Chapter 1—Strategic Management and Strategic Competitiveness

TRUE/FALSE

1. The Opening Case shows that McDonald's is one of the few firms able to achieve strategic competitiveness from its founding until the present time.

   ANS: F PTS: 1 DIF: Medium REF: 3
   OBJ: 01-01 TYPE: application
   NOT: AACSB: Multicultural & Diversity | Management: Environmental Influence | Dierdorff & Rubin: Managing strategy and innovation

2. By focusing on product innovations and upgrades of its properties, McDonald's was able to achieve strategic competitiveness and above average returns.

   ANS: T PTS: 1 DIF: Medium REF: 3-4
   OBJ: 01-01 TYPE: application
   NOT: AACSB: Business Knowledge and Analytical Skills | Management: Strategy| Dierdorff & Rubin: Managing strategy and innovation

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

   ANS: T PTS: 1 DIF: Easy REF: 4
   OBJ: 01-01 TYPE: knowledge
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

4. Part of McDonald's strategy was the choice that it would remain involved in additional food concepts such as Boston Market and Chipotle.

   ANS: T PTS: 1 DIF: Easy REF: 4
   OBJ: 01-01 TYPE: application
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

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

   ANS: F PTS: 1 DIF: Hard REF: 5
   OBJ: 01-01 TYPE: application
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing the task environment

6. The goal of strategic management is to develop a competitive advantage that is permanent.

   ANS: F PTS: 1 DIF: Medium REF: 5
   OBJ: 01-01 TYPE: comprehension
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

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

   ANS: T PTS: 1 DIF: Easy REF: 5
   OBJ: 01-01 TYPE: knowledge
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Foundational skills

8. Average returns are returns in excess of what an investor expects to earn from other investments with a similar amount of risk.

   ANS: F PTS: 1 DIF: Medium REF: 5
   OBJ: 01-01 TYPE: knowledge
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Foundational skills

9. Returns can only be measured in accounting terms such as return on assets, return on equity, or return on sales.

   ANS: F PTS: 1 DIF: Easy REF: 5
   OBJ: 01-01 TYPE: knowledge
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Foundational skills

10. Best Buy outperforming Circuit City, and Best Buy's continuing good performance illustrate that permanent success is possible.

    ANS: F PTS: 1 DIF: Medium REF: 6
    OBJ: 01-01 TYPE: application
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

11. In the chapter Strategic Focus case, Circuit City did not achieve strategic competitiveness and above-average returns because it failed to successfully implement its strategy.

    ANS: T PTS: 1 DIF: Easy REF: 8
    OBJ: 01-01 TYPE: application
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

12. Economies of scale and huge advertising budgets are just as effective in the new competitive landscape as they were in the past, but they must be reinforced by strategic flexibility.

    ANS: F PTS: 1 DIF: Hard REF: 9
    OBJ: 01-02 TYPE: comprehension
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Management: Creation of Value

13. Wal-Mart is trying to achieve a boundaryless retailing empire by implementing global pricing, sourcing, and logistics.

    ANS: T PTS: 1 DIF: Easy REF: 10
    OBJ: 01-02 TYPE: application
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff

& Rubin: Managing logistics & technology

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

    ANS: T PTS: 1 DIF: Easy REF: 9
    OBJ: 01-02 TYPE: knowledge
    NOT: AACSB: Multicultural & Diversity | Management: Environmental Influence | Dierdorff & Rubin: Managing strategy & innovation

15. The rate of technology diffusion has been steadily increasing over the last two decades.

    ANS: T PTS: 1 DIF: Easy REF: 11
    OBJ: 01-02 TYPE: knowledge
    NOT: AACSB: Information Technology | Management: Information Technology | Dierdorff & Rubin: Knowledge of technology, design, & production

16. While patents may be an effective way of protecting proprietary technology in some industries such as pharmaceuticals, many firms competing in the electronics industry do not apply for patents.

    ANS: T PTS: 1 DIF: Medium REF: 12
    OBJ: 01-02 TYPE: application
    NOT: AACSB: Information Technology | Management: Information Technology | Dierdorff & Rubin: Knowledge of technology, design, & production

17. Examples of incremental innovations include iPods, PDAs, WiFi, and web browser software.

    ANS: F PTS: 1 DIF: Medium REF: 12
    OBJ: 01-02 TYPE: application
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

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

    ANS: F PTS: 1 DIF: Medium REF: 12
    OBJ: 01-02 TYPE: comprehension
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Knowledge of technology, design, & production

19. Developed countries still have major advantages in access to information technology over emerging economies because of the significant cost of the infrastructure needed for computing power.

    ANS: F PTS: 1 DIF: Hard REF: 12
    OBJ: 01-02 TYPE: knowledge
    NOT: AACSB: Multicultural & Diversity | Management: Information Technology | Dierdorff & Rubin: Knowledge of technology, design, & production

20. The rate of growth of Internet-based applications could be affected by the possibility of Internet service providers charging users for downloading those applications.

    ANS: T PTS: 1 DIF: Medium REF: 12
    OBJ: 01-02 TYPE: comprehension
    NOT: AACSB: Information Technology | Management: Creation of Value | Dierdorff & Rubin: Managing logistics and technology

21. The new CEO of Opacity Enterprises is determined to make the long-established firm strategically flexible. The CEO feels that the employees of the company have the ability, training, and resources to engage in continuous learning. The main obstacle the CEO must face is inertia.

ANS: T PTS: 1 DIF: Medium REF: 13
OBJ: 01-02 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing administration & control

22. One capability characteristic of a firm with strategic flexibility is the capacity to learn.

ANS: T PTS: 1 DIF: Easy REF: 13
OBJ: 01-02 TYPE: knowledge
NOT: AACSB: Reflective Thinking Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

23. The I/O (industrial organization) model assumes that the uniqueness of a firm's resources and capabilities are its main source of above-average returns.

ANS: F PTS: 1 DIF: Medium REF: 13-15
OBJ: 01-03 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Strategic & systems skills

24. The CEO of Twin Spires, Inc., is emotionally and intellectually committed to using the resources of 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. This commitment has carried the CEO through long periods of below average returns on investment. The perspective of the CEO of Twin Spires is consistent with the assumptions of the industrial organizational (I/O) model.

ANS: F PTS: 1 DIF: Hard REF: 15-16
OBJ: 01-03 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Strategic & systems skills

25. Although the fast food (or quick-service) industry is unattractive, McDonald's has earned above-average returns through product innovations, enhancing existing facilities, and buying properties outside the United States.

ANS: F PTS: 1 DIF: Easy REF: 3-4 | 14
OBJ: 01-02 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment

26. 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.

ANS: T PTS: 1 DIF: Hard REF: 17 (Figure 1.3)
OBJ: 01-03 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment

27. The uniqueness of a firm's resources and capabilities is the basis for a firm's strategy and determines its ability to earn above-average returns under the I/O view.

ANS: F PTS: 1 DIF: Medium REF: 13-15
OBJ: 01-04 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing the task environment

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

ANS: F PTS: 1 DIF: Medium REF: 14
OBJ: 01-04, 05 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing the task environment

29. The resource-based model assumes that if firms have resources that are rare or costly to imitate, this is sufficient to form a basis for competitive advantage.

ANS: F PTS: 1 DIF: Hard REF: 16
OBJ: 01-04 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

30. Resources are considered rare when they have no structural equivalent.

ANS: F PTS: 1 DIF: Medium REF: 16
OBJ: 01-04 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

31. The assumptions of the industrial organizational 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.

ANS: F PTS: 1 DIF: Medium REF: 14|16
OBJ: 01-04 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

32. An effective vision statement will specify the market to be served.

ANS: F PTS: 1 DIF: Easy REF: 17
OBJ: 01-05 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

33. Organizational mission statements typically do not include statements about profitability and earning above-average returns.

ANS: T PTS: 1 DIF: Easy REF: 18
OBJ: 01-05 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

34. Organizational vision and mission statements require deep, critical, and reflective thinking to form them.

ANS: T PTS: 1 DIF: Medium REF: 19
OBJ: 01-05 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Leadership Principles | Dierdorff & Rubin: Learning, motivation, & leadership

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

ANS: F PTS: 1 DIF: Easy REF: 20
OBJ: 01-06 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Knowledge of general business functions

36. The degree to which the firm is dependent on a stakeholder group gives that stakeholder less influence.

ANS: F PTS: 1 DIF: Medium REF: 20
OBJ: 01-06 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Foundational skills

37. The needs and desires of organizational stakeholders are inherently contradictory.

ANS: T PTS: 1 DIF: Medium REF: 20-21
OBJ: 01-06 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Knowledge of general business functions

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

ANS: F PTS: 1 DIF: Medium REF: 18
OBJ: 01-05 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Managing decision-making processes

39. Relative power is the most critical criteria for prioritizing the demands of stakeholders.

ANS: T PTS: 1 DIF: Easy REF: 20
OBJ: 01-06 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment

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

ANS: T PTS: 1 DIF: Hard REF: 22 | 21 (Figure 1.4)
OBJ: 01-06 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Knowledge of general business functions

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

ANS: F PTS: 1 DIF: Hard REF: 21-22 | 21 (Figure 1.4)
OBJ: 01-06 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Knowledge of general business functions

42. When the 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.

ANS: F PTS: 1 DIF: Hard REF: 21
OBJ: 01-06 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Knowledge of general business functions

43. Six years ago, Colette Smith founded a successful catering company that specializes in providing a wide assortment of miniature cheesecakes for corporate and social events. Although Ms. Smith is no longer active in the actual production of the cheesecakes, she continues as president of the catering company. Ms. Smith could be considered a strategic leader of this firm.

ANS: T PTS: 1 DIF: Medium REF: 23
OBJ: 01-07 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Leadership Principles | Dierdorff & Rubin: Learning, motivation, & leadership

44. Organizational culture refers to the core values shared by the firm's top-level managers but not necessarily accepted by lower-level employees who are often transitory and not committed to the organization.

ANS: F PTS: 1 DIF: Medium REF: 23
OBJ: 01-07 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Group Dynamics | Dierdorff & Rubin: Learning, motivation, & leadership

45. Although organizational cultures vary considerably, one cannot make an objective judgment that some organizational cultures are more or less functional than others.

ANS: F PTS: 1 DIF: Medium REF: 23
OBJ: 01-07 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Group Dynamics | Dierdorff & Rubin: Learning, motivation, & leadership

46. A hard working, analytical individual who requires large amounts of concrete and precise data and a predictable environment in order to make a decision is probably poorly suited to being a strategic leader.

ANS: T PTS: 1 DIF: Easy REF: 24
OBJ: 01-07 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Leadership Principles | Dierdorff & Rubin: Learning, motivation, & leadership

47. Profit pools allow strategic leaders to predict the outcomes of their decisions before taking efforts to implement them.

ANS: T PTS: 1 DIF: Easy REF: 24
OBJ: 01-07 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

48. Corporate-level strategy in a diversified organization requires a common business strategy for each component business.

ANS: F PTS: 1 DIF: Medium REF: 25
OBJ: 01-08 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

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

ANS: T PTS: 1 DIF: Medium REF: 26
OBJ: 01-08 TYPE: comprehension
NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Managing administration & control

MULTIPLE CHOICE

1. A firm has achieved ____ when it successfully formulates and implements a value-creating strategy.
   a. strategic competitiveness
   b. a permanently sustainable competitive advantage
   c. substantial returns
   d. legal and ethical core values

ANS: A PTS: 1 DIF: Medium REF: 4
OBJ: 01-01 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

2. 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 only if it has been unsuccessfully challenged by competitors.
   d. exists when competing firms are unable to find investors.

ANS: C PTS: 1 DIF: Hard REF: 5
OBJ: 01-01 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

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

ANS: D PTS: 1 DIF: Easy REF: 5
OBJ: 01-01 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Foundational skills

4. According to the Chapter 1 Opening Case, McDonald's strategic leaders decided in 2003 that
   a. McDonald's would remain involved with additional food concepts such as Boston Market and Chipotle.
   b. instead of upgrading existing facilities, McDonald's would pursue a focus on current product offerings.
   c. the current strategy should not be changed.
   d. existing facilities should be upgraded and there should be a focus on product innovations.

ANS: D PTS: 1 DIF: Medium REF: 4
OBJ: 01-01 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

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

ANS: D PTS: 1 DIF: Hard REF: 6
OBJ: 01-01 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

6. Which of the following was not a reason for Circuit City's failure?
   a. It had laid off several higher paid employees, including sales personnel.
   b. It focused on short-term profits.
   c. It established larger stores in superior locations.
   d. It did not take the threat of Best Buy seriously enough.

ANS: C PTS: 1 DIF: Medium REF: 6 | 7
OBJ: 01-01 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: managing strategy & innovation

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

ANS: B PTS: 1 DIF: Medium REF: 9
OBJ: 01-02 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |

Dierdorff & Rubin: Managing the task environment

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

ANS: A PTS: 1 DIF: Hard REF: 7-8
OBJ: 01-02 TYPE: knowledge
NOT: AACSB: Multicultural & Diversity | Management: Environmental Influence | Dierdorff & Rubin: Managing strategy & innovation

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

ANS: D PTS: 1 DIF: Easy REF: 10
OBJ: 01-02 TYPE: knowledge
NOT: AACSB: Multicultural & Diversity | Management: Environmental Influence | Dierdorff & Rubin: Managing strategy & innovation

10. All of the following are characteristic of the global economy EXCEPT
    a. the increasing importance of developing countries 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 performance standards.

ANS: C PTS: 1 DIF: Medium REF: 11
OBJ: 01-02 TYPE: comprehension
NOT: AACSB: Multicultural & Diversity | Management: Environmental Influence | Dierdorff & Rubin: Managing strategy & innovation

11. 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.
    d. higher product quality.

ANS: D PTS: 1 DIF: Medium REF: 11
OBJ: 01-02 TYPE: comprehension
NOT: AACSB: Multicultural & Diversity | Management: Environmental Influence | Dierdorff & Rubin: Managing strategy & innovation

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

ANS: C PTS: 1 DIF: Medium REF: 11
OBJ: 01-02 TYPE: knowledge
NOT: AACSB: Multicultural & Diversity | Management: Strategy | Dierdorff & Rubin: Managing administration & control

13. 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.

ANS: A PTS: 1 DIF: Medium REF: 11
OBJ: 01-02 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

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

ANS: D PTS: 1 DIF: Medium REF: 11
OBJ: 01-02 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Knowledge of technology, design, & production

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

ANS: A PTS: 1 DIF: Medium REF: 12
OBJ: 01-02 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Knowledge of technology, design, & production

16. The ability to effectively and efficiently access and use information is
    a. vitally important at the point where a domestic firm enters the global market.
    b. an important source of competitive advantage in virtually all industries.
    c. the minimum required for survival in virtually any industry.
    d. critically important mainly in high technology industries.

ANS: B PTS: 1 DIF: Hard REF: 12
OBJ: 01-02 TYPE: comprehension
NOT: AACSB: Information Technology | Management: Information Technology | Dierdorff & Rubin: Managing decision-making processes

17. 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 recruiting programs
c. investing in sophisticated databases in relevant knowledge areas
d. establishing a system of organizational intelligence gathering

ANS: B PTS: 1 DIF: Hard REF: 13
OBJ: 01-02 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

18. Knowledge is composed of all the following EXCEPT
a. insight.
b. expertise.
c. information.
d. intelligence.

ANS: A PTS: 1 DIF: Hard REF: 13
OBJ: 01-02 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Leadership Principles | Dierdorff & Rubin: Managing decision-making processes

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

ANS: D PTS: 1 DIF: Easy REF: 13
OBJ: 01-02 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Leadership Principles | Dierdorff & Rubin: Managing decision-making processes

20. 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

ANS: B PTS: 1 DIF: Medium REF: 13
OBJ: 01-02 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment

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

ANS: B PTS: 1 DIF: Hard REF: 13-15
OBJ: 01-03 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |

Dierdorff & Rubin: Strategic & systems skills

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

ANS: A PTS: 1 DIF: Medium REF: 15 (Figure 1.2)
OBJ: 01-03 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Strategic & systems skills

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

ANS: C PTS: 1 DIF: Medium REF: 14
OBJ: 01-03 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Strategic & systems skills

24. Firms use the five forces model to identify the ___________ of the industry as measured by its ____________.
    a. size, number of competitors
    b. globalization, exports
    c. hypercompetition, technology diffusion
    d. attractiveness, profitability

ANS: D PTS: 1 DIF: Medium REF: 14
OBJ: 01-03 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Strategic & systems skills

25. An investor is considering in which of two start-up companies she should invest. The investor has faith in the industrial organizational model of above-average returns, and she is using its concepts to make her decision. Both start-up companies propose to manufacture health-focused foods with such characteristics as low salt, low sugar, high fiber, and no artificial additives. RexRich Foods has a business strategy of producing a differentiated product for which consumers will pay more. Green Pastures Foods is in the health-foods industry because of its internal culture and commitment to healthful lifestyles. Which firm will the investor feel is most consistent with the model of industrial organization?
    a. Green Pastures Foods
    b. RexRich Foods
    c. Both firms are consistent with the I/O approach.
    d. At the entrepreneurial stage, the model which companies follow is not important.

ANS: B PTS: 1 DIF: Hard REF: 13-16
OBJ: 01-03 TYPE: application
NOT: AACSB: Reflective Thinking Skills | Management: Environmental Influence | Dierdorff &

Rubin: Strategic & systems skills

26. Research shows that approximately_____ percent of a firm's profitability is explained by the industry in which it competes, whereas _______ percent is explained by the firm's characteristics and actions.
    a. 90, 10
    b. 60, 40
    c. 36, 20
    d. 20, 36

    ANS: D PTS: 1 DIF: Hard REF: 14
    OBJ: 01-03 TYPE: knowledge
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment

27. All of the following are resources of an organization EXCEPT
    a. an hourly production employee's ability to catch subtle quality defects in products.
    b. oil drilling rights in a promising region.
    c. weak competitors in the industry.
    d. a charity's endowment of $400 million.

    ANS: C PTS: 1 DIF: Easy REF: 15
    OBJ: 01-04 TYPE: application
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

28. All of the following are assumptions of the resource-based model EXCEPT
    a. Each firm is a unique collection of resources and capabilities.
    b. The industry's structural characteristics have little impact on a firm's performance over time.
    c. Capabilities are highly mobile across firms.
    d. Differences in resources and capabilities are the basis of competitive advantage.

    ANS: C PTS: 1 DIF: Medium REF: 16
    OBJ: 01-04 TYPE: comprehension
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

29. ____ is a capacity for a set of resources to perform a task or an activity in an integrative manner.
    a. A capability
    b. A core competence
    c. Sustainable competitive advantage
    d. Organizational intelligence

    ANS: A PTS: 1 DIF: Easy REF: 15
    OBJ: 01-04 TYPE: knowledge
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

30. When resources and capabilities serve as a source of competitive advantage for a firm, the firm has created a(n)
    a. strategic mission.
    b. inspiring vision.
    c. core competence.
    d. sustainable market niche.

ANS: C PTS: 1 DIF: Easy REF: 16
OBJ: 01-04 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

31. In the resource-based model, which of the following factors would be considered a key to organizational success?
    a. unique market niche
    b. weak competition
    c. economies of scale
    d. skilled employees

ANS: D PTS: 1 DIF: Easy REF: 17
OBJ: 01-04 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: HRM | Dierdorff & Rubin: Managing human capital

32. To have the potential to become sources of competitive advantage, resources and capabilities must be non-substitutable, valuable, ____, and ____.
    a. unique, easy to imitate.
    b. easy to imitate, difficult to implement.
    c. rare, costly to imitate.
    d. easy to implement, unique.

ANS: C PTS: 1 DIF: Easy REF: 18
OBJ: 01-04 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

33. The resource-based model of the firm 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.

ANS: D PTS: 1 DIF: Hard REF: 16
OBJ: 01-04 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

34. The resource-based view of the firm
    a. emphasizes that it is difficult to develop 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 competitor environment.
    c. calls for firms to focus on their homogeneous capabilities to compete against their rivals.
    d. suggests that vision and mission are closely linked to sustainable competitive advantage.

ANS: A PTS: 1 DIF: Hard REF: 16
OBJ: 01-04 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

35. Although McDonald's (Opening Case) is competing in an unattractive industry, it has improved its performance by focusing on product innovations and by enhancing existing facilities. This improved performance is best explained by
    a. globalization.
    b. the resource-based model.
    c. the I/O model.
    d. hypercompetition.

    ANS: B PTS: 1 DIF: Hard REF: 3 | 4 | 14
    OBJ: 01-04 TYPE: application
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

36. The goal of the organization's ____ is to capture the hearts and minds of employees, challenge them, and evoke their emotions and dreams.
    a. vision
    b. mission
    c. culture
    d. strategy

    ANS: A PTS: 1 DIF: Medium REF: 17
    OBJ: 01-05 TYPE: knowledge
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Learning, motivation, & leadership

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

    ANS: B PTS: 1 DIF: Hard REF: 18
    OBJ: 01-05 TYPE: application
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Learning, motivation, & leadership

38. A firm's mission
    a. is a statement of a firm's business in which it intends to compete and the customers it intends to serve.
    b. is an internally-focused affirmation of the organization's financial, social, and ethical goals.
    c. is mainly intended to emotionally inspire employees and other stakeholders.
    d. is developed by a firm before the firm develops its vision.

    ANS: A PTS: 1 DIF: Medium REF: 18
    OBJ: 01-05 TYPE: comprehension
    NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Learning, motivation, & leadership

39. The final responsibility for forming the organization's mission lies with the
    a. CEO.
    b. top-management team.

c. employees.
d. organization's stakeholders.

ANS: A PTS: 1 DIF: Easy REF: 18
OBJ: 01-05 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Learning, motivation, & leadership

40. The development of a firm's mission typically involves which of the following?
a. Only the CEO.
b. Only top managers.
c. The CEO and top managers.
d. None of the these.

ANS: C PTS: 1 DIF: Easy REF: 18
OBJ: 01-05 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

41. Organizational stakeholders include
a. unions.
b. host communities.
c. employees.
d. suppliers of capital.

ANS: C PTS: 1 DIF: Easy REF: 21 (Figure 1.4)
OBJ: 01-06 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Knowledge of general business functions

42. The interests of an organization's stakeholders often conflict, and the organization must prioritize its stakeholders if it cannot satisfy them all. The ____ is the most critical criterion in prioritizing stakeholders.
a. power of each stakeholder
b. urgency of satisfying each stakeholder
c. vulnerability of organizational stakeholders
d. social value of each stakeholder

ANS: A PTS: 1 DIF: Medium REF: 21
OBJ: 01-06 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Managing decision-making processes

43. Capital market stakeholders include
a. industry competitors.
b. shareholders.
c. employees.
d. government regulators.

ANS: B PTS: 1 DIF: Easy REF: 21 (Figure 1.4)
OBJ: 01-06 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing administration & control

44. Dissatisfied capital market stakeholders may:

a. Sell their stock.
b. Tighten loan covenants.
c. Seek to increase their power.
d. All of the these.

ANS: D PTS: 1 DIF: Hard REF: 22
OBJ: 01-06 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Managing administration & control

45. Greenleaf Property Management has been earning below-average returns for the last three years. Which of the following statements are true?
a. Greenleaf will be able to satisfy its multiple stakeholders easily as long as the stakeholders are committed to the strategic mission of the firm.
b. Greenleaf will be able to at least minimally satisfy the demands of each stakeholder.
c. Greenleaf will need to prioritize the demands of its stakeholders based on the political influence each wields.
d. Greenleaf will not be able to minimally satisfy all stakeholders.

ANS: D PTS: 1 DIF: Hard REF: 21
OBJ: 01-06 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Managing administration & control

46. Product market stakeholders include the firm’s customers, and the principal concern of this stakeholder group is:
a. maximizing the firm’s return on investment.
b. receiving the highest quality products and services in the industry.
c. obtaining reliable products at the lowest possible price.
d. increasing the profitability of the firm.

ANS: C PTS: 1 DIF: Medium REF: 22
OBJ: 01-06 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing administration & control

47. Generally speaking, product market stakeholders are satisfied when
a. a firm’s profit margin yields the lowest return to capital market stakeholders that is acceptable to them.
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.

ANS: A PTS: 1 DIF: Hard REF: 22
OBJ: 01-06 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing administration & control

48. Before liquidating, Circuit City took several actions to try to satisfy its __________ stakeholders.
a. capital market
b. product market
c. organizational
d. governmental

ANS: A PTS: 1 DIF: Medium REF: 22

OBJ: 01-06 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

49. 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

ANS: C PTS: 1 DIF: Easy REF: 22
OBJ: 01-06 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing administration & control

50. Organizational stakeholders are usually satisfied when
 a. their return on investment has been maximized.
 b. customers pay the highest sustainable price for the goods and services they receive.
 c. companies provide a dynamic, stimulating, and rewarding work environment.
 d. companies are paying the highest prices to suppliers.

ANS: C PTS: 1 DIF: Medium REF: 22
OBJ: 01-06 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing administration & control

51. Although it closed stores, changed the top management team, and sought potential buyers, none of these actions resulted in outcomes that allowed Circuit City to meet the expectations of its ____________ stakeholders.
 a. product market
 b. capital market
 c. organizational
 d. governmental

ANS: B PTS: 1 DIF: Medium REF: 22
OBJ: 01-06 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing decision-making processes

52. Product market stakeholders include
 a. suppliers.
 b. shareholders.
 c. employees.
 d. the firm's chief executive officer.

ANS: A PTS: 1 DIF: Easy REF: 22
OBJ: 01-06 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing decision-making processes

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

   ANS: B PTS: 1 DIF: Hard REF: 20-22
   OBJ: 01-06 TYPE: application
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Managing strategy & innovation

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

   ANS: A PTS: 1 DIF: Medium REF: 23
   OBJ: 01-06 TYPE: application
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

55. The global economy, globalization, rapid technological change, and the increasing importance of knowledge 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 as a result 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.

   ANS: A PTS: 1 DIF: Medium REF: 23
   OBJ: 01-07 TYPE: knowledge
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

56. The strategic leader's work is characterized by
   a. ambiguous decision situations which make effective decisions difficult to determine.
   b. a willingness to unify stakeholders through skillful manipulation.
   c. an ability to identify the correct solutions to long-range problems.
   d. concentration on the practical day-to-day aspects of the organization's operations.

   ANS: A PTS: 1 DIF: Medium REF: 23-24
   OBJ: 01-07 TYPE: comprehension
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin:

Learning, motivation, & leadership

57. The profit pool is the
    a. pool of assets that is distributed to investors.
    b. total profits earned in an industry along all points of the value chain.
    c. profits that are accrued when a firm earns above-average returns.
    d. total profits that can be divided up among the competitors within an industry.

ANS: B PTS: 1 DIF: Medium REF: 24
OBJ: 01-07 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing the task environment

58. The steps for identifying the profit pools in an industry include of all of the following except:
    a. Defining the boundaries of the pool.
    b. Estimating the overall size of the pool.
    c. Defining the competitors in the pool.
    d. Estimating the size of the value-chain activity in the pool.

ANS: C PTS: 1 DIF: Medium REF: 24
OBJ: 01-07 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing decision-making processes

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

ANS: D PTS: 1 DIF: Hard REF: 24
OBJ: 01-07 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing decision-making processes

60. If McDonald's were to map the profit pool in the quick-service restaurant industry, it would do all of the following EXCEPT
    a. Define the industry's boundaries and size.
    b. Estimate the profit potential in each part of the value chain.
    c. Focus on unattractive industries ignored by competitors.
    d. Select the strategy to use where the largest profit pools are located.

ANS: D PTS: 1 DIF: Hard REF: 24
OBJ: 01-07 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing decision-making processes

61. A major assumption about the strategic management process is that it is
    a. inspired.
    b. team-based.
    c. rational.
    d. inclusive.

ANS: C PTS: 1 DIF: Easy REF: 25
OBJ: 01-08 TYPE: knowledge

NOT: AACSB: Reflective Thinking Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

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

ANS: C PTS: 1 DIF: Medium REF: 25
OBJ: 01-08 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

63. In 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 in which businesses to compete and how resources will be allocated between businesses.
    d. coordinating the vision and mission of each subsidiary firm.

ANS: C PTS: 1 DIF: Medium REF: 25
OBJ: 01-08 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Knowledge of general business functions

64. 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 profit pool mapping.
    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 choices are important to consider.

ANS: B PTS: 1 DIF: Medium REF: 25
OBJ: 01-08 TYPE: application
NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Managing decision-making processes

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

ANS: A PTS: 1 DIF: Hard REF: 25
OBJ: 01-08 TYPE: application
NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Learning, motivation, & leadership

ESSAY

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

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

   PTS: 1 DIF: Medium REF: 4-5 OBJ: 01-01
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

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

   ANS:
   Hypercompetition is a condition of rapidly escalating competition based on price-quality positioning, competition to create new knowledge and establish first-mover advantage, and competition to protect or invade established product or geographic markets. In hypercompetition, firms aggressively challenge their competitors. Markets are assumed to be inherently unstable and changeable. 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 skills so that they can adapt to the changing environment and to consistently engage in change.

   PTS: 1 DIF: Hard REF: 9 OBJ: 01-02
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment

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

   ANS:
   The I/O model of above-average returns argues that the external environment is the primary determinant of firm success, rather than the firm's internal resources. The model has four underlying assumptions. First, the external environment is assumed to impose pressures and constraints that determine the strategies that would result in above-average returns. Second, most firms competing within a particular industry, or in a certain segment of the industry, are assumed to control similar strategically relevant resources and pursue similar strategies in light of those resources. Third, resources used to implement strategies are mobile across firms, which results in resource differences between firms being short-lived. Fourth, organizational decision makers are assumed to be rational and committed to acting in the firm's best interests as shown by their profit maximizing behaviors. The key to success according to the I/O model is to find the most attractive industry (the one with the highest profit potential) in which to compete.

   PTS: 1 DIF: Medium REF: 13-15 OBJ: 01-03
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Strategic & systems skills

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

   ANS:

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

PTS: 1 DIF: Medium REF: 14-17 OBJ: 01-04
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Strategic & systems skills

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

ANS:
The firm's vision is a picture of what it wants to be and what it wants to ultimately achieve. The firm's mission is based on its vision. It specifies the business(es) in which the firm intends to compete and the customers it intends to serve. The value of having a vision and mission is that they inform stakeholders what the firm is, what it seeks to accomplish, and who it seeks to serve. A successful vision is inspirational. The mission is more concrete and guides employees' behavior as they achieve the firm's vision. Research shows that an effectively formed vision and mission positively impact firm performance in terms of growth in sales, profits, employment, and net worth.

PTS: 1 DIF: Medium REF: 17-18 OBJ: 01-05
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Leadership Principles | Dierdorff & Rubin: Learning, motivation, & leadership

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

ANS:
Stakeholders are the individuals and groups who can affect and are affected by the strategic outcomes achieved and who have enforceable claims on a firm's performance. There are three principal types of stakeholders. First, there are the *capital market stakeholders*. These stakeholders include the shareholders and the major suppliers of capital to the firm. They are most interested in the return on capital in relation to the risk incurred. The second group of stakeholders is the *product market stakeholders*. This group includes customers, suppliers, host communities, and unions representing workers. The customers seek a reliable product at the lowest possible price. The suppliers seek loyal customers willing to pay the highest sustainable price. Host communities want companies willing to be long-term employers and providers of tax revenues. Union officials want secure jobs with good working conditions for the workers they represent. The final group of stakeholders is the *organizational stakeholders*. This group includes the employees (both managerial and non-managerial). These stakeholders expect a firm to provide a dynamic, stimulating, and rewarding work environment. The firm can most easily satisfy all stakeholders if it earns above average returns. If the firm does not earn above-average returns, it must prioritize its stakeholders by their power, urgency, and degree of importance to the firm. The firm must then make trade-offs among the stakeholders.

PTS: 1 DIF: Medium REF: 20-22 OBJ: 01-06
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities |

Dierdorff & Rubin: Managing decision-making processes

7. Who are the firm's strategic leaders? How do strategic leaders predict the profit outcomes of different strategic decisions?

   ANS:
   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. Mapping an industry's profit pool is one way strategic leaders can anticipate the profitability of different strategic decisions. A profit pool is the total profits earned in an industry along all points in the value chain. This helps the leaders determine where the primary sources of profit in the industry are located and allows them to take actions to tap these sources.

   PTS: 1 DIF: Medium REF: 22-24 OBJ: 01-07
   NOT: AACSB: Business Knowledge & Analytical Skills | Management: Leadership Principles | Dierdorff & Rubin: Learning, motivation, & leadership

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

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

   PTS: 1 DIF: Medium REF: 26 OBJ: 01-08
   NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Strategic & systems skills

9. What are the primary aspects of the strategic management process? You may reference specific chapters from the text in formulating your response.

   ANS:
   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 & 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 opportunities and threats in the external environment and to decide how to use the resources, capabilities, and core competencies 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 firm's actions designed to exploit its competitive advantage over rivals), and its corporate level strategy (Chapter 6), which is the firm's scope, which ranges from a single product market to unrelated, diversified firm competing in multiple product markets. 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 acquisition and restructuring the firm's portfolio of businesses (Chapter 7) 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. The firm must also make decisions on the span, business level strategies, and mechanisms for international expansion (Chapter 8).

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

PTS: 1 DIF: Hard REF: 5 | 5 (Figure 1.1) | 25-26
OBJ: 01-08 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

CASE

Case Scenario 1: Palmetto.
Palmetto was an early pioneer of personal data assistants (PDAs) and dominates that market space (in terms of market share) with its core product, the Palmetto Pidgy. Because this product category was entirely new to the market, Palmetto had to internally develop the hardware and software sides of the business, and today is both a manufacturer of PDAs and a programmer and licensor of its PDA operating system software. Recently, however, the hand-held device maker's performance has taken a dive as a result of slumping sales and costly inventory problems. New large entrants are entering both the equipment and software sides of its business, putting further pressure on margins. Management is currently considering its options, including the break up of Palmetto into two separate, independent public companies - one devoted to hardware, the other software.

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

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

PTS: 1

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

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

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

PTS: 1
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

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

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

PTS: 1
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Strategic & systems skills

Case Scenario 2: Jewell Company.
Jewell Company is a diversified manufacturer and marketer of simple household items, cookware, and hardware. In its annual report, it expresses its strategy as follows: "Jewell manufactures and markets staple volume lines to the volume purchaser. We aim to increase shareholder value by continuing to build a company with superior earnings per share growth and return on investment (ROI), and to earn a reputation for excellence in performance and management. We plan to do this by merchandising to the customer goods market a multi-product offering with superior customer service performance for maximum market leverage. Through this we will achieve an ROI of 20% plus EPS growth of 15%, with the constraint that debt not exceed half of our equity."

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

ANS:

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

PTS: 1
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Learning, motivation, & leadership

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

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

PTS: 1
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Motivation Concepts | Dierdorff & Rubin: Learning, motivation, & leadership

Case Scenario 3: Vivendi Universal SA.
Vivendi Universal is a French firm that started in 1853 as Companie General des Eaux. It grew from a French water utility company into one of the world's largest conglomerates. Under the corporate leadership of CEO Jean Marie Messier, Vivendi Universal became a highly diversified company involved in music, publishing, film, pay TV, telecoms, Internet, water distribution, thermal energy supply, building and heavy public construction projects, waste management, electrical energy services, real estate and other activities. Mr. Messier was forced out of the company in July, 2002, in a liquidity crisis and mounting shareholder anger. The acquisitions made by Mr. Messier saddled the company with billions of dollars of debts. Vivendi shares plummeted 80 percent during the last six months Mr. Messier was CEO, according to the *Wall Street Journal*. Meanwhile, the SEC indicated that a disputed severance payment of $23 million to Mr. Messier may actually constitute "ill gotten gains," reported the *Wall Street Journal.* Vivendi Universal refused to make the payment saying the board and shareholders had never agreed to the severance payment. On the brink of bankruptcy, Vivendi Universal brought in Jean-Rene Fourtou to replace Mr. Messier as CEO. According to the business media, Mr. Fourtou has taken a dying enterprise and given it a survival plan. He sold numerous Vivendi Universal businesses, bringing the company to focus on Cegetel, a phone company; SFR, a cellphone company; Canal Plus, a television company; and Universal Music. Mr. Fourtou was able to reduce Vivendi's debt from 37 billion euros in 2002 to a projected 5 billion euros by the end of 2005. The company showed its first quarterly profit at the end of 2003, allowing Mr. Fourtou to arrange a loan from a banking consortium and give the company hopes that credit-rating agencies would raise its debt from junk-bond status, according to *The New York Times*. The company projects $2.2 billion in profits for 2005. According to *Barrons*, "Fourtou and the new chief executive Jean Bernard Levey have moved beyond restructuring and recapitalizing the firm to building core businesses."

6. (Refer to Case Scenario 3) Who are stakeholders of Vivendi Universal, and what was the role of stakeholders in Vivendi Universal's recent history?

ANS:
Stakeholders are the individuals and groups who can affect, and are affected by, the strategic outcomes achieved by the firm and who have enforceable claims on a firm's performance. Stakeholders support an organization as long as its performance meets or exceeds their expectations. As Vivendi Universal grew ever larger and more diverse, its financial performance declined. Thus it lost the support of its capital market stakeholders, its shareholders. They rebelled, and the result was the firing of Mr. Messier, the instigator of the growth, and the installation of Mr. Fourtou, who immediately began divesting most of the companies Mr. Messier had purchased. A second stakeholder group was the individuals and organizations holding Vivendi Universal debt (bonds and bank loans) that were threatened by the impending bankruptcy of the firm. Mr. Fourtou pleased this group of stakeholders by reducing the debt of the firm by selling off the excess companies. Finally, shareholders were also supported by the SEC, which is investigating the multi-million severance payment to Mr. Messier.

PTS: 1
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Managing decision-making processes

7. (Refer to Case Scenario 3) Who was ultimately responsible for the problems at Vivendi Universal?

ANS:
Some believe that every organizational failure is actually a failure of those who hold the final responsibility for the quality and effectiveness of a firm's decisions and actions. Strategic leaders are the people responsible for the design and execution of strategic management processes. At Vivendi Universal, Mr. Messier, the former CEO, seems to have borne the brunt of public blame. But Vivendi's top management team and the board of directors must assume some of the blame because Mr. Messier did not act alone. The pivotal role that can be played by a CEO as a strategic leader is also illustrated by the successful changes instituted by Mr. Fourtou, the new CEO.

PTS: 1
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Leadership Principles | Dierdorff & Rubin: Learning, motivation, & leadership