

Chapter 1 - The Foundations of Strategic Management

TRUE/FALSE

1. Only large companies that trade their stock on a major stock exchange need to use an effective strategic management process.

ANS: F PTS: 1 REF: Page 6 OBJ: Learning Objective 1
KEY: Comprehension
MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

2. A company's mission defines the firm's core intent and the business or businesses in which it intends to operate.

ANS: T PTS: 1 REF: Page 6 OBJ: Learning Objective 1
KEY: Definition | Knowledge
MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

3. The viability of Loomis, Fargo & Co.'s vision has been challenged by changes in conditions that emerged in the external environment.

ANS: T PTS: 1 REF: Page 5 OBJ: Learning Objective 1
KEY: Application
MSC: AACSB: Reflective Thinking | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

4. Loomis, Fargo & Co. seeks to use technology as the foundation for integrating the activities of virtually all of the players involved with managing the public flow of cash.

ANS: T PTS: 1 REF: Page 5 OBJ: Learning Objective 1
KEY: Application
MSC: AACSB: Technology | Management: Information Technologies | Dierdorff & Rubin: Managing Logistics & Technology

5. In order for a capability to be considered a distinctive competence, it must be performed BETTER than the competition.

ANS: F PTS: 1 REF: Page 7 OBJ: Learning Objective 1
KEY: Comprehension
MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

6. Capabilities result when firms integrate several different resources.

ANS: T PTS: 1 REF: Page 7 OBJ: Learning Objective 1
KEY: Knowledge
MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

7. Every company possesses both tangible and intangible resources.

ANS: T PTS: 1 REF: Page 7 OBJ: Learning Objective 1
KEY: Comprehension
MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

8. According to the Industrial Organization (I/O) model, when a firm lacks control over conditions in the external environment, the company's strategic options are limited.

ANS: T PTS: 1 REF: Page 12 OBJ: Learning Objective 2

KEY: Comprehension

MSC: AACSB: Analytic | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

9. Managers can use the Industrial Organization (I/O) model to identify strengths and weaknesses in the external environment.

ANS: F PTS: 1 REF: Page 12 OBJ: Learning Objective 2

KEY: Comprehension

MSC: AACSB: Analytic | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

10. One of the main reasons for the decline in Levi Strauss' revenues and market in the 1990s was the company's inability to deal effectively with external threats.

ANS: T PTS: 1 REF: Page 12 OBJ: Learning Objective 2

KEY: Application

MSC: AACSB: Reflective Thinking | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

11. Changes in economic conditions are an environmental threat that could affect any company in any industry.

ANS: T PTS: 1 REF: Page 12 OBJ: Learning Objective 2

KEY: Comprehension

MSC: AACSB: Analytic | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

12. Innovation is a competitive advantage for Gillette.

ANS: T PTS: 1 REF: Page 7 OBJ: Learning Objective 3

KEY: Application

MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Managing Strategy & Innovation

13. According to the Industrial Organization (I/O) model, effective management of a company's operations results in the creation of unique resources and capabilities.

ANS: F PTS: 1 REF: Page 13 OBJ: Learning Objective 2

KEY: Comprehension

MSC: AACSB: Analytic | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

14. According to the Resource-Based View of the Firm (RBV) model, effective management of a company's operations results in the creation of unique resources and capabilities.

ANS: T PTS: 1 REF: Page 13 OBJ: Learning Objective 3

KEY: Comprehension

MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Managing Strategy &

Innovation

15. Managers can use the Industrial Organization (I/O) model to identify opportunities and threats in their firm's external environment.

ANS: T PTS: 1 REF: Page 12 OBJ: Learning Objective 2

KEY: Comprehension

MSC: AACSB: Analytic | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

16. An organization's culture has no impact on or relationship to the firm's strategic management process.

ANS: F PTS: 1 REF: Page 16-17 OBJ: Learning Objective 5

KEY: Comprehension

MSC: AACSB: Analytic | Management: Group Dynamics | Dierdorff & Rubin: Managing Human Capital

17. Companies use centralization to make sure that the people who are closest to the action are the ones who are making decisions and taking action.

ANS: F PTS: 1 REF: Page 17 OBJ: Learning Objective 5

KEY: Knowledge

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Managing Human Capital

18. In an organizational context, ethics reveal a value system that has been widely adopted by the firm's employees.

ANS: T PTS: 1 REF: Page 17 OBJ: Learning Objective 5

KEY: Conceptual

MSC: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Managing Human Capital

19. The final responsibility for effective use of the strategic management process rests with the firm's top strategic leaders.

ANS: T PTS: 1 REF: Page 17 OBJ: Learning Objective 5

KEY: Knowledge

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

20. Hewlett-Packard's CEO, Mark Hurd, has an innovation-focused vision for the company.

ANS: T PTS: 1 REF: Page 20 OBJ: Learning Objective 5

KEY: Application

MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Managing Strategy & Innovation

21. Effective communication is an essential aspect of successful strategy implementation.

ANS: T PTS: 1 REF: Page 17 OBJ: Learning Objective 5

KEY: Comprehension

MSC: AACSB: Communication | Management: Leadership Principles | Dierdorff & Rubin: Learning, Motivation, & Leadership

22. Loomis, Fargo & Co.'s vision is to manage the public flow of cash.

ANS: T PTS: 1 REF: Page 5 OBJ: Learning Objective 1
KEY: Application
MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

23. In the fashion industry, Louis Vuitton's competitive advantages in product design and manufacturing are critical to the firm's success.

ANS: T PTS: 1 REF: Page 13 OBJ: Learning Objective 2
KEY: Application
MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Knowledge of Technology, Design, & Production

24. While inventory management and distribution are competitive advantages for Wal-Mart's discount retailing business, they are of little value in their grocery business.

ANS: F PTS: 1 REF: Page 10 OBJ: Learning Objective 3
KEY: Application
MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Managing Logistics & Technology

25. A business' strategy is an action plan designed to help the organization move toward the achievement of its vision.

ANS: T PTS: 1 REF: Page 6 OBJ: Learning Objective 1
KEY: Knowledge
MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

26. A company's strengths, weaknesses, opportunities and threats are all aspects of the internal environment that can affect the firm's choice and use of strategies.

ANS: F PTS: 1 REF: Page 12 OBJ: Learning Objective 3
KEY: Comprehension
MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

27. Firms need stakeholders but stakeholders do not need firms.

ANS: F PTS: 1 REF: Page 17 OBJ: Learning Objective 4
KEY: Conceptual
MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

28. Firms that manage their relationships with internal and external stakeholders better than competitors might gain a competitive advantage.

ANS: T PTS: 1 REF: Page 15 OBJ: Learning Objective 4
KEY: Comprehension
MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

29. In the 1990s, Levi Strauss had difficulty satisfying the needs of an important external stakeholder group - its customers.

ANS: T PTS: 1 REF: Page 12 OBJ: Learning Objective 4

KEY: Application

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

30. Managing relationships between the firm and its stakeholders is difficult because satisfying one stakeholder's needs may come at the expense of another stakeholder.

ANS: T PTS: 1 REF: Page 15 OBJ: Learning Objective 4

KEY: Comprehension

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

MULTIPLE CHOICE

1. Loomis, Fargo & Co. competes in which industry?
- Banking
 - Telecommunications
 - Transportation
 - None of these

ANS: D PTS: 1 REF: Page 5 OBJ: Learning Objective 1

KEY: Knowledge

MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Foundational Skills

2. Loomis, Fargo & Co.'s vision is to
- dominate on-line banking.
 - manage the public flow of cash.
 - reduce transportation costs.
 - use technology to lower transportation costs.

ANS: B PTS: 1 REF: Page 5 OBJ: Learning Objective 1

KEY: Knowledge

MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

3. Which of the following IS NOT a cash/logistic service Loomis, Fargo & Co. provides to banks?
- Loomis stocks ATMs..
 - Loomis processes and sorts cash.
 - Loomis weeds out counterfeit and deteriorated bills.
 - Loomis provides short-term coverage of the overdrafts of bank customers.

ANS: D PTS: 1 REF: Page 5 OBJ: Learning Objective 1

KEY: Knowledge

MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

4. Which of the following IS NOT part of the strategic management process?
- Creating a vision.
 - Hiring and training employees.
 - Analyzing the internal and external environments.
 - Selecting strategies that create value for stakeholders.

ANS: B PTS: 1 REF: Page 6 OBJ: Learning Objective 1

KEY: Knowledge

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

5. The MISSION of any company should focus on
- avoiding litigation, such as product liability lawsuits filed by unhappy customers.

- b. eliminating competition by acquiring competitors or driving them out of business.
- c. identifying the markets the company wants to serve and the goods and services the company will provide.
- d. understanding how economic forces, such as interest rates and tax policies might affect the firm's pricing decisions and profitability.

ANS: C PTS: 1 REF: Page 6 OBJ: Learning Objective 1
 KEY: Comprehension
 MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

6. Which of the following strategic management concepts consists of a company's mission and a picture of what the firm hopes to become in the future?
- a. vision
 - b. core competence
 - c. strengths
 - d. strategy

ANS: A PTS: 1 REF: Page 6 OBJ: Learning Objective 1
 KEY: Knowledge
 MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

7. What do we call the action plan that is designed to help a company achieve its vision?
- a. contingency plan
 - b. forecast
 - c. strategy
 - d. mission

ANS: C PTS: 1 REF: Page 6 OBJ: Learning Objective 1
 KEY: Knowledge
 MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

8. The statement that defines a company's core intent and the business(es) in which it intends to operate is known as
- a. mission
 - b. vision
 - c. strategy
 - d. tangible resource

ANS: A PTS: 1 REF: Page 6 OBJ: Learning Objective 1
 KEY: Knowledge
 MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

9. Population trends, income levels, and competition are conditions that can affect a firm's performance. All of these conditions are aspects of
- a. the external environment
 - b. the internal environment
 - c. the economy
 - d. governmental policy

ANS: A PTS: 1 REF: Page 6 OBJ: Learning Objective 1
 KEY: Comprehension
 MSC: AACSB: Analytic | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

10. A company's strengths, weaknesses and resources are conditions that affect its choice of strategies. All of these conditions are aspects of
- a. the external environment
 - b. the global economy
 - c. the company's vision
 - d. the internal environment

ANS: D PTS: 1 REF: Page 6 OBJ: Learning Objective 1
 KEY: Comprehension
 MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

11. Resources and capabilities that allow a firm to complete important tasks are known as

- a. strategy
- b. vision
- c. strengths
- d. intangible assets

ANS: C PTS: 1 REF: Page 6 OBJ: Learning Objective 1

KEY: Knowledge

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

12. Tangible assets, such as a strong balance sheet, and intangible assets like a company's reputation or knowledge are known as

- a. resources
- b. expertise
- c. cultural values
- d. stakeholders

ANS: A PTS: 1 REF: Page 7 OBJ: Learning Objective 1

KEY: Knowledge

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

13. When a firm is able to integrate its resources and complete important tasks, the firm is said to possess

- a. competitive advantage
- b. capabilities
- c. economic incentives
- d. effective performance appraisal practices

ANS: B PTS: 1 REF: Page 7 OBJ: Learning Objective 1

KEY: Comprehension

MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Strategic & Systems Skills

14. Distribution and inventory management are two capabilities that Wal-Mart emphasizes and performs especially well in pursuit of its vision. For Wal-Mart, distribution and inventory management are considered to be

- a. weaknesses
- b. core competencies
- c. intangible resources
- d. human resource practices

ANS: B PTS: 1 REF: Page 9 OBJ: Learning Objective 1

KEY: Application

MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Managing Logistics & Technology

15. When a company has core competencies that are different than the capabilities of competitors, these core competencies are also known as

- a. intangible assets
- b. distinctive competencies
- c. visionary capabilities
- d. tangible assets

ANS: B PTS: 1 REF: Page 7 OBJ: Learning Objective 1

KEY: Knowledge

MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Strategic & Systems Skills

16. When a company creates value for customers by performing key activities BETTER than its competitors, the firm is said to possess a

- a. competitive advantage
- b. tangible resource
- c. market share advantage
- d. positive return for shareholders

ANS: A PTS: 1 REF: Page 7 OBJ: Learning Objective 1

KEY: Knowledge

MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Strategic & Systems

Skills

17. When a firm creates value for customers by performing activities that its competitors can't perform, the firm is said to possess
- a. a good reputation
 - b. positive return for shareholders
 - c. a competitive advantage
 - d. intangible values

ANS: C PTS: 1 REF: Page 7 OBJ: Learning Objective 1

KEY: Knowledge

MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Strategic & Systems Skills

18. PetMed.com uses the Internet and telemarketing to sell its products to customers. This set of actions taken by PetMed.com after it selected its strategy is known as
- a. strategic leadership
 - b. indirect marketing
 - c. global expansion
 - d. strategy implementation

ANS: D PTS: 1 REF: Page 9 OBJ: Learning Objective 1

KEY: Application

MSC: AACSB: Technology | Management: Information Technologies | Dierdorff & Rubin: Managing Logistics & Technology

19. Conditions in the external environment that can help a company reach its vision are known as
- a. strengths
 - b. capabilities
 - c. opportunities
 - d. vision channels

ANS: C PTS: 1 REF: Page 12 OBJ: Learning Objective 2

KEY: Knowledge

MSC: AACSB: Analytic | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

20. Conditions in the external environment that can prevent a company from reaching its vision are known as
- a. threats
 - b. weaknesses
 - c. opportunities
 - d. descending cycles

ANS: A PTS: 1 REF: Page 12 OBJ: Learning Objective 2

KEY: Knowledge

MSC: AACSB: Analytic | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

21. Individuals and groups who have an interest in how a firm performs and can influence a firm's actions are known as
- a. competitors
 - b. cohorts
 - c. stakeholders
 - d. shareholders

ANS: C PTS: 1 REF: Page 14 OBJ: Learning Objective 4

KEY: Knowledge

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

22. Individuals who practice strategic leadership, such as Steve Jobs of Apple are known as
- a. entrepreneurs
 - b. insiders
 - c. strategic leaders
 - d. industrialists

ANS: C PTS: 1 REF: Page 16 OBJ: Learning Objective 5

KEY: Application

MSC: AACSB: Analytic | Management: Leadership Principles | Dierdorff & Rubin: Learning, Motivation, & Leadership

23. Respecting the contribution of each employee and continuous innovation are important values in 3M's ____.
- a. code of conduct
 - b. corporate strategy
 - c. organizational culture
 - d. mission

ANS: C PTS: 1 REF: Page 16 OBJ: Learning Objective 5

KEY: Application

MSC: AACSB: Reflective Thinking | Management: Group Dynamics | Dierdorff & Rubin: Learning, Motivation, & Leadership

24. Which of the following types of organizations WOULD NOT benefit from using the strategic management process?
- a. Small, entrepreneurial firms
 - b. Large, multinational companies
 - c. Not-for-profit organizations
 - d. All of these would benefit from using the strategic management process

ANS: D PTS: 1 REF: Page 10-11 OBJ: Learning Objective 1

KEY: Comprehension

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

25. According to Table 1.2 in the text, McDonald's vision is "to give each customer, every time, an experience that sets new standards in value, service, friendliness, and quality." Given this vision, which of the following might be considered to be part of McDonald's DNA?
- a. information about customer preferences for various menu items
 - b. employee training that focuses on friendliness and customer service
 - c. pricing policies that offer customers exceptional value for their money
 - d. All of these

ANS: D PTS: 1 REF: Page 8 OBJ: Learning Objective 1

KEY: Application

MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

26. The process of putting strategy into action is known as
- a. environmental analysis.
 - b. strategic visioning.
 - c. strategy formulation.
 - d. strategy implementation.

ANS: D PTS: 1 REF: Page 10 OBJ: Learning Objective 1

KEY: Knowledge

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

27. Tesco PLC's entry into the US market is causing Wal-Mart to
- a. panic.
 - b. find new ways to provide value to customers.
 - c. close stores that are located near Tesco stores.
 - d. look for expansion opportunities in Europe.

ANS: B PTS: 1 REF: Page 10 OBJ: Learning Objective 2

KEY: Application

MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

28. Which of the following characteristics IS NOT a key feature of strategic management?

- a. performance oriented
- b. static rather than dynamic
- c. ongoing in nature
- d. concerned with satisfying stakeholders

ANS: B PTS: 1 REF: Page 8-11 OBJ: Learning Objective 2

KEY: Comprehension

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

29. Inventory management and distribution competitive advantages have allowed ____ to become the largest grocer in the United States.

- a. Wal-Mart
- b. Kroger
- c. Tesco, PLC
- d. Safeway

ANS: A PTS: 1 REF: Page 10 OBJ: Learning Objective 3

KEY: Application

MSC: AACSB: Reflective Thinking | Management: Creation of Value | Dierdorff & Rubin: Managing Logistics & Technology

30. CompUSA's decline illustrates the point that

- a. competitive advantage is a myth.
- b. success can be transitory.
- c. it is impossible to compete against Wal-Mart.
- d. a company's brand and its financial performance are indistinguishable.

ANS: B PTS: 1 REF: Page 11 OBJ: Learning Objective 2

KEY: Application

MSC: AACSB: Analytic | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

31. Consolidation in the airline industry is the direct result of

- a. customers determining the price they want to pay for goods and services.
- b. managerial incompetence.
- c. many significant environmental changes.
- d. strategic paralysis.

ANS: C PTS: 1 REF: Page 12 OBJ: Learning Objective 2

KEY: Application

MSC: AACSB: Reflective Thinking | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

32. Which of the following would be considered strong evidence that Levi Strauss' new strategic focus on customers is working?

- a. Fewer returned items and warranty claims.
- b. Wrangler Jeans stock price is down.
- c. Levi's 4th quarter sales consistently beat sales in the other quarters.
- d. Increased profitability.

ANS: D PTS: 1 REF: Page 12 OBJ: Learning Objective 2

KEY: Application

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

33. Which of the following IS NOT considered a stakeholder group?

- a. owners
- b. external stakeholders
- c. transitional stakeholders
- d. internal stakeholders

ANS: C PTS: 1 REF: Page 15 OBJ: Learning Objective 4

KEY: Knowledge

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

34. Imagine that you have been asked to apply the industrial organization (I/O) model to explain why a firm is performing poorly. What is the most likely explanation for the firm's poor performance according to this model?
- a. Lack of core or distinctive competencies
 - b. Inability to achieve a sustainable competitive advantage
 - c. Failure to carefully examine opportunities and threats in the external environment
 - d. All of these

ANS: C PTS: 1 REF: Page 12-13 OBJ: Learning Objective 2

KEY: Comprehension

MSC: AACSB: Reflective Thinking | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

35. According to the industrial organization (I/O) model, when a firm is unable to control conditions in the external environment, what happens?
- a. The company will be able to differentiate itself from competitors in a variety of ways.
 - b. The company's strategic options will be limited.
 - c. The company's strategic options will be unlimited.
 - d. The company will be unable to achieve a sustainable competitive advantage.

ANS: B PTS: 1 REF: Page 12 OBJ: Learning Objective 2

KEY: Comprehension

MSC: AACSB: Analytic | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

36. Imagine that you have been asked by firms in the airline industry to use the industrial organization (I/O) model to help them identify reasons for their current performance problems. Which of the following conclusions might you draw?
- a. Poor economic conditions have caused customers to reduce the number of times they travel by air.
 - b. War and international tensions have impacted the demand for airline services.
 - c. Increasing fuel costs have hampered the profitability of a number of airlines.
 - d. All of these.

ANS: D PTS: 1 REF: Page 12 OBJ: Learning Objective 2

KEY: Application

MSC: AACSB: Reflective Thinking | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

37. In contrast to the industrial organization (I/O) model, the resource-based view of the firm (RBV) model focuses attention on which of the following?
- a. economic conditions, government policy and political tensions
 - b. resources, capabilities and core competencies
 - c. opportunities and threats in the external environment
 - d. conflicting expectations of competitors, suppliers, and customers

ANS: B PTS: 1 REF: Page 18 OBJ: Learning Objective 3
KEY: Comprehension
MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Strategic & Systems Skills

38. According to the resource-based view of the firm (RBV) model, what is the most likely source of competitive advantage for any firm?
- Ability to correctly identify opportunities and threats in the external environment.
 - Ability to effectively establish barriers to entry that keep competitors out of the industry.
 - Ability to use unique resources and capabilities to create value for customers.
 - Ability to lobby government agencies and reduce the amount of government regulation.

ANS: C PTS: 1 REF: Page 13 OBJ: Learning Objective 3
KEY: Comprehension
MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Strategic & Systems Skills

39. Which of the following is the world's most profitable luxury brand?
- Coach
 - Prada
 - Gucci
 - Louis Vuitton

ANS: D PTS: 1 REF: Page 13 OBJ: Learning Objective 3
KEY: Application
MSC: AACSB: Reflective Thinking | Management: Creation of Value | Dierdorff & Rubin: Strategic & Systems Skills

40. According to the text, Louis Vuitton, the world's most profitable luxury brand, has skills that are superior to its competitors in which of the following areas?
- product design and manufacturing
 - distribution and inventory management
 - logistics and purchasing
 - advertising and retail sales management

ANS: A PTS: 1 REF: Page 13 OBJ: Learning Objective 3
KEY: Application
MSC: AACSB: Reflective Thinking | Management: Creation of Value | Dierdorff & Rubin: Knowledge of Technology, Design, & Production

41. Chapter one introduces two different models that can help companies select and implement the most effective strategy. Which of these models suggests that managers should determine what the firm's resources allow it to do better than the competition?
- The industrial organization (I/O) model of the firm
 - The competitive dynamics (CD) model
 - The resource-based view of the firm (RBV) model
 - The five forces model of competition (5F)

ANS: A PTS: 1 REF: Page 13 OBJ: Learning Objective 3
KEY: Knowledge
MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Strategic & Systems Skills

42. Chapter one introduces two different models that can help companies select and implement the most effective strategy. Which of these models suggests that managers should select the most attractive industry and then use the strategy called for by environmental conditions in that industry?
- The resource-based view of the firm (RBV) model

- b. The competitive dynamics (CD) model
- c. The model of strengths, weaknesses, opportunities and threats (SWOT)
- d. The industrial organization (I/O) model

ANS: D PTS: 1 REF: Page 13 OBJ: Learning Objective 2

KEY: Knowledge

MSC: AACSB: Analytic | Management: Environmental Influence | Dierdorff & Rubin: Strategic & Systems Skills

43. Which of the following would be an example of a stakeholder withdrawing her/his support for a company's strategy?
- a. Major shareholder sells all of his/her stock in the company.
 - b. Top manager leaves to join a competitor.
 - c. A large customer cancels an order and places it with a competitor.
 - d. All of these.

ANS: D PTS: 1 REF: Page 15 OBJ: Learning Objective 4

KEY: Application

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

44. From which of the following stakeholder groups do companies usually receive capital (i.e. money) to finance their continuing operations?
- a. competitors and employees
 - b. customers and suppliers
 - c. investors and financial institutions
 - d. All of these

ANS: C PTS: 1 REF: Page 17 OBJ: Learning Objective 1-4

KEY: Conceptual

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

45. Which of the following IS NOT considered to be an external stakeholder group?
- a. institutional shareholders
 - b. suppliers
 - c. local communities
 - d. customers

ANS: A PTS: 1 REF: Page 15 OBJ: Learning Objective 4

KEY: Comprehension

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

46. Hewlett-Packard's initial success under CEO Mark Hurd was due to
- a. exploiting environmental opportunities
 - b. fewer competitors
 - c. cost-cutting and operational improvement
 - d. industry growth

ANS: C PTS: 1 REF: Page 19 OBJ: Learning Objective 3

KEY: Application

MSC: AACSB: Reflective Thinking | Management: Creation of Value | Dierdorff & Rubin: Strategic & Systems Skills

47. Which of the following represents a decision that strategic leaders must make when using the strategic management process?
- a. Determining what resources should be acquired by the firm.
 - b. Determining how much the firm should pay for the resources it needs.
 - c. Determining how to manage the resources that the firm acquires.
 - d. All of these.

ANS: D PTS: 1 REF: Page 16 OBJ: Learning Objective 5

KEY: Comprehension

MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Strategic & Systems Skills

48. Strategic leaders can use which of the following to stimulate employee creativity in the development of new products?
- a. balance sheet
 - b. vision statement
 - c. competitive strength assessment
 - d. stakeholder analysis

ANS: B PTS: 1 REF: Page 16 OBJ: Learning Objective 5

KEY: Comprehension

MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Managing Strategy & Innovation

49. According to the text, under what condition can an organization's culture be a strong motivator of excellent performance by employees?
- a. When the culture requires input on important decisions from all employees.
 - b. When the culture lets people know they are appreciated.
 - c. When the culture focuses on honesty and integrity.
 - d. When the culture emphasizes innovation and quality.

ANS: B PTS: 1 REF: Page 16 OBJ: Learning Objective 5

KEY: Comprehension

MSC: AACSB: Analytic | Management: Group Dynamics | Dierdorff & Rubin: Strategic & Systems Skills

50. According to the text, the final responsibility for effective strategic management lies with whom?
- a. board of directors
 - b. customers
 - c. shareholders
 - d. strategic leaders

ANS: D PTS: 1 REF: Page 17 OBJ: Learning Objective 5

KEY: Comprehension

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

ESSAY

1. Compare and contrast the industrial organization (I/O) model and the resource-based view of the firm (RBV) model. Provide at least three similarities and three differences between these two models.

ANS:

Similarities -

1. Both models provide guidance to managers about the factors to consider when selecting and implementing strategies.
2. Both models acknowledge that firms must use their resources and capabilities to take advantage of opportunities and overcome threats in the external environment.
3. Both models acknowledge that there are some factors over which managers have little control - factors in the external environment.
4. Both models acknowledge that there are some factors over which managers have considerable control - factors in the internal environment.

Differences -

1. The I/O model suggests that the external environment is the most important factor to consider when selecting and implementing strategies, while the RBV model argues that the internal environment is the most important.
2. The I/O model focuses on identifying which industries or industry segments are the most attractive in terms of the opportunities and threats presented in the external environment. The RBV model focuses on identifying the resources and capabilities, strengths and weaknesses that a firm possesses and determining what the firm can do better than the competition. The selection of industries and industry segments is based about the unique bundle of resources and capabilities possessed by the firm, not on the features of the external environment that make an industry attractive in terms of profit potential.
3. The I/O model assumes that since all firms within an industry must deal with the same opportunities and threats, the resources, capabilities and strategies that they use will be fairly similar. The RBV model argues that each firm possesses a unique bundle of resources and capabilities, which leads each firm to select and implement strategies that might be different from the competition.

PTS: 1 REF: Page 11-13 OBJ: Learning Objective 2 & 3

KEY: Comprehension

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

2. In your opinion, which of the following stakeholder groups is the most important - customers, employees, or shareholders? Please provide the rationale for your selection.

ANS:

Students' responses to this question will vary - what is most important is the rationale that they use to explain their choice. The text does not provide a specific answer to this question, so students must wrestle with the notion of stakeholders and develop their own opinion and rationale. Some possible answers include the following:

Customers are the most important stakeholders, because without customers the firm will not have any revenue or be able to earn a profit. Satisfying customer needs should be at the heart of every company's mission and guide the selection of strategies as well as industries or markets in which to compete. Both the I/O and RBV models acknowledge the importance of customers - customer preferences provide opportunities, as well as threats.

Employees are the most important stakeholders because they determine how productive the firm will be and also are the source of unique capabilities that might provide the firm with a competitive advantage. Employees are the lifeblood of any company - without employees, no firm will be able to satisfy the needs of its customers. Employees provide a variety of tangible, as well as intangible resources to a firm - they are crucial in determining how unique the bundle of resources and capabilities will be from one firm to another. Employees are also decision makers - the quality of the decisions they make play an important role in the survival of any firm.

Shareholders are the most important stakeholders because they provide a very important source of capital that allows the firm to finance its operations on a continuing basis. Shareholders also provide feedback about the viability of the firm's strategic choices and other important decisions made by managers. Shareholders are also important because sometimes their need for a return on their investment puts pressure on managers to make decisions that might conflict with the needs of other stakeholder groups, such as employees or customers.

PTS: 1 REF: Page 14-16 OBJ: Learning Objective 4

KEY: Comprehension

MSC: AACSB: Analytic | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills

3. What are core competencies and distinctive competencies and how do they lead to competitive advantage?

ANS:

Core competencies are capabilities the firm focuses on and performs well while pursuing its vision. These capabilities allow the firm to complete a task or a series of related tasks. They lead to competitive advantage when they allow the firm to create value for customers by performing a key activity better than competitors.

Distinctive competencies are a little different in that these are core competencies that are different, or unique, from those possessed by competitors. Distinctive competencies lead to competitive advantage when they allow a firm to perform an activity that creates customer value that competitors can't perform.

PTS: 1

REF: Page 6-7

OBJ: Learning Objective 3

KEY: Comprehension

MSC: AACSB: Analytic | Management: Creation of Value | Dierdorff & Rubin: Strategic & Systems Skills

CASE

1. Discuss Hewlett-Packard CEO Mark Hurd's initial success at H-P and how he is providing the strategic leadership to position H-P for the future.

ANS:

Mark Hurd's initial success at H-P is due primarily to a focus on cost-cutting and internal efficiencies that result from improving operations. These moves quickly translated into bottom line results. However, cost-cutting and efficiencies will only get H-P so far. Hurd's eye is clearly on future long-term profit and sales growth. To make progress in these areas Hurd is providing strategic leadership to H-P by driving technological innovation and keeping H-P's pipeline stocked with promising new products. In addition, Hurd appears to be focusing H-P's attention on finding ways to exploit opportunities related to the Internet. Under Hurd's leadership, H-P's innovation strategy is based both on internally-developed products and gaining access to cutting-edge technological developments through the acquisition of other companies.

PTS: 1

REF: Page 19-20

OBJ: Learning Objective 5

KEY: Application

MSC: AACSB: Reflective Thinking | Management: Strategy | Dierdorff & Rubin: Strategic & Systems Skills