

Chapter 1 – Strategic management and strategic competitiveness

1. Strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy.

- a. True
- b. False

ANSWER: True

2. A strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.

- a. True
- b. False

ANSWER: True

3. A firm has a competitive advantage when it implements a strategy that competitors are unable to duplicate or find costly to imitate.

- a. True
- b. False

ANSWER: True

4. To achieve competitiveness and above average returns, the strategic management process requires a market orientation.

- a. True
- b. False

ANSWER: False

5. Above-average returns are returns in excess of what an investor expects to earn from other investments with a similar amount of risk.

- a. True
- b. False

ANSWER: True

6. Hypercompetition is a competitive landscape where assumptions about continually changing conditions are challenged.

- a. True
- b. False

ANSWER: False

7. The risks of participating outside of a firm's domestic country in the global economy are labelled a 'liability of newness'.

- a. True
- b. False

ANSWER: False

8. Firms that are capable of successfully competing in global markets may not need to worry about their home markets.

- a. True
- b. False

ANSWER: False

9. When products become somewhat indistinguishable because of the widespread and rapid diffusion of technologies,

Chapter 1 – Strategic management and strategic competitiveness

speed to market may be the primary source of competitive advantage.

- a. True
- b. False

ANSWER: True

10. *Perpetual innovation* is a term used to describe how rapidly and consistently new, information-intensive technologies replace older ones.

- a. True
- b. False

ANSWER: True

11. Disruptive technologies create existing technologies and destroy new markets.

- a. True
- b. False

ANSWER: False

12. Data and information give small organisations more flexibility to interact virtually.

- a. True
- b. False

ANSWER: False

13. Knowledge is a critical organisational resource and an increasingly valuable source of competitive advantage.

- a. True
- b. False

ANSWER: True

14. Strategic flexibility is a set of capabilities used to respond to various demands and opportunities existing in a dynamic and uncertain competitive environment.

- a. True
- b. False

ANSWER: True

15. The industrial organisation (I/O) model suggests that above-average returns are earned when firms implement a strategy dictated by the characteristics of the general, industry and competitor environments.

- a. True
- b. False

ANSWER: True

16. The resource-based model assumes that differences in resources and capabilities are the basis of a competitive advantage.

- a. True
- b. False

ANSWER: True

17. The resource-based model assumes that core competencies are the basis of a firm's competitive advantage.

Chapter 1 – Strategic management and strategic competitiveness

- a. True
- b. False

ANSWER: True

18. A core competency is the capacity for a set of resources to perform a task or an activity in an integrative manner.

- a. True
- b. False

ANSWER: False

19. A firm's mission tends to be enduring while its vision can change in view of changing environmental conditions.

- a. True
- b. False

ANSWER: False

20. Stakeholders the individuals and groups who are interested in the organisation's strategic outcomes and performance.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

22. Organisational stakeholders are a firm's internal resources, capabilities and core competencies that are used to accomplish what may at first appear to be unattainable goals in the competitive environment.

- a. True
- b. False

ANSWER: False

23. Employees, managers and non-managers are examples of organisational stakeholders.

- a. True
- b. False

ANSWER: True

24. Organisational culture refers to the core values shared by a firm's managers but not necessarily by its lower-level employees.

- a. True
- b. False

ANSWER: False

25. A profit pool includes the total profits earned in an industry at all points along the value chain.

- a. True
- b. False

Chapter 1 – Strategic management and strategic competitiveness

ANSWER: True

26. What has a firm achieved when it successfully formulates and implements a value-creating strategy?

- a. Strategic competitiveness
- b. A permanently sustainable competitive advantage
- c. Substantial returns
- d. Average returns

ANSWER: a

27. A firm has a competitive advantage when:

- a. the value-creating strategy is in the formulation stage
- b. competitors are simultaneously implementing the strategy
- c. competitors are not able to duplicate the strategy
- d. average returns are earned by the company

ANSWER: c

28. Returns are often measured by:

- a. the level of innovation within the organisation
- b. the basis of stock market yields
- c. the number of industries in which the firm participates
- d. the number of customers the organisation serves

ANSWER: b

29. The strategic management process is:

- a. a set of activities that is guaranteed to prevent organisational failure
- b. a process concerned with a firm's resources, capabilities and competencies, but not with conditions in its external environment
- c. a set of activities that have been designed to achieve average returns
- d. a full set of commitments, decisions and actions required for competitiveness

ANSWER: d

30. Risk is an investors uncertainty:

- a. about their financial management and investments
- b. about the economic gains or losses that will result from a particular investment
- c. about the of activities that have been designed to achieve above-average returns
- d. which reduces over time as decisions and actions are required for competitiveness

ANSWER: b

31. The global economy is:

- a. one in which goods, services, peoples, skills and ideas move freely across geographic borders
- b. a process of technological change concerned with a firm's resources, capabilities and competencies
- c. is a critical challenge to successful competition
- d. a significant influence on competitive performance

Chapter 1 – Strategic management and strategic competitiveness

ANSWER:

a

32. Which of the following is *not* a characteristic of hypercompetition?

- a. competition to generate more customers from underdeveloped markets
- b. competition to protect or invade established product or geographic markets
- c. competition to create new know-how and establish first-mover advantage
- d. price-quality positioning

ANSWER:

a

33. Which of the following is *not* a risk of globalisation?

- a. the amount of time required to learn how to compete in unfamiliar markets
- b. increased diversity in the workforce
- c. over-diversification internationally beyond capabilities to manage operations
- d. new rules of law and governance

ANSWER:

b

34. Technological diffusion is:

- a. the impact technological change has on organisations
- b. the advent of advanced technologies such as AI and the internet of things
- c. the speed at which new technologies become available and used
- d. about increasing knowledge intensity and the information age

ANSWER:

c

35. To be strategically flexible on a continuing basis and to gain the competitive benefits of such flexibility, a firm has to develop the capacity to:

- a. understand customer needs
- b. learn
- c. work closely with suppliers
- d. observe competitors carefully

ANSWER:

b

36. Research findings support the I/O model, in that approximately _____ of a firm's profitability can be explained by the industry in which it chooses to compete. However, this research also shows that _____ of the variance in profitability could be attributed to the firm's characteristics and actions.

- a. 24 per cent; 40 per cent
- b. 22 per cent; 42 per cent
- c. 20 per cent; 36 per cent
- d. 26 per cent; 38 per cent

ANSWER:

c

37. The I/O model argues that:

- a. internal resources and capabilities represent the foundation for the development of a value-creating strategy
- b. firms should seek to maximise their returns by structuring their organisation in a manner consistent with the most efficient producers in any given industry

Chapter 1 – Strategic management and strategic competitiveness

- c. the conditions and characteristics of the external environment are the primary inputs to and determinants of strategy
- d. internationalisation in certain industries will lead to globalisation

ANSWER:

c

38. The resource-based view of the firm:

- a. suggests that resources, rather than capabilities, are more closely linked with sustainable competitive advantage
- b. argues that the industry environment has a stronger influence on a firm's ability to implement strategies successfully than 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

ANSWER:

d

39. Which of the following are the three key categories of firm resources?

- a. Physical, knowledge and organisational
- b. Physical, human and organisational
- c. Physical, technological and human
- d. Physical, technological and reputational

ANSWER:

b

40. The resource-based model of the firm contends that:

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

ANSWER:

a

41. A statement that articulates the ideal description of an organisation and gives shape to its intended future is a:

- a. strategic mission
- b. strategic vision
- c. strategic idea
- d. strategic objective

ANSWER:

b

42. A mission statement should clearly specify:

- a. the stakeholders' expectations on return on investment
- b. the firm's intended business and customers
- c. the conditions of the industry in which the firm operates
- d. the conditions in the firm's external and internal environments

ANSWER:

b

43. Deciding a firm's vision and mission statements requires:

Chapter 1 – Strategic management and strategic competitiveness

- a. business ethics as a vital part of discussions
- b. foundation strategies to be implemented
- c. specifying the industry in which the firm intends to compete
- d. a firm develops its strategic intent

ANSWER:

a

44. Capital market stakeholders include:

- a. unions
- b. employees
- c. shareholders
- d. government regulators

ANSWER:

c

45. Product market stakeholders include a firm's customers. The principal concern of this stakeholder group is:

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

ANSWER:

c

46. Generally speaking, capital market stakeholders are satisfied when:

- a. a firm preserves and enhance the wealth they have entrusted to it.
- b. a firm's profit margin yields an above-average return to its capital market stakeholders
- c. the interests of a firm's organisational stakeholders have been maximised
- 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

ANSWER:

a

47. Organisational stakeholders are usually satisfied when:

- a. workplace understands their customers
- b. they don't have to do teamwork
- c. leaders are productively critical
- d. companies are growing and helping individuals develop their skills

ANSWER:

d

48. The natural world is an important stakeholder because:

- a. of the vital issue of its depletion of human actions
- b. well organised, well-funded environmental groups representing the interests of nature means trouble
- c. individuals and groups who have invested capital in a firm expect a positive return on their investment
- d. corporate social responsibility (CSR) has become a major interest and very topical as an issue for many global organisations, and a major factor in corporate governance

ANSWER:

d

Chapter 1 – Strategic management and strategic competitiveness

49. Strategic leaders are:

- a. the CEO and top-level managers of a firm
- b. people who are affected by a firm's performance and who have claims on its performance
- c. the individuals and groups who have invested capital in a firm in the expectation of earning positive return on their investment
- d. people located in different parts of the firm using the strategic management process to help the firm reach its vision and mission

ANSWER: d

50. Organisational culture is:

- a. an appreciation for the arts in the organisation
- b. an organisation's ability to act in a responsible manner towards all of its employees
- c. the amount of a firm's social activity in the community
- d. the complex set of ideologies, symbols and core values shared by most members of the organisation

ANSWER: d

51. The work of effective strategic leaders is characterised by:

- a. innovative thinking and change in the dynamic competitive landscape
- b. high income levels
- c. a high level of certainty in the organisation
- d. a lack of ability to affect the firm's direction

ANSWER: a

52. Which of the following is not a step in identifying profit pools?

- a. Define the pool's boundaries.
- b. Estimate the pool's overall size.
- c. Estimate the pool's effect on current activities.
- d. Estimate the size of the value-chain activity in the pool.
- e. Reconcile the calculations.

ANSWER: c

53. Almost all strategic management process decisions have ethical dimensions because:

- a. ethics are dictated by an organisation's culture
- b. they are related to how an organisation interacts with its stakeholders
- c. actions of employees demand review
- d. decisions are a part of the strategic management process

ANSWER: b

54. Describe the steps of the strategic management process.

ANSWER: The firm's first step in the process is to analyse its external environment and internal organisation to determine its resources, capabilities and core competencies – the sources of its 'strategic inputs'. With the information gained from external and internal analyses, the firm develops its vision and mission and formulates one or more strategies. To implement its strategies, the firm takes actions towards achieving strategic competitiveness and above-average returns. Effective strategic actions that take place in the context

Chapter 1 – Strategic management and strategic competitiveness

of carefully integrated strategy formulation and implementation efforts result in positive outcomes. This dynamic strategic management process must be maintained as ever-changing markets and competitive structures are coordinated with a firm's continuously evolving strategic inputs.

55. Why is strategy important for a firm to achieve a competitive advantage?

ANSWER: Organisations undertake a strategic management process to achieve competitive advantage in order to gain above average returns. The strategic management process involves analysis of the external environment and the internal situation of the firm providing information which can be used to formulate strategies which can help the firm avoid risk and effectively implement its efforts to achieve positive outcomes such as competitive advantage and above average returns.

56. What is globalisation? What are the benefits and risks for an organisation operating in a global marketplace?

ANSWER: Globalisation is the increasing economic interdependence among countries and their organisations as reflected in the flow of financial capital, knowledge and goods and services across borders. The benefits of globalisation include increased access to capital resources and higher performance standards in quality, productivity, cost, product introduction time and operational efficiency. In general, global organisations have greater access to both skilled and unskilled workers, and can access multiple markets to obtain the resources necessary to remain competitive. Organisations engaging in global operations must ensure they are culturally sensitive to the values and norms of the host country, and must overcome the 'liability of foreignness'. Additional risks of operating globally include the time delay associated with learning how to compete in markets that are new to them and the possibility of over-diversification, which may result in ineffective management of the business's global operations.

57. What are some of the effects that disruptive technologies have on the competitive landscape?

ANSWER: Disruptive technologies represent a contrast to predictable technology diffusion because they don't follow a predictable pattern of emergence and evolution from expected sources of development. Disruptive technologies are so called because they disrupt the expected pattern of industry development with value-destroying technologies. These technologies create new markets and present radical innovations, which cause a departure from the established patterns of competition and advantage.

58. Describe the industrial organisation (I/O) model of strategy.

ANSWER: The I/O model is grounded in economics and argues that the external environment is the primary determinant of a firm's success. The model has four underlying assumptions. First, the external environment is assumed to impose pressures and constraints that determine the strategies that will 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 to 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, organisational decision makers are assumed to be rational and committed to acting in the firm's best interests, as shown by their profit-maximising behaviours. The challenge for firms within the I/O model is to find the best industries in which to compete.

59. Describe and discuss the resource-based model of above-average returns.

ANSWER: According to the resource-based model, differences in an organisation's performances across time are due primarily to its unique resources and capabilities. Thus, the resource-based model focuses on the internal resources and capabilities of a firm as a source of competitive advantage. The model assumes that each firm is a collection of unique resources and capabilities, which should be the basis of the organisation's strategy and its ability to earn above-average returns. Resources are not highly mobile across firms. All firms within a particular industry may not possess the same strategically relevant resources and capabilities. Not all of an organisation's resources and capabilities have the potential to be the foundation for

Chapter 1 – Strategic management and strategic competitiveness

a competitive advantage. This potential is realised when resources and capabilities are valuable, rare, costly to imitate and non-substitutable.

60. How does knowledge contribute to the competitive standing of an organisation? Is knowledge a tangible or intangible resource of the organisation?

ANSWER: Knowledge (information, intelligence and expertise) is the basis of technology and its application. In the competitive landscape of the twenty-first century, knowledge is a critical organisational resource and an increasingly valuable source of competitive advantage. Organisational knowledge is gained through experience, observation and inference; it is an intangible resource. The value of intangible resources, such as knowledge, is increasing as a proportion of total shareholder value in today's competitive environment. The probability of achieving strategic competitiveness is enhanced for firms that develop the ability to capture intelligence, transform it into useable knowledge, and diffuse it rapidly throughout the company. Organisations must develop and acquire knowledge, integrate it into the organisation to create capabilities and then apply it to gain a competitive advantage. Continuous learning provides the firm with new and up-to-date skill sets, which allow it to adapt to its environment as it encounters changes. Firms capable of rapidly and broadly applying what they have learnt exhibit the strategic flexibility and capacity to change in ways that will increase the probability of successfully dealing with uncertain, hypercompetitive environments.

61. Describe and discuss the roles of a firm's vision and mission as strategic inputs.

ANSWER: Strategic vision is a picture of what the firm wants to be and, in broad terms, what it wants to ultimately achieve. A vision statement articulates the ideal description of the organisation and gives shape to its intended future. It points the firm in the direction of where it would eventually like to be in the years to come. A vision stretches and challenges people and evokes emotions and dreams. The vision is the foundation for the firm's 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 unique nature of the firm and give employees a general direction that the firm should pursue.

An organisation's vision and mission are critical aspects of the strategic inputs required to engage in strategic actions that help to achieve strategic competitiveness and earn above-average returns. Therefore, organisations must accept the challenge of forming effective vision and mission statements

62. Describe an organisation's various stakeholders and their different interests.

ANSWER: Stakeholders can be separated into at least four groups. They 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 and the natural environment (as represented by activist groups). First, there are the capital market stakeholders, which include the shareholders and the major suppliers of capital to the firm. They are most interested in the return on capital and the firm's profitability. The second group of stakeholders are the product market stakeholders, which include 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 are the organisational 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.

63. Who are strategic leaders and what determines the effectiveness of their work?

ANSWER: Strategic leaders are people located in different parts of a firm who use the strategic management process to

Name _____ Class _____ Date _____
: _____ : _____ e: _____

Chapter 1 – Strategic management and strategic competitiveness

help the firm reach its vision and mission. Successful strategic leaders are decisive and committed to nurturing people around them. CEOs and other top-level managers are not the only strategic leaders; there are many people in today's organisations who help choose a firm's strategy and then determine the actions to be taken to successfully implement it. Hard work, thorough analysis, a willingness to be brutally honest, a desire for the firm and its people to accomplish more, and common sense are prerequisites of a successful strategic leader. Effective strategic leaders set an ethical tone in their firms.