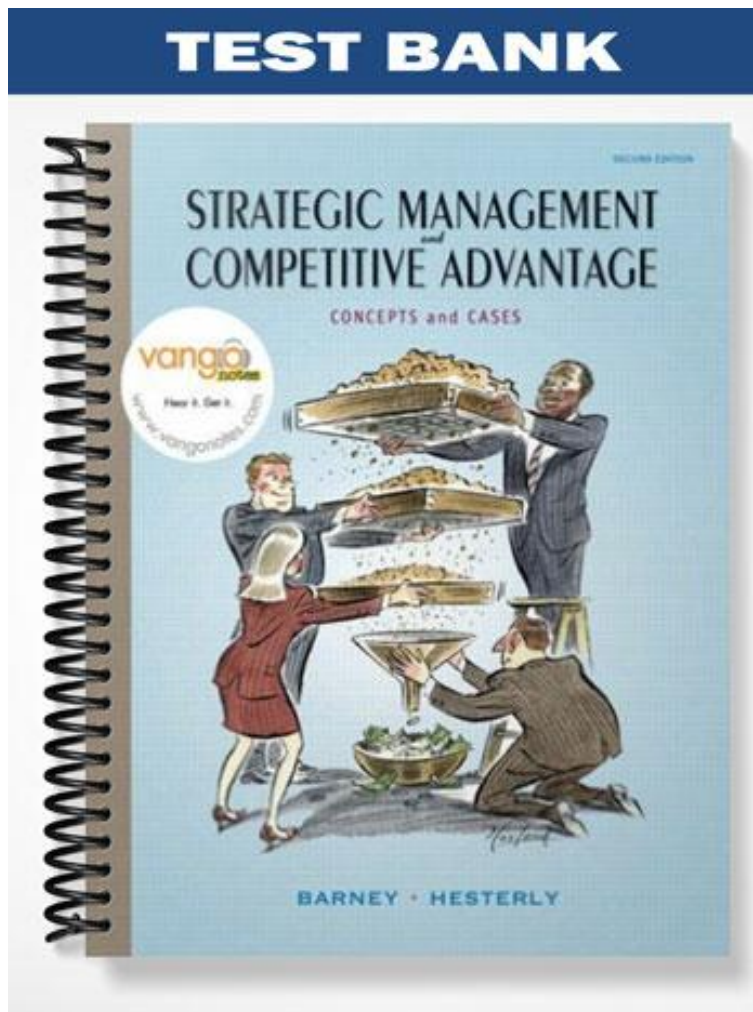


TEST BANK



Chapter 01

The Tools of Strategic Analysis

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 1) One of the central questions that all strategic managers must address, regardless of the industry they work in, is "What is our competition going to do next?" 1) _____
Answer: True False
- 2) There is complete consensus among strategic managers and academic researchers about what a "strategy" is. 2) _____
Answer: True False
- 3) For the purposes of this book, a firm's strategy is defined as its theory about how to gain competitive advantages. 3) _____
Answer: True False
- 4) A "good strategy" does not necessarily have to create a competitive advantage. 4) _____
Answer: True False
- 5) The greater the extent to which a firm's assumptions and hypotheses accurately describe how the competition in the industry is likely to evolve, and how that evolution can be exploited to earn a profit, the more likely it is that a firm will gain a competitive advantage from implementing its strategies. 5) _____
Answer: True False
- 6) It is usually possible to know for sure that a firm is choosing the right strategy. 6) _____
Answer: True False
- 7) The strategic management process is a sequential set of analyses and choices that can increase the likelihood that a firm will choose a good strategy that generates competitive advantages. 7) _____
Answer: True False
- 8) The second step in the strategic management process is the definition of a firm's mission. 8) _____
Answer: True False
- 9) A firm's mission defines both what it wants to be in the long run and what it wants to avoid in the meantime. 9) _____
Answer: True False
- 10) Mission statements often contain so many common elements that even if a firm's mission statement does not influence behavior throughout an organization, it is likely to have a significant impact on a firm's actions. 10) _____
Answer: True False
- 11) Firms whose mission statement is central to all they do are known as missionary firms. 11) _____
Answer: True False
- 12) Visionary firms earn substantially higher returns than average firms because they acknowledge that profit maximizing is their primary reason for existence. 12) _____
Answer: True False

- 13) Mission statements that are very inwardly focused and are defined only with reference to the personal values and priorities of its founders and top managers can hurt a firm's performance. 13) _____
 Answer: True False
- 14) Objectives are the specific measurable targets a firm can use to evaluate the extent to which it is realizing its mission. 14) _____
 Answer: True False
- 15) High quality objectives are tightly connected to the elements of a firm's mission but tend to be relatively difficult to measure and track over time. 15) _____
 Answer: True False
- 16) By conducting an external analysis, a firm identifies the critical threats and opportunities in the industry's competitive environment. 16) _____
 Answer: True False
- 17) Corporate level strategies are actions firms take to gain competitive advantages in a single market or industry. 17) _____
 Answer: True False
- 18) Business level strategies are actions firms take to gain competitive advantages by operating in multiple markets or industries simultaneously. 18) _____
 Answer: True False
- 19) Strategy implementation occurs when a firm adopts organizational policies and practices that are consistent with its strategy. 19) _____
 Answer: True False
- 20) In general, a firm has a competitive advantage when it is able to create more economic value than rival firms. 20) _____
 Answer: True False
- 21) The size of a firm's competitive advantage is the sum of the economic value a firm is able to create and the economic value rivals are able to create. 21) _____
 Answer: True False
- 22) A sustained competitive advantage is virtually permanent. 22) _____
 Answer: True False
- 23) Firms that create the same economic value as their rivals experience competitive parity. 23) _____
 Answer: True False
- 24) A firm's accounting performance is a measure of its competitive advantage calculated using information from a firm's published profit and loss and balance sheet statements. 24) _____
 Answer: True False

- 25) Applying accounting measures of competitive advantage for firms that are headquartered in different countries is not complicated by issues such as differences in accounting practices and exchange rates. 25) _____
 Answer: True False
- 26) Activity ratios are ratios with some measure of profit in the numerator and some measure of firm size or assets in the denominator. 26) _____
 Answer: True False
- 27) Liquidity ratios are ratios that focus on the firm's ability to meet its short-term financial obligations. 27) _____
 Answer: True False
- 28) When a firm earns above average accounting performance, it is said to enjoy competitive parity. 28) _____
 Answer: True False
- 29) A firm that earns below average accounting performance, performance that is less than the industry average, generally experiences a competitive disadvantage. 29) _____
 Answer: True False
- 30) The greatest disadvantage of accounting measures of competitive performance is that they are relatively difficult to compute. 30) _____
 Answer: True False
- 31) Economic measures of competitive advantage compare a firm's level of return to its costs of capital instead of to the average level of return to the industry. 31) _____
 Answer: True False
- 32) The cost of equity is equal to the interest a firm must pay its debt holders in order to induce those debt holders to lend money to the firm. 32) _____
 Answer: True False
- 33) The residual claimants' view of equity holders argues that the interests of equity holders and a firm's other stakeholders often collide. 33) _____
 Answer: True False
- 34) The correlation between economic and accounting measures of competitive advantage is generally low. 34) _____
 Answer: True False
- 35) Emergent strategies are theories of how to gain competitive advantage in an industry that emerge over time or that have been radically reshaped once they are initially implemented. 35) _____
 Answer: True False
- 36) Johnson & Johnson's introduction of "Johnson's Toilet and Baby Powder" as a result of customers' asking to purchase the talcum powder is an example of a planned strategy. 36) _____
 Answer: True False

- 37) Emergent strategies are only important when a firm fails to implement the strategic management process effectively. 37) _____
 Answer: True False
- 38) Firms with strategies that are unlikely to be a source of competitive advantage will rarely provide the same career opportunities as firms with strategies that do generate such advantages. 38) _____
 Answer: True False
- 39) Strategic choices are generally limited to very experienced senior managers in large corporations; in smaller and entrepreneurial firms, many employees end up being involved in the strategic management process. 39) _____
 Answer: True False
- 40) Global strategies are best, and almost exclusively, viewed as a unique category of strategy, separate from other business and corporate strategies. 40) _____
 Answer: True False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 41) A firm's _____ is defined as its theory about how to gain competitive advantages. 41) _____
 A) vision B) strategy C) mission D) objectives
 Answer: B
- 42) The sequential set of analyses and choices that can increase the likelihood that a firm will choose a strategy that generates competitive advantages is the 42) _____
 A) organizational change process. B) mission statement process.
 C) strategic management process. D) goal setting process.
 Answer: C
- 43) A firm's _____ is its long-term purpose that defines both what a firm aspires to be in the long run and what it wants to avoid in the meantime. 43) _____
 A) vision B) goal C) objective D) mission
 Answer: D
- 44) Missions are often written down in the form of 44) _____
 A) vision statements. B) mission statements.
 C) organizational goals. D) corporate objectives.
 Answer: B
- 45) Firms whose mission is central to all they do are known as _____ firms. 45) _____
 A) missionary B) visionary C) legendary D) parity
 Answer: B
- 46) From 1926 to 1995, visionary firms earned _____ returns compared to firms that were not visionary firms. 46) _____
 A) substantially lower B) substantially equivalent
 C) substantially higher D) marginally lower
 Answer: C

- 47) The mission statements of visionary firms 47) _____
A) suggest that profit maximizing, while an important corporate objective, is not their primary reason for existence.
B) suggest that profit maximizing is an important corporate objective and is their primary reason of existence.
C) suggest that profit maximizing is their primary reason for existence.
D) suggest that profit maximizing is neither an important corporate objective nor their primary reason for existence.

Answer: A

- 48) Which of the following statements regarding firm mission is accurate? 48) _____
A) It is very rare for firms to be able to use their missions to develop strategies that create significant competitive advantages, and most firm missions actually hurt their performance.
B) While some firms have used their missions to develop strategies that create significant competitive advantages, firm missions can hurt a firm's performance as well.
C) Virtually all firms have used missions to develop strategies that create significant competitive advantages, while very few firms have used missions that can hurt their performance.
D) Missions tend to have very little impact on a firm's ability to create significant competitive advantages.

Answer: B

- 49) _____ are specific measurable targets a firm can use to evaluate the extent to which it is realizing its mission. 49) _____
A) Competitive Advantages
B) Objectives
C) Visions
D) Missions

Answer: B

- 50) High quality objectives are those that are 50) _____
A) difficult to measure.
B) difficult to track over time.
C) tightly connected to elements of a firm's mission.
D) not quantitative.

Answer: C

- 51) By conducting a(n) _____, a firm identifies the critical threats and opportunities in its competitive environment. 51) _____
A) economic analysis
B) external analysis
C) internal analysis
D) competitive analysis

Answer: B

- 52) _____ helps a firm understand which of its resources and capabilities are likely to be sources of competitive advantage. 52) _____
A) External analysis
B) Comparative analysis
C) Competitive analysis
D) Internal analysis

Answer: D

- 53) Actions firms take to gain competitive advantages in a single market or industry are known as 53) _____
A) corporate level strategies.
B) functional level strategies.
C) business level strategies.
D) sustainable strategies.

Answer: C

- 54) Actions firms take to gain competitive advantages by operating in multiple markets or industries simultaneously are known as _____ 54) _____
 A) business level strategies. B) corporate level strategies.
 C) macro level strategies. D) functional strategies.
 Answer: B
- 55) _____ occurs when a firm adopts organizational policies and practices that are consistent with its strategy. 55) _____
 A) Organizational change B) Strategy implementation
 C) Strategy formulation D) Strategic control
 Answer: B
- 56) When a firm is able to create more economic value than rival firms it is said to have a(n) _____ 56) _____
 A) strategic choice. B) economic advantage.
 C) competitive advantage. D) comparative advantage.
 Answer: C
- 57) The difference between the perceived benefits gained by a customer that purchases a firm's products or services and the full economic costs of these products or services is known as _____ 57) _____
 A) economic value. B) sustainable value.
 C) accounting value. D) comparative value.
 Answer: A
- 58) If TechnoGeek and VarsityBlue compete in the same market for the same customer and TechnoGeek generates \$900 of economic value each time it sells a product or service while VarsityBlue generates \$400 of economic value each time it sells a product or service, TechnoGeek has a competitive advantage of _____ 58) _____
 A) \$3,600. B) \$360,000. C) \$500. D) \$1,300.
 Answer: C
- 59) A competitive advantage that lasts a very short period of time is known as a _____ competitive advantage. 59) _____
 A) temporary B) perpetual C) transient D) sustained
 Answer: A
- 60) Firms that create the same economic value as their rivals experience competitive _____ 60) _____
 A) parity. B) superiority. C) disadvantage. D) advantage.
 Answer: A
- 61) Firms that generate less economic value than their rivals experience a competitive _____ 61) _____
 A) disadvantage. B) preference. C) parity. D) advantage.
 Answer: A

- 62) In many ways, the difference between traditional economics research and strategic management research is that the former attempts to explain why _____, while the latter attempts to explain _____ 62) _____
- A) competitive advantages should persist; when they can.
 - B) competitive advantages should persist; why they should not.
 - C) competitive parity should not persist; why they should.
 - D) competitive advantages should not persist; when they can.
- Answer: D
- 63) The two types of measures of competitive advantage include 63) _____
- A) accounting measures and strategic measures.
 - B) qualitative measures and quantitative measures.
 - C) accounting measures and economic measures.
 - D) strategic measures and economic measures.
- Answer: C
- 64) A firm's _____ is a measure of its competitive advantage calculated using information from a firm's published profit and loss and balance sheet statements. 64) _____
- A) economic performance
 - B) accounting performance
 - C) sustainable performance
 - D) strategic performance
- Answer: B
- 65) _____ are ratios with some measure of profit in the numerator and some measure of firms' size or assets in the denominator. 65) _____
- A) Profitability ratios
 - B) Leverage ratios
 - C) Activity ratios
 - D) Liquidity ratios
- Answer: A
- 66) Ratios that focus on the level of a firm's financial flexibility, including its ability to obtain more debt, are known as 66) _____
- A) activity ratios.
 - B) liquidity ratios.
 - C) leverage ratios.
 - D) profitability ratios.
- Answer: C
- 67) Using ratio analysis, a firm earns _____ when its performance is greater than the industry average. 67) _____
- A) below average economic performance
 - B) above average accounting performance
 - C) above average economic performance
 - D) below average accounting performance
- Answer: B
- 68) The _____ is the rate of return that a firm promises to pay its suppliers of capital to induce them to invest in the firm. 68) _____
- A) cost of parity
 - B) cost of debt
 - C) cost of capital
 - D) cost of advantage
- Answer: C
- 69) _____ measures of competitive advantage compare a firm's level of return to its cost of capital instead of to the average level of return in the industry. 69) _____
- A) Accounting
 - B) Strategic
 - C) Economic
 - D) Sustainable
- Answer: C

70) The percentage of a firm's total capital that is debt times the cost of debt plus the percentage of a firm's total capital that is equity times the cost of equity is the _____
A) weighted cost of capital. B) average cost of capital.
C) unweighted average cost of capital. D) weighted average cost of capital.

Answer: D

71) If the risk free rate of return is 4%, the market rate of return is 9%, and a firm's beta is 2.0, what is the firm's cost of equity? _____
A) 30 B) 14 C) 18 D) 6

Answer: B

72) If a firm has total assets of \$10 million, stockholder's equity of \$6 million, a cost of equity of 10, and an after tax cost of debt of 5%, what is the firm's Weighted Average Cost of Capital? _____
A) 18 B) 1 C) 8 D) 7

Answer: C

73) A firm that earns its cost of capital is said to be earning _____
A) below normal economic performance. B) normal economic performance.
C) normal accounting performance. D) above normal economic performance.

Answer: B

74) The view that equity holders only receive payment on their investment in a firm after all legitimate claims by a firm's other stakeholders are satisfied is known as the _____ view of equity holders.
A) legitimate claimants B) residual claimants
C) stakeholder D) extraordinary claims

Answer: B

75) Theories of how to gain competitive advantage in an industry that emerge over time or that have been radically reshaped once they are initially implemented are known as _____
A) ad hoc strategies. B) emergent strategies.
C) planned strategies. D) objective strategies.

Answer: B

76) The realized strategy of most firms tends to be _____
A) almost exclusively a reflection of their intended strategy.
B) almost exclusively a reflection of their emergent strategy.
C) reflective of neither the firms intended nor emergent strategy.
D) a combination of both intended and emergent strategies.

Answer: D

77) Which of the following is a reason why it is important for students to study strategy and the strategic management process? _____
A) While strategic choices are generally limited to very experienced senior managers in large organizations, in smaller and entrepreneurial firms many employees end up being involved in the strategic management process.
B) It can be very important to a new hire's career success to understand the strategies of the firm that hired them and their place in implementing these strategies.
C) Studying strategy and the strategic management process can give students tools to evaluate the strategies of firms that may employ them.
D) All of the above.

Answer: D

86) Green Frog is an environmentally friendly firm in the cosmetics industry that has decided to undertake a strategic planning project. They want to ensure that they perform the process correctly and so intend to start the process with the first step of the strategic planning process which is 86) _____

- A) defining their business level strategy.
- B) crafting a mission statement.
- C) setting objectives.
- D) measuring performance.

Answer: B

87) Green Frog is an environmentally friendly firm in the cosmetics industry. Even though Green Frog is environmentally friendly, the strategic planning team had decided that financial performance is one of the company's top priorities. Which of the following is the best example of an objective the company might use to help them achieve their goal of superior financial performance? 87) _____

- A) Increasing profitability.
- B) Growth in earnings per share averaging 15% or better annually for the next five years.
- C) Growing market share annually.
- D) Improving product quality every quarter.

Answer: B

88) Green Frog is an environmentally friendly firm in the cosmetics industry. If during the strategic planning process Green Frog tried to determine the critical threats and opportunities in its competitive environment, it would be performing a(n) 88) _____

- A) WACC analysis.
- B) economic analysis.
- C) external analysis.
- D) internal analysis.

Answer: C

89) Green Frog is an environmentally friendly firm in the cosmetics industry. If Green Frog undertook an analysis to help it understand which of its resources and capabilities are likely to be sources of competitive advantage and which are less likely to sources of such advantages they would be performing a(n) 89) _____

- A) economic analysis.
- B) internal analysis.
- C) WACC analysis.
- D) external analysis.

Answer: B

90) Green Frog is an environmentally friendly firm in the cosmetics industry. If Green Frog were considering expanding beyond the cosmetics industry into pharmaceuticals in order to gain competitive advantages by operating in multiple markets and industries, this would be an example of which type of strategy? 90) _____

- A) Business level strategy
- B) Marketing strategy
- C) Functional level strategy
- D) Corporate level strategy

Answer: D

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

91) Define the term "strategy," discuss the set of assumptions and hypotheses that a strategy is based on and discuss what makes a good strategy.

Answer: A firm's strategy is defined as its theory about how to gain competitive advantages. This theory is based on a set of assumptions and hypotheses about how competition in this industry is likely to evolve, and how that evolution can be exploited to earn a profit. To the extent that these assumptions and hypotheses accurately describe how competition in this industry actually evolves, the more likely it is that a firm will gain a competitive advantage from implementing its strategies. Thus, a "good strategy" is a strategy that actually generates such advantages.

92) Define the term "mission" and discuss how a firm's mission can both positively and negatively impact a firm's performance.

Answer: A firm's mission is its long-term purpose and it defines both what a firm aspires to be in the long run and what it wants to avoid in the meantime. If a mission statement does not influence firm behavior, it is unlikely to have an impact on a firm's actions. However, visionary firms, or firms whose mission is central to all they do, tend to earn substantially higher returns than average over the long-run even though their mission statements suggest that profit maximization is not their primary reason for existence. However, missions that are inwardly focused and defined only with reference to the personal values and priorities of its founders or top managers, independent of whether or not those values and priorities are consistent with the economic realities facing a firm are not likely to be a source of competitive advantage.

93) What are objectives, what role do they play in the strategic management process and what differentiates high quality objectives from low quality objectives.

Answer: Objectives are specific measurable targets a firm can use to evaluate the extent to which it is realizing its mission. High quality objectives are tightly connected to elements of a firm's mission and are relatively easy to measure and track over time. Low quality objectives either do not exist or are not connected to elements of a firm's mission, are not quantitative, are difficult to measure or difficult to track over time.

94) Differentiate between business level and corporate level strategies and give examples of each.

Answer: Business level strategies are actions firms take to gain competitive advantages in a single market or industry. The two most common business level strategies are cost leadership, such as Wal-Mart, and product differentiation, such as Macy's. Corporate level strategies are actions firms take to gain competitive advantages in multiple markets or industries simultaneously. Common corporate level strategies include vertical integration strategies, diversification strategies, strategic alliances strategies and merger and acquisition strategies.

95) Define strategy implementation and discuss three specific organizational policies and practices that are particularly important in implementing a strategy.

Answer: Strategy implementation occurs when a firm adopts organizational policies and practices that are consistent with its strategy. Three specific organizational policies and practices are particularly important in implementing a strategy: a firm's formal organizational structure, its formal and informal management control systems, and employee compensation policies.

96) Discuss the nature of a sustainable competitive advantage. In your answer, identify when a firm has a competitive advantage, define the term "economic value" and distinguish between a temporary competitive advantage and a sustainable competitive advantage.

Answer: In general, a firm has a competitive advantage when it is able to generate more economic value than rival firms. Economic value is simply the difference between the perceived benefits gained by a customer that purchases a firm's products or services and the full economic cost of these products and services. A temporary competitive advantage is a competitive advantage that lasts a very short period of time while a sustained competitive advantage lasts much longer.

97) Identify two approaches to estimating a firm's competitive advantages and discuss the strengths and weaknesses of each.

Answer: The two general approaches to estimating a firm's competitive advantage are measuring accounting performance and measuring economic performance. A firm's accounting performance is a measure of its competitive advantage calculated using information from a firm's published profit and loss and balance sheets and a firm's accounting performance is determined by comparing a firm's accounting ratios with other firms in the industry. The greatest measure of accounting measures of competitive advantage is that they are relatively easy to compute. The most significant drawback to accounting measures is that they do not consider a firm's cost of capital. Additionally, accounting measures can be difficult to compare across countries.

Economic measures of competitive advantage compare a firm's level of return to its cost of capital instead of to the average level of return in the industry. The primary benefit of economic measures is that if a firm earns at least its cost of capital, it is satisfying two of its important stakeholders—debt holders and equity holders. Disadvantages of economic measures include that it can be difficult to calculate a firm's cost of capital, especially for privately held firms, and economic measures may overstate the importance of debt and equity holders.

98) Describe the difference between emergent and intended strategies. Why might firms employ an emergent strategy?

Answer: Intended strategies can best be described as a firm's theories of how to gain a competitive advantage that are developed as a result of the strategic management process. Intended strategies are developed when firms choose and implement their strategies exactly as described by the strategic management process. Alternately, emergent strategies are theories of how to gain a competitive advantage in an industry that emerge over time or that have been radically reshaped once they are implemented. Firms employ emergent strategies since some of the information needed to complete the strategic management process may not be available when firms are developing their intended strategies.

99) Why is it important to understand a firm's strategy, even if you are not a senior manager in a firm?

Answer: First, studying strategy and the strategic management process can give individuals the tools they need to evaluate the strategies of the firms that may hire them. Second, once an individual is working for a firm, understanding that firm's strategy, and their place in it, can be very important to their personal success since the expectations of how they perform their function will be impacted by the firm's strategy. Finally, while strategic choices are generally limited to very experienced managers in large organizations, in smaller and entrepreneurial firms, many employees end up being involved in the strategic management process.

100) Identify the two ways that global considerations can be incorporated into the strategic management process.

Answer: One view suggests that global strategies are a unique category of strategy, separate from other business and corporate level strategies. Under this view, conceiving of and implementing international strategies require a set of skills that are qualitatively different from the skills required to conceive of and implement other business or corporate strategies.

The second perspective on international strategies views them as a means by which a firm realizes competitive advantages from implementing its business and corporate level strategies, rather than as a separate type of strategy.