

Chapter 1: What is Strategy?

TRUE/FALSE

1. Strategic management includes a process by which organizations analyze and learn from their internal and external environments.

ANS: T PTS: 1

2. Strategic thinking deals with the rigid and systematic parts of the strategic management process.

ANS: F PTS: 1

3. Strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy.

ANS: T PTS: 1

4. Strategy is only concerned with what may happen in the future.

ANS: F PTS: 1

5. The goal of strategic management is to develop permanent competitive advantage.

ANS: F PTS: 1

6. Risk in terms of financial returns reflects an investor's uncertainty about economic gains or losses that will result from a particular investment.

ANS: T PTS: 1

7. Average returns are returns in excess of what an investor expects to earn from other investments with a similar amount of risk.

ANS: F PTS: 1

8. The two strategic imperatives for organizations in today's economic environment include opportunity recognition and value creation.

ANS: T PTS: 1

9. The value created by a firm is distributed among a number of stakeholders.

ANS: T PTS: 1

10. Strategy is the overall concept for how a company organizes itself and its activities to conduct business successfully, deliver superior returns to shareholders, and outperform rivals.

ANS: T PTS: 1

11. A sound strategy is easily recognized because it is geared toward a mission of making as much money as possible.

ANS: F PTS: 1

12. The manner in which strategies come about is referred to as the strategy process.

ANS: T PTS: 1

13. The strategy process is concerned with *how*, *what*, *why* and *when* type questions.

ANS: F PTS: 1

14. The role of strategy is to integrate a long-term vision for the company, the market and competitive conditions encountered, and the company's current situation and capabilities.

ANS: T PTS: 1

15. The fundamental goal of strategic management is superior performance.

ANS: T PTS: 1

16. Strategic management always involves planned change, therefore leaders do not need to concern themselves with entrepreneurial activities.

ANS: F PTS: 1

17. Most organizations do not operate in dynamic environments therefore they can assume their strategic plans will be implemented as they are written.

ANS: F PTS: 1

18. The strategic management processes of analysis and formulation are strictly sequential: Analyses must be completed before formulation and not revisited once a strategy has begun to be created.

ANS: F PTS: 1

19. The outcome or product of the strategy process is referred to as the strategy content.

ANS: T PTS: 1

20. The increasing adoption of strategic management principles by organizations in the non-profit and government sectors of the economy means that these types of organizations must identify financial measures of their performance to gauge whether their strategies are working or not.

ANS: F PTS: 1

21. Strategies do not have to be implemented to be considered successful.

ANS: F PTS: 1

22. Strategic thinking involves organizations embracing the past, present and future.

ANS: T PTS: 1

23. One measure by which a non-profit organization might assess the effectiveness of its strategy is by looking at how well its stakeholders are served.

ANS: T PTS: 1

24. Having a clear strategic plan negates any need for managers to understand the firm's business model.

ANS: F PTS: 1

25. Strategic creation is always about change.

ANS: T PTS: 1

MULTIPLE CHOICE

1. Strategic management includes the following:
- a. Establishment of strategic direction
 - b. Analysis of the internal environment
 - c. Strategic restructuring
 - d. All of the above

ANS: D PTS: 1

2. The strategy context is:
- a. The external environment of the industry
 - b. The set of circumstances under which both the strategy process and strategy content are determined
 - c. The combination of needs expressed by stakeholder, shareholders and customers
 - d. The economic environment of the country in which an organization operates

ANS: B PTS: 1

3. Strategic thinking is an activity that:
- a. Involves shareholders shaping the way strategic leaders create strategy
 - b. Involves assessing the internal strengths of an organization
 - c. Involves pursuing a competitive advantage within an industry
 - d. Involves managers considering how they should organize their thinking to achieve a successful strategic reasoning process

ANS: D PTS: 1

4. Strategic formation involves:
- a. Managers organizing their strategizing activities to achieve a successful strategy formation process
 - b. Structuring the organization to ensure it supports the strategy
 - c. Aligning the strategic control measures to monitor implementation
 - d. Gaining the support of stakeholders and shareholders for the proposed strategy

ANS: A PTS: 1

5. Strategic change, a necessary aspect of strategy, requires managers to:
- a. Communicate with suppliers to ensure smooth relationships
 - b. Organize changes to achieve a successful strategic renewal process
 - c. Listen to the needs of customers
 - d. Control processes through monitoring and measurement initiatives

ANS: B PTS: 1

6. Which of the following is not a major activity of the strategic management process?
- Analysis of the internal and external environments
 - Establishment of strategic direction
 - Formulation of strategies
 - Production scheduling

ANS: D PTS: 1

7. A firm has achieved ____ when it successfully formulates and implements a value-creating strategy.
- Strategic competitiveness
 - A permanently sustainable competitive advantage
 - Substantial returns
 - Legal and ethical core values

ANS: A PTS: 1

8. A competitive advantage:
- Can be permanent if the firm has successfully implemented the strategic management process
 - Entails reducing investors' risk to near zero
 - Can be identified only if it has been unsuccessfully challenged by competitors
 - Exists when competing firms are unable to find investors

ANS: C PTS: 1

9. The strategic management process is:
- A set of activities that will assure a sustainable competitive advantage and above-average returns for the firm
 - A decision-making activity concerned with a firm's internal resources, capabilities, and competencies, independent of the conditions in its external environment
 - A process directed by top-management with input from other stakeholders that seeks to achieve above-average returns for investors through effective use of the organization's resources
 - The full set of commitments, decisions, and actions required for the firm to achieve above-average returns and strategic competitiveness

ANS: D PTS: 1

10. The primary drivers of hypercompetition are:
- Rising global socio-economic instability and increased inflation
 - The emergence of a global economy and rapid technological change
 - Increased global competition and decreasing tariffs
 - Increased availability of capital and increased competition

ANS: B PTS: 1

11. The ability to effectively and efficiently access and use information is:
- Vitally important at the point where a domestic firm enters the global market
 - An important source of competitive advantage in virtually all industries
 - The minimum required for survival in virtually any industry
 - Critically important mainly in high technology industries

ANS: B PTS: 1

12. In order to cope with hypercompetition, firms need to develop ____ through continuous learning.
- a. Competitive resilience
 - b. Strategic flexibility
 - c. Strategic power
 - d. Competitive dominance

ANS: B PTS: 1

13. The strategic leader's work is characterized by:
- a. Ambiguous decision situations which make effective decisions difficult to determine
 - b. A willingness to unify stakeholders through skillful manipulation
 - c. An ability to identify the correct solutions to long-range problems
 - d. Concentration on the practical day-to-day aspects of the organization's operations

ANS: A PTS: 1

14. A major assumption about the strategic management process is that it is:
- a. Inspired
 - b. Team-based
 - c. Rational
 - d. Inclusive

ANS: C PTS: 1

15. THE outcome or end-result of a great strategy is:
- a. Customer satisfaction
 - b. Environmental sustainability
 - c. Superior performance
 - d. A monopolistic market position

ANS: C PTS: 1

16. Strategy is a set of activities that occur and decisions that are made:
- a. Throughout all levels of an organization
 - b. By a select team of executives charged with strategic responsibilities
 - c. Primarily by middle managers who are "close to the action"
 - d. Through a "bottom up" process, beginning with first-level supervisors

ANS: A PTS: 1

17. While seemingly a subject of interest mostly to top managers in large corporations, strategy is important to those even at the beginning of their career because:
- a. Interviewers often pose questions that are strategic in nature
 - b. The odds are that they will be employed by a small business and have the opportunity to affect its strategy almost immediately
 - c. Employers nearly always send new recruits to strategic planning retreats shortly after the hiring process has concluded and they have begun work
 - d. Most university graduates will eventually find themselves in jobs entirely devoted to strategy and the planning process

ANS: B PTS: 1

18. The overall concept for how a company organizes itself, outperforms competitors, and earns superior returns for shareholders is called:
- a. Value creation
 - b. Management by objectives
 - c. Opportunity recognition
 - d. Strategy

ANS: D PTS: 1

19. A traditional approach to planning, mostly used before 1980, that often just extrapolates the past into the future is called:

- a. Capital forecasting
- b. Policy capturing
- c. Environmental scanning
- d. Long-range planning

ANS: D PTS: 1

20. The critical outcome measure of strategy is:

- a. Customer retention
- b. Performance
- c. Employee turnover
- d. Environmental sustainability

ANS: B PTS: 1

21. Performance measures of interest to those involved with an organization's strategy should reflect:

- a. Marketing outcomes
- b. Human resource recruiting and staffing results
- c. The company's efforts as a whole
- d. The interpretation of external analyses

ANS: C PTS: 1

22. Strategy:

- a. Dates back to 500bc and the work of the strategist Sun Tzu of China.
- b. Applies concepts developed by the strategist von Clausewitz.
- c. Includes application of principles of military strategy to business competition.
- d. All of the above.

ANS: D PTS: 1

23. Overall, strategy is:

- a. A rulebook.
- b. A set of programmed instructions.
- c. All of the above.
- d. None of the above.

ANS: D PTS: 1

24. Much of our knowledge about "the firm" is from research on firms in:

- a. Anglo-American capitalism
- b. Japan after World War II
- c. German mathematical models
- d. Emerging markets

ANS: A PTS: 1

25. Which is true of strategy?

- a. Business strategy has similarities with military strategy.
- b. Military principles cannot be completely applied in business.
- c. Militaries fight over territories, waters, and air spaces, firms compete in markets.
- d. All of the above

ANS: D PTS: 1

SHORT ANSWER

1. What is strategic management?

ANS:

- Strategic management is the process through which organizations analyze and learn from their internal and external environments.

- Through strategic management organizations establish strategic direction, create strategies that are intended to help achieve established goals, and execute those strategies, all in an effort to satisfy key organizational stakeholders.

PTS: 1

2. What are the key aspects of strategic management?

ANS:

- The *strategy* itself. The establishment of a clear direction for the organization and for every business, product and service, and a means for getting there which requires the creation of strong competitive positions.
- *Implementation* of strategies in order to yield effective performance.
- *Creativity and innovation* needed to ensure that the organization is responsive to pressures for change and that strategies are improved and renewed.
- Ability to manage *strategic change*, both continuous, gradual, incremental changes and more dramatic, discontinuous changes

PTS: 1

3. What is the difference between deliberate and emergent strategies?

ANS:

- The traditional school of thought concerning strategy formulation supports the view that managers respond to the environmental forces by making decisions that are consistent with a preconceived strategy. In other words, strategy is deliberate.
- Deliberate strategy implies that managers *plan* to pursue an *intended* strategic course.
- In some cases, strategy simply emerges from a stream of decisions. Managers learn as they go.
- An emergent strategy is one that was not planned or intended. According to this perspective, managers *learn* what will work through a process of trial and error.

PTS: 1

4. What is strategic thinking and what are its characteristics?

ANS:

- Strategic thinking is the term used to describe the innovative aspects of strategic management.
- Its characteristics include a focus on strategic intent, a long-term perspective, consideration of the past and the present, a systems perspective, the ability to seize unanticipated opportunities, and a scientific approach.

PTS: 1

5. What are the four general ways of approaching strategic tensions?

ANS:

- As a puzzle. A strategy tension that is viewed as a puzzle leads to a need for managers to unravel the problem, to understand it, before arriving at the optimum answer to the puzzle.
- As a dilemma. A strategy tension that is a dilemma is a vexing problem with two possible solutions, neither of which is logically the best. Dilemmas present problem-solvers with difficult either-or choices, each with its own advantages and disadvantages, but neither clearly superior to the other.

- As a trade-off. A strategy tension that is a trade-off is a problem situation in which there are many possible solutions, each striking a different balance between two conflicting pressures. Managers adopting this approach accept the conflict between two opposites and strive to find the appropriate balance between them.
- As a paradox. A strategy tension viewed as a paradox frames the situation as having two seemingly contradictory, or even mutually exclusive, factors that both appear true. With a paradox no real solution is possible, as there is no way to logically integrate the two opposites into an internally consistent understanding of the problem.

PTS: 1

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

ANS:

- Strategic competitiveness is achieved when the firm successfully formulates and implements a value-creating strategy.
- Above-average returns are returns in excess of what investors expect to earn from other investments with similar risk levels.
- Firms will only be able to earn above-average returns if they develop a competitive advantage.
- Competitive advantage derives from a strategy that competitors cannot duplicate or find too costly to imitate.

PTS: 1

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

ANS:

- Hypercompetition is a condition of rapidly escalating competition based on price-quality positioning, competition to create new knowledge and establish first-mover advantage, and competition to protect or invade established product or geographic markets.
- In hypercompetition, firms aggressively challenge their competitors and markets are assumed to be inherently unstable and changeable.
- 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 firm to develop new skills so that they can adapt to the changing environment and to consistently engage in change.

PTS: 1

8. What are the five critical questions that the field of strategy seeks to answer?

ANS:

- *Why are firms different?* Companies share many operational characteristics yet have differing degrees of success in the marketplace. The study of strategy helps us understand those things that contribute to the superior performance of some firms.
- *How are competitive differences sustained?* Many companies outperform rivals for a quarter or two. Yet truly excellent companies do well over extended periods of time.

- *What is special about strategic decisions?* Managers make scores of decisions every day - that is, after all, one of the primary responsibilities of management. Still, very few of those decisions can be characterized as strategic in nature.
- *What is the nature of strategy in a multi-business firm?* We wish to know *how* a business competes successfully with its rivals. The process of strategic management for a multi-business (diversified) firm must take into account additional goals and objectives, including the creation of a high-performing portfolio of businesses.
- *How is strategic effectiveness measured?* The typical methods used to measure a firm's market effectiveness are financial performance indicators which are of significant interest to stockholders. Yet others - employees and suppliers, for example - also have a stake in the prosperity and survival of a firm. They may view effectiveness through different lenses, requiring managers to use a variety of measures of success.

PTS: 1

9. Briefly describe some of the important elements in the strategic management process.

ANS:

- Organizations work toward superior performance. Superior performance is, in part, defined by the organization's managers but it is also determined by external constituencies such as capital markets.
- Analysis and formulation constitute the first stages of strategy creation. The firm must set its direction using a vision and a mission. It must analyze both the external environment and its internal activities and capabilities. The results of these analyses inform the creation of the firm's basic strategic direction.
- The implementation of a strategy requires that adjustments be made as the company encounters changing markets and moves by rivals. Implementation also includes the internal coordination of activities so that the firm has a high likelihood of meeting its goals.
 - An ongoing activity in the strategic management process is evaluation, or feedback. The company must have in place metrics that tell it whether the adopted strategy is a success or needs to be changed in large or small ways.

PTS: 1

10. To what extent should a firm be committed to a particular strategy versus making frequent changes in the strategy?

ANS:

- Strategy is way of being able to anticipate change and respond to it. However, since not all technological, economic, environmental and political changes can always be anticipated, when it becomes obvious that it no longer fits reality, then a change in strategy is appropriate.
- Although the strategy may need to be changed it does not follow that it is pointless to have one. After all, a strategy is intended to move you toward a goal and you are more likely to reach the goal if you have a plan than if you merely float along.

PTS: 1

PROBLEM

1. What are the primary aspects of the strategic management process?

ANS:

- *Analysis.* Analysis involves the development of an understanding of the external environment and internal organization.
- These analyses are completed to identify opportunities and threats in the external environment and to decide how to use the resources, capabilities, and core competencies 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 and makes decisions as to what strategies to utilize to provide returns to shareholders.
- These decisions involve the selection of business-level strategies, which are the firm's actions designed to exploit its competitive advantage over rivals, and its corporate level strategy, which is the firm's scope, which ranges from a single product market to unrelated, diversified firm competing in multiple product markets. The ability to utilize a strategy will be impacted by competing firms.
- Formulation involves the selection of mechanisms such as acquisition and restructuring the firm's portfolio of businesses and the use of cooperative strategies to form a partnership to share resources and capabilities in order to develop a competitive advantage. The firm must also make decisions on its span, business level strategies, and mechanisms for international expansion.
- *Implementation.* Implementation is putting the formulated plan into action. Implementation is facilitated by different mechanisms used to govern firms, the use of appropriate organizational structure and mechanisms to control the firm's operations, the patterns of strategic leadership appropriate for the firm's strategy and competitive environments, and the use of strategic entrepreneurship as a path to continuous innovation.

PTS: 1

2. Briefly describe the two strategic imperatives with which every company must contend.

ANS:

- Companies must become aware of the strategic imperatives of opportunity recognition and value creation.
- The need for opportunity recognition stems from turbulent environments and short product life cycles that pose a threat to firms' existing products. This threat is exacerbated by global competition.
- Managers must be able to exploit emerging opportunities that meet the evolving needs of customers (even if those needs are cultivated by rivals) rather than rely on past successes.
- The imperative of value creation arises from the differences among customers as they balance product and service attributes that best fulfil their needs. It is the primary goal of strategy.
- Value creation calls for a thorough examination of the firm's activities so that investments are made where customers are most likely to find value.
- Firms that add value in desirable areas of their operations will be able to distribute the returns to stockholders and employees as well as customers.

PTS: 1