is the competition?"
TRUE

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Easy
Topic: The Competitive Environment

14. *(p. 34)* It is helpful, but not essential, to understand what competitors are doing when a business is developing its own strategy.
FALSE

It's essential to understand what competitors are doing when you are honing your own strategy. An example of how this is used can be found in the game console industry.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Medium
Topic: The Competitive Environment

15. *(p. 35)* When barriers to entry are low, new entrants arise.
TRUE

If there are few barriers to entry, the threat of new entrants is greater. Examples of barriers to entry include capital requirements, brand identification, cost disadvantages, and distribution channels.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Medium
Topic: The Competitive Environment

16. *(p. 36)* Given that unionization in the U.S. has dropped to about 10 percent of the private labor force, the power of unions has faded away from all major industries.
FALSE

Although unionization in the U.S. has dropped below 10 percent of the private labor force, unions remain powerful in industries such as steel, autos, and transportation.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Medium
Topic: The Competitive Environment

17. *(p. 38)* Customer service means giving customers what they want, the way they want it, the first time.
TRUE

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Easy
Topic: The Competitive Environment

18. *(p. 39)* Environmental scanning means sorting through information available to the public to interpret what is important and what is not.
<u>FALSE</u>

19. *(p. 39)* Competitive intelligence is the information necessary to decide how best to manage in the competitive environment.
<u>TRUE</u>

20. *(p. 39)* Benchmarking is the process of identifying alternative combinations of different factors into a total picture of the environment and the firm.
<u>FALSE</u>

21. *(p. 41)* 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 when products, technologies, customers, or competitors are changing over time.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Responding to the Environment

22. *(p. 44)* Defenders are more likely to engage in strategic maneuvering than prospectors.
FALSE

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Responding to the Environment

23. *(p. 44)* Three general considerations that help guide management's response to the environment are: (1) change appropriate elements in the organization, (2) choose responses that focus on pertinent elements of the environment and (3) choose responses that offer the most benefit at the lowest cost.
FALSE

Three general considerations help guide management's response to the environment: (1) organizations should attempt to change appropriate elements of the environment, (2) organizations should choose responses that focus on pertinent elements of the environment, (3) companies should choose responses that offer the most benefit at the lowest cost.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Responding to the Environment

24. *(p. 45)* A strong organization culture is one in which everyone understands and believes in the firm's goals, priorities and practices.
TRUE

25. *(p. 46-47)* Stories told by employees almost never have any relevance 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.

Multiple Choice Questions

26. *(p. 28)* Organizations that are affected by and that affect their environment are called
A. inputs.
B. outputs.
C. open systems.
D. closed systems.
E. social systems.

27. *(p. 28)* Mary Jane, a new manager at Deli Delight, has been asked to focus on the competitive environment of the organization. Which of these factors is among those that Mary Jane should focus on?
A. Government policies
B. Demographics
C. Suppliers
D. Technology
E. Social factors

The competitive environment is composed of the firm and its rivals, suppliers, customers (buyers), new entrants, and substitute or complementary products.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.
Level of Difficulty: Hard
Topic: The Environment of Business

28. *(p. 29)* Using international bribery as a business tactic is illegal for U.S. firms. This statement reflects which type of environmental force at work?
A. Competitive
B. Economic
C. Legal/Political
D. Societal values
E. Demographics

An example of laws and regulations in the macroenvironment is the U.S. government's standards regarding bribery—it is considered illegal.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-02 Distinguish between the macroenvironment and the competitive environment.
Level of Difficulty: Medium
Topic: The Macroenvironment

29. *(p. 29)* Roberta was recently hired as the workplace safety compliance officer at Diligent Drilling Company. Roberta will have the responsibility to monitor regulations from which of these government agencies
A. FCC
B. EPA
C. SEC
D. OSHA
E. NLRB

OSHA stands for the Occupational Safety and Health Administration, the regulatory agency responsible for safety in the workplace, as its name suggests. Thus Roberta as a workplace safety compliance officer would have to be familiar with OSHA regulations.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Distinguish between the macroenvironment and the competitive environment.
Level of Difficulty: Hard
Topic: The Macroenvironment

30. *(p. 29)* The SEC recently proposed regulations requiring companies to disclose more details about executive compensation. This illustrates an important interaction between organizations and their relevant
A. demographics.
B. regulators.
C. attorneys.
D. labor officials.
E. suppliers.

Regulators are specific government organizations in a firm's more immediate task environment. The SEC is one example of a regulatory agency.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-02 Distinguish between the macroenvironment and the competitive environment.
Level of Difficulty: Medium
Topic: The Macroenvironment

31. *(p. 29)* Specific government organizations in a firm's immediate task environment are called
A. substitutes.
B. new entrants.
C. regulators.
D. economic indicators.
E. demographics.

32. *(p. 30)* The economy is a crucial component of the macroenvironment. Which of the following statements is most True about economic macro effects?
A. The impact of changes in the economy is predictable to competitors.
B. Changes in the economy are impossible to quantify.
C. There are complex interconnections among the economies of different countries.
D. High-level managers have little awareness of economic indicators.
E. The economy has no macro effects on managers.

Although most Americans think in terms of the U.S. economy, the economic environment for organizations is much larger—created by complex interconnections among the economies of different countries.

33. *(p. 30-31)* Interest rates, the inflation rate, the federal deficit and the stock market are all elements in which aspect of the macroenvironment?
A. The social environment
B. The international environment
C. The regulatory environment
D. The economic environment
E. Demographics

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Easy
Topic: The Macroenvironment

34. *(p. 31)* New methods of communication, production and even the development of entire new industries are the results of the changes in
A. demographics.
B. societal preferences.
C. technology.
D. the economy.
E. politics.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Easy
Topic: The Macroenvironment

35. *(p. 31)* Advances in genetic engineering and biotechnology are expected to produce some food products that will become available year-round even in northern climates. These changes will provide grocers with an opportunity to reduce their shipping costs while at the same time, offering fresher produce to their customers. These advances are an example of changes in the
A. technological environment.
B. economic environment.
C. political environment.
D. demographic environment.
E. international environment.

The biotechnology field makes use of advanced technologies for competitive advantage. Technological advances create new products such as those mentioned in the question.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Hard
Topic: The Macroenvironment

36. *(p. 31)* In the decade from 2004 to 2014, the U.S. civilian labor force is expected to
A. grow 10%.
B. grow 20%.
C. stay the same.
D. shrink 10%.
E. shrink 20%.

Population growth influences the size and composition of the labor force. In the decade from 2004 to 2014, the U.S. civilian labor force is expected to grow at a rate of 10 percent, reaching 162.1 million.]

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Medium
Topic: The Macroenvironment

37. *(p. 31)* Measures of various characteristics of the people who make up groups or other social units are called
A. psychographics.
B. demographics.
C. social characteristics.
D. lifestyle analytics.
E. unit characterization.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Easy
Topic: The Macroenvironment

38. *(p. 31)* By 2014, the number of workers 55 and above is expected to rise to about _____ percent of the U.S. labor force.
A. 42
B. 63
C. 31
D. 20
E. 4

The fastest-growing age group will be workers who are 55 and older, who are expected to represent more than one-fifth (20%) of the labor force in 2014.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Medium
Topic: The Macroenvironment

39. *(p. 32-33)* _____ trends regarding how people think and behave have major implications for management of the labor force, corporate actions and strategic decisions about products and markets.
A. Political
B. International
C. Economic
D. Technological
E. Societal

Changes in social trends such as when and if women choose to have children result in, for example, companies introducing more supportive policies such as family leave, flexible working hours, and child care assistance.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Medium
Topic: The Macroenvironment

40. *(p. 34, Figure 2.3)* Which of the following is an element of Michael Porter's model for analyzing the competitive environment?
A. Substitutes and complements
B. Non-suppliers
C. Non-customers
D. Regulatory forces
E. SBU strategy

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Easy
Topic: The Competitive Environment

41. *(p. 34, Figure 2.3)* The competitive environment consists of
A. the firm, and its rivals, suppliers, customers (buyers), new entrants, and substitute or complementary products.
B. only those organizations which the focal organization relies upon to provide supplies and materials.
C. those people who comprise the workers of the organization that complete the organization's activities.
D. those organizations that hold the firm accountable to their stakeholders.
E. those broader influences that affect a firm's competitive advantage.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Easy
Topic: The Competitive Environment

42. *(p. 34, Figure 2.3)* A firm's current competition, suppliers, customers and the threat of new entrants or of substitutes are all elements in the
A. Porter model for competitive analysis.
B. task environment.
C. microenvironment.
D. industrial microenvironment.
E. Peters model for organizational excellence.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Easy
Topic: The Competitive Environment

43. *(p. 34)* Which of the following is a competitor which a mass merchandiser like Target must identify and anticipate the actions of?
A. Consumer advocacy groups
B. Mass merchandiser suppliers
C. Wholesale outlets like Sam's or Price Club
D. Companies entering new markets
E. All of the above are potential competitors.

A major competitor to Target Stores is wholesale clubs. The other choices in the question are not rival firms, so they are not competitors.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Hard
Topic: The Competitive Environment

44. *(p. 34)* A low-cost airline described as one of the excellent companies in the bestseller of the early 1980s, *In Search of Excellence* is no longer in business. Industry analysts state that although the service and price provided by the airline was what customers wanted, the larger airlines were able to drive the low-cost airline out of business through an aggressive price war. This scenario is illustrative of which aspect of the competitive environment?
A. Customers
B. Competitors
C. Regulators
D. The economy
E. The political environment of the time

The competitive environment is composed in part of rival firms such as the larger airlines.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Hard
Topic: The Competitive Environment

45. *(p. 35)* Conditions which may prevent new firms from entering an industry (e.g., the use of patents) are referred to as
A. barriers to entry.
B. roadblocks.
C. unfair trade practices.
D. insider trading.
E. trade protectionism.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Easy
Topic: The Competitive Environment

46. *(p. 35)* Hospitals and universities are very expensive to run due not only 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. enhancing barriers to entry.
B. eliminating protectionism.
C. unfair competition.
D. enhancing trade protectionism.
E. eliminating barriers to entry.

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
Bloom's: Application
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Hard
Topic: The Competitive Environment

47. *(p. 35)* The highest barrier to entry of the following list of items is
A. brand identification.
B. competitor experience.
C. pricing practices.
D. the economy.
E. technology.

Some major barriers to entry include government policy, capital requirements, brand identification, cost disadvantages, and distribution channels.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Medium
Topic: The Competitive Environment

48. *(p. 35)* The development of new products that may replace sales of existing products is referred to as the threat of
A. new entrants.
B. substitutes.
C. diminished supply.
D. technology.
E. complements.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Easy
Topic: The Competitive Environment

49. *(p. 35)* Kellogg's cereals are a major supplier to almost all grocery store chains. They share most of the valuable shelf space in the cereal aisle with General Mills. Based on this information
A. the threat of new entrants to the cereal manufacturing industry is high.
B. the threat of government regulation of cereal is high.
C. the threat of new entrants to the cereal manufacturing industry is low.
D. the threat of substitutes for either type of cereal is high.
E. the regulatory influence on cereal is high and changing.

The threat of new entrants is likely low in this scenario primarily because existing competitors have tight distribution channels and new cereal manufacturers would struggle to get their goods to customers primarily because Kellogg's and General Mills already own the shelf space in grocery store chains.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Hard
Topic: The Competitive Environment

50. *(p. 36)* 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. resource firms.
B. placement centers.
C. retailers.
D. suppliers.
E. customs houses.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Easy
Topic: The Competitive Environment

51. *(p. 37)* The fixed costs buyers face if they change suppliers are called
A. changing costs.
B. switching costs.
C. supplier costs.
D. retailer costs.
E. sunk costs.

52. *(p. 37)* Bank 'o Bucks utilizes the janitorial services of Bob's Scrub-A-Dub-Dub to keep their buildings clean. Bob's provides all the necessary cleaning supplies, training of crews, background security checks (since the crews work after hours) and all other associated expenses. The other available janitorial services do not typically provide security checks and a client such as a bank would have to hire guards to watch the work of the janitors. This expense effectively limits the bank to utilizing only Bob's services. This illustrates the concept of
A. high employment costs.
B. unfavorable supplier status.
C. high switching costs.
D. favorable quality status.
E. complementary products.

Switching costs are fixed costs buyers face if they change suppliers. In this case, the bank would have to have a permanent security guard, a fixed cost, should it decide to switch from Bob's Scrub-A-Dub-Dub to another cleaning service.

53. *(p. 37)* Management of the network of facilities and people that obtains materials from the outside, transforms them into products and distributes the products to customers is called
A. collaboration.
B. switching costs.
C. cooptation.
D. supply chain management.
E. customer service.

54. *(p. 37)* A customer who purchases raw materials or wholesale products before selling them is called a(n)
A. final customer.
B. middle customer.
C. intermediate consumer.
D. first tier supplier.
E. preliminary customer.

55. *(p. 37)* The main difference between a final consumer and an intermediate consumer is
A. the final consumer usually pays cash for the purchase whereas the intermediate customer uses a credit card.
B. an intermediate consumer will utilize the purchase in order to sell their product/service to final consumers whereas a final customer use the product him/herself.
C. final consumers purchase more (in dollar value) than do intermediate consumers.
D. intermediate consumers are usually more flexible than final consumers.
E. final consumers have more bargaining power than intermediate customers.

Intermediate consumers buy raw materials or wholesale products and then sell to final consumers.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Medium
Topic: The Competitive Environment

56. *(p. 37)* Which of the following would be considered a consumer?
A. OSHA
B. Neiman Marcus
C. An individual
D. IBM
E. All of the above would be considered a consumer.

A customer purchases the goods or services an organization offers. All of the above are customers, though an individual is a final consumer, the government agency is likely a final consumer since the organization does not make products, and IBM and Neiman Marcus are intermediate consumers.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Medium
Topic: The Competitive Environment

57. *(p. 38)* Sam's Siding traditionally provides sub-contracting services to construction firms. There are many firms like Sam's in the marketplace and Sam's does about 85% of their work for Bill's Building. Bill typically negotiates quite heavily with his prospective customers, which ultimately reduces Sam's profits. This situation is indicative of the high bargaining power of
A. customers.
B. suppliers.
C. substitute companies.
D. competitors.
E. new construction companies.

An organization like Sam's Siding is at a disadvantage if it depends too heavily on powerful customers like Bill. Bill is powerful because he makes large purchases from Sam's and because Sam's is evidently replaceable with one of the other firms in the business. Since Bill is the largest customer of Sam's and can likely buy from others, he has power over Sam's.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Hard
Topic: The Competitive Environment

58. *(p. 38)* Giving customers what they want or need, the way they want it, the first time is known as
A. planned giving.
B. planned obsolescence.
C. customer service.
D. premier service.
E. operations management.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Easy
Topic: The Competitive Environment

59. *(p. 38)* Environmental uncertainty results from
A. complexity.
B. simplicity.
C. cooperation.
D. simple issues.
E. an incrementally changing environment.

Environmental uncertainty means that managers do not have enough information about the environment to understand or predict the future. Uncertainty arises from complexity and dynamism.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Environmental Analysis

60. *(p. 38)* _____ refers to the degree of discontinuous change that occurs within the industry.
A. Environmental complexity
B. Environmental disfunction
C. Environmental contracting
D. Cooptation
E. Environmental dynamism

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Environmental Analysis

61. *(p. 39)* Managers at Molly's Closet, a clothing retailer, engage in an annual organizational assessment as part of an attempt to predict changes as well as possible opportunities and threats. They look at issues such as who their competitors are, how many entry barriers there are in the industry and what substitutes exist for their products. This assessment is called
A. scenario development.
B. forecasting.
C. benchmarking.
D. environmental scanning.
E. SWOT analysis.

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 "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
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Environmental Analysis

62. *(p. 39)* An outcome of environmental scanning is _____, the information necessary to decide how best to manage in the competitive environment managers have identified.
A. an organizational plan
B. entry barrier concepts
C. competitive intelligence
D. corporate espionage plans
E. competitive counter-plans

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Environmental Analysis

63. *(p. 39)* A narrative that describes a particular set of future conditions is called
A. benchmarking.
B. a scenario.
C. forecasting.
D. managerial outcomes analysis.
E. competitive intelligence.

64. *(p. 39)* _____ create(s) alternative combinations of different factors into a total picture of the environment and the firm.
A. Scenarios
B. Forecasting
C. Benchmarking
D. Competitive intelligence
E. Buffering

65. *(p. 39)* The method for predicting how variables will change the future is called
A. budgeting.
B. scenario development.
C. forecasting.
D. benchmarking.
E. environmental scanning.

66. *(p. 39)* In determining how interest rates will change in the future, a manager would use
A. budgeting.
B. scenario development.
C. forecasting.
D. benchmarking.
E. environmental scanning.

Forecasting is a method for predicting how variables (e.g. interest rates, demand for goods and services) will change the future.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Environmental Analysis

67. *(p. 40)* The best advice for using forecasts is
A. Use multiple forecasts and perhaps average their predictions.
B. Forecasts become more accurate the further into the future you predict.
C. Forecasts improve the data used to construct them.
D. The more complex the forecast, the more accurate it is.
E. Unexpected events are all the more reason to stick to the forecast.

Forecasting is a method for predicting how variables (e.g. interest rates, demand for goods and services) will change in the future. The best advice of the list given is to use multiple forecasts and perhaps average their predictions.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Environmental Analysis

68. *(p. 39, Table 2.1)* Which of the following scenarios would be the most favorable to an existing firm in the industry according to the Porter model of the competitive environment?
A. Many competitors, few entry barriers, and few customers.
B. Many competitors, high threat of entry, many customers.
C. Few entry barriers, many substitutes, many customers.
D. High industry growth, many barriers to entry, customers have low bargaining power.
E. Low industry growth, few barriers to entry, suppliers have low bargaining power.

Porter's model suggests that high industry growth, many barriers to entry, and a situation where customers have low bargaining power is the most favorable of the scenarios listed. See Table 2.1 for other scenarios.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Environmental Analysis

69. *(p. 40)* _____ means identifying the best-in-class performance by a company in your area and then comparing your processes to theirs.
A. Scenario planning
B. Forecasting
C. Benchmarking
D. Environmental scanning
E. Adapting

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Environmental Analysis

70. *(p. 40)* In an attempt to improve upon customer service, Terrapin Toys decided to assign a team to investigate what kinds of services competing companies offered. The team discovered that a smaller company, Gorilla Games, Inc., seemed to have outstanding customer service. The team then determined the major differences between the two companies and developed a plan to incorporate the best elements of Gorilla Games, Inc into Terrapin Toys. This illustrates effective
A. environmental dynamism.
B. benchmarking.
C. strategic maneuvering.
D. cooperative action.
E. forecasting.

Benchmarking is the process of comparing an organization's (Terrapin Toys) practices and technologies (customer service) with those of other companies (Gorilla Games, Inc.).

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Environmental Analysis

71. *(p. 40)* The process of sharing power with employees is called
A. empowerment.
B. job sharing.
C. benchmarking.
D. vertical synergy.
E. team building.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Responding to the Environment

72. *(p. 41)* Creating supplies of excess resources in case of unpredictable needs is called
A. just-in-time inventory management.
B. smoothing.
C. flexible processes.
D. kanban.
E. buffering.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Responding to the Environment

73. *(p. 41)* Cara owns a small gift shop on the West Coast. She is hoping the economy rebounds this fall as she had to order her Christmas and other holiday gifts in February to be sure she has enough inventory for the surge in sales that the holiday season usually but not always brings to her retail store. In this example, Cara is using _____ to be sure she has enough gifts for those extra holiday customers that she hopes will brave the economic woes and shop for holiday gifts.
A. just-in-time inventory management
B. smoothing
C. kanban
D. buffering
E. adapting at the core

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Responding to the Environment

74. *(p. 41)* The growth of contingent workers in the U.S. labor force due to unpredictable labor demand is an illustration of
A. adapting at the core.
B. flexible processes.
C. buffering.
D. smoothing.
E. empowerment.

Buffering creates supplies of excess resources (in this case contingent workers) in case of unpredictable needs (such as unpredictable labor demand).

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Responding to the Environment

75. *(p. 41)* Leveling normal fluctuations at the boundaries of the environment is called
A. buffering.
B. smoothing.
C. flexible processes.
D. empowerment.
E. kanban.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Responding to the Environment

76. *(p. 41)* Methods for adapting the technical core to changes in the environment are called
A. flexible processes.
B. smoothing effects.
C. buffering.
D. benchmarking.
E. environmental scanning.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Responding to the Environment

77. *(p. 42)* When Yancy's Yogurt Company acts on its own to promote the yogurt industry as a whole, the company is practicing
A. competitive aggression.
B. competitive pacification.
C. public relations.
D. voluntary cooptation.
E. cooperative action.

Competitive pacification is an independent action to improve relations with competitors such as Yancy's Yogurt Company promoting the yogurt industry as a whole.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Responding to the Environment

78. *(p. 42)* When Sudsy Company advertises its soap products as better than Bubble Company's soap products, Sudsy Co. is demonstrating
A. competitive aggression.
B. competitive pacification.
C. benchmarking.
D. political action.
E. cooptation.

Competitive aggression is exploiting a distinctive competence (such as Sudsy Company's better soap as compared to Bubble Company in comparative advertising) or improving internal efficiency for competitive advantage.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Responding to the Environment

79. *(p. 42)* Strategies that an organization acting on its own uses to change some aspect of its current environment are called
A. flexible strategies.
B. buffering strategies.
C. independent strategies.
D. smoothing strategies.
E. cooperative strategies.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Responding to the Environment

80. *(p. 42)* The two types of proactive strategies for influencing an organization's environment include
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.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Responding to the Environment

81. *(p. 42)* When two or more companies work together to alter their current environment they are using
A. monopolistic strategies.
B. strategic maneuvering.
C. cooperative strategies.
D. dependent strategies.
E. codependent strategies.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Responding to the Environment

82. *(p. 42)* Higher Place University has just formed a board of trustees and invited 25 of its wealthiest alumni to join. In this example HPU 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 it stability or existence. HPU is demonstrating cooptation by inviting wealthy alumni to join its board of trustees.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Responding to the Environment

83. *(p. 42)* PharmaCo and Allbest Meds have joined forces with one another to lobby against health care reform. This action is referred to as
A. contraction.
B. coalition.
C. cooptation.
D. domain selection.
E. benchmarking.

Coalition is two or more groups (PharaCo and Allbest Meds) that coalesce and act jointly with respect to some set of issues (health care reform) for some period of time.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Responding to the Environment

84. *(p. 43)* 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. Examples of strategic maneuvers include domain selection, diversification, merger and acquisition, and divestiture.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Responding to the Environment

85. *(p. 43)* The entrance by a company into another market or industry for which it has an existing expertise is called
A. a cooperative strategy.
B. strategic maneuvering.
C. a strategic alliance.
D. domain selection.
E. cooptation.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Responding to the Environment

86. *(p. 44)* Prospectors are
A. companies that continually change the boundaries for their task environments by seeking new products and markets, diversifying and merging, or acquiring new enterprises.
B. companies that aggressively monitor and protect the established boundaries of their competitive environment.
C. financially sound in unstable industries.
D. firms that sell one or more businesses.
E. in the mature stage of the product life cycle.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Responding to the Environment

87. *(p. 44)* One firm buying another is called a(n)
A. merger.
B. acquisition.
C. divestiture.
D. prospective.
E. defender.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Easy
Topic: Responding to the Environment

88. *(p. 44)* It was recently announced that Animal Organics was selling off its pork division in order to realign itself more competitively in the marketing of its other products. This is an example of managing the task environment through
A. diversification.
B. acquisition.
C. merger.
D. divestiture.
E. domain selection.

A divestiture is a firm such as Animal Organics selling one or more businesses such as its pork division.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Responding to the Environment

89. *(p. 45)* The set of important assumptions about the organization and its goals and practices that members of the company share is called
A. organization culture.
B. organization norms.
C. industrial environment.
D. a closed system.
E. an open system.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-06 Define elements of an organization's culture.
Level of Difficulty: Easy
Topic: Culture and the Internal Environment of Organizations

90. *(p. 46)* The five-by-eight inch card with one rule on it—"Use good judgment in all situations"—that employees at Nordstrom receive as the employee handbook tells the employees a great deal about their company's
A. organizational location.
B. business environment.
C. organization culture.
D. environmental scanning.
E. macroenvironment.

The organization culture is the set of important assumptions about the organization and its goals and practices members of the company share. The described one-card handbook that Nordstrom uses tells the employees the culture is one of empowerment.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-06 Define elements of an organization's culture.
Level of Difficulty: Medium
Topic: Culture and the Internal Environment of Organizations

91. *(p. 46-47)* Which of the following can be a useful clue about an organization's culture?
A. Who is hired and fired
B. Information printed in the media from sources outside the company
C. The macroenvironment
D. Environmental scanning
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. Who is hired and fired is one example of a clue to the organization culture.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-06 Define elements of an organization's culture.
Level of Difficulty: Medium
Topic: Culture and the Internal Environment of Organizations

92. *(p. 45)* A(n) _____ culture is one in which everyone understands and believes in the firm's goals, priorities, and practices.
A. informal
B. formal
C. strong
D. weak
E. influential

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-06 Define elements of an organization's culture.
Level of Difficulty: Easy
Topic: Culture and the Internal Environment of Organizations

93. *(p. 47)* If an organization's culture is internally oriented, flexible and tends to be based on the values and norms associated with affiliation, it could best be described as a _____ type of culture.
A. group culture
B. hierarchical culture
C. rational culture
D. adhocracy
E. values-oriented

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-07 Discuss how an organization's culture affects its response to its external environment.
Level of Difficulty: Easy
Topic: Culture and the Internal Environment of Organizations

94. *(p. 47)* If an organization's culture is externally oriented and focused on control with its primary objectives as productivity, planning and efficiency, it could best be described as a _____ type of culture.
A. group
B. hierarchical
C. rational
D. adhocracy
E. values-oriented

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-07 Discuss how an organization's culture affects its response to its external environment.
Level of Difficulty: Easy
Topic: Culture and the Internal Environment of Organizations

95. *(p. 48; Figure 2.5)* The two dimensions upon which the competing-values model of culture is defined are
A. flexibility vs. control AND internal vs. external focus of the organization.
B. levels of hierarchy vs. levels of empowerment.
C. leadership type vs. levels of hierarchy.
D. degree of environmental scanning vs. level of empowerment.
E. level of environmental scanning vs. level of environmental influence.

AACSB: Analytic
Bloom's: Knowledge
Learning Objective: 02-07 Discuss how an organization's culture affects its response to its external environment.
Level of Difficulty: Easy
Topic: Culture and the Internal Environment of Organizations

96. *(p. 48-49)* Which of the following approaches is effective for top management to use to manage the positive corporate culture effectively?
A. Executives must not give too much attention to the mundane details of daily affairs.
B. Executives must allow the organization to develop lofty ideas and visions for the company and then it is up to others in the organization to follow through on these ideas and visions, not the executives.
C. CEOS and other executives should always make choices that contribute to profit even if this means not quite living up to the company's values.
D. Hire and promote employees on the basis of the organization's corporate values.
E. All of the above are effective for top management to use to manage the corporate culture effectively.

An organization may find itself in the midst of a changing environment that requires a culture change. To be effective in changing the culture to adapt to this change, executives should hire and promote employees on the basis of the organization's corporate values. In this way, the new culture will begin to permeate the organization.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-07 Discuss how an organization's culture affects its response to its external environment.
Level of Difficulty: Medium
Topic: Culture and the Internal Environment of Organizations

Short Answer Questions

97. *(p. 28-33)* List the five elements of a firm's macroenvironment and illustrate how each affects the firm.

Answers will vary.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Distinguish between the macroenvironment and the competitive environment.
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Hard
Topic: The Macroenvironment

98. *(p. 32-33)* Immigration patterns influence the management of the U.S. labor force. Discuss.

Answers will vary.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Medium
Topic: The Macroenvironment

99. *(p. 32-33)* Provide an example and explanation of a social trend's effect upon the management of a specific organization.

Answers will vary.

AACSB: Analytic
Bloom's: Analysis
Learning Objective: 02-03 Explain why managers and organizations should attend to economic and social developments.
Level of Difficulty: Hard
Topic: The Macroenvironment

100. *(p. 34; Figure 2.3)* Describe the five forces in Porter's Model for competitive analysis.

Answers will vary.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Medium
Topic: The Competitive Environment

101. *(p. 38)* List actions and attitudes that mean excellent customer service. Illustrate each from your own experiences as either a customer or a service provider.

Answers will vary.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Hard
Topic: The Competitive Environment

102. *(p. 39; Table 2.1)* Differentiate between unattractive and attractive competitive environments, using Porter's Model of the competitive environment and give an example for each situation.

Answers will vary.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Environmental Analysis

103. *(p. 39-40)* As environmental uncertainty increases, 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
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Environmental Analysis

104. *(p. 40-44)* To respond to their environment, managers and companies have a number of options, which can be grouped into three categories. Describe each category.

Answers will vary.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Responding to the Environment

105. *(p. 40; Figure 2.4)* Summarize the four different approaches that organizations can take in adapting to environmental uncertainty.

Answers will vary.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Responding to the Environment

106. *(p. 42)* Discuss three independent strategies that a firm may use as a proactive response to its environment.

Answers will vary.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Responding to the Environment

107. *(p. 43-44)* Differentiate between the following four strategic maneuvers: domain selection, diversification, merger and acquisition, and divestiture.

Answers will vary.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Responding to the Environment

108. *(p. 46-47)* Discuss the clues utilized to diagnose a culture.

Answers will vary.

109. *(p. 47)* Describe the culture of an organization that you have either worked in or studied. Which of the four types of organizational culture described in the chapter does the organization illustrate? Justify your answer.

Answers will vary.

Multiple Choice Questions

Scenario A. Alice's Antique Jewelry is a small antique jewelry store that specializes in antique jewelry. In analyzing the environment, Alice has uncovered several interesting findings:

1. Alice has recently purchased more inventory than in the past. The customers from whom she buys are selling off more jewelry because their children are not interested in this type of jewelry and these customers would prefer to liquidate their jewelry to help them with their daily expenses since they no longer wear most of it.

2. Alice has recently discovered that her business is in a historical preservation district so as she considers remodeling the shop, she has found she must pay attention to the guidelines set forth in the governing laws.

3. Alice'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. Alice has been told that she should investigate 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, Alice discovered that there are no other antique jewelry stores within a 200 mile radius of hers.

110. *(p. 28)* Given the information in Scenario A, which of the following elements of the macroenvironment was part of Alice's findings?
A. Sustainability
B. Psychology
C. Corporate laws
D. Sociology
E. Technology

The macroenvironment includes legal, political, economic, technological, demographic, and social and natural factors that generally affect all organizations. The only one of these categories mentioned in the question is technology, which is illustrated through finding 4 in the scenario.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.
Level of Difficulty: Hard
Topic: The Environment of Business

111. *(p. 28)* When Alice read the survey of regional businesses, she was investigating
A. the competitive environment.
B. the macroenvironment.
C. a closed environment.
D. their internal environment.
E. the social environment.

The competitive environment is composed of the firm and its rivals, suppliers, customers (buyers), new entrants, and substitute or complementary products.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-01 Describe how environmental forces influence organizations and how organizations can influence their environments.
Level of Difficulty: Hard
Topic: The Environment of Business

112. *(p. 33)* Findings 1 and 3 are both associated with the
A. competitive environment as described by Porter.
B. macroenvironmental economic trends.
C. macroenvironmental political trends.
D. amount of rivalry in Alice's competitive environment.
E. barriers to entry in Alice'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 as shown in Figure 2.3.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Hard
Topic: The Competitive Environment

113. *(p. 28-30)* Finding 2 is most closely associated with which element of the macroenvironment?
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 affect all organizations. Laws and regulations are part of the macroenvironment and affect Alice by dictating how she can renovate her shop based on the prevailing rules of the historical preservation district her shop is in.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Distinguish between the macroenvironment and the competitive environment.
Level of Difficulty: Hard
Topic: The Macroenvironment

Scenario B. You and a fellow investor are investigating the possibility of starting a new casino in Black Hawk, Colorado, a small town in the Rocky Mountains. It has been your lifelong dream. You have won the lottery and are trying to decide if this is what you want to do with your prize money. You decide to do an analysis of the competitive environment. After your analysis, you discover several important issues. First, it will cost most of your 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 who has never even worked in the casino industry.

114. *(p. 34)* The analysis of the competitive environment that you have conducted utilized the work of
A. Frederick Taylor.
B. Michael Porter.
C. Abraham Maslow.
D. Douglas McGregor.
E. Lillian Gilbreth.

The competitive environment as described by Porter includes both suppliers, and customers, new entrants, substitutes and complements, as well as rival firms as shown in Figure 2.3.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Medium
Topic: The Competitive Environment

115. *(p. 39)* The information that you have collected in your competitive analysis can be referred to as
A. forecasting.
B. competitive intelligence.
C. environmental scanning.
D. benchmarking.
E. scenario development.

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

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Medium
Topic: Environmental Analysis

116. *(p. 38)* The existence of savvy customers in an industry is an indication of
A. high bargaining power of suppliers.
B. low bargaining power of suppliers.
C. high bargaining power of customers.
D. low bargaining power of customers.
E. low threat of new entry.

Customers with knowledge about the industry have power to play competitors against one another. For example a powerful customer will have information about the odds of winning at the casinos and will likely play most at the casino with the highest odds.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: Medium
Topic: The Competitive Environment

117. *(p. 35)* The fact that it will require such a large capital investment to start a new casino is an example of which of the following factors?
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

The high cost of entering the casino industry forms a barrier to entry such that the threat of new entrants is less serious.

AACSB: Analytic
Bloom's: Comprehension
Learning Objective: 02-04 Identify elements of the competitive environment.
Level of Difficulty: 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, the Smash employees have never forgotten the vision of Mr. Smash—to be creative in all they do 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 that have been 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 clearly evident throughout the firm. In fact, there is a long tradition of employee participation in decision making and all consider themselves to be part of the "Smash Family."

118. *(p. 46-47)* The photo of the fire is an example of a(n)
A. story.
B. value.
C. legend.
D. symbol.
E. rite.

The photo is a symbol of the values of the company, including the teamwork that is part of the company culture to this day.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-06 Define elements of an organization's culture.
Level of Difficulty: Hard
Topic: Culture and the Internal Environment of Organizations

119. *(p. 46-47)* When the new employees are told of the organization's great accomplishments and history, it is an example of (an)
A. mission statement.
B. official goal.
C. story.
D. ceremony.
E. rite.

The stories people tell carry a lot of information about the company's culture. The great accomplishments and explanations of the "Wall of Memories" are the Smash stories.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-06 Define elements of an organization's culture.
Level of Difficulty: Hard
Topic: Culture and the Internal Environment of Organizations

120. *(p. 47)* The culture at Smash Marketing can best be described as a(n)
A. group culture.
B. hierarchical culture.
C. rational culture.
D. adhocracy.
E. team culture.

A group culture has a dominant attribute of participation, teamwork, and a sense of family, all of which are mentioned in the scenario.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-07 Discuss how an organization's culture affects its response to its external environment.
Level of Difficulty: Hard
Topic: Culture and the Internal Environment of Organizations

121. *(p. 48)* Based on the information in the above scenario, which of the following outcomes would you most expect if business dropped off dramatically for Smash Marketing?
A. Mr. Smash would lay off most of his workforce.
B. The members of the entire company would agree that they should each cut their hours by 15% so that no one is laid off.
C. Mr. Smash would sell the company and move to Hawaii.
D. The members of the company would go on strike.
E. Mr. Smash would charge more for the consulting services so that he can make ends meet.

In a group culture like Smash Marketing, there is loyalty, tradition, and interpersonal cohesion. Under these conditions, along with commitment and morale that are the strategic emphasis of a group culture, the members of the company would most likely agree to cut their hours so that no one is laid off.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-07 Discuss how an organization's culture affects its response to its external environment.
Level of Difficulty: Hard
Topic: Culture and the Internal Environment of Organizations

 Scenario D. Margarita works for a small company, which processes and cans 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 competition is 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 type of weather conditions expected in each area of the world and thus the availability of particular crops and likely costs of these vegetables. 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 around canning process knowledge and Margarita's team is comparing their processes to those of Good Cans to see how they might improve.

122. *(p. 39)* 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 in the future. In this scenario, Margarita is trying to determine costs in the future.

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Environmental Analysis

123. *(p. 39)* The research Margarita is using is called
A. forecasting.
B. competitive intelligence.
C. environmental scanning.
D. benchmarking.
E. scenario development.

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Summarize how organizations respond to environmental uncertainty.
Level of Difficulty: Hard
Topic: Environmental Analysis

124. *(p. 39)* The spreadsheet that Margarita uses gives her a chance to use
A. forecasting.
B. competitive intelligence.
C. environmental scanning.
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.

125. *(p. 40)* Margarita and her team are using _____ when they learn from Good Cans about its canning process.
A. forecasting
B. competitive intelligence
C. environmental scanning
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 your processes to theirs. Margarita is comparing her company's process of canning to that of Good Cans.