Chapter 1 - Introduction to Strategic Management

TRUE/FALSE

1. A sustained or sustainable competitive advantage occurs when a firm has implemented a value-creating strategy that current competitors currently do not have, even if they are able to duplicate that strategy in the near future.

   ANS: F PTS: 1 DIF: med REF: p. 2
   OBJ: 1 NOT: knowledge

2. Average returns are returns in excess of what an investor expects to earn from other investments with a similar amount of risk.

   ANS: F PTS: 1 DIF: med REF: p. 2
   OBJ: 1 NOT: knowledge

3. The strategic management process requires the making of only a single decision about the overall strategy of a firm.

   ANS: F PTS: 1 DIF: med REF: p. 3
   OBJ: 6 NOT: comprehension

4. Organizations must choose between the Industrial Organization Model and the Resource-Based Model when it sets out on the strategic management process.

   ANS: F PTS: 1 DIF: med REF: p. 3
   OBJ: 6 NOT: comprehension

5. Businesses that have become uncompetitive because of an inability to make necessary changes for continued success are even more common than businesses that fail.

   ANS: T PTS: 1 DIF: med REF: p. 3
   OBJ: 1 NOT: knowledge

6. In a hypercompetitive market, firms often aggressively challenge their competitors in hopes of improving their competitive position and ultimately their performance.

   ANS: T PTS: 1 DIF: med REF: p. 5
   OBJ: 1 NOT: knowledge

7. E-culture is the unique organizational environment created by Internet-based firms.

   ANS: F PTS: 1 DIF: med REF: p. 6
   OBJ: 1 NOT: knowledge

8. Information or intelligence does not help the organization compete unless it is transformed into usable knowledge and diffused rapidly throughout the firm.

   ANS: T PTS: 1 DIF: med REF: p. 6
   OBJ: 1 NOT: comprehension

9. The I/O (Industrial Organization) model assumes that a firm's unique resources and capabilities are its main source of above-average returns.

ANS: F PTS: 1 DIF: hard REF: p. 10
OBJ: 2 NOT: comprehension

10. The I/O model suggests that above-average returns are earned when firms implement the strategy dictated by the characteristics of the general, industry, and competitive environments.

ANS: T PTS: 1 DIF: hard REF: p. 12 (Figure 1.2)
OBJ: 2 NOT: comprehension

11. The resource-based model assumes that firms may form a competitive advantage by having resources that are rare or costly to imitate.

ANS: T PTS: 1 DIF: med REF: p. 13
OBJ: 3 NOT: comprehension

12. Resources are considered rare when they allow firms to exploit opportunities in the external environment.

ANS: F PTS: 1 DIF: med REF: p. 12
OBJ: 3 NOT: knowledge

13. The I/O (Industrial Organization) model argues that core competencies are the basis of a firm's competitive advantage.

ANS: F PTS: 1 DIF: med REF: p. 13
OBJ: 2 NOT: comprehension

14. Customers, suppliers, unions, and local governments are examples of capital market stakeholders.

ANS: F PTS: 1 DIF: hard REF: p. 15
OBJ: 4 NOT: knowledge

15. Employees, managers, and non-managers are examples of organizational stakeholders.

ANS: T PTS: 1 DIF: hard REF: p. 15
OBJ: 4 NOT: knowledge

16. An organization's "dream" is its strategic mission created by organizational strategists.

ANS: F PTS: 1 DIF: hard REF: p. 16
OBJ: 6 NOT: knowledge

17. A stakeholder approach to strategic management is highly pertinent to a central problem management is facing today - a general lack of trust of corporations and their managers.

ANS: T PTS: 1 DIF: med REF: p. 15
OBJ: 4 NOT: comprehension

18. Strategic thinking ignores the past and only focuses on value creation in the future.

ANS: F PTS: 1 DIF: med REF: p. 19

OBJ: 5 NOT: knowledge

19. Firms must provide enough flexibility in their strategic management process to allow for the incorporation of new ideas with high potential.

ANS: T PTS: 1 DIF: med REF: p. 20
OBJ: 5 NOT: comprehension

20. The strategic management process is an informal approach to helping firms respond effectively to the competitive environment.

ANS: F PTS: 1 DIF: hard REF: p. 20
OBJ: 6 NOT: comprehension

21. Corporate-level strategy is concerned with how a diversified firm competes in each industry in which it is active.

ANS: F PTS: 1 DIF: med REF: p. 22
OBJ: 6 NOT: knowledge

22. An organization's willingness to tolerate or encourage unethical behavior is a reflection of its core values.

ANS: T PTS: 1 DIF: med REF: p. 22
OBJ: 6 NOT: comprehension

MULTIPLE CHOICE

1. What has a firm achieved when it successfully formulates and implements a value-creating strategy?
   a. Value creation
   b. A permanently sustainable competitive advantage
   c. Substantial returns
   d. Average returns

ANS: A PTS: 1 DIF: med REF: p. 3
OBJ: 1 NOT: comprehension

2. The strategic management process is:
   a. a set of activities that is guaranteed to prevent organizational failure.
   b. a process concerned with a firm's resources, capabilities, and competencies, but not the conditions in its external environment.
   c. a set of activities that to date have not been used successfully in the not-for-profit sector.
   d. a dynamic process involving the full set of commitments, decisions, and actions related to the firm.

ANS: D PTS: 1 DIF: hard REF: p. 2
OBJ: 6 NOT: comprehension

3. Two of the primary drivers of the new competitive landscape are:
   a. slow technological changes and increased inflation.
   b. emergence of a global economy and rapid technological change.
   c. increased competition and decreasing tariffs.
   d. increased availability of capital and increased competition.

ANS: B PTS: 1 DIF: med REF: p. 4
OBJ: 1 NOT: knowledge

4. Which of the following is a characteristic of the global economy?
   a. The spread of economic innovations around the world
   b. The free movement of goods, services, people, skills, and ideas across geographic borders
   c. The increased use of artificial constraints, such as tariffs
   d. The ability of a firm to be first to market its products in a developing country

ANS: B PTS: 1 DIF: med REF: p. 4
OBJ: 1 NOT: comprehension

5. In the new competitive landscape, firms will attain competitive success by:
   a. continuing current corporate strategies.
   b. meeting, or exceeding, global standards.
   c. avoiding challenges that change their capabilities.
   d. committing more resources to international products.

ANS: B PTS: 1 DIF: med REF: p. 6
OBJ: 1 NOT: knowledge

6. A set of capabilities used to respond to various demands and opportunities existing in a dynamic and uncertain competitive environment is:
   a. strategic flexibility.
   b. disruptive technology.
   c. information, intelligence and expertise.
   d. performance standards.

ANS: A PTS: 1 DIF: hard REF: p. 7
OBJ: 1 NOT: comprehension

7. An aspect of global competition is that it has increased performance standards in many dimensions. These dimensions do NOT include:
   a. production cost.
   b. quality of product.
   c. social responsibility.
   d. decreased production time.

ANS: C PTS: 1 DIF: med REF: p. 6
OBJ: 1 NOT: knowledge

8. The advent of inexpensive digital cameras able to compete with film cameras may be an example of ____.
   a. disruptive technology
   b. global competition
   c. perpetual innovation
   d. hypercompetition

ANS: A PTS: 1 DIF: med REF: p. 6
OBJ: 1 NOT: comprehension

9. To achieve greater strategic flexibility, firms must:
   a. hire additional personnel.
   b. adapt quickly to changes in their competitive landscape.
   c. report net losses for a period of three years.
   d. acquire competing firms.

ANS: B PTS: 1 DIF: hard REF: p. 7
OBJ: 1 NOT: comprehension

10. Which of the following is <u>NOT</u> an assumption of the Industrial Organization, or I/O, model?
    a. Organizational decision makers are rational and committed to acting in the firm's best interests.
    b. Resources to implement strategies are not highly mobile across firms.
    c. The external environment is assumed to impose pressures and constraints that determine the strategies that result in superior performance.
    d. Firms in given industries, or given industry segments, are assumed to control similar strategically relevant resources.

ANS: B PTS: 1 DIF: hard REF: p. 10
OBJ: 2 NOT: comprehension

11. When utilizing the Industrial Organization, or I/O, model the key to success for a firm is:
    a. proper utilization of the firm's human resources.
    b. selecting the most attractive industry in which to compete.
    c. identifying the firm's key competitive advantage.
    d. developing the firm's unique resources and capabilities.

ANS: B PTS: 1 DIF: med REF: p. 10
OBJ: 2 NOT: comprehension

12. The Industrial Organization, or I/O model, argues that:
    a. the characteristics of the general, industry, and competitor environments dictate successful organizational strategy.
    b. the firm's internal resources and capabilities represent the foundation for development of a value-creating strategy.
    c. internationalization in certain industries will lead to globalization.
    d. firms should seek to maximize their returns by organizing their organizational structure in a manner consistent with the most efficient producers in any given industry.

ANS: A PTS: 1 DIF: med REF: p. 11
OBJ: 2 NOT: knowledge

13. Research into the causes of firm profitability suggests a reciprocal relationship between ____ and ____ affects firm performance.
    a. employee training, capital resources
    b. the number of competitors, product innovation
    c. the board of directors, corporate managers
    d. the environment, firm strategy

ANS: D PTS: 1 DIF: hard REF: p. 11
OBJ: 2 NOT: comprehension

14. Which of the following is <u>NOT</u> an assumption of the resource-based model?
    a. Each firm is a unique collection of resources and capabilities.
    b. All firms possess the same strategically relevant resources.
    c. Resources are not highly mobile across firms.
    d. Firms acquire different resources and capabilities over time.

ANS: B PTS: 1 DIF: med REF: p. 12
OBJ: 3 NOT: comprehension

15. The I/O model and the resource-based view of the firm suggest conditions that firms should study in order to:
    a. compete in domestic but not international markets.

b. examine strategic outputs achieved mainly in the last 5-year period.
c. engage in different sets of competitive dynamics.
d. develop the most effective strategy.

ANS: D PTS: 1 DIF: hard REF: p. 12
OBJ: 3 NOT: comprehension

16. The resource-based view of the firm:
a. suggests that resources, as compared to capabilities, are more closely linked with sustainable competitive advantage.
b. argues that the industry environment has a stronger influence on firms' ability to implement strategies successfully than does the competitor environment.
c. calls for firms to focus on their homogeneous skills to compete against their rivals.
d. assumes that resources may not be mobile across firms.

ANS: D PTS: 1 DIF: hard REF: p. 13
OBJ: 3 NOT: comprehension

17. The resource-based model of the firm argues that:
a. all resources have the potential to be the basis of sustained competitive advantage.
b. resources are not a source of potential competitive advantage.
c. the key to competitive success is the structure of the industry in which the firm competes.
d. resources that are valuable, rare, costly to imitate, and non-substitutable form the basis of a firm's core competencies.

ANS: D PTS: 1 DIF: hard REF: p. 13
OBJ: 3 NOT: comprehension

18. Which of the following is NOT a criterion that must be met in order for resources and capabilities to become a competitive advantage under the resource-based model?
a. The resources and capabilities possessed by competitors are ordinary.
b. The resources and capabilities are costly to imitate when firms cannot obtain them.
c. The resources and capabilities have no structural equivalents.
d. The resources and capabilities are valuable if they can be used to exploit opportunities.

ANS: A PTS: 1 DIF: hard REF: p. 13
OBJ: 3 NOT: comprehension

19. To have the potential to become sources of competitive advantage, resources and capabilities must be valuable, ____, and ____.
a. common, easy to imitate.
b. easy to imitate, difficult to implement.
c. rare, costly to imitate.
d. easy to implement, costly to imitate.

ANS: C PTS: 1 DIF: med REF: p. 13
OBJ: 3 NOT: comprehension

20. Strategic intent seeks to ensure that:
a. the goals of the firm are realistic.
b. the goals of the firm are non-specific in order to allow creativity.
c. only top-level managers are committed to the goals of the organization.
d. all of the organization's employees are focused on achieving the firm's goals.

ANS: D PTS: 1 DIF: med REF: p. 18 | p. 19
OBJ: 5 NOT: knowledge

21. ____ has been effectively formed when employees believe fervently in their company's product and are totally focused on their firm's ability to outcompete its competitors.

a. A culture of success
b. Competitive vision
c. An organizational mission
d. Strategic intent

ANS: D PTS: 1 DIF: med REF: p. 19
OBJ: 5 NOT: knowledge

22. Strategic intent is primarily:

a. internally focused.
b. externally focused.
c. industry focused.
d. chief executive officer focused.

ANS: A PTS: 1 DIF: med REF: p. 19
OBJ: 5 NOT: comprehension

23. Product market stakeholders include the firm's customers, and the principal concern of this stakeholder group is:

a. maximizing the firm's return on investment.
b. providing a stimulating career environment for employees.
c. to obtain reliable products at the lowest possible price.
d. increasing the profitability of the firm.

ANS: C PTS: 1 DIF: med REF: p. 15
OBJ: 4 NOT: comprehension

24. Stakeholders' interests may conflict, and the organization must prioritize its stakeholders because it cannot satisfy them all. ____ is the most critical criterion in prioritizing stakeholders

a. Power of each stakeholder
b. Urgency of satisfying each stakeholder
c. Importance of each stakeholder to the firm
d. Influence of each stakeholder

ANS: A PTS: 1 DIF: med REF: p. 16
OBJ: 4 NOT: knowledge

25. Generally speaking, product market stakeholders are satisfied when:

a. a firm's profit margin yields the lowest return to capital market stakeholders that is acceptable to them.
b. a firm's profit margin yields an above-average return to its capital market stakeholders.
c. the interests of the firm's organizational stakeholders have been maximized.
d. a firm grounds its operations in the principles of the resource-based view of the firm rather than the principles of the I/O model.

ANS: A PTS: 1 DIF: hard REF: p. 16
OBJ: 4 NOT: comprehension

26. Organizational stakeholders are usually satisfied when:

a. their return on investment has been maximized.
b. customers pay the highest sustainable price for the goods and services they receive.
c. companies are willing to be longer-term employers.
d. companies are growing and helping individuals develop their skills.

ANS: D PTS: 1 DIF: med REF: p. 16
OBJ: 4

27. The strategic management process is intended to be a rational approach to help a firm:
    a. analyze its position in the marketplace.
    b. understand its rivals' competitive moves.
    c. design an extensive mission statement.
    d. respond effectively to the challenges of the competitive environment.

ANS: D PTS: 1 DIF: med REF: p. 20
OBJ: 6 NOT: comprehension

28. In a diversified firm, corporate-level strategy is concerned with:
    a. operating each individual business.
    b. determining how each functional department of the firm will operate.
    c. determining in which businesses to compete and how resources will be allocated between businesses.
    d. maximizing product distribution over rivals.

ANS: C PTS: 1 DIF: med REF: p. 1
OBJ: 6 NOT: comprehension

29. A business-level strategy describes:
    a. the businesses in which the company intends to compete.
    b. all policies and procedures used in functional departments.
    c. the firm's actions to exploit its competitive advantage over rivals.
    d. a firm's resources, intent, and mission.

ANS: C PTS: 1 DIF: med REF: p. 21
OBJ: 6 NOT: comprehension

ESSAY

1. Define value creation and above-average returns.

ANS:
Value creation is achieved when firms develop and successfully implement a value-creating strategy. Above-average returns are returns in excess of what investors expect to earn from other investments with similar risk levels.

PTS: 1 REF: p. 2|p. 3 OBJ: 1

2. What is the 21st century competitive landscape?

ANS:
The pace of change in the 21st century is relentless and increasing. Even determining the boundaries of an industry has become challenging. Conventional sources of competitive advantage, such as economics of scale, are not as effective as they once were. Hypercompetition is characteristic of the 21st century competitive landscape. It results from the dynamics of strategic maneuvering among global and innovative competitors. The primary drivers of hypercompetition are the emergence of a global economy and rapid technological change.

PTS: 1 REF: p. 3|p. 7 OBJ: 1

3. Describe the Industrial Organization, or I/O, model of strategy.

ANS:

The I/O model is grounded in the economics discipline and argues that the external environment is the primary determinant of firm success. The model has four underlying assumptions. First, the external environment is assumed to impose pressures and constraints that determine the strategies that would result in superior performance. Second, most firms competing within a particular industry, or in a certain segment of the industry, are assumed to control similar strategically relevant resources and pursue similar strategies in light of those resources. Third, resources used to implement strategies are mobile across firms, which results in resource differences between firms being short lived. Fourth, organizational decision makers are assumed to be rational and committed to acting in the firm's best interests as shown by their profit maximizing behaviors. The challenge for firms within the I/O model is to find the best industries in which to compete.

PTS: 1 REF: p. 10|p. 11 OBJ: 2

4. Describe and discuss the resource-based model of the firm.

ANS:
The resource-based model of the firm focuses on the internal resources and capabilities of the firm as a source of competitive advantage. The model assumes that each firm is a collection of unique resources and capabilities. Resources are not highly mobile across firms. All firms within a particular industry may not possess the same strategically relevant resources and capabilities. The resource-based model suggests that core competencies are the basis for a firm's value creation and its ability to earn above-average returns.

PTS: 1 REF: p. 11|p. 15 OBJ: 3

5. Describe and discuss strategic intent and strategic mission.

ANS:
Strategic intent is the leveraging of a firm's internal resources, capabilities, and core competencies to accomplish the firm's goals in the competitive environment. Strategic intent exists when all employees of the organization are committed to the pursuit of a specific (and significant) performance criterion. Based on its internal strategic intent, the firm then develops its externally oriented strategic mission. The strategic mission is a statement of a firm's unique purpose and the scope of its operations in product and market terms. The mission provides the general description of the products a firm intends to produce and the market(s) it will serve. The mission should establish the firm's individuality and be inspiring and relevant to all stakeholders.

PTS: 1 REF: p. 18|p. 20 OBJ: 5

6. Describe an organization's various stakeholders and their different interests.

ANS:

Stakeholders are the individuals and groups who can affect and are affected by the strategic outcomes achieved and who have enforceable claims on a firm's performance. There are three principal types of stakeholders. First, there are the *capital market stakeholders*. These stakeholders include the shareholders and the major suppliers of capital to the firm. They are most interested in the return on capital and profitability of the firm. The second group of stakeholders is the *product market stakeholders*. This group includes customers, suppliers, host communities, and unions representing workers. The customers seek a reliable product at the lowest possible price. The suppliers seek assured customers willing to pay the highest sustainable price. Host communities want companies willing to be long-term employers and providers of tax revenues. Union officials want secure jobs with good working conditions for the workers they represent. The final group of stakeholders is the *organizational stakeholders*. This group includes the employees (both managerial and non-managerial). These stakeholders expect a firm to provide a dynamic, stimulating, and rewarding work environment.

PTS: 1 REF: p. 15|p. 16 OBJ: 5

7. Explain the strategic management process.

ANS:
The strategic management process calls for a rational and disciplined approach to the development of competitive advantage. In the strategic management process, the firm studies its internal and external environments to identify marketplace threats and opportunities. It determines how to use its core competencies to pursue its desired strategic outcomes. With this knowledge, the firm forms its strategic intent and strategic mission, ultimately achieving (if successful) value creation and above-average returns.

PTS: 1 REF: p. 20|p. 21 OBJ: 6