## Chapter 04

## The External Environment

**Multiple Choice Questions**

1.*(p. 87)* The external environment can be divided into various subcategories:   
A. Remote, political, social  
B. Remote, social, operational  
**C.** Remote, industry, operating  
D. Technological and social

*Difficulty: Easy  
Learning Objective: 1*

2.*(p. 87)* A firm's external environment includes a remote sector, industry sector and an operating sector. The remote sector includes which of the following categories?   
**A.** Political, technological, economic and social  
B. Political, supplier power, economic and labor  
C. State government, production, social and economic  
D. Mission, company profile and competition

*Difficulty: Easy  
Learning Objective: 1*

3.*(p. 87)* The remote external environment includes:   
A. Creditors  
B. Industry factors  
C. Employee  
**D.** Ecological factors

*Difficulty: Easy  
Learning Objective: 1*

4.*(p.87)* The factors beyond the control of the firm that influence its choice of direction and action, organizational structure and internal processes refers to   
A. Directional strategies  
**B.** External environment  
C. Organizational processes  
D. Internal environment

*Difficulty: Easy  
Learning Objective: 1*

5.*(p. 87)* The \_\_\_\_\_\_ environment compromises factors that originate beyond and usually irrespective of, any single firm's operating situation.   
**A.** Remote  
B. Industry  
C. Operating  
D. Internal

*Difficulty: Easy  
Learning Objective: 2*

6.*(p. 87)* Supplier power is an example of a factor that falls within the \_\_\_\_\_\_\_\_\_ environment.   
A. Economic  
B. Operating  
**C.** Industry  
D. Remote

*Difficulty: Easy  
Learning Objective: 1*

7.*(p. 87)* Which environment compromises factors in the immediate competitive situation that affect a firm's success in acquiring needed resources?   
A. Industry  
B. Remote  
C. Economic  
**D.** Operating

*Difficulty: Hard  
Learning Objective: 1*

8.*(p. 87)* When we consider the level of disposable income, we are normally considering:   
A. Technological factors  
**B.** Economic factors  
C. Political factors  
D. Social factors

*Difficulty: Medium  
Learning Objective: 3*

9.*(p. 89)* The considerations involving the beliefs, values, attitudes and opinions of those in a firm's environment represent the \_\_\_\_\_\_.   
**A.** Social factors  
B. Personal factors  
C. Economic factors  
D. Political factors

*Difficulty: Medium  
Learning Objective: 3*

10.*(p. 89)* One of the most profound social changes in recent years is:   
A. The decreased population  
**B.** An increasing number of women in the workforce  
C. The heavy reliability of children in the workforce  
D. Increased education of U.S. citizens

*Difficulty: Hard  
Learning Objective: 3*

11.*(p. 89)* A profound social change in the recent years has been   
**A.** The accelerating interest of consumers and employers in quality of life issue  
B. The decelerating interest of foreigners seeking jobs and immigrant status in the U.S.  
C. The remarkably high placement of U.S. high school education in math and science in the world  
D. The global warming effect

*Difficulty: Hard  
Learning Objective: 3*

12.*(p. 90)* Political factors define the \_\_\_\_\_\_ parameters within which firms must operate.   
A. Economic  
**B.** Legal and regulatory  
C. Global  
D. Social and cultural

*Difficulty: Medium  
Learning Objective: 3*

13.*(p. 90)* Encompassed in political considerations is/are:   
A. Social values  
B. Disposable income  
**C.** Anti-trust laws  
D. Age distribution

*Difficulty: Medium  
Learning Objective: 3*

14.*(p. 92)* Political activity may have a significant impact on which of the following governmental functions?   
A. Religious orientation  
**B.** Customer function  
C. Manufacturer function  
D. Social changes

*Difficulty: Hard  
Learning Objective: 3*

15.*(p. 93)* Awareness of technological changes in its industry helps the firm to:   
A. Interpret new regulations  
B. Act slowly and carefully  
**C.** Exploit new markets  
D. Forecast social change

*Difficulty: Hard  
Learning Objective: 3*

16.*(p. 93)* The quasi-science of anticipating environmental and competitive changes and estimating their importance to an organizations operation refers to   
**A.** Technological forecasting  
B. Ecology  
C. Industry environment  
D. Operating environment

*Difficulty: Medium  
Learning Objective: 3*

17.*(p. 93)* The term \_\_\_\_\_\_ refers to the relationships among human beings and other living things and the air, soil and water that supports them.   
A. Pollution  
**B.** Ecology  
C. Operating environment  
D. Remote environment

*Difficulty: Easy  
Learning Objective: 3*

18.*(p. 93)* Threats to life-supporting ecology caused principally by human activities is an industrial society are commonly referred to as   
A. Technology  
B. Co-efficiency  
**C.** Pollution  
D. Product differentiation

*Difficulty: Easy  
Learning Objective: 3*

19.*(p. 95)* Business is now being held responsible for:   
A. Using only underground dumping sites  
**B.** Cleaning up its previous environmental damage  
C. Municipal sewer systems  
D. Ensuring that a "thermal blanket" is created

*Difficulty: Hard  
Learning Objective: 3*

20.*(p. 96)* Which of these is NOT an example of a federal ecological legislation?   
A. Air Quality Act  
B. Refuse Act  
**C.** Occupational Safety and Health Act  
D. Resource Recovery Act

*Difficulty: Medium  
Learning Objective: 3*

21.*(p. 95)* Company actions that produce more useful goods and services while continuously reducing recourse consumption and pollution refers to   
A. Product differentiation  
B. Economics of scale  
C. Barriers to entry  
**D.** Eco-efficiency

*Difficulty: Easy  
Learning Objective: 3*

22.*(p. 97)* One of the most important steps a firm can take in achieving a competitive position with regard to the eco-efficiency strategy is to   
A. Outsource the operations to a developing country  
**B.** Fully capitalize on technological developments  
C. Shift from service to manufacturing operations  
D. Mandate that all suppliers, distributors and customers reduce their resource consumption

*Difficulty: Hard  
Learning Objective: 3*

23.*(p. 97)* Which of these represent a key characteristic of eco-efficient corporations?   
A. Eco-efficient firms are reactive  
B. Eco-efficiency is added on  
**C.** Flexibility is imperative for eco-efficient strategy implementation  
D. Eco-efficiency is insular

*Difficulty: Medium  
Learning Objective: 3*

24.*(p. 97)* All of these are key characteristics of eco-efficient corporations EXCEPT   
**A.** Eco-efficiency is insular  
B. Eco-efficient firms are proactive  
C. Eco-efficiency is designed in  
D. Flexibility is imperative for eco-efficient strategy implementation

*Difficulty: Medium  
Learning Objective: 3*

25.*(p. 98)* The state of competition is an industry, according to Porter, depends on \_\_\_\_\_\_ basic forces.   
A. 3  
**B.** 5  
C. 8  
D. 2

*Difficulty: Easy  
Learning Objective: 4*

26.*(p. 98)* Collectively, competitive forces determine the ultimate:   
A. Growth of a firm  
B. Survival of a firm  
**C.** Profitability of a firm  
D. Viability of a firm

*Difficulty: Medium  
Learning Objective: 4*

27.*(p. 99)* Which of these, according to Porter is NOT a force driving industry competition?   
A. Threat of new entrants  
B. Bargaining power of buyers  
**C.** Bargaining power of distributors  
D. Threat of substitutes

*Difficulty: Medium  
Learning Objective: 4*

28.*(p. 100)* Which of these is a determinant of entry, according to Porter?   
A. Presence of substitute input  
B. Ability to backward integrate  
C. Exit barriers  
**D.** Economies of scale

*Difficulty: Hard  
Learning Objective: 4*

29.*(p. 100)* Brand identity is a determinant of which of these forces driving industry competition?   
**A.** Entry  
B. Rivalry  
C. Buyer power  
D. Supplier power

*Difficulty: Hard  
Learning Objective: 5*

30.*(p. 102)* Differentiation of inputs represents a determinant of   
A. Entry  
B. Rivalry  
C. Buyer power  
**D.** Supplier power

*Difficulty: Hard  
Learning Objective: 5*

31.*(p. 98)* In the economists' "perfectly competitive" industry jockeying for position is unbridled and entry to the industry is   
**A.** Very easy  
B. Prohibited by regulations  
C. Moderated due to national security concerns  
D. Very hard

*Difficulty: Hard  
Learning Objective: 4*

32.*(p. 102)* Access to distribution channels is a major source of which competitive force?   
A. Bargaining power of buyers  
**B.** Threat of entry  
C. Threat of substitute products  
D. Bargaining power of suppliers

*Difficulty: Medium  
Learning Objective: 5*

33.*(p. 100)* New entrants to an industry bring:   
**A.** New capacity  
B. New customers  
C. Few resources  
D. Bigger margins

*Difficulty: Medium  
Learning Objective: 4*

34.*(p. 100)* Economies of scale in an industry refers to:   
**A.** Savings that companies within the industry achieve due to increased volume  
B. Declining average short run costs per unit  
C. Improved contractual agreements with suppliers in the near term  
D. Decreased barriers to entry to new firms attempting to enter the industry

*Difficulty: Hard  
Learning Objective: 5*

35.*(p. 100)* Which of the following is a factor that does NOT foster brand identification?   
A. Advertising  
B. Customer service  
C. Product differences  
**D.** Price

*Difficulty: Hard  
Learning Objective: 5*

36.*(p. 100)* Barriers to entry:   
A. Can be cyclical  
B. Can involve the legal constraints leveling the playing field  
**C.** Can include customer loyalty  
D. Are not important to small firms

*Difficulty: Medium  
Learning Objective: 4*

37.*(p. 100)* Which of the following factors is NOT commonly seen as fostering brand identification?   
A. Being first in the industry  
B. Product differences  
C. Customer service  
**D.** Customer credit

*Difficulty: Hard  
Learning Objective: 5*

38.*(p. 100)* Which is perhaps the most important entry barrier in the soft drink, over-the-counter drugs, cosmetics, investment banking and public account industries?   
A. Capital requirements  
B. Market differentiation  
C. Economies of scale  
**D.** Product differentiation

*Difficulty: Hard  
Learning Objective: 5*

39.*(p. 100-102)* Which of the following is NOT a major barrier to entry?   
A. Economies of scale  
B. Product differentiation  
**C.** Market breadth  
D. Cost disadvantages independent of size

*Difficulty: Medium  
Learning Objective: 5*

40.*(p. 101)* When aspirants are forced to accept either a large scale disadvantage of a cost disadvantage, they are face with problems of:   
A. Product differentiation  
**B.** Cost disadvantage and economies of scale  
C. Capital requirements  
D. Distribution

*Difficulty: Medium  
Learning Objective: 5*

41.*(p. 102)* Which of the following can limit or even foreclose entry to industries with such controls as license requirements?   
A. Equal opportunity employer  
B. Federal trade commission  
**C.** Government policy  
D. Securities and exchange commission

*Difficulty: Medium  
Learning Objective: 5*

42.*(p. 101)* The need to invest large financial resources in order to compete creates   
A. Increased supplier power  
B. Increased buyer power  
C. Increased jockeying for position  
**D.** A barrier to entry

*Difficulty: Medium  
Learning Objective: 5*

43.*(p. 101)* Cost disadvantages independent of size is a factor relevant to   
**A.** Threat of new entrants  
B. Powerful suppliers  
C. Jockeying for position  
D. Powerful buyers

*Difficulty: Medium  
Learning Objective: 5*

44.*(p. 101)* The learning curve effect is an example of which barrier to entry?   
**A.** Cost disadvantages independent of size  
B. Product differentiation  
C. Economies of scale  
D. Government policy

*Difficulty: Hard  
Learning Objective: 5*

45.*(p. 101)* Entrenched companies may have cost advantages not available to potential rivals. This is an example of:   
A. Capital requirements  
**B.** Cost disadvantage independent of size  
C. Economies of scale  
D. Government policy

*Difficulty: Medium  
Learning Objective: 5*

46.*(p. 102)* Suppliers can exert bargaining power on participants in an industry by:   
A. Stabilizing their cost bas  
B. Lowering prices  
**C.** Raising prices  
D. Increasing the quality of services

*Difficulty: Hard  
Learning Objective: 5*

47.*(p. 102)* The power of each supplier depends on:   
A. Low concentration  
B. Its commodity-like product  
**C.** Relative importance of purchases  
D. Its inability to integrate forward

*Difficulty: Hard  
Learning Objective: 5*

48.*(p. 102)* A supplier group is powerful if:   
A. It is not concentrated  
**B.** It is not obligated to contend with other products for sale to the industry  
C. Raw materials are the major input cost  
D. Its product is not unique

*Difficulty: Medium  
Learning Objective: 5*

49.*(p. 102)* A supplier group is powerful if:   
A. Its product is undifferentiated  
**B.** Its product is unique  
C. Its market is unique  
D. It must contend with other products

*Difficulty: Medium  
Learning Objective: 5*

50.*(p. 103)* A buyer group is powerful if:   
**A.** It earns low profits  
B. The industry's product is important to the quality of the buyer's products or services  
C. The industry's product saves the buyer money  
D. It is not concentrated

*Difficulty: Medium  
Learning Objective: 5*

51.*(p. 103)* Highly profitable buyers are usually:   
**A.** Less price sensitive  
B. More price sensitive  
C. Very quantity oriented  
D. Not very quantity oriented

*Difficulty: Medium  
Learning Objective: 5*

52.*(p. 103)* A buyer group is powerful if:   
**A.** The buyers pose a credible threat to make the industry's product  
B. The industry product saves the buyer money  
C. It earns high profit  
D. The industry has high exit barriers

*Difficulty: Medium  
Learning Objective: 5*

53.*(p. 103)* Customers have the power to:   
A. Raise prices  
**B.** Demand higher quality  
C. Lower service quality  
D. Coordinate competitors

*Difficulty: Medium  
Learning Objective: 5*

54.*(p. 104)* If price ceilings exist, substitute products are limited, unless:   
A. The quality of the product can be reduced  
**B.** The quality of the product can be upgraded  
C. The quantities of the product available can be increased  
D. The product can not be differentiated

*Difficulty: Hard  
Learning Objective: 5*

55.*(p. 104)* Which of the following are considered competitors?   
A. Low substitutability products  
B. Firms with dissimilar scope  
**C.** Substitute products  
D. Uncommitted firms

*Difficulty: Hard  
Learning Objective: 5*

56.*(p. 104)* Substitute products that deserve the most attention strategically are those that are:   
**A.** Subject to trends  
B. Produced by industries earning low profits  
C. Most expensive to produce  
D. Slow coming into play

*Difficulty: Medium  
Learning Objective: 5*

57.*(p. 105)* In intense competitive rivalry, barriers to exit are:   
**A.** High  
B. Low  
C. Medium  
D. Changing

*Difficulty: Medium  
Learning Objective: 5*

58.*(p. 105)* Exit barriers represent a determinant of   
A. Entry  
**B.** Rivalry  
C. Buyer power  
D. Supplier power

*Difficulty: Hard  
Learning Objective: 5*

59.*(p. 104)* Rivalry among existing competitors takes the familiar form of:   
A. Substitute products  
**B.** Jockeying for position  
C. Positioning the company  
D. Influencing the balance

*Difficulty: Hard  
Learning Objective: 5*

60.*(p. 105)* As an industry matures, its:   
A. Growth rate is unchanged  
B. Profits are higher  
**C.** Growth rate changes  
D. New firms enter

*Difficulty: Medium  
Learning Objective: 5*

61.*(p. 104)* In intense rivalry among manufacturing firms, fixed costs are:   
**A.** High  
B. Low  
C. Medium  
D. Less critical than variable costs

*Difficulty: Medium  
Learning Objective: 5*

62.*(p. 104)* High fixed costs is a factor in which of the five forces?   
A. Threat of entry  
B. Substitute products  
**C.** Jockeying for position  
D. Powerful suppliers

*Difficulty: Medium  
Learning Objective: 5*

63.*(p. 104)* Which one of the following is a tactic typically used by firms to jockey for position?   
A. Economies of scale  
**B.** Advertising slugfests  
C. Access to distribution  
D. Product withdrawal

*Difficulty: Hard  
Learning Objective: 5*

64.*(p. 104)* Industry growth has what characteristic(s) intense competitive rivalry?   
A. Fast growth  
B. Moderate growth  
**C.** Slow growth  
D. Sporadic growth

*Difficulty: Medium  
Learning Objective: 5*

65.*(p. 104)* In intense competition, competitors are characteristically:   
A. Few  
B. Of unequal power  
**C.** Equal in size  
D. Not foreign

*Difficulty: Medium  
Learning Objective: 5*

66.*(p. 105)* In intense rivalry, rivals are:   
A. Similar in strategies  
**B.** Diverse in origins  
C. Similar in personality  
D. Few

*Difficulty: Medium  
Learning Objective: 5*

67.*(p. 104)* Which one of the following is NOT a tactic used by competitors when they jockey for position?   
A. Price competition  
**B.** Reduced advertising  
C. Advertising slugfests  
D. Product introduction

*Difficulty: Medium  
Learning Objective: 5*

68.*(p. 105)* Designing viable strategies for a firm requires a thorough understanding of the firm's industry and competition. Which one of the following is NOT a question the firm's executives need to address?   
**A.** Who are our customers?  
B. What are the boundaries of the industry?  
C. What is the structure of the industry?  
D. Which firms are our competitors?

*Difficulty: Medium  
Learning Objective: 5*

69.*(p. 105)* The definition of an industry's boundaries is important because   
A. It has to be included in the mission statement  
**B.** It helps executives determine the arena in which their firm is competing  
C. It has to be reported to stockholders  
D. It helps set the prices for the firm's products

*Difficulty: Medium  
Learning Objective: 5*

70.*(p. 105)* Which of the following is NOT a reason why defining an industry's boundaries is important?   
A. It helps executives determine the arena in which their firm is competing  
B. It focuses attention on the firm's competitors  
C. It helps executives determine key factors for success  
**D.** Stakeholders demand it

*Difficulty: Medium  
Learning Objective: 5*

71.*(p. 105)* Designing viable strategies for a firm requires a thorough understanding of the firm's:   
A. Earnings  
B. Growth rate  
C. Market share  
**D.** Competition

*Difficulty: Hard  
Learning Objective: 5*

72.*(p. 106)* Defining industry boundaries is a very difficult task because   
**A.** Industry evolution creates industries within industries  
B. Industries are becoming very narrow in scope  
C. Industries do not evolve over time  
D. Industries remain static over time

*Difficulty: Medium  
Learning Objective: 5*

73.*(p. 107)* The starting point for industry definition is   
A. The firm's mission statement  
B. A focus group session with the firm's top managers  
C. The federal government's definition of the industry  
**D.** A definition of the industry in global terms

*Difficulty: Medium  
Learning Objective: 5*

74.*(p. 111)* The environment that is typically subject to much influence by the firm is:   
A. External  
B. Ecological  
C. Remote  
**D.** Operating

*Difficulty: Medium  
Learning Objective: 5*

75.*(p. 111)* The operating environment:   
A. Also called the remote environment  
B. Also called the social environment  
**C.** Affects the firm's success in resource acquisition  
D. Does not include competitive position

*Difficulty: Medium  
Learning Objective: 6*

76.*(p. 111)* In considering the competition's profile, a firm would NOT be concerned with which of the following?   
A. Market share and breadth of product line  
B. Facility location and production capacity  
C. Financial position and caliber of personnel  
**D.** Salary of the chief executive and board of directors

*Difficulty: Hard  
Learning Objective: 7*

77.*(p. 111)* A firm can more accurately forecast both its long-term and short-term growth and profit potential by developing its:   
**A.** Competitor profile  
B. Financial position  
C. Technological innovation  
D. Vendor profile

*Difficulty: Hard  
Learning Objective: 7*

78.*(p. 111)* Included in a competitor profile is:   
A. Psychographic  
B. Supplier relations  
**C.** Experience  
D. Demographic

*Difficulty: Medium  
Learning Objective: 6*

79.*(p. 112)* A valuable result of task environment analysis with respect to geographic, demographic, psychographic and buyer-behavior factors is called:   
A. Market share analysis  
**B.** Customer profile  
C. Competitive edge  
D. Consumer/surveys

*Difficulty: Hard  
Learning Objective: 6*

80.*(p. 113)* While developing the customer profile, it is important to include:   
**A.** Psychographic information  
B. Market share  
C. Experience  
D. Management image

*Difficulty: Medium  
Learning Objective: 7*

81.*(p. 113)* This term refers to descriptive characteristics that can be used to differentiate groups of present or potential customers.   
A. Geographics  
**B.** Demographics  
C. Buyer behaviors  
D. Psychographics

*Difficulty: Medium  
Learning Objective: 7*

82.*(p. 113)* Purchasing behavior is often better predicted by:   
A. Geographics  
B. Demographics  
**C.** Psychographics  
D. Reputation

*Difficulty: Medium  
Learning Objective: 7*

83.*(p. 114)* Four factors are mentioned which affect a firm's access to needed personnel. One of these factors is:   
A. Geographic location  
B. Employee benefits  
C. National employment rates  
**D.** Availability of skills

*Difficulty: Medium  
Learning Objective: 7*

**Essay Questions**

84. Describe the three tiers of environmental factors that affect the performance of a firm.

Please refer to exhibit 4.1 on page 87.

*Learning Objective: 1*

85. Identify and briefly describe the different factors comprising the remote environment.

Please refer to the discussion on "Remote Environment" on pages 87-97.

*Learning Objective: 2*

86. Discuss the three profound social changes in the recent years that affect the performance of a firm.

Please refer to the discussion on "Social Factors" on pages 89-90.

*Learning Objective: 3*

87. Describes briefly the air, water and land pollution occurring in our environment. Provide examples of federal legislations that address each of these areas.

Please refer to the discussion on "Ecological Factors" on pages 93-95.

*Learning Objective: 3*

88. Define eco-efficiency. Identify the four key characteristics of eco-efficient corporations.

Please refer to the discussion on Eco-efficiency on page 95-97.

*Learning Objective: 3*

89. Explain the five force model of industry analysis as described by Porter. Give an example of each force.

Please refer to the discussion on "How Competitive Forces Shape Strategy" on pages 97-105.

*Learning Objective: 4*

90. Identify and briefly describe the major sources of barriers to entry.

Please see the discussion on "Threat of Entry" on pages 100-102.

*Learning Objective: 5*

91. How do “cost disadvantages independent of size” act as entry barriers?

Please see the discussion of this entry barrier on page 101.

*Learning Objective: 5*

92. What characteristics make a supplier group powerful? Explain.

Please refer to the discussion on "Powerful Suppliers" on page 102.

*Learning Objective: 5*

93. Identify and explain the factors/characteristics that make the buyer group powerful.

Please see the discussion on "Powerful Buyers" on pages 96-97.

*Learning Objective: 5*

94. How do substitutes affect industry structure?

Please see the discussion titled “Substitute Products” on page 104.

*Learning Objective: 5*

95. How does jockeying for position escalate intensity of rivalry among competitors?

Please see the discussion “Jockeying for Position” on pages 104-105.

*Learning Objective: 5*

96. What is an industry? Why is it important to define industry boundaries?

Please see the discussion “Industry Boundaries” on pages 105-106.

*Learning Objective: 5*

97. What are the problems in defining industry boundaries?

Please see the discussion “Problems in Defining Industry Boundaries” on page 106.

*Learning Objective: 5*

98. How do power curves help assess industry structure?

Please see the discussion titled “Power Curves” on pages 109-110.

*Learning Objective: 5*

99. Identify and briefly explain the five factors in the operating environment.

Please refer to the discussion on "Operating Environment" on pages 111-115.

*Learning Objective: 6*

100. What factors affect a firm’s access to needed personnel?

Please see the discussion “Human Resources: Nature of the Labor Market” on pages 114-115.

*Learning Objective: 6*