

Chapter 01: Strategic Management and Strategic Competitiveness

True / False

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

ANSWER: True

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

ANSWER: False

3. The goal of strategy implementation is to develop a permanent competitive advantage.
 - a. True
 - b. False

ANSWER: False

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

ANSWER: True

5. Average returns are those in excess of what an investor expects to earn from other investments with a similar amount of risk.
 - a. True
 - b. False

ANSWER: False

6. Above average returns are those in excess of what an investor expects to earn from other investments with similar stock prices.
 - a. True
 - b. False

ANSWER: True

7. Returns can only be measured in accounting terms such as return on assets, return on equity, or return on sales.
 - a. True
 - b. False

ANSWER: False

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8. To implement a firm's strategies, the firm takes actions to with the goal of achieving strategic competitiveness and above average returns.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

12. While patents may be an effective way of protecting proprietary technology, many firms competing in the electronics industry do not apply for patents to prevent competitors from utilizing the technological knowledge that would be included in the patent application.

- a. True
- b. False

ANSWER: True

13. Examples of incremental innovations include iPods, PDAs, Wi-Fi, and web browser software.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

17. 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 CEO must encourage ambidextrous learning, absorbing new knowledge and building incremental knowledge.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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21. 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.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

23. The resource-based model assumes that firms must have resources that are rare or costly to imitate to form a basis for competitive advantage.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

32. Relative power is the most critical element for prioritizing the demands of stakeholders.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

37. Although organizational cultures vary considerably, one cannot make an objective judgment that some organizational cultures are more or less functional than others in terms of ethical considerations.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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Multiple Choice

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

ANSWER: a

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

ANSWER: c

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

ANSWER: d

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

ANSWER: d

45. According to Hitt, 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 decreased tariffs.
 - d. increased availability of capital and increased competition.

ANSWER: b

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46. All of the following are characteristics 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 opportunities and challenges in new geographic markets.

ANSWER: c

47. Essentially, _____ has become one of the world's largest markets with 700 million potential consumers.
- a. the European Union
 - b. the United States
 - c. China
 - d. Japan

ANSWER: a

48. _____ has become the second-largest economy in the world.
- a. The United States
 - b. The European Union
 - c. Japan
 - d. China

ANSWER: d

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

ANSWER: d

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

ANSWER: d

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51. The "liability of foreignness" is the:

- a. inability of most U.S. managers to truly comprehend foreign cultures.
- b. political disadvantage that U.S. firms have when doing business abroad.
- c. overall risk of participating outside a firm's domestic country when entering global competition.
- d. preference for "buying local," which always puts foreign firms at a disadvantage when competing in the U.S. market.

ANSWER: c

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

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

ANSWER: a

53. The rate of technological diffusion is increasing. Which of the following was fastest in penetrating 25 percent of homes in the U.S. market?

- a. Mobile Phone
- b. Television
- c. Personal Computer
- d. Internet

ANSWER: d

54. New markets created by iPods, PDAs, and Wi-Fi are a result of:

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

ANSWER: a

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

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

ANSWER: c

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

- a. less important in the 21st century than in previous periods of business history.
- b. an important source of competitive advantage in virtually all industries.
- c. not considered an asset or resource for businesses.
- d. only important in high technology industries.

ANSWER: b

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

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

ANSWER: b

58. Knowledge is composed of all the following EXCEPT:

- a. insight.
- b. expertise.
- c. information.
- d. intelligence.

ANSWER: a

59. 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 options are correct.

ANSWER: d

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

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

ANSWER: b

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61. 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. every firm in an industry controls similar strategically relevant resources.

ANSWER: b

62. 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 for it to earn above-average returns on investment.

ANSWER: a

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

ANSWER: c

64. Firms use the five forces model of competition to identify the _____ of the industry. It is measured by its _____.
- a. size; number of competitors.
 - b. globalization; export percentages.
 - c. hypercompetition; technology diffusion.
 - d. attractiveness; profitability.

ANSWER: d

65. Although Alibaba is competing in the internet services industry, it has improved its performance by focusing on innovation and service diversification. This improved performance is best explained by:
- a. globalization.
 - b. the resource-based model.
 - c. the I/O model.
 - d. hypercompetition.

ANSWER: b

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66. An investor is considering in which of two start-up companies to invest. The investor has faith in the industrial organization model of above-average returns and is using that as a guideline to make a decision. Both start-up companies propose to manufacture health-focused foods with low salt, low sugar, high fiber, and no artificial additives. RexRich Foods has a business strategy of producing a differentiated product for which consumers will pay more. Green Pastures Foods is in the health-foods industry because of its internal culture and commitment to healthy lifestyles, but it does not have any executives with experience in food production. Which 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 that companies follow is not important.

ANSWER: b

67. 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

ANSWER: d

68. All of the following are resources of an organization EXCEPT:
- a. an hourly production employee's ability to catch subtle quality defects in products.
 - b. oil drilling rights in a promising region.
 - c. weak competitors in the industry.
 - d. a charity's board of directors of experienced executives.

ANSWER: c

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

ANSWER: c

70. _____ 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

ANSWER: a

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71. 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.

ANSWER: c

72. 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

ANSWER: d

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

ANSWER: c

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

ANSWER: d

75. The resource-based view of the firm:
- a. emphasizes that it is difficult to 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 competitive environment.
 - c. calls for firms to focus on their homogeneous capabilities to compete against their rivals.
 - d. suggests that vision and mission are marketing messages not tied to strategic plans.

ANSWER: a

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76. The goal of the organization's _____ is to point the firm in the direction of where it would like to be in the years to come.
- a. vision
 - b. mission
 - c. culture
 - d. strategy

ANSWER: a

77. The Princeton Alliance Church states in its website that "PAC exists to help you live life to the fullest by knowing God, developing community and bringing hope." This pronouncement is most precisely a statement of organizational:
- a. values.
 - b. structure.
 - c. vision.
 - d. culture.

ANSWER: c

78. 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.

ANSWER: a

79. According to Hitt, the final responsibility for forming the organization's mission lies with the:
- a. CEO.
 - b. top-management team.
 - c. employees.
 - d. organization's stakeholders.

ANSWER: a

80. A key purpose of a mission statement is to inform _____ what a firm is, what it seeks to accomplish and who it seeks to serve.
- a. CEOs
 - b. stakeholders
 - c. regulators
 - d. former employees

ANSWER: b

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81. *Organizational* stakeholders include:

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

ANSWER: c

82. 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

ANSWER: a

83. *Capital market* stakeholders include:

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

ANSWER: b

84. Dissatisfied capital market stakeholders may:

- a. sell their stock.
- b. tighten loan covenants.
- c. seek to increase their power.
- d. All of these options are correct.

ANSWER: d

85. Greenleaf Property Management has been earning below-average returns for the last three years. Which one of the following statements is true?

- a. Greenleaf will be able to satisfy its multiple stakeholders easily as long as the stakeholders are committed to the strategic mission of the firm.
- b. Greenleaf will be able to 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.

ANSWER: d

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

ANSWER: c

87. Generally speaking, product market stakeholders are satisfied when:
- a. a firm achieves a balance between profit margins, costs paid to suppliers and prices set for customers.
 - b. a firm's profit margin yields an above-average return to its capital market stakeholders.
 - c. the interests of the firm's organizational stakeholders have been maximized.
 - d. the interests of all stakeholders have been at least minimally satisfied.

ANSWER: a

88. Before liquidating during a bankruptcy, a company will take several actions to try to satisfy its _____ stakeholders.
- a. capital market
 - b. product market
 - c. organizational
 - d. governmental

ANSWER: a

89. The Chambers of Commerce of cities and towns often implore citizens to buy from local businesses. This is because the organization's role as a taxpayer is most important to _____ as stakeholders.
- a. major suppliers of capital
 - b. shareholders
 - c. host communities
 - d. unions

ANSWER: c

90. A retail outlet can attempt several remedies to improve profitability to meet the expectations of its _____ stakeholders, including closing stores, changing the top management team, and seeking potential buyers.
- a. product market
 - b. capital market
 - c. organizational
 - d. governmental

ANSWER: b

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

ANSWER: c

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

ANSWER: a

93. Refuge Nursing Homes, Inc., (RNH) has been highly profitable in the past 10 years, providing its investors higher returns than those earned by its direct competitors' investors. RNH has a reputation for providing high-paying managerial and hourly-employee jobs. However, recent investigations have revealed that the nursing home residents have been provided substandard care, including non-nutritious and unappetizing meals, non-functional medical equipment, and 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 and organizational stakeholders, over the demands of product market stakeholders.
 - c. RNH has earned above-average returns and so has satisfied the needs of all relevant stakeholders.
 - d. RNH has been attempting to minimally satisfy the demands of all of its stakeholders.

ANSWER: b

94. A prominent national website services company runs Super Bowl advertisements showing a small business owner working alone in the office on a project, during the big game. The message of the ad is that the company understands the sacrifices of its customers. This ad seeks to convey a sense of the organization's _____ to the product market stakeholders.
- a. culture of recognition and reward
 - b. mission to radically shift the global economy toward small businesses
 - c. leadership as a technology company
 - d. personality as sports lovers

ANSWER: b

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95. 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 to minimize the possibility of corporate scandals triggered by unethical CEOs.
 - c. re-centralize the responsibility for strategy to the CEO.
 - d. expand the strategic responsibilities to all organizational stakeholders.

ANSWER: a

96. The strategic leader's work is characterized by:
- a. ambiguous decision situations where the best course of action is not always easy to identify.
 - b. a willingness to unify stakeholders through skillful manipulation.
 - c. an ability to identify solutions to long-range problems.
 - d. concentration on the practical day-to-day aspects of the organization's operations.

ANSWER: a

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

ANSWER: c

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

ANSWER: c

99. 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.

ANSWER: c

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

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

ANSWER: b

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

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

ANSWER: b

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

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

ANSWER: d

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

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

ANSWER: b

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

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

ANSWER: c

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105. The culmination of the strategic management process is:

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

ANSWER: a

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

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

ANSWER: d

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

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

ANSWER: a

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

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

ANSWER: b

109. The I/O model is grounded in:

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

ANSWER: c

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110. Firms use both the _____ and _____ models. In fact, these models complement each other in that one focuses outside the firm while the other focuses inside the firm.
- a. industry; capability
 - b. I/O; resource-based
 - c. competition; competency
 - d. industry; competency

ANSWER: b

111. _____ should establish a firm's individuality and should be inspiring and relevant to all stakeholders.
- a. A strategy
 - b. A vision
 - c. A mission
 - d. A goal

ANSWER: c

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

ANSWER: a

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

ANSWER: b

114. Successful strategic leaders are:
- a. committed to helping the firm to create value for all stakeholder groups.
 - b. committed to nurturing those around them.
 - c. decisive.
 - d. All of these options are correct.

ANSWER: d

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115. Strategic delegation helps:

- a. overload middle managers.
- b. executives control strategy implementation.
- c. avoid too much managerial hubris.
- d. emphasize profit maximization.

ANSWER: c

116. Organizational culture refers to:

- a. the social energy that drives, or fails to drive, the organization.
- b. the complex set of ideologies, symbols, and core values that are shared throughout the firm.
- c. what people do when no one else is looking.
- d. All of these options are correct.

ANSWER: d

117. Effective strategic leaders are chosen based on:

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

ANSWER: a

118. Strategic leaders, _____, often work long hours, and their work is filled with ambiguous decision situations.

- a. at the top of the organization
- b. regardless of their location in the organization
- c. in the finance area
- d. in the operations area

ANSWER: b

119. SWOT stands for

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

ANSWER: d

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120. In the strategic management process ASP stands for

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

ANSWER: b

121. The firm's _____ provide the foundation for choosing one or more _____ and deciding how to implement them.

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

ANSWER: c

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

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

ANSWER: a

123. A company competing in a single product market has

- a. one corporate-level strategy.
- b. one business-level strategy.
- c. one business-level strategy for failure. It should seek to diversify.
- d. one business-level strategy and one corporate-level strategy.

ANSWER: d

Essay

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

ANSWER: Strategic competitiveness is achieved when 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.

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

ANSWER: 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.

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

ANSWER: The I/O model of above-average returns argues that the external environment is the primary determinant of firm success, rather than the firm's internal resources. The model has four underlying assumptions. First, the external environment is assumed to impose pressures and constraints that determine the strategies that would result in above-average returns. Second, most firms competing within 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.

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

ANSWER: The resource-based model focuses on the firm's internal resources and capabilities. 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 organization's strategy is based on finding the best environment in which to exploit its core competencies.

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

ANSWER: 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.

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

ANSWER: Stakeholders are the individuals 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.

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

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

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

ANSWER: Almost all strategic management process decisions have ethical implications because they affect stakeholders, internally and externally. Strategic management processes influence competitive strategy which can be ethical or non-ethical as it relates to business espionage, pricing, marketing techniques, etc. The decisions of the strategic leaders also influence the organization's culture, which is based on the organization's core values. These values are also influenced by the strategic leaders. The organization's culture can be ethical or unethical (e.g. salary and benefit structure, recognition/promotion, etc.). Consequently, the strategic leader's role has a large impact on whether the organization is a good citizen.

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

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

The strategic management process consists of three primary processes: *analysis* (chapters 2 & 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 firms 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 firm's strategy and competitive environments (Chapter 12), and the use of strategic entrepreneurship (Chapter 13) as a path to continuous innovation.

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

133. Define globalization and describe some of its consequences.

ANSWER:

Globalization is the increasing economic interdependence among countries and their organizations as real goods and services, financial capital, and knowledge across country borders.

Globalization increases the range of opportunities for companies. Firms engaging in globalization of their culturally sensitive decisions. Globalization has led to higher performance standards in many competitive countries. Those of quality, cost, productivity, product introduction time, and operational efficiency. In addition to firm global economy, these standards affect firms competing on a domestic-only basis. Thus, managers have effectively in a "multi-polar" world with many important countries having unique interests and environments. How to deal with the reality that in the competitive landscape of the 21st century, only companies capable of exceeding, global standards typically have the capability to earn above-average returns. The risks of part firm's domestic markets in the global economy are labeled a "liability of foreignness."