Chapter 01

What is Strategy?

**Multiple Choice Questions**

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| 1. | Which of the following strategies does Twitter need to implement to increase its competitive advantage?

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| A.  | charge no fee to individual users |

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| B.  | increase its user base |

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| C.  | deliver ads in real time |

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| D.  | allow core users to stay always connected |

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| 2. | \_\_\_\_\_ is best described as an integrative management field that combines analysis, formulation, and implementation in the quest for competitive advantage.

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| A.  | Supply chain management |

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| B.  | Integrated technology management |

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| C.  | Strategic management |

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| D.  | Inventory management |

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| 3. | \_\_\_\_\_ is best described as a set of goal-directed actions a firm takes to gain and sustain superior performance relative to competitors.

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| A.  | Behavior modification |

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| B.  | Strategy |

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| C.  | Credo |

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| D.  | Competency management |

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| 4. | Which of the following stages of the strategic management process involves an evaluation of a firm's external and internal environments?

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| A.  | strategy analysis |

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| B.  | strategy implementation |

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| --- | --- |
| C.  | strategy formulation |

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| --- | --- |
| D.  | strategy control |

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| 5. | In \_\_\_\_\_, a firm frames a guiding policy to address the competitive challenge.

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| A.  | strategy control |

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| --- | --- |
| B.  | strategy implementation |

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| --- | --- |
| C.  | strategy formulation |

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| --- | --- |
| D.  | strategy analysis |

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| 6. | Through \_\_\_\_\_, a firm puts its guiding policy into practice by employing a set of coherent actions.

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| A.  | strategy control |

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| B.  | strategy implementation |

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| C.  | strategy formulation |

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| --- | --- |
| D.  | strategy analysis |

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| 7. | A firm that achieves superior performance relative to other firms in the same industry or the industry average has a(n)

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| A.  | competitive advantage.  |

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| B.  | balanced scorecard.  |

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| --- | --- |
| C.  | power position.  |

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| D.  | equity leverage.  |

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| 8. | Patterson Foods Inc. was the first company to start selling energy bars in its country—a product that gained popularity among diverse groups. Soon, other companies started to sell their own brands of energy bars, thereby giving Patterson Foods ample competition. In response, Patterson Foods decided to limit its variety of energy bars to only four. However, it ensured that these four varieties were low in calories and low in cost. With this innovation, Patterson Foods Inc. consistently outperformed its competitors for ten years. In this scenario, Patterson Foods Inc. maintained a \_\_\_\_\_ through its innovative strategy.

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| A.  | balanced scorecard  |

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| B.  | fiduciary responsibility  |

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| --- | --- |
| C.  | consistent power position  |

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| --- | --- |
| D.  | sustainable competitive advantage  |

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| 9. | Which of the following scenarios illustrates a firm that has a sustainable competitive advantage?

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| A.  | Jamison Inc. generated revenue of $300,000 this financial year, which is close to the industrial revenue average of $320,000. |

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| B.  | CR Inc. almost doubled its sales to 9,000 units this year compared to its previous year's sales of 5,000 units, though the industry average is 10,000 units. |

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| C.  | Zhang Corp. was able to hold its market share of 68 percent in the social networking industry for more than three years. |

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| D.  | Peak Inc. was able to outperform its competitors with its new production system, in terms of revenue, for a brief period of four months. |

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| 10. | If SA Pharmaceuticals obtains an 18 percent return on invested capital, which of the following will help determine if it has a competitive advantage over other pharmaceutical companies?

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| A.  | comparing the return to the return on invested capital obtained by other firms in the industry  |

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| B.  | assessing the value based on the shareholders' expectations of return on their capital  |

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| C.  | evaluating the liquidity ratios for other pharmaceutical companies  |

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| D.  | comparing the value to the history of the firm's return of investment over a number of years  |

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| 11. | Underperformance relative to other firms in the same industry or the industry average results in a(n) \_\_\_\_\_ for a firm.

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| A.  | sustainable competitive advantage  |

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| B.  | increased power distance  |

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| C.  | diseconomies of scope  |

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| D.  | competitive disadvantage  |

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| 12. | The Scoop, Ltd. is a magazine publishing company whose average return on invested capital is approximately 5 percent. Because magazine publishing is a declining industry, the industry average has been negative (–5 percent) for the last few years. In this scenario, The Scoop Ltd. has a

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| --- | --- |
| A.  | competitive advantage.  |

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| B.  | balanced scorecard.  |

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| C.  | competitive disadvantage.  |

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| D.  | power position.  |

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| 13. | Rapida Inc. and Click Inc. are two companies that have been manufacturing typewriters for almost 30 years. Due to the reduced demand for typewriters today, both companies' average return on invested capital is approximately –5 percent. The current industry average is 2 percent. In this scenario, Rapida Inc. and Click Inc. most likely have

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| A.  | competitive advantage over other firms in their industry.  |

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| B.  | competitive parity with each other.  |

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| C.  | strategic alliance with each other.  |

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| D.  | economies of scope instead of economies of scale.  |

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| 14. | The average cost of production for a bottle of vitamin water in the industry is $4 while its average price is $7. StoreAll Inc. manufactures the same product for $3 per bottle and sells it for $7 per bottle. Which of the following statements is most likely true of StoreAll Inc. in this scenario?

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| A.  | It has a competitive advantage in the industry.  |

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| B.  | It has a competitive disadvantage in the industry.  |

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| C.  | It has competitive parity with other firms in the industry.  |

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| D.  | It has formed a strategic alliance with other firms in the industry.  |

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| 15. | A firm is said to gain a competitive advantage when it can

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| A.  | exceed its own previous performances. |

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| B.  | provide products similar to its competitors, but at lower prices. |

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| C.  | perform at the same level as that of its competitors. |

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| D.  | minimize the difference between value creation and cost. |

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| 16. | FindFor Inc. is an e-commerce retail firm that sells a variety of merchandise online. Through services like cash on delivery, easy return, and online tracking, the company has created more customer value than its competitors (brick-and-mortar businesses) at the same price. Also, the company's costs are substantially low due to minimal investment in operation and administration. In this scenario, FindFor Inc. has most likely been able to provide superior value and cost control through

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| A.  | strategic parity. |

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| B.  | strategic profiling. |

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| C.  | strategic liquidation. |

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| D.  | strategic positioning. |

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| 17. | A firm *always* has a competitive disadvantage when its return on invested capital is

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| A.  | below the industry average. |

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| B.  | 2 percent or lower in a declining industry. |

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| C.  | about the same as its closest competitor. |

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| D.  | declining steadily over two or more years. |

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| 18. | Silver Screen Cinemas Inc. and Digi Now Inc. are two companies that own and run movie theaters in malls and other commercial areas. While Silver Screen Cinemas Inc. pursues a cost-leadership strategy, Digi Now Inc. adopts a differentiation strategy. Which of the following statements is most likely true of this scenario?

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| A.  | Silver Screen Cinemas will charge a premium price for its customers, while Digi Now will implement everyday low pricing.  |

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| B.  | Digi Now and Silver Screen Cinemas will not be direct competitors to each other, and their customer segments will overlap very little.  |

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| C.  | Digi Now will keep its customer service at an acceptable level, while Silver Screen Cinemas will provide superior customer service.  |

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| D.  | Silver Screen Cinemas and Digi Now will use a similar approach to create value for customers by attempting to offer everything to everybody.  |

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| 19. | For a firm that operates in an industry where competition is high, which of the following practices will result in inferior performance?

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| A.  | choosing a distinct but different strategic position in the industry  |

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| B.  | working toward increasing the difference between value creation and cost  |

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| C.  | trying to be everything to everybody by combining different competitive strategies  |

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| D.  | focusing on creating value for customers rather than destroying rivals  |

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| 20. | If a company wants to gain a competitive advantage in a highly competitive industry, it should ideally

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| A.  | execute an integrated cost-leadership and differentiation position.  |

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| B.  | copy the strategies of other firms through competitive benchmarking.  |

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| C.  | provide goods or services similar to its competitors at higher prices.  |

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| D.  | stake out a unique position within the industry.  |

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| 21. | Jake's Taxi Service is a new entrant to the taxi industry. It has achieved success by staking out a unique position in the industry. How did Jake's Taxi Service mostly likely achieve this position?

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| A.  | providing long-distance cab fares at a higher rate than competitors; servicing a larger area than competitors  |

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| --- | --- |
| B.  | providing long-distance cab fares at a lower rate than competitors; servicing a smaller area than competitors  |

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| --- | --- |
| C.  | providing long-distance cab fares at a higher rate than competitors; servicing the same area as competitors  |

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| --- | --- |
| D.  | providing long-distance cab fares at a lower rate than competitors; servicing the same area as competitors  |

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| 22. | Pink Couture Inc. and Pink Blush Inc. are two companies in the apparel industry. While Pink Couture Inc. focuses on providing unique product features and superior customer service, Pink Blush Inc. focuses on low prices and minimal customer service. Both companies have been able to gain a competitive advantage. This is most likely because the companies have

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| A.  | executed integrated strategies. |

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| B.  | entered into a cartel arrangement. |

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| C.  | pursued distinct strategic positions. |

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| D.  | engaged in direct imitation and substitution. |

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| 23. | Which of the following is an implication of all firms in an industry pursuing a low-cost position through application of competitive benchmarking?

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| A.  | No firm would face direct competition from others in the industry; hence, profit potential would be high. |

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| B.  | Each firm would be catering to a different customer segment. |

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| C.  | The firms would eventually have no resources to invest in product and process improvements. |

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| D.  | Each firm would be in a better position to gain a competitive advantage. |

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| 24. | Which of the following statements should ideally reflect a firm's strategy for competitive advantage?

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| A.  | Our strategy is to win at any cost. |

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| B.  | We will be number one in the industry. |

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| C.  | Our aim is to create superior customer value while controlling costs. |

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| D.  | We want to be the market leader by replicating our competitor's strategy. |

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| 25. | Which of the following factors most effectively contributed to the success of Threadless in comparison to other companies with T-shirt designs, including American Eagle, Old Navy, and Urban Outfitters?

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| A.  | its reliance on crowdsourcing |

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| B.  | its point-to-point business model |

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| C.  | its hub-and-spoke system |

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| D.  | its shorter distances |

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| 26. | Which of the following statements about strategy is *not* true?

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| A.  | Grandiose statements of desire, on their own, are not strategy. |

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| B.  | Strategy is as much about deciding what not to do, as it is about deciding what to do. |

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| C.  | Strategy is about creating superior value, while containing the cost to create it. |

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| D.  | Operational effectiveness and competitive benchmarking should be treated as strategy. |

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| 27. | Industry effects describe the underlying \_\_\_\_\_ structure of the industry.

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| A.  | demographic |

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| B.  | economic |

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| C.  | psychographic |

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| D.  | ethnographic |

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| 28. | Which of the following statements accurately describes firm effects?

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| A.  | They attribute firm performance to the industry in which the firm competes. |

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| B.  | They attribute firm performance to the actions managers take within a chosen industry. |

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| C.  | They refer to the value-creation potential of a large, diversified enterprise. |

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| D.  | They refer to the external circumstances surrounding all the firms in an industry. |

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| 29. | Which of the following forces tends to be more important in determining a firm's performance?

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| A.  | the underlying economic structure |

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| B.  | the entry barriers in the industry |

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| C.  | the actions of managers within the firm |

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| D.  | the number and size of other firms in the industry |

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| 30. | A company wants to determine how industry effects have affected its profitability. Which of the following elements should the company focus on?

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| A.  | the barriers to entry and exit within the industry |

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| B.  | the pricing method opted by the managers to face competition within the industry |

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| C.  | the brand strategy the managers adopt to establish the firm in the industry |

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| D.  | the strategic position the firm pursues within the industry |

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| 31. | Which of the following forces is most closely related to industry effects within the automobile industry?

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| A.  | the actions taken to improve employee productivity within a firm |

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| B.  | the human resource strategy managers adopt to acquire the best talent from the industry |

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| C.  | the types of products and the services offered within the industry |

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| D.  | the decisions made within a firm regarding pricing of a product in the market |

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| 32. | \_\_\_\_\_ are incidents that describe highly improbable but highly impactful events.

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| A.  | Miracle events |

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| B.  | Wild card events |

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| --- | --- |
| C.  | Black swan events |

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| D.  | Fat tail risk events |

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| 33. | Shortly after the small island of Balamia experienced multiple unexpected high-intensity earthquakes that caused massive destruction, many banks and insurance companies filed for bankruptcy. This left the economy of the country in a poor state. The natural calamity in Balamia best exemplifies

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| A.  | a black swan event. |

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| --- | --- |
| B.  | a wild card event. |

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| C.  | skewness risk. |

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| D.  | kurtosis risk. |

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| 34. | Due to several black swan events in the past, the

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| A.  | shareholders of public companies have become more confident in investing their resources in businesses. |

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| B.  | need for corporate governance and transparency has reduced within various industries. |

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| C.  | nations around the globe have explicitly appreciated and accepted capitalism as an economic system. |

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| D.  | implicit trust relationship between the corporate world and society at large has deteriorated. |

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| 35. | When the strong dictatorial rule in Backenstein unexpectedly collapsed due to the shocking death of the royal family in an explosion, the nation's economy experienced drastic changes. The laws became more restrictive, the country lost many locally produced resources and products, and the distribution of wealth became inequitable. The unexpected event that led to these changes can best be described as a(n) \_\_\_\_\_ event.

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| A.  | extinction  |

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| --- | --- |
| B.  | wild card  |

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| --- | --- |
| C.  | black swan  |

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| --- | --- |
| D.  | miracle  |

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| 36. | In the United States, which of the following was born out of dissatisfaction with the capitalist system in 2011?

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| A.  | the Sarbanes-Oxley Act  |

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| B.  | the Occupy movement  |

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| C.  | the Tea Party movement  |

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| D.  | the Taft-Hartley Act  |

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| 37. | Which of the following was a key driver in the Occupy movement of 2011?

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| A.  | the need for a capitalist economic system |

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| B.  | the issue of income disparity |

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| C.  | the need to reduce government intervention in businesses |

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| D.  | the issue related to dumping of cheap foreign products |

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| 38. | The past black swan events in the United States demonstrate that

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| A.  | managerial actions can affect the economic well-being of large numbers of people around the globe. |

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| B.  | decisions and strategies implemented within a firm will only affect the firm and not the entire industry. |

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| C.  | corporate governance is unnecessary as firms are becoming socially responsible. |

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| D.  | industry effects are more important than firm effects in determining firm performance. |

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| 39. | Javier, a retired CEO, invests capital in a start-up company that creates budgeting software. He mentors the entrepreneur and the employees of the company because he wants the company to perform well and survive in the market. Thus, Javier is the start-up company's

|  |  |
| --- | --- |
| A.  | headhunter. |

|  |  |
| --- | --- |
| B.  | category captain. |

|  |  |
| --- | --- |
| C.  | employee. |

|  |  |
| --- | --- |
| D.  | stakeholder. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. | Organic Food Inc., a multinational company, relies on its media partner Radio Plus to regularly advertise its offers, sales, and new products. Radio Plus is invested in this relationship because it generates most of its revenue from advertising Organic Food's products. In this scenario, Radio Plus is Organic Food Inc.'s

|  |  |
| --- | --- |
| A.  | stockholder. |

|  |  |
| --- | --- |
| B.  | workforce. |

|  |  |
| --- | --- |
| C.  | internal stakeholder. |

|  |  |
| --- | --- |
| D.  | external stakeholder. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. | Which of the following is an example of a firm's external stakeholder?

|  |  |
| --- | --- |
| A.  | employees |

|  |  |
| --- | --- |
| B.  | customers |

|  |  |
| --- | --- |
| C.  | shareholders |

|  |  |
| --- | --- |
| D.  | board members |

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| 42. | Which of the following is *not* an example of a software company's external stakeholder?

|  |  |
| --- | --- |
| A.  | creditors  |

|  |  |
| --- | --- |
| B.  | customers  |

|  |  |
| --- | --- |
| C.  | alliance partners  |

|  |  |
| --- | --- |
| D.  | project managers  |

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| 43. | Rachel owns a large portion of GM Cube Inc.'s stocks. However, she is not employed by the company. In this scenario, Rachel is the company's

|  |  |
| --- | --- |
| A.  | external stakeholder. |

|  |  |
| --- | --- |
| B.  | internal stakeholder. |

|  |  |
| --- | --- |
| C.  | creditor. |

|  |  |
| --- | --- |
| D.  | customer. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. | Sun Inc., a vendor, regularly supplies pallets to Octangle Corp. for its shipping business. Therefore, Sun Inc. is Octangle Corp.'s

|  |  |
| --- | --- |
| A.  | internal stakeholder. |

|  |  |
| --- | --- |
| B.  | stockholder. |

|  |  |
| --- | --- |
| C.  | shareholder. |

|  |  |
| --- | --- |
| D.  | external stakeholder. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. | State-level government agencies that check whether firms are meeting statutory safety measures in their production units are considered to be the firms'

|  |  |
| --- | --- |
| A.  | stockholders. |

|  |  |
| --- | --- |
| B.  | shareholders. |

|  |  |
| --- | --- |
| C.  | internal stakeholders. |

|  |  |
| --- | --- |
| D.  | external stakeholders. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. | Which of the following best qualifies as a firm's internal stakeholder?

|  |  |
| --- | --- |
| A.  | an auditor assigned to the firm by a federal government agency  |

|  |  |
| --- | --- |
| B.  | a labor union with whom the firm's employees can affiliate  |

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| --- | --- |
| C.  | a manager taking care of the firm's operations in a foreign market  |

|  |  |
| --- | --- |
| D.  | a competitor manufacturing the same products as that of the firm  |

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| 47. | The best example of a firm's external stakeholder is a(n)

|  |  |
| --- | --- |
| A.  | government agency that regulates the prices of products manufactured by the firm.  |

|  |  |
| --- | --- |
| B.  | board member from a wholly-owned foreign subsidiary of the firm.  |

|  |  |
| --- | --- |
| C.  | shareholder who has invested money in the firm but is not employed by the firm.  |

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| --- | --- |
| D.  | employee of the firm who is responsible for a contract project.  |

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| 48. | The interaction between a firm and its diverse internal and external stakeholders is best described as a(n)

|  |  |
| --- | --- |
| A.  | ergonomic relationship.  |

|  |  |
| --- | --- |
| B.  | cartel arrangement.  |

|  |  |
| --- | --- |
| C.  | exchange relationship.  |

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| --- | --- |
| D.  | fiduciary responsibility.  |

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| 49. | Stakeholder strategy is an integrative approach to managing a diverse set of stakeholders effectively in order to

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| --- | --- |
| A.  | single-mindedly focus on the stockholders alone. |

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| --- | --- |
| B.  | gain and sustain competitive advantage. |

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| --- | --- |
| C.  | minimize the joint value created. |

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| --- | --- |
| D.  | minimize the difference between value creation and cost. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 50. | A firm's stakeholder strategy primarily allows the firm to

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| --- | --- |
| A.  | analyze and manage how various external and internal stakeholders interact to jointly create and trade value. |

|  |  |
| --- | --- |
| B.  | effectively isolate its internal stakeholders (like shareholders and employees) from its external stakeholders (like customers and media). |

|  |  |
| --- | --- |
| C.  | transfer the contributions external stakeholders make into benefits for the internal stakeholders. |

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| --- | --- |
| D.  | facilitate the development of a competitive relationship between its internal and external stakeholders. |

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| 51. | A core tenet of stakeholder strategy is that a

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| --- | --- |
| A.  | firm should isolate its internal stakeholders from its external stakeholders. |

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| --- | --- |
| B.  | single-minded focus on shareholders alone exposes a firm to undue risks that can threaten the very survival of the enterprise. |

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| --- | --- |
| C.  | multifaceted exchange relationship with internal and external stakeholders can lead to a firm's competitive disadvantage. |

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| D.  | firm should work toward competitive parity rather than gaining and sustaining a competitive advantage. |

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| 52. | In a firm, a strategist's job should be to

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| --- | --- |
| A.  | limit the participation of external stakeholders—customers and suppliers—in value creation. |

|  |  |
| --- | --- |
| B.  | isolate the firm's internal stakeholders from its external stakeholders. |

|  |  |
| --- | --- |
| C.  | focus solely, in a single-minded manner, on maximizing shareholder wealth. |

|  |  |
| --- | --- |
| D.  | understand the complex web of exchange relationships among different stakeholders. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. | BlueStainless Corp. has been able to gain and sustain a competitive advantage due to its strong relationship with its employees, customers, suppliers, and local communities. The company believes in lifetime employment and ensures that its employees grow along with the company. Investors are more than satisfied with the returns on their investments. Also, 3 percent of the company's profit is spent on community development. With initiatives like these, customers feel privileged to associate themselves with BlueStainless products. This scenario best illustrates the implementation of a

|  |  |
| --- | --- |
| A.  | strategic analysis. |

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| --- | --- |
| B.  | stakeholder strategy. |

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| --- | --- |
| C.  | wild card event. |

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| --- | --- |
| D.  | black swan event. |

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| 54. | Which of the following scenarios best illustrates a good stakeholder strategy?

|  |  |
| --- | --- |
| A.  | VP Inc. follows a strategy in which maximization of the shareholder's wealth is the primary concern of the managers.  |

|  |  |
| --- | --- |
| B.  | Carrvero Inc. ensures that its employees are paid the least in the industry so that its external stakeholders can get the best price.  |

|  |  |
| --- | --- |
| C.  | PA Corp. distributes only 70 percent of its annual profit after taxes to shareholders, while the remaining is distributed among employees and the local community, and invested for further research.  |

|  |  |
| --- | --- |
| D.  | Gen Pharma Corp. ensures that it fully exploits free natural resources, so that most of its profits go to shareholders in the form of dividends.  |

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| 55. | \_\_\_\_\_ provides a decision tool that enables a firm to act as a good corporate citizen by allowing its managers to recognize, prioritize, and address the needs of different groups of individuals who take personal interest in the firm's performance and survival.

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| --- | --- |
| A.  | Strategy analysis  |

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| --- | --- |
| B.  | Stakeholder impact analysis  |

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| --- | --- |
| C.  | The SWOT analysis  |

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| --- | --- |
| D.  | Strategic positioning  |

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| 56. | Which of the following is *not* a stakeholder attribute that managers consider during stakeholder impact analysis?

|  |  |
| --- | --- |
| A.  | a stakeholder's power  |

|  |  |
| --- | --- |
| B.  | a stakeholder's legitimate claim  |

|  |  |
| --- | --- |
| C.  | a stakeholder's urgent claim  |

|  |  |
| --- | --- |
| D.  | a stakeholder's liquidity  |

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| 57. | Stakeholder impact analysis primarily helps a firm

|  |  |
| --- | --- |
| A.  | gain a competitive advantage while acting as a good corporate citizen.  |

|  |  |
| --- | --- |
| B.  | lower the difference between its value creation and costs.  |

|  |  |
| --- | --- |
| C.  | single-mindedly focus on shareholders alone.  |

|  |  |
| --- | --- |
| D.  | exploit external stakeholders to benefit internal stakeholders.  |

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| 58. | The first step in stakeholder impact analysis involves

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| --- | --- |
| A.  | formulating a stakeholder strategy to balance the different needs of various stakeholders. |

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| --- | --- |
| B.  | identifying the opportunities and threats the stakeholders present. |

|  |  |
| --- | --- |
| C.  | describing the economic, legal, ethical, and philanthropic responsibilities of the firm toward the society. |

|  |  |
| --- | --- |
| D.  | identifying the stakeholders that currently have, or potentially can have, a material effect on a company. |

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| 59. | Which of the following groups is considered to be the primary stakeholder for public-stock companies?

|  |  |
| --- | --- |
| A.  | suppliers of capital |

|  |  |
| --- | --- |
| B.  | employees |

|  |  |
| --- | --- |
| C.  | suppliers |

|  |  |
| --- | --- |
| D.  | potential customers |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60. | After a firm has identified its key stakeholders in stakeholder impact analysis, the immediate next step is to

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| --- | --- |
| A.  | recognize the opportunities and threats the stakeholders present. |

|  |  |
| --- | --- |
| B.  | identify stakeholders' interests and claims. |

|  |  |
| --- | --- |
| C.  | formulate a stakeholder strategy. |

|  |  |
| --- | --- |
| D.  | address the stakeholders' concerns. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 61. | As the legal owners, \_\_\_\_\_ have the most legitimate claim on a company's profits.

|  |  |
| --- | --- |
| A.  | creditors |

|  |  |
| --- | --- |
| B.  | employees |

|  |  |
| --- | --- |
| C.  | shareholders |

|  |  |
| --- | --- |
| D.  | board members |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 62. | The management of Five Square Corp. wants to reduce the separation between ownership (by shareholders) and control of the firm (by professional managers). Which of the following practices would best help the company do this?

|  |  |
| --- | --- |
| A.  | allowing employees to purchase the stock of the company at a discounted rate  |

|  |  |
| --- | --- |
| B.  | reinvesting the annual profits of the company into research and development  |

|  |  |
| --- | --- |
| C.  | issuing new additional shares to the existing stockholders in proportion to their current holdings  |

|  |  |
| --- | --- |
| D.  | declaring the annual profits as bonus dividends to the existing stockholders  |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 63. | The board at TriCom Manufacturing Corp. has decided to allocate 20 percent of the company's shares to its workforce, at a discounted price. Apart from being a valued investment, the plan will allow the employees to take personal responsibility for the firm's performance. Which of the following employee incentive schemes does this best illustrate?

|  |  |
| --- | --- |
| A.  | employee provident fund |

|  |  |
| --- | --- |
| B.  | employee gratuity fund |

|  |  |
| --- | --- |
| C.  | employee stock ownership plan |

|  |  |
| --- | --- |
| D.  | employee emergency loan program |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 64. | Which of the following statements about a firm's stakeholders is true?

|  |  |
| --- | --- |
| A.  | Irrespective of whether the stakeholders are internal or external, the claims and interests of all stakeholders are the same. |

|  |  |
| --- | --- |
| B.  | As the legal owners, employees in a public-stock company have the most legitimate claim on a company's profits. |

|  |  |
| --- | --- |
| C.  | Within stakeholder groups there can be significant variation in the power a stakeholder may exert on a firm. |

|  |  |
| --- | --- |
| D.  | Only internal stakeholders make specific contributions to a firm, which in turn provides different types of benefits to the external stakeholders. |

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| 65. | Which of the following would be considered a weak stakeholder strategy?

|  |  |
| --- | --- |
| A.  | putting shareholder interests above the interests of other stakeholders |

|  |  |
| --- | --- |
| B.  | addressing the concerns of all stakeholders, including employees |

|  |  |
| --- | --- |
| C.  | always using fair and ethical practices to satisfy stakeholders |

|  |  |
| --- | --- |
| D.  | ensuring that the primary stakeholders achieve their objectives |

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| 66. | Which of the following does *not* explain why activist investors have more power over a firm than individual investors?

|  |  |
| --- | --- |
| A.  | Activist investors can buy or sell large numbers of shares at once. |

|  |  |
| --- | --- |
| B.  | Activist investors can exercise block-voting rights over individual investors. |

|  |  |
| --- | --- |
| C.  | Activist investors can demand seats on company boards. |

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| --- | --- |
| D.  | Activist investors have more legitimacy than individual investors. |

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| 67. | Which of the following is step 3 in the five-step process of stakeholder impact analysis?

|  |  |
| --- | --- |
| A.  | identifying the most powerful stakeholders (both internal and external) and their needs |

|  |  |
| --- | --- |
| B.  | identifying the stakeholders' interests and claims |

|  |  |
| --- | --- |
| C.  | identifying the opportunities and threats the stakeholders present |

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| --- | --- |
| D.  | identifying the social responsibilities of the firm toward its stakeholders |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 68. | \_\_\_\_\_ is best described as a framework that helps firms recognize and address the economic, legal, social, and philanthropic expectations that society has of the business enterprise at a given point in time.

|  |  |
| --- | --- |
| A.  | Corporate social responsibility |

|  |  |
| --- | --- |
| B.  | Integrated social network |

|  |  |
| --- | --- |
| C.  | Strategic positioning |

|  |  |
| --- | --- |
| D.  | Strategy formulation |

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| 69. | In stakeholder impact analysis, identifying the opportunities and threats presented by stakeholders is immediately followed by

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| --- | --- |
| A.  | recognizing the economic, legal, ethical, and philanthropic responsibilities of the firm to its stakeholders. |

|  |  |
| --- | --- |
| B.  | formulating the stakeholder strategy to address and effectively balance the different needs of various stakeholders. |

|  |  |
| --- | --- |
| C.  | identifying the interests and the claims of the stakeholders. |

|  |  |
| --- | --- |
| D.  | isolating the external stakeholders from the internal stakeholders. |

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| 70. | Which of the following statements accurately describes corporate social responsibility (CSR)?

|  |  |
| --- | --- |
| A.  | CSR promotes the view that companies should single-mindedly focus on shareholders alone. |

|  |  |
| --- | --- |
| B.  | CSR is limited to the notion of encouraging businesses to "just be nice" to society. |

|  |  |
| --- | --- |
| C.  | CSR provides a conceptual model that more completely describes a society's expectations. |

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| --- | --- |
| D.  | CSR is based on the tenet that the needs of both internal and external stakeholders are the same. |

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| 71. | Paying taxes to local government authorities from the annual revenues generated by a firm represents the firm's \_\_\_\_\_ responsibilities.

|  |  |
| --- | --- |
| A.  | philanthropic |

|  |  |
| --- | --- |
| B.  | economic |

|  |  |
| --- | --- |
| C.  | psychographic |

|  |  |
| --- | --- |
| D.  | political |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 72. | Which of the following is typically an economic responsibility of a firm?

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| --- | --- |
| A.  | sourcing raw materials from highly developed countries |

|  |  |
| --- | --- |
| B.  | paying adequate returns to the firm's stockholders on the capital invested by them |

|  |  |
| --- | --- |
| C.  | donating resources, in terms of money and time, toward community development |

|  |  |
| --- | --- |
| D.  | helping a nation increase its import of goods and services |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 73. | A firm's economic responsibilities are primarily directed toward

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| --- | --- |
| A.  | minimizing shareholders' wealth. |

|  |  |
| --- | --- |
| B.  | acting as a good corporate citizen. |

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| --- | --- |
| C.  | doing what is right, just, and fair. |

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| --- | --- |
| D.  | gaining and sustaining competitive advantage. |

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| 74. | The minimum wage in the country of New Morland is $8 an hour. Odion, a restaurant in New Morland's capital city, pays its servers $8 per hour. However, the management of the restaurant feels that this amount is excessive for workers whose only job is to clear tables. By continuing to adhere to the rules set by the government of New Morland, which of the following responsibilities is Odion satisfying?

|  |  |
| --- | --- |
| A.  | legal responsibilities |

|  |  |
| --- | --- |
| B.  | philanthropic responsibilities |

|  |  |
| --- | --- |
| C.  | ethical responsibilities |

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| --- | --- |
| D.  | demographic responsibilities |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 75. | The amount of xylene that can be used in household paint is legally limited to 0.03 percent. Anything beyond this amount is hazardous to health and the environment, and considered a legal offense. Consequently, CW Paints Corp. has vouched to make its products as safe as possible. Therefore, it manufactures xylene-free paints even though this increases its costs and reduces the dividends paid to its shareholders in the long run. Which of the following responsibilities is CW Paints Corp. primarily compromising in this scenario?

|  |  |
| --- | --- |
| A.  | legal responsibilities toward the government |

|  |  |
| --- | --- |
| B.  | economic responsibilities toward its shareholders |

|  |  |
| --- | --- |
| C.  | philanthropic responsibilities toward the local community |

|  |  |
| --- | --- |
| D.  | ethical responsibilities toward the society |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 76. | Van Dyke's Fashion Inc., a company that manufactures clothing, incurs higher costs because of its refusal to build factories in countries where child labor is prevalent. This reflects Van Dyke's Fashion's \_\_\_\_\_ responsibility.

|  |  |
| --- | --- |
| A.  | economic |

|  |  |
| --- | --- |
| B.  | legal |

|  |  |
| --- | --- |
| C.  | ethical |

|  |  |
| --- | --- |
| D.  | demographic |

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| 77. | Within corporate social responsibility, \_\_\_\_\_ essentially reflects the notion of a business voluntarily giving back to society.

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| --- | --- |
| A.  | social networking |

|  |  |
| --- | --- |
| B.  | corporate citizenship |

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| --- | --- |
| C.  | corporate governance |

|  |  |
| --- | --- |
| D.  | social bookmarking |

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| 78. | Which of following practices of a firm satisfies its ethical responsibilities?

|  |  |
| --- | --- |
| A.  | using plastic as the packaging material though it is harmful to the environment, yet legal |

|  |  |
| --- | --- |
| B.  | outsourcing production to a less developed country and paying wages that are below its own country's accepted minimum wages |

|  |  |
| --- | --- |
| C.  | using advertising and other forms of promotion to endorse luxurious lifestyles |

|  |  |
| --- | --- |
| D.  | selling vaccines at a subsidized price in a less developed country even though this results in reduced shareholder returns |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 79. | In the pyramid of corporate social responsibility, \_\_\_\_\_ responsibilities are the foundational building block.

|  |  |
| --- | --- |
| A.  | economic |

|  |  |
| --- | --- |
| B.  | ethical |

|  |  |
| --- | --- |
| C.  | philanthropic |

|  |  |
| --- | --- |
| D.  | legal |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 80. | The society and shareholders mandatorily require a firm to perform its \_\_\_\_\_ responsibilities.

|  |  |
| --- | --- |
| A.  | ethical |

|  |  |
| --- | --- |
| B.  | philanthropic |

|  |  |
| --- | --- |
| C.  | legal |

|  |  |
| --- | --- |
| D.  | political |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 81. | Which of the following responsibilities results from a society's mere expectations of a business and not because the society and the shareholders mandatorily require the business to demonstrate it?

|  |  |
| --- | --- |
| A.  | economic responsibilities |

|  |  |
| --- | --- |
| B.  | legal responsibilities |

|  |  |
| --- | --- |
| C.  | contract responsibilities |

|  |  |
| --- | --- |
| D.  | philanthropic responsibilities |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. | Which of the following statements is true of the social responsibilities of a business?

|  |  |
| --- | --- |
| A.  | A firm's ethical responsibilities go beyond its legal responsibilities. |

|  |  |
| --- | --- |
| B.  | Shareholders mandatorily require a firm to perform its ethical and philanthropic responsibilities. |

|  |  |
| --- | --- |
| C.  | Ethical responsibilities are the foundational building block of a firm's social responsibility. |

|  |  |
| --- | --- |
| D.  | Legal responsibilities are often subsumed under the idea of corporate citizenship, reflecting the notion of voluntarily giving back to society. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. | The society and the shareholders just expect, and do not mandatorily require, a firm to

|  |  |
| --- | --- |
| A.  | pay fair dividends and returns to the investors.  |

|  |  |
| --- | --- |
| B.  | follow the employment laws of a country.  |

|  |  |
| --- | --- |
| C.  | provide safe and quality products to the customers.  |

|  |  |
| --- | --- |
| D.  | pay its workers more than the minimum living wage.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 84. | In the final step of the stakeholder impact analysis, a firm

|  |  |
| --- | --- |
| A.  | identifies its stakeholders' interests and claims.  |

|  |  |
| --- | --- |
| B.  | differentiates its internal stakeholders from its external stakeholders.  |

|  |  |
| --- | --- |
| C.  | recognizes the opportunities and threats stakeholders present.  |

|  |  |
| --- | --- |
| D.  | decides a course of action to address the stakeholders' concerns.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 85. | The U.S. government legitimized claims by thousands of businesses and individuals in the aftermath of the BP oil spill in the Gulf of Mexico, causing the claims to become of great urgency to BP. This best represents the process of

|  |  |
| --- | --- |
| A.  | addressing stakeholder concerns. |

|  |  |
| --- | --- |
| B.  | identifying stakeholders. |

|  |  |
| --- | --- |
| C.  | establishing competitive parity. |

|  |  |
| --- | --- |
| D.  | implementing a cost-leadership strategy. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 86. | The \_\_\_\_\_ is a model that links strategy analysis, strategy formulation, and strategy implementation, which together helps managers plan and implement a strategy that can improve performance and result in competitive advantage.

|  |  |
| --- | --- |
| A.  | Ansoff's growth strategy matrix  |

|  |  |
| --- | --- |
| B.  | AFI strategy framework  |

|  |  |
| --- | --- |
| C.  | Sarbanes-Oxley Act  |

|  |  |
| --- | --- |
| D.  | stakeholder impact analysis  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 87. | Managers use the AFI strategy framework primarily to

|  |  |
| --- | --- |
| A.  | help their business achieve and sustain competitive parity.  |

|  |  |
| --- | --- |
| B.  | minimize the wealth of their shareholders.  |

|  |  |
| --- | --- |
| C.  | help reduce the economic contribution of their business.  |

|  |  |
| --- | --- |
| D.  | explain and predict differences in firm performance.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 88. | According to AFI strategy framework, in which of the following tasks of strategic management is a firm's vision, mission, and values identified?

|  |  |
| --- | --- |
| A.  | strategy control |

|  |  |
| --- | --- |
| B.  | strategy analysis |

|  |  |
| --- | --- |
| C.  | strategy formulation |

|  |  |
| --- | --- |
| D.  | strategy implementation |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 89. | In the AFI strategy framework, strategy analysis primarily involves

|  |  |
| --- | --- |
| A.  | evaluating the effects of internal resources and core competencies on a firm's potential to gain and sustain a competitive advantage. |

|  |  |
| --- | --- |
| B.  | designing a business, corporate, and global strategy to gain and sustain a competitive advantage. |

|  |  |
| --- | --- |
| C.  | organizing a firm in order to effectively put the formulated strategy into practice. |

|  |  |
| --- | --- |
| D.  | deciding the type of corporate governance that would be most effective in the implementation of a strategy. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 90. | Which of the following stages in the AFI strategy framework involves designing a business, corporate, and global strategy?

|  |  |
| --- | --- |
| A.  | strategy control |

|  |  |
| --- | --- |
| B.  | strategy implementation |

|  |  |
| --- | --- |
| C.  | strategy analysis |

|  |  |
| --- | --- |
| D.  | strategy formulation |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 91. | Which of the following tasks in the AFI strategy framework involves putting the formulated strategy into practice through organizational structure, culture, and controls?

|  |  |
| --- | --- |
| A.  | strategy formulation |

|  |  |
| --- | --- |
| B.  | strategy implementation |

|  |  |
| --- | --- |
| C.  | strategy analysis |

|  |  |
| --- | --- |
| D.  | strategy evaluation |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 92. | During strategy implementation, managers primarily focus on deciding the

|  |  |
| --- | --- |
| A.  | type of corporate governance that is most effective and ways in which it can put the formulated strategy into practice.  |

|  |  |
| --- | --- |
| B.  | industries and markets the firm should compete in to be able to gain and sustain a competitive advantage.  |

|  |  |
| --- | --- |
| C.  | relationship between competitive advantage and firm performance.  |

|  |  |
| --- | --- |
| D.  | role strategic leaders should play in gaining and sustaining a competitive advantage.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 93. | For a strategist, which of the following is *not* an implication of effective strategic management?

|  |  |
| --- | --- |
| A.  | The difference between a firm's success and failure lies in its strategy.  |

|  |  |
| --- | --- |
| B.  | The principles of strategic management can be applied universally to all organizations.  |

|  |  |
| --- | --- |
| C.  | A firm's performance is determined by a set of independent factors, which includes firm and industry effects.  |

|  |  |
| --- | --- |
| D.  | It is necessary to maintain an awareness of key stakeholders and how they can affect or be affected by managerial actions.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 94. | Which of the following is *not* one of the three interdependent tasks of strategic management?

|  |  |
| --- | --- |
| A.  | analyze  |

|  |  |
| --- | --- |
| B.  | formulate  |

|  |  |
| --- | --- |
| C.  | estimate  |

|  |  |
| --- | --- |
| D.  | implement  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 95. | Which of the following is an element of good strategy?

|  |  |
| --- | --- |
| A.  | an explanation of the firm's advantages over competitors  |

|  |  |
| --- | --- |
| B.  | a guiding policy to address employee satisfaction  |

|  |  |
| --- | --- |
| C.  | a set of coherent actions to implement the firm's guiding policy  |

|  |  |
| --- | --- |
| D.  | an approach that underestimates the competition  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 96. | Which of the following is an example of competitive parity?

|  |  |
| --- | --- |
| A.  | A firm manufactures higher-quality wall clocks than its competitors  |

|  |  |
| --- | --- |
| B.  | A firm provides wall clocks that its consumers value more than other wall clocks  |

|  |  |
| --- | --- |
| C.  | A firm sells wall clocks at a lower price than its competitors  |

|  |  |
| --- | --- |
| D.  | A firm produces wall clocks at the same rate as its competitors  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 97. | Which of the following is an accurate statement about the relationship between firm effects and industry effects?

|  |  |
| --- | --- |
| A.  | Firm effects deal with the action of competitors; industry effects deal with internal circumstances.  |

|  |  |
| --- | --- |
| B.  | Firm effects deal with a manager's actions; industry effects deal with external circumstances.  |

|  |  |
| --- | --- |
| C.  | Firm effects deal with a manager's actions; industry effects deal with internal circumstances.  |

|  |  |
| --- | --- |
| D.  | Firm effects deal with the action of competitors; industry effects deal with external circumstances.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 98. | Hewlett-Packard was not able to maintain its competitive advantage because it did not

|  |  |
| --- | --- |
| A.  | produce high-quality products at a low price.  |

|  |  |
| --- | --- |
| B.  | allow the freedom to explore new ideas.  |

|  |  |
| --- | --- |
| C.  | provide lifetime employment and generous benefits for employees.  |

|  |  |
| --- | --- |
| D.  | effectively address the challenges of mobile computing.  |

 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 99. | Which of the following is *not* an example of a black swan event?

|  |  |
| --- | --- |
| A.  | fall of the Berlin Wall  |

|  |  |
| --- | --- |
| B.  | 9/11 terrorist attacks  |

|  |  |
| --- | --- |
| C.  | Fukushima nuclear disaster  |

|  |  |
| --- | --- |
| D.  | election of President Reagan  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 100. | Which of the following is an example of a firm's internal stakeholders?

|  |  |
| --- | --- |
| A.  | customers  |

|  |  |
| --- | --- |
| B.  | creditors  |

|  |  |
| --- | --- |
| C.  | stockholders  |

|  |  |
| --- | --- |
| D.  | suppliers  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 101. | Which of the following is the most accurate description of stakeholder impact analysis?

|  |  |
| --- | --- |
| A.  | a decision tool with which managers can recognize the needs of different stakeholders |

|  |  |
| --- | --- |
| B.  | a decision tool with which managers can recognize black swans |

|  |  |
| --- | --- |
| C.  | a decision tool that emphasizes competitive advantage over corporate citizenship |

|  |  |
| --- | --- |
| D.  | a decision tool that emphasizes using the three-step process |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 102. | Which of the following is an example of fulfilling philanthropic responsibilities?

|  |  |
| --- | --- |
| A.  | A dentist lowers his fees to make his practice more competitive.  |

|  |  |
| --- | --- |
| B.  | A legal firm donates large amounts of money to charities.  |

|  |  |
| --- | --- |
| C.  | A skateboard manufacturer builds a handicap entrance required by law.  |

|  |  |
| --- | --- |
| D.  | A toy manufacturer changes a product to comply with safety standards.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 103. | In 2010, an explosion of a BP oil drill resulted in the deaths of 11 workers and the largest environmental disaster in U.S. history. The BP CEO was fired because of his ineffective handling of the crisis. The CEO lost his job because he failed to uphold \_\_\_\_\_ responsibilities.

|  |  |
| --- | --- |
| A.  | economic  |

|  |  |
| --- | --- |
| B.  | legal  |

|  |  |
| --- | --- |
| C.  | ethical  |

|  |  |
| --- | --- |
| D.  | philanthropic  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 104. | Which of the following is *not* competitive strategy?

|  |  |
| --- | --- |
| A.  | strategic positioning |

|  |  |
| --- | --- |
| B.  | unique activities |

|  |  |
| --- | --- |
| C.  | product differentiation |

|  |  |
| --- | --- |
| D.  | operational effectiveness |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 105. | Which of the following provides an example of what AFI strategy framework is used for?

|  |  |
| --- | --- |
| A.  | Using AFI, the Gasquet Motor Company was able to implement a strategy that produced high-quality cars more efficiently and thereby reduced costs. |

|  |  |
| --- | --- |
| B.  | Using AFI, the Chen Restaurant Group was able to improve employee benefits and thereby increase employee loyalty. |

|  |  |
| --- | --- |
| C.  | Using AFI, the Sanchez Clothing Company was able to implement a strategy that allowed them to give more money to charities and thereby gain good press. |

|  |  |
| --- | --- |
| D.  | Using AFI, the Richardson Tea Group was able to reduce the pollution it caused while processing tea and thereby receive an award. |

 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 106. | What part of the AFI strategy framework does the question "*How* *does* *the* *firm* *make* *money?"* relate to?

|  |  |
| --- | --- |
| A.  | strategic leadership and the strategy process |

|  |  |
| --- | --- |
| B.  | competitive advantage, firm performance, and business models |

|  |  |
| --- | --- |
| C.  | external analysis |

|  |  |
| --- | --- |
| D.  | internal analysis |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 107. | While creating its AFI strategy framework, the Kowalski Candy Company decided what markets the firm should compete in. By doing this, what type of strategy did the company devise?

|  |  |
| --- | --- |
| A.  | business strategy |

|  |  |
| --- | --- |
| B.  | corporate strategy |

|  |  |
| --- | --- |
| C.  | global strategy |

|  |  |
| --- | --- |
| D.  | ethical strategy |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 108. | During an AFI planning session, the managers of the Fukuhara Motorcyle Corporation decided to place various stages of production in different countries. By doing this, what issue did the firm address?

|  |  |
| --- | --- |
| A.  | philanthropic strategy |

|  |  |
| --- | --- |
| B.  | business ethics |

|  |  |
| --- | --- |
| C.  | corporate governance |

|  |  |
| --- | --- |
| D.  | organizational design |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 109. | Why is strategy considered to be the *science* of success and failure?

|  |  |
| --- | --- |
| A.  | Strategies can ensure the exact outcome of all business ventures undertaken.  |

|  |  |
| --- | --- |
| B.  | Strategies use extensive research by a variety of scientists.  |

|  |  |
| --- | --- |
| C.  | Strategies require a large amount of thinking and planning.  |

|  |  |
| --- | --- |
| D.  | Strategies use principles that can be applied universally to all organizations.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 110. | An effective strategist \_\_\_\_\_ the formulated strategy through structure, culture, and controls.

|  |  |
| --- | --- |
| A.  | implements  |

|  |  |
| --- | --- |
| B.  | analyzes  |

|  |  |
| --- | --- |
| C.  | formulates  |

|  |  |
| --- | --- |
| D.  | questions  |

 |

Chapter 01 What is Strategy? Answer Key

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. | Which of the following strategies does Twitter need to implement to increase its competitive advantage?

|  |  |
| --- | --- |
| A.  | charge no fee to individual users |

|  |  |
| --- | --- |
| **B.**  | increase its user base |

|  |  |
| --- | --- |
| C.  | deliver ads in real time |

|  |  |
| --- | --- |
| D.  | allow core users to stay always connected |

As mentioned in Chapter Case 1, Twitter struggles to grow its user base, which hinders its quest for a competitive advantage. |

|  |
| --- |
| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Explain the role of strategy in a firm's quest for competitive advantage.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. | \_\_\_\_\_ is best described as an integrative management field that combines analysis, formulation, and implementation in the quest for competitive advantage.

|  |  |
| --- | --- |
| A.  | Supply chain management |

|  |  |
| --- | --- |
| B.  | Integrated technology management |

|  |  |
| --- | --- |
| **C.**  | Strategic management |

|  |  |
| --- | --- |
| D.  | Inventory management |

Strategic management is the integrative management field that combines analysis, formulation, and implementation in the quest for competitive advantage. Mastery of strategic management enables an individual to view a firm in its entirety. It also enables an individual to think like a general manager to help position his or her firm for superior performance. |

|  |
| --- |
| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Explain the role of strategy in a firm's quest for competitive advantage.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. | \_\_\_\_\_ is best described as a set of goal-directed actions a firm takes to gain and sustain superior performance relative to competitors.

|  |  |
| --- | --- |
| A.  | Behavior modification |

|  |  |
| --- | --- |
| **B.**  | Strategy |

|  |  |
| --- | --- |
| C.  | Credo |

|  |  |
| --- | --- |
| D.  | Competency management |

Strategy is a set of goal-directed actions a firm takes to gain and sustain superior performance relative to competitors. |

|  |
| --- |
| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Explain the role of strategy in a firm's quest for competitive advantage.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. | Which of the following stages of the strategic management process involves an evaluation of a firm's external and internal environments?

|  |  |
| --- | --- |
| **A.**  | strategy analysis |

|  |  |
| --- | --- |
| B.  | strategy implementation |

|  |  |
| --- | --- |
| C.  | strategy formulation |

|  |  |
| --- | --- |
| D.  | strategy control |

A good strategy consists of a diagnosis of the competitive challenge. This element is accomplished through strategy analysis of the firm's external and internal environments. |

|  |
| --- |
| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 2 MediumLearning Objective: 01-01 Explain the role of strategy in a firm's quest for competitive advantage.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. | In \_\_\_\_\_, a firm frames a guiding policy to address the competitive challenge.

|  |  |
| --- | --- |
| A.  | strategy control |

|  |  |
| --- | --- |
| B.  | strategy implementation |

|  |  |
| --- | --- |
| **C.**  | strategy formulation |

|  |  |
| --- | --- |
| D.  | strategy analysis |

A good strategy includes a guiding policy to address the competitive challenge. This element is accomplished through strategy formulation, resulting in the firm's corporate, business, and functional strategies. |

|  |
| --- |
| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Explain the role of strategy in a firm's quest for competitive advantage.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | Through \_\_\_\_\_, a firm puts its guiding policy into practice by employing a set of coherent actions.

|  |  |
| --- | --- |
| A.  | strategy control |

|  |  |
| --- | --- |
| **B.**  | strategy implementation |

|  |  |
| --- | --- |
| C.  | strategy formulation |

|  |  |
| --- | --- |
| D.  | strategy analysis |

A good strategy includes a set of coherent actions to implement the firm's guiding policy. This element is accomplished through strategy implementation. |

|  |
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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Explain the role of strategy in a firm's quest for competitive advantage.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 7. | A firm that achieves superior performance relative to other firms in the same industry or the industry average has a(n)

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| **A.**  | competitive advantage.  |

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| --- | --- |
| B.  | balanced scorecard.  |

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| --- | --- |
| C.  | power position.  |

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| --- | --- |
| D.  | equity leverage.  |

A firm that achieves superior performance relative to other competitors in the same industry or the industry average has a competitive advantage.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 8. | Patterson Foods Inc. was the first company to start selling energy bars in its country—a product that gained popularity among diverse groups. Soon, other companies started to sell their own brands of energy bars, thereby giving Patterson Foods ample competition. In response, Patterson Foods decided to limit its variety of energy bars to only four. However, it ensured that these four varieties were low in calories and low in cost. With this innovation, Patterson Foods Inc. consistently outperformed its competitors for ten years. In this scenario, Patterson Foods Inc. maintained a \_\_\_\_\_ through its innovative strategy.

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| A.  | balanced scorecard  |

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| --- | --- |
| B.  | fiduciary responsibility  |

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| --- | --- |
| C.  | consistent power position  |

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| **D.**  | sustainable competitive advantage  |

In this scenario, Patterson Foods Inc. maintained a sustainable competitive advantage through its innovative strategy. A firm that is able to outperform its competitors or the industry average over a prolonged period of time has a sustainable competitive advantage.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: AnalyzeDifficulty: 3 HardLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 9. | Which of the following scenarios illustrates a firm that has a sustainable competitive advantage?

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| A.  | Jamison Inc. generated revenue of $300,000 this financial year, which is close to the industrial revenue average of $320,000. |

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| B.  | CR Inc. almost doubled its sales to 9,000 units this year compared to its previous year's sales of 5,000 units, though the industry average is 10,000 units. |

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| **C.**  | Zhang Corp. was able to hold its market share of 68 percent in the social networking industry for more than three years. |

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| D.  | Peak Inc. was able to outperform its competitors with its new production system, in terms of revenue, for a brief period of four months. |

A firm that is able to outperform its competitors or the industry average over a prolonged period of time has a sustainable competitive advantage. Thus, Zhang Corp. has a sustainable competitive advantage because it has been able to hold its market share of 68 percent in the social networking industry for more than three years. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 10. | If SA Pharmaceuticals obtains an 18 percent return on invested capital, which of the following will help determine if it has a competitive advantage over other pharmaceutical companies?

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| --- | --- |
| **A.**  | comparing the return to the return on invested capital obtained by other firms in the industry  |

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| --- | --- |
| B.  | assessing the value based on the shareholders' expectations of return on their capital  |

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| --- | --- |
| C.  | evaluating the liquidity ratios for other pharmaceutical companies  |

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| --- | --- |
| D.  | comparing the value to the history of the firm's return of investment over a number of years  |

Comparing the return to the return on invested capital obtained by other firms in the industry will help determine if SA Pharmaceuticals has a competitive advantage. Competitive advantage is always relative, not absolute.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: AnalyzeDifficulty: 3 HardLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 11. | Underperformance relative to other firms in the same industry or the industry average results in a(n) \_\_\_\_\_ for a firm.

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| A.  | sustainable competitive advantage  |

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| --- | --- |
| B.  | increased power distance  |

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| --- | --- |
| C.  | diseconomies of scope  |

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| **D.**  | competitive disadvantage  |

If a firm underperforms relative to its rivals or the industry average, it has a competitive disadvantage.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 12. | The Scoop, Ltd. is a magazine publishing company whose average return on invested capital is approximately 5 percent. Because magazine publishing is a declining industry, the industry average has been negative (–5 percent) for the last few years. In this scenario, The Scoop Ltd. has a

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| --- | --- |
| **A.**  | competitive advantage.  |

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| --- | --- |
| B.  | balanced scorecard.  |

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| --- | --- |
| C.  | competitive disadvantage.  |

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| --- | --- |
| D.  | power position.  |

If a firm's return on invested capital is 5 percent in a declining industry such as newspaper publishing, where the industry average has been negative (–5 percent) for the last few years, then the firm has a competitive advantage.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: AnalyzeDifficulty: 3 HardLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 13. | Rapida Inc. and Click Inc. are two companies that have been manufacturing typewriters for almost 30 years. Due to the reduced demand for typewriters today, both companies' average return on invested capital is approximately –5 percent. The current industry average is 2 percent. In this scenario, Rapida Inc. and Click Inc. most likely have

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| A.  | competitive advantage over other firms in their industry.  |

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| **B.**  | competitive parity with each other.  |

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| --- | --- |
| C.  | strategic alliance with each other.  |

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| D.  | economies of scope instead of economies of scale.  |

In this scenario, Rapida Inc. and Click Inc. most likely have competitive parity with each other. Competitive parity refers to the performance of two or more firms at the same level.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: AnalyzeDifficulty: 3 HardLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 14. | The average cost of production for a bottle of vitamin water in the industry is $4 while its average price is $7. StoreAll Inc. manufactures the same product for $3 per bottle and sells it for $7 per bottle. Which of the following statements is most likely true of StoreAll Inc. in this scenario?

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| **A.**  | It has a competitive advantage in the industry.  |

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| --- | --- |
| B.  | It has a competitive disadvantage in the industry.  |

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| --- | --- |
| C.  | It has competitive parity with other firms in the industry.  |

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| --- | --- |
| D.  | It has formed a strategic alliance with other firms in the industry.  |

StoreAll Inc. most likely has a competitive advantage in the industry. A firm that achieves superior performance relative to other competitors in the same industry or the industry average has a competitive advantage.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: AnalyzeDifficulty: 3 HardLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 15. | A firm is said to gain a competitive advantage when it can

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| A.  | exceed its own previous performances. |

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| **B.**  | provide products similar to its competitors, but at lower prices. |

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| C.  | perform at the same level as that of its competitors. |

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| D.  | minimize the difference between value creation and cost. |

To gain a competitive advantage, a firm needs to provide either goods or services consumers value more highly than those of its competitors, or goods or services similar to the competitors' at a lower price. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 16. | FindFor Inc. is an e-commerce retail firm that sells a variety of merchandise online. Through services like cash on delivery, easy return, and online tracking, the company has created more customer value than its competitors (brick-and-mortar businesses) at the same price. Also, the company's costs are substantially low due to minimal investment in operation and administration. In this scenario, FindFor Inc. has most likely been able to provide superior value and cost control through

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| A.  | strategic parity. |

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| B.  | strategic profiling. |

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| C.  | strategic liquidation. |

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| **D.**  | strategic positioning. |

In this scenario, FindFor Inc. has been able to provide superior value and control its costs through strategic positioning. Strategy is about creating superior value, while containing the cost to create it. Managers achieve this combination of value and cost through strategic positioning. That is, they stake out a unique position within an industry that allows the firm to provide value to customers, while controlling costs. |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: AnalyzeDifficulty: 3 HardLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 17. | A firm *always* has a competitive disadvantage when its return on invested capital is

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| **A.**  | below the industry average. |

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| B.  | 2 percent or lower in a declining industry. |

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| --- | --- |
| C.  | about the same as its closest competitor. |

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| D.  | declining steadily over two or more years. |

A firm always has a competitive disadvantage when its return on invested capital is below the industry average. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 18. | Silver Screen Cinemas Inc. and Digi Now Inc. are two companies that own and run movie theaters in malls and other commercial areas. While Silver Screen Cinemas Inc. pursues a cost-leadership strategy, Digi Now Inc. adopts a differentiation strategy. Which of the following statements is most likely true of this scenario?

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| A.  | Silver Screen Cinemas will charge a premium price for its customers, while Digi Now will implement everyday low pricing.  |

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| **B.**  | Digi Now and Silver Screen Cinemas will not be direct competitors to each other, and their customer segments will overlap very little.  |

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| C.  | Digi Now will keep its customer service at an acceptable level, while Silver Screen Cinemas will provide superior customer service.  |

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| D.  | Silver Screen Cinemas and Digi Now will use a similar approach to create value for customers by attempting to offer everything to everybody.  |

Although these companies are in the same industry, their customer segments will most likely overlap very little, and they will not be direct competitors. That is because each firm has chosen a distinct but different strategic position; both can win if they have a distinct and well-executed competitive strategy.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 19. | For a firm that operates in an industry where competition is high, which of the following practices will result in inferior performance?

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| A.  | choosing a distinct but different strategic position in the industry  |

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| --- | --- |
| B.  | working toward increasing the difference between value creation and cost  |

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| **C.**  | trying to be everything to everybody by combining different competitive strategies  |

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| --- | --- |
| D.  | focusing on creating value for customers rather than destroying rivals  |

Because resources are limited, managers must carefully consider their strategic choices in the quest for competitive advantage. Trying to be everything to everybody will likely result in inferior performance. Although the idea of combining different business strategies seems appealing, it is actually quite difficult to execute.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 20. | If a company wants to gain a competitive advantage in a highly competitive industry, it should ideally

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| A.  | execute an integrated cost-leadership and differentiation position.  |

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| B.  | copy the strategies of other firms through competitive benchmarking.  |

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| C.  | provide goods or services similar to its competitors at higher prices.  |

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| **D.**  | stake out a unique position within the industry.  |

The key to successful strategy is to combine a set of activities to stake out a unique position within an industry. Competitive advantage has to come from performing different activities or performing the same activities differently than rivals are doing. Competing to be similar but just a bit better than a competitor is likely to be a recipe for cutthroat competition and low profit potential.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 21. | Jake's Taxi Service is a new entrant to the taxi industry. It has achieved success by staking out a unique position in the industry. How did Jake's Taxi Service mostly likely achieve this position?

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| A.  | providing long-distance cab fares at a higher rate than competitors; servicing a larger area than competitors  |

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| --- | --- |
| B.  | providing long-distance cab fares at a lower rate than competitors; servicing a smaller area than competitors  |

|  |  |
| --- | --- |
| C.  | providing long-distance cab fares at a higher rate than competitors; servicing the same area as competitors  |

|  |  |
| --- | --- |
| **D.**  | providing long-distance cab fares at a lower rate than competitors; servicing the same area as competitors  |

Jake's Taxi Service achieved a unique position in the industry by providing long-distance cab fares at a lower rate than competitors while servicing the same area as competitors. To stake out a unique position, a company must either perform the same activities as competitors in a way that is better for customers or perform different activities. Also, this company must provide an advantage for customers without trading the benefit with a disadvantage.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: AnalyzeDifficulty: 3 HardLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 22. | Pink Couture Inc. and Pink Blush Inc. are two companies in the apparel industry. While Pink Couture Inc. focuses on providing unique product features and superior customer service, Pink Blush Inc. focuses on low prices and minimal customer service. Both companies have been able to gain a competitive advantage. This is most likely because the companies have

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| A.  | executed integrated strategies. |

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| B.  | entered into a cartel arrangement. |

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| **C.**  | pursued distinct strategic positions. |

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| D.  | engaged in direct imitation and substitution. |

In this scenario, the two firms have gained a competitive advantage by pursuing distinct strategic positions. Cost-leadership and differentiation are distinct strategic positions. The key to successful strategy is to combine a set of activities to stake out a unique position within an industry. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 23. | Which of the following is an implication of all firms in an industry pursuing a low-cost position through application of competitive benchmarking?

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| A.  | No firm would face direct competition from others in the industry; hence, profit potential would be high. |

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| B.  | Each firm would be catering to a different customer segment. |

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| --- | --- |
| **C.**  | The firms would eventually have no resources to invest in product and process improvements. |

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| D.  | Each firm would be in a better position to gain a competitive advantage. |

If all firms in the same industry pursued a low-cost position through application of competitive benchmarking, all firms would have identical cost structures. None could gain a competitive advantage. There would be little if any value creation for customers because companies would have no resources to invest in product and process improvements. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 24. | Which of the following statements should ideally reflect a firm's strategy for competitive advantage?

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| A.  | Our strategy is to win at any cost. |

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| B.  | We will be number one in the industry. |

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| --- | --- |
| **C.**  | Our aim is to create superior customer value while controlling costs. |

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| D.  | We want to be the market leader by replicating our competitor's strategy. |

The statement that should ideally reflect a firm's strategy for competitive advantage is "Our aim is to create superior customer value while controlling costs." Strategy is about creating superior value, while containing the cost to create it. Grandiose statements are not strategy; they provide little managerial guidance and frequently fail to address the economic fundamentals. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 25. | Which of the following factors most effectively contributed to the success of Threadless in comparison to other companies with T-shirt designs, including American Eagle, Old Navy, and Urban Outfitters?

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| **A.**  | its reliance on crowdsourcing |

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| B.  | its point-to-point business model |

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| --- | --- |
| C.  | its hub-and-spoke system |

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| D.  | its shorter distances |

As mentioned in Strategy Highlight 1.1, Threadless leverages *crowdsourcing,* a process in which a group of people voluntarily perform tasks that were traditionally being completed by a firm's employees. By doing this, the company uses the wisdom of the crowds, resulting in decisions by many participants in an online forum that are often better than decisions made by a single individual. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 26. | Which of the following statements about strategy is *not* true?

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| --- | --- |
| A.  | Grandiose statements of desire, on their own, are not strategy. |

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| --- | --- |
| B.  | Strategy is as much about deciding what not to do, as it is about deciding what to do. |

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| --- | --- |
| C.  | Strategy is about creating superior value, while containing the cost to create it. |

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| **D.**  | Operational effectiveness and competitive benchmarking should be treated as strategy. |

Operational effectiveness, competitive benchmarking, or other tactical tools are not strategy. All these elements may be a necessary part of a firm's functional and global initiatives to support its competitive strategy, but these elements are not sufficient to achieve competitive advantage. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 27. | Industry effects describe the underlying \_\_\_\_\_ structure of the industry.

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| --- | --- |
| A.  | demographic |

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| --- | --- |
| **B.**  | economic |

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| --- | --- |
| C.  | psychographic |

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| --- | --- |
| D.  | ethnographic |

Industry effects describe the underlying economic structure of the industry. They attribute firm performance to the industry in which the firm competes. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-03 Differentiate the roles of firm effects and industry effects in determining firm performance.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 28. | Which of the following statements accurately describes firm effects?

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| --- | --- |
| A.  | They attribute firm performance to the industry in which the firm competes. |

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| **B.**  | They attribute firm performance to the actions managers take within a chosen industry. |

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| --- | --- |
| C.  | They refer to the value-creation potential of a large, diversified enterprise. |

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| D.  | They refer to the external circumstances surrounding all the firms in an industry. |

Firm effects attribute firm performance to the actions managers take within a chosen industry. Managers' actions tend to be more important in determining firm performance than the forces exerted on the firm by its external environment. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-03 Differentiate the roles of firm effects and industry effects in determining firm performance.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 29. | Which of the following forces tends to be more important in determining a firm's performance?

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| --- | --- |
| A.  | the underlying economic structure |

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| --- | --- |
| B.  | the entry barriers in the industry |

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| --- | --- |
| **C.**  | the actions of managers within the firm |

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| D.  | the number and size of other firms in the industry |

The key point is that managers' actions tend to be more important in determining firm performance than the forces exerted on the firm by its external environment. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 Differentiate the roles of firm effects and industry effects in determining firm performance.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 30. | A company wants to determine how industry effects have affected its profitability. Which of the following elements should the company focus on?

|  |  |
| --- | --- |
| **A.**  | the barriers to entry and exit within the industry |

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| --- | --- |
| B.  | the pricing method opted by the managers to face competition within the industry |

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| --- | --- |
| C.  | the brand strategy the managers adopt to establish the firm in the industry |

|  |  |
| --- | --- |
| D.  | the strategic position the firm pursues within the industry |

Industry effects describe the underlying economic structure of the industry. They attribute firm performance to the industry in which the firm competes. The structure of an industry is determined by elements common to all industries such as entry and exit barriers, number and size of companies, and types of products and services offered. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 Differentiate the roles of firm effects and industry effects in determining firm performance.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 31. | Which of the following forces is most closely related to industry effects within the automobile industry?

|  |  |
| --- | --- |
| A.  | the actions taken to improve employee productivity within a firm |

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| --- | --- |
| B.  | the human resource strategy managers adopt to acquire the best talent from the industry |

|  |  |
| --- | --- |
| **C.**  | the types of products and the services offered within the industry |

|  |  |
| --- | --- |
| D.  | the decisions made within a firm regarding pricing of a product in the market |

Industry effects describe the underlying economic structure of the industry. They attribute firm performance to the industry in which the firm competes. The structure of an industry is determined by elements common to all industries such as entry and exit barriers, number and size of companies, and types of products and services offered. |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 Differentiate the roles of firm effects and industry effects in determining firm performance.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 32. | \_\_\_\_\_ are incidents that describe highly improbable but highly impactful events.

|  |  |
| --- | --- |
| A.  | Miracle events |

|  |  |
| --- | --- |
| B.  | Wild card events |

|  |  |
| --- | --- |
| **C.**  | Black swan events |

|  |  |
| --- | --- |
| D.  | Fat tail risk events |

Black swan events are incidents that describe highly improbable but highly impactful events. Several black swan events eroded the public's trust in business as an institution and capitalism as an economic system. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 33. | Shortly after the small island of Balamia experienced multiple unexpected high-intensity earthquakes that caused massive destruction, many banks and insurance companies filed for bankruptcy. This left the economy of the country in a poor state. The natural calamity in Balamia best exemplifies

|  |  |
| --- | --- |
| **A.**  | a black swan event. |

|  |  |
| --- | --- |
| B.  | a wild card event. |

|  |  |
| --- | --- |
| C.  | skewness risk. |

|  |  |
| --- | --- |
| D.  | kurtosis risk. |

The natural calamity in Balamia best exemplifies a black swan event. The metaphor of a black swan describes the high impact of a highly improbable event. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 34. | Due to several black swan events in the past, the

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| --- | --- |
| A.  | shareholders of public companies have become more confident in investing their resources in businesses. |

|  |  |
| --- | --- |
| B.  | need for corporate governance and transparency has reduced within various industries. |

|  |  |
| --- | --- |
| C.  | nations around the globe have explicitly appreciated and accepted capitalism as an economic system. |

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| --- | --- |
| **D.**  | implicit trust relationship between the corporate world and society at large has deteriorated. |

The implicit trust relationship between the corporate world and society at large has deteriorated due to the arrival of several black swans. |

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| 35. | When the strong dictatorial rule in Backenstein unexpectedly collapsed due to the shocking death of the royal family in an explosion, the nation's economy experienced drastic changes. The laws became more restrictive, the country lost many locally produced resources and products, and the distribution of wealth became inequitable. The unexpected event that led to these changes can best be described as a(n) \_\_\_\_\_ event.

|  |  |
| --- | --- |
| A.  | extinction  |

|  |  |
| --- | --- |
| B.  | wild card  |

|  |  |
| --- | --- |
| **C.**  | black swan  |

|  |  |
| --- | --- |
| D.  | miracle  |

The unexpected event that led to these changes can best be described as a black swan event. The metaphor of a black swan describes the high impact of a highly improbable event.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 36. | In the United States, which of the following was born out of dissatisfaction with the capitalist system in 2011?

|  |  |
| --- | --- |
| A.  | the Sarbanes-Oxley Act  |

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| --- | --- |
| **B.**  | the Occupy movement  |

|  |  |
| --- | --- |
| C.  | the Tea Party movement  |

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| --- | --- |
| D.  | the Taft-Hartley Act  |

In the United States, the Occupy Wall Street protest movement was born in 2011 out of dissatisfaction with the capitalist system. Issues of income disparity, corporate ethics, corporate influence on governments, and ecological sustainability were key drivers.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 37. | Which of the following was a key driver in the Occupy movement of 2011?

|  |  |
| --- | --- |
| A.  | the need for a capitalist economic system |

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| --- | --- |
| **B.**  | the issue of income disparity |

|  |  |
| --- | --- |
| C.  | the need to reduce government intervention in businesses |

|  |  |
| --- | --- |
| D.  | the issue related to dumping of cheap foreign products |

In the United States, the Occupy Wall Street protest movement was born in 2011 out of dissatisfaction with the capitalist system. Issues of income disparity, corporate ethics, corporate influence on governments, and ecological sustainability were key drivers. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 38. | The past black swan events in the United States demonstrate that

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| --- | --- |
| **A.**  | managerial actions can affect the economic well-being of large numbers of people around the globe. |

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| --- | --- |
| B.  | decisions and strategies implemented within a firm will only affect the firm and not the entire industry. |

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| --- | --- |
| C.  | corporate governance is unnecessary as firms are becoming socially responsible. |

|  |  |
| --- | --- |
| D.  | industry effects are more important than firm effects in determining firm performance. |

Black swan events demonstrate that managerial actions can affect the economic well-being of large numbers of people around the globe. The implicit trust relationship between the corporate world and society at large has deteriorated due to the arrival of several black swans. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 39. | Javier, a retired CEO, invests capital in a start-up company that creates budgeting software. He mentors the entrepreneur and the employees of the company because he wants the company to perform well and survive in the market. Thus, Javier is the start-up company's

|  |  |
| --- | --- |
| A.  | headhunter. |

|  |  |
| --- | --- |
| B.  | category captain. |

|  |  |
| --- | --- |
| C.  | employee. |

|  |  |
| --- | --- |
| **D.**  | stakeholder. |

Javier is the start-up company's stakeholder. Stakeholders have a vested claim or interest in the performance and continued survival of the firm. They can be organizations, groups, or individuals who can affect or be affected by a firm's actions. |

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| 40. | Organic Food Inc., a multinational company, relies on its media partner Radio Plus to regularly advertise its offers, sales, and new products. Radio Plus is invested in this relationship because it generates most of its revenue from advertising Organic Food's products. In this scenario, Radio Plus is Organic Food Inc.'s

|  |  |
| --- | --- |
| A.  | stockholder. |

|  |  |
| --- | --- |
| B.  | workforce. |

|  |  |
| --- | --- |
| C.  | internal stakeholder. |

|  |  |
| --- | --- |
| **D.**  | external stakeholder. |

In this scenario, Radio Plus is Organic Food Inc.'s external stakeholder. External stakeholders include customers, suppliers, alliance partners, creditors, unions, communities, media, and governments at various levels. |

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| 41. | Which of the following is an example of a firm's external stakeholder?

|  |  |
| --- | --- |
| A.  | employees |

|  |  |
| --- | --- |
| **B.**  | customers |

|  |  |
| --- | --- |
| C.  | shareholders |

|  |  |
| --- | --- |
| D.  | board members |

Stakeholders can be grouped by whether they are internal or external to a firm. A firm's external stakeholders include customers, suppliers, alliance partners, creditors, unions, communities, media, and governments at various levels. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 42. | Which of the following is *not* an example of a software company's external stakeholder?

|  |  |
| --- | --- |
| A.  | creditors  |

|  |  |
| --- | --- |
| B.  | customers  |

|  |  |
| --- | --- |
| C.  | alliance partners  |

|  |  |
| --- | --- |
| **D.**  | project managers  |

A firm's external stakeholders include customers, suppliers, alliance partners, creditors, unions, communities, media, and governments at various levels. Its internal stakeholders are stockholders, employees (including executives, managers, and workers), and board members.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 43. | Rachel owns a large portion of GM Cube Inc.'s stocks. However, she is not employed by the company. In this scenario, Rachel is the company's

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| --- | --- |
| A.  | external stakeholder. |

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| --- | --- |
| **B.**  | internal stakeholder. |

|  |  |
| --- | --- |
| C.  | creditor. |

|  |  |
| --- | --- |
| D.  | customer. |

In this scenario, Rachel is the company's internal stakeholder. Internal stakeholders of a firm include stockholders, employees (including executives, managers, and workers), and board members. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 44. | Sun Inc., a vendor, regularly supplies pallets to Octangle Corp. for its shipping business. Therefore, Sun Inc. is Octangle Corp.'s

|  |  |
| --- | --- |
| A.  | internal stakeholder. |

|  |  |
| --- | --- |
| B.  | stockholder. |

|  |  |
| --- | --- |
| C.  | shareholder. |

|  |  |
| --- | --- |
| **D.**  | external stakeholder. |

Sun Inc. is Octangle Corp.'s external stakeholder. External stakeholders include customers, suppliers, alliance partners, creditors, unions, communities, media, and governments at various levels. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 45. | State-level government agencies that check whether firms are meeting statutory safety measures in their production units are considered to be the firms'

|  |  |
| --- | --- |
| A.  | stockholders. |

|  |  |
| --- | --- |
| B.  | shareholders. |

|  |  |
| --- | --- |
| C.  | internal stakeholders. |

|  |  |
| --- | --- |
| **D.**  | external stakeholders. |

State-level government agencies that check whether firms are meeting statutory safety measures in their production units are considered to be the firms' external stakeholders. External stakeholders of a firm include customers, suppliers, alliance partners, creditors, unions, communities, media, and governments at various levels. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 46. | Which of the following best qualifies as a firm's internal stakeholder?

|  |  |
| --- | --- |
| A.  | an auditor assigned to the firm by a federal government agency  |

|  |  |
| --- | --- |
| B.  | a labor union with whom the firm's employees can affiliate  |

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| --- | --- |
| **C.**  | a manager taking care of the firm's operations in a foreign market  |

|  |  |
| --- | --- |
| D.  | a competitor manufacturing the same products as that of the firm  |

A manager taking care of the firm's operations in a foreign market best qualifies as the firm's internal stakeholder. A firm's internal stakeholders include stockholders, employees (including executives, managers, and workers), and board members.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 47. | The best example of a firm's external stakeholder is a(n)

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| --- | --- |
| **A.**  | government agency that regulates the prices of products manufactured by the firm.  |

|  |  |
| --- | --- |
| B.  | board member from a wholly-owned foreign subsidiary of the firm.  |

|  |  |
| --- | --- |
| C.  | shareholder who has invested money in the firm but is not employed by the firm.  |

|  |  |
| --- | --- |
| D.  | employee of the firm who is responsible for a contract project.  |

The best example of a firm's external stakeholder is a government agency that regulates the prices of products manufactured by the firm. External stakeholders of a firm include customers, suppliers, alliance partners, creditors, unions, communities, media, and governments at various levels.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 48. | The interaction between a firm and its diverse internal and external stakeholders is best described as a(n)

|  |  |
| --- | --- |
| A.  | ergonomic relationship.  |

|  |  |
| --- | --- |
| B.  | cartel arrangement.  |

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| --- | --- |
| **C.**  | exchange relationship.  |

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| --- | --- |
| D.  | fiduciary responsibility.  |

All stakeholders make specific contributions to a firm, which in turn provides different types of benefits to different stakeholders. The firm, therefore, is embedded in a multifaceted exchange relationship with a number of diverse internal and external stakeholders.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 49. | Stakeholder strategy is an integrative approach to managing a diverse set of stakeholders effectively in order to

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| A.  | single-mindedly focus on the stockholders alone. |

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| --- | --- |
| **B.**  | gain and sustain competitive advantage. |

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| --- | --- |
| C.  | minimize the joint value created. |

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| --- | --- |
| D.  | minimize the difference between value creation and cost. |

Stakeholder strategy is an integrative approach to managing a diverse set of stakeholders effectively in order to gain and sustain competitive advantage. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 50. | A firm's stakeholder strategy primarily allows the firm to

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| --- | --- |
| **A.**  | analyze and manage how various external and internal stakeholders interact to jointly create and trade value. |

|  |  |
| --- | --- |
| B.  | effectively isolate its internal stakeholders (like shareholders and employees) from its external stakeholders (like customers and media). |

|  |  |
| --- | --- |
| C.  | transfer the contributions external stakeholders make into benefits for the internal stakeholders. |

|  |  |
| --- | --- |
| D.  | facilitate the development of a competitive relationship between its internal and external stakeholders. |

Stakeholder strategy allows a firm to analyze and manage how various external and internal stakeholders interact to jointly create and trade value. It is an integrative approach to managing a diverse set of stakeholders effectively in order to gain and sustain competitive advantage. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 51. | A core tenet of stakeholder strategy is that a

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| --- | --- |
| A.  | firm should isolate its internal stakeholders from its external stakeholders. |

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| --- | --- |
| **B.**  | single-minded focus on shareholders alone exposes a firm to undue risks that can threaten the very survival of the enterprise. |

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| --- | --- |
| C.  | multifaceted exchange relationship with internal and external stakeholders can lead to a firm's competitive disadvantage. |

|  |  |
| --- | --- |
| D.  | firm should work toward competitive parity rather than gaining and sustaining a competitive advantage. |

A core tenet of stakeholder strategy is that a single-minded focus on shareholders alone exposes a firm to undue risks that can undermine economic performance and can even threaten the very survival of the enterprise. The strategist's job, therefore, is to understand the complex web of exchange relationships among different stakeholders. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 52. | In a firm, a strategist's job should be to

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| --- | --- |
| A.  | limit the participation of external stakeholders—customers and suppliers—in value creation. |

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| --- | --- |
| B.  | isolate the firm's internal stakeholders from its external stakeholders. |

|  |  |
| --- | --- |
| C.  | focus solely, in a single-minded manner, on maximizing shareholder wealth. |

|  |  |
| --- | --- |
| **D.**  | understand the complex web of exchange relationships among different stakeholders. |

A strategist's job is to understand the complex web of exchange relationships among different stakeholders. By doing so, the firm can proactively shape the various relationships in order to maximize the joint value created, and manage the distribution of this larger pie in a fair and transparent manner. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 53. | BlueStainless Corp. has been able to gain and sustain a competitive advantage due to its strong relationship with its employees, customers, suppliers, and local communities. The company believes in lifetime employment and ensures that its employees grow along with the company. Investors are more than satisfied with the returns on their investments. Also, 3 percent of the company's profit is spent on community development. With initiatives like these, customers feel privileged to associate themselves with BlueStainless products. This scenario best illustrates the implementation of a

|  |  |
| --- | --- |
| A.  | strategic analysis. |

|  |  |
| --- | --- |
| **B.**  | stakeholder strategy. |

|  |  |
| --- | --- |
| C.  | wild card event. |

|  |  |
| --- | --- |
| D.  | black swan event. |

The scenario best illustrates the implementation of a stakeholder strategy. Stakeholder strategy is an integrative approach to managing a diverse set of stakeholders effectively in order to gain and sustain competitive advantage. |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: AnalyzeDifficulty: 3 HardLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 54. | Which of the following scenarios best illustrates a good stakeholder strategy?

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| --- | --- |
| A.  | VP Inc. follows a strategy in which maximization of the shareholder's wealth is the primary concern of the managers.  |

|  |  |
| --- | --- |
| B.  | Carrvero Inc. ensures that its employees are paid the least in the industry so that its external stakeholders can get the best price.  |

|  |  |
| --- | --- |
| **C.**  | PA Corp. distributes only 70 percent of its annual profit after taxes to shareholders, while the remaining is distributed among employees and the local community, and invested for further research.  |

|  |  |
| --- | --- |
| D.  | Gen Pharma Corp. ensures that it fully exploits free natural resources, so that most of its profits go to shareholders in the form of dividends.  |

PA Corp. demonstrates a good stakeholder strategy because it distributes only 70 percent of its annual profit after taxes to its shareholders, while the remaining is distributed among employees and the local community, and invested for further research. A core tenet of stakeholder strategy is that a single-minded focus on shareholders alone exposes a firm to undue risks that can undermine economic performance and can even threaten the very survival of the enterprise.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 55. | \_\_\_\_\_ provides a decision tool that enables a firm to act as a good corporate citizen by allowing its managers to recognize, prioritize, and address the needs of different groups of individuals who take personal interest in the firm's performance and survival.

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| A.  | Strategy analysis  |

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| **B.**  | Stakeholder impact analysis  |

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| C.  | The SWOT analysis  |

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| D.  | Strategic positioning  |

Stakeholder impact analysis provides a decision tool with which managers can recognize, prioritize, and address the needs of different stakeholders. This tool helps the firm achieve a competitive advantage while acting as a good corporate citizen.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 56. | Which of the following is *not* a stakeholder attribute that managers consider during stakeholder impact analysis?

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| A.  | a stakeholder's power  |

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| B.  | a stakeholder's legitimate claim  |

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| C.  | a stakeholder's urgent claim  |

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| **D.**  | a stakeholder's liquidity  |

Stakeholder impact analysis takes managers through a five-step process of recognizing stakeholders' claims. In each step, managers must pay particular attention to three important stakeholder attributes: power, legitimacy, and urgency.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 57. | Stakeholder impact analysis primarily helps a firm

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| **A.**  | gain a competitive advantage while acting as a good corporate citizen.  |

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| B.  | lower the difference between its value creation and costs.  |

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| --- | --- |
| C.  | single-mindedly focus on shareholders alone.  |

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| D.  | exploit external stakeholders to benefit internal stakeholders.  |

Stakeholder impact analysis is a decision tool with which managers can recognize, prioritize, and address the needs of different stakeholders, enabling the firm to achieve competitive advantage while acting as a good corporate citizen.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 58. | The first step in stakeholder impact analysis involves

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| A.  | formulating a stakeholder strategy to balance the different needs of various stakeholders. |

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| B.  | identifying the opportunities and threats the stakeholders present. |

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| C.  | describing the economic, legal, ethical, and philanthropic responsibilities of the firm toward the society. |

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| **D.**  | identifying the stakeholders that currently have, or potentially can have, a material effect on a company. |

In the first step of stakeholder impact analysis, the firm focuses on stakeholders that currently have, or potentially can have, a material effect on a company. This prioritization identifies the most powerful stakeholders (both internal and external) and their needs. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 59. | Which of the following groups is considered to be the primary stakeholder for public-stock companies?

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| **A.**  | suppliers of capital |

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| --- | --- |
| B.  | employees |

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| --- | --- |
| C.  | suppliers |

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| --- | --- |
| D.  | potential customers |

For public-stock companies, key stakeholders are the shareholders and other suppliers of capital. If shareholders are not satisfied with returns to investment, they will sell the company's stock, leading to depreciation in the firm's market value. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 60. | After a firm has identified its key stakeholders in stakeholder impact analysis, the immediate next step is to

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| A.  | recognize the opportunities and threats the stakeholders present. |

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| **B.**  | identify stakeholders' interests and claims. |

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| C.  | formulate a stakeholder strategy. |

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| D.  | address the stakeholders' concerns. |

In step 1 of stakeholder impact analysis, the firm focuses on stakeholders that currently have, or potentially can have, a material effect on a company. In step 2, the firm asks, "What are our stakeholders' interests and claims?" Managers need to specify and assess the interests and claims of the pertinent stakeholders using the power, legitimacy, and urgency criteria. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 61. | As the legal owners, \_\_\_\_\_ have the most legitimate claim on a company's profits.

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| A.  | creditors |

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| --- | --- |
| B.  | employees |

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| --- | --- |
| **C.**  | shareholders |

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| D.  | board members |

As the legal owners, shareholders have the most legitimate claim on a company's profits. A firm has to ensure that its primary stakeholders—the firm's shareholders and other investors—achieve their objectives. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 62. | The management of Five Square Corp. wants to reduce the separation between ownership (by shareholders) and control of the firm (by professional managers). Which of the following practices would best help the company do this?

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| **A.**  | allowing employees to purchase the stock of the company at a discounted rate  |

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| --- | --- |
| B.  | reinvesting the annual profits of the company into research and development  |

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| --- | --- |
| C.  | issuing new additional shares to the existing stockholders in proportion to their current holdings  |

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| --- | --- |
| D.  | declaring the annual profits as bonus dividends to the existing stockholders  |

Allowing employees to purchase the stock of the company at a discounted rate would best help the company reduce the separation between ownership and control of the firm. Many companies turn employees into shareholders through employee stock ownership plans (ESOPs). These plans allow employees to purchase stock at a discounted rate or use company stock as an investment vehicle for retirement savings.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 63. | The board at TriCom Manufacturing Corp. has decided to allocate 20 percent of the company's shares to its workforce, at a discounted price. Apart from being a valued investment, the plan will allow the employees to take personal responsibility for the firm's performance. Which of the following employee incentive schemes does this best illustrate?

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| --- | --- |
| A.  | employee provident fund |

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| --- | --- |
| B.  | employee gratuity fund |

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| --- | --- |
| **C.**  | employee stock ownership plan |

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| D.  | employee emergency loan program |

This best illustrates employee stock ownership plans. Companies turn employees into shareholders through employee stock ownership plans (ESOPs). These plans allow employees to purchase stock at a discounted rate or use company stock as an investment vehicle for retirement savings. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 64. | Which of the following statements about a firm's stakeholders is true?

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| A.  | Irrespective of whether the stakeholders are internal or external, the claims and interests of all stakeholders are the same. |

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| B.  | As the legal owners, employees in a public-stock company have the most legitimate claim on a company's profits. |

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| **C.**  | Within stakeholder groups there can be significant variation in the power a stakeholder may exert on a firm. |

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| D.  | Only internal stakeholders make specific contributions to a firm, which in turn provides different types of benefits to the external stakeholders. |

Even within stakeholder groups there can be significant variation in the power a stakeholder may exert on the firm. Although both individual and institutional investors can claim the same legitimacy as stockholders, institutional investors have much more power over a firm. |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 65. | Which of the following would be considered a weak stakeholder strategy?

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| **A.**  | putting shareholder interests above the interests of other stakeholders |

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| B.  | addressing the concerns of all stakeholders, including employees |

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| C.  | always using fair and ethical practices to satisfy stakeholders |

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| D.  | ensuring that the primary stakeholders achieve their objectives |

A core tenet of stakeholder strategy is that a single-minded focus on shareholders alone exposes a firm to undue risks. Simply putting shareholder interest above all else can undermine economic performance and even threaten the very survival of the enterprise. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 66. | Which of the following does *not* explain why activist investors have more power over a firm than individual investors?

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| A.  | Activist investors can buy or sell large numbers of shares at once. |

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| B.  | Activist investors can exercise block-voting rights over individual investors. |

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| C.  | Activist investors can demand seats on company boards. |

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| **D.**  | Activist investors have more legitimacy than individual investors. |

Both individual and activist investors can claim the same legitimacy as stockholders. However, shareholder activists have much more power over a firm for various reasons. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 67. | Which of the following is step 3 in the five-step process of stakeholder impact analysis?

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| A.  | identifying the most powerful stakeholders (both internal and external) and their needs |

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| --- | --- |
| B.  | identifying the stakeholders' interests and claims |

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| --- | --- |
| **C.**  | identifying the opportunities and threats the stakeholders present |

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| --- | --- |
| D.  | identifying the social responsibilities of the firm toward its stakeholders |

In step 3 of stakeholder impact analysis, the firm asks, "What opportunities and threats do our stakeholders present?" Since stakeholders have a claim on the company, opportunities and threats are two sides of the same coin. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 68. | \_\_\_\_\_ is best described as a framework that helps firms recognize and address the economic, legal, social, and philanthropic expectations that society has of the business enterprise at a given point in time.

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| **A.**  | Corporate social responsibility |

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| --- | --- |
| B.  | Integrated social network |

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| --- | --- |
| C.  | Strategic positioning |

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| --- | --- |
| D.  | Strategy formulation |

Corporate social responsibility (CSR) is a framework that helps firms recognize and address the economic, legal, ethical, and philanthropic expectations that society has of the business enterprise at a given point in time. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 69. | In stakeholder impact analysis, identifying the opportunities and threats presented by stakeholders is immediately followed by

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| **A.**  | recognizing the economic, legal, ethical, and philanthropic responsibilities of the firm to its stakeholders. |

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| --- | --- |
| B.  | formulating the stakeholder strategy to address and effectively balance the different needs of various stakeholders. |

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| --- | --- |
| C.  | identifying the interests and the claims of the stakeholders. |

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| D.  | isolating the external stakeholders from the internal stakeholders. |

In stakeholder impact analysis, identifying the opportunities and threats presented by stakeholders is immediately followed by recognizing the economic, legal, ethical, and philanthropic responsibilities of the firm to its stakeholders. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 70. | Which of the following statements accurately describes corporate social responsibility (CSR)?

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| A.  | CSR promotes the view that companies should single-mindedly focus on shareholders alone. |

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| B.  | CSR is limited to the notion of encouraging businesses to "just be nice" to society. |

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| **C.**  | CSR provides a conceptual model that more completely describes a society's expectations. |

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| D.  | CSR is based on the tenet that the needs of both internal and external stakeholders are the same. |

Corporate social responsibility (CSR) provides managers with a conceptual model that more completely describes a society's expectations and can guide strategic decision making more effectively. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 71. | Paying taxes to local government authorities from the annual revenues generated by a firm represents the firm's \_\_\_\_\_ responsibilities.

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| A.  | philanthropic |

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| --- | --- |
| **B.**  | economic |

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| --- | --- |
| C.  | psychographic |

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| --- | --- |
| D.  | political |

The business enterprise is first and foremost an economic institution. Governments expect the firm to pay taxes and to manage natural resources such as air and water under a decent stewardship. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 72. | Which of the following is typically an economic responsibility of a firm?

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| --- | --- |
| A.  | sourcing raw materials from highly developed countries |

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| --- | --- |
| **B.**  | paying adequate returns to the firm's stockholders on the capital invested by them |

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| --- | --- |
| C.  | donating resources, in terms of money and time, toward community development |

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| --- | --- |
| D.  | helping a nation increase its import of goods and services |

The business enterprise is first and foremost an economic institution. Investors expect an adequate return for their risk capital. Consumers expect safe products and services at appropriate prices and quality. Suppliers expect to be paid in full and on time. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 73. | A firm's economic responsibilities are primarily directed toward

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| A.  | minimizing shareholders' wealth. |

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| --- | --- |
| B.  | acting as a good corporate citizen. |

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| --- | --- |
| C.  | doing what is right, just, and fair. |

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| **D.**  | gaining and sustaining competitive advantage. |

To accomplish their economic responsibilities, firms must obey the law and act ethically in their quest to gain and sustain competitive advantage. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 74. | The minimum wage in the country of New Morland is $8 an hour. Odion, a restaurant in New Morland's capital city, pays its servers $8 per hour. However, the management of the restaurant feels that this amount is excessive for workers whose only job is to clear tables. By continuing to adhere to the rules set by the government of New Morland, which of the following responsibilities is Odion satisfying?

|  |  |
| --- | --- |
| **A.**  | legal responsibilities |

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| --- | --- |
| B.  | philanthropic responsibilities |

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| --- | --- |
| C.  | ethical responsibilities |

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| --- | --- |
| D.  | demographic responsibilities |

By adhering to the rules set by the government of New Morland, Odion is satisfying its legal responsibilities. Laws and regulations are a society's codified ethics, embodying notions of right and wrong. They also establish the rules of the game. |

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| *AACSB: EthicsAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 75. | The amount of xylene that can be used in household paint is legally limited to 0.03 percent. Anything beyond this amount is hazardous to health and the environment, and considered a legal offense. Consequently, CW Paints Corp. has vouched to make its products as safe as possible. Therefore, it manufactures xylene-free paints even though this increases its costs and reduces the dividends paid to its shareholders in the long run. Which of the following responsibilities is CW Paints Corp. primarily compromising in this scenario?

|  |  |
| --- | --- |
| A.  | legal responsibilities toward the government |

|  |  |
| --- | --- |
| **B.**  | economic responsibilities toward its shareholders |

|  |  |
| --- | --- |
| C.  | philanthropic responsibilities toward the local community |

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| --- | --- |
| D.  | ethical responsibilities toward the society |

CW Paints Corp. is primarily compromising its economic responsibilities toward its shareholders. The business enterprise is first and foremost an economic institution. Investors expect an adequate return for their risk capital. Firms must obey the law and act ethically in their quest to gain and sustain competitive advantage. |

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| *AACSB: EthicsAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 76. | Van Dyke's Fashion Inc., a company that manufactures clothing, incurs higher costs because of its refusal to build factories in countries where child labor is prevalent. This reflects Van Dyke's Fashion's \_\_\_\_\_ responsibility.

|  |  |
| --- | --- |
| A.  | economic |

|  |  |
| --- | --- |
| B.  | legal |

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| --- | --- |
| **C.**  | ethical |

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| --- | --- |
| D.  | demographic |

This reflects Van Dyke's Fashion's ethical responsibility. A firm's ethical responsibilities go beyond its legal responsibilities. They embody the full scope of expectations, norms, and values of its stakeholders. Managers are called upon to do what society deems just and fair. |

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| *AACSB: EthicsAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 77. | Within corporate social responsibility, \_\_\_\_\_ essentially reflects the notion of a business voluntarily giving back to society.

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| --- | --- |
| A.  | social networking |

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| --- | --- |
| **B.**  | corporate citizenship |

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| --- | --- |
| C.  | corporate governance |

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| --- | --- |
| D.  | social bookmarking |

Philanthropic responsibilities are often subsumed under the idea of corporate citizenship, reflecting the notion of voluntarily giving back to society. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 78. | Which of following practices of a firm satisfies its ethical responsibilities?

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| --- | --- |
| A.  | using plastic as the packaging material though it is harmful to the environment, yet legal |

|  |  |
| --- | --- |
| B.  | outsourcing production to a less developed country and paying wages that are below its own country's accepted minimum wages |

|  |  |
| --- | --- |
| C.  | using advertising and other forms of promotion to endorse luxurious lifestyles |

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| --- | --- |
| **D.**  | selling vaccines at a subsidized price in a less developed country even though this results in reduced shareholder returns |

Selling vaccines at a subsidized price in a less developed country even though this results in reduced shareholder returns satisfies a firm's ethical responsibilities. A firm's ethical responsibilities go beyond its legal responsibilities. They embody the full scope of expectations, norms, and values of its stakeholders. Managers are called upon to do what society deems just and fair. |

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| *AACSB: EthicsAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 79. | In the pyramid of corporate social responsibility, \_\_\_\_\_ responsibilities are the foundational building block.

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| --- | --- |
| **A.**  | economic |

|  |  |
| --- | --- |
| B.  | ethical |

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| --- | --- |
| C.  | philanthropic |

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| --- | --- |
| D.  | legal |

Economic responsibilities are the foundational building block, followed by legal, ethical, and philanthropic responsibilities. The business enterprise is first and foremost an economic institution. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 80. | The society and shareholders mandatorily require a firm to perform its \_\_\_\_\_ responsibilities.

|  |  |
| --- | --- |
| A.  | ethical |

|  |  |
| --- | --- |
| B.  | philanthropic |

|  |  |
| --- | --- |
| **C.**  | legal |

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| --- | --- |
| D.  | political |

Society and shareholders require economic and legal responsibilities. Ethical and philanthropic responsibilities result from a society's expectations toward business. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 81. | Which of the following responsibilities results from a society's mere expectations of a business and not because the society and the shareholders mandatorily require the business to demonstrate it?

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| --- | --- |
| A.  | economic responsibilities |

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| --- | --- |
| B.  | legal responsibilities |

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| --- | --- |
| C.  | contract responsibilities |

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| **D.**  | philanthropic responsibilities |

Society and shareholders require economic and legal responsibilities. Ethical and philanthropic responsibilities result from a society's expectations toward business. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 82. | Which of the following statements is true of the social responsibilities of a business?

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| **A.**  | A firm's ethical responsibilities go beyond its legal responsibilities. |

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| B.  | Shareholders mandatorily require a firm to perform its ethical and philanthropic responsibilities. |

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| C.  | Ethical responsibilities are the foundational building block of a firm's social responsibility. |

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| D.  | Legal responsibilities are often subsumed under the idea of corporate citizenship, reflecting the notion of voluntarily giving back to society. |

A firm's ethical responsibilities go beyond its legal responsibilities. They embody the full scope of expectations, norms, and values of its stakeholders. Managers are called upon to do what society deems just and fair. |

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| *AACSB: EthicsAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 83. | The society and the shareholders just expect, and do not mandatorily require, a firm to

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| A.  | pay fair dividends and returns to the investors.  |

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| B.  | follow the employment laws of a country.  |

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| C.  | provide safe and quality products to the customers.  |

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| **D.**  | pay its workers more than the minimum living wage.  |

Society and shareholders require economic and legal responsibilities. Ethical and philanthropic responsibilities result from a society's expectations toward business. A firm's ethical responsibilities go beyond its legal responsibilities.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 84. | In the final step of the stakeholder impact analysis, a firm

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| A.  | identifies its stakeholders' interests and claims.  |

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| B.  | differentiates its internal stakeholders from its external stakeholders.  |

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| C.  | recognizes the opportunities and threats stakeholders present.  |

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| **D.**  | decides a course of action to address the stakeholders' concerns.  |

In the final step of the stakeholder impact analysis, the firm asks, "What should we do to effectively address any stakeholder concerns?"  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 85. | The U.S. government legitimized claims by thousands of businesses and individuals in the aftermath of the BP oil spill in the Gulf of Mexico, causing the claims to become of great urgency to BP. This best represents the process of

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| **A.**  | addressing stakeholder concerns. |

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| --- | --- |
| B.  | identifying stakeholders. |

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| --- | --- |
| C.  | establishing competitive parity. |

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| D.  | implementing a cost-leadership strategy. |

While addressing stakeholder concerns, a firm asks, "What should we do to effectively address any stakeholder concerns?" In the last step in stakeholder impact analysis, managers need to decide the appropriate course of action for the firm, given all of the preceding factors. Thinking about the attributes of power, legitimacy, and urgency helps to prioritize the legitimate claims and to address them accordingly. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 86. | The \_\_\_\_\_ is a model that links strategy analysis, strategy formulation, and strategy implementation, which together helps managers plan and implement a strategy that can improve performance and result in competitive advantage.

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| A.  | Ansoff's growth strategy matrix  |

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| --- | --- |
| **B.**  | AFI strategy framework  |

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| C.  | Sarbanes-Oxley Act  |

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| --- | --- |
| D.  | stakeholder impact analysis  |

The AFI strategy framework is a model that links three interdependent strategic management tasks—analyze, formulate, and implement—that, together, help managers plan and implement a strategy that can improve performance and result in competitive advantage.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: The AFI Strategy Framework* |

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| 87. | Managers use the AFI strategy framework primarily to

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| A.  | help their business achieve and sustain competitive parity.  |

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| B.  | minimize the wealth of their shareholders.  |

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| C.  | help reduce the economic contribution of their business.  |

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| **D.**  | explain and predict differences in firm performance.  |

Managers use the AFI strategy framework to do two things: (1) to explain and predict differences in firm performance, and (2) to help managers formulate and implement a strategy that results in superior performance.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: The AFI Strategy Framework* |

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| 88. | According to AFI strategy framework, in which of the following tasks of strategic management is a firm's vision, mission, and values identified?

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| --- | --- |
| A.  | strategy control |

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| --- | --- |
| **B.**  | strategy analysis |

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| --- | --- |
| C.  | strategy formulation |

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| --- | --- |
| D.  | strategy implementation |

In strategy analysis the topics covered are: Strategic leadership and the strategy process: What roles do strategic leaders play? What are the firm's vision, mission, and values? What is the firm's process for creating strategy (how does strategy come about)? |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: The AFI Strategy Framework* |

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| 89. | In the AFI strategy framework, strategy analysis primarily involves

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| **A.**  | evaluating the effects of internal resources and core competencies on a firm's potential to gain and sustain a competitive advantage. |

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| B.  | designing a business, corporate, and global strategy to gain and sustain a competitive advantage. |

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| C.  | organizing a firm in order to effectively put the formulated strategy into practice. |

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| D.  | deciding the type of corporate governance that would be most effective in the implementation of a strategy. |

Strategy analysis involves internal analysis, that is, what effects do internal resources, capabilities, and core competencies have on the firm's potential to gain and sustain a competitive advantage? |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: The AFI Strategy Framework* |

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| 90. | Which of the following stages in the AFI strategy framework involves designing a business, corporate, and global strategy?

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| --- | --- |
| A.  | strategy control |

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| --- | --- |
| B.  | strategy implementation |

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| --- | --- |
| C.  | strategy analysis |

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| **D.**  | strategy formulation |

Strategy formulation involves formulating a business strategy: How should the firm compete (cost leadership, differentiation, or integration)?; Corporate strategy: Where should the firm compete (industry, markets, and geography)?; and, Global strategy: How and where (local, regional, national, and international) should the firm compete around the world? |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: The AFI Strategy Framework* |

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| 91. | Which of the following tasks in the AFI strategy framework involves putting the formulated strategy into practice through organizational structure, culture, and controls?

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| --- | --- |
| A.  | strategy formulation |

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| --- | --- |
| **B.**  | strategy implementation |

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| --- | --- |
| C.  | strategy analysis |

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| D.  | strategy evaluation |

Strategic implementation, the "I" in the AFI strategy framework, includes organizing the firm (its structure, culture, and controls) to put the formulated strategy into practice. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: The AFI Strategy Framework* |

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| 92. | During strategy implementation, managers primarily focus on deciding the

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| **A.**  | type of corporate governance that is most effective and ways in which it can put the formulated strategy into practice.  |

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| --- | --- |
| B.  | industries and markets the firm should compete in to be able to gain and sustain a competitive advantage.  |

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| C.  | relationship between competitive advantage and firm performance.  |

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| D.  | role strategic leaders should play in gaining and sustaining a competitive advantage.  |

During strategy implementation, managers focus on the following questions: How should the firm organize to put the formulated strategy into practice? What type of corporate governance is most effective? How does the firm anchor strategic decisions in business ethics?  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: The AFI Strategy Framework* |

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| 93. | For a strategist, which of the following is *not* an implication of effective strategic management?

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| A.  | The difference between a firm's success and failure lies in its strategy.  |

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| B.  | The principles of strategic management can be applied universally to all organizations.  |

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| **C.**  | A firm's performance is determined by a set of independent factors, which includes firm and industry effects.  |

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| D.  | It is necessary to maintain an awareness of key stakeholders and how they can affect or be affected by managerial actions.  |

Firm and industry effects are interdependent. Both are relevant in determining firm performance.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Implications for the Strategist* |

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| 94. | Which of the following is *not* one of the three interdependent tasks of strategic management?

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| --- | --- |
| A.  | analyze  |

|  |  |
| --- | --- |
| B.  | formulate  |

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| --- | --- |
| **C.**  | estimate  |

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| --- | --- |
| D.  | implement  |

The three interdependent tasks of strategic management are: (1) analyze, (2) formulate, and (3) implement.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Explain the role of strategy in a firm's quest for competitive advantage.Topic: The AFI Strategy Framework* |

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| 95. | Which of the following is an element of good strategy?

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| --- | --- |
| A.  | an explanation of the firm's advantages over competitors  |

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| B.  | a guiding policy to address employee satisfaction  |

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| **C.**  | a set of coherent actions to implement the firm's guiding policy  |

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| D.  | an approach that underestimates the competition  |

A good strategy consists of a diagnosis of the competitive challenge, a guiding policy to address the competitive challenge, a set of coherent actions to implement the firm's guiding policy.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-01 Explain the role of strategy in a firm's quest for competitive advantage.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 96. | Which of the following is an example of competitive parity?

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| --- | --- |
| A.  | A firm manufactures higher-quality wall clocks than its competitors  |

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| --- | --- |
| B.  | A firm provides wall clocks that its consumers value more than other wall clocks  |

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| --- | --- |
| C.  | A firm sells wall clocks at a lower price than its competitors  |

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| **D.**  | A firm produces wall clocks at the same rate as its competitors  |

Two or more firms perform at the same level have competitive parity. Therefore, a firm has competitive parity if it produces wall clocks at the same rate as its competitors.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 97. | Which of the following is an accurate statement about the relationship between firm effects and industry effects?

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| --- | --- |
| A.  | Firm effects deal with the action of competitors; industry effects deal with internal circumstances.  |

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| --- | --- |
| **B.**  | Firm effects deal with a manager's actions; industry effects deal with external circumstances.  |

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| C.  | Firm effects deal with a manager's actions; industry effects deal with internal circumstances.  |

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| D.  | Firm effects deal with the action of competitors; industry effects deal with external circumstances.  |

Firm effects deal with a manager's actions, such as the actions that managers take toward employees. On the other hand, industry effects deal with external circumstances, such as types of products and services offered.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 Differentiate the roles of firm effects and industry effects in determining firm performance.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 98. | Hewlett-Packard was not able to maintain its competitive advantage because it did not

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| --- | --- |
| A.  | produce high-quality products at a low price.  |

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| --- | --- |
| B.  | allow the freedom to explore new ideas.  |

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| --- | --- |
| C.  | provide lifetime employment and generous benefits for employees.  |

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| --- | --- |
| **D.**  | effectively address the challenges of mobile computing.  |

Once a leading technology company, Hewlett-Packard was known for innovation, resulting in superior products. The "HP way of management" included lifetime employment, generous benefits, work/life balance, and freedom to explore ideas, among other perks. However, HP has not been able to address the competitive challenges of mobile computing or business IT services effectively.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 99. | Which of the following is *not* an example of a black swan event?

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| --- | --- |
| A.  | fall of the Berlin Wall  |

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| --- | --- |
| B.  | 9/11 terrorist attacks  |

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| --- | --- |
| C.  | Fukushima nuclear disaster  |

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| **D.**  | election of President Reagan  |

Black swans are highly improbable events that have a major impact on business. Ronald Reagan being elected president was not a highly improbable event.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: AnalyzeDifficulty: 2 MediumLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 100. | Which of the following is an example of a firm's internal stakeholders?

|  |  |
| --- | --- |
| A.  | customers  |

|  |  |
| --- | --- |
| B.  | creditors  |

|  |  |
| --- | --- |
| **C.**  | stockholders  |

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| --- | --- |
| D.  | suppliers  |

A firm's internal stakeholders include stockholders as well as employees (including executives, managers, and workers), and board members.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.Topic: Stakeholders and Competitive Advantage* |

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| 101. | Which of the following is the most accurate description of stakeholder impact analysis?

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| --- | --- |
| **A.**  | a decision tool with which managers can recognize the needs of different stakeholders |

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| --- | --- |
| B.  | a decision tool with which managers can recognize black swans |

|  |  |
| --- | --- |
| C.  | a decision tool that emphasizes competitive advantage over corporate citizenship |

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| D.  | a decision tool that emphasizes using the three-step process |

Stakeholder impact analysis provides a decision tool with which managers can recognize, prioritize, and address the needs of different stakeholders. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 102. | Which of the following is an example of fulfilling philanthropic responsibilities?

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| --- | --- |
| A.  | A dentist lowers his fees to make his practice more competitive.  |

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| --- | --- |
| **B.**  | A legal firm donates large amounts of money to charities.  |

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| --- | --- |
| C.  | A skateboard manufacturer builds a handicap entrance required by law.  |

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| --- | --- |
| D.  | A toy manufacturer changes a product to comply with safety standards.  |

Philanthropic responsibilities reflect the notion of voluntarily giving back to society, such as donating large amount of money to charities.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 103. | In 2010, an explosion of a BP oil drill resulted in the deaths of 11 workers and the largest environmental disaster in U.S. history. The BP CEO was fired because of his ineffective handling of the crisis. The CEO lost his job because he failed to uphold \_\_\_\_\_ responsibilities.

|  |  |
| --- | --- |
| A.  | economic  |

|  |  |
| --- | --- |
| B.  | legal  |

|  |  |
| --- | --- |
| **C.**  | ethical  |

|  |  |
| --- | --- |
| D.  | philanthropic  |

The CEO failed to uphold ethical responsibilities through his ineffective handling of the environmental disaster.  |

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| *AACSB: EthicsAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Stakeholders and Competitive Advantage* |

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| 104. | Which of the following is *not* competitive strategy?

|  |  |
| --- | --- |
| A.  | strategic positioning |

|  |  |
| --- | --- |
| B.  | unique activities |

|  |  |
| --- | --- |
| C.  | product differentiation |

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| --- | --- |
| **D.**  | operational effectiveness |

Operational effectiveness is not competitive strategy. Neither are grandiose statements, a failure to face a competitive challenge, or competitive benchmarking. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-02 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.Topic: What Strategy is: Gaining and Sustaining Competitive Advantage* |

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| 105. | Which of the following provides an example of what AFI strategy framework is used for?

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| --- | --- |
| **A.**  | Using AFI, the Gasquet Motor Company was able to implement a strategy that produced high-quality cars more efficiently and thereby reduced costs. |

|  |  |
| --- | --- |
| B.  | Using AFI, the Chen Restaurant Group was able to improve employee benefits and thereby increase employee loyalty. |

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| --- | --- |
| C.  | Using AFI, the Sanchez Clothing Company was able to implement a strategy that allowed them to give more money to charities and thereby gain good press. |

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| D.  | Using AFI, the Richardson Tea Group was able to reduce the pollution it caused while processing tea and thereby receive an award. |

Managers use the AFI framework to do two things: (1) to explain and predict differences in firm performance, and (2) to help managers formulate and implement a strategy that results in superior performance. By producing high-quality cars at a low price and thereby increasing sales, the Gasquet Motor Company implemented a strategy that resulted in superior performance. |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: EvaluateDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: The AFI Strategy Framework* |

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| 106. | What part of the AFI strategy framework does the question "*How* *does* *the* *firm* *make* *money?"* relate to?

|  |  |
| --- | --- |
| A.  | strategic leadership and the strategy process |

|  |  |
| --- | --- |
| **B.**  | competitive advantage, firm performance, and business models |

|  |  |
| --- | --- |
| C.  | external analysis |

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| --- | --- |
| D.  | internal analysis |

While completing the business model of the AFI strategy framework, a firm addresses the question: How does the firm make money? |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: The AFI Strategy Framework* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 107. | While creating its AFI strategy framework, the Kowalski Candy Company decided what markets the firm should compete in. By doing this, what type of strategy did the company devise?

|  |  |
| --- | --- |
| A.  | business strategy |

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| --- | --- |
| **B.**  | corporate strategy |

|  |  |
| --- | --- |
| C.  | global strategy |

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| D.  | ethical strategy |

Corporate strategy involves deciding where a firm should compete, which includes industry, markets, and geography. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: The AFI Strategy Framework* |

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| 108. | During an AFI planning session, the managers of the Fukuhara Motorcyle Corporation decided to place various stages of production in different countries. By doing this, what issue did the firm address?

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| A.  | philanthropic strategy |

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| B.  | business ethics |

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| C.  | corporate governance |

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| **D.**  | organizational design |

Organizational design involves deciding how the firm should organize to turn the formulated strategy into action. |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: ApplyDifficulty: 2 MediumLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: The AFI Strategy Framework* |

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| 109. | Why is strategy considered to be the *science* of success and failure?

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| A.  | Strategies can ensure the exact outcome of all business ventures undertaken.  |

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| B.  | Strategies use extensive research by a variety of scientists.  |

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| C.  | Strategies require a large amount of thinking and planning.  |

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| **D.**  | Strategies use principles that can be applied universally to all organizations.  |

Strategies use principles that can be applied universally to all organizations. In this way, it is a science because it uses proven principles that always apply.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: EvaluateDifficulty: 3 HardLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Implications for the Strategist* |

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| 110. | An effective strategist \_\_\_\_\_ the formulated strategy through structure, culture, and controls.

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| **A.**  | implements  |

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| B.  | analyzes  |

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| --- | --- |
| C.  | formulates  |

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| --- | --- |
| D.  | questions  |

An effect strategist implements the formulated strategy through structure, culture, and controls.  |

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| *AACSB: Knowledge ApplicationAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyLearning Objective: 01-05 Conduct a stakeholder impact analysis.Topic: Implications for the Strategist* |