Chapter 7 - Strategic Management

Chapter Overview

This chapter explores the strategic management process. It begins with a discussion of how to analyze the firm’s external and internal environments and identify the firm’s strategic mission. Next, the strategy formulation process is presented followed by strategy implementation. Finally, the chapter concludes with material on how to assess the outcomes of the strategic management process.

Chapter Objectives

1. Explain how the firm’s external environment should be examined as part of the strategic management process.
2. Explain how the firm’s internal environment should be examined as part of the strategic management process.
3. State the meaning and purpose of the firm’s strategic intent and mission.
4. Understand how the strategy formulation process helps the firm achieve its mission.
5. Describe the issues that should be considered in strategy implementation.
6. Understand how the outcomes of the strategic management process should be assessed.

Outline

I. The Strategic Management Process

Strategic management includes analysis of the internal and external environment of the firm, definition of the company’s mission, and formulation and implementation of strategies to create or continue a competitive advantage.

A. Strategic management is a dynamic process that requires a long term perspective and flexibility.
   1. Top executives are usually responsible for strategic management.

B. The strategic management process involves five steps
   1. Analyze external and internal environments
   2. Define strategic intent and mission’
   3. Formulate strategies
   4. Implement strategies
   5. Assess strategic outcomes

II. Step One: Analyzing External and Internal Environments

The SWOT analysis (strengths, weaknesses, opportunities, threats) is a commonly used strategic tool.
A. The SWOT analysis allows the firm to analyze the internal and external factors that can influence the organization’s success.
   1. Managers can look at organizational strengths (S), organizational weaknesses (W), environmental opportunities (O), and environmental threats (T).

1. The External Environment

A. Managers study the external environment to identify opportunities and threats in the marketplace, avoid surprises, and respond to competitors.

B. It is important to gather accurate data in a timely manner, and then use that information to gain a competitive advantage.

2. Components of External Analysis

A. There are four components of an external analysis
   1. Scanning – the analysis of general environmental factors that may directly or indirectly be relevant to the firm’s future.
      a. The goal of scanning is to spot emerging trends that could develop into an opportunity or a threat.
   2. Monitoring – observing environmental changes on a continuous basis to determine whether a clear trend is emerging.
      a. Monitoring can reduce uncertainty for a firm.
   3. Forecasting – involves predicting what is likely to happen in the future, the intensity of the anticipated event, its importance to the firm, and the pace or time frame in which it may occur.
      a. Firms need strategic flexibility to respond to changes in the environment.
   4. Assessing – evaluating the environmental data received to study the implications for the firm.
      a. Firms need to understand the consequences of data.

3. Scope of the External Analysis

A. The external environment can be examined at four different levels
   1. The general environment – includes
      a. Demographic trends – factors such as population size, age distribution, and ethnic mix can have a direct impact on current and future business
      b. Economic conditions – local companies are affected by local economic conditions, regional firms by regional conditions, and national companies by national and international conditions.
      c. Political/legal forces – government policies and actions can have a significant impact on firms.
      d. Sociocultural conditions – firms are more likely to succeed if they can adapt products and services to prevalent sociocultural conditions.
      e. Technological changes – firms must stay on top of technological changes to remain competitive.
Globalization – firms are increasingly dependent on foreign markets for raw materials, for manufacturing, and for sales.

2. The industry – Michael Porter’s Five Forces model suggests five forces influence industries
   a. The threat of new entrants – barriers to entry such as high capital requirements, government regulations, and strong brand identification can minimize the threat that new competitors will enter a market.
   b. The threat of substitutes – technological advances can lead to the development of new products that supplant existing ones.
   c. Suppliers – the power of a supplier increases when there are few other sources of supply, when the supplier has many other buyers, when there are no satisfactory substitutes, and when the cost of switching suppliers is high.
   d. Customers – the bargaining power of customers increases when they purchase a large share of the firm’s output, the product is important to them, close substitutes are readily available, and the product is relatively standardized.
   e. Intensity of rivalry among competitors – the intensity of rivalry among competitors increases with the number of competitors, when industry growth is slow, when there is unused capacity, and when there are high exit barriers.

3. Strategic groups – consist of a cluster of firms within an industry that tend to adopt common strategies of technological leadership, quality standards, prices, distribution channels, and customer service. Managers need to follow and respond to the moves of these strategic groups.

4. Direct competitors – companies should make a detailed study of each of their direct competitors in order to make inferences about the competitor’s goals and objectives, strategies, strengths and weaknesses, and possible competitive moves.

4. The Internal Environment
   A. In addition to analyzing the external environment, firms need to examine the internal environment to identify internal resources, capabilities, and knowledge that can help the firm capitalize on opportunities and minimize threats.
   B. The resource-based view suggests that basing a business strategy on what the firm is capable of doing provides a more sustainable competitive advantage than basing it on external opportunities.
      1. Things a company does well are called core competencies.

5. Resource Types
   A. The inputs a firm uses to deliver products and services can be
      a. Tangible – resources that can be quantified and observed including financial resources, physical assets, and manpower.
      b. Intangible – resources that are difficult to quantify and include on a balance sheet, but can provide the firm with the strongest competitive advantage.
a) The three most important intangible resources are
1. The firm’s reputation – consumers tend to buy from firms they hold in high regard and so a good reputation can decrease uncertainty and risk.
2. Technology – patents, copyrights, and trade secrets can all provide a competitive advantage as can the ability to create new technology faster than competitors.
3. Human capital – the skills, knowledge, reasoning, and decision-making abilities of employees can give a firm an advantage over rivals.

6. Analyzing the Firm’s Capabilities

A. There are three ways to analyze a firm’s capabilities
   1) **A functional analysis** establishes organizational capabilities for each of the major functional areas of the business.
   2) The **value chain analysis** breaks the firm down into a sequential series of activities and attempts to identify the value added of each activity.
      a. **Primary activities** - involved with the transformation of inputs and outputs.
      b. **Direct customer contact** – sales, customer service, and marketing.
      c. **Support** – human resource management and administrative assistance.
   3) **Benchmarking** assesses capabilities by comparing the firm’s activities or functions with those of other firms.
      a. It involves four stages
         1) Identifying activities that are weak or need improvement.
         2) Identifying firms that are at the leading edge of these activities.
         3) Studying those firms to understand why they do so well.
         4) Using the information to improve the firm’s functions.

III. Step Two: Strategic Intent and Mission

After analyzing the external and internal environments, the next step of the strategic management process involves formal statements of strategic intent and mission.

A. **Strategic intent** is the firm’s internally focused definition of how the firm intends to use its resources, capabilities, and core competencies to win competitive battles.
   1. It guides future activities.

B. **Strategic mission** is the firm’s externally focused definition of what it plans to produce and market utilizing its internally based core competence.

IV. Step Three: Strategy Formulation

The third component in the strategic management process is strategy formulation.

A. **Strategy formulation** is the design of an approach to achieve the firm’s mission.
B. Strategy formulation takes place at
   1. The corporate level
   2. The business unit level

1. Corporate Level Strategy

A. **Corporate level strategy** is the overall plan concerning the number of businesses the corporation holds, the variety of markets or industries it serves, and the distribution of resources among those businesses.

B. **Diversification strategy** is a firm’s plan to create and manage a mix of businesses owned by the firm. It answers the question “what business are we in?” and “what businesses should we be in?”

C. Corporate diversification can be analyzed in terms of
   1. **Portfolio mix** – **portfolio analysis** is used to classify the processes of a diversified company within a single framework or taxonomy.
      a. The **McKinsey-General Electric Portfolio Analysis Matrix** classifies in terms of industry attractiveness and business unit position and identifies which units should be grown, harvested, or held.
      b. The **Boston Consulting Group’s Growth-Matrix** classifies according to relative market share and market growth and identifies dogs (divest as soon as possible), cows (milk), stars (invest for growth), and question marks (needs additional analysis).
      c. Portfolio analysis is attractive because it provides useful information in a simple framework, but it also assumes that each unit operates independently.
   2. **Diversification type** – four major types of business mix are
      a. **Concentration strategy** – focus on a simple business operating in a single industry segment.
         1) This strategy is attractive because it allows the firm to become the best in that single business, but unattractive because all earnings come from a single source.
      b. **Vertical integration strategy** – the firm acquires businesses that supply channels (**backward integration**) or distributes to the primary business (**forward integration**).
         1) This strategy is attractive because it gives the firm more control and can reduce costs and uncertainty, but it also requires the firm to invest in businesses it may be unfamiliar with.
      c. **Concentric diversification** – the firm expands by creating or acquiring new businesses that are related to the firm’s core business.
         1) This strategy is attractive because it can reduce costs and core competencies can be transferred to the new business, but it can be problematic because business unit managers may not cooperate with each other and the interrelationships between business units can be difficult to manage.
      d. **Conglomerate diversification** – involves managing a portfolio of businesses that are unrelated to each other.
1) This strategy is attractive because its spreads risk across more than one industry and market, but is unattractive because it may not build on the firm’s core competencies and executives may lack the knowledge to effectively run disparate business units.

3. Diversification process – diversification can occur through
   a. Acquisition or restructuring – acquisition (purchasing other firms) and merger (integrating two firms) can help a firm gain market power, expand into new markets, spread risk, and avoid the cost of new product development.
   b. Internationalization – firms expand internationally to increase market size, share resources and knowledge, lower costs, and spread business risk.

2. Business Level Strategy

   A. A business level strategy is the strategy the firm uses to compete in each business area or market segment.

   B. There are two basic business level strategies
      1. A cost leadership strategy involves providing products and services that are less expensive than those of competitors.
         a. Firms must be more efficient than competitors and pass the savings along to customers in the form of lower prices.
         b. Firms need to sell large volumes to earn acceptable returns.
      2. A differentiation strategy involves delivering products and services that customers perceive as unique.
         a. Firms must invest in new products or features so that customers perceive the products to be better than those of competitors.
         b. Firms must be able to achieve this at a price customers are willing to pay.

V. Step Four: Strategy Implementation

The fourth step in the strategic management process is strategy implementation.

   A. Successful strategy implementation requires the firm to consider
      1. Strategic leadership
      2. Organizational structure and controls
      3. Cooperative strategies
      4. Global strategies
      5. Human resource strategies
      6. Corporate entrepreneurship and innovation

1. Strategic Leadership

   A. Leadership plays a fundamental role in the success or failure of the firm.

   B. Effective leaders meaningfully influence the behavior, thoughts, and feelings of employees.
2. Organizational Controls

A. A company’s board of directors is responsible for monitoring the actions and decisions of top executives.

B. Under the Sarbanes-Oxley Act of 2002, public companies must now follow a set of accountability standards designed to prevent some of the worst corporate abuses.

3. Organizational Structures

A. Organizational structure provides the structure for the orderly execution of strategies.

B. A firm’s structure must be congruent with its formulated strategy for strategy implementation to be successful.
   1. Roles for individuals must be defined, policies established, chains of command determined, and decision making processes identified.

4. Cooperative Strategies

A. **Cooperative strategies** involve establishing partnerships or strategic alliances with other firms.

B. Through strategic alliances firms can
   1. Combine resources, capabilities, and core competencies to gain market power.
   2. Overcome trade barriers.
   3. Learn from each other.
   4. Pool resources.
   5. Compete more effectively.
   6. Speed up market entry.

5. Human Resource Strategies

A. Human resources strategy should also be consistent the firm’s overall strategy.

B. Decisions regarding recruitment, employee evaluation, training, and career advancement should all support the company’s strategic mission.

6. Corporate Entrepreneurship and Innovation

A. Innovation is important to developing a sustainable competitive advantage.

B. Firms also need to encourage an entrepreneurial spirit by supporting employees who are willing to take risks, are proactive and creative, and who can see opportunities where others perceive problems.

VI. Step Five: Strategic Outcomes
The fifth step of the strategic management process is an analysis of the outcomes to determine whether company strategies are successful.

A. **Stakeholders** are groups or individuals who have an interest in the performance of the company and how it uses its resources including employees, customers, and shareholders.
   1. Companies strive to meet the needs of investors and shareholders in particular.

B. The interests of other stakeholders can conflict with those of shareholders and create ethical dilemmas for companies.

C. Standard measures of strategic success include
   1. Profits
   2. Sales/market share growth
   3. Growth in corporate assets
   4. Reduced competitive threats
   5. Innovations that fuel future success

D. Firms must consider both short term outcomes and especially long term outcomes.

**Study Questions**

1) Which of the following is not included in the strategic management process?
A) Analysis of the internal and external environment of the firm
B) Formulation of the firm’s code of ethics
C) Definition of the firm’s mission
D) Implementation of strategies to create a competitive advantage
Answer: B
Diff: 1 Page Ref: 196
Objective: LO1

2) When Visa and MasterCard began to differentiate their cards based on prestige, American Express learned which lesson about strategic management?
A) A firm must remain inflexible with its plan.
B) A firm must plan long-term.
C) When competitors learn how to copy the strategy, a firm has to reformulate to stay ahead.
D) all of the above
Answer: C
Diff: 2 Page Ref: 196
Objective: LO1
AACSB: Reflective thinking skills

3) The SWOT analysis is used in which step of the strategic management process?
A) Formulating strategy
B) Implementing strategy
C) Evaluating strategy
D) Analyzing the internal and external environments
Answer: D
4) Which of the following is not true of the SWOT analysis?
A) SWOT stands for strengths, weaknesses, opportunities, and threats.
B) Strengths and weaknesses are found in the internal analysis of the firm.
C) The SWOT analysis tells the firm what strategies to pursue.
D) The objective is to analyze factors from both inside and outside the organization that may influence success.
Answer: C

5) Which of the following is not a component of the external environment analysis?
A) Benchmarking
B) Scanning
C) Monitoring
D) Forecasting
Answer: A

6) Observing environmental changes on a continuous basis to determine whether a clear trend is emerging is
A) assessing.
B) scanning.
C) monitoring.
D) forecasting.
Answer: C

7) When Best Buy and Circuit City evaluated the impact of Walmart's move to offer product warranties at half the price, they were engaging in which component of external analysis?
A) Assessing
B) Scanning
C) Monitoring
D) Forecasting
Answer: A

8) When the Acme Company delayed its investment in new information technology based on predictions of what was likely to happen in the future, the intensity of the anticipated event, its importance to the firm, and the time frame in which it was expected to occur, the firm was engaged in which component of the external environment?
A) Assessing
B) Scanning
C) Monitoring
D) Forecasting
Answer: D
Diff: 2 Page Ref: 200
Objective: LO1
AACSB: Reflective thinking skills
9) Which level of environmental analysis is the broadest?
A) The general environment
B) The industry
C) The strategic group
D) Direct competitors
Answer: A
Diff: 1 Page Ref: 201
Objective: LO1

10) Which of the following is a segment of the general environment?
A) Demographic trends
B) Economic conditions
C) Globalization
D) all of the above
Answer: D
Diff: 2 Page Ref: 201
Objective: LO1

11) When e-commerce companies recognized there were more women using the Internet than men, there were significant business implications since women do most of the household shopping. Which segment of the general environment does this represent?
A) Demographic trends
B) Economic conditions
C) Globalization
D) Socio-cultural trends
Answer: A
Diff: 2 Page Ref: 201
Objective: LO1
AACSB: Multicultural and diversity understanding

12) By 2020, it is estimated that what percent of the population will be 50 and older?
A) 15
B) 35
C) 50
D) 70
Answer: C
Diff: 1 Page Ref: 202
Objective: LO1
AACSB: Multicultural and diversity understanding
13) When the Justice Department sued Microsoft for a high-tech monopoly, which component of the external environment was being addressed?
A) Demographic trends
B) Political/legal forces
C) Economic trends
D) Socio-cultural conditions
Answer: B
Diff: 2 Page Ref: 203
Objective: LO1
AACSB: Reflective thinking skills

14) The norms, values, and preferences of a society are analyzed in which component of the external environment?
A) Demographic trends
B) Political/legal forces
C) Economic trends
D) Socio-cultural trends
Answer: D
Diff: 1 Page Ref: 203
Objective: LO1

15) McDonald's was able to make progress in the French market by adapting its menu and the look of its restaurants after carefully analyzing which component of the external environment?
A) Demographic trends
B) Political/legal forces
C) Economic trends
D) Socio-cultural trends
Answer: D
Diff: 2 Page Ref: 203
Objective: LO1
AACSB: Reflective thinking skills

16) The changes that Mattel made in Barbie after the 1960s were in response to which component of the external environment?
A) Demographic trends
B) Political/legal forces
C) Economic trends
D) Socio-cultural trends
Answer: D
Diff: 2 Page Ref: 204
Objective: LO1
AACSB: Multicultural and diversity understanding
17) Which of the following statements is true of globalization?
A) Firms are becoming less dependent on foreign markets for raw materials.
B) It is difficult to define what is "domestic" and what is "foreign."
C) Borderless strategic alliances are less common with more fierce international competition today.
D) Firms are becoming less dependent on foreign markets for the sale of products and services.
Answer: B
Diff: 3 Page Ref: 204
Objective: LO1
AACSB: Globalization

18) A group of firms with products that can substitute for one another is referred to as
A) a strategic group.
B) an external environment.
C) a supplier.
D) an industry.
Answer: D
Diff: 1 Page Ref: 204
Objective: LO1

19) According to Michael Porter's framework, which of the following is not one of the five forces within an industry?
A) The threat of new entrants
B) Technology
C) Intensity of rivalry
D) Customers
Answer: B
Diff: 1 Page Ref: 205
Objective: LO1

20) Which of the following is considered a barrier to entry?
A) Strong brand identification already exists in the industry.
B) Intellectual property that is legally protected may keep firms out of the industry.
C) Capital requirements are so high that few firms have the resources to enter.
D) all of the above
Answer: D
Diff: 2 Page Ref: 205
Objective: LO1

21) The threat of new entrants _______ as barriers to entry ________.
A) decreases; decrease
B) increases; decrease
C) decreases; increase
D) increases; increase
Answer: C
Diff: 3 Page Ref: 205
Objective: LO1
22) The erosion of CD sales and the increase in music downloads reflects which of Porter's five forces in the industry?
   A) Suppliers
   B) Threat of new entrants
   C) Threat of substitutes
   D) Intensity of rivalry
   Answer: C
   Diff: 2    Page Ref: 206
   Objective: LO1
   AACSB: Reflective thinking skills

23) The Widget Company has a dependence on a supplier, the Acme Company. This dependence increases if
   A) the Widget Company has few other sources of supply.
   B) the Acme Company has many other buyers.
   C) the cost for the Widget Company to suppliers is high.
   D) all of the above
   Answer: D
   Diff: 3    Page Ref: 206
   Objective: LO1
   AACSB: Reflective thinking skills

24) Which of the following factors causes an increase in competitive rivalry?
   A) Fast industry growth
   B) Undifferentiated services
   C) Low exit barriers
   D) Fewer number of competitors
   Answer: B
   Diff: 3    Page Ref: 206
   Objective: LO1

25) Which of the following represents a strategic group in the automobile industry?
   A) Mercedes, BMW, and Ford
   B) Chevrolet, Toyota, and Ford
   C) Rolls Royce, Chevrolet, and Toyota
   D) BMW, Rolls Royce, and Toyota
   Answer: B
   Diff: 2    Page Ref: 207
   Objective: LO1
   AACSB: Reflective thinking skills
26) The strategic management viewpoint that bases business strategy on what the firm is capable of doing, providing a more sustainable competitive advantage than basing it on external opportunities, is the A) competitor analysis. B) resource-based view. C) functional analysis. D) value-chain analysis. Answer: B Diff: 2 Page Ref: 207 Objective: LO2

27) 3M's ability to leverage its knowledge of adhesive and thin-film technology is an example of which strategic management viewpoint? A) Competitor analysis B) Resource-based view C) Functional analysis D) Value-chain analysis Answer: B Diff: 2 Page Ref: 207 Objective: LO2 AACSB: Reflective thinking skills

28) Which of the following is an example of a firm's tangible resources? A) Reputation B) Equipment C) Human capital D) The ability to create new technology faster than competitors Answer: B Diff: 3 Page Ref: 208 Objective: LO2 AACSB: Analytic skills

29) Which of the following is not an intangible resource of a firm? A) Human capital B) Capital C) Technology D) Reputation Answer: B Diff: 2 Page Ref: 208 Objective: LO2 AACSB: Analytic skills
30) How can human capital provide a core competence?
A) Knowledge that resides in the minds of people is unique to the firm's employees.
B) Employees are willing to collaboratively use their talents to support the firm's mission.
C) The company's culture plays a key role in how well people work together to achieve the firm's objectives.
D) all of the above
Answer: D
Diff: 3    Page Ref: 208-209
Objective: LO2

31) The strategic management approach that establishes organizational capabilities for each of the major areas of the business is
A) competitor analysis.
B) resource-based view.
C) functional analysis.
D) value-chain analysis.
Answer: C
Diff: 1    Page Ref: 209
Objective: LO2

32) Which of the following is not an approach for organizations to examine their capabilities?
A) Functional analysis
B) Benchmarking
C) Five forces analysis
D) Value-chain analysis
Answer: C
Diff: 1    Page Ref: 209
Objective: LO2

33) Porter's value-chain analysis attempts to identify
A) primary activities of the firm.
B) the competitive advantage of the firm.
C) support activities of the firm.
D) the value-added of each activity.
Answer: D
Diff: 3    Page Ref: 210
Objective: LO2

34) The extent to which the value created by a particular activity is greater than the cost incurred to create that value is referred to as
A) margin.
B) competitive advantage.
C) the value chain.
D) human capital.
Answer: A
Diff: 1    Page Ref: 210
Objective: LO2
35) Which strategic management approach is being used when Sears assesses its customer service capabilities by comparing its activities with those of Disney and Nordstrom's?
A) Value-chain analysis
B) Functional analysis
C) Benchmarking
D) Five forces analysis
Answer: C
Diff: 2 Page Ref: 210
Objective: LO2
AACSB: Reflective thinking skills

36) Which of the following is not true of strategic intent?
A) Strategic intent indicates how the firm will use its resources.
B) Strategic intent flows from the firm's mission.
C) Strategic intent is internally focused.
D) all of the above
Answer: B
Diff: 2 Page Ref: 211
Objective: LO3

37) A firm's strategic mission
A) is internally focused.
B) flows from the firm's strategic intent.
C) indicates how the firm will use its resources.
D) is crafted without regard for the opportunities in the external environment.
Answer: B
Diff: 1 Page Ref: 211
Objective: LO3

38) Strategic intent and mission
A) can restrict how managers view the environment.
B) can easily be changed in search of new opportunities in the environment.
C) seldom become incongruent with the firm's environment.
D) are the result of the SWOT analysis.
Answer: A
Diff: 3 Page Ref: 212
Objective: LO3
39) The firm's overall plan concerning the number of businesses it holds, the variety of markets or industries it serves, and the distribution of resources among those businesses is referred to as the
A) diversification strategy.
B) functional strategy.
C) corporate-level strategy.
D) business-level strategy.
Answer: C
Diff: 1 Page Ref: 213
Objective: LO4

40) A firm's strategic plan to create and manage a mix of businesses owned by the firm is a
A) BCG Matrix.
B) diversification strategy.
C) business-unit strategy.
D) functional-unit strategy.
Answer: B
Diff: 2 Page Ref: 214
Objective: LO4

41) The McKinsey-General Electric Portfolio Analysis Matrix and the Boston Consulting Group’s Growth-Share Matrix are techniques of
A) portfolio analysis.
B) five-forces analysis.
C) business-level strategy.
D) value-chain analysis.
Answer: A
Diff: 2 Page Ref: 214
Objective: LO4

42) According to the BCG Matrix, a business unit that is both low in market share and low in market growth is a
A) cow.
B) star.
C) question mark.
D) dog.
Answer: D
Diff: 2 Page Ref: 214-215
Objective: LO4
43) What is the recommendation by the BCG Matrix for a star?
A) It should be divested as soon as possible.
B) It should be "milked" as much as possible with only limited additional resources devoted to it.
C) The firm should greatly invest in it to fuel additional growth.
D) Additional analysis is necessary to decide whether or not additional resources should be channeled its way.
Answer: C
Diff: 2 Page Ref: 215
Objective: LO4

44) Which diversification strategy focuses on a single business operating in a single industry segment?
A) Concentration strategy
B) Vertical integration strategy
C) Concentric diversification strategy
D) Conglomerate diversification strategy
Answer: A
Diff: 2 Page Ref: 216
Objective: LO4

45) Which type of diversification strategy tends to be less profitable as a result of corporate executives lacking sufficient knowledge to effectively manage disparate business units?
A) Concentration strategy
B) Vertical integration strategy
C) Concentric diversification strategy
D) Conglomerate diversification strategy
Answer: D
Diff: 2 Page Ref: 216
Objective: LO4
AACSB: Reflective thinking skills

46) When companies decide how to compete in a market segment, they are formulating
A) corporate strategy.
B) business-level strategy.
C) diversification strategy.
D) functional-level strategy.
Answer: B
Diff: 1 Page Ref: 217
Objective: LO4

47) Maytag's focus on product reliability suggests the firm has chosen a
A) low cost strategy.
B) portfolio strategy.
C) corporate-level strategy.
D) differentiation strategy.
Answer: D
Diff: 1 Page Ref: 217
Objective: LO4
48) Which of the following plays a role in strategy implementation?
A) Strategic leadership
B) Human resource strategies
C) Organizational structure and controls
D) all of the above
Answer: D
Diff: 2 Page Ref: 218
Objective: LO5

49) In the strategic implementation phase of the strategic management process, top executives are responsible for
A) charting general implementation plans.
B) making key resource allocation decisions.
C) delegating day-to-day operations.
D) all of the above
Answer: D
Diff: 2 Page Ref: 218
Objective: LO5

50) The role of boards of directors in monitoring the actions and decisions of top executives changed with the passage of
A) the Sarbanes-Oxley Act.
B) NAFTA.
C) the Foreign Corrupt Practices Act.
D) the ADA.
Answer: A
Diff: 1 Page Ref: 219
Objective: LO5

51) When Procter and Gamble partnered with General Electric to develop a jet engine for Boeing's new jumbo jet, they engaged in which strategy?
A) concentric diversification strategy
B) cooperative strategy
C) diversification strategy
D) portfolio strategy
Answer: B
Diff: 2 Page Ref: 220
Objective: LO5
AACSB: Reflective thinking skills

52) Partners in strategic alliances can
A) learn from each other.
B) pool resources for risky projects.
C) speed up entry into new markets.
D) all of the above
Answer: D
Diff: 2 Page Ref: 220
Objective: LO5
53) Innovation contributes to a sustainable competitive advantage if
   A) it is difficult or costly for competitors to imitate.
   B) customers can see a value in the innovation.
   C) the firm is capable of commercializing the innovation.
   D) all of the above
   Answer: D
   Diff: 2    Page Ref: 221
   Objective: LO5

54) The final step of the strategic management process is
   A) formulation of the strategy.
   B) implementation of the strategy.
   C) analysis of the strategic outcomes.
   D) formulation of the firm’s strategic intent and mission.
   Answer: C
   Diff: 1    Page Ref: 222
   Objective: LO6

55) The ultimate criterion when studying strategic outcomes should be the firm's
   A) long-term success.
   B) profits.
   C) growth of market share.
   D) growth of company assets.
   Answer: A
   Diff: 2    Page Ref: 223
   Objective: LO6

56) For a strategy to be successful, a firm must be flexible and make changes to the plan based
   on experience. Strategic management requires adaptation to changing conditions.
   Answer: TRUE
   Diff: 2    Page Ref: 196
   Objective: LO1

57) Strategic outcomes refer to the intended results of the strategic plan.
   Answer: FALSE
   Diff: 3    Page Ref: 198
   Objective: LO1

58) Rubbermaid failed to consider that the cost of a raw material, resin, could not be passed
   along to their customers through increased costs. Sterlite, a major competitor, did not pass
   along the increase to their customers. As a result, Walmart replaced Rubbermaid's products
   with Sterlite's. This was an example of a failure to accurately assess the environmental data.
   Answer: TRUE
   Diff: 2    Page Ref: 200
   Objective: LO1
   AACSB: Reflective thinking skills
59) The ups and downs in one economic sector seldom have a ripple effect on other sectors.
Answer: FALSE
Diff: 2 Page Ref: 203
Objective: LO1

60) Polaroid erected a barrier to entry that kept Kodak from entering the industry with their patent.
Answer: TRUE
Diff: 2 Page Ref: 205
Objective: LO1
AACSB: Reflective thinking skills

61) In examining the firm's capabilities, company leaders may choose functional analysis, value-chain analysis, or five forces analysis.
Answer: FALSE
Diff: 3 Page Ref: 209
Objective: LO2

62) The firm's internally focused definition of what it plans to produce and market is the strategic mission while the firm's externally focused definition of how the firm intends to use its resources is the strategic intent.
Answer: FALSE
Diff: 2 Page Ref: 211
Objective: LO3

63) When Wrigley decided to focus almost exclusively on the chewing gum market and Seagram decided to enter the beverage market while also competing in the entertainment industry, both firm's were deciding their diversification strategies.
Answer: TRUE
Diff: 2 Page Ref: 214
Objective: LO4
AACSB: Reflective thinking skills

64) Strategic competitiveness can be attained only when the firm's selected structure is congruent with its formulated strategy.
Answer: TRUE
Diff: 2 Page Ref: 219
Objective: LO5

65) It is essential that the executive team assess the short-range outcomes as part of the strategic management process. The long-term outcomes need not be assessed since they are constantly changing and the plan adapts to them.
Answer: FALSE
Diff: 2 Page Ref: 223
Objective: LO6
66) What are the components of the strategic management process?
Answer: The components of the strategic management process are analysis of the external and internal environments, definition of strategic intent and mission, formulation of strategy, implementation of strategy, and assessment of strategic outcomes.
Diff: 1 Page Ref: 197
Objective: LO1

67) What is the SWOT analysis?
Answer: The SWOT analysis is a strategic management tool to evaluate the firm that is accomplished by identifying its strengths, weaknesses, opportunities, and threats. A properly generated SWOT generates information which helps a firm respond to various strategic challenges.
Diff: 2 Page Ref: 198
Objective: LO1

68) Discuss the four components of an external environmental analysis.
Answer: The four components of an external environmental analysis are scanning, monitoring, forecasting and assessing. Scanning is the analysis of factors that may be relevant to the firm's future. The objective is to identify early signs of emerging trends that may result in an opportunity or a threat. Monitoring is the observing of environmental changes on a continuous basis to determine where a clear trend is emerging. In forecasting, the firm attempts to predict what is likely to happen in the future, the intensity of the anticipated event, its importance to the firm, and the pace or time frame in which it may occur. Evaluation of environmental data received to study the implications for the firm is the process of assessing.
Diff: 3 Page Ref: 200-201
Objective: LO1

69) What are the segments of the general environment? How are they related?
Answer: The general environment is comprised of demographic trends, economic conditions, political/legal forces, socio-cultural conditions, technological changes, and globalization. They are not independent segments. A change in one is likely to affect others.
Diff: 2 Page Ref: 201
Objective: LO1
70) Describe Porter's Five Forces model.
Answer: According to Porter, the five forces within an industry are the threat of new entrants, the threat of substitutes, suppliers, customers, and intensity of rivalry. A new entrant is likely to take away part of the market and earnings of existing firms. The threat of new entrants decreases as barriers to entry and fear of retaliation by current industry firms increase. Technological changes may lead to the discovery and manufacturing of new products that can substitute for existing products. Higher quality, lower costs, more features, and safety considerations may induce consumers to shift preferences from the old to the new. Firms are seldom self-sufficient. They purchase inputs from suppliers who can affect the cost of inputs. Dependence may pose a threat to the firm if the supplies are essential to the firm. This dependence increases if the buyer has few other sources of supply, the supplier has many other buyers, satisfactory substitutes for the input are not available, or the cost of changing suppliers is significant. Customers enjoy more bargaining power and negotiate better terms when they purchase a large portion of the firm's output, the product is important to them, close substitutes are easily available, and the products are relatively standardized. The intensity of rivalry increases with the number of competitors, slow industry growth, unused productive capacity, undifferentiated services, and high exit barriers.

Diff: 3 Page Ref: 205-206
Objective: LO1

71) What is the difference between tangible and intangible resources? Give an example of each.
Answer: Tangible resources can be observed and quantified. Examples are financial resources, physical assets and workers. Intangible resources are items that are difficult to quantify and include on a balance sheet. Yet these often provide the firm with the strongest competitive advantage. These assets are invisible and not obvious. Examples include a company's reputation, technology, and human capital.

Diff: 1 Page Ref: 208
Objective: LO2
AACS: Reflective thinking skills

72) What is benchmarking?
Answer: Benchmarking is a strategic management approach that assesses capabilities by comparing the firm's activities or functions to those of other firms.

Diff: 1 Page Ref: 210
Objective: LO2

73) What is the difference between the firm's strategic intent and strategic mission. How are they related?
Answer: The firm's strategic intent is the internally focused definition of how the firm intends to use its resources, capabilities, and core competencies to win competitive battles. The strategic mission is the firm's externally focused definition of what it plans to produce and market, utilizing its internally based core competence. A firm's strategic mission flows from its strategic intent.

Diff: 2 Page Ref: 211
Objective: LO3
74) What is portfolio analysis?
Answer: Portfolio analysis is an approach to classify the processes of a diversified company within a single framework or taxonomy.
Diff: 2  Page Ref: 214
Objective: LO4

75) Describe the recommendations of the Boston Consulting Group's Growth-Share Matrix.
Answer: The recommendations of the BCG Matrix are as follows:
· A business unit that is both low in market share and low in market growth is a dog and should be divested as soon as possible.
· A business unit that has a high market share in a market with low growth potential is a cow and should be "milked" as much as possible with only limited additional resources devoted to it.
· If a business unit has both a high market share and operates in a growing market, it is a star and the corporation should greatly invest in it to fuel additional growth.
· If a business unit has a low market share but operates in a growing market, it is a question mark and additional analysis is necessary to decide whether or not more resources should be channeled its way.
Diff: 3  Page Ref: 214-215
Objective: LO4

76) What are the four types of diversification?
Answer: The four major types of diversification are concentration, vertical integration, concentric diversification, and conglomerate diversification.
Diff: 2  Page Ref: 216
Objective: LO4

77) What is conglomerate diversification? What are its advantages and disadvantages?
Answer: Conglomerate diversification involves managing a portfolio of businesses that are unrelated to each other. One advantage of conglomerate diversification is that risks are spread across different markets and industries. Potential downturns in one business segment may be offset by higher earnings in other business units. Research suggests that as a whole, conglomerates are not as profitable as the other types of corporate diversification strategies. The main problems appear to be that conglomerate diversification does not build on a firm's core competencies and that corporate executives do not have sufficient knowledge to effectively manage disparate business units.
Diff: 3  Page Ref: 216
Objective: LO4

78) What are the two basic choices when selecting a business-level strategy? Provide examples of each.
Answer: The two basic choices when selecting a business-level strategy are cost leadership and differentiation. Providing products and services that are less expensive than those of competitors is referred to as cost leadership. Walmart follows a cost-leadership strategy. Delivering products and services that customers perceive to be different and better is a differentiation strategy. Tiffany's follows a differentiation strategy.
Diff: 2  Page Ref: 217
Objective: LO4
79) What is a cooperative strategy? What purposes do they serve?
Answer: A cooperative strategy involves establishing partnerships or strategic alliances with other firms. Firms may combine resources, capabilities, and core competencies to gain market power, overcome trade barriers, learn from each other, pool resources for expensive and risky projects, compete more effectively in a particular industry, and speed up entry into new markets. Strategic alliances also allow a firm to create and disband projects with minimal paperwork.

Diff: 2  Page Ref: 220
Objective: LO5

80) What are some of the standard measures of strategic success evaluated in the final stage of the strategic management process?
Answer: Some of the standard measures of strategic success include profits, growth of sales/market share, growth of corporate assets, reduced competitive threats, and innovations that fuel future success. It is important for the firm to assess both the short term and long range when assessing strategic outcomes.

Diff: 2  Page Ref: 223
Objective: LO6