

Chapter 8 Strategic Management

TRUE/FALSE QUESTIONS

THE IMPORTANCE OF STRATEGIC MANAGEMENT

1. Strategic management is the set of managerial decisions and actions that determines the short-term performance of an organization.
(False; moderate; p. 208)
2. “Strategic model” is a term that is often used in conjunction with strategic management and strategies.
(False; easy; p. 209)
3. The most fundamental questions about strategy address why firms, facing the same environmental conditions, have varying levels of performance.
(True; easy; p. 209)

THE STRATEGIC MANAGEMENT PROCESS

4. The first step in the strategic management process is analyzing the external environment.
(False; difficult; p. 210)
5. Within an industry, an environment can present opportunities to one organization and pose threats to another.
(True; moderate; p. 212)
6. Evaluating an organization’s intangible assets is part of doing an internal analysis in the strategic management process.
(True; easy; p. 212)
7. Activities that an organization does well or resources that it has available are called capabilities.
(False; easy; p. 212)
8. Exceptional or unique organizational resources are known as core capabilities.
(False; moderate; p. 212)
9. A strong organizational culture may act as a significant barrier to accepting any changes in organizational strategies.
(False; easy; p. 213)
10. SWOT analysis includes an analysis of an organization’s environmental opportunities and threats.
(True; easy; p. 214)

11. The final step in the strategic management process is implementing the objectives.
(False; easy; p. 216)

TYPES OF ORGANIZATIONAL STRATEGIES

12. Corporate-level strategies are developed for organizations that run more than one type of business.
(True; moderate; p. 217)

13. One method of implementing a growth strategy is to increase production capacity.
(True; moderate; p. 217)

14. A trucking company that grows by purchasing a chain of gasoline stations is engaged in horizontal integration.
(False; moderate; p. 218)

15. Diversification is an example of a corporate retrenchment strategy.
(False; moderate; p. 218)

16. If Burger King were to buy out Mom and Pop's Burgers, Burger King would be growing by vertical consolidation.
(False; difficult; p. 218)

17. A stability strategy is developed when management decides it will remain profitable by maintaining the status quo in a rapidly changing external environment.
(False; difficult; p. 219)

18. A retrenchment strategy is a renewal strategy designed to address organizational weaknesses that are leading to performance declines.
(True; moderate; p. 220)

19. Turnaround is one type of renewal strategy.
(True; moderate; p. 220)

20. The BCG matrix evaluates an organization's various businesses to identify which ones offer high potential and which drain organizational resources.
(True; moderate; p. 220)

21. Stars, one of the four business groups in the corporate portfolio mix, are characterized by low growth and low market share.
(False; moderate; p. 221)

22. According to Porter's competitive strategies framework, the cost leadership strategy would result in the best quality product at a justifiable cost.
(False; difficult; p. 224)

23. Nordstrom is an example of a company that has used the low-cost leader strategy to compete in the computer industry.

(False; moderate; p. 224)

24. According to Porter's competitive strategies framework, a company using a focus strategy seeks to be unique in its product offering and in its industry in ways that are widely valued by customers.

(True; moderate; p. 224)

25. The premise behind the rule of three is that three large "full-line generalists" dominate and hold the most market share in any industry.

(True; easy; p. 225)

STRATEGIC MANAGEMENT IN TODAY'S ENVIRONMENT

26. Managers in all kinds of organizations face increasingly intense global competition and high performance expectations by investors and customers.

(True; moderate; p. 226; AACSB: Globalizations)

27. When managers "manage strategically" by following the strategic management process, the chosen strategies will always lead to positive outcomes.

(False; easy; p. 226)

28. The key for managers is responding quickly when it is obvious that the strategy isn't working.

(True; moderate; p. 226)

29. Since information technology is so readily accessible, it cannot contribute to sustainable competitive advantage.

(False; easy; p. 228; AACSB: Technology)

30. An important innovation strategy involves communication.

(False; moderate; p. 229; AACSB: Communication)

MULTIPLE-CHOICE QUESTIONS

For each of the following choose the answer that *most completely* answers the question.

THE IMPORTANCE OF STRATEGIC MANAGEMENT

31. What are the decisions and actions that determine long-run performance of an organization?

- a. strategies
- b. missions
- c. goals
- d. opportunities

(a; easy; p. 208)

32. _____ is the collection of managerial decisions and actions that determine the long-run performance of an organization.

- a. Planning
- b. Goal-oriented management
- c. Strategic management
- d. Leadership

(c; moderate; p. 208)

33. What is a strategic design for how a company intends to profit from its strategies, work processes, and work activities?

- a. business model
- b. strategic model
- c. strategic management model
- d. competitive model

(a; easy; p. 209)

34. Studies of the factors that contribute to organizational performance have shown _____ relationship between strategic planning and performance.

- a. no
- b. a mixed
- c. a negative
- d. a positive

(d; easy; p. 209)

35. Why is strategic management important?

- a. It has little impact on organizational performance.
- b. It is involved in many of the decisions that managers make.
- c. Most organizations do not change.
- d. Organizations are composed of similar divisions and functions.

(b; moderate; p. 209)

THE STRATEGIC MANAGEMENT PROCESS

36. The first _____ steps of the strategic management process describe the planning that must take place.

- a. two
- b. three
- c. four
- d. five

(c; moderate; p. 210)

37. In the first step of strategic management, the mission of the firm answers the question,

- a. What business should we be in?
- b. What is our reason for being in business?
- c. Who are our customers?
- d. Who are our creditors?

(b; moderate; p. 210)

38. What provides clues to what an organization sees as its purpose?

- a. the organization's goals
- b. the organization's strategies
- c. the organization's business model
- d. the organization's mission

(d; easy; p. 211)

39. In the first step of strategic management, identifying the current strategies and goals provides

- a. a basis to determine if the goals need to be changed
- b. an understanding of what the competition is doing
- c. an idea of what trends and changes are occurring
- d. important information about an organization's specific resources and capabilities

(a; moderate; p. 211)

40. In analyzing the environment, managers should know _____.

- a. the competition's stock price
- b. pending legislation that might affect the organization
- c. the organization's purpose
- d. the goals currently in place and the strategies currently being used

(b; moderate; p. 212)

41. When an organization is analyzing its labor supply, it is studying its _____.

- a. organizational culture
- b. internal environment
- c. external environment
- d. organizational structure

(c; moderate; p. 212)

42. _____ and _____ are outcomes from a study of the external environment.

- a. Threats; weaknesses
- b. Strengths; weaknesses
- c. Weights; measures
- d. Opportunities; threats

(d; moderate; p. 212)

43. The third step in strategic management is related to analysis of _____.
- a. the external environment
 - b. the internal environment
 - c. the alternatives the firm faces
 - d. time pressures involved in serving the customer

(b; moderate; p. 212)

44. What are an organization's financial, physical, human, and intangible assets that are used to develop, manufacture, and deliver products or services to its customers?
- a. its resources
 - b. its capabilities
 - c. its opportunities
 - d. its core competencies

(a; easy; p. 212)

45. If a bank estimates the capabilities of its training and development department employees prior to implementing a new training program designed to change their method of providing customer service, it is completing what step in the strategic management process?
- a. doing an external analysis
 - b. identifying the organization's current mission, goals, and strategies
 - c. doing an internal analysis
 - d. formulating strategies

(c; moderate; p. 212)

46. _____ are the organization's major value-creating skills, capabilities, and resources that determine the organization's competitive weapons.
- a. Strengths
 - b. Opportunities
 - c. Core competencies
 - d. Weaknesses

(c; moderate; p. 212)

47. An example of a core competency of a firm is _____.
- a. the corporate reputation
 - b. communicating with customers in their own languages worldwide
 - c. developing least-squared exemptions within its accounting system
 - d. evaluating tangible and intangible assets

(b; moderate; p. 212; AACSB: Communication)

48. Relative to the organization's culture, a manager must be aware that _____.
- a. strong and weak cultures have the same effects on strategy
 - b. the content of a culture has a major effect on the strategies that can be pursued
 - c. unimportant factors can support escalation of commitment to strategies
 - d. strong cultures are the most desired cultures

(b; difficult; p. 213)

49. What drawback of a strong organizational culture should a manager consider when completing the strategic management process?
- a. It can be more difficult to change.
 - b. Employees have less understanding of the planning process.
 - c. Employee attitudes tend to be strong, but their organizational values are weak.
 - d. It cancels out any organizational distinctive competency.

(a; easy; p. 213)

50. What is a culture that supports the firm's chosen strategy?
- a. a weak culture
 - b. a somewhat physically powerful culture
 - c. a strong culture
 - d. a strategically appropriate culture

(d; difficult; p. 213)

51. Corporate reputation is an organization's _____ resource.
- a. financial
 - b. physical
 - c. intangible
 - d. human

(c; moderate; p. 213)

52. The merging of the analyses of internal and external factors influencing the organization's strategy is known as _____.
- a. complete studies
 - b. organizational behavior and theory
 - c. definitional analysis
 - d. SWOT analysis

(d; easy; p. 214)

53. The final step in strategic planning answers the question, _____
- a. How effective have our strategies been?
 - b. What business have we been in?
 - c. What business should we have we been in?
 - d. How much money have we lost?

(a; moderate; p. 216)

TYPES OF ORGANIZATIONAL STRATEGIES

54. Middle-level managers typically are responsible for _____ strategies.
- a. business
 - b. organizational
 - c. operational
 - d. corporate

(a; moderate; p. 216)

55. _____ strategy determines what businesses an organization should be in.
- a. Business
 - b. Organizational
 - c. Operational
 - d. Corporate

(d; moderate; p. 217)

56. When PepsiCo seeks to integrate the strategies of Pepsi, 7-Up International, and Frito-Lay, it is developing what level of business strategy?
- a. functional
 - b. system
 - c. management
 - d. corporate

(d; moderate; p. 217)

57. What are the three main types of corporate strategies?
- a. concentration, integration, and diversification
 - b. growth, stability, and renewal
 - c. retrenchment, turnaround, and clicks-and-bricks
 - d. cost leadership, differentiation, and focus

(b; easy; p. 217)

58. There are three main types of growth strategies: _____.
- a. concentration, integration, and diversification
 - b. concentration, integration, and exfoliation
 - c. integration, diversification, and infiltration
 - d. concentration, integration, and focus

(a; easy; p. 217)

59. Growth through _____ is achieved when an organization chooses to grow by increasing its own business operations.
- a. concentration
 - b. horizontal integration
 - c. vertical integration
 - d. related diversification

(a; moderate; pp. 217-218)

60. In _____, the organization gains control of its outputs by becoming its own distributor.
- a. backward horizontal integration
 - b. forward horizontal integration
 - c. backward vertical integration
 - d. forward vertical integration

(d; moderate; p. 218)

61. When an organization attempts to combine with other organizations in the same industry, the strategy is known as _____.

- a. concentration
- b. horizontal integration
- c. vertical integration
- d. a stability strategy

(b; moderate; p. 218)

62. If United Airlines were to merge with Northwest Airlines, this would be an example of what kind of growth strategy?

- a. horizontal integration
- b. acquisition
- c. expansion
- d. vertical integration

(a; difficult; p. 218)

63. An organization that is diversifying its product line is exhibiting what type of growth strategy?

- a. stability
- b. retrenchment
- c. growth
- d. maintenance

(c; moderate; p. 218)

64. When an organization attempts to combine with other organizations in different, but associated industries, the strategy is known as a _____ strategy.

- a. growth
- b. horizontal integration
- c. vertical integration
- d. related diversification

(d; moderate; p. 218)

65. When an organization attempts to combine with other organizations in different and disassociated industries, the strategy is known as a(n) _____ strategy.

- a. unrelated diversification
- b. horizontal integration
- c. vertical integration
- d. stability

(a; moderate; p. 219)

66. A stability strategy is particularly appropriate when _____.

- a. the firm is facing rapid growth opportunities
- b. the industry is in a state of rapid upheaval
- c. an organization is not meeting its goals
- d. an organization's performance is declining

(b; moderate; p. 219)

67. A(n) _____ strategy addresses organizational weaknesses, helps stabilize operations, and revitalizes organizational resources and capabilities.

- a. unrelated diversification
- b. horizontal integration
- c. vertical integration
- d. retrenchment

(d; moderate; p. 220)

68. What type of strategy is a renewal strategy for times when the organization's performance problems are more critical?

- a. retrenchment
- b. turnaround
- c. focus
- d. differentiation

(b; moderate; p. 220)

69. In the Boston Consulting Group (BCG) matrix, a business unit that exists in a low anticipated growth rate and a high market share is known as a _____.

- a. cash cow
- b. star
- c. dog
- d. question mark

(a; moderate; p. 220)

70. In the BCG matrix, a business unit that exists in a high anticipated growth rate and a low market share is known as a _____.

- a. cash cow
- b. star
- c. dog
- d. question mark

(d; moderate; p. 221)

71. In the BCG matrix, a _____ does not consume or produce much cash and holds little or no improved performance.

- a. cash cow
- b. star
- c. dog
- d. question mark

(c; moderate; p. 221)

72. Managers should “milk” cash cows for as much as they can, limit any new investment in them, and use the large amounts of cash generated to invest in _____ and _____ .

- a. more cash cows; question marks
- b. stars; dogs
- c. stars; question marks
- d. question marks; dogs

(c; moderate; p. 221)

73. Heavy investment in _____ will help take advantage of the market’s growth and help maintain high market share.

- a. cash cows
- b. stars
- c. question marks
- d. dogs

(b; difficult; p. 221)

74. The _____ should be sold off or liquidated as they have low market share in markets with low growth potential.

- a. cash cows
- b. stars
- c. question marks
- d. dogs

(d; moderate; p. 221)

75. What can provide a framework for understanding diverse businesses and help managers establish priorities for making resource allocation decisions?

- a. a competitive advantage
- b. a competitive strategy
- c. a corporate portfolio matrix
- d. a strategic business unit

(c; moderate; p. 221)

76. _____ strategy determines how an organization should compete in each of its businesses.

- a. Business
- b. Organizational
- c. Operational
- d. Corporate

(a; moderate; p. 221)

77. For a small organization in only one line of business, the competitive strategy simply describes _____.

- a. how the company will compete in its main market
- b. what products or services it will offer
- c. the customers it wants to reach
- d. its competitive advantage

(a; moderate; p. 221)

78. An organization is said to have _____ when it has several different businesses that are independent and that formulate their own strategies.

- a. operational units
- b. strategic business units
- c. competitive advantages
- d. legal subunits

(b; moderate; p. 222)

79. An example of _____ is when an organization possesses a characteristic that sets itself apart from competitors and gives the firm a distinctive edge.

- a. core competency
- b. competitive power
- c. legal propriety
- d. competitive advantage

(d; difficult; p. 222)

80. What company has a competitive advantage in developing and marketing products because it stresses risk taking and innovation?

- a. 3M
- b. Dell
- c. Southwest Airlines
- d. Wal-Mart

(a; difficult; p. 222)

81. To a degree, an organization's commitment to quality and continuous improvement can differentiate it from competitors, but constant improvement and reliability of an organization's products and/or services may result in a competitive advantage that is _____.

- a. weighted
- b. sustainable
- c. conservative
- d. uncertain

(b; difficult; p. 222)

82. What can challenge managers' attempts at creating a long-term, sustainable competitive advantage?
- a. old technologies
 - b. predictable changes
 - c. competitive strategies
 - d. market instabilities

(d; moderate; p. 223)

83. Michael Porter proposes that some _____ are inherently more profitable than others.

- a. companies
- b. industries
- c. SBUs
- d. individuals

(b; easy; p. 223)

84. Which of the following is a force in the Porter's five forces model of industry attractiveness?

- a. opportunity for new entrants
- b. opportunity for substitutes
- c. bargaining power of suppliers
- d. sustainable competitive advantage for customers

(c; moderate; p. 223)

85. Michael Porter's competitive strategies framework identifies three generic competitive strategies: cost leadership, differentiation, and _____.

- a. depth
- b. breadth
- c. revenue growth
- d. focus

(d; moderate; p. 223)

86. Cost leadership as a strategy requires a firm to _____.

- a. aggressively search out efficiencies to maintain the lowest cost structure
- b. be unique in its product offering
- c. aim at a cost advantage in a niche market
- d. aim to be similar to its competition in most operations

(a; difficult; p. 224)

87. All of the following are mentioned in the textbook as companies that have used the low-cost leader strategy except _____.

- a. Wal-Mart
- b. Hyundai
- c. Southwest Airlines
- d. Dell Computer Corporation

(d; moderate; p. 224)

88. Differentiation as a strategy requires a firm to _____.
- a. aggressively search out efficiencies to maintain the lowest cost structure
 - b. be unique in its product offering
 - c. aim at a cost advantage in a niche market
 - d. aim to be similar to its competition in all operations

(b; difficult; p. 224)

89. Practically any successful consumer product or service can be identified as an example of the _____.
- a. differentiation strategy
 - b. focus strategy
 - c. breadth strategy
 - d. cost leadership strategy

(a; moderate; p. 224)

90. What generic competitive strategy involves a cost advantage or a differentiation advantage in a narrow segment or niche?
- a. differentiation
 - b. focus
 - c. breadth
 - d. cost leadership

(b; moderate; p. 224)

91. When following the focus strategy, a _____ can be based on product variety, type of end buyer, distribution channel, or geographic location of buyers.
- a. segment
 - b. cost focus
 - c. differentiation advantage
 - d. unique product

(a; difficult; p. 224)

92. A firm that is “stuck in the middle” cannot develop _____.
- a. a cost or differentiation advantage
 - b. an effective strategy
 - c. long-term success
 - d. strategic flexibility

(a; moderate; p. 225)

93. The premise of the rule of three is that _____.
- a. no industry can support more than three “super niche players”
 - b. the existence of three companies encourages continual price wars
 - c. three companies usually dominate the majority of market share
 - d. three companies tend to lead to monopolistic pricing or mutual destruction

(c; moderate; p. 225)

94. Functional-level strategy directly supports _____.
- a. corporate strategy
 - b. business strategy
 - c. differentiation strategy
 - d. focus strategy

(b; difficult; p. 226)

STRATEGIC MANAGEMENT IN TODAY'S ENVIRONMENT

95. What is the ability to recognize major external environmental changes, to quickly commit resources, and to recognize when a strategic decision is not working?
- a. strategic flexibility
 - b. strategic management
 - c. competitive advantage
 - d. an opportunity

(a; easy; p. 227)

96. How can a company create strategic flexibility?
- a. encourage employees to be open about disclosing negative information
 - b. know what has happened with strategies in the past
 - c. get old ideas from senior employees
 - d. never make mistakes

(a; moderate; p. 227)

97. How can a cost leader use e-business to reduce costs?
- a. by adding a sales phone line and a sales force
 - b. by personally testing and evaluating job applicants
 - c. by using stand-alone locations only
 - d. by using Web-based inventory control systems that reduce storage costs

(d; moderate; p. 228; AACSB: Technology)

98. An Internet-based knowledge management system that resulted in shorter customer response times would be one e-business technique that contributes to the competitive advantage of a _____.
- a. cost leader
 - b. differentiator
 - c. focuser
 - d. star

(b; moderate; p. 228; AACSB: Technology)

99. Who targets a narrow market segment with customized products?

- a. a differentiator
- b. a clicks-and-bricks firm
- c. a focuser
- d. a first mover

(c; moderate; p. 228)

100. What e-business strategy uses both online and traditional stand-alone locations?

- a. functional
- b. clicks-and-bricks
- c. focus
- d. differentiation

(b; moderate; p. 228; AACSB: Technology)

101. Customer service strategies involve giving the customers what they want, effective communication, and _____.

- a. providing employees with incentives and bonuses for good service
- b. providing employees with customer service training
- c. commitment from upper management
- d. applying existing technology to new uses

(b; moderate; p. 228)

102. Innovation strategies should reflect the organization's philosophy about innovation, which is shaped by _____.

- a. communication of innovations and innovation training
- b. giving the customers what they want and targeting a narrow market segment with customized products
- c. innovation emphasis and innovation timing
- d. innovative technology and Internet technology

(c; moderate; p. 230)

103. Senior managers must decide whether or not the emphasis of their innovation efforts is going to be based upon _____.

- a. market research
- b. communication
- c. process improvement
- d. cost effectiveness

(c; moderate; p. 230)

104. What company would benefit most from using a scientific research strategy to achieve high performance levels?

- a. Merck
- b. Wal-Mart
- c. Macy's
- d. Delta Airlines

(a; difficult; p. 230)

105. Process development strategies seek to achieve a competitive advantage by _____.

- a. looking for ways to enhance existing work processes
- b. committing to scientific research
- c. making the firm more effective
- d. improving on existing technology

(a; easy; p. 230)

106. The first organization to bring a product or service to market is often referred to as the _____.

- a. prime player
- b. market leader
- c. first mover
- d. trailblazer

(c; easy; p. 230)

107. What is a strategic advantage of being a first mover?

- a. certainty over the direction of technology and market
- b. low development costs
- c. no financial or strategic risks
- d. cost and learning benefits

(d; moderate; p. 230)

108. What is a strategic disadvantage of being a first mover?

- a. a slow start at forming customer relationships and customer loyalty
- b. risk of competitors imitating innovations
- c. reputation for being a follower
- d. no control over resources

(b; moderate; p. 230)

SCENARIO QUESTIONS

For each of the following choose the answer that *most completely* answers the question.

THE IMPORTANCE OF STRATEGIC MANAGEMENT

Patrick majored in entrepreneurship and computer science in college. After graduation, he decided to start his own business as an e-business entrepreneur, founding an online B2B reverse auction company called CompuSave.

109. After hiring several employees, Patrick requires that each person in this company be involved in studying trends involving new technology, competitors, and customers. These employees are involved in _____.
- a. external analysis
 - b. internal environment
 - c. strategic management
 - d. strategic flexibility

(a; moderate; p. 212; AACSB: Technology)

THE STRATEGIC MANAGEMENT PROCESS

SWOT Analysis (Scenario)

As a process of self-examination during her senior year of college, Casey decides to develop a SWOT analysis of her prospects relative to getting a job.

110. Casey realizes that she has a personal characteristic that suggests she is not comfortable interacting with strangers. She interprets this as a(n) _____ if she is to get a job as a salesperson.
- a. alternative
 - b. strength
 - c. weakness
 - d. opportunity

(c; moderate; p. 213)

111. Casey majored in marketing and really enjoyed studies in market research. Through research on the Internet and in the university library, she discovers that this industry appears to have significant positive external trends. She interprets this as a(n) _____.
- a. alternative
 - b. strength
 - c. weakness
 - d. opportunity

(d; moderate; p. 212)

112. Casey has been involved in _____ at a personal level.
- opportunity analysis
 - risk avoidance
 - strategic planning
 - Stage decision making

(c; easy; p. 210)

TYPES OF ORGANIZATIONAL STRATEGIES

Un Taco Pequeno (Scenario)

Imagine that you are the president of Taco Rocket, a new and successful chain of 100 Mexican fast-food restaurants. The success you have experienced in the last 5 years has you thinking of what to do with the business next. Should you expand the business at the current rate? Open new and different restaurants? What?

113. You decide to concentrate on Taco Rocket's primary business by only increasing the menu to include new items such as enchiladas and rice bowls. This is an example of what type of growth strategy?
- lateral growth
 - horizontal integration
 - concentration
 - related diversification

(c; moderate; p. 217)

114. Your oldest supplier, Zorro Distributors, is a family-owned firm. Recently, the firm's president, Diego De La Vega, made the decision to retire. To his disappointment, none of his five children stepped forward to take his place at the helm of the firm. Sr. De La Vega is concerned that if he sells his company to a larger distributor, many of his employees will lose their jobs. You approach your old friend with a generous offer to buy Zorro and continue its current operations. Should your offer be accepted, Taco Rocket would be undertaking _____.
- lateral growth
 - unrelated diversification
 - forward vertical integration
 - backward vertical integration

(d; moderate; p. 218)

115. You've decided to purchase a controlling interest in a chain of Oriental fast-food restaurants, called Honk Kong Foey. However, you have decided to change the name of the chain to the Shanghai Grill. This move is most representative of what type of growth strategy?
- lateral growth
 - horizontal integration
 - unrelated diversification
 - related diversification

(b; moderate; p. 218)

116. You decide to purchase a local five-store hardware chain because it was a good investment. This is an example of _____.
- a. a lateral growth strategy
 - b. a combination purchase
 - c. related diversification
 - d. unrelated diversification

(d; moderate; p. 219)

117. Because of the good profits and a fear of growing too fast, you decide to keep Taco Rocket in the same business and do not change the menu. You hope to retain the same market share and return-on-investment record. This is considered a _____ strategy.

- a. stability
- b. growth
- c. combination
- d. diversification

(a; easy; p. 219)

Powerballs (Scenario)

Colleen invested a dollar in the Powerball Lottery and won \$60 million. Subsequently, she decides to start her own business selling lawnmowers.

118. Colleen is successful after the first 3 years, and she is approached by a competitor who is nearing retirement age. The competitor is interested in selling his business to Colleen. For Colleen, this would be a(n) _____ strategy.

- a. unrelated diversification
- b. horizontal integration
- c. vertical integration
- d. retrenchment

(b; moderate; p. 218)

119. Colleen finds a business opportunity in a supplier who sells her wheels for lawnmowers. This would be a(n) _____ strategy.

- a. unrelated diversification
- b. horizontal integration
- c. vertical integration
- d. related diversification

(d; moderate; p. 218)

120. A business broker hears that Colleen is interested in purchasing a business and approaches her with an offer to sell her a company that owns a patent on a new roofing product and who installs this new roofing in the southwestern United States. If she buys this firm, she will be using a(n) _____ strategy.

- a. unrelated diversification
- b. horizontal integration
- c. vertical integration
- d. related diversification

(a; moderate; p. 219)

121. Initially she begins a business that has a single-line business. She realizes that this organization will need a _____ strategy.

- a. business-level
- b. organizational
- c. operational-level
- d. corporate-level

(a; moderate; p. 221)

122. No matter which business Colleen decides to buy, she intends to operate each business independently and allow each to determine its own strategy. This will mean that each company will be a(n) _____.

- a. operational unit
- b. strategic business unit
- c. competitive advantage
- d. legal subunit

(b; moderate; p. 222)

123. Colleen decides that she wants to assemble lawn mowers. She decides that she wants a business to develop a distinctive edge in producing high-quality lawn mowers. This emphasis on quality is to be so strong that her company will have a _____ that will set her company apart from her competition.

- a. core competence
- b. competitive power
- c. legal propriety
- d. competitive advantage

(d; moderate; p. 222)

El Taco Grande (Scenario)

As the original owner of Taco Rocket, you have seen your business holdings grow substantially over the last ten years. The number of stores you own and franchise has grown by 200 percent and you own a number of companies in related and unrelated areas.

124. You purchased Shanghai Grill and Zorro Distributors after being in business for five years. What level of strategy integrates the strategies of your various business units?

- a. corporate level
- b. business level
- c. functional level
- d. strategic level

(a; easy; p. 217)

125. You called the Boston Consulting Group (BCG), and they have provided you with some advice based on their famous corporate portfolio matrix. Your oldest holding, Taco Rocket, has not grown much in recent years, but due to low debt, it generates a huge amount of cash. According to BCG, Taco Rocket would be considered a _____.

- a. cash cow
- b. star
- c. question mark
- d. dog

(a; moderate; p. 220)

126. Recently, you also purchased a company that manufactures a new satellite dish, allowing you to enter into the cable television market. The business is profitable and growing, but the technological unknowns make it risky. BGC considers it a _____.

- a. cash cow
- b. star
- c. question mark
- d. dog

(c; moderate; p. 221)

127. Another purchase you made was to acquire a local coffee-cart chain with 30 locations around the city. You don't see it growing very much, but then, it doesn't cost much to operate. BCG would label this venture a _____.

- a. cash cow
- b. star
- c. question mark
- d. dog

(d; moderate; p. 221)

128. You now need to decide how to best manage and utilize the large number of assets represented by the numerous companies you own. For each SBU, you must create a _____ strategy to determine how your corporation should compete in each of its businesses.
- a. corporate-level
 - b. business-level
 - c. functional-level
 - d. tactical

(b; moderate; p. 221)

Megabyte Center, S.A. (Scenario)

Your old friend, Ariel Eskenazi, is the owner and general manager of Megabyte Center, a computer reseller and systems integrator located in Panama City, Panama. Since leaving IBM to start a business in his home country, Ariel's company has steadily grown, due in large part to the business partnerships he's established over the years with large foreign computer and software firms, such as Goldstar and Microsoft. These relationships have helped his company win considerable market share in Panama, as well as in other parts of Latin America. However, since the 1999 turnover of the Panama Canal to the Panamanian government, there has been a huge influx of foreign capital into Panama. For example, several large Asian firms have made Panama a beachhead for their American operations. Tourism is on the rise, with over a score of new hotels built in the metropolitan area alone over the past 3 years. As a result, demand for Megabyte's products and services has increased markedly, but so has the level and diversity of its competition. While Megabyte's customer base has remained fairly loyal, many longtime customers are beginning to demand price concessions and enhanced service levels in return for their continued business. Additionally, Ariel has learned recently that several of his former suppliers and business partners are considering establishing local sales offices of their own in Panama City. Ariel knows you are very knowledgeable about competitive strategy and calls you asking for advice. You begin by telling him a little about Michael Porter's five forces theory of competition and the three generic strategies.

129. Demand growth and increasing intensity and diversity of competition that Ariel is facing is indicative of which one of Porter's five forces?
- a. threat of substitutes
 - b. threat of new entrants
 - c. bargaining power of customers
 - d. current rivalry

(d; moderate; p. 224)

130. Once Ariel has assessed the five forces and determined the threats and opportunities that exist in the current environment, you tell him that he is then ready to select an appropriate competitive strategy. Porter outlines three “generic” strategies: cost leadership, differentiation, and

- a. niche
- b. segmentation
- c. focus
- d. stuck in the middle

(c; moderate; p. 224)

131. Because his customers are demanding price concessions and enhanced service levels in return for their continued business, Ariel decides that he wants to compete by offering unique products that are widely valued by customers.. What strategy is Ariel following?

- a. focus
- b. cost leadership
- c. differentiation
- d. stability

(c; moderate; p. 224)

132. Ariel is considering forgoing the retail side of his business entirely. Instead, he will redirect his resources toward reselling hardware and software and providing systems integration services to the Latin American governmental and industrial sectors. Such a move would be most representative of which one of Porter’s generic strategies?

- a. niche
- b. segmentation
- c. focus
- d. stuck in the middle

(c; moderate; p. 224)

ESSAY QUESTIONS

THE IMPORTANCE OF STRATEGIC MANAGEMENT

133. In a short essay, explain why strategic management is important.

Answer

One of the most significant reasons that strategic management is important is that it can make a difference in how well an organization performs. The most basic questions about strategy look at why firms succeed or fail, and why, when faced with the same environmental conditions, their performance levels vary. Studies of the factors that contribute to organizational performance generally have shown a positive relationship between strategic planning and performance. In other words, it appears that organizations that use strategic management do have higher levels of performance. And that makes it pretty important for managers! Another reason strategic management is important has to do with the fact that organizations of all types and sizes face continually changing situations. These changes may be minor or significant, but it's still change with which managers must cope. That's where strategic management comes in. Using the strategic management process, managers examine relevant factors in deciding what actions to take, thus helping them better cope with uncertain environments. Strategic management is also important because of the nature of organizations. They're composed of diverse divisions, departments, functions, and work activities—manufacturing, marketing, accounting, and so forth—that all need to be coordinated and focused on achieving the organization's goals. Strategic management does this. Strategic management helps in coordinating and focusing employees by clarifying and pinpointing what's important and by providing the reasons for why they're doing what they're doing. Finally, strategic management is important because it's involved in many of the decisions that managers make.

(moderate; p. 209)

THE STRATEGIC MANAGEMENT PROCESS

134. In a short essay, describe the strategic management process and identify the six stages in the process.

Answer

The strategic management process is a six-step process that encompasses strategy planning, implementation, and evaluation. The first four steps describe the planning that must take place. Even the best strategies can fail if management doesn't implement or evaluate them properly. The first step in the strategic management process is to identify the organization's current mission, goals, and strategies. Defining the organization's mission forces managers to identify what it's in business to do. Knowing the company's current goals gives managers a basis for assessing whether those goals need to be changed. For the same reasons, it's important for managers to know the organization's current strategies—to assess whether any need to be changed. The second step is to do an external analysis. Managers need to know, for instance, what the competition is doing, what pending legislation might affect the organization, or what the labor supply is like in locations where it operates. In analyzing the external environment, managers should examine both the specific and general environments to see what trends and changes are occurring. After analyzing the environment, managers need to assess what they have learned in terms of opportunities that the organization can exploit, and threats that it must counteract or buffer against. The third step is to do an internal analysis, which provides important information about an organization's specific resources and capabilities. After doing the internal analysis, managers should be able to identify organizational strengths and weaknesses. This step forces managers to recognize that their organizations, no matter how large or successful, are constrained by the resources and capabilities they have. The combined external and internal analyses are called SWOT analysis because it's an analysis of the organization's strengths, weaknesses, opportunities, and threats. The fourth step is to formulate strategies. As managers formulate strategies, they have to consider the realities of the external environment and their available resources and capabilities and design strategies that will help the organization achieve its goals. After strategies are formulated, they must be implemented. A strategy is only as good as its implementation. The final step in the strategic management process is evaluating results. How effective have the strategies been? Have they helped the organization reach its goals? What adjustments, if any, are necessary?

(moderate; pp. 210-216)

TYPES OF ORGANIZATIONAL STRATEGIES

135. In a short essay, list and discuss the three levels of strategy that a large organization must develop.

Answer

- a. Corporate strategy—this strategy seeks to determine what businesses a company should be in or wants to be in. Corporate strategy determines the direction that the organization is going and the roles that each business unit in the organization will plan in pursuing that direction.
- b. Business strategy—this strategy seeks to determine how an organization should compete in each of its businesses. For a small organization in only one line of business or the large organization that has not diversified into different products or markets, the business strategy typically overlaps with the organization's corporate strategy. For organizations with multiple businesses, however, each division will have its own strategy that defines the products or services it will offer and the customers it wants to reach.
- c. Functional strategy—this strategy seeks to determine how to support the business strategy. For organizations that have traditional functional departments such as manufacturing, marketing, human resources, research and development, and finance, these strategies need to support the business strategy.

(moderate; pp. 216-226)

136. In a short essay, discuss the Boston Consulting Group (BCG) matrix and explain its usefulness in segmenting businesses. Include a discussion of the characteristics for each of the four categories based on the BCG matrix.

Answer

The Boston Consulting Group matrix introduced the idea that an organization's businesses could be evaluated and plotted using a 2×2 matrix to identify which ones offered high potential and which were a drain on organizational resources. The horizontal axis represents market share, which was evaluated as either low or high; and the vertical axis indicates anticipated market growth, which also was evaluated as either low or high. Based on its evaluation, the business was placed in one of four categories:

- a. Cash cows (low growth, high market share)—businesses in this category generate large amounts of cash, but their prospects for future growth are limited.
- b. Stars (high growth, high market share)—these businesses are in a fast-growing market, and hold a dominant share of that market. Their contribution to cash flow depends on their need for resources.
- c. Question marks (high growth, low market share)—these businesses are in an attractive industry, but hold a small market share percentage.
- d. Dogs (low growth, low market share)—businesses in this category do not produce or consume much cash. However, they hold little promise for improved performance.

(easy; pp. 220-221)

137. In a short essay, discuss the concept of competitive advantage. Include specific examples of companies and their respective competitive advantages to support your answer.

Answer

Competitive advantage is what sets an organization apart, that is, its distinctive edge. That distinctive edge comes from the organization's core competencies, which might be in the form of organizational capabilities—the organization does something that others cannot do or does it better than others can do it. For example, Dell has developed a competitive advantage based upon its ability to create a direct-selling channel that's highly responsive to customers. Southwest Airlines has a competitive advantage because it is skilled in giving passengers what they want—quick, convenient, and fun service. Or those core competencies that lead to competitive advantage also can come from organizational assets or resources—the organization has something that its competitors do not have. For instance, Wal-Mart's state-of-the-art information systems allows it to monitor and control inventories and supplier relations more efficiently than its competitors, which Wal-Mart has turned into a price advantage.

(easy; p. 222)

138. In a short essay, list and discuss the three competitive strategies, according to Michael Porter. Include specific examples of companies that pursue each of the three competitive strategies.

Answer

- a. Cost leadership strategy—when an organization sets out to be the lowest-cost producer in its industry, it's following a cost leadership strategy. A low-cost leader aggressively searches out efficiencies in production, marketing, and other areas of operation. Overhead is kept to a minimum, and the firm does everything it can to cut costs. For example, at Wal-Mart's headquarters in Bentonville, Arkansas, office furnishings are sparse and drab, but functional. Although low-cost leaders don't place a lot of emphasis on "frills," the product or service being sold must be perceived as comparable in quality to that offered by rivals or at least be acceptable to buyers. Examples of companies that have used the low-cost leader strategy include Wal-Mart, Hyundai, and Southwest Airlines.
- b. Differentiation strategy—the company that seeks to offer unique products, which are widely valued by customers is following a differentiation strategy. Sources of differentiation might be exceptionally high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image. The key to this competitive strategy is that whatever product or service attribute is chosen for differentiation must set the firm apart from its competitors and be significant enough to justify a price premium that exceeds the cost of differentiation. Practically any successful product or service can be identified as an example of the differentiation strategy: Nordstrom (customer service), Sony (reputation for quality and innovative design), Coach handbags (design and brand image), and Kimberly-Clark's Huggies Pull-Ups (product design).
- c. Focus strategy—the aim of the focus strategy is at a cost advantage or a differentiation advantage in a narrow segment. That is, managers select a market segment or group of segments in an industry and don't attempt to serve the broad market. The goal of a focus strategy is to exploit a narrow segment of a market. These segments can be based on product variety, type of end buyer, distribution channel, or geographical location of buyers. Research suggests that the focus strategy may be the most effective choice for small businesses because they typically do not have the economies of scale or internal resources to successfully pursue one of the other two strategies.

(moderate; p. 224)

STRATEGIC MANAGEMENT IN TODAY'S ENVIRONMENT

139. In a short essay, discuss how managers can formulate e-business strategies that contribute to the development of a sustainable competitive advantage in today's environment.

Answer

Managers can formulate e-business strategies that contribute to the development of a sustainable competitive advantage. A cost leader can use e-business to reduce costs in a variety of ways. It might use online bidding and order processing to eliminate the need for sales calls and to decrease sales force expenses; it could use Web-based inventory control systems that reduce storage costs; or it might use online testing and evaluation of job applicants. A differentiator needs to offer products or services that customers perceive and value as unique. How could e-business contribute? The differentiator might use Internet-based knowledge systems to shorten customer response times; provide rapid online responses to service requests; or automate purchasing and payment systems so that customers have detailed status reports and purchasing histories. Finally, because the focuser targets a narrow market segment with customized products, it might provide chat rooms or discussion boards for customers to interact with others who have common interests; design niche Web sites that target specific groups with specific interests; or use Web sites to perform standardized office functions such as payroll or budgeting. Research has shown that an important e-business strategy might be a clicks-and-bricks strategy. A clicks-and-bricks firm is one that uses both online (clicks) and traditional stand-alone locations (bricks).
(moderate; pp. 228; AACSB: Technology)

140. In a short essay, explain the term "first mover" and then identify the strategic advantages and disadvantages of being a first mover in the market.

Answer

An organization that's first to bring a product innovation to the market or to use a new process innovation is called a first mover. Some organizations pursue this route, hoping to develop a sustainable competitive advantage. Others have successfully developed a sustainable competitive advantage by being the followers in the industry. They let the first movers pioneer the innovations and then mimic their products or processes. Which approach managers choose depends on their organization's innovation philosophy and specific resources and capabilities. One strategic advantage of being a first mover is that the company gains a reputation for being innovative and an industry leader. Besides the obvious cost and learning benefits, the company can gain control over scarce resources and keep competitors from having access to them. The first mover also has the opportunity to begin building customer relationships and customer loyalty. One of the disadvantages of being a first mover is that the company is uncertain about the exact direction of the technology and of the market. Also, the company assumes financial and strategic risks. In addition, the first mover accepts the risk that competitors will imitate their innovations. Finally, first movers frequently have high development costs.
(moderate; p. 230)