Strategic Management - Theory & Cases - An Integrated Approach 14th edition Hill Test Bank

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Name:_____ Class:_____ Date:_____

Chapter 01 - Strategic Leadership: Managing the Strategy-Making Process for Competitive Advantage

True / False

1. Determining the technological and legal factors surrounding a company's possible international expansion into India is an example of an internal analysis.

a. True

b. False

ANSWER: False

2. A customer comment on an online forum about changing a company's product placement in stores stimulates a change in an existing business plan, which results in increased profits and positive outcomes and is an example of serendipity.

a. True

b. False

ANSWER: True

3. Using customer surveys, focus groups, and field research to drive business decisions is an example of the ivory tower concept of planning.

a. True

b. False

ANSWER: False

4. Making a general business decision about where to manufacture a product based on the result of a single survey of one small focus group is a cognitive bias known as illusion of control.

a. True

b. False

ANSWER: False

Multiple Choice

5. Which of the following statements about sustained competitive advantage is true?

a. It is unaffected by the strategies taken by the company.

b. Sustainability is achieved when it lasts for three months.

c. It exists only when the company's profitability is greater than the 10 highest grossing firms in the world.

d. It exists only when the company's profitability is greater than the average profitability and profit growth of its rivals.

e. It is seldom affected by the business model of the company.

ANSWER: d

6. Daryl works for Delta Corp. He is involved in the important decision-making processes of the company and is also responsible for the overall performance of the company. In the context of strategic management, Daryl is most likely a:

a. line manager.

b. functional manager.

c. general manager.

d. production supervisor.

e. project manager.

ANSWER: c

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7. Which of the following is a difference between a general manger and a functional manager?
   a. A general manager has no responsibility to the performance of the individuals of the company while the functional manager has an integral relationship with employee performance.
   b. A general manager is responsible for overall performance while the functional manager is responsible for a specific task or activity.
   c. A functional manager has the profit-and-loss responsibility for a product while the general manager is strictly dedicated to strategic planning.
   d. A functional manager oversees the operation of an entire division while a general manager develops strategies that help fulfill strategic objectives.
   e. General managers are closer to the customer than functional managers, and their ideas may develop into effective strategic plans for the business.

ANSWER: b

8. In the last five years, Blue Drinks, a multinational beverage corporation, increased its return on invested capital (ROIC) from $5 million to $25 million. The company was able to do this by expanding its product line to include a wider variety of flavors. The $20 million increase in its ROIC over this period can be referred to as which of the following?
   a. Shareholder value
   b. Dividend payment
   c. Profit growth
   d. Profitability turnover
   e. Risk capital

ANSWER: c

9. Which of the following statements about nonprofit organizations is true?
   a. They compete for scarce resources just as for-profit businesses do.
   b. Their priority is to maximize shareholder value in order to attract risk capital.
   c. Their managers do not need to develop careful strategies because making a profit is not the organization's goal.
   d. They do not have to worry about exceeding budgets.
   e. They seldom set performance goals like profit-seeking organizations.

ANSWER: a

10. Which of the following statements about strategic leadership is true?
   a. It is the primary responsibility of the functional managers of an organization.
   b. It does not consider the task of maximizing shareholder value.
   c. It is involved with making decisions regarding how to create competitive advantage.
   d. It is a concept that does not apply to multidivisional companies with several business units.
   e. It is essentially about supervising workers at a manufacturing unit of an organization.

ANSWER: c

11. Which of the following refers to the investment that shareholders make in a company that cannot be recovered if the company fails and goes bankrupt?
   a. Profitability
   b. Shareholder value
   c. Debt
   d. Risk capital

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e. Return on invested capital

ANSWER: d

12. Identify the correct process for strategy-making.

a. Formulation; Designing, delivering, and supporting products; Improving the efficiency and effectiveness of operations; Designing a company's organizational structure, control systems, and culture

b. Designing, delivering, and supporting products; Improving the efficiency and effectiveness of operations; Designing a company's organizational structure, control systems, and culture; Formulation

c. Designing, delivering, and supporting products; Formulation; Improving the efficiency and effectiveness of operations; Designing a company's organizational structure, control systems, and culture

d. Designing, delivering, and supporting products; Improving the efficiency and effectiveness of operations; Formulation; Designing a company's organizational structure, control systems, and culture

e. Designing, delivering, and supporting products; Improving the efficiency and effectiveness of operations; Designing a company's organizational structure, control systems, and culture

ANSWER: a

13. Philip oversees the processes of the research and development department of his company. He is responsible for all the activities and tasks undertaken by the department. In the context of strategic management, Philip is most likely to be a:

a. corporate-level general manager.

b. functional manager.

c. managing director.

d. chief executive officer (CEO).

e. business development manager.

ANSWER: b

14. Which of the following statements about functional-level managers is true?

a. They oversee the operation of an entire company or division.

b. Their sphere of responsibility is generally confined to one organizational activity.

c. Their activities and roles have no importance in realizing the strategic goals of an organization.

d. They provide a link between the people who oversee the strategic development of a firm and those who own the firm.

e. They occupy the apex of decision making within an organization.

ANSWER: b

15. Roza Munoz oversees the overall operations of Maxwell House, which is one of the divisions of the Kraft Heinz Company. Roza is also responsible for the overall performance of the business division. Which of the following is NOT likely to be one of Roza's responsibilities?

a. Turning corporate-level strategy into action

b. Defining Kraft Heinz's mission statement

c. Deciding how to compete in the coffee industry

d. Supervising functional-level managers

e. Developing a business-level strategy

ANSWER: b

16. Which of the following identifies the difference between a mission and a vision statement?

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a. A mission statement describes where the company wants to be in the community while a vision statement declares the purpose the company serves to its customer.
b. A mission statement describes the "what," "who," and "why" while the vision statement describes the "where."
c. A mission statement expresses the aspirations upon achievement of goals while a vision statement expresses functions and objectives.
d. A mission statement illustrates results while a vision statement illustrates actions.
e. A mission statement and a vision statement are interchangeable.

ANSWER: b

17. Beta Corp., a gaming software company, recently launched a new game. The target audience identified by the company was the age group of 12–18 years. The advertising and marketing strategies were designed exclusively to target this age group. However, sales data revealed individuals who belong to the age bracket 18–25 years were the ones who bought the game. The managers at Beta Corp. decided to redesign their marketing strategies to position the game as a product that people of all ages would enjoy. The company's decision to modify its product positioning demonstrates which of the following strategies?

a. Downsizing
b. Emergent
c. Deliberate
d. Concurrency control
e. Unrealized

ANSWER: b

18. Which of the following statements about emergent strategies is true?

a. They are essentially the strategies that arise from feedback loops.
b. An organization's capability to produce emergent strategies is a function of the kind of corporate culture that the organization's structure and control systems foster.
c. They are the strategies that require the least amount of evaluation and strategic thinking from the managers.
d. They cannot be combined with the intended strategies of an organization.
e. They are the product of formal top-down planning mechanisms.

ANSWER: b

19. A company, at its inception, states that its goal is "to provide the best customer service possible." Which of the following best describes this objective?

a. It is the company's emergent strategy.
b. It is the company's corporate structure.
c. It is the company's HR strategy.
d. It is the company's mission statement.
e. It is the company's damage control plan.

ANSWER: d

20. Which of the following statements about the feedback loop in the context of strategy implementation is true?

a. It provides managers with input for the next round of strategy formulation and implementation.
b. It emerges within an organization without prior planning and in response to unforeseen circumstances.
c. It cannot reveal whether a business model is working.

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d. It carries information from corporate-level managers to functional-level managers.
e. It indicates that the strategy implementation process has ended.

ANSWER: a

21. Dave's Construction Company conducted a SWOT analysis, which resulted in a need to implement business strategies that increase customer awareness and widen their customer base through better customer service to gain a competitive advantage in their industry. Which of the following business strategies would this describe?
a. Functional-level strategies
b. Business-level strategies
c. Global strategies
d. Corporate-level strategies
e. None of the strategies are correct.

ANSWER: a

22. The scenario approach to strategic planning involves:
a. devising plans for coping with several different possible future states of the world.
b. designing the best organizational structure and the best culture and control systems to put a chosen strategy into action.
c. functional-level managers setting key corporate objectives.
d. anticipating the reoccurrence of problems that were previously encountered and designing solutions accordingly.
e. designing plans for problems that the company believes it will most certainly face in the immediate future.

ANSWER: a

23. Scenario planning is a technique for coping with the problem of
a. uncertainty.
b. planning equilibrium.
c. bottom-up planning.
d. strategic fit.
e. cognitive bias.

ANSWER: a

24. More people seem to fear a snake bite than a dog bite, and yet statistically one is more likely to be bitten by a dog than by a snake. This is because people tend to estimate the probability of an outcome based on how easy the outcome is to imagine. This represents which of the following cognitive biases?
a. Escalating commitment
b. Hypothesis bias
c. Availability error
d. Representativeness
e. Illusion of control

ANSWER: c

25. Systematic errors in the decision-making process are most often caused by:
a. inadequate information.

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b. information overload.
c. cognitive biases of decision makers.
d. poor data collection procedures.
e. the devil's advocacy method.

ANSWER: c

26. Which of the following cognitive biases refers to the fact that decision makers who have strong prior beliefs about the relationship between two variables tend to make decisions based on these beliefs, even when presented with evidence that their beliefs are incorrect?
a. Confirmation bias
b. Reasoning by analogy
c. Illusion of control
d. Escalating commitment
e. Representativeness

ANSWER: a

27. Holly owns a landscape company and is thinking about expanding her services to include outdoor water features (waterfalls, streams, ponds). If, before making this decision, she looks at the experience of similar firms that have added outdoor water features, she is employing:
a. reasoning by analogy.
b. illusion of control.
c. devil's advocacy.
d. the outside view.
e. dialectic inquiry.

ANSWER: d

28. Which of the following is a negative aspect of the ivory tower approach to the strategic planning process?
a. It can lead to tensions between corporate-level and functional-level managers.
b. The strategic role of autonomous decisions made by lower-level managers can be ignored.
c. Decisions are made by top managers that are not connected to the day-to-day operations.
d. It does not recognize the importance of the participation of managers at all corporate levels as a means for successful strategic planning.
e. All of these are negative aspects of the ivory tower approach to the strategic planning process.

ANSWER: e

29. Mike, the chief executive officer (CEO) of a retail chain, wanted to keep costs low. To set an example for others, he drove his own car and furnished his office with plain, metal desks. In this case, Mike was displaying
a. commitment.
b. ego.
c. astute use of power.
d. devil's advocacy.
e. autocratic leadership.

ANSWER: a

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30. Which of the following are characteristics of good strategic leaders?
    a. They possess a willingness to delegate and empower subordinates.
    b. They control all facets of decision making.
    c. Each make decisions without consulting others.
    d. Good leaders ensure uniformity of purpose through the authoritarian exercise of power.
    e. They are usually inconsistent in their approach to individual employees.

ANSWER: a

31. Which of the following is NOT a characteristic of emotional intelligence?
    a. Self-awareness
    b. Self-regulation
    c. Escalating commitment
    d. Empathy
    e. Social skills

ANSWER: c

32. Karen, a manager at Libra Inc., had noticed that her subordinates were experiencing a lot of stress. After conducting a meeting with her subordinates, Karen realized that they were extremely overworked and intimidated by close deadlines. Determined to reduce their stress, she introduced a new process that eliminated time-consuming activities and gave them more flexibility for work timelines. This action taken by Karen demonstrates which of the following aspects of emotional intelligence?
    a. Availability error
    b. Self-awareness
    c. Self-regulation
    d. Motivation
    e. Empathy

ANSWER: e

33. Rebecca, a manager, was very annoyed after noticing several negligent errors in a critical report. However, while talking to the subordinate who created the report, Rebecca was calm and composed; she did not act impulsively and lose her temper. Which of the following aspects of emotional intelligence is illustrated in this scenario?
    a. Self-awareness
    b. Self-regulation
    c. Motivation
    d. Empathy
    e. Social skills

ANSWER: b

34. Why is it important for leaders to gather information through informal and unconventional means?
    a. Formal channels can cause leaders to become overloaded with too much information and responsibilities.
    b. Formal conventional channels can be influenced by special interests and gatekeepers who choose what information to share.
    c. Formal channels can skew strategies which can result in poor performance and lack of focus.
    d. Formal channels often miscommunicate the vision of the company and disrupt the organization’s culture.

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e. Formal channels encourage leaders to use their authority to force ideas through in order to accomplish goals.

ANSWER: b

35. Evidence suggests that the best way to maximize the long-run return to shareholders is to focus on:
a. increasing prices.
b. research and development goals.
c. satisfying customer needs and making sure that employees are fairly treated.
d. compensating managers well.
e. maximizing employee overtime.

ANSWER: c

36. A general manager announces a new policy that includes an end-of-the year bonus for all employees if the company achieves its overall productivity goal. This is an example of a manager:
a. neglecting shareholders' desire for maximum profitability.
b. giving away money for no reason.
c. losing the competition with other businesses for top talent.
d. choosing to focus on employees to maximize shareholder value.
e. setting a policy to increase his or her own income.

ANSWER: d

37. Ralph is a well-liked manager at Aries Inc. He eloquently communicates the goals of the organization and has been successful in making the organization's vision part of its culture. Which of the following characteristics of good strategic leaders can be observed in Ralph?
a. Authoritarian leadership
b. Devil's advocacy
c. Eloquence
d. Inconsistency
e. Empathy

ANSWER: c

38. Which of the following actions is NOT part of strategy implementation?
a. Selecting strategies
b. Designing a company's organizational structure
c. Improving the efficiency and effectiveness of operations
d. Delivering and supporting products
e. Designing a company's control systems and culture

ANSWER: a

39. What is the primary goal for most companies?
a. Achieving superior financial performance relative to rivals
b. Expanding the company's product line
c. Maintaining a positive public image
d. Increasing the number of employees
e. Focusing on environmental sustainability

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ANSWER: a

40. Which of the following is a characteristic of a company with a competitive advantage?
    a. Inferior performance compared to rivals
    b. Superior financial performance relative to rivals
    c. Financial losses
    d. Lack of strategic leadership
    e. Unstable market position

ANSWER: b

41. What is the main difference between strategy formulation and strategy implementation?
    a. Strategy formulation is about selecting strategies, while strategy implementation is about putting those strategies into action.
    b. Strategy formulation is about executing strategies, while strategy implementation is about choosing those strategies.
    c. Strategy formulation is about creating a company's organizational structure, while strategy implementation is about designing its control systems and culture.
    d. Strategy formulation is about improving the efficiency of operations, while strategy implementation is about designing and delivering products.
    e. Strategy formulation is about financial performance, while strategy implementation is about achieving a competitive advantage.

ANSWER: a

42. Based on the text, which factor contributed significantly to Peloton's initial success under founder John Foley's leadership?
    a. A strong focus on profitability
    b. A well-formulated and well-implemented strategy
    c. The absence of competitors in the market
    d. A rapid expansion of its product line
    e. A consistent increase in demand for its products

ANSWER: b

43. What can managers do to make the strategy-making process more effective?
    a. Focus only on strategy formulation and ignore strategy implementation
    b. Rely on a single strategy without considering changes in market conditions
    c. Engage in strategic leadership to manage the strategy-making process
    d. Ensure that the company has a competitive advantage before formulating a strategy
    e. Avoid adjusting strategies in response to new competitors

ANSWER: c

44. Which two factors directly contribute to shareholder value?
    a. Capital appreciation and dividend payments
    b. Market share and product diversity
    c. Market growth and ethical behavior

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d. Employee satisfaction and corporate social responsibility
e. Organizational structure and operational efficiency

ANSWER: a

45. What is the return on invested capital (ROIC) defined as?
a. Net profit over the capital invested in the firm
b. Dividend payments over the number of shares outstanding
c. Total revenue over total expenses
d. Net income after tax over the cost of capital
e. Share price appreciation over the total assets of the company

ANSWER: a

46. What are the best ways to increase shareholder value in the long run?
a. Create value for customers, treat employees well, and respect the needs of communities.
b. Focus solely on maximizing short-term profits and returns to shareholders.
c. Increase market share at the expense of profitability.
d. Prioritize rapid profit growth over profitability.
e. Rely on a single, unchanging strategy regardless of market conditions.

ANSWER: a

47. What is a competitive advantage?
a. When a company's profitability and profit growth are less than that of its rivals
b. When a company's profitability and profit growth are equal to that of its rivals
c. When a company's profitability and profit growth are greater than that of its rivals
d. When a company has more resources than its rivals have
e. When a company has more market share than its rivals have

ANSWER: c

48. What does a business model encompass?
a. Only the strategies for acquiring customers and producing goods
b. The strategies and capital investments to generate above-average performance
c. The company's marketing plan and financial resources
d. The company's competitive advantage and market position
e. The organizational structure and management styles

ANSWER: b

49. What are the two main factors that determine a company's profitability and profit growth?
a. Its relative success in its industry and the overall performance of its industry
b. Its market share and competitive advantage
c. Its product differentiation and customer satisfaction
d. Its operational efficiency and cost management
e. Its marketing strategy and customer acquisition

ANSWER: a

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50. Which business model has been successfully applied to toys, office supplies, and home-improvement supplies?
    a. The self-service supermarket business model
    b. The full-service retail format business model
    c. The boutique specialty store business model
    d. The online marketplace business model
    e. The subscription-based business model

ANSWER: a

51. What is the significance of a business model in achieving a competitive advantage?
    a. It helps managers understand how various strategies can create activities that fit together to make a company unique and able to consistently outperform the competition
    b. The significance is that it provides a blueprint for acquiring more resources than the competitors
    c. It focuses on creating a single, unchanging strategy for the company
    d. It prioritizes short-term profit growth over long-term sustainability
    e. It relies on the company's market position and industry dominance

ANSWER: a

52. Why is strategic planning important for managers in the nonprofit sector?
    a. It helps nonprofits increase their profits and market share.
    b. It ensures nonprofits can compete with for-profit organizations.
    c. It allows nonprofits to map out strategies to attain performance goals and compete for scarce resources.
    d. It focuses on short-term financial gains to attract more donors.
    e. It guarantees the long-term success and growth of the nonprofit organization.

ANSWER: c

53. Which of the following best describes the strategic role of functional-level managers within an organization?
    a. Developing strategies for individual businesses within the organization
    b. Overseeing the development of strategies for the whole organization
    c. Allocating resources among the different businesses
    d. Developing functional strategies to fulfill strategic objectives set by business- and corporate-level managers
    e. Setting overall strategic goals and monitoring the performance of the businesses

ANSWER: d

54. Which of the following is NOT one of the main criticisms of the formal planning model?
    a. The unpredictability of the real world
    b. The role that lower-level managers can play in the strategic management process
    c. The fact that many successful strategies are often the result of serendipity, not rational strategizing
    d. The importance of a strong corporate culture
    e. The highly structured nature of the strategic planning process

ANSWER: d

55. According to the text, how did Yahoo.com and Microsoft's MSN network adapt to the threat posed by Google's business model?
    a. They merged with Google.

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b. They adopted Google's pay-per-click business model and developed their own search engines.
c. They increased their investment in traditional forms of online advertising.
d. They focused on their core businesses and ignored Google's threat.
e. They sought government intervention against Google's monopoly.

ANSWER: b

56. Based on the text, what kind of strategic approach helped Honda to succeed in the US motorcycle market?
a. A detailed, long-term plan focused on larger motorcycles
b. An emergent strategy that arose from unplanned action in response to unforeseen circumstances
c. A strong emphasis on top-down strategic planning
d. A focus on selling through specialty motorbike stores
e. A partnership with established motorcycle brands in the US

ANSWER: b

57. According to the text, what is the role of top management when it comes to emergent strategies?
a. Top management should always stick to the intended strategy.
b. Top management should evaluate emergent strategies and intervene when appropriate.
c. Top management should let emergent strategies play out without any interference.
d. Top management should focus on long-term planning and ignore emergent strategies.
e. Top management should actively suppress emergent strategies to maintain control.

ANSWER: b

58. According to the text, what is one reason strategic planning may fail over longer time periods?
a. Scenario planning is not utilized.
b. Managers forget that the future is entirely unpredictable.
c. Operating managers are always involved in the planning process.
d. Companies only focus on the current competitive environment.
e. Scenario planning is only used by a small percentage of companies.

ANSWER: b

59. What is the main purpose of using scenario planning in strategic planning?
a. To ensure that managers only focus on the most likely future scenario
b. To create a rigid plan that works for all possible future scenarios
c. To help managers understand the dynamic and complex nature of their environment, think strategically, and generate a range of strategic options
d. To guarantee that all future scenarios will be accurately predicted
e. To solely focus on optimistic future scenarios

ANSWER: c

60. What did GE's appliance group fail to realize when they assumed smaller appliances were the future due to shrinking houses and families?
a. Kitchens and bathrooms were not shrinking
b. Families wanted smaller appliances to save space.
c. Homebuilders and retailers were not interested in smaller appliances.

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d. Two-income families preferred large refrigerators to reduce supermarket trips.
e. Both 'Kitchens and bathrooms were not shrinking.' and 'Two-income families preferred large refrigerators to reduce supermarket trips.'

ANSWER: e

61. Which of the following statements best describes the implications of the "ivory tower" approach to strategic planning?
a. It fosters collaboration between all levels of management and encourages the inclusion of lower-level managers in the decision-making process.
b. It can result in suboptimal strategies due to the disconnect between top managers and current operating realities.
c. It emphasizes the importance of autonomous action by lower-level managers.
d. It ensures that corporate-level planners provide the resources necessary to identify the strategies required to attain the organization's broad strategic goals.
e. It guarantees that all managers, regardless of their level, have a thorough understanding of the company's strategic planning process.

ANSWER: b

62. When making strategic decisions, which cognitive bias refers to decision makers committing more resources to a project even if it is failing?
a. Confirmation bias
b. Escalating commitment
c. Reasoning by analogy
d. Representativeness
e. Overconfidence

ANSWER: b

63. Which technique can be used to counter cognitive biases such as illusion of control, reasoning by analogy, and representativeness by evaluating a project against a reference class of analogous past strategic initiatives?
a. Devil's advocacy
b. Dialectic inquiry
c. The outside view
d. Scenario planning
e. Strategic intent

ANSWER: c

Essay

64. Identify the levels of strategic managers and discuss their role in the strategic management process.

ANSWER: The three levels of strategic managers are corporate, business, and functional. Corporate-level managers include the CEO, other senior executives, the board of directors, and corporate staff. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the entire organization.

Business-level managers oversee business units—self-contained divisions of a company with their own

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functions that are performed within the units. The role of business-level managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations found within a company or one of its divisions. These managers are generally responsible for one organizational activity. Their strategic role is to develop functional strategies in their area that help fulfill the strategic objectives set by business- and corporate-level managers.

65. Explain the difference between functional and general managers. Provide an example of each from your college or university.

ANSWER: Functional-level managers are responsible for the specific business functions or operations found within a company or one of its divisions. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of an entire company or division. Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their areas that help fulfill the strategic objectives set by business- and corporate-level general managers. In a college or a university setting, a President would be a general manager, whereas the Director of Admissions or Vice President for Student Affairs would be an example of a functional manager.

66. List the steps involved in the formal strategic planning process.

ANSWER: The formal strategic planning process has five main steps:
1. Select the corporate mission and major corporate goals.
2. Analyze the organization’s external competitive environment to identify opportunities and threats.
3. Analyze the organization’s internal operating environment to identify the organization’s strengths and weaknesses.
4. Select strategies that build on the organization’s strengths and correct its weaknesses in order to take advantage of external opportunities and counter external threats. These strategies should be consistent with the mission and major goals of the organization. They should be congruent and constitute a viable business model.
5. Implement the strategies.

67. Explain the formal strategic planning process. Name each step in the process, and describe the specific activities included in each step and the relationship between the steps.

ANSWER: The first component of the strategic management process is crafting the organization's mission statement, which provides the framework—or context—within which strategies are formulated. A mission statement has four main components: a statement of the organization's reason for existence—normally referred to as the mission; a statement of some desired future state, usually referred to as the vision; a statement of the key values to which the organization is committed; and a statement of major goals.

The second component of the strategic management process is an analysis of the organization's external operating environment. The essential purpose of the external analysis is to identify strategic opportunities and threats within the organization's operating environment that will affect how it pursues its mission. Three interrelated environments should be examined when undertaking an external analysis: the industry environment in which the company operates, the country or national environment, and the wider socioeconomic or macroenvironment.

Internal analysis, the third component of the strategic planning process, focuses on reviewing the capabilities and competencies of a company to identify its strengths and weaknesses.

The next component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external

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opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as a SWOT analysis. The central purpose is to identify the strategies to exploit external opportunities, counter threats, build on and protect company strengths, and eradicate weaknesses. The strategies identified through a SWOT analysis should be congruent with each other. Thus, functional-level strategies should be consistent with, or support, the company's business-level and global strategies. Moreover, corporate-level strategies should support business-level strategies.

Once managers have chosen a set of congruent strategies to achieve a competitive advantage and increase performance, those strategies must be implemented. Strategy implementation involves taking actions at the functional, business, and corporate levels to execute a strategic plan.

68. Identify and discuss the criticisms of the traditional strategic planning process and why it is useful to view strategy as an emergent process.

ANSWER: The traditional planning process is viewed as a rational, highly structured process that is orchestrated by top management. This view of the strategy process has been criticized for a number of reasons.

First, the world is uncertain, complex, and full of ambiguity, and it is an environment in which small chance events can have a large and unpredictable impact on outcomes; thus, plans can become obsolete in a short amount of time. In such circumstances, even the most carefully thought-out strategic plans are prone to being rendered useless by rapid and unforeseen change. In an unpredictable world, being able to respond quickly to changing circumstances, and to alter the strategies of the organization, accordingly, is paramount.

A second criticism of the traditional approach is that too much importance is attached to the role of top management. An alternative view is that managers deep within an organization can—and often do—exert a profound influence over the strategic direction of the firm. The traditional model does not allow for the important strategic role that lower-level managers can play.

The third criticism of the traditional model is that it does not address serendipity—the stumbling across good outcomes unexpectedly. Because serendipitous discoveries or events can yield profitable opportunities, companies must be able to pursue them, even if they are inconsistent with the current strategic plan.

Given these three criticisms, the role of emergent strategies becomes clear. Unplanned responses to unforeseen circumstances that often arise from autonomous action by individual managers deep within the organization can allow a company to prosper.

69. Select three of the cognitive biases that individual decision makers experience and describe each bias. Choose a real or hypothetical situation for each of them, explaining how the bias is evident in the situation.

ANSWER: The prior hypothesis bias refers to the fact that decision makers who have strong prior beliefs about the relationship between two variables tend to make decisions on the basis of these beliefs, even when presented with evidence that their beliefs are incorrect. Moreover, they tend to seek and use information that is consistent with their prior beliefs while ignoring information that contradicts these beliefs. For example, managers for U.S. automakers in the 1960s and 1970s believed that Americans bought cars for the luxury features and styling, and therefore, they completely missed the trend toward cars that were more reliable, safer, and fuel efficient. Japanese automakers saw the trends and were able to fill that demand first.

Escalating commitment occurs when decision makers, having already committed significant resources to a project, commit even more resources even if they receive feedback that the project is failing. Students exhibit this bias when they work harder to raise their class grade from a D to a C than they will work to raise their grade from a B to an A, even though both improvements have the same impact on their overall grade average.

Reasoning by analogy involves the use of simple analogies to make sense out of complex problems. The problem with this heuristic is that the analogy may not be valid. For example, some managers use war as a metaphor for business competition. However, this analogy limits their ability to consider options such as

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cooperation in joint ventures.

The representative bias is rooted in the tendency to generalize from a small sample or even a single, valid anecdote. Managers who have had one extremely positive or negative occurrence tend to remember and rely on that occurrence when they make future decisions. If a gambler gets very lucky the first time he wagers, he tends to wager greater amounts and more often than do gamblers who are initially very unlucky.

Illusion of control occurs when managers are overconfident about their abilities to control events. Managers who take on projects that are beyond their capabilities or who refuse to admit that they need help are guilty of this bias.

Availability error arises from our predisposition to estimate the probability of an outcome based on how easy the outcome is to imagine. For example, more people seem to fear a plane crash than a car accident, yet statistically one is far more likely to be killed in a car on the way to the airport than in a plane crash. People outweigh the probability of a plane crash because the outcome is easier to imagine, and because plane crashes are more vivid events than car crashes, which affect only small numbers of people at one time.

70. Describe three characteristics of strong strategic leaders. Explain how each of the three characteristics would help motivate and lead an organization's personnel.

ANSWER: Strong leaders have a clear, compelling vision of where the organization should go, eloquently communicate this vision to others within the organization in terms that energize people, and consistently articulate their vision until it becomes part of the organization's culture. This ensures that employees understand the fundamental goals they are working toward, guiding them as they make decisions about their daily work.

Strong leaders are committed to accomplishment of the organization's goals, and they demonstrate their commitment through their actions as well as their words. By observing their leader's commitment directly in their actions, employees believe that the goals are truly important, and they also benefit from seeing the appropriate behavior modeled for them.

Strong leaders develop a network of formal and informal sources who keep them well informed about what is going on within the company. Employees see that leaders value their input; they also respect leaders who are able to communicate well with individuals at different hierarchical levels.

Strong leaders delegate when possible but maintain control over critical decisions. Workers are motivated by decision-making power and can reduce the workload of their leaders when they are empowered. However, strong leaders understand that they need to maintain control over certain key decisions. This is best for the organization, and it also protects lower-level workers from the consequences of disastrous choices.

Strong leaders use power effectively. They build consensus rather than use their authority to force ideas through; they act as members of a coalition or its democratic leaders rather than as dictators. They also rely on allies who can help them attain their strategic objectives. Workers are loyal when they are consulted and relied on. Politically astute leaders do not fall into the trap of advocating an action that might later be abandoned, nor do they try to make too many changes at once.

Strong leaders have emotional intelligence—that is, they are self-aware, self-regulated, passionate about their work, empathetic toward others, and friendly. Workers have respect and trust for leaders who exhibit self-control. Workers are inspired by observing another's passion for the work, and they appreciate being treated with empathy and friendliness.

71. What are the reasons that profit-making companies make maximizing shareholder value one of their ultimate goals? Compare long-run and short-run profit strategies for maximizing shareholder value. Which one is best for maximizing shareholder value? Explain your answer.

ANSWER: Maximizing shareholder value is the ultimate goal of profit-making companies, for two reasons. First,

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shareholders provide a company with the risk capital that enables managers to buy the resources needed to produce and sell goods and services. Risk capital is capital that cannot be recovered if a company fails and goes bankrupt. Shareholders will not provide risk capital unless they believe that managers are committed to pursuing strategies that provide a good return on their capital investment. Second, shareholders are the legal owners of a corporation, and their shares therefore represent a claim on the profits generated by a company. Thus, managers have an obligation to invest those profits in ways that maximize shareholder value.

There is good evidence that the best way to maximize the long-run return to shareholders is to focus on customers and employees. Satisfying customer needs and making sure that employees are treated fairly and work productively, typically translates into better financial performance and superior long-run returns for shareholders. Alternatively, ignoring customer needs, and treating employees unfairly, may boost short-run profits and returns to shareholders, but it will also damage the long-run viability of the enterprise and ultimately depress shareholder value. This is why many successful managers argue that if a company focuses on its customers and creates incentives for its employees to work productively, shareholder returns will take care of themselves.

72. Describe the differences between a mission statement, a vision statement and a values statement. You have been charged with crafting an example of each of these statements for a new company that is breaking into the denim market with made-to-order jeans. The company was created to meet the need of customers who desired comfortable jeans for their body type rather than trying to fit their body in jeans made for everyone. Customers can enter their measurements on the business's website, choose their wash and type of fit. Each pair of jeans is cut and hand-sewn onsite with locally sourced materials and comes with a tag with each customer's name on it. Using this information, craft a possible mission statement, vision statement and values statement for this company.

ANSWER: A company's mission describes what the organization does. An important first step in the process of formulating a mission is to come up with a definition of the organization's business. Essentially, the definition answers these questions: "What is our business? What will it be? What should it be?" The responses to these questions guide the formulation of the mission. To answer the question "What is our business?" a company should define its business in terms of three dimensions: who is being satisfied (what customer groups), what is being satisfied (what customer needs), and how customers' needs are being satisfied (by what skills, knowledge, or distinctive competencies).

The vision of a company defines a desired future state; it articulates, often in bold terms, what the company would like to achieve.

The values of a company state how managers and employees should conduct themselves, how they should do business, and what kind of organization they should build. Insofar as they help drive and shape behavior within a company, values are commonly seen as the bedrock of a company's organizational culture: the set of values, norms, and standards that control how employees work to achieve an organization's mission and goals.

Answers will vary for the crafting of the possible mission statement, vision statement and values statement for this company, but should address the fictional company's goals and framework for a mission statement, a vision statement and a values statement.

73. Contrast the purpose and environments included in an external and an internal analysis. How are these used together in the business model?

ANSWER: The essential purpose of the external analysis is to identify strategic opportunities and threats within the organization's operating environment that will affect how it pursues its mission. Three interrelated environments should be examined when undertaking an external analysis: the industry environment in which the company operates, the country or national environment, and the wider socioeconomic or macroenvironment. Analyzing the industry environment requires an assessment of the competitive structure of the company's industry, including the competitive position of the company and its major rivals. It also

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requires analysis of the nature, stage, dynamics, and history of the industry. Because many markets are now global, analyzing the industry environment also means assessing the impact of globalization on competition within an industry. Such an analysis may reveal that a company should move some production facilities to another nation, that it should aggressively expand in emerging markets such as China, or that it should beware of new competition from emerging nations. Analyzing the macroenvironment consists of examining macroeconomic, social, governmental, legal, international, and technological factors that may affect the company and its industry.

Internal analysis focuses on reviewing the resources, capabilities, and competencies of a company to identify its strengths and weaknesses.

The generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as a SWOT analysis. The central purpose is to identify the strategies to exploit external opportunities, counter threats, build on and protect company strengths, and eradicate weaknesses. The goal of a SWOT analysis is to create, affirm, or fine-tune a company-specific business model that will best align, fit, or match a company's resources and capabilities to the demands of the environment in which it operates. Managers compare and contrast various alternative possible strategies, and then identify the set of strategies that will create and sustain a competitive advantage. These strategies can be divided into four main categories: Functional-level strategies, Business-level strategies, Global strategies and Corporate-level strategies.

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