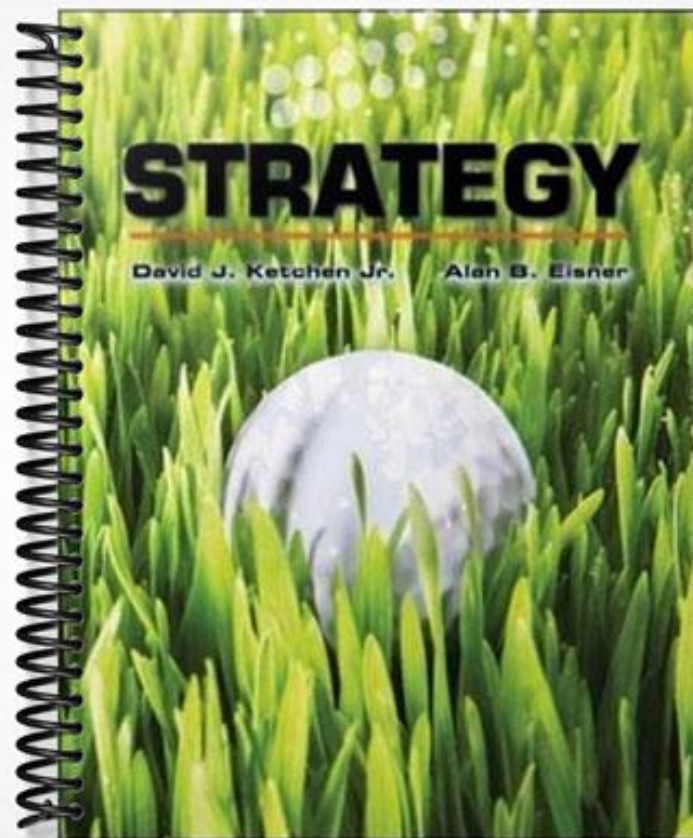


TEST BANK



Chapter 02 The Context of Strategic Management

True / False Questions

1. (p. 23) Globalization and business ethics have accelerated the rate of change that executives face.

TRUE

AACSB: 5
Difficulty: Medium
Learning Objective: 1
Taxonomy: Comprehension

2. (p. 24) It is estimated that by 2015 the trade across nations will exceed the trade within nations.

TRUE

AACSB: 5
Difficulty: Easy
Learning Objective: 1
Taxonomy: Knowledge

3. (p. 24) Luckily, firms in the U.S. can manufacture what the country needs without participating in global trade.

FALSE

AACSB: 5
Difficulty: Easy
Learning Objective: 1
Taxonomy: Knowledge

4. (p. 25) The "bottom of the pyramid" refers to the practice of a multinational firm targeting its goods and services to the wealthy people of the world.

FALSE

AACSB: 5
Difficulty: Easy
Learning Objective: 1
Taxonomy: Knowledge

5. (p. 25) The poorest people in the world represent a market worth \$14 trillion in purchasing power.

TRUE

AACSB: 5
Difficulty: Easy
Learning Objective: 1
Taxonomy: Knowledge

6. (p. 26 - 27) In Michael Porter's "diamond of competitive advantage," there are four broad attributes that, as a system, constitute a nation's competitiveness in an industry.

TRUE

AACSB: 5
Difficulty: Easy
Learning Objective: 2
Taxonomy: Knowledge

7. (p. 27) The factor conditions of a country are inherited and cannot be created.

FALSE

AACSB: 5
Difficulty: Medium
Learning Objective: 2
Taxonomy: Comprehension

8. (p. 27) With regard to "factor conditions," the pool of resources that a firm (or nation) has is much more important than the speed and efficiency with which these resources are deployed.

FALSE

AACSB: 5
Difficulty: Medium
Learning Objective: 2
Taxonomy: Comprehension

9. (p. 27) Demanding domestic consumers tend to push firms to move ahead of companies in other countries where consumers are less demanding and more complacent.

TRUE

AACSB: 5
Difficulty: Medium
Learning Objective: 2
Taxonomy: Comprehension

10. (p. 29) High levels of environmental awareness in Denmark have led to a decline in Denmark's industrial competitiveness in the international marketplace.

FALSE

AACSB: 5
Difficulty: Medium
Learning Objective: 2
Taxonomy: Comprehension

11. (p. 29) Countries with a strong supplier base benefit by adding efficiency to downstream activities.

TRUE

AACSB: 5
Difficulty: Medium
Learning Objective: 2
Taxonomy: Comprehension

12. (p. 30) Typically, intense rivalry in domestic markets does not force firms to look outside their national boundaries for new markets.

FALSE

AACSB: 5
Difficulty: Medium
Learning Objective: 2
Taxonomy: Comprehension

13. (p. 31) Many international firms are increasing their efforts to market their products and services to countries such as India and China as the ranks of their middle class continue to increase.

TRUE

AACSB: 5
Difficulty: Medium
Learning Objective: 3
Taxonomy: Comprehension

14. (p. 31) International expansion can extend the life cycle of a product that is in its maturity stage in a firm's home country.

TRUE

AACSB: 5
Difficulty: Medium
Learning Objective: 3
Taxonomy: Comprehension

15. (p. 32) An advantage of international expansion is that it can enable a firm to optimize the location of every activity in its value chain.

TRUE

AACSB: 5
Difficulty: Medium
Learning Objective: 3
Taxonomy: Comprehension

16. (p. 33) Political risk is the potential threat to a firm's operations in a country due to the effectiveness of the domestic political system.

FALSE

AACSB: 5
Difficulty: Easy
Learning Objective: 3
Taxonomy: Knowledge

17. (p. 34) The laws, and the enforcement of laws, associated with the protection of intellectual property rights, represent a significant currency and management risk to multinational firms.
FALSE

AACSB: 5
Difficulty: Medium
Learning Objective: 3
Taxonomy: Comprehension

18. (p. 34) Differences in foreign markets such as culture, language, and customs can represent significant management risks when firms enter foreign markets.
TRUE

AACSB: 5
Difficulty: Medium
Learning Objective: 3
Taxonomy: Comprehension

19. (p. 36) Off shoring takes place when a firm decides to shift an activity that they were previously performing in a domestic location to a foreign location.
TRUE

AACSB: 5
Difficulty: Easy
Learning Objective: 3
Taxonomy: Knowledge

20. (p. 37) The three primary participants in corporate governance are: (1) the shareholders; (2) management (led by the chief executive officer); and, (3) employees.
FALSE

AACSB: 3
Difficulty: Easy
Learning Objective: 4
Taxonomy: Knowledge

21. (p. 39) The group that has a fiduciary duty to ensure that the company is run consistently with the long-term interests of the owners, or shareholders, of a corporation is the Board of Directors.

TRUE

AACSB: 3
Difficulty: Easy
Learning Objective: 4
Taxonomy: Knowledge

22. (p. 38) Decisions by Boards of Directors are always consistent with shareholder interests.

FALSE

AACSB: 3
Difficulty: Medium
Learning Objective: 4
Taxonomy: Comprehension

23. (p. 38) The Sarbanes-Oxley Act of 2002 requires that CEOs and CFOs of publicly-listed companies must reveal off-balance-sheet finances and vouch for the accuracy of information provided.

TRUE

AACSB: 3
Difficulty: Medium
Learning Objective: 4
Taxonomy: Comprehension

24. (p. 38) The Sarbanes-Oxley Act of 2002 stipulates that executives of a firm will still be able to sell their shares in the firm when other employees cannot.

FALSE

AACSB: 3
Difficulty: Medium
Learning Objective: 4
Taxonomy: Comprehension

25. (p. 41) Former Chrysler vice chairman Robert Lutz stated: "We are here to serve the shareholder and create shareholder value. I insist that the only person who owns the company is the person who paid good money for it." This is an example of a symbiotic approach to stakeholder management.

FALSE

AACSB: 3
Difficulty: Medium
Learning Objective: 4
Taxonomy: Knowledge

26. (p. 42) Stockholders in a company are the only individuals with an interest in the financial performance in the company.

FALSE

AACSB: 3
Difficulty: Easy
Learning Objective: 4
Taxonomy: Knowledge

27. (p. 42) Stockholders, employees, and the community-at-large are among a firm's stakeholders.

TRUE

AACSB: 3
Difficulty: Easy
Learning Objective: 4
Taxonomy: Knowledge

28. (p. 42) Symbiosis is the ability to recognize interdependencies among the interests of multiple stakeholders within and outside an organization.

TRUE

AACSB: 3
Difficulty: Easy
Learning Objective: 4
Taxonomy: Knowledge

29. (p. 42) Social responsibility is the idea that organizations are not only accountable to stockholders but also to the community-at-large.

TRUE

AACSB: 3
Difficulty: Easy
Learning Objective: 5
Taxonomy: Knowledge

30. (p. 42) Social responsibility is the expectation that businesses or individuals will strive to improve the overall welfare of society.

TRUE

AACSB: 3
Difficulty: Easy
Learning Objective: 5
Taxonomy: Knowledge

31. (p. 43) Corporate social responsibility has a strong negative influence on consumers' company evaluations and product purchase intentions across a broad range of product categories.

FALSE

AACSB: 3
Difficulty: Medium
Learning Objective: 5
Taxonomy: Comprehension

32. (p. 44) Shell, NEC, and Proctor & Gamble have been measuring their performance according to what has been called a "triple bottom line." This technique involves an assessment of financial, social, and environmental performance.

TRUE

AACSB: 3
Difficulty: Medium
Learning Objective: 5
Taxonomy: Comprehension

Multiple Choice Questions

33. (p. 25) The rise of globalization has had _____ on the boom in America's economy.
- A. No effect
 - B. A positive effect**
 - C. A negative effect
 - D. A protective effect

AACSB: 5
Difficulty: Medium
Learning Objective: 1
Taxonomy: Comprehension

34. (p. 25) Which of the following economies has experienced the most rapid growth?
- A. East Asia**
 - B. Latin America
 - C. Sub-Saharan Africa
 - D. Old Eastern European bloc

AACSB: 5
Difficulty: Medium
Learning Objective: 1
Taxonomy: Comprehension

35. (p. 25) In a global context the "bottom of the pyramid" refers to
- A. Physical needs and wants
 - B. The poor people in the world who inhabit developing countries
 - C. The wealthy rulers of the mid-East
 - D. The middle class**

AACSB: 5
Difficulty: Easy
Learning Objective: 1
Taxonomy: Knowledge

36. (p. 27) In Michael Porter's framework all of the following factors affect a nation's competitiveness *except*

- A. Factor conditions
- B. Demand characteristics
- C. Related and supported industries
- D.** Policies that protect the nation's domestic competitors

AACSB: 5
Difficulty: Medium
Learning Objective: 2
Taxonomy: Comprehension

37. (p. 30) Rivalry is intense in nations with conditions of _____ consumer demand, _____ supplier bases, and _____ new entrant potential from related industries.

- A. Weak; weak; high
- B. Strong; strong; low
- C.** Strong; strong; high
- D. Weak; weak; low

AACSB: 5
Difficulty: Medium
Learning Objective: 2
Taxonomy: Comprehension

38. (p. 30) According to Michael Porter, firms that have experienced intense domestic competition are

- A. Unlikely to have the time or resources to compete abroad
- B. Most likely to design strategies aimed primarily at the domestic market
- C.** More likely to design strategies and structures that allow them to successfully compete abroad
- D. More likely to demand protection from their governments

AACSB: 5
Difficulty: Medium
Learning Objective: 2
Taxonomy: Comprehension

39. (p. 28) All of the factors below have made India's software services industry extremely competitive on a global scale *except*

- A. Large pool of skilled workers
- B. Large network of public and private educational institutions
- C. Tax and antitrust legislation that protect the dominant players in the industry**
- D. Large, growing market and sophisticated customers

AACSB: 5
Difficulty: Medium
Learning Objective: 2
Taxonomy: Comprehension

40. (p. 30 - 32) Optimizing the location of every activity in the value chain can yield all of the following strategic advantages *except*

- A. Performance enhancement
- B. Cost reduction
- C. Extending the life cycle of the product of service**
- D. Risk reduction

AACSB: 5
Difficulty: Medium
Learning Objective: 3
Taxonomy: Comprehension

41. (p. 32) Microsoft decided to establish a corporate research laboratory in Cambridge, England

- A. Because England is an ally of the United States
- B. To access the outstanding technical and professional talent available there so that they can attain world-class excellence in selected value-creating activities**
- C. Because the local language is English
- D. Because the company views the United States as a risky place to expand due to the actions of the U.S. Department of Justice

AACSB: 5
Difficulty: Medium
Learning Objective: 3
Taxonomy: Comprehension

42. (p. 31) The sale of Boeing's commercial aircraft and Microsoft's operating systems in many countries enable these companies to benefit from

- A. Higher prices in their domestic markets
- B. Economies of scale**
- C. Optimizing the location for many activities in their value chain
- D. Reducing their exposure to currency risks

AACSB: 5
Difficulty: Medium
Learning Objective: 3
Taxonomy: Comprehension

43. (p. 32) Many U.S. multinational companies set up *maquiladora* operations south of the US-Mexico border primarily

- A. To sell products into the growing Mexican market
- B. As part of US government-initiated measures to discourage illegal immigration
- C. To take advantage of the lower tax rates in Mexico
- D. To take advantage of the low cost of labor**

AACSB: 5
Difficulty: Medium
Learning Objective: 3
Taxonomy: Comprehension

44. (p. 34) Appreciation of the U.S dollar will have the following impact on McDonald's:

- A. Lower sales abroad because foreign customers cannot afford McDonalds' products
- B. More transfer of ingredients from the U.S to branches abroad to take advantage of the higher dollar
- C. Lower profits, because foreign profits will be reduced when measured in dollars**
- D. No impact at all

AACSB: 5
Difficulty: Hard
Learning Objective: 3
Taxonomy: Application

45. (p. 36) _____ occurs when a firm decides to utilize other firms to perform value-creating activities that were previously performed in-house.

- A. Off shoring
- B. A global strategy
- C. Outsourcing**
- D. A transnational strategy

AACSB: 5
Difficulty: Easy
Learning Objective: 3
Taxonomy: Knowledge

46. (p. 37) The three participants in corporate governance are

- A. The shareholders, board of directors, and employees
- B. The shareholders, labor unions, and employees
- C. The shareholders, board of directors, and management**
- D. The shareholders, banks and lending institutions, and management

AACSB: 3
Difficulty: Easy
Learning Objective: 4
Taxonomy: Knowledge

47. (p. 39) While working to prioritize and fulfill their responsibilities, members of an organization's board of directors should

- A. Represent their own interests
- B. Represent the interests of the shareholders**
- C. Direct all actions of the CEO
- D. Emphasize the importance of short-term goals

AACSB: 3
Difficulty: Medium
Learning Objective: 4
Taxonomy: Comprehension

48. (p. 39) Members of Boards of Directors are
- A. Appointed by the Securities and Exchange Commission
 - B. The fulcrum between the owners and controllers of the corporation**
 - C. Elected by the public
 - D. Only allowed to serve one term of four years

AACSB: 3
Difficulty: Medium
Learning Objective: 4
Taxonomy: Comprehension

49. (p. 41) An organization is responsible to many different entities. In order to meet the demands of these groups, organizations must participate in stakeholder management. Stakeholder management means that
- A. Interests of the stakeholders must be explicitly taken into account**
 - B. Stakeholders are second in importance to the stockholders
 - C. Stakeholders and managers inevitably work at cross-purposes
 - D. All stakeholders receive financial rewards

AACSB: 3
Difficulty: Easy
Learning Objective: 4
Taxonomy: Knowledge

50. (p. 41) Stakeholders are
- A. A new way to describe stockholders
 - B. Individuals, groups, and organizations who have a stake in the success of the organization**
 - C. Creditors who hold a lien on the assets of the organization
 - D. Attorneys and their clients who sue the organization

AACSB: 3
Difficulty: Easy
Learning Objective: 4
Taxonomy: Knowledge

51. (p. 41) There are several perspectives of competition. One perspective is zero-sum thinking. Zero-sum thinking means that

- A. All parts of the organization gain at no loss
- B. In order for someone to gain others must experience no gain or benefit
- C. One can only gain at the expense of someone else**
- D. Everyone in the organization shares gains and losses equally

AACSB: 3
Difficulty: Easy
Learning Objective: 4
Taxonomy: Knowledge

52. (p. 42) Outback Steakhouse has developed a sophisticated quantitative model and found that there were positive relationships between employee satisfaction, customer satisfaction, and financial results. According to the text, this is an example of _____.

- A. Zero-sum relationship among stakeholders
- B. Stakeholder symbiosis**
- C. Rewarding stakeholders
- D. Emphasizing financial returns

AACSB: 3
Difficulty: Medium
Learning Objective: 4
Taxonomy: Comprehension

53. (p. 42) Managers should do more than just focus on short-term financial performance. One concept that helps managers do this is stakeholder symbiosis. This means that

- A. Stakeholders are dependent on each other for their success**
- B. Stakeholders look out for their individual interests
- C. One can only gain at the expense of someone else
- D. All stakeholders want to maximize shareholder returns

AACSB: 3
Difficulty: Easy
Learning Objective: 4
Taxonomy: Knowledge

54. (p. 42) Firms must be aware of goals other than short-term profit maximization. One area of concern should be social responsibility which is

- A. The expectation that business will strive to improve the overall welfare of society
- B. The idea that organizations are solely responsible to local citizens
- C. The fact that court costs could impact the financial bottom line
- D. The idea that businesses are responsible to maintain a healthy social climate for their employees

AACSB: 3

Difficulty: Easy

Learning Objective: 5

Taxonomy: Knowledge

55. (p. 43) Marketing which features promotions in which a portion of the purchase price of a product or service is donated to a social cause is called

- A. Green marketing
- B. Bottom line marketing
- C. Cause-related marketing
- D. Socially effective marketing

AACSB: 3

Difficulty: Easy

Learning Objective: 5

Taxonomy: Knowledge

56. (p. 44) According to the text, the "triple bottom line" approach to corporate accounting includes which three components

- A. Financial, environmental, and customer
- B. Financial, organizational, and customer
- C. Financial, environmental, and social
- D. Financial, organizational, and psychological

AACSB: 3

Difficulty: Easy

Learning Objective: 5

Taxonomy: Knowledge

57. (p. 45) An economy that the planet is capable of supporting indefinitely is best called
- A. An infinite global economy
 - B. A sustainable global economy**
 - C. A green economy
 - D. A Kyoto treaty economy

AACSB: 5
Difficulty: Easy
Learning Objective: 5
Taxonomy: Knowledge

Essay Questions

58. (p. 26) Explain what marketing to the bottom of the pyramid refers to and give an example.

Answers will vary.

AACSB: 5
Difficulty: Medium
Learning Objective: 1
Taxonomy: Comprehension

59. (p. 26 - 30) Explain Michael Porter's "diamond of national competitiveness."

Answers will vary.

AACSB: 5
Difficulty: Medium
Learning Objective: 2
Taxonomy: Comprehension

60. (p. 30 - 35) Summarize the most important benefits and risks associated with diversification into global markets.

Answers will vary.

AACSB: 5
Difficulty: Medium
Learning Objective: 3
Taxonomy: Comprehension

61. (p. 36 - 37) What are the main benefits of off shoring and outsourcing?

Answers will vary.

AACSB: 5
Difficulty: Medium
Learning Objective: 3
Taxonomy: Comprehension

62. (p. 37 - 38) Discuss the key elements of corporate governance.

Answers will vary.

AACSB: 3
Difficulty: Medium
Learning Objective: 4
Taxonomy: Comprehension

63. (p. 42) A firm has a variety of different stakeholders. Identify several possible stakeholders a firm may have and discuss how the firm may achieve stakeholder symbiosis.

Answers will vary.

AACSB: 3
Difficulty: Medium
Learning Objective: 4
Taxonomy: Comprehension

64. (p. 44 - 45) Explain what the triple bottom line is and its relationship to a sustainable global economy.

Answers will vary.

AACSB: 5
Difficulty: Medium
Learning Objective: 5
Taxonomy: Comprehension