Chapter 1--Strategic Leadership: Managing the Strategy-Making Process for Competitive Advantage

1. A strategy can be defined as a set of related actions that managers take to increase their company's performance.

   True False

2. Strategic leadership is concerned with how to most effectively manage a company's strategy-making process to create competitive advantage.

   True False

3. To increase shareholder value, managers must pursue strategies that increase revenue and market share, whether the results are profitable or not.

   True False

4. A firm obtains competitive advantage when its strategy results in superior performance relative to its competitors.

   True False

5. ROIC is a measure of how efficiently and effectively managers use the capital at their disposal to produce profitability.

   True False

6. The profit growth of a company can be measured by the increase in its stock price over time.

   True False

7. A business model is managers' conception of how the set of strategies their company pursues should mesh together into a congruent whole, thus enabling the company to gain a competitive advantage and achieve superior profitability and profit growth.

   True False

8. One of the factors that distinguishes organizations in the nonprofit sector from for-profit businesses is the lack of concern for strategic management.

   True False

9. Walmart's business model focused on urban and suburban locations.

   True False

10. Time Inc. experienced an increase in its subscriber base because of early entry into Web publishing.

    True False

11. General managers bear responsibility for the overall performance of the company or for one of its major self-contained subunits or divisions.

    True False

12. The CEO is a company's principal general manager.

    True False

13. The first component of the strategic management process is crafting the organization's mission statement, which provides the framework or context within which strategies are formulated.

    True False

14. The concepts *vision* and *mission* can be used interchangeably.

    True False

15. The vision of a company lays out some desired future state and articulates what the company would like to achieve.

    True False

16. Values are personal and have little to do with organizational culture or competitive advantage.

    True False

17. Well-constructed goals provide a means by which the performance of managers can be evaluated.

    True False

18. SWOT analysis is implemented to fine-tune strategies.

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19. SWOT analysis concerns identifying strengths, weaknesses, options, and threats.

    True False

20. The feedback loop in the model of the strategic management process indicates that the process is ongoing; it never ends.

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21. The traditional planning model suggests that a company's strategies are the result of a plan from a highly structured process orchestrated by top management.

True False

22. Mintzberg's model suggests a company's realized strategy is the product of whatever strategies are actually put into action¾intended and emergent.

True False

23. Honda intended to become a market leader in the small motorbike category by approaching Sears with the idea of marketing to non-traditional customers.

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24. In practice, the strategies of most organizations are probably a combination of the intended and emergent strategies.

True False

25. Emergent strategies arise in a company with careful long-term planning.

True False

26. The great virtue of scenario planning is that managers must think outside the box to anticipate what they might do in different situations.

True False

27. Leaders who exhibit a high degree of emotional intelligence tend to be more effective than those who do not.

True False

28. Ivory tower planning ignores the important strategic role of autonomous action by lower-level managers.

True False

29. Rules of thumb rarely if ever lead to severe errors in the decision making process.

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30. Using informal and unconventional ways to gather information is an unwise practice for an organization.

True False

31. The principal driver(s) of shareholder value is (are)

A. profitability.
B. profit growth.
C. market share.
D. profitability and profit growth.
E. all of these choices.

32. A competitive advantage is considered to be a sustained competitive advantage when the

A. advantage endures for a long time.
B. firm is able to spread the advantage to all of its business units.
C. advantage is very large.
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33. Which of the following dimensions are encompassed by a company's business model?

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C. Determining how it will produce goods and services
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34. The strategies that a company's managers pursue

A. have a major impact on the company's performance relative to its competitors.
B. have little or no effect on overall profitability.
C. typically result in higher per-unit cost of production.
D. result in significant industry structural changes.
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35. Which of the following is the organization's principal general manager?

A. Chairman of the Board of Directors
B. Division head
C. CFO
D. CEO
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36. Within a diversified company, the responsibilities of corporate-level strategic managers include

A. translating the corporate mission statement into concrete strategies for individual business units.
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37. General managers are found

A. only at the corporate level.
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C. only at the functional and business levels.
D. at the functional, business, and corporate levels.
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38. Vice President Chung is responsible for executing decisions about human resources. Mr. Chung is

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41. Betsy Holden is the head of Kraft Foods, a division of the Philip Morris Company. Which of the following is *not* likely to be one of Ms. Holden's responsibilities?

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C. Deciding how to compete in the foods industry
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A. task of designing organizational structures and control systems.
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44. Matching an organization's structure and control systems to the requirements of a company's strategy is

A. part of the strategy making process.
B. part of the SWOT analysis.
C. facilitated through the feedback loop.
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E. all of these choices.

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A. strategy formulation.
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C. how to effectively manage a company's strategy and create competitive advantage.
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A. a byproduct of a company's cost reduction programs.
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A. was proposed and supported by Prahalad and Hamel.
B. is not useful because the future is uncertain.
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A. uncertainty.
B. planning equilibrium.
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54. Which of the following cognitive biases occurs when decision makers commit even more resources if they receive feedback that the project is failing?

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B. Reasoning by analogy
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D. Escalating commitment
E. Representativeness

55. Which of the following cognitive biases refers to the fact that decision makers who have strong prior beliefs about the relationship between two variables tend to make decisions on the basis of these beliefs, even when presented with evidence that their beliefs are wrong?

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A. employees' paychecks.
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64. Which of the following is *not* a characteristic of well-constructed goals?

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D. analyze internal weaknesses.
E. select the corporate mission and major corporate goals.

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A. taking actions at the functional, business, and corporate levels.
B. comparing company performance with leading companies in the industry.
C. analyzing the macroenvironment for any last-minute changes that may have occurred.
D. only activities at the corporate level.
E. all of these choices.

67. An important first step in the process of formulating a company's mission is to

A. describe the technological processor.
B. identify the customer segment served by the company.
C. answer the question, "What is our business?"
D. decide what the company will be like ten years from now.
E. evaluate the company's most recent performance.

68. The primary goal of a SWOT analysis is to

A. benchmark a company's performance.
B. force managers to think creatively rather than analytically.
C. forecast future events.
D. develop short-run goals.
E. create, affirm, or fine-tune a company-specific business model.

69. In the typical scenario planning exercise,

A. most scenarios are pessimistic.
B. most scenarios are optimistic.
C. some scenarios are optimistic and some scenarios are pessimistic.
D. only worst-case outcomes should be considered.
E. only best-case outcomes should be considered.

70. Competition from industry to industry

A. is normally the same in all industries.
B. is characterized by different competitive conditions in different industries.
C. does not vary over time.
D. cannot be measured.
E. none of these choices.

71. A company's mission

A. lays out the desired future state of the company.
B. outlines the manner in which employees and managers should conduct themselves.
C. defines the manner in which strategies will be developed and attained.
D. describes what the company does.
E. answers the question, "What will our business become?"

72. A component of strategy implementation is

A. designing the best organization structure, culture, and control systems to put a strategy into action.
B. enumerating the number and kind of periodic reports that must be submitted by functional-level managers.
C. analyzing the macroeconomic environment of the company.
D. answering the question, "What is our business?"
E. all of these choices.

73. An emergent strategy is

A. the result of a planned strategy.
B. an unplanned response to unforeseen circumstances.
C. the product of careful top-down planning mechanisms.
D. the same as a realized strategy.
E. a group response to a problem area.

74. Systematic errors in the decision-making process are caused by

A. inadequate information.
B. information overload.
C. cognitive biases on the part of decision makers.
D. poor data collection procedures.
E. all of these choices.

75. Well-constructed goals should

A. be precise and measurable.
B. address specific issues.
C. be bounded by a particular time period.
D. be all of these choices.
E. A and B.

76. Good strategic leaders

A. possess a willingness to delegate and empower subordinates.
B. control all facets of decision making.
C. are confident in their ability to make sound decisions without consulting others.
D. assure uniformity of purpose through the exercise of power.
E. have the ability to be inconsistent when the situation requires inconsistency.

77. Which of the following is not a characteristic of emotional intelligence?

A. Self-awareness
B. Self-regulation
C. Self-esteem
D. Empathy
E. Social skills

78. Identify and discuss the criticisms of the traditional strategic planning process and why it is useful to view strategy as an emergent process.

79. Explain the formal strategic planning process. Name each step in the process and describe the specific activities included in each step and the relationship between the steps.

80. Identify the levels of strategic managers and discuss their role in the strategic management process.

81. Describe at least three characteristics of strong strategic leaders. Explain how each of the three characteristics would help motivate and lead an organization's personnel.

82. Describe at least three of the cognitive biases that individual decision makers experience. Then describe a real or hypothetical situation for each of the three biases, explaining how the bias is evident in the situation.

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   TRUE

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   TRUE

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D. analyze internal weaknesses.
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E. all of these choices.

67. An important first step in the process of formulating a company's mission is to

A. describe the technological processor.
B. identify the customer segment served by the company.
C. answer the question, "What is our business?"
D. decide what the company will be like ten years from now.
E. evaluate the company's most recent performance.

68. The primary goal of a SWOT analysis is to

A. benchmark a company's performance.
B. force managers to think creatively rather than analytically.
C. forecast future events.
D. develop short-run goals.
E. create, affirm, or fine-tune a company-specific business model.

69. In the typical scenario planning exercise,

A. most scenarios are pessimistic.
B. most scenarios are optimistic.
C. some scenarios are optimistic and some scenarios are pessimistic.
D. only worst-case outcomes should be considered.
E. only best-case outcomes should be considered.

70. Competition from industry to industry

A. is normally the same in all industries.
B. is characterized by different competitive conditions in different industries.
C. does not vary over time.
D. cannot be measured.
E. none of these choices.

71. A company's mission

A. lays out the desired future state of the company.
B. outlines the manner in which employees and managers should conduct themselves.
C. defines the manner in which strategies will be developed and attained.
D. describes what the company does.
E. answers the question, "What will our business become?"

72. A component of strategy implementation is

A. designing the best organization structure, culture, and control systems to put a strategy into action.
B. enumerating the number and kind of periodic reports that must be submitted by functional-level managers.
C. analyzing the macroeconomic environment of the company.
D. answering the question, "What is our business?"
E. all of these choices.

73. An emergent strategy is

A. the result of a planned strategy.
B. an unplanned response to unforeseen circumstances.
C. the product of careful top-down planning mechanisms.
D. the same as a realized strategy.
E. a group response to a problem area.

74. Systematic errors in the decision-making process are caused by

A. inadequate information.
B. information overload.
C. cognitive biases on the part of decision makers.
D. poor data collection procedures.
E. all of these choices.

75. Well-constructed goals should

A. be precise and measurable.
B. address specific issues.
C. be bounded by a particular time period.
D. be all of these choices.
E. A and B.

76. Good strategic leaders

A. possess a willingness to delegate and empower subordinates.
B. control all facets of decision making.
C. are confident in their ability to make sound decisions without consulting others.
D. assure uniformity of purpose through the exercise of power.
E. have the ability to be inconsistent when the situation requires inconsistency.

77. Which of the following is not a characteristic of emotional intelligence?

A. Self-awareness
B. Self-regulation
C. Self-esteem
D. Empathy
E. Social skills

78. Identify and discuss the criticisms of the traditional strategic planning process and why it is useful to view strategy as an emergent process.

The traditional planning process is viewed as a rational, highly structured process that is orchestrated by top management. This view of the strategy process has been criticized for a number of reasons. First, the world is uncertain, complex, and full of ambiguity, and it is an environment in which small, chance events can have a large and unpredictable impact on outcomes; thus, plans can become obsolete in a short amount of time. In this environment, it is critical that organizations respond quickly as conditions change.

A second criticism of the traditional approach is that it places too much importance on the role of top management. The alternative view is that managers deep within an organization often do exert a profound influence over the strategic direction of the firm. The traditional model does not allow for the important strategic role that lower-level managers can play.

The third criticism of the traditional model is that it does not address serendipity¾the stumbling across good things accidentally. Because serendipitous discoveries can yield numerous opportunities, companies must be able to pursue them, even if they are inconsistent with the current strategic plan.

Given these three criticisms, the role of emergent strategies becomes clear. Unplanned responses to unforeseen circumstances that often arise from autonomous action by individual managers deep within the organization can allow a company to prosper.

79. Explain the formal strategic planning process. Name each step in the process and describe the specific activities included in each step and the relationship between the steps.

The strategy formulation portion of the formal strategic planning process begins with the specification of an organization's mission, values, and goals. In this step, top-level managers, members of the board of directors, and the company's CEO meet and work together to create a broad set of long-term aspirations for the firm, a set of corporate values that describes the way employees should conduct business, and the long-term goals of the corporation.

Next, an external and internal analysis is conducted to identify strengths, weaknesses, opportunities, and threats. This analysis is typically performed by general managers, sometimes by specialized planning staff. In this step, information about competitors, products, processes, functions, and the industry and community conditions is gathered and interpreted, resulting in detailed forecasts and estimates.

Based on the results of these first two steps, appropriate strategies are chosen, at the corporate, business, and functional levels, by the managers at each of those levels. In this step, decisions are made about actions to be taken in the future.

80. Identify the levels of strategic managers and discuss their role in the strategic management process.

The three levels of strategic managers are corporate, business, and functional. Corporate-level managers include the CEO, other senior executives, the board of directors, and corporate staff. The role of corporate-level managers is to oversee the development of strategies for the whole organization, including which businesses it should be in and how resources should be allocated among these businesses.

Business-level managers oversee business units¾a self-contained division of a company with its own functions that are performed within the unit. The role of business-level managers is to translate the general statements of direction and intent that come from corporate-level managers into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations that constitute a company or one of its divisions. These managers are generally responsible for one organizational activity. Their strategic role is to develop functional strategies in their area that help fulfill the strategic objectives set by business- and corporate-level managers.

81. Describe at least three characteristics of strong strategic leaders. Explain how each of the three characteristics would help motivate and lead an organization's personnel.

Strong leaders have a clear vision of where they want the organization to go, and they are eloquent and consistent in articulating that vision. This ensures that employees understand the fundamental goals they are working toward, guiding them as they make decisions about their daily work.

Strong leaders are committed to accomplishment of the organization's goals, and they demonstrate their commitment through their actions as well as their words. By observing their leader's commitment directly in their actions, employees believe that the goals are truly important, and they also benefit from seeing the appropriate behavior modeled for them.

Strong leaders are well informed and seek out information through both formal and informal channels. Employees see that leaders value their input; they also respect leaders who are able to communicate well with individuals at different hierarchical levels.

Strong leaders delegate when possible but maintain control over critical decisions. Workers are motivated by decision-making power and are able to reduce the workload of their leaders when they are empowered. However, strong leaders understand that critical decisions must be made by leaders. This is best for the organization, and it also protects lower-level workers from the consequences of disastrous choices.

Strong leaders use power effectively, building consensus, relying on allies, committing to a vision rather than a specific course of action, and working to accomplish large goals one portion at a time. Workers are loyal when they are consulted and relied on. Politically astute leaders do not fall into the trap of advocating an action that might later be abandoned, nor do they try to make too many changes at once.

Strong leaders have emotional intelligence¾that is, they are self-aware, self-regulated, passionate about their work, empathetic toward others, and friendly. Workers have respect and trust for leaders who exhibit self-control. Workers are inspired by observing another's passion for the work, and they appreciate being treated with empathy and friendliness.

82. Describe at least three of the cognitive biases that individual decision makers experience. Then describe a real or hypothetical situation for each of the three biases, explaining how the bias is evident in the situation.

The prior hypothesis bias claims that individuals formulate and use theories about causation, which they sometimes use inappropriately or in spite of evidence that the theory is false. For example, managers for U.S. automakers in the 1960s and 1970s believed that Americans bought cars for the luxury features and styling, and therefore they completely missed the trend toward cars that were more reliable, safer, and fuel efficient. Japanese automakers saw the trends and were able to fill that demand first.

Escalating commitment causes managers to continue to "throw good money after bad," to invest in projects that are failing. This takes resources away from successful projects. Students exhibit this bias when they work harder to raise their class grade from a D to a C than they will work to raise their grade from a B to an A, even though both improvements have the same impact on their overall grade average.

Managers use reasoning by analogy when they inappropriately make decisions based on simple analogies. For example, some managers use war as a metaphor for business competition. However, this analogy limits their ability to consider options such as cooperation in joint ventures.

The representative bias asserts that decision makers make choices based on overreliance on just a few or even just one data point. Managers who have had one extremely positive or negative occurrence tend to remember and rely on that occurrence when they make future decisions. If a gambler gets very lucky the first time he wagers, he tends to wager greater amounts and more often than do gamblers who are initially very unlucky.

Illusion of control occurs when managers are overconfident about their abilities to control events. Managers who take on projects that are beyond their capabilities or who refuse to admit that they need help are guilty of this bias.