

22. A firm's mission tends to be enduring while its vision can change in light of changing environmental conditions.
- ANS: F PTS: 1 DIF: Medium
23. Hourly workers on the production line of a chicken-processing plant are considered organizational stakeholders.
- ANS: T PTS: 1 DIF: Hard
24. Customers, suppliers, unions, and local governments are examples of capital market stakeholders.
- ANS: F PTS: 1 DIF: Hard
25. Six years ago, Colette Smith founded a successful catering company that specializes in providing a wide assortment of miniature cheesecakes for corporate and social events. Although Ms. Smith is no longer active in the actual production of the cheesecakes, she continues as president of the catering company. Ms. Smith could be considered a strategic leader of this firm.
- ANS: T PTS: 1 DIF: Medium
26. Organizational culture refers to the core values shared by the firm's top-level managers but not necessarily accepted by lower-level employees who are often transitory and not committed to the organization.
- ANS: F PTS: 1 DIF: Medium
27. A hard working, analytical individual who requires large amounts of concrete and precise data and a predictable environment in order to make a decision is probably poorly suited to being a strategic leader.
- ANS: T PTS: 1 DIF: Easy
28. Profit pools allow strategic leaders to predict the outcomes of their decisions before taking efforts to implement them.
- ANS: T PTS: 1 DIF: Easy
29. Corporate-level strategy in a diversified organization requires a common business strategy for each component business.
- ANS: F PTS: 1 DIF: Medium
30. An organization's willingness to tolerate or encourage unethical behavior is a reflection of its core values.
- ANS: T PTS: 1 DIF: Medium

MULTIPLE CHOICE

1. A firm has achieved ____ when it successfully formulates and implements a value-creating strategy.
- a. strategic competitiveness
 - b. a permanently sustainable competitive advantage

- c. substantial returns
- d. legal and ethical core values

ANS: A PTS: 1 DIF: Medium

2. Above-average returns are
- a. higher profits than the firm earned last year.
 - b. higher profits than the industry averaged over the last 10 years.
 - c. profits in excess of what an investor expects to earn from a historical pattern of performance of the firm.
 - d. profits in excess of what an investor expects to earn from other investments with a similar level of risk.

ANS: D PTS: 1 DIF: Easy

3. The strategic management process is
- a. a set of activities that will assure a sustainable competitive advantage and above-average returns for the firm.
 - b. a decision-making activity concerned with a firm's internal resources, capabilities, and competencies, independent of the conditions in its external environment.
 - c. a process directed by top-management with input from other stakeholders that seeks to achieve above-average returns for investors through effective use of the organization's resources.
 - d. the full set of commitments, decisions, and actions required for the firm to achieve above-average returns and strategic competitiveness.

ANS: D PTS: 1 DIF: Hard

4. The primary drivers of hypercompetition are
- a. rising global socio-economic instability and increased inflation.
 - b. the emergence of a global economy and rapid technological change.
 - c. increased global competition and decreasing tariffs.
 - d. increased availability of capital and increased competition.

ANS: B PTS: 1 DIF: Medium

5. Considering both GDP and the number of potential consumers, what is the world's largest single market?
- a. Europe
 - b. The United States
 - c. China
 - d. Japan

ANS: A PTS: 1 DIF: Hard

6. The economic interdependence among countries as reflected in the free movement of goods, services, financial capital and knowledge across geographic borders is defined as
- a. hypercompetition.
 - b. boundaryless retailing.
 - c. strategic intensity.
 - d. globalization.

ANS: D PTS: 1 DIF: Easy

7. The "liability of foreignness" is the
- a. inability of most U.S. managers to truly comprehend foreign cultures.
 - b. political disadvantage that U.S. firms have when doing business abroad.
 - c. overall risk a domestic firm encounters when entering global competition.
 - d. strong cultural preference for "buying local," which puts foreign firms at a disadvantage when competing in the U.S. market.

ANS: C PTS: 1 DIF: Medium

8. The rate of technological diffusion is increasing. Which of the following was fastest in penetrating 25 percent of homes in the United States market?
- a. Telephone
 - b. Television
 - c. Personal computer
 - d. Internet

ANS: D PTS: 1 DIF: Medium

9. New markets created by iPods, PDAs, and WiFi are a result of
- a. disruptive technologies.
 - b. global competition.
 - c. knowledge intensity.
 - d. hypercompetition.

ANS: A PTS: 1 DIF: Medium

10. Which of the following statements about organizational knowledge is correct?
- a. Knowledge is an intangible resource.
 - b. The importance of knowledge is increasing.
 - c. The value of knowledge as a proportion of shareholder value is increasing.
 - d. All of these choices are correct.

ANS: D PTS: 1 DIF: Easy

11. All of the following are assumptions of the industrial organization (I/O) model EXCEPT
- a. organizational decision makers are rational and committed to acting in the firm's best interests.
 - b. resources to implement strategies are firm-specific and attached to firms over the long-term.
 - c. the external environment is assumed to impose pressures and constraints that determine the strategies that result in above-average returns.
 - d. firms in given industries, or given industry segments, are assumed to control similar strategically relevant resources.

ANS: B PTS: 1 DIF: Hard

12. Which of the following statements is most consistent under the I/O view? Performance of the firm is most directly attributable to
- a. the power of the financial market stakeholders.
 - b. the resources the firm possesses.
 - c. the profitability of the industry the firm competes in.
 - d. hypercompetition within the industry.

ANS: C PTS: 1 DIF: Medium

13. An investor is considering in which of two start-up companies she should invest. The investor has faith in the industrial organizational model of above-average returns, and she is using its concepts to make her decision. Both start-up companies propose to manufacture health-focused foods with such characteristics as low salt, low sugar, high fiber, and no artificial additives. RexRich Foods has a business strategy of producing a differentiated product for which consumers will pay more. Green Pastures Foods is in the health-foods industry because of its internal culture and commitment to healthful lifestyles. Which firm will the investor feel is most consistent with the model of industrial organization?
- a. Green Pastures Foods
 - b. RexRich Foods
 - c. Both firms are consistent with the I/O approach.

d. At the entrepreneurial stage, the model which companies follow is not important.

ANS: B PTS: 1 DIF: Hard

14. All of the following are resources of an organization EXCEPT

- a. an hourly production employee's ability to catch subtle quality defects in products.
- b. oil drilling rights in a promising region.
- c. weak competitors in the industry.
- d. a charity's endowment of \$400 million.

ANS: C PTS: 1 DIF: Easy

15. ____ is a capacity for a set of resources to perform a task or an activity in an integrative manner.

- a. A capability
- b. A core competence
- c. Sustainable competitive advantage
- d. Organizational intelligence

ANS: A PTS: 1 DIF: Easy

16. In the resource-based model, which of the following factors would be considered a key to organizational success?

- a. unique market niche
- b. weak competition
- c. economies of scale
- d. skilled employees

ANS: D PTS: 1 DIF: Easy

17. To have the potential to become sources of competitive advantage, resources and capabilities must be non-substitutable, valuable, ____, and ____.

- a. unique, easy to imitate.
- b. easy to imitate, difficult to implement.
- c. rare, costly to imitate.
- d. easy to implement, unique.

ANS: C PTS: 1 DIF: Easy

18. The goal of the organization's ____ is to capture the hearts and minds of employees, challenge them, and evoke their emotions and dreams.

- a. vision
- b. mission
- c. culture
- d. strategy

ANS: A PTS: 1 DIF: Medium

19. The Annandale Academy of Fine Arts states in its brochure that "The Academy intends to become the dominant institution in the nation teaching traditional aesthetic values in traditional artistic media targeting both traditional and non-traditional students." This pronouncement is most precisely a statement of organizational

- a. values.
- b. mission.
- c. vision.
- d. culture.

ANS: B PTS: 1 DIF: Hard

20. Capital market stakeholders include

- a. industry competitors.
- b. shareholders.
- c. employees.
- d. government regulators.

ANS: B PTS: 1 DIF: Easy

21. Greenleaf Property Management has been earning below-average returns for the last three years. Which of the following statements are true?

- a. Greenleaf will be able to satisfy its multiple stakeholders easily as long as the stakeholders are committed to the strategic mission of the firm.
- b. Greenleaf will be able to at least minimally satisfy the demands of each stakeholder.
- c. Greenleaf will need to prioritize the demands of its stakeholders based on the political influence each wields.
- d. Greenleaf will not be able to minimally satisfy all stakeholders.

ANS: D PTS: 1 DIF: Hard

22. 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. receiving the highest quality products and services in the industry.
 - c. obtaining reliable products at the lowest possible price.
 - d. increasing the profitability of the firm.

ANS: C PTS: 1 DIF: Medium

23. 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 provide a dynamic, stimulating, and rewarding work environment.
 - d. companies are paying the highest prices to suppliers.

ANS: C PTS: 1 DIF: Medium

24. Refuge Nursing Homes, Inc., (RNH) has been highly profitable in the past 10 years, providing its investors returns in excess of direct competitors. RNH has a reputation for providing high-paying managerial and hourly-employee jobs. However, recent investigations have revealed that the nursing home residents have been provided substandard care, including non-nutritious and unappetizing meals, non-functional medical equipment, and inadequate patient-care staffing. Which statement best describes the situation?
- a. RNH has been earning below-average returns, so it has had to prioritize the demands of its various stakeholders.
 - b. RNH has prioritized the demands of capital market stakeholders over the demands of product market stakeholders.
 - c. RNH has earned above-average returns and so has satisfied the needs of all relevant stakeholders.
 - d. RNH has been attempting to minimally satisfy the demands of all of its stakeholders.

ANS: B PTS: 1 DIF: Hard

25. A prominent national accounting firm runs television advertisements showing an accountant working alone late in the office on a client's project, while clenching a long-stemmed rose in his teeth and grinning ecstatically. The message of the ad is that this firm's accountants love their work. This ad seeks to convey a sense of the organization's _____ to the viewers.
- a. culture
 - b. mission
 - c. vision
 - d. personality

ANS: A PTS: 1 DIF: Medium

26. The strategic leader's work is characterized by
- a. ambiguous decision situations which make effective decisions difficult to determine.
 - b. a willingness to unify stakeholders through skillful manipulation.
 - c. an ability to identify the correct solutions to long-range problems.

d. concentration on the practical day-to-day aspects of the organization's operations.

ANS: A PTS: 1 DIF: Medium

27. Analysis of the industry's profit pool enables strategic managers to
- predict future revenue streams for the organization.
 - predict growth in sales over the medium to long range.
 - determine whether an industry will be viable in the long term.
 - locate the most promising areas of an industry's value chain.

ANS: D PTS: 1 DIF: Hard

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

ANS: C PTS: 1 DIF: Medium

29. PGG Mining is making a strategic decision whether to shut down a coal mine in Pennsylvania. It is important to consider that the decision
- should be based solely on the results of profit pool mapping.
 - has ethical implications for organizational stakeholders.
 - need not be socially responsible if the firm is making below-average returns from the mine.
 - all of these choices are important to consider.

ANS: B PTS: 1 DIF: Medium

30. It is well-known that the elected school board of a large city engages in unethical and illegal activities involving the awarding of major contracts. This behavior has existed for decades, even as the membership in the school board has changed over time. This behavior reflects
- the core values of the school board as an organization.
 - a functional, although unethical, culture of the school board.
 - the lack of an organizational mission for the school board.
 - a school board lacking in core competencies.

ANS: A PTS: 1 DIF: Hard

ESSAY

1. Define strategic competitiveness and above-average returns. What is the relationship between strategic competitiveness and returns on investment?

ANS:

Strategic competitiveness is achieved when the firm successfully formulates and implements a value-creating strategy. Above-average returns are returns in excess of what investors expect to earn from other investments with similar risk levels. Firms will only be able to earn above-average returns if they develop a competitive advantage. Competitive advantage derives from a strategy that competitors cannot duplicate or find too costly to imitate.

PTS: 1 DIF: Medium

2. Describe the industrial organization (I/O) model of above-average returns. What are its main assumptions? What is the key to success according to the I/O model?

ANS:

The I/O model of above-average returns argues that the external environment is the primary determinant of firm success, rather than the firm's internal resources. 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 above-average returns. 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 key to success according to the I/O model is to find the most attractive industry (the one with the highest profit potential) in which to compete.

PTS: 1

DIF: Medium

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

ANS:

The resource-based model focuses on the firm's internal resources and capabilities. These resources and capabilities determine the firm's strategy and its ability to earn above-average returns. The firm's resources are inputs into its production process. Resources must be formed into capabilities, the capacity to perform a task or activity in an integrative manner. According to this model, capabilities evolve over time and must be managed dynamically to achieve above-average returns. Resources and capabilities that give a firm a competitive advantage are called core competencies. This model assumes that resources are not highly mobile across firms; consequently, all firms within a particular industry may not possess the same strategically relevant resources and capabilities. So, different firms will have different core competencies. The organization's strategy is based on finding the best environment in which to exploit its core competencies.

PTS: 1

DIF: Medium

4. Describe an organization's various stakeholders and their different interests. Under what condition can the firm most easily satisfy all stakeholders? If the firm cannot satisfy all stakeholders, which ones must it satisfy in order to survive?

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 in relation to the risk incurred. 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 loyal 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. The firm can most easily satisfy all stakeholders if it earns above average returns. If the firm does not earn above-average returns, it must prioritize its stakeholders by their power, urgency, and degree of importance to the firm. The firm must then make trade-offs among the stakeholders.

PTS: 1

DIF: Medium

5. Explain the relationship of the strategic management process to organizational ethics.

ANS:

Almost all strategic management process decisions have ethical implications because they affect stakeholders. The decisions of the strategic leaders influence the organization's culture which is based on the organization's core values (which are also influenced by the strategic leaders). The organization's culture can be functional or dysfunctional, ethical or unethical. Consequently, the strategic leader's role has a large impact on whether the organization is a good citizen.

PTS: 1

DIF: Medium

CASE

1. (Refer to Case Scenario 1) What primary business strategy issues does Palmetto face?

ANS:

Recognizing that students have only just been introduced to strategy in this introductory chapter, the Palmetto scenario helps frame and contrast the basic business and corporate strategy questions. The best answers to the first question will start by noting that Palmetto appears to be in two distinct businesses, hardware and software, which in turn are likely to have very different success factors and competitors. Students can then begin talking about these competitors and the potential resources they bring to the table (for instance, Microsoft in software and Sony in miniaturized consumer electronics). This scenario also leads to a natural discussion of the attractiveness of the PDA market, and where the most money is likely to be made.

PTS: 1

2. (Refer to Case Scenario 1) What primary corporate strategy issues does Palmetto face?

ANS:

Since the business strategy question should have revealed that Palmetto is actually in at least two distinct businesses, the best answers to the corporate strategy question will begin by assessing which of the businesses is more attractive, and whether or not Palmetto needs to be in both to compete, or should specialize in either software or hardware. Companies which are diversified will have a corporate strategy that encompasses various businesses with different business strategies. Students can be prompted to debate the tradeoffs between retaining both businesses versus breaking the company in two - a useful role play exercise entails asking students to walk through the likely resource allocation tradeoffs that the diversified Palmetto must currently make.

PTS: 1

3. (Refer to Case Scenario 1) How do the I/O and resource-based models help you make recommendations to Palmetto's management regarding a split into two companies? Do they lead to the same recommendation?

ANS:

The best answers will begin by noting that the two models should be viewed as complementary and applied in an integrative manner. Since the perspectives are complementary, the choice of I/O or resource-based perspective as a starting point is simply a matter of taste. For instance, the discussion can then flow to how the I/O perspective will help management understand the characteristics of the two basic industries in which it participates (hardware and software), and perhaps lead to insights into what factors allow one firm to compete effectively against other industry incumbents. The resource-based model can then be applied to develop an understanding of where Palmetto is strongest in terms of resources, capabilities, and core competencies. Further industry analysis can show whether or not these resources will likely lead to competitive advantage in their respective markets. Through the combination of these two perspectives, students can then help management determine whether Palmetto can afford to remain a diversified firm or if it can only compete effectively by focusing on either its hardware or software business.

Case Scenario 2: Jewell Company.

Jewell Company is a diversified manufacturer and marketer of simple household items, cookware, and hardware. In its annual report, it expresses its strategy as follows: “Jewell manufactures and markets staple volume lines to the volume purchaser. We aim to increase shareholder value by continuing to build a company with superior earnings per share growth and return on investment (ROI), and to earn a reputation for excellence in performance and management. We plan to do this by merchandising to the customer goods market a multi-product offering with superior customer service performance for maximum market leverage. Through this we will achieve an ROI of 20% plus EPS growth of 15%, with the constraint that debt not exceed half of our equity.”

PTS: 1

4. (Refer to Case Scenario 2) Which groups of stakeholders does Jewell’s statement appear to speak to?

ANS:

This statement focuses on capital market stakeholder groups and one product market group, the customers. The best answers will note how each sentence speaks to which stakeholders, identify the groups to which the stakeholders belong, and explain why the statement addresses their interests. The best answers will also identify which stakeholder groups are not directly mentioned, such as employees, host communities, and suppliers.

PTS: 1

5. (Refer to Case Scenario 2) Does Jewell Company’s statement of strategy include a vision statement or a mission statement? Why or why not?

ANS:

A vision statement is an ideal description of an organization and gives shape to its intended future. It is the “big picture” of the organization and is intended to elicit passion. A vision statement is simple, positive, and emotional. Jewell’s strategy statement does not appeal to the emotions, nor is it simple. It does not look toward a long-term future, but to the short-term future. Not only is the strategy statement’s focus on economic issues incompatible with a vision statement, it is incompatible with a mission statement. Since all firms strive for above-average earnings, this goal does not differentiate one firm from another. Jewell’s statement approaches a mission statement in that it identifies its products and customers. The commitment to excellence in performance and management may be inspiring.

PTS: 1