Strategic Management - Concepts and Cases - Competitiveness and Globalization 14th edition Hitt Test Bank

SKU: 9780357716762-TEST-BANK

Name:_____ Class:_____ Date:_____

Chapter 01 - Strategic Management and Strategic Competitiveness

True / False

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: False

Multiple Choice

5. What has a firm achieved when it successfully formulates and implements a value-creating strategy?

a. Strategic competitiveness

b. A permanently sustainable competitive advantage

c. Substantial returns

d. Legal and ethical core values

ANSWER: a

6. The primary drivers of hypercompetition are _____ and _____.

a. rising global socio-economic instability; increased inflation

b. the emergence of a global economy; rapid technological change

c. increased global competition; decreased tariffs

d. increased availability of capital; increased competition

ANSWER: b

7. All of the following are characteristics of the global economy EXCEPT:

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

ANSWER: c

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

ANSWER: d

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

ANSWER: a

10. The CEO of Ridgeway, Inc., realizes that the company's survival depends on developing and acquiring knowledge. Which of the following actions by the CEO would be MOST consistent with this need?
a. Ensuring that all current, unique knowledge of the firm is protected by patents
b. Planning extensive employee training and hiring educated and experienced employees
c. Investing in sophisticated databases in relevant knowledge areas
d. Establishing a system of organizational intelligence gathering

ANSWER: b

11. RelTech has developed a proprietary approach to supply chain management and uses that expertise as a source of competitive advantage. RelTech is relying on what intangible asset as a basis of competition?
a. Knowledge
b. Insight
c. Intensity
d. Strategic flexibility

ANSWER: a

12. All of the following are assumptions of the industrial organization (I/O) model EXCEPT:
a. organizational decision makers are assumed to be rational and committed to acting in the firm's best interests.
b. resources to implement strategies are firm-specific and attached to firms over the long-term.
c. the external environment is assumed to impose pressures and constraints that determine the strategies that would result in above-average returns.
d. most firms competing within an industry or within a segment of that industry are assumed to control similar

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strategically relevant resources and to pursue similar strategies in light of those resources.

ANSWER: b

13. The industrial organization (I/O) model argues that the
   a. key factor in success is choosing the correct industry in which to compete.
   b. firm's internal resources and capabilities represent the foundation for development of a value-creating strategy.
   c. key to earning above-average returns is strategic flexibility.
   d. internal structure of the organization must match the industry in which it competes for it to earn above-average returns on investment.

ANSWER: a

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

ANSWER: c

15. Alibaba is a company in the Internet services industry that has improved its performance by focusing on its unique abilities in the area of innovation and service diversification. This improved performance is best explained by
   a. globalization.
   b. the resource-based model.
   c. the industrial organization (I/O) model.
   d. hypercompetition.

ANSWER: b

16. An investor is considering in which of two start-up companies to invest. The investor has faith in the industrial organization (I/O) model of above-average returns and is using that as a guideline to make a decision. Both start-up companies propose to manufacture health-focused foods with low salt, low sugar, high fiber, and no artificial additives. RexRich Foods has a business strategy of producing a differentiated product for which consumers will pay more. Green Pastures Foods is in the health-foods industry because of its internal culture and commitment to healthy lifestyles, but it does not have any executives with experience in food production. Which investment decision is the investor most likely to make?
   a. The investor will select Green Pastures Foods since it is most consistent with the I/O model.
   b. The investor will select RexRich Foods since it is most consistent with the I/O model.
   c. Since both firms are consistent with the I/O model, the investor will seek additional information before making a decision.
   d. At the entrepreneurial stage, the model that companies follow is not important, and the investor will wait before making any investments.

ANSWER: b

17. All of the following are resources of an organization EXCEPT:
   a. an hourly production employee's ability to catch subtle quality defects in products.
   b. oil drilling rights in a promising region.

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c. weak competitors in the industry.
d. a charity's board of directors of experienced executives.

ANSWER: c

18. All of the following are assumptions of the resource-based model EXCEPT:
a. firms acquire different resources and develop unique capabilities based on how they combine and use resources.
b. firms' performances across time are due primarily to their unique resources and capabilities rather than the industry's structural characteristics.
c. resources and capabilities are highly mobile across firms.
d. differences in resources and capabilities are the basis of competitive advantage.

ANSWER: c

19. What is the capacity for a set of resources to perform a task or an activity in an integrative manner considered?
a. A capability
b. A core competence
c. Sustainable competitive advantage
d. Organizational intelligence

ANSWER: a

20. When capabilities serve as a source of competitive advantage for a firm over its rivals, the firm has created a(n)
a. strategic mission.
b. inspiring vision.
c. core competence.
d. sustainable market niche.

ANSWER: c

21. What is the goal of an organization which points the firm in the direction of where it would like to be in the years to come known as?
a. Its vision
b. Its mission
c. Its culture
d. Its strategy

ANSWER: a

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

ANSWER: c

23. Jan is the CEO of GlenOak Corp. After analyzing GlenOak's vision statement and aligning it with new environmental conditions, Jan rewrote GlenOak's mission. Which of the following best characterizes Jan's action?

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a. Jan should have involved managers at all levels in the firm as well as employees who interact with customers and the markets for input when rewriting the mission statement.
b. Because a mission can change along with environmental circumstances, Jan did the right thing in rewriting the mission.
c. Because the CEO has the final responsibility for forming a firm's mission, it was proper for Jan to rewrite the mission statement.
d. A mission statement is an enduring reflection of the values and aspirations of a firm, and Jan should not have rewritten it.

ANSWER: a

24. A key purpose of a vision and mission statement is to define what a firm is, what it seeks to accomplish, and who it seeks to serve. Who is this statement meant to inform?

a. CEOs
b. Stakeholders
c. Regulators
d. Former employees

ANSWER: b

25. Todd works at EnergyOne and also owns shares of stock in the company and is a member in the union there. Todd himself is a(n) _____ stakeholder; the union is a(n) _____ stakeholder.

a. product market and organizational; organizational
b. capital market; capital market
c. capital market and organizational; product market
d. organizational; organizational and product market

ANSWER: c

26. EnergyOne wants to install a high-capacity gas pipeline extension in the region. Shareholders anticipate better delivery of energy at lower costs, which will increase profitability. State and local governments are expecting increased tax revenue as well as new jobs in the region during construction of the expansion. Some customers look forward to lower gas rates as a result of more efficient delivery. Residents of the area, including customers and environmental groups, are opposed to the pipeline because of the increased risk for explosion and danger to the surrounding area. If EnergyOne cannot meet the needs of each stakeholder, what is the most critical way for the firm to prioritize them?

a. By identifying its level of dependence on each stakeholder
b. By considering the urgency of each stakeholder's need
c. By classifying the vulnerability of each stakeholder
d. By assessing the social value of each stakeholder

ANSWER: a

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

a. Greenleaf will be able to satisfy its multiple stakeholders easily as long as the stakeholders are committed to the strategic mission of the firm.
b. Greenleaf 's current goal should be to satisfy each group's minimal expectations.
c. Greenleaf will need to prioritize the demands of its stakeholders to maximize the interests of all stakeholders.
d. Greenleaf will not be able to minimally satisfy all stakeholders.

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ANSWER: d

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

ANSWER: c

29. Product market stakeholders generally are satisfied when
    a. a firm's profit margin reflects at least a balance between the returns to capital market stakeholders and the returns in which they share.
    b. a firm's profit margin yields an above-average return to its capital market stakeholders.
    c. the interests of the firm's organizational stakeholders have been maximized.
    d. the interests of all stakeholders have been at least minimally satisfied.

ANSWER: a

30. Before liquidating during a bankruptcy, a company will take several actions to try to satisfy which stakeholders?
    a. Capital market
    b. Product market
    c. Organizational
    d. Governmental

ANSWER: a

31. GlenOak Corp. is planning to open a second corporate office in a new city. The legal team at GlenOak Corp. is studying the various state and local regulations that control its industry in order to narrow down the possible sites to those which would be most conducive to success. What type of stakeholder is being focused on at this stage?
    a. Host communities, which are product market stakeholders
    b. Shareholders, which are capital market stakeholders
    c. Primary customers, which are product market stakeholders
    d. Managers, which are organizational stakeholders

ANSWER: a

32. Refuge Nursing Homes, Inc., (RNH) has been highly profitable in the past 10 years, providing its investors with higher returns than those earned by its direct competitors' investors. RNH has a reputation for providing high-paying managerial and hourly-employee jobs. However, recent investigations have revealed that the nursing home residents have been provided substandard care, including non-nutritious and unappetizing meals, non-functional medical equipment, and inadequate patient-care staffing. Which of the following statements best describes the situation?
    a. RNH has been earning below-average returns, so it has had to prioritize the demands of its various stakeholders.
    b. RNH has prioritized the demands of capital market stakeholders and organizational stakeholders over the demands of product market stakeholders.
    c. RNH has earned above-average returns and so has satisfied the needs of all relevant stakeholders.
    d. RNH has been attempting to minimally satisfy the demands of all of its stakeholders.

ANSWER: b

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33. The global economy, globalization, rapid technological change, and the increasing importance of knowledge and people as sources of competitive advantage are creating the need to
   a. delegate strategic responsibilities to employees "closer to the action."
   b. split responsibilities between the CEO and the board of directors to minimize the possibility of corporate scandals triggered by unethical CEOs.
   c. re-centralize the responsibility for strategy to the CEO.
   d. expand the strategic responsibilities to all organizational stakeholders.

ANSWER: a

34. The strategic leader's work is characterized by
   a. ambiguous decision situations.
   b. a willingness to unify stakeholders through skillful manipulation.
   c. an ability to identify solutions to long-range problems.
   d. concentration on the practical day-to-day aspects of the organization's operations.

ANSWER: a

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

ANSWER: c

36. For a diversified firm, corporate-level strategy is concerned with
   a. operating each individual business under the corporate umbrella.
   b. determining how each functional department of the firm will operate.
   c. determining the businesses in which the company intends to compete as well as how to manage its different businesses.
   d. coordinating the vision and mission of each subsidiary firm.

ANSWER: c

37. PGG Mining is making a strategic decision about whether to shut down a coal mine in Pennsylvania. It is important to consider that the decision
   a. should be based solely on the results of the CEO’s approval of the mine’s general manager.
   b. has ethical implications for organizational stakeholders.
   c. need not be socially responsible if the firm is making below-average returns from the mine.
   d. All of these are important to consider.

ANSWER: b

38. A large corporation has earned a reputation for being a challenging work environment for employees, placing demands on employees’ time and pushing them to accomplish tasks, sometimes with little recognition. A recent audit found that the company was denying employees overtime pay despite the extra work. This is a reflection of the company’s
   a. core values of hard work to gain advancement.
   b. unethical organizational culture.

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c. lack of an organizational mission.
d. search for its core competencies.

ANSWER: b

39. The culmination of the strategic management process is
a. performance.
b. strategy implementation.
c. strategy formulation.
d. analysis.

ANSWER: a

40. GlenOak Corp. is conducting an analysis to determine which strategies would best enable the firm to achieve above-average returns. How might the firm best make use of the different models available to select strategies and determine how to implement them?
a. The firm should first focus on internal factors, using a resource-based model to acquire necessary assets and skills.
b. The firm should first focus on external factors, using an I/O model to identify the firm's competitive advantage.
c. If the firm should write a vision and mission, and then use the I/O or resource-based model that best aligns with those statements.
d. The firm should use both the I/O model and the resource-based model to focus on factors outside and inside the firm at the same time.

ANSWER: d

41. Which of the following statements about a vision and mission is true?
a. A firm's vision is more concrete than its mission.
b. The mission points the firm in the direction of where it would like to be in the years to come.
c. A vision statement should be clearly tied to the conditions in the firm's external environment and internal organization.
d. The mission deals more directly with capital markets.

ANSWER: c

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

ANSWER: a

43. Effective strategic leaders emerge on the basis of their
a. capabilities and accumulation of human capital and skills over time.
b. single-minded focus on strategy formation.

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c. aptitude for strategy implementation.

d. focus on innovation.

ANSWER: a

44. Sandy, a line manager on the production floor at Oakway Industries, is an entry-level manager. Sandy has a strong commitment to Oakway's vision and mission. She has good relationships with workers on her line as well as with employees throughout Oakway. Sandy is able to make decisions on the fly to keep the line moving, and other line managers often ask for her help in troubleshooting different situations. Which of the following best characterizes Sandy?

a. Sandy is a strategic leader.

b. Sandy is assuming inappropriate responsibility considering her position in the firm.

c. Sandy is likely to be promoted into an upper-management position where she would become a strategic leader.

d. If Sandy were using these same skills to determine strategy, perhaps in the finance department rather than on the production line, she would be considered a strategic leader.

ANSWER: a

45. The firm's _____ provide the foundation for choosing one or more _____ and deciding which one(s) to implement.

a. analyses; strengths

b. abilities; strengths

c. analyses; strategies

d. abilities; strategies

ANSWER: c

46. A diversified firm competing in multiple product markets has

a. no business-level strategy and one corporate-level strategy.

b. one business-level strategy and no corporate-level strategy.

c. more than one business-level strategy and one corporate-level strategy.

d. one business-level strategy and one corporate-level strategy.

ANSWER: c

47. Working for a tire manufacturing company, you are tasked to come up with a strategy. What would be the best way to describe what you’re tasked to do?

a. An integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.

b. A company's mission statement.

c. The external opportunities and threats a company faces.

d. The actions a company takes to implement a chosen strategy.

ANSWER: a

48. Your telecommunications company just figured out a way to extend the battery life of cell phones by 30%. More generally, how would you describe this as a competitive advantage?

a. When a firm achieves strategic competitiveness by successfully formulating and implementing a value-creating strategy.

b. When a firm creates superior value for customers by implementing a chosen strategy, and when competitors are not able to imitate the value the firm's products create.

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c. When a firm is different from competitors in ways that are important to customers and in ways that competitors cannot duplicate.
d. When a firm concentrates simultaneously on exploiting the competitive advantage it possesses today while contemplating decisions to make to ensure that it will possess a competitive advantage in the future.

ANSWER: b

49. As a financial advisor, your boss has tasked you to generate "above-average returns." What are they asking you to obtain?
a. Returns in excess of what an investor expects to earn from other investments with a similar amount of risk.
b. Returns equal to those an investor expects to earn from other investments possessing a similar amount of risk.
c. Returns in excess of the industry average.
d. The amount and speed of growth in a smaller, new venture firm.

ANSWER: a

50. From an analytical perspective, which is the best description of the strategic management process?
a. The full set of commitments, decisions, and actions firms take to achieve strategic competitiveness and earn above-average returns.
b. The unique resources and capabilities of a firm that are the critical link to strategic competitiveness.
c. The quality of a firm's relationships with internal and external constituencies (stakeholders) that can lead organizations to achieve above-average returns.
d. The actions a company takes to implement a chosen strategy.

ANSWER: a

51. Which of the following is a challenge faced by firms in today's competitive landscape due to digitalization?
a. Difficulty in identifying specific customer groups
b. The need for larger plants to achieve economies of scale
c. The ability to maintain a competitive advantage in hypercompetitive markets
d. Understanding the strategic implications associated with digitalization

ANSWER: d

52. As an industry matures, which of the following is an example of a barrier to entry that can impact the profitability potential of an industry?
a. High demand for the product
b. Low switching costs for customers
c. Few existing competitors
d. Economies of scale

ANSWER: d

53. A firm that produces heavy construction equipment at costs below those of its competitors is using which of the following strategies?
a. Product differentiation
b. Diversification
c. Integration
d. Cost leadership

ANSWER: d

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54. According to the I/O model, firms can earn above-average returns by doing which of the following?
a. Possessing unique internal resources and capabilities
b. Competing in any industry, regardless of its characteristics
c. Studying the external environment effectively and identifying an attractive industry
d. Investing heavily in advertising and marketing

ANSWER: c

55. How does the five forces model help firms identify the most advantageous position to take in an industry?
a. By analyzing the profitability potential of the industry
b. By examining the influence and interactions of suppliers, buyers, competitive rivalry among firms currently in the industry, product substitutes, and potential entrants to the industry
c. By studying the external environment effectively
d. By possessing unique internal resources and capabilities

ANSWER: b

56. Which of the following industry characteristics are NOT considered in the industrial organization (I/O) model of above-average returns?
a. Economies of scale
b. Product differentiation
c. Barriers to market entry
d. ESG scores

ANSWER: d

57. What is the basis of a firm's strategy and ability to earn above-average returns, according to the resource-based model?
a. External environment and industry structure
b. Physical, human, and organizational capital
c. Strategic alliances with other companies
d. Setting in which the firm operates

ANSWER: b

58. According to the resource-based model, what are core competencies?
a. The capacity for a set of resources to perform a task or an activity in an integrative manner
b. The ability to identify an attractive industry
c. The source of competitive advantage for a firm over its rivals
d. The ability to earn above-average returns

ANSWER: c

59. What are the criteria for resources and capabilities to be the foundation for a competitive advantage, according to the resource-based model?
a. Rare, complex, and substitutable
b. Valuable, complex, and costly to imitate
c. Valuable, rare, costly to imitate, and non-substitutable

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d. Tangible, complex, and valuable

ANSWER: c

60. Which of the following statements is true regarding a vision statement?
a. It describes the ideal future of an organization.
b. It is more concrete than a mission statement.
c. It specifies the businesses in which the firm intends to compete.
d. It is developed after the mission statement.

ANSWER: a

61. What is the main purpose of the mission statement?
a. To describe the ideal future of an organization
b. To establish the ethical standards for the organization
c. To define what should matter most to managers and employees
d. To specify the businesses in which the firm intends to compete and the customers it intends to serve

ANSWER: d

62. How can values be helpful to an organization?
a. By providing a description of the ideal future of an organization
b. By establishing the ethical standards for the organization
c. By specifying the businesses in which the firm intends to compete and the customers it intends to serve
d. By guiding what is rewarded and reinforced in the organization

ANSWER: d

63. Which of the following is a reason why the CEO should involve other people in developing the mission statement?
a. The mission deals more directly with the firm's ethical standards.
b. The mission statement should establish the firm's individuality.
c. Employees interact frequently with customers and the markets the firm serves.
d. The CEO is the only one responsible for forming the mission statement.

ANSWER: c

64. Which of the following is true regarding the values of an organization?
a. They define the ideal future of the organization.
b. They specify the businesses in which the firm intends to compete and the customers it intends to serve.
c. They are not important in guiding strategic decisions.
d. They help determine the way stakeholders are treated and their priority in important decisions.

ANSWER: d

65. As a strategic leader in your organization, what should you focus on when selecting actions for the firm?
a. Achieving short-term financial goals
b. Fulfilling shareholder demands
c. Creating value for all stakeholder groups
d. Maximizing employee satisfaction

ANSWER: c

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66. Which of the following is a characteristic of successful strategic leaders?
a. Reluctance to change
b. Lack of commitment to nurturing those around them
c. Inability to think globally and act locally
d. Decisiveness and commitment to nurturing those around them

ANSWER: d

67. Who plays a role in choosing and implementing a firm's strategy according to the text?
a. CEO and other top-level managers only
b. Only employees in operational roles
c. External consultants and other outside sources solely
d. People throughout the firm who influence the use of organizational resources

ANSWER: d

68. What do strategic leaders' decisions and actions shape within the firm?
a. Organizational structure
b. Marketing campaigns
c. Product development processes
d. Organizational culture

ANSWER: d

69. How does Southwest Airlines' culture impact its employees and customers?
a. It encourages employees to work hard but also to have fun while doing so and entails respect for others—employees and customers alike.
b. It requires employees to work long hours and never take breaks, while showing little regard for customer needs.
c. It places a premium on profit maximization at the expense of employee and customer satisfaction.
d. It is characterized by a hierarchical structure that limits employee autonomy and creativity.

ANSWER: a

70. A firm's external environment analysis is used to
a. identify marketplace opportunities and threats.
b. decide how to use the resources in the internal organization.
c. identify marketplace opportunities and threats as well as decide how to use the resources in the internal organization.
d. identify marketplace opportunities and threats and formulate strategies.

ANSWER: d

71. Which part of the strategic management process focuses on the actions that firms take to exploit their competitive advantage(s)?
a. Business-level strategy
b. Corporate-level strategy
c. Cooperative strategy

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d. Strategic entrepreneurship

ANSWER: a

72. The strategic management process integrates formulation and implementation as a basis for a successful strategic management process. Integration occurs as decision-makers review implementation issues when

a. formulating strategies.

b. analyzing the external environment.

c. analyzing the internal organization.

d. formulating strategies and analyzing the external environment.

ANSWER: d

73. How does the strategic management process contribute to a firm's performance?

a. It has no effect on the performance of the firm.

b. It provides a foundation for developing a competitive advantage.

c. It is a guarantee of success.

d. It is only useful for firms in highly competitive industries.

ANSWER: b

Essay

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

ANSWER: Strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy. Above-average returns are returns in excess of what an investor expects to earn from other investments with a similar amount of risk. Firms will only be able to earn above-average returns if they develop a competitive advantage. A firm has a competitive advantage when it implements a strategy that creates superior value for customers and that competitors are unable to duplicate or find it too costly to try to imitate.

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

ANSWER: Hypercompetition is a condition where competitors engage in intense rivalry, markets change quickly and often, and entry barriers are low. Hypercompetition results from the dynamics of strategic maneuvering among global and innovative combatants. It is a condition of rapidly escalating competition based on price-quality positioning, competition to create new know-how and establish first-mover advantage, and competition to protect or invade established product or geographic markets. In hypercompetition, firms often aggressively challenge their competitors in the hopes of improving their competitive position and ultimately their performance. The two primary drivers of hypercompetition are the global economy and rapid technological change. To survive in a hypercompetitive environment, firms need strategic flexibility. This demands continuous learning which allows the firm to develop new and up-to-date skills so that it can adapt to its environment as it encounters change.

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

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

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industry are assumed to control similar strategically relevant resources and to pursue similar strategies in light of those resources. Third, resources used to implement strategies are assumed to be highly mobile across firms, so any resource differences that might develop between firms will be short-lived. Fourth, organizational decision makers are assumed to be rational and committed to acting in the firm's best interests, as shown by their profit-maximizing behaviors. The key to success according to the I/O model is to find the most attractive industry (the one with the highest profit potential) in which to compete.

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

ANSWER: The resource-based model focuses on the firm's internal resources and capabilities. The uniqueness of these resources and capabilities determine the firm's strategy and its ability to earn above-average returns. The firm's resources are inputs into its production process. Resources must be formed into capabilities, the capacity to perform a task or activity in an integrative manner. Capabilities that give a firm a competitive advantage are called core competencies. This model assumes that resources and capabilities are not highly mobile across firms; consequently, all firms within a particular industry may not possess the same strategically relevant resources and capabilities. Therefore, different firms will have different core competencies. The organization's strategy is based on finding the best environment in which to exploit its core competencies.

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

ANSWER: Vision is a picture of what the firm wants to be and, in broad terms, what it wants to ultimately achieve. Thus, a vision statement articulates the ideal description of an organization and gives shape to its intended future. In other words, a vision statement points the firm in the direction of where it would like to be in the years to come. The vision is the foundation for the firm's mission. A mission specifies the businesses in which the firm intends to compete and the customers it intends to serve. The firm's mission is more concrete than its vision. The value of having a vision and mission is that they inform stakeholders of what the firm is, what it seeks to accomplish, and who it seeks to serve.

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

ANSWER: Stakeholders are the individuals, groups, and organizations that can affect the firm's vision and mission, are affected by the strategic outcomes achieved, and have enforceable claims on the firm's performance. There are three principal types of stakeholders. First, there are the *capital market stakeholders*. These stakeholders include the shareholders and the major suppliers of capital to the firm. They are most interested in the return on capital in relation to the risk incurred. The second group of stakeholders is the *product market stakeholders*. This group includes customers, suppliers, host communities, and unions representing workers. Customers demand reliable products at the lowest possible prices. Suppliers seek loyal customers who are willing to pay the highest sustainable prices for the goods and services they receive. Host communities want companies willing to be long-term employers and providers of tax revenues without placing excessive demands on public support services. Union officials are interested in secure jobs, under highly desirable working conditions, for employees they represent. The final group of stakeholders is the *organizational stakeholders*. This group includes the employees (both managerial and non-managerial). These stakeholders expect a firm to provide a dynamic, stimulating, and rewarding work environment. The firm can most easily satisfy all stakeholders if it earns above-average returns. If the firm does not earn above-average returns, it must prioritize its stakeholders by their power, the urgency of satisfying each particular stakeholder group, and the degree of importance of each to the firm. The firm must then make trade-offs among the stakeholders.

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

ANSWER: The firm's strategic leaders include the CEO and top-level managers, but they also include organizational members who have been delegated strategic responsibilities. Strategic leaders use the strategic management process to help the firm reach its vision and mission. Effective leaders must embrace change in the dynamic competitive landscape. They should promote innovation in their organization. They can also leverage

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partnerships with external parties and organizations to advance the company. To increase incremental knowledge, strategic leaders can promote exploratory and exploitative learning within the team. An ambicultural approach, or global mind-set, can also help the company compete in a global economy.

81. What are the primary aspects of the strategic management process? (*Note*: You may reference specific chapters from the text in formulating your response.)

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

The strategic management process consists of three primary processes: *analysis* (Chapters 2 and 3), *strategy formulation* (Chapters 4–9) and *implementation* (Chapters 10–13).

Analysis. Analysis involves the development of an understanding of the external environment (Chapter 2) and internal organization (Chapter 3). These analyses are completed to identify marketplace opportunities and threats in the external environment and to decide how to use the resources, capabilities, core competencies, and competitive advantage in the firm's internal organization to pursue opportunities and overcome threats.

Formulation. With knowledge about its external environment and internal organization, the firm forms its vision and mission (Chapter 1) and makes decisions as to what strategies to utilize to provide returns to shareholders. These decisions involve the selection of business-level strategies (Chapter 4), which are the actions a firm takes to exploit its competitive advantage over rivals, and its corporate-level strategy (Chapter 6), which is concerned with determining the businesses in which the company intends to compete as well as how to manage its different businesses. The ability to utilize a strategy will be impacted by competing firms. This is described as the dynamics of competition (Chapter 5). Formulation involves the selection of mechanisms such as acquiring other businesses and restructuring the firm's portfolio of businesses (Chapter 7), selecting an international strategy (Chapter 8), and the use of cooperative strategies (Chapter 9), wherein firms form a partnership to share their resources and capabilities in order to develop a competitive advantage.

Implementation. Implementation is putting the formulated plan into action. Implementation is facilitated by different mechanisms used to govern firms (Chapter 10), the use of appropriate organizational structure and mechanisms to control the firm's operations (Chapter 11), the patterns of strategic leadership appropriate for the firm's strategy and competitive environments (Chapter 12), and the use of strategic entrepreneurship (Chapter 13) as a path to continuous innovation.

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

82. Define globalization and describe some of its consequences.

ANSWER: *Globalization* is the increasing economic interdependence among countries and their organizations as reflected in the flow of goods and services, financial capital, and knowledge across country borders.

Globalization increases the range of opportunities for companies. Firms engaging in globalization of their operations must make culturally sensitive decisions. Globalization has led to higher performance standards in many competitive dimensions, including those of quality, cost, productivity, product introduction time, and operational efficiency. In addition to firms competing in the global economy, these standards affect firms competing on a domestic-only basis. Thus, managers must learn how to operate effectively in a "multi-polar" world with many important countries having unique interests and environments. Firms must learn how to deal with the reality that in the competitive landscape of the twenty-first century, only companies capable of meeting, if not exceeding, global standards typically have the capability to earn above-average returns. The risks of participating outside of a firm's domestic markets in the global economy are labeled a "liability of foreignness."

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