

Chapter 1
MASTERING STRATEGY: ART AND SCIENCE

True/False Questions

1. Strategy is a complex concept that involves many different processes and activities within an organization.
True; Easy
2. Developing a viable business model requires that a firm sell goods or services for more than it costs the firm to create and distribute those goods.
True; Easy
3. One important aspect of a business model is providing customers with a good or service more cheaply than they can create it themselves.
True; Easy
4. For a small firm, licensing technology to larger firms provides a second income stream and decreases the chances of imitation.
True; Easy
4. A firm is bound to fail if it maintains flexibility in formulating strategies.
False; Easy
5. Unexpected twists and turns in the external as well as the internal environment place limits on the value of strategic planning.
True; Easy
6. All firms benefit equally in substantial performance improvements created by planning.
False; Easy
7. Strategic ploys can be especially beneficial when facing much stronger opponents.
True; Easy
8. Most strategic ploys are illegal.
False; Easy
9. Viewing strategy as position involves only the actions of a single firm.
False; Easy
10. Deciding what a firm is not going to do is just as important to strategy as deciding what it is going to do.
True; Easy
11. Intended strategies are usually described in detail within an organization's strategic plan.
True; Easy
12. Realized strategies are a product of a firm's intended strategy, the firm's deliberate strategy, and its emergent strategy.
True; Easy

13. The demands of strategic management are simple enough to be handled alone by the chief executive officer.
False; Easy
14. The idea of “stratego,” from which the word strategy is derived, refers to the idea of defeating an enemy by effectively using resources.
True; Easy
15. Sometimes good strategies simply cannot overcome a stronger adversary.
True; Easy
16. Executives who make assumptions about what an adversary can and cannot do put their organizations’ performance in jeopardy.
True; Easy
17. The history of strategic management can be traced back several thousand years.
True; Easy
18. The book, “The Principles of Scientific Management,” was a response to Taylor’s observation that most tasks within organizations were organized in a haphazard way.
True; Easy
19. Strategic management is a process that involves building a careful understanding of how changes in the world might affect a particular firm.
True; Easy
20. Strategic management is neither an art nor a science.
False; Easy
21. Strategic management involves a single conceptualization of the concept of strategy drawn from recent history.
False; Easy
22. Trends and events of the external environment seldom affect the overall state of an organization.
False; Easy
23. Firms must evaluate their own resources to understand how they might react to changes in the environment.
True; Easy
24. Strategy formulation involves developing specific strategies and actions.
True; Easy
25. Strategy implementation entails crafting an effective organizational structure and corporate culture.
True; Easy
26. There is only one single established method of conceptualizing the concept of strategy.
False; Easy

27. The study of strategic management involves knowing how and when to apply creative thinking.
True; Easy

Multiple-choice Questions

28. _____ examines how actions and events involving top executives, firms, and industries influence a firm's success or failure.
a. Developmental counseling
b. Disparate impact
c. Strategic management
d. Trend analysis
e. Attitude survey
c; Moderate
29. A viable business model requires that a firm:
a. sell goods or services at the same cost the firm needs to create and distribute those goods.
b. sell goods or services without paying any attention to the costs that the firm has to bear in order to create and distribute those goods.
c. give away goods or services for free in order to attract more and more customers.
d. sell goods or services for more than it costs the firm to create and distribute those goods.
e. sell goods or services for less than it costs the firm to create and distribute those goods.
d; Moderate
30. A strategic _____ is a carefully crafted set of steps that a firm intends to follow in order to be successful.
a. pattern
b. perspective
c. ploy
d. plan
e. position
d; Moderate
31. A company that manufactures soaps could not sell its products despite spending a good amount on advertisements. Therefore, management decided to use the concept of direct marketing. They thought of appointing a large number of salespersons who would do door-to-door selling of the product. This is an example of a strategic:
a. ploy.
b. plan.
c. position.
d. pattern.
e. perspective.
b; Moderate
32. Economies of _____ refer to a cost advantage that is created when a firm can produce a good or service at a lower per unit price due to producing the good or service in large quantities.

- a. scale
- b. demand
- c. scope
- d. brand
- e. integration

a; Moderate

33. Myshirts.com, a company that manufactures shirts, buys large batches of dressing material from a supplier. The supplier charges them less than what Myshirts.com would have had to pay if it had purchased the material from different sources. As a consequence, the cost of manufacturing each shirt at Myshirts.com is lower than at other manufacturers. This is an example of economies of:

- a. scale.
- b. demand.
- c. scope.
- d. brand.
- e. integration.

a; Moderate

34. A strategic _____ is a specific move designed to outwit or trick competitors.

- a. pattern
- b. perspective
- c. ploy
- d. plan
- e. position

c; Moderate

35. A coffee chain was losing its customers to its competitors, and wanted to increase its sales. Therefore it started offering complimentary pastries with every cup of coffee, to outwit its competitors. Soon, the company registered an increase in its sales. This is an example of a strategic:

- a. ploy.
- b. plan.
- c. position.
- d. pattern.
- e. perspective.

a; Moderate

36. Strategy as _____ refers to a firm's place in the industry relative to its competitors.

- a. pattern
- b. perspective
- c. ploy
- d. plan
- e. position

e; Moderate

37. A company that manufactures cars aims to sell them to customers in the premium market segment. This is an example of strategy as:

- a. ploy.
- b. plan.
- c. position.

- d. pattern.
 - e. perspective.
- c; Moderate**

38. Strategy as _____ focuses on the extent to which a firm's actions over time are consistent.

- a. pattern
- b. perspective
- c. ploy
- d. plan
- e. position

a; Moderate

39. A department store consistently keeps low prices, and this strategy helps the store to attract many customers. This is an example of a strategic:

- a. ploy.
- b. plan.
- c. position.
- d. pattern.
- e. perspective.

d; Moderate

40. Strategy as _____ refers to how executives interpret the competitive landscape around them.

- a. pattern
- b. perspective
- c. ploy
- d. plan
- e. position

b; Moderate

41. Dormer is the only fine dining restaurant in a small town. The opening of a new restaurant is viewed as a threat by some of the employees at Dormer. Others see it as an opportunity for Dormer to strengthen itself by looking out for its weaknesses and ironing them out. This is an example of strategy as:

- a. ploy.
- b. plan.
- c. position.
- d. pattern.
- e. perspective.

e; Moderate

42. A(n) _____ strategy is the strategy that an organization hopes to execute.

- a. emergent
- b. marked
- c. pre-termed
- d. intended
- e. realized

d; Moderate

43. A pizza shop plans to deliver pizzas to households. The delivery would be made without

any extra charge. It hopes to execute this strategy in the suburbs. This is an example of a(n) _____ strategy.

- a. marked
- b. pre-termed
- c. intended
- d. realized
- e. emergent

c; Moderate

44. A(n) _____ strategy is an unplanned strategy that arises in response to unexpected opportunities and challenges.

- a. emergent
- b. marked
- c. pre-termed
- d. intended
- e. realized

a; Moderate

45. Roomz, a mid-range hotel, used to provide only food and accommodation facilities. It soon realized that most of its customers are foreign tourists who constantly ask for directions and advice on places to visit. The hotel then decided to start a travel desk which would help tourists select and visit places of historical and cultural significance. This is an example of a(n) _____ strategy.

- a. marked
- b. pre-termed
- c. intended
- d. realized
- e. emergent

e; Moderate

46. A(n) _____ strategy is the strategy that an organization actually follows.

- a. established
- b. marked
- c. pre-termed
- d. arranged
- e. realized

e; Moderate

47. Pizzas at Home, a pizza shop, plans to deliver pizzas to households. Deliveries would be made without any extra charge. It put this plan in place. ~~its plans to good effect.~~ Soon, Pizzas at Home realizes it must start charging a nominal fee for delivery. Many other pizzerias start following the same strategy. Pizzas at Home then starts offering free pizzas if they are not delivered within 30 minutes of the order placement. The strategy followed by Pizzas at Home is an example of a(n) _____ strategy.

- a. marked
- b. pre-termed
- c. established
- d. realized
- e. arranged

d; Moderate

48. A _____ strategy is the parts of the intended strategy that an organization continues to pursue over time.
- a. marked
 - b. deliberate
 - c. make over
 - d. non-realized
 - e. pre-termed
- b; Moderate**
49. Quattro is a pizza shop that delivers pizzas without any extra charge. It also refunded the entire amount of the order when the pizza was not delivered within 30 minutes from the order placement. After two years it stopped this policy, but it still delivers pizzas without any extra charge. The fact that it continues to deliver pizzas to households without any extra charge is an example of a _____ strategy.
- a. make over
 - b. non-realized
 - c. marked
 - d. deliberate
 - e. pre-termed
- d; Moderate**
50. A _____ strategy refers to the parts of the intended strategy that are abandoned.
- a. marked
 - b. deliberate
 - c. make over
 - d. non-realized
 - e. pre-termed
- d; Moderate**
51. Quattro is a pizza shop that delivers pizzas without any extra charge. It also refunded the entire amount of the order when the pizza was not delivered within 30 minutes from the order placement. After two years it stopped this policy, but it still delivers pizzas without any extra charge. The fact that it stopped the policy of refunds in case of a delay of more than 30 minutes is an example of a _____ strategy.
- a. make over
 - b. non-realized
 - c. marked
 - d. deliberate
 - e. pre-termed
- b; Moderate**
52. _____ involves an organization granting the right to use its brand name, products, and processes to other organizations in exchange for an upfront payment and a percentage of revenues generated by the other organizations.
- a. Differentiation
 - b. Positioning
 - c. Brand essence
 - d. Franchising
 - e. Comparative scaling
- d; Moderate**

53. _____ published a book titled The Principles of Scientific Management.
- Michael Porter
 - Frederick W. Taylor
 - Niccolò Machiavelli
 - Thomas Friedman
 - Alfred Chandler
- b; Easy**
54. The book “The Principles of Scientific Management” _____.
 a. stressed ~~on~~ how strategy and organizational structure need to be consistent with each other in order to ensure strong firm performance
 b. offered concepts such as Five Forces Analysis and Generic Strategies that continue to strongly influence how executives choose strategies
 c. stressed ~~on~~ how organizations could become more efficient through identifying the “one best way” of performing important tasks
 d. argued that many of the advantages that firms in developed countries like the United States, Japan, and Great Britain take for granted are disappearing
 e. emphasized student’s critical thinking skills in general and the notion that multiple ways of addressing a problem could be equally successful in particular
- c; Moderate**
55. A clothing line company has a number of outlets which are owned and managed by private individuals. These outlets are allowed to use the brand name and products of the clothing line after paying a fee to the clothing line company. They also pay a part of their revenue to the clothing line. This is an example of:
- franchising.
 - comparative scaling.
 - differentiation.
 - positioning.
 - brand essence.
- a; Moderate**
56. A _____ is an organization which grants the right to use its brand name, products, and processes to other organizations.
- legatee
 - franchisee
 - bailee
 - bailer
 - franchisor
- e; Moderate**
57. Marty’s, a clothing company, has a number of outlets that are owned and managed by private individuals. These outlets are allowed to use the brand name and products of the clothing line after paying a fee to Marty’s. They also pay a part of their revenues to Marty’s. Marty’s is an example of a:
- franchisee.
 - bailee.
 - franchisor.
 - bailer.
 - legatee.
- c; Moderate**

58. An organization which gets the right to use another organization's brand name, products, and processes is referred to as a ____.
- a. legatee
 - b. franchisee
 - c. bailee
 - d. bailer
 - e. franchisor
- b; Moderate**
59. Marty's, a clothing company, has a number of outlets which are owned and managed by private individuals. These outlets are allowed to use the brand name and products of Marty's after paying a fee to the company. They also pay a part of their revenues to Marty's. Each of these outlets is a:
- a. franchisee.
 - b. bailee.
 - c. franchisor.
 - d. bailer.
 - e. legatee.
- a; Moderate**
60. A(n) ____ fee refers to the upfront fee paid by an organization which gets the right to use another organization's brand name, products, and processes.
- a. royalty
 - b. establishment
 - c. acceptance
 - d. acknowledgement
 - e. franchise
- e; Moderate**
61. Marty's, a clothing company, has a number of outlets that are owned and managed by private individuals. These outlets are allowed to use the brand name and products of Marty's after paying a fee to the company. They also pay a part of their revenues to Marty's. The upfront payment these outlets make to Marty's for using the Marty's brand name is referred to as a(n):
- a. acceptance fee.
 - b. acknowledgement fee.
 - c. franchise fee.
 - d. royalty fee.
 - e. establishment fee.
- c; Moderate**
62. A(n) ____ fee refers to the percentage of franchisees' revenues paid to an organization which has granted the right to use its brand name, products, and processes.
- a. royalty
 - b. establishment
 - c. acceptance
 - d. acknowledgement
 - e. franchise
- a; Moderate**

63. Marty's, a clothing company, has a number of outlets which are owned and managed by private individuals. These outlets are allowed to use the brand name and products of Marty's after paying a fee to the company. They also pay a part of their revenues to the clothing line. The part of the revenues paid by the outlets to Marty's is referred to as:
- acceptance fee.
 - acknowledgement fee.
 - franchise fee.
 - royalty fee.
 - establishment fee.
- d; Moderate**
64. Alfred Chandler's book focused on:
- the SWOT analysis.
 - the principles of scientific management.
 - the Five Forces Analysis.
 - international competition and the flat world.
 - strategy and structure.
- e; Easy**
65. Which of the following statements holds true for the book "Strategy and Structure: Chapters in the History of the Industrial Enterprise"?
- It stressed ~~on~~ how strategy and organizational structure need to be consistent with each other in order to ensure strong firm performance.
 - It offered concepts such as Five Forces Analysis and Generic Strategies that continue to strongly influence how executives choose strategies.
 - It stressed ~~on~~ how organizations could become more efficient through identifying the "one best way" of performing important tasks.
 - It argued that many of the advantages that firms in developed countries like the United States, Japan, and Great Britain take for granted are disappearing.
 - It emphasized student's critical thinking skills in general and the notion that multiple ways of addressing a problem could be equally successful in particular.
- a; Moderate**
66. Which two pivotal events that took place in 1980 led to the establishment of strategic management as a field of study?
- The publication of the books, The World is Flat: A Brief History of the Twenty-First Century and Strategy and Structure: Chapters in the History of the Industrial Enterprise
 - The creation of the New England Journal and the publication of The World is Flat: A Brief History of the Twenty-First Century
 - The publication of The Principles of Scientific Management and the "capstone" course recommended The Ford Foundation
 - The creation of the Strategic Management Journal and the publication of Competitive Strategy: Techniques for Analyzing Industries and Competitors
 - The publication of Strategy and Structure: Chapters in the History of the Industrial Enterprise and the release of The Ford Foundation report recommending the "capstone" course
- d; Moderate**
67. Which of the following statements holds true for the book, "Competitive Strategy: Techniques for Analyzing Industries and Competitors"?
- It stressed ~~on~~ how strategy and organizational structure need to be consistent with

- each other in order to ensure strong firm performance.
- b. It offered concepts such as Five Forces Analysis and Generic Strategies that continue to strongly influence how executives choose strategies.
- c. It stressed ~~on~~ how organizations could become more efficient through identifying the “one best way” of performing important tasks.
- d. It argued that many of the advantages that firms in developed countries like the United States, Japan, and Great Britain take for granted are disappearing.
- e. It emphasized student’s critical thinking skills in general and the notion that multiple ways of addressing a problem could be equally successful in particular.

b; Moderate

68. Which of the following statements holds true for the book “The World is Flat: A Brief History of the Twenty-First Century”?
- a. It stressed ~~on~~ how strategy and organizational structure need to be consistent with each other in order to ensure strong firm performance.
 - b. It offered concepts such as Five Forces Analysis and Generic Strategies that continue to strongly influence how executives choose strategies.
 - c. It stressed ~~on~~ how organizations could become more efficient through identifying the “one best way” of performing important tasks.
 - d. It argued that many of the advantages that firms in developed countries like the United States, Japan, and Great Britain take for granted are disappearing.
 - e. It emphasized student’s critical thinking skills in general and the notion that multiple ways of addressing a problem could be equally successful in particular.

d; Moderate

69. Which of the following statements holds true for the “capstone” course recommended by The Ford Foundation?
- a. It stressed ~~on~~ how strategy and organizational structure need to be consistent with each other in order to ensure strong firm performance.
 - b. It offered concepts such as Five Forces Analysis and Generic Strategies that continue to strongly influence how executives choose strategies.
 - c. It stressed ~~on~~ how organizations could become more efficient through identifying the “one best way” of performing important tasks.
 - d. It argued that many of the advantages that firms in developed countries like the United States, Japan, and Great Britain take for granted are disappearing.
 - e. It emphasized student’s critical thinking skills in general and the notion that multiple ways of addressing a problem could be equally successful in particular.

e; Moderate

70. Who wrote the book, “The World is Flat: A Brief History of the Twenty-First Century”?
- a. Michael Porter
 - b. Frederick W. Taylor
 - c. Niccolò Machiavelli
 - d. Thomas Friedman
 - e. Alfred Chandler

d; Easy

Essay Questions

71. What is a business model?

A business model should be a central element of a firm's strategic plan. Simply stated, a business model describes the process through which a firm hopes to earn profits. Developing a viable business model requires that a firm sell goods or services for more than it costs the firm to create and distribute those goods. A more subtle but equally important aspect of a business model is providing customers with a good or service more cheaply than they can create it themselves.

Moderate

72. Explain the concept of economies of scale. Give an example.

Students' examples may vary.

Some firms buy their ingredients in massive quantities and they therefore pay far less for these items than any family could. This advantage is referred to as economies of scale. Papa John's and Domino's have developed specialized kitchen equipment that allows them to produce better tasting pizza than can be created using the basic ovens that most families rely on for cooking. Pizza restaurants thus can make better tasting pizzas for far less cost than a family can make itself. This business model provides healthy margins and has enabled Papa John's and Domino's to become massive firms.

Hard

73. Explain the concept of strategy as perspective.

Strategy as perspective shifts the focus to inside the minds of the executives running a firm. Strategy as perspective refers to how executives interpret the competitive landscape around them. Because each person is unique, two different executives could look at the same event – such as a new competitor emerging – and attach very different meanings to it. One might just see a new threat to his or her firm's sales; the other might view the newcomer as a potential ally.

Hard

74. What is an intended strategy?

An intended strategy is the strategy that an organization hopes to execute. Intended strategies are usually described in detail within an organization's strategic plan. As an undergraduate student at Yale in 1965, Frederick Smith described a delivery system that would gain efficiency by routing packages through a central hub and then pass them to their destinations. A few years later, Smith started Federal Express (FedEx), a company whose strategy closely followed the plan laid out in his class project. Today Federal Express is among the World's Most Admired Companies according to *Fortune* magazine. Certainly Smith's intended strategy has worked out far better than even he could have dreamed.

Moderate

75. What is a realized strategy?

A realized strategy is the strategy that an organization actually follows. Realized strategies are a product of a firm's intended strategy (i.e., what the firm planned to do), the firm's deliberate strategy (i.e., the parts of the intended strategy that the firm continues to pursue over time), and its emergent strategy (i.e., what the firm did in reaction to unexpected opportunities and challenges). In the case of Federal Express, the intended strategy devised by its founder many years ago – fast package delivery via a centralized hub – remains a primary driver of the firm's realized strategy.

Moderate

76. What is a non-realized strategy? Give an example of a non-realized strategy.

Students' examples may vary.

A non-realized strategy refers to the parts of the intended strategy that are abandoned. When aspiring author David McConnell was struggling to sell his books, he decided to offer complimentary perfume as a sales gimmick. McConnell's books never did escape the stench of failure, but his perfumes soon took on the sweet smell of success. The California Perfume Company was formed to market the perfumes; this firm evolved into the personal care products juggernaut known today as Avon. For McConnell his dream to be a successful writer was a non-realized strategy, but, through Avon, a successful realized strategy was driven almost entirely by opportunistically capitalizing on change through emergent strategy.

Hard

77. Explain Sun Tzu's idea that winning a battle without fighting is the best way to win with an example.

Students' examples may vary.

One of Sun Tzu's ideas that has numerous business applications is that winning a battle without fighting is the best way to win. Apple's behavior in the personal computer business offers a good example of this idea in action. Many computer makers such as Toshiba, Acer, and Lenovo compete with each other based primarily on price. This leads to price wars that undermine the computer makers' profits. In contrast, Apple prefers to develop unique features for its computers; features that have created a fiercely loyal set of customers. Apple boldly charges far more for its computers than its rivals charge for theirs. Apple does not even worry much about whether its computers' software is compatible with the software used by most other computers. Rather than fighting a battle with other firms, Apple wins within the computer business by creating its own unique market and by attracting a set of very loyal customers. Sun Tzu would probably admire Apple's approach.

Hard

78. Explain Taylor's principles of scientific management.

In 1911, Taylor published a book titled "The Principles of Scientific Management." The book was a response to Taylor's observation that most tasks within organizations were organized in a haphazard way. Taylor believed that businesses would be much more efficient if principles for management were derived through scientific investigation. In "The Principles of Scientific Management," Taylor stressed how organizations could become more efficient through identifying the "one best way" of performing important tasks. Implementing Taylor's principles was thought to have saved railroad companies hundreds of millions of dollars. Although many later works disputed the merits of trying to find the "one best way," Taylor's emphasis on maximizing organizational performance became the core concern of strategic management as the field developed.

Hard

79. What is the "capstone" course as recommended by The Ford Foundation?

A widely-circulated report created by The Ford Foundation recommended that all business schools offer a "capstone" course. The goal of this course would be to integrate knowledge across different business fields such as marketing, finance, and accounting in order to help students devise better ideas for addressing complex business problems. Rather than seeking a "one best way" solution as advocated by Taylor and Harvard's business policy course, this capstone course would emphasize student's critical thinking skills in general and the notion that multiple ways of addressing a problem could be equally successful in particular. The Ford Foundation report was a key motivator that led U.S. universities to create strategic management courses in their undergraduate and masters of business administration programs.

Moderate

80. What is environmental and internal scanning?

The strategic management process begins with an understanding of strategy and performance. Environmental and internal scanning is the next stage of the strategic management process. Managers must constantly scan the external environment for trends and events that affect the overall economy and they must also monitor changes in the particular industry in which the firm operates. For example, Apple's decision to create the iPhone demonstrates their ability to interpret that traditional industry boundaries that distinguished the cellular phone industry and the computer industry were beginning to blur. At the same time, firms must evaluate their own resources to understand how they might react to changes in the environment. For example, intellectual property is a vital resource for Apple. Between 2008 and 2010 Apple filed more than 350 cases with the United States Trademark office in order to protect their use of terms such as apple, pod, and safari.

Moderate