Strategic Management and Competitive Advantage, 4e **(Barney)**
Chapter 1 What Is Strategy and the Strategic Management Process?

1) One of the central questions that all strategic managers must address, regardless of the industry they work in, is "What is our competition going to do next?"
Answer: TRUE
Diff: 1 Page Ref: 4
Objective: 1.1

2) There is complete consensus among strategic managers and academic researchers about what a "strategy" is.
Answer: FALSE
Diff: 1 Page Ref: 4
Objective: 1.1

3) For the purposes of this book, a firm's strategy is defined as its theory about how to gain competitive advantages.
Answer: TRUE
Diff: 1 Page Ref: 4
Objective: 1.1

4) A "good strategy" does not necessarily have to create a competitive advantage.
Answer: FALSE
Diff: 2 Page Ref: 4
Objective: 1.1

5) The greater the extent to which a firm's assumptions and hypotheses accurately describe how the competition in the industry is likely to evolve, and how that evolution can be exploited to earn a profit, the more likely it is that a firm will gain a competitive advantage from implementing its strategies.
Answer: TRUE
Diff: 1 Page Ref: 4
Objective: 1.1

6) It is usually possible to know for sure that a firm is choosing the right strategy.
Answer: FALSE
Diff: 2 Page Ref: 4
Objective: 1.1

7) The strategic management process is a sequential set of analyses and choices that can increase the likelihood that a firm will choose a good strategy that generates competitive advantages.
Answer: TRUE
Diff: 1 Page Ref: 4
Objective: 1.2

8) The second step in the strategic management process is the definition of a firm's mission.
Answer: FALSE
Diff: 1 Page Ref: 4
Objective: 1.2

9) A firm's mission defines both what it wants to be in the long run and what it wants to avoid in the meantime.
Answer: TRUE
Diff: 1 Page Ref: 5
Objective: 1.2

10) Mission statements often contain so many common elements that even if a firm's mission statement does not influence behavior throughout an organization, it is likely to have a significant impact on a firm's actions.
Answer: FALSE
Diff: 2 Page Ref: 5
Objective: 1.2

11) Firms whose mission statement is central to all they do are known as missionary firms.
Answer: FALSE
Diff: 1 Page Ref: 5
Objective: 1.2

12) Visionary firms earn substantially higher returns than average firms because they acknowledge that profit maximizing is their primary reason for existence.
Answer: FALSE
Diff: 3 Page Ref: 5
Objective: 1.2

13) Mission statements that are very inwardly focused and are defined only with reference to the personal values and priorities of its founders and top managers can hurt a firm's performance.
Answer: TRUE
Diff: 2 Page Ref: 7
Objective: 1.2

14) Objectives are the specific measurable targets a firm can use to evaluate the extent to which it is realizing its mission.
Answer: TRUE
Diff: 1 Page Ref: 8
Objective: 1.2

15) High quality objectives are tightly connected to the elements of a firm's mission but tend to be relatively difficulty to measure and track over time.
Answer: FALSE
Diff: 3 Page Ref: 8
Objective: 1.2

16) By conducting an external analysis, a firm identifies the critical threats and opportunities in the industry's competitive environment.
Answer: TRUE
Diff: 2 Page Ref: 8
Objective: 1.2

17) Corporate level strategies are actions firms take to gain competitive advantages in a single market or industry.
Answer: FALSE
Diff: 1 Page Ref: 9
Objective: 1.2

18) Business level strategies are actions firms take to gain competitive advantages by operating in multiple markets or industries simultaneously.
Answer: FALSE
Diff: 1 Page Ref: 9
Objective: 1.2

19) Strategy implementation occurs when a firm adopts organizational policies and practices that are consistent with its strategy.
Answer: TRUE
Diff: 1 Page Ref: 10
Objective: 1.2

20) In general, a firm has a competitive advantage when it is able to create more economic value than rival firms.
Answer: TRUE
Diff: 1 Page Ref: 10
Objective: 1.3

21) The size of a firm's competitive advantage is the sum of the economic value a firm is able to create and the economic value rivals are able to create.
Answer: FALSE
Diff: 2 Page Ref: 10
Objective: 1.3

22) A sustained competitive advantage is virtually permanent.
Answer: FALSE
Diff: 2 Page Ref: 11
Objective: 1.3

23) Firms that create the same economic value as their rivals experience competitive parity.
Answer: TRUE
Diff: 1 Page Ref: 11
Objective: 1.3

24) A firm's accounting performance is a measure of its competitive advantage calculated using information from a firm's published profit and loss and balance sheet statements.
Answer: TRUE
Diff: 1 Page Ref: 13
Objective: 1.4

25) Applying accounting measures of competitive advantage for firms that are headquartered in different countries is not complicated by issues such as differences in accounting practices and exchange rates.
Answer: FALSE
Diff: 2 Page Ref: 15
Objective: 1.4

26) Activity ratios are ratios with some measure of profit in the numerator and some measure of firm size or assets in the denominator.
Answer: FALSE
Diff: 1 Page Ref: 15
Objective: 1.4

27) Liquidity ratios are ratios that focus on the firm's ability to meet its short-term financial obligations.
Answer: TRUE
Diff: 1 Page Ref: 15
Objective: 1.4

28) When a firm earns above average accounting performance, it is said to enjoy competitive parity.
Answer: FALSE
Diff: 2 Page Ref: 15
Objective: 1.4

29) A firm that earns below average accounting performance, performance that is less than the industry average, generally experiences a competitive disadvantage.
Answer: TRUE
Diff: 2 Page Ref: 15
Objective: 1.4

30) The greatest disadvantage of accounting measures of competitive performance is that they are relatively difficult to compute.
Answer: FALSE
Diff: 1 Page Ref: 17
Objective: 1.4

31) Economic measures of competitive advantage compare a firm's level of return to its costs of capital instead of to the average level of return to the industry.
Answer: TRUE
Diff: 1 Page Ref: 17
Objective: 1.4

32) The cost of equity is equal to the interest a firm must pay its debt holders in order to induce those debt holders to lend money to the firm.
Answer: FALSE
Diff: 1 Page Ref: 17
Objective: 1.4

33) The residual claimants' view of equity holders argues that the interests of equity holders and a firm's other stakeholders often collide.
Answer: FALSE
Diff: 3 Page Ref: 19
Objective: 1.4

34) The correlation between economic and accounting measures of competitive advantage is generally low.
Answer: FALSE
Diff: 2 Page Ref: 19
Objective: 1.4

35) Emergent strategies are theories of how to gain competitive advantage in an industry that emerge over time or that have been radically reshaped once they are initially implemented.
Answer: TRUE
Diff: 2 Page Ref: 20
Objective: 1.5

36) Johnson & Johnson's introduction of "Johnson's Toilet and Baby Powder" as a result of customers asking to purchase the talcum powder is an example of a planned strategy.
Answer: FALSE
Diff: 2 Page Ref: 20
Objective: 1.5

37) Emergent strategies are only important when a firm fails to implement the strategic management process effectively.
Answer: FALSE
Diff: 2 Page Ref: 23
Objective: 1.5

38) Firms with strategies that are unlikely to be a source of competitive advantage will rarely provide the same career opportunities as firms with strategies that do generate such advantages.
Answer: TRUE
Diff: 1 Page Ref: 23
Objective: 1.6

39) Strategic choices are generally limited to very experienced senior managers in large corporations; in smaller and entrepreneurial firms, many employees end up being involved in the strategic management process.
Answer: TRUE
Diff: 1 Page Ref: 23
Objective: 1.6

40) All firms have almost entirely emergent strategies.
Answer: FALSE
Diff: 2 Page Ref: 22
Objective: 1.5

41) A firm's ________ is defined as its theory about how to gain competitive advantages.
A) objectives
B) mission
C) vision
D) strategy
Answer: D
Diff: 1 Page Ref: 4
Objective: 1.1

42) The sequential set of analyses and choices that can increase the likelihood that a firm will choose a strategy that generates competitive advantages is the
A) organizational change process.
B) strategic management process.
C) mission statement process.
D) goal setting process.
Answer: B
Diff: 2 Page Ref: 4
Objective: 1.2

43) A firm's ________ is its long-term purpose that defines both what it aspires to be in the long run and what it wants to avoid in the meantime.
A) mission
B) vision
C) objective
D) goal
Answer: A
Diff: 1 Page Ref: 4
Objective: 1.2

44) Missions are often written in the form of
A) vision statements.
B) mission statements.
C) corporate objectives.
D) organizational goals.
Answer: B
Diff: 1 Page Ref: 5
Objective: 1.2

45) Firms whose mission is central to all they do are known as ________ firms.
A) missionary
B) legendary
C) parity
D) visionary
Answer: D
Diff: 2 Page Ref: 5
Objective: 1.2

46) From 1926 to 1995, visionary firms earned ________ returns compared to firms that were not visionary firms.
A) substantially lower
B) substantially higher
C) marginally lower
D) substantially equivalent
Answer: B
Diff: 2 Page Ref: 5
Objective: 1.2

47) The mission statements of visionary firms
A) suggest that profit maximizing, while an important corporate objective, is not their primary reason for existence.
B) suggest that profit maximizing is neither an important corporate objective nor their primary reason for existence.
C) suggest that profit maximizing is their primary reason for existence.
D) suggest that profit maximizing is an important corporate objective and is their primary reason of existence.
Answer: A
Diff: 2 Page Ref: 5
Objective: 1.2

48) Which of the following statements regarding firm mission is accurate?
A) While some firms have used their missions to develop strategies that create significant competitive advantages, firm missions can hurt a firm's performance as well.
B) Virtually all firms have used missions to develop strategies that create significant competitive advantages, while very few firms have used missions that can hurt their performance.
C) It is very rare for firms to be able to use their missions to develop strategies that create significant competitive advantages, and most firm missions actually hurt their performance.
D) Missions tend to have very little impact on a firm's ability to create significant competitive advantages.
Answer: A
Diff: 2 Page Ref: 7
Objective: 1.2

49) ________ are specific measurable targets a firm can use to evaluate the extent to which it is realizing its mission.
A) Visions
B) Missions
C) Competitive advantages
D) Objectives
Answer: D
Diff: 1 Page Ref: 8
Objective: 1.2

50) High quality objectives are those that are
A) tightly connected to elements of a firm's mission.
B) difficult to measure.
C) difficult to track over time.
D) not quantitative.
Answer: A
Diff: 2 Page Ref: 8
Objective: 1.2

51) By conducting a(n) ________, a firm identifies the critical threats and opportunities in its competitive environment.
A) internal analysis
B) competitive analysis
C) external analysis
D) economic analysis
Answer: C
Diff: 1 Page Ref: 8
Objective: 1.2

52) ________ helps a firm understand which of its resources and capabilities are likely to be sources of competitive advantage.
A) Competitive analysis
B) Internal analysis
C) Comparative analysis
D) External analysis
Answer: B
Diff: 2 Page Ref: 8
Objective: 1.2

53) Actions firms take to gain competitive advantages in a single market or industry are known as
A) business level strategies.
B) corporate level strategies.
C) functional level strategies.
D) sustainable strategies.
Answer: A
Diff: 2 Page Ref: 9
Objective: 1.2

54) Actions firms take to gain competitive advantages by operating in multiple markets or industries simultaneously are known as
A) corporate level strategies.
B) functional strategies.
C) business level strategies.
D) macro level strategies.
Answer: A
Diff: 2 Page Ref: 9
Objective: 1.2

55) ________ occurs when a firm adopts organizational policies and practices that are consistent with its strategy.
A) Strategy formulation
B) Organizational change
C) Strategy implementation
D) Strategic control
Answer: C
Diff: 1 Page Ref: 10
Objective: 1.2

56) When a firm is able to create more economic value than rival firms it is said to have a(n)
A) comparative advantage.
B) competitive advantage.
C) strategic choice.
D) economic advantage.
Answer: B
Diff: 2 Page Ref: 10
Objective: 1.3

57) The difference between the perceived benefits gained by a customer who purchases a firm's products or services and the full economic costs of these products or services is known as
A) accounting value.
B) comparative value.
C) economic value.
D) sustainable value.
Answer: C
Diff: 1 Page Ref: 10
Objective: 1.3

58) If TechnoGeek and VarsityBlue compete in the same market for the same customer and TechnoGeek generates $900 of economic value each time it sells a product or service while VarsityBlue generates $400 of economic value each time it sells a product or service, TechnoGeek has a competitive advantage of
A) $1,300.
B) $3,600.
C) $360,000.
D) $500.
Answer: D
Diff: 3 Page Ref: 11
Objective: 1.3

59) A competitive advantage that lasts a very short period of time is known as a ________ competitive advantage.
A) temporary
B) sustained
C) transient
D) perpetual
Answer: A
Diff: 2 Page Ref: 11
Objective: 1.3

60) Firms that create the same economic value as their rivals experience competitive
A) disadvantage.
B) parity.
C) superiority.
D) advantage.
Answer: B
Diff: 1 Page Ref: 11
Objective: 1.3

61) Firms that generate less economic value than their rivals experience a competitive
A) advantage.
B) parity.
C) disadvantage.
D) preference.
Answer: C
Diff: 2 Page Ref: 11
Objective: 1.3

62) In many ways, the difference between traditional economics research and strategic management research is that the former attempts to explain why ________, while the latter attempts to explain ________
A) competitive advantages should not persist; when they can.
B) competitive advantages should persist; when they can.
C) competitive advantages should persist; why they should not.
D) competitive parity should not persist; why they should.
Answer: A
Diff: 3 Page Ref: 12
Objective: 1.3

63) The two types of measures of competitive advantage include
A) accounting measures and strategic measures.
B) strategic measures and economic measures.
C) accounting measures and economic measures.
D) qualitative measures and quantitative measures.
Answer: C
Diff: 2 Page Ref: 13
Objective: 1.4

64) A firm's ________ is a measure of its competitive advantage calculated using information from a firm's published profit and loss and balance sheet statements.
A) economic performance
B) accounting performance
C) strategic performance
D) sustainable performance
Answer: B
Diff: 2 Page Ref: 13
Objective: 1.4

65) ________ are ratios with some measure of profit in the numerator and some measure of firms' size or assets in the denominator.
A) Liquidity ratios
B) Leverage ratios
C) Activity ratios
D) Profitability ratios
Answer: D
Diff: 1		Page Ref: 15
Objective: 1.4

66) Ratios that focus on the level of a firm's financial flexibility, including its ability to obtain more debt, are known as
A) leverage ratios.
B) liquidity ratios.
C) activity ratios.
D) profitability ratios.
Answer: A
Diff: 1		Page Ref: 15
Objective: 1.4

67) Using ratio analysis, a firm earns ________ when its performance is greater than the industry average.
A) above average economic performance
B) below average accounting performance
C) above average accounting performance
D) below average economic performance
Answer: C
Diff: 3		Page Ref: 15
Objective: 1.4

68) The ________ is the rate of return that a firm promises to pay its suppliers of capital to induce them to invest in the firm.
A) cost of debt
B) cost of advantage
C) cost of parity
D) cost of capital
Answer: D
Diff: 2		Page Ref: 17
Objective: 1.4

69) ________ measures of competitive advantage compare a firm's level of return to its cost of capital instead of to the average level of return in the industry.
A) Economic
B) Accounting
C) Strategic
D) Sustainable
Answer: A
Diff: 2 Page Ref: 17
Objective: 1.4

70) The percentage of a firm's total capital that is debt times the cost of debt plus the percentage of a firm's total capital that is equity times the cost of equity is the
A) weighted cost of capital.
B) weighted average cost of capital.
C) unweighted average cost of capital.
D) average cost of capital.
Answer: B
Diff: 3 Page Ref: 17
Objective: 1.4

71) If the risk free rate of return is 4%, the market rate of return is 9%, and a firm's beta is 2.0, what is the firm's cost of equity?
A) 30
B) 6
C) 18
D) 14
Answer: D
Diff: 3 Page Ref: 18
Objective: 1.4

72) If a firm has total assets of $10 million, stockholder's equity of $6 million, a cost of equity of 10, and an after tax cost of debt of 5%, what is the firm's weighted average cost of capital?
A) 8
B) 18
C) 7
D) 1
Answer: A
Diff: 3 Page Ref: 18
Objective: 1.4

73) A firm that earns its cost of capital is said to be earning
A) above normal economic performance.
B) normal economic performance.
C) below normal economic performance.
D) normal accounting performance.
Answer: B
Diff: 1 Page Ref: 19
Objective: 1.4

74) The view that equity holders only receive payment on their investment in a firm after all legitimate claims by a firm's other stakeholders are satisfied is known as the ________ view of equity holders.
A) stakeholder
B) residual claimants
C) legitimate claimants
D) extraordinary claims
Answer: B
Diff: 2 Page Ref: 21
Objective: 1.4

75) Theories of how to gain competitive advantage in an industry that emerge over time or that have been radically reshaped once they are initially implemented are known as
A) emergent strategies.
B) objective strategies.
C) planned strategies.
D) ad hoc strategies.
Answer: A
Diff: 1 Page Ref: 20
Objective: 1.5

76) The realized strategy of most firms tends to be
A) almost exclusively a reflection of their intended strategy.
B) almost exclusively a reflection of their emergent strategy.
C) a combination of both intended and emergent strategies.
D) reflective of neither the firms' intended nor emergent strategy.
Answer: C
Diff: 2 Page Ref: 20
Objective: 1.5

77) Which of the following is a reason why it is important for students to study strategy and the strategic management process?
A) Studying strategy and the strategic management process can give students tools to evaluate the strategies of firms that may employ them.
B) It can be very important to a new hire's career success to understand the strategies of the firm that hired them and their place in implementing these strategies.
C) While strategic choices are generally limited to very experienced senior managers in large organizations, in smaller and entrepreneurial firms many employees end up being involved in the strategic management process.
D) All of the above.
Answer: D
Diff: 2 Page Ref: 23
Objective: 1.6

78) ________ strategies are theories of how to gain competitive advantage in an industry that emerge over time or that have been radically reshaped once they are initially implemented.
A) Intended
B) Realized
C) Emergent
D) Visionary
Answer: C
Diff: 2 Page Ref: 20
Objective: 1.5

79) Which type of ratios focus on the ability of a firm to meet its short-term financial obligations?
A) Activity ratios
B) Liquidity ratios
C) Leverage ratios
D) Profitability ratios
Answer: B
Diff: 1 Page Ref: 15
Objective: 1.4

80) One of the first scholars to examine the longevity of competitive advantage was
A) Dennis Mueller.
B) Geoffrey Waring.
C) Peter Roberts.
D) Rich Houston.
Answer: A
Diff: 3 Page Ref: 12
Objective: 1.3

81) Thermacorp is in the heating and cooling industry and has total assets of $20 million, with stockholders' equity of $15 million, an ROE of 17.3%, and a firm Beta of 1.6. If the risk free rate of return is 4 and the market rate of return is 10, what is the cost of equity?
A) 19.6
B) 7.75
C) 13.6
D) 25.28
Answer: C
Diff: 2 Page Ref: 18
Objective: 1.4

82) Thermacorp's cost of equity is 13.6. If the after tax cost of debt is 4.6, what is the weighted average cost of capital?
A) 15.85
B) 11.35
C) 11.2
D) 13.2
Answer: B
Diff: 3 Page Ref: 18
Objective: 1.4

83) Thermacorp's weighted average cost of capital is 11.35. If the average WACC in the heating and cooling industry is 19, Thermacorp can be said to be earning
A) above normal economic performance.
B) above normal accounting performance.
C) below normal economic performance.
D) below normal accounting performance.
Answer: C
Diff: 2 Page Ref: 19
Objective: 1.4

84) Thermacorp's 17.3% ROE is an example of a(n) ________ ratio.
A) liquidity
B) profitability
C) activity
D) leverage
Answer: B
Diff: 1 Page Ref: 15
Objective: 1.4

85) If the average ROE in the heating and cooling industry is 10.1%, and Thermacorp's ROE is 17.3%, Thermacorp is said to have
A) below average accounting performance.
B) above average economic performance.
C) above average accounting performance.
D) below average economic performance.
Answer: C
Diff: 2 Page Ref: 15
Objective: 1.4

86) Green Frog is an environmentally friendly firm in the cosmetics industry that has decided to undertake a strategic planning project. It wants to ensure that it performs the process correctly and so intends to start the process with the first step of the strategic planning process, which is
A) crafting a mission statement.
B) setting objectives.
C) measuring performance.
D) defining its business level strategy.
Answer: A
Diff: 1 Page Ref: 5
Objective: 1.2

87) Green Frog is an environmentally friendly firm in the cosmetics industry. Even though Green Frog is environmentally friendly, the strategic planning team had decided that financial performance is one of the company's top priorities. Which of the following is the best example of an objective the company might use to help it achieve its goal of superior financial performance?
A) Increasing profitability.
B) Growing market share annually.
C) Improving product quality every quarter.
D) Growth in earnings per share averaging 15% or better annually for the next five years
Answer: D
Diff: 2 Page Ref: 8
Objective: 1.2

88) Green Frog is an environmentally friendly firm in the cosmetics industry. If during the strategic planning process Green Frog tried to determine the critical threats and opportunities in its competitive environment, it would be performing a(n)
A) internal analysis.
B) external analysis.
C) WACC analysis.
D) economic analysis.
Answer: B
Diff: 2 Page Ref: 8
Objective: 1.2

89) Green Frog is an environmentally friendly firm in the cosmetics industry. If Green Frog undertook an analysis to help it understand which of its resources and capabilities are likely to be sources of competitive advantage and which are less likely to sources of such advantages it would be performing a(n)
A) internal analysis.
B) external analysis.
C) WACC analysis.
D) economic analysis.
Answer: A
Diff: 2 Page Ref: 8
Objective: 1.2

90) Green Frog is an environmentally friendly firm in the cosmetics industry. If Green Frog were considering expanding beyond the cosmetics industry into pharmaceuticals in order to gain competitive advantages by operating in multiple markets and industries, this would be an example of which type of strategy?
A) Business level strategy
B) Functional level strategy
C) Marketing strategy
D) Corporate level strategy
Answer: D
Diff: 2 Page Ref: 9
Objective: 1.2

91) Define the term "strategy," discuss the set of assumptions and hypotheses that a strategy is based on and discuss what makes a good strategy.
Answer: A firm's strategy is defined as its theory about how to gain competitive advantages. This theory is based on a set of assumptions and hypotheses about how competition in this industry is likely to evolve and how that evolution can be exploited to earn a profit. To the extent that these assumptions and hypotheses accurately describe how competition in this industry actually evolves, the more likely it is that a firm will gain a competitive advantage from implementing its strategies. Thus, a "good strategy" is a strategy that actually generates such advantages.
Diff: 2 Page Ref: 4
Objective: 1.1

92) Define the term "mission" and discuss how a firm's mission can both positively and negatively impact a firm's performance.
Answer: A firm's mission is its long-term purpose and it defines both what a firm aspires to be in the long run and what it wants to avoid in the meantime. If a mission statement does not influence firm behavior, it is unlikely to have an impact on a firm's actions. However, visionary firms, or firms whose mission is central to all they do, tend to earn substantially higher returns than average over the long run even though their mission statements suggest that profit maximization is not their primary reason for existence. However, missions that are inwardly focused and defined only with reference to the personal values and priorities of their founders or top managers, independent of whether or not those values and priorities are consistent with the economic realities facing a firm, are not likely to be a source of competitive advantage.
Diff: 2 Page Ref: 5-6
Objective: 1.2

93) What are objectives, what role do they play in the strategic management process and what differentiates high quality objectives from low quality objectives?
Answer: Objectives are specific measurable targets a firm can use to evaluate the extent to which it is realizing its mission. High quality objectives are tightly connected to elements of a firm's mission and are relatively easy to measure and track over time. Low quality objectives either do not exist or are not connected to elements of a firm's mission, are not quantitative, are difficult to measure or are difficult to track over time.
Diff: 2 Page Ref: 8
Objective: 1.2

94) Differentiate between business level and corporate level strategies and give examples of each.
Answer: Business level strategies are actions firms take to gain competitive advantages in a single market or industry. The two most common business level strategies are cost leadership, such as Wal-Mart, and product differentiation, such as Macy's. Corporate level strategies are actions firms take to gain competitive advantages in multiple markets or industries simultaneously. Common corporate level strategies include vertical integration strategies, diversification strategies, strategic alliances strategies and merger and acquisition strategies.
Diff: 2 Page Ref: 9
Objective: 1.2

95) Define strategy implementation and discuss three specific organizational policies and practices that are particularly important in implementing a strategy.
Answer: Strategy implementation occurs when a firm adopts organizational policies and practices that are consistent with its strategy. Three specific organizational policies and practices are particularly important in implementing a strategy: a firm's formal organizational structure, its formal and informal management control systems, and employee compensation policies.
Diff: 2 Page Ref: 10
Objective: 1.2

96) Discuss the nature of a sustainable competitive advantage. In your answer, identify when a firm has a competitive advantage, define the term "economic value" and distinguish between a temporary competitive advantage and a sustainable competitive advantage.
Answer: In general, a firm has a competitive advantage when it is able to generate more economic value than rival firms. Economic value is simply the difference between the perceived benefits gained by a customer who purchases a firm's products or services and the full economic cost of these products and services. A temporary competitive advantage is a competitive advantage that lasts a very short period of time while a sustained competitive advantage lasts much longer.
Diff: 2 Page Ref: 10-11
Objective: 1.3

97) Identify two approaches to estimating a firm's competitive advantages and discuss the strengths and weaknesses of each.
Answer: The two general approaches to estimating a firm's competitive advantage are measuring accounting performance and measuring economic performance. A firm's accounting performance is a measure of its competitive advantage calculated using information from a firm's published profit and loss and balance sheets, and a firm's accounting performance is determined by comparing a firm's accounting ratios with other firms in the industry. The greatest measure of accounting measures of competitive advantage is that they are relatively easy to compute. The most significant drawback to accounting measures is that they do not consider a firm's cost of capital. Additionally, accounting measures can be difficult to compare across countries. Economic measures of competitive advantage compare a firm's level of return to its cost of capital instead of to the average level of return in the industry. The primary benefit of economic measures is that if a firm earns at least its cost of capital, it is satisfying two of its important stakeholders□debt holders and equity holders. Disadvantages of economic measures include that it can be difficult to calculate a firm's cost of capital, especially for privately held firms, and economic measures may overstate the importance of debt and equity holders.
Diff: 2 Page Ref: 13-19
Objective: 1.4

98) Describe the difference between emergent and intended strategies. Why might firms employ an emergent strategy?
Answer: Intended strategies can best be described as a firm's theories of how to gain a competitive advantage that are developed as a result of the strategic management process. Intended strategies are developed when firms choose and implement their strategies exactly as described by the strategic management process. Alternately, emergent strategies are theories of how to gain a competitive advantage in an industry that emerge over time or that have been radically reshaped once they are implemented. Firms employ emergent strategies since some of the information needed to complete the strategic management process may not be available when firms are developing their intended strategies.
Diff: 2 Page Ref: 20-21
Objective: 1.5

99) Why is it important to understand a firm's strategy, even if you are not a senior manager in a firm?
Answer: First, studying strategy and the strategic management process can give individuals the tools they need to evaluate the strategies of the firms that may hire them. Second, once an individual is working for a firm, understanding that firm's strategy, and their place in it, can be very important to their personal success since the expectations of how they perform their function will be impacted by the firm's strategy. Finally, while strategic choices are generally limited to very experienced managers in large organizations, in smaller and entrepreneurial firms, many employees end up being involved in the strategic management process.
Diff: 2 Page Ref: 23-24
Objective: 1.6

100) What is the residual claimants view of equity holders?
Answer: The residual claimants view is that equity holders only receive payment on their investment in a firm after all legitimate claims by a firm's other stakeholders are satisfied. This view posits that by maximizing returns to its equity holders, a firm is ensuring that its other stakeholders are fully compensated for investing in a firm.
Diff: 2 Page Ref: 21
Objective: 1.5