Name:________________________ Class:________________ Date:________

Chapter 01: Strategic Management and Strategic Competitiveness

True / False

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

ANSWER: True

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

ANSWER: False

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

ANSWER: False

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

ANSWER: True

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

ANSWER: False

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

ANSWER: True

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

ANSWER: False

8. To implement a firm’s strategies, the firm takes actions to enact each strategy with the intent of achieving strategic

competitiveness and above-average returns.

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: False

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

ANSWER: False

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

ANSWER: True

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

ANSWER: False

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

ANSWER: False

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

ANSWER: True

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

ANSWER: False

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

ANSWER: False

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

ANSWER: False

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

ANSWER: False

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

ANSWER: False

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

ANSWER: False

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

ANSWER: True

28. The firm's mission is more concrete than its vision.
   a. True
   b. False

ANSWER: True

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

ANSWER: False

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

ANSWER: False

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

b. False

ANSWER: False

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

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: True

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

a. True
b. False

ANSWER: True

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

ANSWER: True

Multiple Choice

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

ANSWER: a

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

ANSWER: c

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

ANSWER: d

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

ANSWER: d

45. The primary drivers of hypercompetition are __________ and __________.
  a. rising global socio-economic instability; increased inflation

b. the emergence of a global economy; rapid technological change
c. increased global competition; decreased tariffs
d. increased availability of capital; increased competition

ANSWER: b

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

ANSWER: c

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

ANSWER: c

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

ANSWER: d

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

ANSWER: d

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

ANSWER: d

51. The "liability of foreignness" is the:
a. inability of most U.S. managers to truly comprehend foreign cultures.

b. political disadvantage that U.S. firms have when doing business abroad.
c. risk of participating outside a firm's domestic markets in the global economy.
d. preference for "buying local," which always puts foreign firms at a disadvantage when competing in the U.S. market.

ANSWER: c

52. Even for companies capable of succeeding in global markets, it is critical that they:
a. remain committed to and strategically competitive in their domestic market.
b. introduce many new products immediately after entering a new market.
c. acquire a local competitor in each significant foreign market.
d. develop good negotiating skills in order to take advantage of local suppliers in the international market.

ANSWER: a

53. The rate of technological diffusion has increased substantially over the past 15 to 20 years. Which of the following was fastest in penetrating 25 percent of homes in the United States?
a. Mobile phones
b. Television
c. Personal computers
d. Internet

ANSWER: d

54. New markets created by the technologies underlying the development of products such as iPods, iPads, and Wi-Fi are a result of:
a. disruptive technologies.
b. global competition.
c. knowledge intensity.
d. hypercompetition.

ANSWER: a

55. Henry Ford once said, “If I had asked people what they wanted, they would have said faster horses.” The invention of the car is an early example of:
a. the march of globalization.
b. rapid technological diffusion.
c. disruptive technologies.
d. products that were not imitated by competitors.

ANSWER: c

56. A company’s ability to acquire knowledge is:
a. less important in the twenty-first century than in previous periods of business history.
b. an increasingly valuable source of competitive advantage.
c. not considered an asset or resource for businesses.
d. only important in high-technology industries.

ANSWER: b