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**Subject- STRATEGIC MANAGEMENT & CORPORATE FINANCE
Chapter- 2 (MCQ's)**

Prepared By Expert CS



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Analyzing the External and Internal Environment

LESSON-2(Notes)

Q-1 What best describes the concept of "business environment" based on the provided definition?

- a) The internal structure and operations of a business.
- b) The sum of all external factors and forces that affect a business's performance and sustainability.
- c) Only the competitive forces within an industry.
- d) The specific actions taken by a business to influence market conditions.

Ans. (b) The sum of all external factors and forces that affect a business's performance and sustainability.

Reason:

This option accurately reflects the definition given, highlighting that the business environment comprises various external elements—like suppliers, competitors, and government regulations—that influence the business's operations and decision-making, even though the business does not control these factors.

Q-2 Which of the following is **NOT** a benefit of studying the business environment?

- a) Development of strategies, long-term policies, and objectives of the firm.
- b) Creation of inflexible policies that ignore market changes.
- c) Analysis of competitors' strategies and formulation of effective countermeasures.

d) Forecasting the consequences of socio-economic changes on the company's stability.

Ans. (b) Creation of inflexible policies that ignore market changes.

Reason:

This option contradicts the benefits of studying the business environment, which emphasizes the need for flexibility and adaptability in strategies and policies to respond to changes, rather than creating inflexible policies that do not consider market dynamics.

Q-3 According to Philip Kotler, which of the following best describes "public" in the context of a business environment?

- a) A group that has no impact on the company's objectives.
- b) Any group that has an actual or potential interest in or impact on the company's ability to achieve its objectives.
- c) Only government entities that regulate business operations.
- d) Individuals who have no affiliation with the organization but contribute to its profits.

Ans. (b) Any group that has an actual or potential interest in or impact on the company's ability to achieve its objectives.

Reason:

This statement accurately reflects Kotler's definition of "public," highlighting that various groups can influence a company's decision-making and its ability to reach its goals. Examples include environmentalists, media groups, and consumer protection organizations, which all have a significant bearing on business policies.

Q-4 Which of the following statements best describes the significance of the political-legal environment for business activities?

- a) It primarily focuses on consumer behavior and market trends.
- b) It includes the roles of legislature, executive, and judiciary in shaping and regulating business operations.
- c) It is solely concerned with financial regulations and tax policies.
- d) It has little impact on business growth and development.

Ans. (b) It includes the roles of legislature, executive, and judiciary in shaping and regulating business operations.

Reason:

This statement accurately reflects the importance of the political-legal environment, highlighting how these political institutions contribute to creating a stable and dynamic framework for business activities, including the enforcement of laws that regulate various aspects of business operations.

Q-5 What is one of the primary impacts of the global environment on business activities, particularly after the liberalization of the Indian economy in 1991?

- a) It restricts international trade and investment opportunities.
- b) It has no effect on the principles and agreements governing international business.
- c) It is significantly influenced by the regulations and agreements of the World Trade Organization (WTO).
- d) It primarily concerns only local businesses and has no global implications.

Ans. (c) It is significantly influenced by the regulations and agreements of the World Trade Organization (WTO).

Reason:

This option highlights the critical role of the WTO in regulating international trade and the effects of globalization, emphasizing how global agreements shape business practices and opportunities in a liberalized economy.

Q-6 What is a key responsibility of business organizations regarding the ecological environment?

- a) To exploit natural resources without any limitations.
- b) To ignore the impact of industrial activities on natural resources.
- c) To utilize renewable resources wisely, ensuring consumption does not exceed replenishment.
- d) To focus solely on profit maximization at the expense of environmental health.

Ans. (c) To utilize renewable resources wisely, ensuring consumption does not exceed replenishment.

Reason:

This option emphasizes the importance of sustainable resource management and the responsibility of businesses to protect the ecological environment for future generations, aligning with legislative measures aimed at environmental protection.

Q-7 What does the value system of an organization primarily influence?

- a) The organization's profit margins.
- b) The ethical beliefs and behaviours towards employees, customers, and society.
- c) The technological advancements adopted by the organization.
- d) The selection of financial investments and assets.

Ans. (b) The ethical beliefs and behaviors towards employees, customers, and society.

Reason:

The value system guides the organization in achieving its mission and objectives while shaping its interactions and relationships with stakeholders, thereby contributing to its success and prestige in the business world.

Q-8 Which of the following is a key factor that influences business decisions in an organization?

- a) The size of the market.
- b) The organizational structure and composition of the board of directors.
- c) The advertising budget.
- d) The location of the business headquarters.

Ans. (b) The organizational structure and composition of the board of directors.

Reason:

The organizational structure and the professionalism of the management play a crucial role in facilitating quick decision-making and ensuring efficient operations, making them important factors influencing business decisions. Increasing the number of independent directors is suggested for more efficient and transparent board functioning.

Q-9 What is the primary function of labor unions in relation to management?

- a) To enforce company policies.
- b) To collectively bargain for better wages and working conditions.
- c) To increase production targets.

d) To manage employee performance appraisals.

Ans. (b) To collectively bargain for better wages and working conditions.

Reason:

Labour unions exist primarily to represent workers in negotiations with management, aiming to secure better wages and improved working conditions. Good relations between management and labour unions are essential for the smooth functioning of a business.

Q-10 Which of the following factors would NOT increase the threat of new entrants into an industry?

- a) High capital requirements for entry.
- b) Low customer switching costs.
- c) Lack of strong brand value among existing firms.
- d) Minimal government regulation.

Ans. (a) High capital requirements for entry.

Reason:

High capital requirements create a significant barrier to entry, making it difficult for new entrants to enter the market. The other options (low customer switching costs, lack of strong brand value, and minimal government regulation) would facilitate new entrants and increase competition in the industry.

Q-11 Which of the following strategies should be formulated if market growth is slow and the market is saturated, according to the analysis of Porter's Five Forces?

- a) Diversification strategy

- b) Market penetration strategy
- c) Product development strategy
- d) Cost leadership strategy

Ans. c) Product development strategy

Reason:

When market growth is slow and the market is saturated, a product development strategy is ideal as it focuses on innovating and improving existing products to capture more market share, rather than relying on expanding into new markets or lowering costs.

Q-12 What is one of the main reasons for the high level of competition in the technology sector, particularly affecting companies like Apple?

- a) High capital requirements for new entrants
- b) High switching costs for consumers
- c) Intense focus on research and development and marketing by major companies
- d) Strong regulatory barriers

Ans. (c) Intense focus on research and development and marketing by major companies

Reason:

The high level of competition in the technology sector, especially for Apple, is driven by the significant investment that major companies make in R&D and marketing. This intensifies rivalry as firms strive to out-innovate each other and attract consumers.

Q-13 Within the framework of Porter's Five Forces Model, why is the threat of substitute products considered relatively low for Apple?

- a) Apple has strong brand loyalty among its customers.
- b) Substitute products often lack the advanced capabilities of Apple's products.
- c) Substitute products are more expensive than Apple's offerings.
- d) Apple holds exclusive patents that prevent the creation of substitutes.

Ans. (b) Substitute products often lack the advanced capabilities of Apple's products.

Reason:

The threat of substitute products is relatively low for Apple because many potential substitutes, like landline telephones, have limited capabilities compared to Apple's products, such as the iPhone. This reduces their appeal as viable alternatives for consumers seeking more advanced functionality.

Q-14 Under Porter's Five Forces Model, when is the bargaining power of buyers considered strong?

- a) When buyers purchase in small quantities and have high switching costs.
- b) When there are many buyers in the market and no close substitutes.
- c) When buyers purchase in high volumes, there are low switching costs, and many close substitutes exist.
- d) When buyers do not have the option to backward integrate.

Ans. (c) When buyers purchase in high volumes, there are low switching costs, and many close substitutes exist.

Reason:

Buyers exert strong bargaining power when they buy in high volumes, face low switching costs to competitors, and have access to many close substitutes. These conditions enable buyers to demand better prices and terms, putting pressure on the company's profitability.

Q-15 Which of the following statements best describes the importance of physical resources and technological capabilities in a business?

- a) They primarily influence a company's brand image and marketing effectiveness.
- b) They determine the company's competitive strength, efficiency, and unit cost of production.
- c) They are mainly used for compliance with legal standards and regulations.
- d) They have minimal impact on a company's productivity and innovation capabilities.

Ans. (b) They determine the company's competitive strength, efficiency, and unit cost of production.

Reason:

Physical resources like plant and equipment and technological capabilities significantly impact a firm's competitive strength by enhancing its efficiency and reducing production costs. Research and development capabilities further allow a company to innovate, boosting productivity and maintaining a competitive edge.