

Strategic Management and Competitive Advantage, 6e (Barney)

Chapter 1 What is Strategy and the Strategic Management Process?

1) A firm's _____ is defined as its theory about how to gain competitive advantages.

- A) objective
- B) mission
- C) vision
- D) strategy

Answer: D

Diff: 1 Page Ref: 4

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

2) A sequential set of analyses and choices that can increase the likelihood that a firm will choose a strategy that generates competitive advantages is the

- A) organizational change process.
- B) strategic management process.
- C) mission statement process.
- D) goal setting process.

Answer: B

Diff: 2 Page Ref: 5

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

3) A firm's _____ is its long-term purpose that defines both what it aspires to be in the long run and what it wants to avoid in the meantime.

- A) mission
- B) strategy
- C) objective
- D) goal

Answer: A

Diff: 1 Page Ref: 5

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

4) The strategic management process begins when a firm

- A) determines its objectives.
- B) defines its mission.
- C) makes a strategic choice.
- D) implements its strategy.

Answer: B

Diff: 2 Page Ref: 5

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

5) Firms whose mission is central to all they do are known as _____ firms.

- A) missionary
- B) emergent
- C) parity
- D) visionary

Answer: D

Diff: 2 Page Ref: 6

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

6) From 1926 to 1995, visionary firms earned _____ returns compared to firms that were not visionary firms.

- A) substantially lower
- B) substantially higher
- C) marginally lower
- D) equivalent

Answer: B

Diff: 2 Page Ref: 6

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

7) The mission statements of visionary firms

- A) suggest that profit maximizing, while an important corporate objective, is not their primary reason for existence.
- B) suggest that profit maximizing is neither an important corporate objective nor their primary reason for existence.
- C) suggest that profit maximizing is their primary reason for existence.
- D) suggest that value maximizing is their primary reason of existence.

Answer: A

Diff: 2 Page Ref: 6

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

8) Which of the following statements regarding firm mission is accurate?

- A) While some firms have used their missions to develop strategies that create significant competitive advantages, firm missions can hurt a firm's performance as well.
- B) Virtually all firms have used missions to develop strategies that create significant competitive advantages, while very few firms have used missions that can hurt their performance.
- C) It is very rare for firms to be able to use their missions to develop strategies that create significant competitive advantages, and most firm missions actually hurt their performance.
- D) Missions tend to have very little impact on a firm's ability to create significant competitive advantages.

Answer: A

Diff: 3 Page Ref: 6

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

9) _____ are specific measurable targets a firm can use to evaluate the extent to which it is realizing its mission.

- A) Strategies
- B) Missions
- C) Competitive advantages
- D) Objectives

Answer: D

Diff: 1 Page Ref: 6

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

10) High quality objectives are those that are

- A) tightly connected to elements of a firm's mission and are relatively easy to measure and track over time.
- B) difficult to measure and track over time.
- C) non-existent.
- D) not quantitative.

Answer: A

Diff: 2 Page Ref: 6

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

11) By conducting a(n) _____, a firm identifies the critical threats and opportunities in its competitive environment.

- A) internal analysis
- B) competitive analysis
- C) external analysis
- D) strategic choice

Answer: C

Diff: 1 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

12) _____ helps a firm understand which of its resources and capabilities are likely to be sources of competitive advantage.

- A) Competitive analysis
- B) Internal analysis
- C) Strategic choice
- D) External analysis

Answer: B

Diff: 2 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

13) Actions firms take to gain competitive advantages in a single market or industry are known as

- A) business level strategies.
- B) corporate level strategies.
- C) diversification strategies.
- D) strategy implementation.

Answer: A

Diff: 2 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

14) Actions firms take to gain competitive advantages by operating in multiple markets or industries simultaneously are known as

- A) corporate level strategies.
- B) diversification strategies.
- C) business level strategies.
- D) strategic alliance strategies.

Answer: A

Diff: 2 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

15) _____ occurs when a firm adopts organizational policies and practices that are consistent with its strategy.

- A) Strategy formulation
- B) Strategic choice
- C) Strategy implementation
- D) Strategic control

Answer: C

Diff: 1 Page Ref: 8

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

16) Green Frog is an environmentally friendly firm in the cosmetics industry that has decided to undertake a strategic planning project. It wants to ensure that it performs the process correctly and so intends to start the process with the first step of the strategic planning process, which is

- A) defining its mission.
- B) setting objectives.
- C) measuring performance.
- D) defining its business level strategy.

Answer: A

Diff: 1 Page Ref: 5

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Application of Knowledge

17) Green Frog is an environmentally friendly firm in the cosmetics industry. Even though Green Frog is environmentally friendly, the strategic planning team had decided that financial performance is one of the company's top priorities. Which of the following is the best example of an objective the company might use to help it achieve its goal of superior financial performance?

- A) increasing profitability
- B) growing market share annually
- C) improving product quality every quarter
- D) growth in earnings per share averaging 15% or better annually for the next five years

Answer: D

Diff: 2 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Application of Knowledge

18) Green Frog is an environmentally friendly firm in the cosmetics industry. If during the strategic planning process Green Frog tried to determine the critical threats and opportunities in its competitive environment, it would be performing a(n)

- A) internal analysis.
- B) external analysis.
- C) WACC analysis.
- D) economic analysis.

Answer: B

Diff: 2 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Application of Knowledge

19) Green Frog is an environmentally friendly firm in the cosmetics industry. If Green Frog undertook an analysis to help it understand which of its resources and capabilities are likely to be sources of competitive advantage and which are less likely to sources of such advantages it would be performing a(n)

- A) internal analysis.
- B) external analysis.
- C) WACC analysis.
- D) economic analysis.

Answer: A

Diff: 2 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Application of Knowledge

20) Green Frog is an environmentally friendly firm in the cosmetics industry. If Green Frog were considering expanding beyond the cosmetics industry into pharmaceuticals in order to gain competitive advantages by operating in multiple markets and industries, this would be an example of which type of strategy?

- A) business level strategy
- B) cost leadership strategy
- C) product differentiation strategy
- D) corporate level strategy

Answer: D

Diff: 2 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Application of Knowledge

21) One of the central questions that all strategic managers must address, regardless of the industry they work in, is "How is the industry likely to evolve?"

Answer: TRUE

Diff: 1 Page Ref: 4

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

22) There is complete consensus among strategic managers and academic researchers about what a "strategy" is.

Answer: FALSE

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Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

23) For the purposes of this book, a firm's strategy is defined as its theory about how to gain competitive advantages.

Answer: TRUE

Diff: 1 Page Ref: 4

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

24) A "good strategy" does not necessarily have to generate a competitive advantage.

Answer: FALSE

Diff: 2 Page Ref: 4

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

25) The greater the extent to which a firm's assumptions and hypotheses accurately describe how the competition in the industry is likely to evolve, and how that evolution can be exploited to earn a profit, the more likely it is that a firm will gain a competitive advantage from implementing its strategies.

Answer: TRUE

Diff: 1 Page Ref: 4

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

26) It is usually possible to know for sure that a firm is choosing the right strategy.

Answer: FALSE

Diff: 2 Page Ref: 5

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

27) The strategic management process is a sequential set of analyses and choices that can increase the likelihood that a firm will choose a good strategy that generates competitive advantages.

Answer: TRUE

Diff: 1 Page Ref: 5

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

28) The second step in the strategic management process is the definition of a firm's mission.

Answer: FALSE

Diff: 1 Page Ref: 5

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

29) A firm's mission defines both what it wants to be in the long run and what it wants to avoid in the meantime.

Answer: TRUE

Diff: 1 Page Ref: 5

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

30) Mission statements often contain so many common elements that even if a firm's mission statement does not influence behavior throughout an organization, it is likely to have a significant impact on a firm's actions.

Answer: FALSE

Diff: 2 Page Ref: 5

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

31) Firms whose mission statement is central to all they do are known as missionary firms.

Answer: FALSE

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Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

32) Visionary firms earn substantially higher returns than average firms because they acknowledge that profit maximizing is their primary reason for existence.

Answer: FALSE

Diff: 3 Page Ref: 6

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

33) Mission statements that are very inwardly focused and are defined only with reference to the personal values and priorities of its founders and top managers can hurt a firm's performance.

Answer: TRUE

Diff: 2 Page Ref: 6

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

34) Objectives are the specific measurable targets a firm can use to evaluate the extent to which it is realizing its mission.

Answer: TRUE

Diff: 1 Page Ref: 6

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

35) High quality objectives are tightly connected to the elements of a firm's mission but tend to be relatively difficult to measure and track over time.

Answer: FALSE

Diff: 3 Page Ref: 6

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

36) By conducting an external analysis, a firm identifies the critical threats and opportunities in the industry's competitive environment.

Answer: TRUE

Diff: 2 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

37) Corporate level strategies are actions firms take to gain competitive advantages in a single market or industry.

Answer: FALSE

Diff: 1 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

38) Business level strategies are actions firms take to gain competitive advantages by operating in multiple markets or industries simultaneously.

Answer: FALSE

Diff: 1 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

39) Strategy implementation occurs when a firm adopts organizational policies and practices that are consistent with its strategy.

Answer: TRUE

Diff: 1 Page Ref: 8

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

40) Define the term "strategy," discuss the set of assumptions and hypotheses that a strategy is based on and discuss what makes a good strategy.

Answer: A firm's strategy is defined as its theory about how to gain competitive advantages. This theory is based on a set of assumptions and hypotheses about how competition in this industry is likely to evolve and how that evolution can be exploited to earn a profit. To the extent that these assumptions and hypotheses accurately describe how competition in this industry actually evolves, the more likely it is that a firm will gain a competitive advantage from implementing its strategies. Thus, a "good strategy" is a strategy that actually generates such advantages.

Diff: 2 Page Ref: 4

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

41) Define the term "mission" and discuss how a firm's mission can both positively and negatively impact a firm's performance.

Answer: A firm's mission is its long-term purpose and it defines both what a firm aspires to be in the long run and what it wants to avoid in the meantime. If a mission statement does not influence firm behavior, it is unlikely to have an impact on a firm's actions. However, visionary firms, or firms whose mission is central to all they do, tend to earn substantially higher returns than average over the long run even though their mission statements suggest that profit maximization is not their primary reason for existence. However, missions that are inwardly focused and defined only with reference to the personal values and priorities of their founders or top managers, independent of whether or not those values and priorities are consistent with the economic realities facing a firm, are not likely to be a source of competitive advantage.

Diff: 2 Page Ref: 5

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

42) What are objectives, what role do they play in the strategic management process and what differentiates high quality objectives from low quality objectives?

Answer: Objectives are specific measurable targets a firm can use to evaluate the extent to which it is realizing its mission. High quality objectives are tightly connected to elements of a firm's mission and are relatively easy to measure and track over time. Low quality objectives either do not exist or are not connected to elements of a firm's mission, are not quantitative, or are difficult to measure or are difficult to track over time.

Diff: 2 Page Ref: 5

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

43) Differentiate between business level and corporate level strategies and give examples of each.

Answer: Business level strategies are actions firms take to gain competitive advantages in a single market or industry. The two most common business level strategies are cost leadership, such as Wal-Mart, and product differentiation, such as Tiffany's. Corporate level strategies are actions firms take to gain competitive advantages in multiple markets or industries simultaneously. Common corporate level strategies include vertical integration strategies, diversification strategies, strategic alliance strategies and merger and acquisition strategies.

Diff: 2 Page Ref: 7

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

44) Define strategy implementation and discuss three specific organizational policies and practices that are particularly important in implementing a strategy.

Answer: Strategy implementation occurs when a firm adopts organizational policies and practices that are consistent with its strategy. Three specific organizational policies and practices are particularly important in implementing a strategy: a firm's formal organizational structure, its formal and informal management control systems, and employee compensation policies.

Diff: 2 Page Ref: 8

Learning Obj.: 1.1: Define Strategy and Describe the Strategic Management Process.

AACSB: Analytical Thinking

45) When a firm is able to create more economic value than rival firms it is said to have a(n)

- A) comparative advantage.
- B) competitive advantage.
- C) residual advantage.
- D) economic advantage.

Answer: B

Diff: 2 Page Ref: 8

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Analytical Thinking

46) The difference between what customers are willing to pay for a firm's products or services and the full economic cost of these products or services is the

- A) value proposition.
- B) cost advantage.
- C) economic value.
- D) competitive advantage.

Answer: C

Diff: 1 Page Ref: 8

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Analytical Thinking

47) If TechnoGeek and VarsityBlue compete in the same market for the same customer and TechnoGeek generates \$900 of economic value each time it sells a product or service while VarsityBlue generates \$400 of economic value each time it sells a product or service, TechnoGeek has a(n) _____ of \$500.

- A) perceived benefit
- B) economic value
- C) cost advantage
- D) competitive advantage

Answer: D

Diff: 3 Page Ref: 8

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Application of Knowledge

48) A competitive advantage that lasts a very short period of time is known as a _____ competitive advantage.

- A) temporary
- B) sustained
- C) transient
- D) perpetual

Answer: A

Diff: 1 Page Ref: 9

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Analytical Thinking

49) Firms that generate less economic value than their rivals experience a competitive

- A) advantage.
- B) parity.
- C) disadvantage.
- D) perceived benefit.

Answer: C

Diff: 2 Page Ref: 9

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Analytical Thinking

50) In many ways, the difference between traditional economics research and strategic management research is that the former attempts to explain why _____, while the latter attempts to explain _____.

- A) competitive advantages should not persist; when they can
- B) competitive advantages should persist; when they can
- C) competitive advantages should persist; why they should not
- D) competitive parity should not persist; why they should

Answer: A

Diff: 3 Page Ref: 10

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Analytical Thinking

51) One of the first scholars to examine the longevity of competitive advantage was

- A) Dennis Mueller.
- B) Geoffrey Waring.
- C) Peter Roberts.
- D) Rich Houston.

Answer: A

Diff: 3 Page Ref: 10

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Analytical Thinking

52) The ultimate objective of the strategic management process is to enable a firm to choose and implement a strategy that leads to a competitive advantage.

Answer: TRUE

Diff: 1 Page Ref: 8

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Analytical Thinking

53) The size of a firm's competitive advantage is the sum of the economic value a firm is able to create and the economic value rivals are able to create.

Answer: FALSE

Diff: 2 Page Ref: 8

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Analytical Thinking

54) A sustained competitive advantage is virtually permanent.

Answer: FALSE

Diff: 2 Page Ref: 9

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Analytical Thinking

55) Waring found that firms that operate in industries that are informationally complex, require customers to know a great deal in order to use the industry's products, require a great deal of R & D, and have significant economies of scale are more likely to have sustained competitive advantage than those firms in industries without those characteristics.

Answer: TRUE

Diff: 3 Page Ref: 10

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Analytical Thinking

56) Discuss a firm's competitive advantage. Identify when a firm has a competitive advantage and distinguish between a temporary competitive advantage and a sustainable competitive advantage.

Answer: In general, a firm has a competitive advantage when it is able to generate more economic value than rival firms. A temporary competitive advantage is a competitive advantage that lasts a very short period of time while a sustained competitive advantage lasts much longer.

Diff: 2 Page Ref: 8

Learning Obj.: 1.2: Define Competitive Advantage and Explain its Relationship to Economic Value Creation.

AACSB: Analytical Thinking

57) The center of Osterwalder and Pigneur's business model canvas is the

A) parity point.

B) value proposition.

C) competitive advantage.

D) strategy box.

Answer: B

Diff: 1 Page Ref: 12

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

58) The two types of measures of competitive advantage include

- A) accounting measures and strategic measures.
- B) strategic measures and economic measures.
- C) accounting measures and economic measures.
- D) qualitative measures and quantitative measures.

Answer: C

Diff: 2 Page Ref: 11

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

59) A firm's _____ is a measure of its competitive advantage calculated using information from a firm's published profit and loss and balance sheet statements.

- A) economic performance
- B) accounting performance
- C) strategic performance
- D) sustainable performance

Answer: B

Diff: 2 Page Ref: 11

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

60) _____ are ratios with some measure of profit in the numerator and some measure of firms' size or assets in the denominator.

- A) Liquidity ratios
- B) Leverage ratios
- C) Activity ratios
- D) Profitability ratios

Answer: D

Diff: 1 Page Ref: 14

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

61) Ratios that focus on the level of a firm's financial flexibility, including its ability to obtain more debt, are known as

- A) leverage ratios.
- B) liquidity ratios.
- C) activity ratios.
- D) profitability ratios.

Answer: A

Diff: 1 Page Ref: 14

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

62) Using ratio analysis, a firm earns _____ when its performance is greater than the industry average.

- A) above average economic performance
- B) below average accounting performance
- C) above average accounting performance
- D) below average economic performance

Answer: C

Diff: 1 Page Ref: 15

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

63) The _____ is the rate of return that a firm promises to pay its suppliers of capital to induce them to invest in the firm.

- A) cost of debt
- B) cost of advantage
- C) cost of parity
- D) cost of capital

Answer: D

Diff: 2 Page Ref: 16

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

64) _____ measures of competitive advantage compare a firm's level of return to its cost of capital instead of to the average level of return in the industry.

- A) Economic
- B) Accounting
- C) Strategic
- D) Sustainable

Answer: A

Diff: 2 Page Ref: 16

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

65) The percentage of a firm's total capital that is debt times the cost of debt plus the percentage of a firm's total capital; or equity times the cost of equity is the

- A) weighted cost of capital.
- B) weighted average cost of capital.
- C) cost of capital.
- D) average cost of capital.

Answer: B

Diff: 3 Page Ref: 16

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

66) A firm that is able to attract additional capital because debt holders and equity holders will scramble to make additional funds available for it is likely earning

- A) normal economic performance.
- B) average accounting performance.
- C) temporary advantage.
- D) above normal economic performance.

Answer: D

Diff: 3 Page Ref: 17

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

67) An important limitation of comparing a firm's performance to its cost of capital occurs when a firm is

- A) privately held.
- B) an IPO.
- C) an entrepreneurial venture.
- D) experiencing below normal economic performance.

Answer: A

Diff: 2 Page Ref: 17

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

68) A firm that earns its cost of capital is said to be earning

- A) above normal economic performance.
- B) normal economic performance.
- C) below normal economic performance.
- D) normal accounting performance.

Answer: B

Diff: 1 Page Ref: 17

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

69) The view that equity holders only receive payment on their investment in a firm after all legitimate claims by a firm's other stakeholders are satisfied is known as the _____ view of equity holders.

- A) stakeholder
- B) residual claimants
- C) legitimate claimants
- D) extraordinary claims

Answer: B

Diff: 2 Page Ref: 18

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

70) Which type of ratios focus on the ability of a firm to meet its short-term financial obligations?

- A) activity ratios
- B) liquidity ratios
- C) leverage ratios
- D) profitability ratios

Answer: B

Diff: 1 Page Ref: 14

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

71) Which ratio signals a greater risk of bankruptcy as it increases?

- A) debt to equity
- B) quick ratio
- C) debt to assets
- D) cash flow per share

Answer: C

Diff: 2 Page Ref: 14

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Application of Knowledge

72) Accounts receivable turnover is an example of which type of ratio?

- A) profitability
- B) activity
- C) liquidity
- D) leverage

Answer: B

Diff: 2 Page Ref: 14

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

73) Thermacorp's weighted average cost of capital is 13.5. If the average WACC in the heating and cooling industry is 19, Thermacorp can be said to be earning

- A) above normal economic performance.
- B) above normal accounting performance.
- C) below normal economic performance.
- D) below normal accounting performance.

Answer: C

Diff: 2 Page Ref: 16

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Application of Knowledge

74) Thermacorp's 17.3% ROE is an example of a(n) _____ ratio.

- A) liquidity
- B) profitability
- C) activity
- D) leverage

Answer: B

Diff: 1 Page Ref: 14

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Application of Knowledge

75) If the average ROE in the heating and cooling industry is 10.1%, and Thermacorp's ROE is 17.3%, Thermacorp is said to have

- A) below average accounting performance.
- B) above average economic performance.
- C) above average accounting performance.
- D) below average economic performance.

Answer: C

Diff: 2 Page Ref: 15

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Application of Knowledge

76) A firm's accounting performance is a measure of its competitive advantage calculated using information from a firm's published profit and loss and balance sheet statements.

Answer: TRUE

Diff: 1 Page Ref: 11

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

77) Applying accounting measures of competitive advantage for firms that are headquartered in different countries has become less challenging today with the globalization of business.

Answer: FALSE

Diff: 2 Page Ref: 11

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

78) Activity ratios are ratios with some measure of profit in the numerator and some measure of firm size or assets in the denominator.

Answer: FALSE

Diff: 1 Page Ref: 14

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

79) Liquidity ratios are ratios that focus on the firm's ability to meet its short-term financial obligations.

Answer: TRUE

Diff: 1 Page Ref: 14

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

80) When a firm earns above average accounting performance, it is said to enjoy competitive parity.

Answer: FALSE

Diff: 2 Page Ref: 16

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

81) A firm that earns below average accounting performance generally experiences a competitive disadvantage.

Answer: TRUE

Diff: 2 Page Ref: 16

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

82) The greatest disadvantage of accounting measures of competitive performance is that they are relatively difficult to compute.

Answer: FALSE

Diff: 1 Page Ref: 16

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

83) Economic measures of competitive advantage compare a firm's level of return to its costs of capital instead of to the average level of return to the industry.

Answer: TRUE

Diff: 1 Page Ref: 16

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

84) The cost of equity is equal to the interest a firm must pay its debt holders in order to induce those debt holders to lend money to the firm.

Answer: FALSE

Diff: 1 Page Ref: 16

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

85) The residual claimants' view of equity holders argues that the interests of equity holders come before all other stakeholders of the firm in receiving payment.

Answer: FALSE

Diff: 3 Page Ref: 18

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

86) The correlation between economic and accounting measures of competitive advantage is generally low.

Answer: FALSE

Diff: 2 Page Ref: 19

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

87) Identify two approaches to estimating a firm's competitive advantages and discuss the strengths and weaknesses of each.

Answer: The two general approaches to estimating a firm's competitive advantage are measuring accounting performance and measuring economic performance. A firm's accounting performance is a measure of its competitive advantage calculated using information from a firm's published profit and loss and balance sheets. A firm's accounting performance is determined by comparing a firm's accounting ratios with other firms in the industry. The greatest advantage of accounting measures of competitive advantage is that they are relatively easy to compute. The most significant drawback to accounting measures is that they do not consider a firm's cost of capital. Additionally, accounting measures can be difficult to compare across countries.

Economic measures of competitive advantage compare a firm's level of return to its cost of capital instead of to the average level of return in the industry. The primary benefit of economic measures is that if a firm earns at least its cost of capital, it is satisfying two of its important stakeholders, debt holders and equity holders. Disadvantages of economic measures include that it can be difficult to calculate a firm's cost of capital, especially for privately held firms, and economic measures may overstate the importance of debt and equity holders.

Diff: 2 Page Ref: 11

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

88) What is the residual claimants view of equity holders?

Answer: The residual claimants view is that equity holders only receive payment on their investment in a firm after all legitimate claims by a firm's other stakeholders are satisfied. This view posits that by maximizing returns to its equity holders, a firm is ensuring that its other stakeholders are fully compensated for investing in a firm.

Diff: 2 Page Ref: 18

Learning Obj.: 1.3: Describe Two Different Approaches to Measuring Competitive Advantage.

AACSB: Analytical Thinking

89) Theories of how to gain competitive advantage in an industry that emerge over time or that have been radically reshaped once they are initially implemented are known as

- A) emergent strategies.
- B) objective strategies.
- C) planned strategies.
- D) ad hoc strategies.

Answer: A

Diff: 1 Page Ref: 19

Learning Obj.: 1.4: Explain the Difference Between Emergent and Intended Strategies.

AACSB: Analytical Thinking

90) Johnson & Johnson's strategy to get into the baby powder business is an example of a(n) _____ strategy.

- A) planned
- B) intended
- C) emergent
- D) deliberate

Answer: C

Diff: 2 Page Ref: 20

Learning Obj.: 1.4: Explain the Difference Between Emergent and Intended Strategies.

AACSB: Application of Knowledge

91) Fed Ex entered their market with a well-defined mission and objectives, making strategic choices and implementing those strategies. This is an example of which type of strategy?

- A) intended
- B) economic
- C) emergent
- D) visionary

Answer: A

Diff: 2 Page Ref: 19

Learning Obj.: 1.4: Explain the Difference Between Emergent and Intended Strategies.

AACSB: Application of Knowledge

92) Emergent strategies are theories of how to gain competitive advantage in an industry that emerge over time or that have been radically reshaped once they are initially implemented.

Answer: TRUE

Diff: 2 Page Ref: 19

Learning Obj.: 1.4: Explain the Difference Between Emergent and Intended Strategies.

AACSB: Analytical Thinking

93) Johnson & Johnson's introduction of "Johnson's Toilet and Baby Powder" as a result of customers asking to purchase the talcum powder is an example of a planned strategy.

Answer: FALSE

Diff: 2 Page Ref: 20

Learning Obj.: 1.4: Explain the Difference Between Emergent and Intended Strategies.

AACSB: Analytical Thinking

94) Emergent strategies are only important when a firm fails to implement the strategic management process effectively.

Answer: FALSE

Diff: 2 Page Ref: 20

Learning Obj.: 1.4: Explain the Difference Between Emergent and Intended Strategies.

AACSB: Analytical Thinking

95) All firms have almost entirely emergent strategies.

Answer: FALSE

Diff: 2 Page Ref: 20

Learning Obj.: 1.4: Explain the Difference Between Emergent and Intended Strategies.

AACSB: Analytical Thinking

96) Describe the difference between emergent and intended strategies. Why might firms employ an emergent strategy?

Answer: Intended strategies can best be described as a firm's theories of how to gain a competitive advantage that are developed as a result of the strategic management process. Intended strategies are developed when firms choose and implement their strategies exactly as described by the strategic management process. Alternately, emergent strategies are theories of how to gain a competitive advantage in an industry that emerge over time or that have been radically reshaped once they are implemented. Firms employ emergent strategies since some of the information needed to complete the strategic management process may not be available when firms are developing their intended strategies.

Diff: 2 Page Ref: 19

Learning Obj.: 1.4: Explain the Difference Between Emergent and Intended Strategies.

AACSB: Analytical Thinking

97) Which of the following is a reason why it is important for students to study strategy and the strategic management process?

A) Studying strategy and the strategic management process can give students tools to evaluate the strategies of firms that may employ them.

B) It can be very important to a new hire's career success to understand the strategies of the firm that hired them and their place in implementing these strategies.

C) While strategic choices are generally limited to very experienced senior managers in large organizations, in smaller and entrepreneurial firms many employees end up being involved in the strategic management process.

D) All of the above.

Answer: D

Diff: 2 Page Ref: 21

Learning Obj.: 1.5: Discuss Why It Is Important for You to Study Strategy and the Strategic Management Process.

AACSB: Analytical Thinking

98) Firms with strategies that are unlikely to be a source of competitive advantage will rarely provide the same career opportunities as firms with strategies that do generate such advantages.

Answer: TRUE

Diff: 1 Page Ref: 21

Learning Obj.: 1.5: Discuss Why It Is Important for You to Study Strategy and the Strategic Management Process.

AACSB: Analytical Thinking

99) Strategic choices are generally limited to very experienced senior managers in large corporations; in smaller and entrepreneurial firms, many employees end up being involved in the strategic management process.

Answer: TRUE

Diff: 1 Page Ref: 21

Learning Obj.: 1.5: Discuss Why It Is Important for You to Study Strategy and the Strategic Management Process.

AACSB: Analytical Thinking

100) Why is it important to understand a firm's strategy, even if you are not a senior manager in a firm?

Answer: First, studying strategy and the strategic management process can give individuals the tools they need to evaluate the strategies of the firms that may hire them. Second, once an individual is working for a firm, understanding that firm's strategy, and their place in it, can be very important to their personal success since the expectations of how they perform their function will be impacted by the firm's strategy. Finally, while strategic choices are generally limited to very experienced managers in large organizations, in smaller and entrepreneurial firms, many employees end up being involved in the strategic management process.

Diff: 2 Page Ref: 20

Learning Obj.: 1.5: Discuss Why It Is Important for You to Study Strategy and the Strategic Management Process.

AACSB: Analytical Thinking