

Chapter 01: Strategic Management and Strategic Competitiveness

True / False

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

- a. True
- b. False

ANSWER:

True

2. Alligator Enterprises has earned above-average returns since its founding five years ago. No other firm has challenged Alligator in its particular market niche; therefore, the firm's owners can feel secure that Alligator has established a competitive advantage.

- a. True
- b. False

ANSWER:

False

3. The goal of strategy implementation is to develop a permanent competitive advantage.

- a. True
- b. False

ANSWER:

False

4. Risk in terms of financial returns reflects an investor's uncertainty about the economic gains or losses that will result from a particular investment.

- a. True
- b. False

ANSWER:

True

5. The difference between average and above-average returns is that average returns are returns that an investor expects to earn from an investment as compared to other investments with similar stock prices, while above-average returns are in excess of expectations for similarly priced stocks.

- a. True
- b. False

ANSWER:

False

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

- a. True
- b. False

ANSWER:

True

7. Particularly when assessing investments in new venture firms, the most effective, and often the only, way to measure the performance of the firms and determine their viability as an investment option is to examine financial metrics such as returns on assets, and sales.

- a. True
- b. False

ANSWER:

False

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8. To implement a firm's strategies, the firm takes actions to enact each strategy with the intent of achieving strategic competitiveness and above-average returns.

- a. True
- b. False

ANSWER: True

9. Economies of scale and huge advertising budgets are more effective in the new competitive landscape than they were in the past.

- a. True
- b. False

ANSWER: False

10. The two primary drivers of hypercompetition are the emergence of the global economy and technology.

- a. True
- b. False

ANSWER: True

11. The rate of technology diffusion has increased significantly over the last two decades.

- a. True
- b. False

ANSWER: True

12. RelTech is a firm in the electronics industry. It could protect its proprietary technology through patents. However, it likely will not apply for patents to keep competitors from gaining access to the technological knowledge included in the patent application.

- a. True
- b. False

ANSWER: True

13. Examples of incremental innovations include iPads, Wi-Fi, and the web browser.

- a. True
- b. False

ANSWER: False

14. The rapid rate of technological diffusion has increased the competitive benefits of patents.

- a. True
- b. False

ANSWER: False

15. Companies searching for opportunities in the global economy would likely conclude that the three leading European economies of Germany, United Kingdom, and France would be good investments because they are predicted to continue increasing in size.

- a. True
- b. False

ANSWER: False

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16. Since the 1980s, the basis for competition has shifted from intangible resources to hard assets.

- a. True
- b. False

ANSWER: False

17. The new CEO of Opacity Enterprises is determined to make the long-established firm strategically flexible. The CEO should understand that the task is not easy, largely because of inertia that can build up over time.

- a. True
- b. False

ANSWER: True

18. The industrial organization (I/O) model suggests that above-average returns are determined primarily by the firm's unique internal resources rather than by external capabilities.

- a. True
- b. False

ANSWER: False

19. The CEO of Twin Spires, Inc., is committed to using the expertise and resources currently in the firm to serve the needs of the natural gardening community by providing rare and native plants to individuals and nurseries around the United States. The perspective of the CEO of Twin Spires is consistent with the assumptions of the industrial organization (I/O) model.

- a. True
- b. False

ANSWER: False

20. The five forces model suggests that firms should target the industry with the highest potential for above-average returns and then implement either a cost-leadership strategy or a differentiation strategy.

- a. True
- b. False

ANSWER: True

21. The uniqueness of a firm's resources and capabilities is the basis for a firm's strategy and its ability to earn above-average returns under the industrial organization (I/O) model.

- a. True
- b. False

ANSWER: False

22. Research shows that a greater percentage of a firm's profitability is explained by the I/O model rather than the resource-based model.

- a. True
- b. False

ANSWER: False

23. All of a firm's resources and capabilities have the potential to be the foundation for a competitive advantage.

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- a. True
- b. False

ANSWER: False

24. The I/O and resource-based models contain many of the same steps. One clear difference between the two models is the resource-based model starts by looking at the internal strengths and weaknesses of a firm, while the I/O model begins with an examination of the external environment. Another key difference is the resource-based model identifies an attractive industry much earlier in the process than does the I/O model.

- a. True
- b. False

ANSWER: False

25. The assumptions of the industrial organization model and the resource-based model are contradictory. Therefore, organizational strategists must choose one or the other model as the basis for developing a strategic plan.

- a. True
- b. False

ANSWER: False

26. An effective vision statement must specify the industry in which a company will operate.

- a. True
- b. False

ANSWER: False

27. An effective vision stretches and challenges people and can result in increased innovation. This is illustrated by Apple's CEO Steve Jobs, who was known to think bigger and differently than most people.

- a. True
- b. False

ANSWER: True

28. The firm's mission is more concrete than its vision.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

30. Stakeholders are people located in different areas and levels of the firm using the strategic management process to select strategic actions that help the firm achieve its vision and fulfill its mission.

- a. True
- b. False

ANSWER: False

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31. If a firm is dependent on a specific stakeholder group, that group has less influence on the firm's strategic decision making.

- a. True
- b. False

ANSWER: False

32. Power is the most critical criterion in prioritizing stakeholders.

- a. True
- b. False

ANSWER: True

33. Hourly workers on the production line of a chicken-processing plant are considered organizational stakeholders.

- a. True
- b. False

ANSWER: True

34. The local government with whom a firm interacts, the people who buy its products, and the contractors who supply raw materials are all part of a firm's capital market stakeholders.

- a. True
- b. False

ANSWER: False

35. When a firm earns lower-than-average returns, the highest priority is given to satisfying the needs of capital market stakeholders over the needs of product market and organizational shareholders.

- a. True
- b. False

ANSWER: False

36. 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.

- a. True
- b. False

ANSWER: True

37. In contrast to shareholders, a firm's customers prefer that investors receive a minimum return on their investments.

- a. True
- b. False

ANSWER: True

38. Strategic leaders must have a strong strategic orientation while simultaneously embracing change in the dynamic competitive landscape.

- a. True
- b. False

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ANSWER: True

39. Strategy formulation and implementation must be simultaneously integrated for a successful strategic management process.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

Multiple Choice

41. 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

ANSWER: a

42. A competitive advantage:

- a. can be permanent if the firm has successfully implemented the strategic management process.
- b. entails reducing investors' risk to near zero.
- c. can be identified when competitors are unable to duplicate a strategy or find it too costly to try to imitate.
- d. exists when competing firms are unable to find investors.

ANSWER: c

43. Above-average returns are:

- a. higher profits than the firm earned the previous 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. returns in excess of what an investor expects to earn from other investments with a similar level of risk.

ANSWER: d

44. 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 earn above-average returns for investors through effective use of the organization's resources.
- d. the full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns.

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ANSWER: d

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

ANSWER: b

46. All of the following are characteristics of the global economy EXCEPT:
- a. the increasing importance of emerging economies as sources of revenue growth.
 - b. the free movement of goods, services, people, skills, and ideas across geographic borders.
 - c. the increased use of tariffs to protect industries.
 - d. higher levels of opportunities and challenges in new geographic markets.

ANSWER: c

47. A forward-looking analysis suggests that markets in _____ will yield significant opportunities, as their economies, while currently not the largest, are expected to exceed the size of the U.S. economy by the year 2050.
- a. the European Union
 - b. Germany and India
 - c. India and China
 - d. China and Japan

ANSWER: c

48. In 2018, _____ was the second-largest economy in the world, with a value of \$14 trillion.
- a. the United States
 - b. the European Union
 - c. Japan
 - d. China

ANSWER: d

49. The increasing economic interdependence among countries and their organizations as reflected in the flow of goods and services, financial capital, and knowledge across country borders is defined as:
- a. hypercompetition.
 - b. boundaryless retailing.
 - c. strategic intensity.
 - d. globalization.

ANSWER: d

50. Globalization has led to:
- a. lower operational efficiency, as firms must transport raw materials and finished goods farther.
 - b. increasing loyalty of customers for products made domestically.
 - c. declining returns from investment in research and development.

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- d. higher performance standards in competitive dimensions, including quality and cost.

ANSWER:

d

51. 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. risk of participating outside a firm's domestic markets in the global economy.
- d. preference for "buying local," which always puts foreign firms at a disadvantage when competing in the U.S. market.

ANSWER:

c

52. Even for companies capable of succeeding in global markets, it is critical that they:

- a. remain committed to and strategically competitive in their domestic market.
- b. introduce many new products immediately after entering a new market.
- c. acquire a local competitor in each significant foreign market.
- d. develop good negotiating skills in order to take advantage of local suppliers in the international market.

ANSWER:

a

53. The rate of technological diffusion has increased substantially over the past 15 to 20 years. Which of the following was fastest in penetrating 25 percent of homes in the United States?

- a. Mobile phones
- b. Television
- c. Personal computers
- d. Internet

ANSWER:

d

54. New markets created by the technologies underlying the development of products such as iPods, iPads, and Wi-Fi are a result of:

- a. disruptive technologies.
- b. global competition.
- c. knowledge intensity.
- d. hypercompetition.

ANSWER:

a

55. Henry Ford once said, "If I had asked people what they wanted, they would have said faster horses." The invention of the car is an early example of:

- a. the march of globalization.
- b. rapid technological diffusion.
- c. disruptive technologies.
- d. products that were not imitated by competitors.

ANSWER:

c

56. A company's ability to acquire knowledge is:

- a. less important in the twenty-first century than in previous periods of business history.

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- b. an increasingly valuable source of competitive advantage.
- c. not considered an asset or resource for businesses.
- d. only important in high-technology industries.

ANSWER:

b

57. The CEO of Ridgeway, Inc., realizes that the company's survival depends on developing and acquiring knowledge. Which of the following actions by the CEO would be MOST consistent with this need?

- a. Ensuring that all current, unique knowledge of the firm is protected by patents
- b. Planning extensive employee training and hiring educated and experienced employees
- c. Investing in sophisticated databases in relevant knowledge areas
- d. Establishing a system of organizational intelligence gathering

ANSWER:

b

58. RelTech has developed a proprietary approach to supply chain management and uses that expertise as a source of competitive advantage. RelTech is relying on what intangible asset as a basis of competition?

- a. Knowledge
- b. Insight
- c. Intensity
- d. Strategic flexibility

ANSWER:

a

59. Which of the following statements about organizational knowledge is true?

- a. Knowledge is an intangible resource.
- b. Firms with appropriate internal knowledge resources are likely to invest an appropriate amount of money in research and development.
- c. The value of knowledge as a proportion of total shareholder value is increasing.
- d. All of these are correct.

ANSWER:

d

60. In order to cope with hypercompetition, firms need to develop _____ through continuous learning.

- a. competitive resilience
- b. strategic flexibility
- c. strategic power
- d. competitive dominance

ANSWER:

b

61. All of the following are assumptions of the industrial organization (I/O) model EXCEPT:

- a. organizational decision makers are assumed to be 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 would result in above-average returns.
- d. most firms competing within an industry or within a segment of that industry are assumed to control similar strategically relevant resources and to pursue similar strategies in light of those resources.

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ANSWER: b

62. The industrial organization (I/O) model argues that the:
- a. key factor in success is choosing the correct industry in which to compete.
 - b. firm's internal resources and capabilities represent the foundation for development of a value-creating strategy.
 - c. key to earning above-average returns is strategic flexibility.
 - d. internal structure of the organization must match the industry in which it competes for it to earn above-average returns on investment.

ANSWER: a

63. Which of the following statements is MOST consistent with the I/O view? Performance of a 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 in which the firm competes.
 - d. hypercompetition within the industry.

ANSWER: c

64. Firms use the five forces model of competition to identify the _____ of an industry, as measured by its _____.
- a. size; number of competitors
 - b. globalization; percentage of exports
 - c. hypercompetition; technology diffusion
 - d. attractiveness; profitability potential

ANSWER: d

65. Alibaba is a company in the Internet services industry that has improved its performance by focusing on its unique abilities in the area of innovation and service diversification. This improved performance is best explained by:
- a. globalization.
 - b. the resource-based model.
 - c. the industrial organization (I/O) model.
 - d. hypercompetition.

ANSWER: b

66. An investor is considering in which of two start-up companies to invest. The investor has faith in the industrial organization (I/O) model of above-average returns and is using that as a guideline to make a decision. Both start-up companies propose to manufacture health-focused foods with 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 healthy lifestyles, but it does not have any executives with experience in food production. Which investment decision is the investor most likely to make?
- a. The investor will select Green Pastures Foods since it is most consistent with the I/O model.
 - b. The investor will select RexRich Foods since it is most consistent with the I/O model.
 - c. Since both firms are consistent with the I/O model, the investor will seek additional information before

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making a decision.

- d. At the entrepreneurial stage, the model that companies follow is not important, and the investor will wait before making any investments.

ANSWER: b

67. Research shows that approximately _____ percent of a firm's profitability is explained by the industry in which it chooses to compete, whereas _____ percent is explained by the firm's characteristics and actions.

- a. 90; 10
- b. 60; 40
- c. 36; 20
- d. 20; 36

ANSWER: d

68. 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 board of directors of experienced executives.

ANSWER: c

69. All of the following are assumptions of the resource-based model EXCEPT:

- a. firms acquire different resources and develop unique capabilities based on how they combine and use resources.
- b. firms' performances across time are due primarily to their unique resources and capabilities rather than the industry's structural characteristics.
- c. resources and capabilities are highly mobile across firms.
- d. differences in resources and capabilities are the basis of competitive advantage.

ANSWER: c

70. _____ is the 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

ANSWER: a

71. When capabilities serve as a source of competitive advantage for a firm over its rivals, the firm has created a(n):

- a. strategic mission.
- b. inspiring vision.
- c. core competence.
- d. sustainable market niche.

ANSWER: c

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

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- a. Unique market niche
- b. Weak competition
- c. Economies of scale
- d. Skilled employees

ANSWER:

d

73. 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

ANSWER:

c

74. The resource-based model argues that:

- a. all resources have the potential to be the basis of sustainable competitive advantage.
- b. resources alone can be a source of sustainable competitive advantage.
- c. the key to competitive success is the structure of the industry in which the firm competes.
- d. resources that are valuable, rare, costly to imitate, and non-substitutable form the basis of a firm's core competencies.

ANSWER:

d

75. The resource-based view of the firm:

- a. emphasizes that it is difficult to achieve and sustain a competitive advantage based on resources alone.
- b. argues that the industry environment has a stronger influence on firms' ability to implement strategies successfully than does the competitive environment.
- c. calls for firms to focus on their homogeneous capabilities to compete against their rivals.
- d. suggests that vision and mission are marketing messages not tied to strategic plans.

ANSWER:

a

76. The goal of the organization's _____ is to point the firm in the direction of where it would like to be in the years to come.

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

ANSWER:

a

77. The Princeton Alliance Church states on its website that "PAC exists to help you live life to the fullest by knowing God, developing community and bringing hope." This pronouncement is MOST precisely a statement of organizational:

- a. values.
- b. structure.
- c. vision.

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d. culture.

ANSWER:

c

78. A firm's mission is:

- a. a statement of a firm's businesses in which it intends to compete and the customers it intends to serve.
- b. an internally-focused affirmation of the organization's financial, social, and ethical goals.
- c. mainly intended to emotionally inspire employees and other stakeholders.
- d. the foundation for the firm's vision.

ANSWER:

a

79. Jan is the CEO of GlenOak Corp. After analyzing GlenOak's vision statement and aligning it with new environmental conditions, Jan rewrote GlenOak's mission. Which of the following best characterizes Jan's action?

- a. Jan should have involved managers at all levels in the firm as well as employees who interact with customers and the markets for input when rewriting the mission statement.
- b. Because a mission can change along with environmental circumstances, Jan did the right thing in rewriting the mission.
- c. Because the CEO has the final responsibility for forming a firm's mission, it was proper for Jan to rewrite the mission statement.
- d. A mission statement is an enduring reflection of the values and aspirations of a firm, and Jan should not have rewritten it.

ANSWER:

a

80. A key purpose of a vision and mission statement is to inform _____ what a firm is, what it seeks to accomplish, and who it seeks to serve.

- a. CEOs
- b. stakeholders
- c. regulators
- d. former employees

ANSWER:

b

81. Todd works at EnergyOne and also owns shares of stock in the company and is a member in the union there. Todd himself is a(n) _____ stakeholder; the union is a(n) _____ stakeholder.

- a. product market and organizational; organizational
- b. capital market; capital market
- c. capital market and organizational; product market
- d. organizational; organizational and product market

ANSWER:

c

82. EnergyOne wants to install a high-capacity gas pipeline extension in the region. Shareholders anticipate better delivery of energy at lower costs, which will increase profitability. State and local governments are expecting increased tax revenue as well as new jobs in the region during construction of the expansion. Some customers look forward to lower gas rates as a result of more efficient delivery. Residents of the area, including customers and environmental groups, are opposed to the pipeline because of the increased risk for explosion and danger to the surrounding area. If EnergyOne cannot meet the needs of each stakeholder, what is the most critical way the firm prioritize them?

- a. By identifying its level of dependence on each stakeholder

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- b. By considering the urgency of each stakeholder's need
- c. By classifying the vulnerability of each stakeholder
- d. By assessing the social value of each stakeholder

ANSWER:

a

83. Capital market stakeholders include:

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

ANSWER:

b

84. Dissatisfied capital market stakeholders may:

- a. sell their stock.
- b. impose more flexible covenants on subsequent borrowing of capital.
- c. lobby for better working conditions for employees.
- d. All of these are correct.

ANSWER:

a

85. Greenleaf Property Management has been earning below-average returns for the last three years. Which of the following statements is 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's current goal should be to satisfy each group's minimal expectations.
- c. Greenleaf will need to prioritize the demands of its stakeholders to maximize the interests of all stakeholders.
- d. Greenleaf will not be able to minimally satisfy all stakeholders.

ANSWER:

d

86. 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 services in the industry at any price.
- c. obtaining reliable products at the lowest possible prices.
- d. increasing the profitability of the firm.

ANSWER:

c

87. Product market stakeholders generally are satisfied when:

- a. a firm's profit margin reflects at least a balance between the returns to capital market stakeholders and the returns in which they share.
- b. a firm's profit margin yields an above-average return to its capital market stakeholders.
- c. the interests of the firm's organizational stakeholders have been maximized.
- d. the interests of all stakeholders have been at least minimally satisfied.

ANSWER:

a

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88. Before liquidating during a bankruptcy, a company will take several actions to try to satisfy its _____ stakeholders.

- a. capital market
- b. product market
- c. organizational
- d. governmental

ANSWER: a

89. The Chambers of Commerce of cities and towns often implore citizens to buy from local businesses. This is because the organization's role as a taxpayer is MOST important to _____ as stakeholders.

- a. major suppliers of capital
- b. shareholders
- c. host communities
- d. unions

ANSWER: c

90. A retail outlet can attempt several remedies to improve profitability to meet the expectations of its _____ stakeholders, including closing stores, changing the top management team, and seeking potential buyers.

- a. product market
- b. capital market
- c. organizational
- d. governmental

ANSWER: b

91. 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.

ANSWER: c

92. GlenOak Corp. is planning to open a second corporate office in a new city. The legal team at GlenOak Corp. is studying the various state and local regulations that control its industry in order to narrow down the possible sites to those which would be most conducive to success. What type of stakeholder is being focused at this stage?

- a. Host communities, which are product market stakeholders
- b. Shareholders, which are capital market stakeholders
- c. Primary customers, which are product market stakeholders
- d. Managers, which are organizational stakeholders

ANSWER: a

93. Refuge Nursing Homes, Inc., (RNH) has been highly profitable in the past 10 years, providing its investors higher returns than those earned by its direct competitors' investors. 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

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inadequate patient-care staffing. Which of the following statements 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 and organizational 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.

ANSWER:

b

94. Knollbridge Industries has been expanding globally. The company wants to build employee skills for the global landscape in order to provide employees with more opportunities and also leverage their expertise in more markets. They can best facilitate this effort through what strategy?

- a. Establishing first-mover advantage
- b. Making international assignments
- c. Designing diversity training programs
- d. Limiting expatriate experiences

ANSWER:

b

95. The global economy, globalization, rapid technological change, and the increasing importance of knowledge and people as sources of competitive advantage are creating the need to:

- a. delegate strategic responsibilities to employees "closer to the action."
- b. split responsibilities between the CEO and the board of directors to minimize the possibility of corporate scandals triggered by unethical CEOs.
- c. re-centralize the responsibility for strategy to the CEO.
- d. expand the strategic responsibilities to all organizational stakeholders.

ANSWER:

a

96. The strategic leader's work is characterized by:

- a. ambiguous decision situations.
- b. a willingness to unify stakeholders through skillful manipulation.
- c. an ability to identify solutions to long-range problems.
- d. concentration on the practical day-to-day aspects of the organization's operations.

ANSWER:

a

97. A major assumption about the strategic management process is that it is:

- a. inspired.
- b. team-based.
- c. rational.
- d. inclusive.

ANSWER:

c

98. A business-level strategy describes:

- a. the businesses in which the company intends to compete.
- b. all policies and procedures used in functional departments.

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- c. the actions a firm takes to exploit its competitive advantage over rivals.
- d. a firm's resources, intent, and mission.

ANSWER:

c

99. For a diversified firm, corporate-level strategy is concerned with:

- a. operating each individual business under the corporate umbrella.
- b. determining how each functional department of the firm will operate.
- c. determining the businesses in which the company intends to compete as well as how to manage its different businesses.
- d. coordinating the vision and mission of each subsidiary firm.

ANSWER:

c

100. PGG Mining is making a strategic decision whether to shut down a coal mine in Pennsylvania. It is important to consider that the decision:

- a. should be based solely on the results of the CEO's approval of the mine's general manager.
- b. has ethical implications for organizational stakeholders.
- c. need not be socially responsible if the firm is making below-average returns from the mine.
- d. All of these are important to consider.

ANSWER:

b

101. A large corporation has earned a reputation for being a challenging work environment for employees, placing demands on employees' time and pushing them to accomplish tasks, sometimes with little recognition. A recent audit found that the company was denying employees overtime pay despite the extra work. This is a reflection of the company's:

- a. core values of hard work to gain advancement.
- b. unethical organizational culture.
- c. lack of an organizational mission.
- d. search for its core competencies.

ANSWER:

b

102. In smaller, new venture firms, returns are sometimes measured in terms of:

- a. return on assets.
- b. return on equity.
- c. return on sales.
- d. the amount and speed of growth.

ANSWER:

d

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

- a. goal
- b. strategy
- c. tactic
- d. mission

ANSWER:

b

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104. _____ is an investor's uncertainty about the economic gains or losses that will result from a particular investment.

- a. Return
- b. Reward
- c. Risk
- d. Revenue

ANSWER:

c

105. The culmination of the strategic management process is:

- a. performance.
- b. strategy implementation.
- c. strategy formulation.
- d. analysis.

ANSWER:

a

106. Managers must adopt a new mind-set that values _____ and the challenges that evolve from constantly changing conditions.

- a. flexibility
- b. innovation
- c. speed
- d. All of these are correct.

ANSWER:

d

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

- a. Perpetual
- b. Disruptive
- c. Global
- d. Diffusion

ANSWER:

a

108. _____ provides the firm with new and up-to-date skill sets, which allow it to adapt to its environment as it encounters changes.

- a. Strategic flexibility
- b. Continuous learning
- c. Knowledge
- d. The Internet

ANSWER:

b

109. The industrial organization (I/O) model is grounded in:

- a. anthropology.
- b. psychology.
- c. economics.

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- d. accounting.

ANSWER:

c

110. GlenOak Corp. is conducting an analysis to determine which strategies would best enable the firm to achieve above-average returns. How might the firm best make use of the different models available to select strategies and determine how to implement them?

- a. The firm should first focus on internal factors, using a resource-based model to acquire necessary assets and skills.
- b. The firm should first focus on external factors, using an I/O model to identify the firm's competitive advantage.
- c. If the firm should write a vision and mission, and then use the I/O or resource-based model that best aligns with those statements.
- d. The firm should use both the I/O model and the resource-based model to focus on factors outside and inside the firm at the same time.

ANSWER:

d

111. Which of the following statements about a vision and mission is true?

- a. A firm's vision is more concrete than its mission.
- b. The mission points the firm in the direction of where it would like to be in the years to come.
- c. A vision statement should be clearly tied to the conditions in the firm's external environment and internal organization.
- d. The mission deals more directly with capital markets.

ANSWER:

c

112. William Ackman is a hedge fund manager who owned a large share of J.C. Penney stock. He was also a member of the J.C. Penney board. He tried to get the CEO fired, but the board and top management said he breached his boardroom duties when he publicly disclosed information about the CEO search and financial condition of the company. He resigned from the board of directors. This is an example of a contentious relationship between:

- a. the capital market stakeholders and the organizational stakeholders.
- b. the organizational stakeholders and the product market stakeholders.
- c. the capital market stakeholders and the product market stakeholders.
- d. all of the stakeholders.

ANSWER:

a

113. Strategic leaders are:

- a. located only at the executive level.
- b. located in different areas and levels.
- c. the CEO, COO, and CFO only.
- d. located at different levels, but only in the operating area of the organization.

ANSWER:

b

114. Successful strategic leaders are:

- a. committed to helping the firm create value for all stakeholder groups.
- b. committed to nurturing those around them.

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- c. decisive.
- d. All of these are correct.

ANSWER:

d

115. Delegation helps:

- a. overload middle managers.
- b. control strategy implementation.
- c. avoid too much managerial arrogance at the top.
- d. emphasize profit maximization.

ANSWER:

c

116. Organizational culture refers to:

- a. an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.
- b. the complex set of ideologies, symbols, and core values that are shared throughout the firm.
- c. a set of capabilities used to respond to various demands and opportunities existing in a dynamic and uncertain competitive environment.
- d. how a firm acquires, uses, and develops its various resources and capabilities.

ANSWER:

b

117. Effective strategic leaders emerge on the basis of their:

- a. capabilities and accumulation of human capital and skills over time.
- b. single-minded focus on strategy formation.
- c. aptitude for strategy implementation.
- d. focus on innovation.

ANSWER:

a

118. Sandy, a line manager on the production floor at Oakway Industries, is an entry-level manager. Sandy has a strong commitment to the Oakway's vision and mission. She has good relationships with workers on her line as well as with employees throughout Oakway. Sandy is able to make decisions on the fly to keep the line moving, and other line managers often ask for her help in troubleshooting different situations. Which of the following best characterizes Sandy?

- a. Sandy is a strategic leader.
- b. Sandy is assuming inappropriate responsibility considering her position in the firm.
- c. Sandy is likely to be promoted into an upper-management position where she would become a strategic leader.
- d. If Sandy were using these same skills to determine strategy, perhaps in the finance department rather than on the production line, she would be considered a strategic leader.

ANSWER:

a

119. SWOT stands for:

- a. strategy, wealth, organization, and threats.
- b. success, weakness, opportunities, and taxes.
- c. strength, wealth, organization, and taxes.
- d. strengths, weaknesses, opportunities, and threats.

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ANSWER: d

120. In the strategic management process, A-S-P stands for:

- a. analyses, successes, and purposes.
- b. analyses, strategies, and performance.
- c. ability, strategies, and purposes.
- d. ability, successes, and performance.

ANSWER: b

121. The firm's _____ provide the foundation for choosing one or more _____ and deciding which one(s) to implement.

- a. analyses; strengths
- b. abilities; strengths
- c. analyses; strategies
- d. abilities; strategies

ANSWER: c

122. It is important to emphasize that primarily because they are related to how a firm interacts with its stakeholders, almost all strategic management process decisions have _____ dimensions.

- a. ethical
- b. local
- c. political
- d. global

ANSWER: a

123. A diversified firm competing in multiple product markets has:

- a. no business-level strategy and one corporate-level strategy.
- b. one business-level strategy and no corporate-level strategy.
- c. more than one business-level strategy and a corporate-level strategy.
- d. one business-level strategy and one corporate-level strategy.

ANSWER: d

Essay

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

ANSWER: Strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy. Above-average returns are returns in excess of what an investor expects to earn from other investments with a similar amount of risk. Firms will only be able to earn above-average returns if they develop a competitive advantage. A firm has a competitive advantage when it implements a strategy that creates superior value for customers and that competitors are unable to duplicate or find it too costly to try to imitate.

125. Hypercompetition is a characteristic of the current competitive landscape. Define hypercompetition, and identify its primary drivers. How can organizations survive in a hypercompetitive environment?

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ANSWER: Hypercompetition is a condition where competitors engage in intense rivalry, markets change quickly and often, and entry barriers are low. Hypercompetition results from the dynamics of strategic maneuvering among global and innovative combatants. It is a condition of rapidly escalating competition based on price-quality positioning, competition to create new know-how and establish first-mover advantage, and competition to protect or invade established product or geographic markets. In hypercompetition, firms often aggressively challenge their competitors in the hopes of improving their competitive position and ultimately their performance. The two primary drivers of hypercompetition are the global economy and rapid technological change. To survive in a hypercompetitive environment, firms need strategic flexibility. This demands continuous learning which allows the firm to develop new and up-to-date skills so that it can adapt to its environment as it encounters change.

126. 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?

ANSWER: 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 an industry or within a segment of that industry are assumed to control similar strategically relevant resources and to pursue similar strategies in light of those resources. Third, resources used to implement strategies are assumed to be highly mobile across firms, so any resource differences that might develop between firms will be 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.

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

ANSWER: The resource-based model focuses on the firm's internal resources and capabilities. The uniqueness of 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. Capabilities that give a firm a competitive advantage are called core competencies. This model assumes that resources and capabilities are not highly mobile across firms; consequently, all firms within a particular industry may not possess the same strategically relevant resources and capabilities. Therefore, 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.

128. What are a firm's vision and mission? What is the value to the firm of having a specified vision and mission?

ANSWER: Vision is a picture of what the firm wants to be and, in broad terms, what it wants to ultimately achieve. Thus, a vision statement articulates the ideal description of an organization and gives shape to its intended future. In other words, a vision statement points the firm in the direction of where it would like to be in the years to come. The vision is the foundation for the firm's mission. A mission specifies the businesses in which the firm intends to compete and the customers it intends to serve. The firm's mission is more concrete than its vision. The value of having a vision and mission is that they inform stakeholders of what the firm is, what it seeks to accomplish, and who it seeks to serve.

129. 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?

ANSWER: Stakeholders are the individuals, groups, and organizations that can affect the firm's vision and mission, are affected by the strategic outcomes achieved, and have enforceable claims on the firm's performance. There are three principal types of stakeholders. First, there are the *capital market stakeholders*. These stakeholders

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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. Customers demand reliable products at the lowest possible prices. Suppliers seek loyal customers who are willing to pay the highest sustainable prices for the goods and services they receive. Host communities want companies willing to be long-term employers and providers of tax revenues without placing excessive demands on public support services. Union officials are interest in secure jobs, under highly desirable working conditions, for employees 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, the urgency of satisfying each particular stakeholder group, and the degree of importance of each to the firm. The firm must then make trade-offs among the stakeholders.

130. Who are the firm's strategic leaders? What things can a strategic leader focus on to be effective?

ANSWER: The firm's strategic leaders include the CEO and top-level managers, but they also include organizational members who have been delegated strategic responsibilities. Strategic leaders use the strategic management process to help the firm reach its vision and mission. Effective leaders must embrace change in the dynamic competitive landscape. They should promote innovation in their organization. They can also leverage partnerships with external parties and organizations to advance the company. To increase incremental knowledge, strategic leaders can promote exploratory and exploitative learning within the team. An ambicultural approach, or global mind-set, can also help the company compete in a global economy.

131. What are the primary aspects of the strategic management process? (*Note:* You may reference specific chapters from the text in formulating your response.)

ANSWER: This is a roadmap question for the entire strategic management course. Students will likely have a far greater understanding of the big picture after having gone through the entire course.

The strategic management process consists of three primary processes: *analysis* (Chapters 2 and 3), *strategy formulation* (Chapters 4–9) and *implementation* (Chapters 10–13).

Analysis. Analysis involves the development of an understanding of the external environment (Chapter 2) and internal organization (Chapter 3). These analyses are completed to identify marketplace opportunities and threats in the external environment and to decide how to use the resources, capabilities, core competencies, and competitive advantage in the firm's internal organization to pursue opportunities and overcome threats.

Formulation. With knowledge about its external environment and internal organization, the firm forms its vision and mission (Chapter 1) and makes decisions as to what strategies to utilize to provide returns to shareholders. These decisions involve the selection of business-level strategies (Chapter 4), which are the actions a firm takes to exploit its competitive advantage over rivals, and its corporate-level strategy (Chapter 6), which is concerned with determining the businesses in which the company intends to compete as well as how to manage its different businesses. The ability to utilize a strategy will be impacted by competing firms. This is described as the dynamics of competition (Chapter 5). Formulation involves the selection of mechanisms such as acquiring other businesses and restructuring the firm's portfolio of businesses (Chapter 7), selecting an international strategy (Chapter 8), and the use of cooperative strategies (Chapter 9), wherein firms form a partnership to share their resources and capabilities in order to develop a competitive advantage.

Implementation. Implementation is putting the formulated plan into action. Implementation is facilitated by

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different mechanisms used to govern firms (Chapter 10), the use of appropriate organizational structure and mechanisms to control the firm's operations (Chapter 11), the patterns of strategic leadership appropriate for the firm's strategy and competitive environments (Chapter 12), and the use of strategic entrepreneurship (Chapter 13) as a path to continuous innovation.

The objective of all of these activities is to manage the firm in a manner that produces above-average rates of return.

132. Define globalization, and describe some of its consequences.

ANSWER: *Globalization* is the increasing economic interdependence among countries and their organizations as reflected in the flow of goods and services, financial capital, and knowledge across country borders.

Globalization increases the range of opportunities for companies. Firms engaging in globalization of their operations must make culturally sensitive decisions. Globalization has led to higher performance standards in many competitive dimensions, including those of quality, cost, productivity, product introduction time, and operational efficiency. In addition to firms competing in the global economy, these standards affect firms competing on a domestic-only basis. Thus, managers have to learn how to operate effectively in a "multi-polar" world with many important countries having unique interests and environments. Firms must learn how to deal with the reality that in the competitive landscape of the twenty-first century, only companies capable of meeting, if not exceeding, global standards typically have the capability to earn above-average returns. The risks of participating outside of a firm's domestic markets in the global economy are labeled a "liability of foreignness."