

Questions on Chapter 1

True False Questions

Question stem	Correct choice
Strategy is a unifying theme and a general guideline	
For most firms, luck appears to be the largest factor explaining whether they fail or succeed	
Executing a good strategy effectively likely determines the extent of a firm's success	
The role of business strategy can be described as the selection of resources a firm chooses to achieve its long-term goals and the way it organizes those resources into activities	
The concept of "Strategic fit" describes the gap or fit between the environment and a firm's strategy	
Business strategy has intellectual origins in military strategy	
Strategy denotes the entire plan whereas a tactic refers to a scheme for specific actions	
Strategic decisions are important, involve a significant commitment of resources and should be easily reversible	
Different perspectives in strategy have existed since the 1950s; each of them emphasized a particular aspect of strategy	
Strategy can be defined as the means by which individuals or organizations achieve their objectives	
Strategy answers two basic questions: where and how to compete?	
An intended strategy is a set of initial ethical intentions; an emergent strategy comprises actions or changes that emerge from the organization or its environment; and finally, the realized strategy is the set of strategic changes and actions that actually takes place	
Good strategy analysis generates 'right' answers to strategic problems	
Strategic analysis gives us frameworks to identify, classify and understand issues	

Multiple Choice Questions

Question stem	Choices
Success is fundamentally linked to:	- a- A soundly formulated strategy and luck - b- An effectively formulated strategy and a strong awareness of the rivals' strengths - c- A clear understanding of the game and strong political ties with governments and regulatory bodies - d- A soundly formulated and effectively implemented strategy
Strategic goals have to be:	- a- Simple - b- Consistent - c- Long term - d- All of the above
The success of an organization in general, seems related to the following variables:	- a- Being goal-focused - b- Having a strong and in-depth knowledge of the rules of the game - c- Knowing extremely well its own strengths and weaknesses - d- All of the above plus the ability to implement strategy with commitment, consistency and determination
If a firm adjusts its strategy to ensure it is consistent with its external environment, it benefits from a:	- a- Strategic fit - b- Strategic leader - c- Benign environment - d- Political and social fit

Question stem	Choices
The notion of “strategic fit”:	- a- Is common in strategic literature but means different things to different experts - b- Implies deep coherence across all functions within the organization - c- Expresses how well a firm’s strategy fits its internal environment - d- Answers b and c
In the 1980s, Michael Porter pioneered:	- a- The application of industrial organization economics for analyzing industry profitability - b- The development of “PIMS” at the Strategic Planning Institute - c- The first synthesis of the resource and capability approach - d- The first synthesis of a process to manage technology in large tech firms
During the 1990s, the focus of strategy analysis shifted:	- a- From the sources of profit outside the firm to the sources of profit within the firm - b- To the Resource-based view of the firm - c- Both a- and b- - d- From the structure-based approach to the value-added perspective
With increased business environment instability, strategy has become:	- a- An exercise of “wet thumb”, with low reliability - b- Paradoxically, much easier to determine - c- More concerned with the quest for success, and less with detailed plans - d- More concerned with detailed plans, and less with the quest for success
The shift in strategy from a plan to a direction leads to:	- a- A downgrade in the importance of strategic management - b- An increased integration of flexibility and responsiveness - c- A need for top managers’ training about IT techniques - d- None of the above
The essence of strategy is:	- a- Making choices - b- Doing things differently - c- Where and how to compete - d- All of the above
The two questions of “where and how to compete” define:	- a- A firm’s corporate and business strategies - b- A firm’s strategic management process - c- A firm’s vision and mission - d- A firm’s values and culture
How do corporate level strategy and business level strategy differ?	- a- Corporate strategy defines the scope of a firm’s activities, while business strategy focuses on how to beat the competition in a specific product market - b- Corporate strategy defines the scope of a firm’s structure, while business strategy emphasizes the relationship of each business with its environment (state, regulators, etc.) - c- Corporate strategy focuses on the overall strategic plan, while business strategy focuses on implementing strategic decisions in each product market - d- Corporate level strategy is concerned with long term goals, while business level strategy focuses on short term sustainability

Question stem	Choices
Corporate strategy is concerned with:	- a- The scope of the firm in terms of industries and markets, and the allocation of its resources - b- A firm's relationships with its principal stakeholders - c- The corporate governance of each individual business - d- None of the above
Business strategy defines:	- a- The way a firm competes in a particular industry or market - b- The way a firm establishes a competitive advantage over its rivals within a specific industry or market - c- Both of the above - d- Neither of the above
Strategy can be articulated and communicated in several ways:	- a- Vision, Mission, Strategic plans, and Tactical plans - b- Vision, Business models, Public Relation skills, and Strategic plans - c- Vision, Mission, Business models, and Plans - d- Mission, Business models, Strategic plans, and Organizational culture
Strategy can be:	- a- Intended, emergent, or realized - b- Intended, emergent, or sustained - c- Emergent, critical, or sustained - d- Realized, emergent, failed
The balance between design and emergence depends mostly on:	- a- The type of organizational structure - b- The stability and predictability of a firm's environment - c- Top managers' personalities - d- Middle managers' personalities
Strategy improves decision-making by:	- a- Reducing the number of possible actions - b- Integrating and pooling the knowledge of different members of the organization - c- Facilitating the use of analytic tools - d- All of the above

Questions on Chapter 2

True False Questions

Question stem
The value created by a firm is the value received by the customers for that firm's products, minus the real cost of producing the products.
If the aim of a firm is to pursue stakeholder interests rather than shareholder interests, it means that it maximizes value received by all stakeholders rather than the value received by shareholders alone.
Maximizing profit over the life of the firm bears no relationship to the goal of maximizing shareholder value.
Stock market capitalization offers the best available indicator of the net present value of a firm's future free cash flows.

Multiple Choice Questions

Question stem	Choices
The total value created by a firm is equal to:	a. The total revenue the firm receives for the products it sells b. The total revenue the firm receives less the cost of bought-in materials and components c. The sum of producer surplus and consumer surplus the firm creates d. None of the above
Consumer surplus is equal to:	a. The amount consumers pay for a product b. The difference between the amount consumers would be willing to pay for a product and what they actually pay c. The difference between the sales value of a firm's output and the direct costs of producing it d. The amount consumers pay for a product adjusted for the social costs and benefits of the product.
For the purposes of strategy analysis, it is convenient to view business strategy as primarily a quest for:	a. Attractive markets b. Profit c. Customer loyalty d. Motivated and talented personnel
For a firm to survive over the long term it must:	a. Pay a satisfactory level of dividends to its shareholders b. Create customer loyalty, that can then be converted into profit through increasing prices c. Earn a rate of return that covers its cost of capital d. Balance the interests of all its stakeholders.
Although firms may pursue a variety of goals, the assumption that primary goal of strategy is to maximize profits over the long term may be justified by:	a. The fact that in today's intensely competitive markets, firms must focus on profit maximization in order to survive b. The external pressures on firms that arise from (i) strong competition in product markets and (ii) the threat that firms that do not maximize profits will be acquired by firms that do c. The legal requirement on Boards of Directors to ensure that companies are operated in the interests of their shareholders d. Shareholder pressure on CEOs to maximize profits.

Questions Chapter 3

True False Questions

Question stem
“Producer surplus” is an example of an “economic rent” – a payment above what is needed to develop the resource
Value is defined as the difference between the cost of supplying a product or service and the actual price paid by the customer for it, but not all value translates into profit.
The level of profit in an industry is determined by three factors: the value of products to customers, the intensity of competition, and the relative bargaining power of governments
When a firm dominates a specific segment in an industry, it is well-placed to earn a higher level of profit than the average.
Perfect competition defines an industry structure where two or three dominant firms efficiently supply the market.
Michael Porter’s five sources model seeks to facilitate identifying and understanding industry structure
For a specific product or service, the existence of close substitutes means that customers could switch to these substitutes if prices, service levels or other factors make it in their interests to do so.
In a contestable, attractive market there always needs to be actual competition to keep prices relatively low – the threat of competitors entering the market cannot influence prices in a market.
Economies of scale, absolute cost advantages, high capital start-up costs, and access to channels of distribution are all examples of “barriers to entry”.
Retaliation against a new entrant may take the form of aggressive price-cutting, increased advertising, sales promotion, or litigation.
Concentration in an industry is frequently measured by the concentration ratio, which represents the combined market share of the top N players in the industry, where N must be specified.
Excess capacity often leads firms to cut prices to hold on to existing business for fear that competitors will do the same first, leaving them with a lower market share, and adverse average costs.
Regarding cost structures, having very high fixed costs means variable costs will be low so firms should be highly efficient.
The bargaining power of one player in the industry relative to another player rests, ultimately, on the refusal to deal with the other player. The credibility and effectiveness with which each player can make this threat determines the balance of power
There is always a single absolute definition of what an “Industry” is
Understanding the structure of the industry helps managers to work out how to make a profit in future and to possibly identify ways to change the industry structure to their advantage.

Multiple Choice Questions

Question stem	Choices
Given the plethora of external influences, understanding the external environment requires managers to:	- a- Use a framework or a system that allows them to organize information and rank factors - b- Monitor their rivals closely to detect signals of change in their strategies - c- Use all existing techniques to gather and analyze information - d- Work on the matter full-time
To understand the environment, the starting point of the analysis is:	- a- Classifying the environmental influences by source - b- Classifying the environmental influences by proximity - c- Both of the above - d- To identify the industry you are in; your customers, suppliers and competitors.

Question stem	Choices
The core of a firm's business environment is determined by:	- a- Its relationships with customers, competitors, and suppliers - b- Its relationships with customers, rivals, government, and suppliers - c- Its relationships with its major stakeholders - d- Its vision and mission
What is the relationship between macro level factors (such as economic trends or political trends) and strategy?	- a- It's good to be aware of these factors, but they don't change your strategy - b- Strategy emerges from these factors - c- Strategy can be strongly affected by these factors, in terms of opportunities and threats - d- Macro level factors affect the industry environment.
Value is created when:	- a- The price that the customer is willing to pay for a product exceeds the firm's direct cost of production - b- The surplus of value is distributed between customers and producers in the industry by the forces of competition - c- The value of a product to consumers is more than they paid for it. - d- The price that the customer is willing to pay for a product exceeds the firm's cost.
Once value is created, it is, in general:	- a- Equally shared between customers and producers - b- Not equally shared between customers and producers - c- Distributed to the firm's shareholders - d- Reinvested into the firm or put aside as a reserve
"Consumer surplus" is:	- a- The difference between the price customers expect to pay, and the price they would have been willing to pay - b- The total of all the differences between the price each customer actually pays and the maximum price they would have been willing to pay, all other things being equal. - c- The difference between the costs incurred in serving customers, and the revenue that they generate - d- The amount of extra product consumers buy because of the difference between the normal price and a special offer price.
The basic premise of industry analysis is that:	- a- Competition can be assessed between monopoly and perfect competition within the spectrum of industry structures - b- The level of profitability within an industry is in part determined by the dynamics of the industry structure - c- Only the internal variables of the firm determine a firm's performance within the industry - d- Porter's five forces are the determinants of industry intensity of competition
A barrier to entry is:	- a- Anything that facilitates the entry of would-be new entrants in a specific industry - b- Capital requirements, cost advantages, and product differentiation - c- A law restricting trade. - d- Anything that makes entry into an industry as a new competitor more difficult, more costly, slower or even impossible.
Industries such as pharmaceuticals earn very high returns on investment. Such industries:	- a- Tend to be protected from competition by legal restrictions. - b- Can only maintain such high returns for short periods. - c- Always exist when intangible products are traded - d- Tend to have high entry barriers and differentiated products

Question stem	Choices
Economies of scale are a barrier to entry because:	- a- New entrants do not know where they are positioned on their learning curve - b- New entrants do not know the economies they can generate in the future and therefore cannot precisely determine their selling price - c- New entrants face a risk of retaliation from the incumbents which could occur immediately on a large scale and start a price war as a deterrent of their entry - d- New entrants face the cost and risk of creating large scale capacity to start with or a severe cost disadvantage if they enter on a smaller scale
Barriers to entry are effective:	- a- Yes, because long-term empirical evidence shows that industries with high barriers to entry exhibit higher returns on investment on average - b- Yes, because once established they are irreversible - c- No, because firms can overcome these barriers by modifying their strategies - d- No, because higher returns attract more new entrants who want to benefit from higher returns than in non-protected industries
Regarding industry concentration;	- a- A high Concentration Ratio indicates an efficient industry, which economists prefer. - b- A very high Concentration Ratio means that small companies cannot survive in this industry. - c- A high Concentration Ratio indicates an inefficient industry - d- A very high Concentration Ratio would tend to indicate a mature industry exhibiting oligopolistic traits.
Barriers to exit are:	- a- The non-refundable costs of quitting or scaling down capacity in an industry - b- Legal restrictions which prevent a firm from leaving an industry. - c- The opposite of barriers to entry. - d- Of no consequence if you don't plan to leave the industry.
Firms in any industry can be said to operate in two major markets:	- a- The labor market and the output market - b- As a buyer in the supplier market, and as a seller in the customer market. - c- The labor market and the input markets - d- The product market divided at least in two segments (such as mid-size car and SUV market segments)
The overall bargaining power of buyers depends on:	- a- The buyer's price sensitivity. - b- The intensity of rivalry among sellers and the willingness of the buyer to exploit this. - c- The buyer's price sensitivity and the relative bargaining power between the seller and the buyer - d- The intensity of rivalry among buyers and the ability to vertically integrate
Bargaining power rests, ultimately, on:	- a- The negotiating skills of the buyer versus the seller - b- Historic and accidental events - c- The respective effectiveness and cohesion of top management teams - d- The perceived or real threat for one party to refuse to deal with the other party
The relative bargaining power of buyers depends on:	- a- All of the items below - b- The size and concentration of buyers relative to suppliers - c- A buyer's access to information about products and costs - e- The ability or threat to integrate vertically
The bargaining power of suppliers is likely to be high:	- a- When the suppliers' industry is concentrated - b- When suppliers are supplying differentiated products - c- When "our" (the customer's) industry is relatively fragmented - d- All of the above

Question stem	Choices
An industry's current profitability:	- a- On its own tends to be a poor predictor of future profitability - b- Is an excellent predictor of its future profitability - c- Explains the past in that industry - d- Is determined by the forces of competition and so many other factors that gaining insights into its causes is almost impossible
Suppose that an industry's profitability is zero or negative overall;	- a- Then all firms in the industry are performing badly - b- Then no firm in the industry can be performing well - c- Then the biggest firm in the industry is performing badly - d- Then even so it's entirely possible that some firms are making very good profits
Understanding the competitive forces in an industry is:	- a- A largely futile exercise for managers - b- Is of academic interest, but does not bring any value for strategic management - c- A way to enable managers to allocate their resources where competition is the strongest - d- A way to enable managers to position the firm where its particular capabilities can be deployed to best advantage
Changing the industry structure is:	- a- Not really within the power of a single firm. - b- An endeavor that firms are undertaking on a permanent basis with great success - c- A risky strategic move that may backfire, because of retaliation from the industry's incumbents - d- Sometimes possible even by small firms, if the mix of drivers for change and existing structure make it susceptible to change
"The market" and "the industry" are:	- a- Related but not the same thing - b- Unrelated and different - c- Exactly the same concept, and can be used interchangeably - d- Exclusively used in marketing and strategic management respectively
A market's boundaries are defined by:	- a- The geographies of the markets that are supplied by the incumbents - b- The type of product which is sold, and the type of customers willing to pay for the product - c- Substitutability on the demand side and substitutability on the supply side - d- Substitutability on both the demand side and the supply side, combined with an element of judgment depending on context and purpose
The question "What does a firm need to survive competition?":	- a- Can be addressed through a careful analysis of competitors using all possible means, even at the edge of legality and ethics - b- Can be addressed by studying very carefully the two largest rivals in the industry - c- Requires an understanding of the current and future basis of competition specific to the industry - d- Can never be answered clearly, because competitors will not divulge what they are doing

Questions on Chapter 4

True False Questions

Question stem
Porter's five forces model offers a systematic approach to the analysis of competition which is, however, a highly simplified vision of industry competition
Porter's five forces model is exempt from criticism, because it explains most of the variation in profitability across industries
An industry is a homogeneous entity that cannot be disaggregated into sub-parts according to different dimensions
The industry environment accounts for a relatively small part of a firm's profitability
Hyper-competition describes markets characterized by frequent and rapid competitive moves, where advantages are continually eroded and must be continually recreated or rebuilt
In simple situations, game theory allows us to better understand the competitive behavior of players and to predict the outcome of the competitive situation. It also contributes to identifying the optimal strategic choice
"Deterrence" can be defined as imposing costs on the other players for actions that we deem to be desirable
Dividing an industry or market into several segments is called 'segmentation'
Ultimately, segmenting an industry boils down to assessing the characteristics of its customers and products
A segmentation matrix allows you to present in one small table the sub-markets of an industry by type of customer or product
A strategic group is a group of firms in an industry that are following the same or a similar strategy along strategic dimensions, serving the same strategic customer segment
Product range is generally not a pertinent dimension to map strategic groups because most firms within an industry are multi-product organizations
Strategic group mapping is a very useful tool for identifying strategic niches within industries and the strategic positioning of rivals

Multiple Choice Questions

Question stem	Choices
Porter's five forces model of competition is too simple as originally conceived because it overlooks phenomena such as:	- a- The relationships of substitution between products or services within one segment of the market - b- Competitors' strategies may shape the industry structure, rather than structure shaping competition - c- The complexity and stability of the competitive world where rivals' strategies affect each other - d- The different levels of industry analysis that the five forces model can be applied to
How does industry structure actually affect industry profitability?	- a- Industry structure is a major determinant of a firm's profitability - b- Industry structure has no impact at all on industry profitability - c- Industry structure and profitability are such closely entwined concepts that their effects cannot be separated - d- Industry structure usually has a small effect on a firm's profitability
The limitations of Porter's approach point to the need to:	- a- Disaggregate broad industry groups and understand the determinants of competition more deeply - b- Determine the exact level of analysis in an industry - c- Stop attempting to forecast the future evolution of any industry - d- Increase competitive intelligence to collect more information on rivals

Question stem	Choices
What is the difference between a substitute and a complement?	- a- Substitutes reduce the value of a product, whereas complements increase value - b- Complements reduce the value of a product, whereas substitutes increase value - c- Complements cannot be used together, whereas substitutes can - d- Complements increase the average price of any of them, whereas substitutes do the opposite
How do producers of complementary products share the entire value extracted?	- a- They try to share it on a fair basis according to which has contributed the most - b- They share according to their respective bargaining powers - c- They share according to their bargaining power and its deployment - d- They aggressively pursue a maximum appropriation of the total value, even at the expense of the other producers
Porter's original five forces model is least useful where:	- a- There are no complementary goods - b- Switching costs vary over the purchase-ownership cycle - c- Structural change in an industry is rapid - d- Industry entry is practically impossible
Hyper-competition implies:	- a- Rapid changes in industries and a general trend of concentration - b- Strong competition and high rate of start-up failure due to rapid change experienced by high-tech industries - c- No firm can ever achieve a competitive advantage - d- Strong competition and rapid changes in firms' competitive advantages
Game theory has become a valuable tool for strategic management. It allows strategists to:	- a- Frame their decisions, to predict the outcome of competition, and to identify the optimal choice in relatively simple scenarios. - b- Frame their decision, to confirm their past predictions, and to predict their rivals' behaviors - c- Analyze the effect of reputation, of information, and of commitment - d- Ensure that they understand what each firm's top managers prefer
The relationship between competition and cooperation can be described as follows:	- a- Industries either compete or cooperate; if they cooperate they will be investigated by competition bodies - b- Cooperation and competition may exist in an industry, but not at the same time - c- Both can co-exist simultaneously - d- Both can co-exist at the same time, but not in the same industry segment or strategic group
In many business relationships, competition:	- a- Results in an inferior outcome for the players, compared to cooperation - b- Results in a superior outcome for the players, compared to cooperation - c- Results in an outcome not statistically different, compared to cooperation - d- Is so different from cooperation that a comparison does not make sense
The "prisoners dilemma" can be described as:	- a- A situation where prisoners representing industry players exhibit behavior showing that collusion would improve the outcome - b- A situation where prisoners rat on each other and finally get out of jail - c- A situation where no one can obtain an optimal outcome because actors are playing 'blind' and can only ever reach "Nash equilibria" - d- An invention of business journalists to illustrate the fight between substitute product sellers
Deterrence is defined as:	- a- A strong incentive to behave in a certain way - b- A strong incentive not to behave in a certain way - c- A strong incentive to create organizational punishment - d- A strong incentive to delay the game until a Nash equilibrium appears optimal for all

Question stem	Choices
Can the structure of an industry be modified?	a- Never b- Always c- Yes, with creative strategies such as alliances or agreements d- No, because the structure of the industry is shaped by macro-level forces
Signaling refers to:	a- Communications that announce your strategic intentions or plans to rivals b- Any deliberate action that is intended to influence rivals' perceptions or behavior c- Deception campaigns and misinformation actions d- Internal communications that divert strategic orientations and obtain the buy-in of the organization's key stakeholders
Segmentation is a process through which:	a- One can assess the strengths and weaknesses of any firm in its market b- Industries are divided into specific markets c- Markets are divided into specific products d- Product combinations are matched with buyers' tastes
Segmentation is particularly important when:	a- Competition is too fierce to make sense (too many rivals) b- Competition varies across the different submarkets, and some are more attractive than others c- Rivals possess similar endowments of assets d- Rivals hate each other
The purpose of segmentation analysis is?	a- To identify attractive markets b- To select strategies for different segments c- To determine how many segments to serve d- All of the above

Questions on Chapter 5

True False Questions

Question stem
Strategy's concern is to match a firm's resources and capabilities to the opportunities emerging from its environment
In the 1990s, ideas about the role and importance of a firm's resources and capabilities coalesced into a perspective named the "Resource-based view"
Given a rapid rate of change in the external environment, the organization, its resources, and competencies present a more stable base from which to consider strategy.
Until about 20 years ago, industry attractiveness was viewed as the main reason why some businesses were more profitable than others.
Resources are the productive assets owned by a firm
Capabilities are what a firm can do – in particular, what it can do better than competitors
The three main types of resources exist: tangible, intangible, and human
The analysis of a firm's principal functions and Porter's value chain are two approaches that can be used to identify a firm's capabilities.
If a resource or capability is durable, it will confer a sustainable competitive advantage upon the firm.
Identifying the key resources and capabilities is the first step in analyzing their strategic importance.

Multiple Choice Questions

Question stem	Choices
The resource-based view focuses on:	- a- The interface between corporate strategy and business strategy - b- The interface between strategy and the resources of a firm - c- The interface between strategy and the internal environment of a firm - d- The interface between resources and capabilities within a firm
The perceived importance of resources and capabilities to firms' strategies became prominent because:	- a- Top managers have understood the importance of competitive advantages from major academic papers published at the time. - b- The general environment has become more unstable and the structure of industries has evolved towards simultaneously more cooperation and more competition - c- The planning school of strategy has been heavily criticized and planning departments in large firms have almost disappeared - d- It became increasingly apparent that competitive advantage was more important to profit generation than mere characteristics of the industry as a whole.
Which type of source of competitive advantage has become most prominent regarding strategy?	- a- Competitive advantage through the development and deployment of tangible resources and capabilities - b- Competitive advantage through the development and deployment of intangible resources and capabilities - c- Competitive advantage through the development of a stronger market position and customer loyalty - d- Competitive advantage through the development and deployment of resources and capabilities

Question stem	Choices
One implication of the resource-based perspective is that:	- a- Firms tend to adopt similar or close strategies - b- Firms focus on being different from competitors in ways which matter to their competitiveness and to customers - c- Firms focus on building a stronger portfolio of capabilities than the average portfolio of their rivals - d- Firms focus on understanding their resources and capabilities in regards to their weaknesses
Fundamentally, the resource based view is useful for determining strategy by:	- a- Selecting a strategy that exploits a firm's resources and capabilities - b- Hiring the best talent for the top level of management - c- Benchmarking rivals - d- Exploiting a firm's technological prowess and intangible assets.
Filling resource gaps and developing capabilities for the future:	- a- Are part of capability analysis and management - b- Are unimportant to the process of capability analysis - c- Are the responsibility of operations managers only - d- Do not require any specific attention by senior management
A firm's resources and capabilities are:	- a- Such that one resource means one capability - b- Associated but not linked - c- Such that one capability may rest upon several resources - d- Not directly related to each other at all
A firm's human resources are:	- a- The people employed by the organization - b- The expertise, the skills, the commitment and motivation offered by the employees of the organization - c- The knowledge possessed by the employees of the organization - d- The psychological variables embedded in the organization's employees
Why are intangible resources very often more valuable than tangible resources?	- a- Because they are much easier to acquire - b- Because they are cheaper - c- Because they build-up long-term strategic capability, rather than creating an instant capability - d- All of the above
Examples of reputational assets are:	- a- Corporate culture, organizational culture, and trademarks - b- Reputation of a firm's top managers within the industry, and corporate culture - c- Brand names, trademarks, and customers' confidence in the firm - d- Brand names, and a firm's employee turnover rate
Human resources are included as part of a firm's strategic resources because:	- a- The firm owns its employees - b- The firm does not own its employees - c- Employees can be used by management as a productive (intangible) asset. - d- "Resource" is part of their name
Organizational culture:	- a- Consists of values and the social interactions linked to the distribution of responsibility within the organizational structure - b- Is about senior managers' beliefs and vision - c- Consists of values, norms, traditions, assumptions and behaviors - d- Beliefs and employees' psychological attributes
Distinctive competences are:	- a- The same concept as organizational capabilities - b- Those competences which are easy to identify. - c- The same as core competences - d- Those things which an organisation does particularly well relative to competitors, whereas core competences are fundamental to a firm's performance

Question stem	Choices
Core competences possess several attributes:	- a- They provide a basis for entering new markets and make a disproportionate contribution to the customer value - b- They provide a basis for building new technological processes and offer a valuable product or service to a firm's customers - c- They deliver value to a firm and provide a basis for entering international markets - d- They allow top managers to understand the human resources of their firm and to define and implement a technological strategy
Functional analysis and value-chain analysis are both a basis for:	- a- Classifying a firm's core competencies - b- Classifying and disaggregating a firm's activities - c- Understanding a firm's technology, human resources, and product-market combinations, and its organizational structure and culture - d- Benchmarking with a firm's customers, suppliers, and complementary product suppliers
The ability of a firm achieving a good level of profit thanks to its resources and capabilities depends on:	- a- Many factors in addition to the firm's competences - b- The ability of top managers to effectively and efficiently guide the firm through the strategic management process - c- Its ability to use them to establish and to sustain, competitive advantage and to appropriate the returns by deploying its competitive advantage - d- Its ability to perform better than its rivals, to extract more value than similar firms in the same strategic group, and to distribute the value to its stakeholders
If a firm cannot buy a resource or a capability:	- a- It must acquire them in strategic factor markets - b- It must build them in-house itself, which may be very difficult and time-consuming. - c- It must replace them with another asset to achieve the same result - d- It does not matter; no further action is required
The first step of capability management is:	- a- To identify the key resources and capabilities - b- To assess a firm's strengths and weaknesses - c- To assess resources and capability of importance in regards to a firm's rivals and its corporate governance - d- A fiction because it is an iterative process with no specific first step.
"Benchmarking" is:	- a- A process to ensure that a firm is as similar to competitors as possible. - b- An HR manager's tool to set and justify the firm's salary scheme versus the industry norm. - c- A way to compare a firm's attributes against competitors - d- All of the above
Ultimately, appraising resources and capabilities relies upon:	- a- The theoretical understanding of the analyst. - b- Sophisticated statistical tools - c- Benchmarking tools - d- Insight and understanding of the specific industry and company.

Question stem	Choices
Although capability levels vary from one firm to another:	- a- Every firm has specific capabilities not possessed by any other firm. - b- Every firm has a specific organizational structure - c- Every profitable firm has some activity where it excels or has the potential to excel - d- Ultimately, it's the size of the firm which matters most.
Resource and capability appraisal is:	- a- A fixed process which must be adhered to - b- For developing strategy implications - c- Mainly to do with managing key weaknesses - d- Largely a stand-alone process, which in itself should be made routine and thus become a capability in its own right.
Despite the theories and tools for analysing strategic position, many major firms fail:	- a- Because the senior managers are too wedded to a former “recipe for success” which always worked in the past. - b- Because they believe in their own unassailable position - c- Because they fail to recognise that technology and/or customer needs have moved on - d- Any of the above reasons – which is not an exhaustive set.
In the case where a firm possesses a “key weakness”, the firm:	- a- Is likely to be stuck with such a weakness in the short to medium term - b- Could look at forming an alliance or outsourcing to offset the weakness - c- Should examine ways to diminish the impact of the weakness - d- Should consider all of the above

Questions on Chapter 7

True False Questions

Question stem
Competitive advantage is a relatively simple construct to understand and achieve
Competitive advantage emerges from three sources: external, hybrid, and internal sources
A firm can create competitive advantage by responding better than rivals to changes in its environment or by maintaining strategic differences from its rivals that customers accept
Entrepreneurship can be defined as the ability to identify and respond to opportunities in the environment
For some firms, speed of new product development appears to be the only real source of competitive advantage in today's economy
Innovation can be narrowly interpreted as technical change, but also more broadly as a sense of novelty in any area of the firm
To "preempt" an entrant, a firm can occupy existing and potential strategic niches to reduce the range of opportunities open to potential entrants
"Causal ambiguity" is the failure to clearly understand the source of a rival's competitive advantages – in particular which of the rival's distinctive features are causes and which are effects of another feature
To transfer or acquire resources a firm will face transaction costs including patent costs, negotiation costs and contract enforcement cost
A firm that decides as a long term goal to target only part of the overall market has adopted a focus strategy
Porter says that cost leadership and differentiation are the two main sources of competitive advantages
Differentiation means making your product or service unique in some way that customers will pay extra for
Physical characteristics of a product are one of the determinants of its potential for differentiation
Differentiation is about understanding every possible interaction between a firm and its products
Tangible differentiation includes the performance of the product – for instance its reliability, durability and taste (for foods) – as well as its shape, color, size etc.
Differentiation deals with "how" a firm competes and the way in which it can offer uniqueness to its customers
Segmentation is a strategic choice by a firm while differentiation is a feature of the market.
Differentiation can be decomposed into the demand side, the supply side, and the integration of them
One can synthesize the demand side of differentiation by the following statement: differentiation is based upon the product characteristics that have the potential to create value for customers, customers' willingness to pay for it, and a firm's optimal positioning related to its differentiation
You can usually ignore customers' social and psychological factors when planning to differentiate a product or service
On the demand side of differentiation the key questions to ask about customers are what motivates them, and what criteria do they choose when selecting products
The difference between search goods and experience goods boils down to when a customer can ascertain the product's true attributes: on inspection, or only after experiencing the product
Differentiation does not increase costs
The value chain is a useful tool for matching the firm's capacity to create differentiation attributes with the attributes that customers value most

Multiple Choice Questions

Question stem	Choices
In the long run:	a- Imitation erodes differences in competition between firms b- Competition erodes differences in profitability between firms c- Cooperation erodes differences in profitability between firms d- Firms erode differences between them through imitation

Question stem	Choices
Competitive advantage can be defined as:	- a- The difference between a firm's return on assets and its return on sales - b- A firm's ability to earn a persistently higher profit margin than its rivals - c- A firm's ability to earn a profit rate which is persistently higher than its rivals - d- A firm's ability to outwit its competitors
A firm with a competitive advantage other than superior profitability may have?	- a- A rising market share - b- Strong and rising customer loyalty, or good executive perks, or both - c- Invested in technology its rivals do not have - d- Some or all of the above
Competitive advantage:	- a- Exists only when an industry is in long term equilibrium - b- Emerges from external and internal sources - c- Both a and b - d- Neither a nor b
If a firm's competitive advantage comes from external change, then:	- a- The firm responds better to changing prices, technologies or tastes than its rivals - b- The firm responds faster to changing prices or tastes than its rivals - c- The firm has better creative capabilities than its rivals - d- The firm has a lower cost of capital than its rivals
A firm's ability to respond to change:	- a- Requires just one key resource: information - b- Impacts its competitive advantage as well - c- Does not impact its competitive advantage - d- Is a classic and not novel issue in strategic management
"Strategic innovation" involves:	- a- Limitless financial and organizational resources - b- Spending more on Research & Development than your competitors - c- Top managers' total dedication to achieving timely innovations - d- Pioneering in at least one of the three dimensions: new industry, new customer segment, or new source of competitive advantage
Isolating mechanisms are:	- a- Mechanisms that slow or stop the equalization of rents between firms - b- Mechanisms that speed up the equalization of rents between firms - c- Barriers that prevent potential entrants from grabbing a significant market share in the industry - d- Mechanisms that limit or enhance the ex post equilibration of rents among individual firms, depending on their relative bargaining powers
How can a firm obscure its performance?	- a- By masking its results so that rivals fail to see its success - b- By avoiding disclosing financial performance - c- By temporarily lowering prices, so that the firm forgoes short term profits but succeeds in dissuading potential entrants - d- Any of the above
A firm can pre-empt imitation by:	- a- Vigorous legal action - b- Threatening to imitate its imitators - c- Introducing new products to fill each niche, investing in capacity ahead of market growth and filing many patents - d- None of these: imitators should be welcomed.
Preemption means reducing opportunities for challengers by:	- a- Occupying existing niches - b- Occupying existing and potential niches - c- Occupying potential niches - d- None of the above
To imitate the competitive advantage of another company, a firm must first:	- a- Understand the basis of its rival's success - b- Collect comprehensive information about its rival - c- Analyze its rival's marketing strategy - d- None of the above

Question stem	Choices
The fundamental choice for capability acquisitions is the decision to either:	a- Buy them or sell them b- Develop them or maintain them c- Buy them or build them d- Buy them or copy them
The ability to buy capabilities depends on:	a- Their transferability between firms b- Their transferability between firms and the size of transaction costs c- The time needed to accumulate knowledge about this capability d- The cost of capabilities on external factor markets
Transaction costs include:	a- Search costs b- Negotiation costs c- Contract enforcement costs d- All of the above
Benefiting from the “first mover advantage” implies that a firm:	a- Cannot be removed from the market b- Was the first in a market c- Gains access to assets that a follower cannot match d- Must now be successful