

Student: \_\_\_\_\_

1. Keeping in mind Apple's competitive advantage, which of the following products was introduced by Apple in 2007?
  - A. iPad
  - B. iPhone
  - C. iPod
  - D. iTunes
2. \_\_\_\_\_ is best described as an integrative management field that combines analysis, formulation, and implementation in the quest for competitive advantage.
  - A. Supply chain management
  - B. Integrated technology management
  - C. Strategic management
  - D. Inventory management
3. \_\_\_\_\_ is best described as a set of goal-directed actions a firm takes to gain and sustain superior performance relative to competitors.
  - A. Behavior modification
  - B. Strategy
  - C. Credo
  - D. Competency management
4. Which of the following stages of the strategic management process involves an evaluation of a firm's external and internal environments?
  - A. Strategy analysis
  - B. Strategy implementation
  - C. Strategy formulation
  - D. Strategy control
5. In \_\_\_\_\_, a firm frames a guiding policy to address the competitive challenge.
  - A. strategy control
  - B. strategy implementation
  - C. strategy formulation
  - D. strategy analysis
6. Through \_\_\_\_\_, a firm puts its guiding policy into practice by employing a set of coherent actions.
  - A. strategy control
  - B. strategy implementation
  - C. strategy formulation
  - D. strategy analysis
7. A firm that achieves superior performance relative to other firms in the same industry or the industry average has a(n) \_\_\_\_\_.
  - A. competitive advantage
  - B. balanced scorecard
  - C. power position
  - D. equity leverage

8. Cadia Foods Inc. was the first company to start selling energy drinks in its country—a product that gained popularity among diverse groups. Soon, other companies started to sell their own brands of energy drinks, thereby giving Cadia Foods ample competition. In response, Cadia Foods decided to limit its variety of energy drinks to only two. However, it ensured that these two flavors were free of calories and low in cost. With this innovation, Cadia Foods Inc. consistently outperformed its competitors for ten years. In this scenario, Cadia Foods Inc. has maintained a \_\_\_\_\_ through its innovative strategy.
- A. balanced scorecard
  - B. fiduciary responsibility
  - C. consistent power position
  - D. sustainable competitive advantage
9. Which of the following scenarios illustrates a firm that has a sustainable competitive advantage?
- A. Newon Inc. generated a revenue of \$300,000 this financial year, which is close to the industrial revenue average of \$320,000.
  - B. SSM Inc. almost doubled its sales to 8500 units this year compared to its previous year's sales of 5000 units, though the industry average is 10,000 units.
  - C. TrueLink Corp. was able to hold its market share of 68 percent in the social networking industry for more than three years.
  - D. Max Electrova Inc. was able to outperform its competitors with its new production system, in terms of revenue, for a brief period of four months.
10. If SA Pharmaceuticals obtains an 18 percent return on invested capital, which of the following will help determine if it has a competitive advantage over other pharmaceutical companies?
- A. Comparing the return to the return on invested capital obtained by other firms in the industry
  - B. Assessing the value based on the shareholders' expectations of return on their capital
  - C. Evaluating the liquidity ratios for other pharmaceutical companies
  - D. Comparing the value to the history of the firm's return of investment over a number of years
11. Underperformance relative to other firms in the same industry or the industry average results in a(n) \_\_\_\_\_ for a firm.
- A. sustainable competitive advantage
  - B. increased power distance
  - C. diseconomies of scope
  - D. competitive disadvantage
12. New Communications Inc. is a newspaper publishing company whose average return on invested capital is approximately 5 percent. Because newspaper publishing is a declining industry, the industry average has been negative (-5 percent) for the last few years. In this scenario, New Communications Inc. has a \_\_\_\_\_.
- A. competitive advantage
  - B. balanced scorecard
  - C. competitive disadvantage
  - D. power position
13. Exis Inc. and Stelma Inc. are two companies that have been manufacturing typewriters for almost 30 years. Due to the reduced demand for typewriters today, both companies' average return on invested capital is approximately -5 percent. The current industry average is 2 percent. In this scenario, Exis Inc. and Stelma Inc. most likely have:
- A. competitive advantage over other firms in their industry.
  - B. competitive parity with each other.
  - C. strategic alliance with each other.
  - D. economies of scope instead of economies of scale.

14. The average cost of production for a bottle of vitamin water in the industry is \$4 while its average price is \$7. StoreAll Inc. manufactures the same product for \$3 per bottle and sells it for \$7 per bottle. Which of the following statements is most likely true of StoreAll Inc. in this scenario?
- A. It has a competitive advantage in the industry.
  - B. It has a competitive disadvantage in the industry.
  - C. It has competitive parity with other firms in the industry.
  - D. It has formed a strategic alliance with other firms in the industry.
15. A firm is said to gain a competitive advantage when it can:
- A. exceed its own previous performances.
  - B. provide products similar to its competitors, but at lower prices.
  - C. perform at the same level as that of its competitors.
  - D. minimize the difference between value creation and cost.
16. FindFor Inc. is an e-commerce retail firm that sells a variety of merchandise online. Through services like cash on delivery, easy return, and online tracking, the company has created more customer value than its competitors (brick-and-mortar businesses) at the same price. Also, the company's costs are substantially low due to minimal investment in operation and administration. In this scenario, FindFor Inc. has most likely been able to provide superior value and cost control through \_\_\_\_.
- A. strategic parity
  - B. strategic profiling
  - C. strategic liquidation
  - D. strategic positioning
17. When a firm adopts a differentiation strategy to attain competitive advantage, it focuses on:
- A. delivering unique features to its customers.
  - B. providing the lowest prices to its customers.
  - C. maximizing its profits by providing minimal customer service.
  - D. lowering costs by employing low-skill employees.
18. True Cinemas Inc. and Digi Future Inc. are two companies that own and run movie theaters in malls and other commercial areas. While True Cinemas Inc. pursues a cost-leadership strategy, Digi Future Inc. adopts a differentiation strategy. Which of the following statements is most likely true of this scenario?
- A. True Cinemas will charge a premium price for its customers while Digi Future will implement everyday low pricing.
  - B. Digi Future and True Cinemas will not be direct competitors to each other and their customer segments will overlap very little.
  - C. Digi Future will keep its customer service at an acceptable level while True Cinemas will provide superior customer service.
  - D. True Cinemas and Digi Future will use a similar approach to create value for customers by attempting to offer everything to everybody.
19. For a firm that operates in an industry where competition is high, which of the following practices will result in inferior performance?
- A. Choosing a distinct but different strategic position in the industry
  - B. Working toward increasing the difference between value creation and cost
  - C. Trying to be everything to everybody by combining different competitive strategies
  - D. Focusing on creating value for customers rather than destroying rivals
20. If a company wants to gain a competitive advantage in a highly competitive industry, it should ideally:
- A. execute an integrated cost-leadership and differentiation position.
  - B. copy the strategies of other firms through competitive benchmarking.
  - C. provide goods or services similar to its competitors' at higher prices.
  - D. stake out a unique position within the industry.

21. TakeFlight Airways is a new entrant to the airline industry. While most of its competitors are pursuing a cost-leadership strategy, TakeFlight Airways has decided to execute a differentiation strategy. Which of the following is the most likely implication of this decision?
  - A. TakeFlight Airways will not gain a competitive advantage in the airline industry.
  - B. TakeFlight Airways will gain a competitive advantage by reducing its prices.
  - C. TakeFlight Airways will face low profit potential by pursuing a different strategy.
  - D. TakeFlight Airways will create value for customers by delivering unique features.
22. Pink Couture Inc. and Pink Blush Inc. are two companies in the apparel industry. While Pink Couture Inc. focuses on providing unique product features and superior customer service, Pink Blush Inc. focuses on low prices and minimal customer service. Both companies have been able to gain a competitive advantage. This is most likely because:
  - A. the companies have executed integrated strategies.
  - B. the companies have entered into a cartel arrangement.
  - C. the companies have pursued distinct strategic positions.
  - D. the companies have engaged in direct imitation and substitution.
23. Which of the following is an implication of all firms in an industry pursuing a low-cost position through application of competitive benchmarking?
  - A. No firm would face direct competition from others in the industry; hence, profit potential would be high.
  - B. Each firm would be catering to a different customer segment.
  - C. The firms would eventually have no resources to invest in product and process improvements.
  - D. Each firm would be in a better position to gain a competitive advantage.
24. Which of the following statements should ideally reflect a firm's strategy for competitive advantage?
  - A. Our strategy is to win at any cost.
  - B. We will be number one in the industry.
  - C. Our aim is to create superior customer value while controlling costs.
  - D. We want to be the market leader by exactly replicating our competitor's strategy.
25. Which of the following factors most effectively contributed to the success of JetBlue airlines in comparison to other airlines like Delta, United, or American?
  - A. Its point-to-point business model
  - B. Its reliance on outsourcing
  - C. Its hub-and-spoke system
  - D. Its shorter distances
26. Which of the following statements about strategy is NOT true?
  - A. Grandiose statements of desire, on their own, are not strategy.
  - B. Strategy is as much about deciding what not to do, as it is about deciding what to do.
  - C. Strategy is about creating superior value, while containing the cost to create it.
  - D. Operational effectiveness and competitive benchmarking should be treated as strategy.
27. Industry effects describe the underlying \_\_\_\_\_ structure of the industry.
  - A. demographic
  - B. economic
  - C. psychographic
  - D. ethnographic
28. Which of the following statements accurately describes firm effects?
  - A. They attribute firm performance to the industry in which the firm competes.
  - B. They attribute firm performance to the actions managers take within a chosen industry.
  - C. They refer to the value-creation potential of a large, diversified enterprise.
  - D. They refer to the external circumstances surrounding all the firms in an industry.

29. Which of the following forces tends to be more important in determining a firm's performance?
- A. The underlying economic structure
  - B. The entry barriers in the industry
  - C. The actions of managers within the firm
  - D. The number and size of other firms in the industry
30. A company wants to determine how industry effects have affected its profitability. Which of the following elements should the company focus on?
- A. The barriers to entry and exit within the industry
  - B. The pricing method opted by the managers to face competition within the industry
  - C. The brand strategy the managers adopt to establish the firm in the industry
  - D. The strategic position the firm pursues within the industry
31. Which of the following forces is most closely related to industry effects within the automobile industry?
- A. The actions taken to improve employee productivity within a firm
  - B. The human resource strategy managers adopt to acquire the best talent from the industry
  - C. The types of products and the services offered within the industry
  - D. The decisions made within a firm regarding pricing of a product in the market
32. \_\_\_\_\_ are incidents that describe highly improbable but high impact events.
- A. Miracle events
  - B. Wild card events
  - C. Black swan events
  - D. Fat tail risk events
33. Shortly after the small island of Balamia experienced multiple unexpected high-intensity earthquakes that caused massive destruction, many banks and insurance companies filed for bankruptcy. This left the economy of the country in a poor state. The natural calamity in Balamia best exemplifies \_\_\_\_\_.
- A. a black swan event
  - B. a wild card event
  - C. skewness risk
  - D. kurtosis risk
34. Due to several black swan events in the past, the:
- A. shareholders of public companies have become more confident in investing their resources in businesses.
  - B. need for corporate governance and transparency has reduced within various industries.
  - C. nations around the globe have explicitly appreciated and accepted capitalism as an economic system.
  - D. implicit trust relationship between the corporate world and society at large has deteriorated.
35. When the strong dictatorial rule in Canria unexpectedly collapsed due to the shocking mass murder of the royal family, the nation's economy experienced drastic changes. The laws became more restrictive, the country lost many locally produced resources and products, and the distribution of wealth became inequitable. The unexpected event that led to these changes can best be described as a(n) \_\_\_\_\_ event.
- A. extinction
  - B. wild card
  - C. black swan
  - D. miracle
36. In the United States, which of the following was born out of dissatisfaction with the capitalist system in 2011?
- A. The Sarbanes-Oxley Act
  - B. The Occupy movement
  - C. The Tea Party movement
  - D. The Taft-Hartley Act

37. Which of the following was a key driver in the Occupy movement of 2011?
- A. The need for a capitalist economic system
  - B. The issue of income disparity
  - C. The need to reduce government intervention in businesses
  - D. The issue related to dumping of cheap foreign products
38. The past black swan events in the United States demonstrate that:
- A. managerial actions can affect the economic well-being of large numbers of people around the globe.
  - B. decisions and strategies implemented within a firm will only affect the firm and not the entire industry.
  - C. corporate governance is unnecessary as firms are becoming socially responsible.
  - D. industry effects are more important than firm effects in determining firm performance.
39. Derek, a retired CEO, invests capital in a start-up company that creates mobile applications. He mentors the entrepreneur and the employees of the company because he wants the company to perform well and survive in the market. Thus, Derek is the start-up company's \_\_\_\_.
- A. headhunter
  - B. category captain
  - C. employee
  - D. stakeholder
40. Pure Food Inc., a multinational company, relies on its media partner Radio Ex to regularly advertise its offers, sales, and new products. Radio Ex is invested in this relationship because it generates most of its revenue from advertising Pure Food's products. In this scenario, Radio Ex is Pure Food Inc.'s \_\_\_\_.
- A. stockholder
  - B. workforce
  - C. internal stakeholder
  - D. external stakeholder
41. Which of the following is an example of a firm's external stakeholder?
- A. Employees
  - B. Customers
  - C. Shareholders
  - D. Board members
42. Which of the following is NOT an example of a software company's external stakeholder?
- A. Creditors
  - B. Customers
  - C. Alliance partners
  - D. Project managers
43. Rachel owns a large portion of GM Cube Inc.'s stocks. However, she is not employed by the company. In this scenario, Rachel is the company's \_\_\_\_.
- A. external stakeholder
  - B. internal stakeholder
  - C. creditor
  - D. customer
44. Sun Inc., a vendor, regularly supplies pallets to Octangle Corp. for its shipping business. Therefore, Sun Inc. is Octangle Corp.'s \_\_\_\_.
- A. internal stakeholder
  - B. stockholder
  - C. shareholder
  - D. external stakeholder

45. State-level government agencies that check whether firms are meeting statutory safety measures in their production units are considered to be the firms' \_\_\_\_\_.  
A. stockholders  
B. shareholders  
C. internal stakeholders  
D. external stakeholders
46. Which of the following best qualifies as a firm's internal stakeholder?  
A. An auditor assigned to the firm by a federal government agency  
B. A labor union with whom the firm's employees can affiliate  
C. A manager taking care of the firm's operations in a foreign market  
D. A competitor manufacturing the same products as that of the firm
47. The best example of a firm's external stakeholder is a(n):  
A. government agency that regulates the prices of products manufactured by the firm.  
B. board member from a wholly owned foreign subsidiary of the firm.  
C. shareholder who has invested money in the firm but is not employed by the firm.  
D. employee of the firm who is responsible for a contract project.
48. The interaction between a firm and its diverse internal and external stakeholders is best described as a(n):  
A. ergonomic relationship.  
B. cartel arrangement.  
C. exchange relationship.  
D. fiduciary responsibility.
49. Stakeholder strategy is an integrative approach to managing a diverse set of stakeholders effectively in order to \_\_\_\_\_.  
A. single-mindedly focus on the stockholders alone  
B. gain and sustain competitive advantage  
C. minimize the joint value created  
D. minimize the difference between value creation and cost
50. A firm's stakeholder strategy primarily allows the firm to:  
A. analyze and manage how various external and internal stakeholders interact to jointly create and trade value.  
B. effectively isolate its internal stakeholders (like shareholders and employees) from its external stakeholders (like customers and media).  
C. transfer the contributions external stakeholders make into benefits for the internal stakeholders.  
D. facilitate the development of a competitive relationship between its internal and external stakeholders.
51. A core tenet of stakeholder strategy is that a:  
A. firm should isolate its internal stakeholders from its external stakeholders.  
B. single-minded focus on shareholders alone exposes a firm to undue risks that can threaten the very survival of the enterprise.  
C. multifaceted exchange relationship with internal and external stakeholders can lead to a firm's competitive disadvantage.  
D. firm should work toward competitive parity rather than gaining and sustaining a competitive advantage.
52. In a firm, a strategist's job should be to:  
A. limit the participation of external stakeholders—customers and suppliers—in value creation.  
B. isolate the firm's internal stakeholders from its external stakeholders.  
C. focus solely, in a single-minded manner, on maximizing shareholder wealth.  
D. understand the complex web of exchange relationships among different stakeholders.

53. RedSteel Corp. has been able to gain and sustain a competitive advantage due to its strong relationship with its employees, customers, suppliers, and local communities. The company believes in lifetime employment and ensures that its employees grow along with the company. Investors are more than satisfied with the returns on their investments. Also, 3 percent of the company's profit is spent on community development. With initiatives like these, customers feel privileged to associate themselves with RedSteel products. This scenario best illustrates the implementation of a \_\_\_\_\_.  
A. strategic analysis  
B. stakeholder strategy  
C. wild card event  
D. black swan event
54. Which of the following scenarios best illustrates a good stakeholder strategy?  
A. VP Inc. follows a strategy in which maximization of the shareholders wealth is the primary concern of the managers.  
B. Carrvero Inc. ensures that its employees are paid the least in the industry so that its external stakeholders can get the best price.  
C. CPA Corp. distributes only 70 percent of its annual profit after tax to shareholders, while the remaining is distributed among employees and the local community, and invested for further research.  
D. Gen Pharma Corp. ensures that it fully exploits free natural resources, so that most of its profits go to shareholders in the form of dividends.
55. \_\_\_\_\_ provides a decision tool that enables a firm to act as a good corporate citizen by allowing its managers to recognize, prioritize, and address the needs of different groups of individuals who take personal interest in the firm's performance and survival.  
A. Strategy analysis  
B. Stakeholder impact analysis  
C. The SWOT analysis  
D. Strategic positioning
56. Which of the following is NOT a stakeholder attribute that managers consider during stakeholder impact analysis?  
A. A stakeholder's power  
B. A stakeholder's legitimate claim  
C. A stakeholder's urgent claim  
D. A stakeholder's liquidity
57. Stakeholder impact analysis primarily helps a firm:  
A. gain a competitive advantage while acting as a good corporate citizen.  
B. lower the difference between its value creation and costs.  
C. single-mindedly focus on shareholders alone.  
D. exploit external stakeholders to benefit internal stakeholders.
58. The first step in stakeholder impact analysis involves:  
A. formulating a stakeholder strategy to balance the different needs of various stakeholders.  
B. identifying the opportunities and threats the stakeholders present.  
C. describing the economic, legal, ethical, and philanthropic responsibilities of the firm toward the society.  
D. identifying the stakeholders that currently have, or potentially can have, a material effect on a company.
59. Which of the following groups is considered to be the primary stakeholder for public-stock companies?  
A. Suppliers of capital  
B. Employees  
C. Suppliers  
D. Potential customers

60. After a firm has identified its key stakeholders in stakeholder impact analysis, the immediate next step is to:
- A. recognize the opportunities and threats the stakeholders present.
  - B. identify stakeholders' interests and claims.
  - C. formulate a stakeholder strategy.
  - D. address the stakeholders' concerns.
61. As the legal owners, \_\_\_\_\_ have the most legitimate claim on a company's profits.
- A. creditors
  - B. employees
  - C. shareholders
  - D. board members
62. The management of Five Square Corp. wants to reduce the separation between ownership (by shareholders) and control of the firm (by professional managers). Which of the following practices would best help the company do this?
- A. Allowing employees to purchase the stock of the company at a discounted rate
  - B. Reinvesting the annual profits of the company into research and development
  - C. Issuing new additional shares to the existing stockholders in proportion to their current holdings
  - D. Declaring the annual profits as bonus dividends to the existing stockholders
63. The board at Unicore Systems Corp. has decided to allocate 20 percent of the company's shares to its workforce, at a discounted price. Apart from being a valued investment, the plan will allow the employees to take personal responsibility for the firm's performance. Which of the following employee incentive schemes does this best illustrate?
- A. Employee provident fund
  - B. Employee gratuity fund
  - C. Employee stock ownership plan
  - D. Employee emergency loan program
64. Which of the following statements about a firm's stakeholders is true?
- A. Irrespective of whether the stakeholders are internal or external, the claims and interests of all stakeholders are the same.
  - B. As the legal owners, employees in a public-stock company have the most legitimate claim on a company's profits.
  - C. Within stakeholder groups there can be significant variation in the power a stakeholder may exert on a firm.
  - D. Only internal stakeholders make specific contributions to a firm, which in turn provides different types of benefits to the external stakeholders.
65. Institutional investors have more sway in public companies than individual investors because of the size of their \_\_\_\_\_.
- A. assets under management (AUM)
  - B. non-performing assets (NPA)
  - C. current liabilities
  - D. fixed liabilities
66. Which of the following does NOT accurately explain why institutional investors are much more potent stakeholders than individual investors?
- A. Institutional investors can buy and sell a large number of shares at once.
  - B. The size of institutional investors' assets under management is larger relative to the investment made by individual investors.
  - C. Institutional investors can exercise block-voting rights in the corporate-governance process.
  - D. While institutional investors are external stakeholders of a firm, individual investors are internal stakeholders.

67. Which of the following is step 3 in the five-step process of stakeholder impact analysis?
- A. Identifying the most powerful stakeholders (both internal and external) and their needs
  - B. Identifying the stakeholders' interests and claims
  - C. Identifying the opportunities and threats the stakeholders present
  - D. Identifying the social responsibilities of the firm toward its stakeholders
68. \_\_\_\_\_ is best described as a framework that helps firms recognize and address the economic, legal, social, and philanthropic expectations that society has of the business enterprise at a given point in time.
- A. Corporate social responsibility
  - B. Integrated social network
  - C. Strategic positioning
  - D. Strategy formulation
69. In stakeholder impact analysis, identifying the opportunities and threats presented by stakeholders is immediately followed by:
- A. recognizing the economic, legal, ethical, and philanthropic responsibilities of the firm to its stakeholders.
  - B. formulating the stakeholder strategy to address and effectively balance the different needs of various stakeholders.
  - C. identifying the interests and the claims of the stakeholders.
  - D. isolating the external stakeholders from the internal stakeholders.
70. Which of the following statements accurately describes corporate social responsibility (CSR)?
- A. CSR promotes the view that companies should single-mindedly focus on shareholders alone.
  - B. CSR is limited to the notion of encouraging businesses to "just be nice" to society.
  - C. CSR provides a conceptual model that more completely describes a society's expectations.
  - D. CSR is based on the tenet that the needs of both internal and external stakeholders are the same.
71. Paying taxes to local government authorities from the annual revenues generated by a firm represents the firm's \_\_\_\_\_.
- A. philanthropic responsibilities
  - B. economic responsibilities
  - C. psychographic responsibilities
  - D. political responsibilities
72. Which of the following is typically an economic responsibility of a firm?
- A. Sourcing raw materials from highly developed countries
  - B. Paying adequate returns to the firm's stockholders on the capital invested by them
  - C. Donating resources, in terms of money and time, toward community development
  - D. Helping a nation increase its import of goods and services
73. A firm's economic responsibilities are primarily directed toward:
- A. minimizing shareholders' wealth.
  - B. acting as a good corporate citizen.
  - C. doing what is right, just, and fair.
  - D. gaining and sustaining competitive advantage.
74. The minimum wage in the country of New Morland is \$8 an hour. Odion, a restaurant in the New Morland's capital city, pays its servers \$8 per hour. However, the management of the restaurant feels that this amount is excessive for workers whose only job is to clear tables. By continuing to adhere to the rules set by the government of New Morland, which of the following responsibilities is Odion satisfying?
- A. Legal responsibilities
  - B. Philanthropic responsibilities
  - C. Ethical responsibilities
  - D. Demographic responsibilities

75. The amount of xylene that can be used in household paint is legally limited to 0.03 percent. Anything beyond this amount is hazardous to health and the environment, and considered a legal offense. Consequently, DM Paints Corp. has vowed to make its products as safe as possible. Therefore, it manufactures xylene-free paints even though this increases its costs and reduces the dividends paid to its shareholders in the long run. Which of the following responsibilities is DM Paints Corp. primarily compromising in this scenario?
- A. Legal responsibilities toward the government
  - B. Economic responsibilities toward its shareholders
  - C. Philanthropic responsibilities toward the local community
  - D. Ethical responsibilities toward the society
76. Cocoa Noir Inc., a company that manufactures chocolates, incurs higher costs because of its refusal to import cocoa beans from countries where child labor is prevalent. This reflects Cocoa Noir's \_\_\_\_\_ responsibility.
- A. economic
  - B. legal
  - C. ethical
  - D. demographic
77. Within corporate social responsibility, \_\_\_\_\_ essentially reflects the notion of a business voluntarily giving back to society.
- A. social networking
  - B. corporate citizenship
  - C. corporate governance
  - D. social bookmarking
78. Which of following practices of a firm satisfies its ethical responsibilities?
- A. Using plastic as the packaging material though it is harmful to the environment, yet legal
  - B. Outsourcing production to a less developed country and paying wages that are below its own country's accepted minimum wages
  - C. Using advertising and other forms of promotion to endorse luxurious lifestyles
  - D. Selling vaccines at a subsidized price in a less developed country even though this results in reduced shareholder returns
79. In the pyramid of corporate social responsibility, \_\_\_\_\_ are the foundational building block.
- A. economic responsibilities
  - B. ethical responsibilities
  - C. philanthropic responsibilities
  - D. legal responsibilities
80. The society and shareholders mandatorily require a firm to perform its \_\_\_\_\_.
- A. ethical responsibilities
  - B. philanthropic responsibilities
  - C. legal responsibilities
  - D. political responsibilities
81. Which of the following responsibilities results from a society's mere expectations of a business and not because the society and the shareholders mandatorily require the business to demonstrate it?
- A. Economic responsibilities
  - B. Legal responsibilities
  - C. Contract responsibilities
  - D. Philanthropic responsibilities
82. Which of the following statements is true of the social responsibilities of a business?
- A. A firm's ethical responsibilities go beyond its legal responsibilities.
  - B. Shareholders mandatorily require a firm to perform its ethical and philanthropic responsibilities.
  - C. Ethical responsibilities are the foundational building block of a firm's social responsibility.
  - D. Legal responsibilities are often subsumed under the idea of corporate citizenship, reflecting the notion of voluntarily giving back to society.

83. The society and the shareholders just expect, and not mandatorily require a firm to:
- A. pay fair dividends and returns to the investors.
  - B. follow the employment laws of a country.
  - C. provide safe and quality products to the customers.
  - D. pay its workers more than the minimum living wages.
84. In the final step of the stakeholder impact analysis, a firm:
- A. identifies its stakeholders' interests and claims.
  - B. differentiates its internal stakeholders from its external stakeholders.
  - C. recognizes the opportunities and threats stakeholders present.
  - D. decides a course of action to address the stakeholders' concerns.
85. The U.S. government legitimized claims by thousands of businesses and individuals in the aftermath of the BP oil spill in the Gulf of Mexico, causing the claims to become of great urgency to BP. This best represents the process of \_\_\_\_.
- A. addressing stakeholder concerns
  - B. identifying stakeholders
  - C. establishing competitive parity
  - D. implementing a cost-leadership strategy
86. The \_\_\_\_ is a model that links strategy analysis, strategy formulation, and strategy implementation, which together help managers plan and implement a strategy that can improve performance and result in competitive advantage.
- A. Ansoff's growth strategy matrix
  - B. AFI strategy framework
  - C. Sarbanes-Oxley Act
  - D. stakeholder impact analysis
87. Managers use the AFI strategy framework primarily to:
- A. help their business achieve and sustain competitive parity.
  - B. minimize the wealth of their shareholders.
  - C. help reduce the economic contribution of their business.
  - D. explain and predict differences in firm performance.
88. According to AFI strategy framework, in which of the following tasks of strategic management is a firm's vision, mission, and values identified?
- A. Strategy control
  - B. Strategy analysis
  - C. Strategy formulation
  - D. Strategy implementation
89. In the AFI strategy framework, strategy analysis primarily involves:
- A. evaluating the effects of internal resources and core competencies on a firm's potential to gain and sustain a competitive advantage.
  - B. designing a business, corporate, and global strategy to gain and sustain a competitive advantage.
  - C. organizing a firm in order to effectively put the formulated strategy into practice.
  - D. deciding the type of corporate governance that would be most effective in the implementation of a strategy.
90. Which of the following stages in the AFI strategy framework involves designing a business, corporate, and global strategy?
- A. Strategy control
  - B. Strategy implementation
  - C. Strategy analysis
  - D. Strategy formulation

91. Which of the following tasks in the AFI strategy framework involves putting the formulated strategy into practice through organizational structure, culture, and controls?
- A. Strategy formulation
  - B. Strategy implementation
  - C. Strategy analysis
  - D. Strategy evaluation
92. During strategy implementation, managers primarily focus on deciding the:
- A. type of corporate governance that is most effective and ways in which it can put the formulated strategy into practice.
  - B. industries and markets the firm should compete in to be able to gain and sustain a competitive advantage.
  - C. relationship between competitive advantage and firm performance.
  - D. role strategic leaders should play in gaining and sustaining a competitive advantage.
93. For a strategist, which of the following is NOT an implication of effective strategic management?
- A. The difference between a firm's success and failure lies in its strategy.
  - B. The principles of strategic management can be applied universally to all organizations.
  - C. A firm's performance is determined by a set of independent factors, which includes firm and industry effects.
  - D. It is necessary to maintain an awareness of key stakeholders and how they can affect or be affected by managerial actions.
94. Define strategic management. What prevented Apple from going bankrupt approximately 15 years before its sudden success in 2012?
95. What are the elements of a good strategy?
96. How is competitive advantage different from competitive parity?
97. How can a firm gain and sustain competitive advantage. Elaborate.

98. What is the relationship between economic contribution and competitive advantage?
99. JetBlue's "Customer Bill of Rights" declared its dedication to "bringing humanity back to air travel." Discuss this statement in light of the strategies for obtaining competitive advantage.
100. KD Inc. has decided to integrate a cost-leadership strategy with a differentiation strategy. The management believes this will help the company provide the best value to its customers and shareholders. Why is this decision to combine different business strategies NOT an effective way to gain and sustain a competitive advantage?
101. Why is it important for firms in the same industry to choose distinct but different strategic positions?
102. Discuss the major hallmarks of what strategy is NOT.
103. What are the factors that determine firm performance?

104.What is the relationship between firm effects and industry effects?

105.In terms of the relationship between individual firms and society at large, why was HP not able to sustain its competitive advantage?

106.Outline the relationship between strategic management and the role of business in society.

107.Describe any two black swan events that occurred in the first decade of the 21<sup>st</sup> century. Also mention the impact of these events.

108.Who are a firm's stakeholders?

109.Provide examples of a firm's internal and external stakeholders.

110. A firm is embedded in a multifaceted exchange relationship with a number of diverse internal and external stakeholders. Elaborate on this statement.

111. Elaborate on stakeholder strategy.

112. Why is it not advisable for managers to have single-minded focus on shareholders alone?

113. How can effective stakeholder management benefit firm performance?

114. What are the three important stakeholder attributes that managers need to pay attention to during all stages of the stakeholder impact analysis?

115. What is meant by stakeholder impact analysis?

116. Discuss the five steps involved in stakeholder impact analysis.

117. Why are institutional investors much more potent stakeholders in public companies than individual investors?

118. Keeping in mind the process of stakeholder impact analysis, how was Sony Corp. able to transform threats into opportunities?

119. What is meant by corporate social responsibility (CSR)?

120. What are the economic responsibilities of a business?

121. List a few legal responsibilities of a business.

122. Discuss the ethical responsibilities of a business.

123. Discuss the pyramid of corporate social responsibility (CSR).

124. With regard to stakeholder impact analysis, in what way did Starbucks go beyond its legal responsibilities and fulfill its ethical responsibilities?

125. What are the philanthropic responsibilities of a firm?

126. In terms of BP's social responsibilities, many experts argued that, technical problems aside, BP's Deepwater Horizon disaster was caused by systemic problems. Discuss this statement in terms of stakeholder impact analysis.

127. What is the AFI strategy framework?

128. List the three broad tasks in the AFI strategy framework.

129. What is the AFI strategy framework used for?

130. What are the topics and questions managers need to address in the strategy analysis stage of the AFI strategy framework?

131. What issues should be addressed by managers during the strategy formulation stage of the AFI strategy framework?

132. What are the issues to be addressed by managers during the strategy implementation stage of the AFI strategy framework?

133. Strategy is the science of success and failure. Elaborate on this statement.

134. Not long after Apple became the world's most valuable company, signs of trouble emerged. This made it more difficult for Apple to sustain its competitive advantage. Explain.

## 1 Key

1. Keeping in mind Apple's competitive advantage, which of the following products was introduced by Apple in 2007?
- A. iPad
  - B. iPhone**
  - C. iPod
  - D. iTunes

As mentioned in Chapter Case 1, in 2007, the company revolutionized the smartphone market with the introduction of the iPhone.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-01 Explain the role of strategy in a firms quest for competitive advantage.  
Rothaermel - Chapter 01 #1

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

2. \_\_\_\_\_ is best described as an integrative management field that combines analysis, formulation, and implementation in the quest for competitive advantage.
- A. Supply chain management
  - B. Integrated technology management
  - C. Strategic management**
  - D. Inventory management

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-01 Explain the role of strategy in a firms quest for competitive advantage.  
Rothaermel - Chapter 01 #2

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

3. \_\_\_\_\_ is best described as a set of goal-directed actions a firm takes to gain and sustain superior performance relative to competitors.
- A. Behavior modification
  - B. Strategy**
  - C. Credo
  - D. Competency management

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-01 Explain the role of strategy in a firms quest for competitive advantage.  
Rothaermel - Chapter 01 #3

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

4. Which of the following stages of the strategic management process involves an evaluation of a firm's external and internal environments?
- A.** Strategy analysis
  - B. Strategy implementation
  - C. Strategy formulation
  - D. Strategy control

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 2 Medium

Learning Objective: 01-01 Explain the role of strategy in a firms quest for competitive advantage.  
Rothaermel - Chapter 01 #4

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

5. In \_\_\_\_\_, a firm frames a guiding policy to address the competitive challenge.
- A. strategy control
  - B. strategy implementation
  - C.** strategy formulation
  - D. strategy analysis

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-01 Explain the role of strategy in a firms quest for competitive advantage.  
Rothaermel - Chapter 01 #5

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

6. Through \_\_\_\_\_, a firm puts its guiding policy into practice by employing a set of coherent actions.
- A. strategy control
  - B.** strategy implementation
  - C. strategy formulation
  - D. strategy analysis

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-01 Explain the role of strategy in a firms quest for competitive advantage.  
Rothaermel - Chapter 01 #6

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

7. A firm that achieves superior performance relative to other firms in the same industry or the industry average has a(n) \_\_\_\_\_.  
**A.** competitive advantage  
B. balanced scorecard  
C. power position  
D. equity leverage

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #7

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

8. Cadia Foods Inc. was the first company to start selling energy drinks in its country—a product that gained popularity among diverse groups. Soon, other companies started to sell their own brands of energy drinks, thereby giving Cadia Foods ample competition. In response, Cadia Foods decided to limit its variety of energy drinks to only two. However, it ensured that these two flavors were free of calories and low in cost. With this innovation, Cadia Foods Inc. consistently outperformed its competitors for ten years. In this scenario, Cadia Foods Inc. has maintained a \_\_\_\_\_ through its innovative strategy.  
A. balanced scorecard  
B. fiduciary responsibility  
C. consistent power position  
**D.** sustainable competitive advantage

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #8

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

9. Which of the following scenarios illustrates a firm that has a sustainable competitive advantage?
- A. Newon Inc. generated a revenue of \$300,000 this financial year, which is close to the industrial revenue average of \$320,000.
  - B. SM Inc. almost doubled its sales to 8500 units this year compared to its previous year's sales of 5000 units, though the industry average is 10,000 units.
  - C. TrueLink Corp.** was able to hold its market share of 68 percent in the social networking industry for more than three years.
  - D. Max Electrova Inc. was able to outperform its competitors with its new production system, in terms of revenue, for a brief period of four months.

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Rothaermel - Chapter 01 #9

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

10. If SA Pharmaceuticals obtains an 18 percent return on invested capital, which of the following will help determine if it has a competitive advantage over other pharmaceutical companies?
- A. Comparing the return to the return on invested capital obtained by other firms in the industry**
  - B. Assessing the value based on the shareholders' expectations of return on their capital
  - C. Evaluating the liquidity ratios for other pharmaceutical companies
  - D. Comparing the value to the history of the firm's return of investment over a number of years

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Rothaermel - Chapter 01 #10

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

11. Underperformance relative to other firms in the same industry or the industry average results in a(n) \_\_\_\_\_ for a firm.
- A. sustainable competitive advantage
  - B. increased power distance
  - C. diseconomies of scope
  - D. competitive disadvantage**

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Rothaermel - Chapter 01 #11

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

12. New Communications Inc. is a newspaper publishing company whose average return on invested capital is approximately 5 percent. Because newspaper publishing is a declining industry, the industry average has been negative (-5 percent) for the last few years. In this scenario, New Communications Inc. has a \_\_\_\_.
- A.** competitive advantage
  - B. balanced scorecard
  - C. competitive disadvantage
  - D. power position

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Rothaermel - Chapter 01 #12

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

13. Exis Inc. and Stelma Inc. are two companies that have been manufacturing typewriters for almost 30 years. Due to the reduced demand for typewriters today, both companies' average return on invested capital is approximately -5 percent. The current industry average is 2 percent. In this scenario, Exis Inc. and Stelma Inc. most likely have:
- A. competitive advantage over other firms in their industry.
  - B.** competitive parity with each other.
  - C. strategic alliance with each other.
  - D. economies of scope instead of economies of scale.

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Rothaermel - Chapter 01 #13

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

14. The average cost of production for a bottle of vitamin water in the industry is \$4 while its average price is \$7. StoreAll Inc. manufactures the same product for \$3 per bottle and sells it for \$7 per bottle. Which of the following statements is most likely true of StoreAll Inc. in this scenario?
- A.** It has a competitive advantage in the industry.
  - B. It has a competitive disadvantage in the industry.
  - C. It has competitive parity with other firms in the industry.
  - D. It has formed a strategic alliance with other firms in the industry.

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Rothaermel - Chapter 01 #14

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

15. A firm is said to gain a competitive advantage when it can:
- A. exceed its own previous performances.
  - B.** provide products similar to its competitors, but at lower prices.
  - C. perform at the same level as that of its competitors.
  - D. minimize the difference between value creation and cost.

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #15

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

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

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #16

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

17. When a firm adopts a differentiation strategy to attain competitive advantage, it focuses on:
- A.** delivering unique features to its customers.
  - B. providing the lowest prices to its customers.
  - C. maximizing its profits by providing minimal customer service.
  - D. lowering costs by employing low-skill employees.

A differentiation strategy focuses on delivering unique features, while a cost-leadership strategy focuses on low prices.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #17

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

18. True Cinemas Inc. and Digi Future Inc. are two companies that own and run movie theaters in malls and other commercial areas. While True Cinemas Inc. pursues a cost-leadership strategy, Digi Future Inc. adopts a differentiation strategy. Which of the following statements is most likely true of this scenario?
- A. True Cinemas will charge a premium price for its customers while Digi Future will implement everyday low pricing.
  - B. Digi Future and True Cinemas will not be direct competitors to each other and their customer segments will overlap very little.**
  - C. Digi Future will keep its customer service at an acceptable level while True Cinemas will provide superior customer service.
  - D. True Cinemas and Digi Future will use a similar approach to create value for customers by attempting to offer everything to everybody.

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #18

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

19. For a firm that operates in an industry where competition is high, which of the following practices will result in inferior performance?
- A. Choosing a distinct but different strategic position in the industry
  - B. Working toward increasing the difference between value creation and cost
  - C. Trying to be everything to everybody by combining different competitive strategies**
  - D. Focusing on creating value for customers rather than destroying rivals

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #19

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

20. If a company wants to gain a competitive advantage in a highly competitive industry, it should ideally:
- A. execute an integrated cost-leadership and differentiation position.
  - B. copy the strategies of other firms through competitive benchmarking.
  - C. provide goods or services similar to its competitors' at higher prices.
  - D. stake out a unique position within the industry.**

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.

Rothaermel - Chapter 01 #20

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

21. TakeFlight Airways is a new entrant to the airline industry. While most of its competitors are pursuing a cost-leadership strategy, TakeFlight Airways has decided to execute a differentiation strategy. Which of the following is the most likely implication of this decision?
- A. TakeFlight Airways will not gain a competitive advantage in the airline industry.
  - B. TakeFlight Airways will gain a competitive advantage by reducing its prices.
  - C. TakeFlight Airways will face low profit potential by pursuing a different strategy.
  - D. TakeFlight Airways will create value for customers by delivering unique features.**

The most likely implication of this decision is that TakeFlight Airways will create value for customers by delivering unique features. The cost-leadership strategy focuses on low prices while the differentiation strategy focuses on delivering unique features.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.

Rothaermel - Chapter 01 #21

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

22. Pink Couture Inc. and Pink Blush Inc. are two companies in the apparel industry. While Pink Couture Inc. focuses on providing unique product features and superior customer service, Pink Blush Inc. focuses on low prices and minimal customer service. Both companies have been able to gain a competitive advantage. This is most likely because:
- A. the companies have executed integrated strategies.
  - B. the companies have entered into a cartel arrangement.
  - C. the companies have pursued distinct strategic positions.**
  - D. the companies have engaged in direct imitation and substitution.

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.

Rothaermel - Chapter 01 #22

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

23. Which of the following is an implication of all firms in an industry pursuing a low-cost position through application of competitive benchmarking?
- A. No firm would face direct competition from others in the industry; hence, profit potential would be high.
  - B. Each firm would be catering to a different customer segment.
  - C.** The firms would eventually have no resources to invest in product and process improvements.
  - D. Each firm would be in a better position to gain a competitive advantage.

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Rothaermel - Chapter 01 #23

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

24. Which of the following statements should ideally reflect a firm's strategy for competitive advantage?
- A. Our strategy is to win at any cost.
  - B. We will be number one in the industry.
  - C.** Our aim is to create superior customer value while controlling costs.
  - D. We want to be the market leader by exactly replicating our competitor's strategy.

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Rothaermel - Chapter 01 #24

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

25. Which of the following factors most effectively contributed to the success of JetBlue airlines in comparison to other airlines like Delta, United, or American?
- A.** Its point-to-point business model
  - B. Its reliance on outsourcing
  - C. Its hub-and-spoke system
  - D. Its shorter distances

As mentioned in Strategy Highlight 1.1, the point-to-point business model focuses on directly connecting fewer, but more highly trafficked city pairs. The point-to-point system lowers costs by not offering baggage transfers and schedule coordination with other airlines.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.

Rothaermel - Chapter 01 #25

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

26. Which of the following statements about strategy is NOT true?
- A. Grandiose statements of desire, on their own, are not strategy.
  - B. Strategy is as much about deciding what not to do, as it is about deciding what to do.
  - C. Strategy is about creating superior value, while containing the cost to create it.
  - D. Operational effectiveness and competitive benchmarking should be treated as strategy.**

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #26

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

27. Industry effects describe the underlying \_\_\_\_\_ structure of the industry.
- A. demographic
  - B. economic**
  - C. psychographic
  - D. ethnographic

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-03 Differentiate the role of firm effects and industry effects in determining firm performance.  
Rothaermel - Chapter 01 #27

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

28. Which of the following statements accurately describes firm effects?
- A. They attribute firm performance to the industry in which the firm competes.
  - B. They attribute firm performance to the actions managers take within a chosen industry.**
  - C. They refer to the value-creation potential of a large, diversified enterprise.
  - D. They refer to the external circumstances surrounding all the firms in an industry.

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-03 Differentiate the role of firm effects and industry effects in determining firm performance.  
Rothaermel - Chapter 01 #28  
Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

29. Which of the following forces tends to be more important in determining a firm's performance?
- A. The underlying economic structure
  - B. The entry barriers in the industry
  - C. The actions of managers within the firm**
  - D. The number and size of other firms in the industry

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-03 Differentiate the role of firm effects and industry effects in determining firm performance.

Rothaermel - Chapter 01 #29

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

30. A company wants to determine how industry effects have affected its profitability. Which of the following elements should the company focus on?
- A. The barriers to entry and exit within the industry**
  - B. The pricing method opted by the managers to face competition within the industry
  - C. The brand strategy the managers adopt to establish the firm in the industry
  - D. The strategic position the firm pursues within the industry

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-03 Differentiate the role of firm effects and industry effects in determining firm performance.

Rothaermel - Chapter 01 #30

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

31. Which of the following forces is most closely related to industry effects within the automobile industry?
- A. The actions taken to improve employee productivity within a firm
  - B. The human resource strategy managers adopt to acquire the best talent from the industry
  - C. The types of products and the services offered within the industry**
  - D. The decisions made within a firm regarding pricing of a product in the market

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-03 Differentiate the role of firm effects and industry effects in determining firm performance.

Rothaermel - Chapter 01 #31

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

32. \_\_\_\_\_ are incidents that describe highly improbable but high impact events.
- A. Miracle events
  - B. Wild card events
  - C. Black swan events**
  - D. Fat tail risk events

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Rothaermel - Chapter 01 #32  
Topic: Stakeholders and Competitive Advantage

*Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.*

33. Shortly after the small island of Balamia experienced multiple unexpected high-intensity earthquakes that caused massive destruction, many banks and insurance companies filed for bankruptcy. This left the economy of the country in a poor state. The natural calamity in Balamia best exemplifies \_\_\_\_\_.
- A. a black swan event**
  - B. a wild card event
  - C. skewness risk
  - D. kurtosis risk

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Rothaermel - Chapter 01 #33  
Topic: Stakeholders and Competitive Advantage

*Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.*

34. Due to several black swan events in the past, the:
- A. shareholders of public companies have become more confident in investing their resources in businesses.
  - B. need for corporate governance and transparency has reduced within various industries.
  - C. nations around the globe have explicitly appreciated and accepted capitalism as an economic system.
  - D. implicit trust relationship between the corporate world and society at large has deteriorated.**

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Rothaermel - Chapter 01 #34  
Topic: Stakeholders and Competitive Advantage

*Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.*

35. When the strong dictatorial rule in Canria unexpectedly collapsed due to the shocking mass murder of the royal family, the nation's economy experienced drastic changes. The laws became more restrictive, the country lost many locally produced resources and products, and the distribution of wealth became inequitable. The unexpected event that led to these changes can best be described as a(n) \_\_\_\_\_ event.
- A. extinction
  - B. wild card
  - C. black swan**
  - D. miracle

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #35

Topic: Stakeholders and Competitive Advantage

36. In the United States, which of the following was born out of dissatisfaction with the capitalist system in 2011?
- A. The Sarbanes-Oxley Act
  - B. The Occupy movement**
  - C. The Tea Party movement
  - D. The Taft-Hartley Act

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #36

Topic: Stakeholders and Competitive Advantage

37. Which of the following was a key driver in the Occupy movement of 2011?
- A. The need for a capitalist economic system
  - B. The issue of income disparity**
  - C. The need to reduce government intervention in businesses
  - D. The issue related to dumping of cheap foreign products

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #37

Topic: Stakeholders and Competitive Advantage

38. The past black swan events in the United States demonstrate that:
- A. managerial actions can affect the economic well-being of large numbers of people around the globe.
  - B. decisions and strategies implemented within a firm will only affect the firm and not the entire industry.
  - C. corporate governance is unnecessary as firms are becoming socially responsible.
  - D. industry effects are more important than firm effects in determining firm performance.

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #38  
Topic: Stakeholders and Competitive Advantage

39. Derek, a retired CEO, invests capital in a start-up company that creates mobile applications. He mentors the entrepreneur and the employees of the company because he wants the company to perform well and survive in the market. Thus, Derek is the start-up company's \_\_\_\_.
- A. headhunter
  - B. category captain
  - C. employee
  - D. stakeholder

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #39  
Topic: Stakeholders and Competitive Advantage

40. Pure Food Inc., a multinational company, relies on its media partner Radio Ex to regularly advertise its offers, sales, and new products. Radio Ex is invested in this relationship because it generates most of its revenue from advertising Pure Food's products. In this scenario, Radio Ex is Pure Food Inc.'s \_\_\_\_.
- A. stockholder
  - B. workforce
  - C. internal stakeholder
  - D. external stakeholder

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #40  
Topic: Stakeholders and Competitive Advantage

41. Which of the following is an example of a firm's external stakeholder?
- A. Employees
  - B. Customers**
  - C. Shareholders
  - D. Board members

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.

Rothaermel - Chapter 01 #41

Topic: Stakeholders and Competitive Advantage

42. Which of the following is NOT an example of a software company's external stakeholder?
- A. Creditors
  - B. Customers
  - C. Alliance partners
  - D. Project managers**

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.

Rothaermel - Chapter 01 #42

Topic: Stakeholders and Competitive Advantage

43. Rachel owns a large portion of GM Cube Inc.'s stocks. However, she is not employed by the company. In this scenario, Rachel is the company's \_\_\_\_.
- A. external stakeholder
  - B. internal stakeholder**
  - C. creditor
  - D. customer

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.

Rothaermel - Chapter 01 #43

Topic: Stakeholders and Competitive Advantage

44. Sun Inc., a vendor, regularly supplies pallets to Octangle Corp. for its shipping business. Therefore, Sun Inc. is Octangle Corp.'s \_\_\_\_\_.  
A. internal stakeholder  
B. stockholder  
C. shareholder  
**D. external stakeholder**

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #44  
Topic: Stakeholders and Competitive Advantage

45. State-level government agencies that check whether firms are meeting statutory safety measures in their production units are considered to be the firms' \_\_\_\_\_.  
A. stockholders  
B. shareholders  
C. internal stakeholders  
**D. external stakeholders**

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #45  
Topic: Stakeholders and Competitive Advantage

46. Which of the following best qualifies as a firm's internal stakeholder?  
A. An auditor assigned to the firm by a federal government agency  
B. A labor union with whom the firm's employees can affiliate  
**C. A manager taking care of the firm's operations in a foreign market**  
D. A competitor manufacturing the same products as that of the firm

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #46  
Topic: Stakeholders and Competitive Advantage

47. The best example of a firm's external stakeholder is a(n):  
**A.** government agency that regulates the prices of products manufactured by the firm.  
B. board member from a wholly owned foreign subsidiary of the firm.  
C. shareholder who has invested money in the firm but is not employed by the firm.  
D. employee of the firm who is responsible for a contract project.

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

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #47  
Topic: Stakeholders and Competitive Advantage

48. The interaction between a firm and its diverse internal and external stakeholders is best described as a(n):  
A. ergonomic relationship.  
B. cartel arrangement.  
**C.** exchange relationship.  
D. fiduciary responsibility.

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

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #48  
Topic: Stakeholders and Competitive Advantage

49. Stakeholder strategy is an integrative approach to managing a diverse set of stakeholders effectively in order to \_\_\_\_\_.  
A. single-mindedly focus on the stockholders alone  
**B.** gain and sustain competitive advantage  
C. minimize the joint value created  
D. minimize the difference between value creation and cost

Stakeholder strategy is an integrative approach to managing a diverse set of stakeholders effectively in order to gain and sustain competitive advantage.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #49  
Topic: Stakeholders and Competitive Advantage

50. A firm's stakeholder strategy primarily allows the firm to:
- A.** analyze and manage how various external and internal stakeholders interact to jointly create and trade value.
  - B. effectively isolate its internal stakeholders (like shareholders and employees) from its external stakeholders (like customers and media).
  - C. transfer the contributions external stakeholders make into benefits for the internal stakeholders.
  - D. facilitate the development of a competitive relationship between its internal and external stakeholders.

Stakeholder strategy allows a firm to analyze and manage how various external and internal stakeholders interact to jointly create and trade value. It is an integrative approach to managing a diverse set of stakeholders effectively in order to gain and sustain competitive advantage.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #50

Topic: Stakeholders and Competitive Advantage

51. A core tenet of stakeholder strategy is that a:
- A. firm should isolate its internal stakeholders from its external stakeholders.
  - B.** single-minded focus on shareholders alone exposes a firm to undue risks that can threaten the very survival of the enterprise.
  - C. multifaceted exchange relationship with internal and external stakeholders can lead to a firm's competitive disadvantage.
  - D. firm should work toward competitive parity rather than gaining and sustaining a competitive advantage.

A core tenet of stakeholder strategy is that a single-minded focus on shareholders alone exposes a firm to undue risks that can undermine economic performance and can even threaten the very survival of the enterprise. The strategist's job, therefore, is to understand the complex web of exchange relationships among different stakeholders.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #51

Topic: Stakeholders and Competitive Advantage

52. In a firm, a strategist's job should be to:
- A. limit the participation of external stakeholders—customers and suppliers—in value creation.
  - B. isolate the firm's internal stakeholders from its external stakeholders.
  - C. focus solely, in a single-minded manner, on maximizing shareholder wealth.
  - D.** understand the complex web of exchange relationships among different stakeholders.

A strategist's job is to understand the complex web of exchange relationships among different stakeholders. By doing so, the firm can proactively shape the various relationships in order to maximize the joint value created, and manage the distribution of this larger pie in a fair and transparent manner.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #52

Topic: Stakeholders and Competitive Advantage

53. RedSteel Corp. has been able to gain and sustain a competitive advantage due to its strong relationship with its employees, customers, suppliers, and local communities. The company believes in lifetime employment and ensures that its employees grow along with the company. Investors are more than satisfied with the returns on their investments. Also, 3 percent of the company's profit is spent on community development. With initiatives like these, customers feel privileged to associate themselves with RedSteel products. This scenario best illustrates the implementation of a \_\_\_\_.
- A. strategic analysis
  - B. stakeholder strategy**
  - C. wild card event
  - D. black swan event

The scenario best illustrates the implementation of a stakeholder strategy. Stakeholder strategy is an integrative approach to managing a diverse set of stakeholders effectively in order to gain and sustain competitive advantage.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Rothaermel - Chapter 01 #53  
Topic: Stakeholders and Competitive Advantage

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.

54. Which of the following scenarios best illustrates a good stakeholder strategy?
- A. VP Inc. follows a strategy in which maximization of the shareholders wealth is the primary concern of the managers.
  - B. Carrvero Inc. ensures that its employees are paid the least in the industry so that its external stakeholders can get the best price.
  - C. PA Corp. distributes only 70 percent of its annual profit after tax to shareholders, while the remaining is distributed among employees and the local community, and invested for further research.**
  - D. Gen Pharma Corp. ensures that it fully exploits free natural resources, so that most of its profits go to shareholders in the form of dividends.

PA Corp. demonstrates a good stakeholder strategy because it distributes only 70 percent of its annual profit after tax to its shareholders, while the remaining is distributed among employees and the local community, and invested for further research. A core tenet of stakeholder strategy is that a single-minded focus on shareholders alone exposes a firm to undue risks that can undermine economic performance and can even threaten the very survival of the enterprise.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Rothaermel - Chapter 01 #54  
Topic: Stakeholders and Competitive Advantage

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.

55. \_\_\_\_\_ provides a decision tool that enables a firm to act as a good corporate citizen by allowing its managers to recognize, prioritize, and address the needs of different groups of individuals who take personal interest in the firm's performance and survival.
- A. Strategy analysis
  - B. Stakeholder impact analysis**
  - C. The SWOT analysis
  - D. Strategic positioning

Stakeholder impact analysis provides a decision tool with which managers can recognize, prioritize, and address the needs of different stakeholders. This tool helps the firm achieve a competitive advantage while acting as a good corporate citizen.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #55  
Topic: Stakeholders and Competitive Advantage

56. Which of the following is NOT a stakeholder attribute that managers consider during stakeholder impact analysis?
- A. A stakeholder's power
  - B. A stakeholder's legitimate claim
  - C. A stakeholder's urgent claim
  - D. A stakeholder's liquidity**

Stakeholder impact analysis takes managers through a five-step process of recognizing stakeholders' claims. In each step, managers must pay particular attention to three important stakeholder attributes: power, legitimacy, and urgency.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #56  
Topic: Stakeholders and Competitive Advantage

57. Stakeholder impact analysis primarily helps a firm:
- A. gain a competitive advantage while acting as a good corporate citizen.**
  - B. lower the difference between its value creation and costs.
  - C. single-mindedly focus on shareholders alone.
  - D. exploit external stakeholders to benefit internal stakeholders.

Stakeholder impact analysis is a decision tool with which managers can recognize, prioritize, and address the needs of different stakeholders, enabling the firm to achieve competitive advantage while acting as a good corporate citizen.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #57  
Topic: Stakeholders and Competitive Advantage

58. The first step in stakeholder impact analysis involves:
- A. formulating a stakeholder strategy to balance the different needs of various stakeholders.
  - B. identifying the opportunities and threats the stakeholders present.
  - C. describing the economic, legal, ethical, and philanthropic responsibilities of the firm toward the society.
  - D. identifying the stakeholders that currently have, or potentially can have, a material effect on a company.**

In the first step of stakeholder impact analysis, the firm focuses on stakeholders that currently have, or potentially can have, a material effect on a company. This prioritization identifies the most powerful stakeholders (both internal and external) and their needs.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #58  
Topic: Stakeholders and Competitive Advantage

59. Which of the following groups is considered to be the primary stakeholder for public-stock companies?
- A. Suppliers of capital**
  - B. Employees
  - C. Suppliers
  - D. Potential customers

For public-stock companies, key stakeholders are the shareholders and other suppliers of capital. If shareholders are not satisfied with returns to investment, they will sell the company's stock, leading to depreciation in the firm's market value.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #59  
Topic: Stakeholders and Competitive Advantage

60. After a firm has identified its key stakeholders in stakeholder impact analysis, the immediate next step is to:
- A. recognize the opportunities and threats the stakeholders present.
  - B. identify stakeholders' interests and claims.**
  - C. formulate a stakeholder strategy.
  - D. address the stakeholders' concerns.

In step 1 of stakeholder impact analysis, the firm focuses on stakeholders that currently have, or potentially can have, a material effect on a company. In step 2, the firm asks, "What are our stakeholders' interests and claims?" Managers need to specify and assess the interests and claims of the pertinent stakeholders using the power, legitimacy, and urgency criteria.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #60  
Topic: Stakeholders and Competitive Advantage

61. As the legal owners, \_\_\_\_\_ have the most legitimate claim on a company's profits.
- A. creditors
  - B. employees
  - C. shareholders**
  - D. board members

As the legal owners, shareholders have the most legitimate claim on a company's profits. A firm has to ensure that its primary stakeholders—the firm's shareholders and other investors—achieve their objectives.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #61  
Topic: Stakeholders and Competitive Advantage

62. The management of Five Square Corp. wants to reduce the separation between ownership (by shareholders) and control of the firm (by professional managers). Which of the following practices would best help the company do this?
- A. Allowing employees to purchase the stock of the company at a discounted rate**
  - B. Reinvesting the annual profits of the company into research and development
  - C. Issuing new additional shares to the existing stockholders in proportion to their current holdings
  - D. Declaring the annual profits as bonus dividends to the existing stockholders

Allowing employees to purchase the stock of the company at a discounted rate would best help the company reduce the separation between ownership and control of the firm. Many companies turn employees into shareholders through employee stock ownership plans (ESOPs). These plans allow employees to purchase stock at a discounted rate or use company stock as an investment vehicle for retirement savings.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #62  
Topic: Stakeholders and Competitive Advantage

63. The board at Unicore Systems Corp. has decided to allocate 20 percent of the company's shares to its workforce, at a discounted price. Apart from being a valued investment, the plan will allow the employees to take personal responsibility for the firm's performance. Which of the following employee incentive schemes does this best illustrate?
- A. Employee provident fund
  - B. Employee gratuity fund
  - C. Employee stock ownership plan**
  - D. Employee emergency loan program

This best illustrates employee stock ownership plans. Companies turn employees into shareholders through employee stock ownership plans (ESOPs). These plans allow employees to purchase stock at a discounted rate or use company stock as an investment vehicle for retirement savings.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #63  
Topic: Stakeholders and Competitive Advantage

64. Which of the following statements about a firm's stakeholders is true?
- A. Irrespective of whether the stakeholders are internal or external, the claims and interests of all stakeholders are the same.
  - B. As the legal owners, employees in a public-stock company have the most legitimate claim on a company's profits.
  - C.** Within stakeholder groups there can be significant variation in the power a stakeholder may exert on a firm.
  - D. Only internal stakeholders make specific contributions to a firm, which in turn provides different types of benefits to the external stakeholders.

Even within stakeholder groups there can be significant variation in the power a stakeholder may exert on the firm. Although both individual and institutional investors can claim the same legitimacy as stockholders, institutional investors have much more power over a firm.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #64

Topic: Stakeholders and Competitive Advantage

65. Institutional investors have more sway in public companies than individual investors because of the size of their \_\_\_\_.
- A.** assets under management (AUM)
  - B. non-performing assets (NPA)
  - C. current liabilities
  - D. fixed liabilities

Public companies pay much more attention to large institutional investors than to the millions of smaller, individual investors. Institutional investors have considerable sway because of the size of their assets under management (AUM).

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #65

Topic: Stakeholders and Competitive Advantage

66. Which of the following does NOT accurately explain why institutional investors are much more potent stakeholders than individual investors?
- A. Institutional investors can buy and sell a large number of shares at once.
  - B. The size of institutional investors' assets under management is larger relative to the investment made by individual investors.
  - C. Institutional investors can exercise block-voting rights in the corporate-governance process.
  - D.** While institutional investors are external stakeholders of a firm, individual investors are internal stakeholders.

Institutional investors have considerable sway because of the size of their assets under management (AUM). They can buy and sell a large number of shares at once, or exercise block-voting rights in the corporate-governance process. These abilities make institutional investors much more potent stakeholders.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #66

Topic: Stakeholders and Competitive Advantage

67. Which of the following is step 3 in the five-step process of stakeholder impact analysis?
- A. Identifying the most powerful stakeholders (both internal and external) and their needs
  - B. Identifying the stakeholders' interests and claims
  - C. Identifying the opportunities and threats the stakeholders present**
  - D. Identifying the social responsibilities of the firm toward its stakeholders

In step 3 of stakeholder impact analysis, the firm asks, "What opportunities and threats do our stakeholders present?" Since stakeholders have a claim on the company, opportunities and threats are two sides of the same coin.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #67  
Topic: Stakeholders and Competitive Advantage

68. \_\_\_\_\_ is best described as a framework that helps firms recognize and address the economic, legal, social, and philanthropic expectations that society has of the business enterprise at a given point in time.
- A. Corporate social responsibility**
  - B. Integrated social network
  - C. Strategic positioning
  - D. Strategy formulation

Corporate social responsibility (CSR) is a framework that helps firms recognize and address the economic, legal, ethical, and philanthropic expectations that society has of the business enterprise at a given point in time.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #68  
Topic: Stakeholders and Competitive Advantage

69. In stakeholder impact analysis, identifying the opportunities and threats presented by stakeholders is immediately followed by:
- A. recognizing the economic, legal, ethical, and philanthropic responsibilities of the firm to its stakeholders.**
  - B. formulating the stakeholder strategy to address and effectively balance the different needs of various stakeholders.
  - C. identifying the interests and the claims of the stakeholders.
  - D. isolating the external stakeholders from the internal stakeholders.

In stakeholder impact analysis, identifying the opportunities and threats presented by stakeholders is immediately followed by recognizing the economic, legal, ethical, and philanthropic responsibilities of the firm to its stakeholders.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #69  
Topic: Stakeholders and Competitive Advantage

70. Which of the following statements accurately describes corporate social responsibility (CSR)?
- A. CSR promotes the view that companies should single-mindedly focus on shareholders alone.
  - B. CSR is limited to the notion of encouraging businesses to "just be nice" to society.
  - C. CSR provides a conceptual model that more completely describes a society's expectations.**
  - D. CSR is based on the tenet that the needs of both internal and external stakeholders are the same.

Corporate social responsibility (CSR) provides managers with a conceptual model that more completely describes a society's expectations and can guide strategic decision making more effectively.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #70

Topic: Stakeholders and Competitive Advantage

71. Paying taxes to local government authorities from the annual revenues generated by a firm represents the firm's \_\_\_\_.
- A. philanthropic responsibilities
  - B. economic responsibilities**
  - C. psychographic responsibilities
  - D. political responsibilities

The business enterprise is first and foremost an economic institution. Governments expect the firm to pay taxes and to manage natural resources such as air and water under a decent stewardship.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #71

Topic: Stakeholders and Competitive Advantage

72. Which of the following is typically an economic responsibility of a firm?
- A. Sourcing raw materials from highly developed countries
  - B. Paying adequate returns to the firm's stockholders on the capital invested by them**
  - C. Donating resources, in terms of money and time, toward community development
  - D. Helping a nation increase its import of goods and services

The business enterprise is first and foremost an economic institution. Investors expect an adequate return for their risk capital. Consumers expect safe products and services at appropriate prices and quality. Suppliers expect to be paid in full and on time.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #72

Topic: Stakeholders and Competitive Advantage

73. A firm's economic responsibilities are primarily directed toward:
- A. minimizing shareholders' wealth.
  - B. acting as a good corporate citizen.
  - C. doing what is right, just, and fair.
  - D. gaining and sustaining competitive advantage.**

To accomplish their economic responsibilities, firms must obey the law and act ethically in their quest to gain and sustain competitive advantage.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #73

Topic: Stakeholders and Competitive Advantage

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

By adhering to the rules set by the government of New Morland, Odion is satisfying its legal responsibilities. Laws and regulations are a society's codified ethics, embodying notions of right and wrong. They also establish the rules of the game.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #74

Topic: Stakeholders and Competitive Advantage

75. The amount of xylene that can be used in household paint is legally limited to 0.03 percent. Anything beyond this amount is hazardous to health and the environment, and considered a legal offense. Consequently, DM Paints Corp. has vouched to make its products as safe as possible. Therefore, it manufactures xylene-free paints even though this increases its costs and reduces the dividends paid to its shareholders in the long run. Which of the following responsibilities is DM Paints Corp. primarily compromising in this scenario?
- A. Legal responsibilities toward the government
  - B. Economic responsibilities toward its shareholders**
  - C. Philanthropic responsibilities toward the local community
  - D. Ethical responsibilities toward the society

DM Paints Corp. is primarily compromising its economic responsibilities toward its shareholders. The business enterprise is first and foremost an economic institution. Investors expect an adequate return for their risk capital. Firms must obey the law and act ethically in their quest to gain and sustain competitive advantage.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #75

Topic: Stakeholders and Competitive Advantage

76. Cocoa Noir Inc., a company that manufactures chocolates, incurs higher costs because of its refusal to import cocoa beans from countries where child labor is prevalent. This reflects Cocoa Noir's \_\_\_\_\_ responsibility.
- A. economic
  - B. legal
  - C. ethical**
  - D. demographic

This reflects Cocoa Noir's ethical responsibility. A firm's ethical responsibilities go beyond its legal responsibilities. They embody the full scope of expectations, norms, and values of its stakeholders. Managers are called upon to do what society deems just and fair.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #76  
Topic: Stakeholders and Competitive Advantage

77. Within corporate social responsibility, \_\_\_\_\_ essentially reflects the notion of a business voluntarily giving back to society.
- A. social networking
  - B. corporate citizenship**
  - C. corporate governance
  - D. social bookmarking

Philanthropic responsibilities are often subsumed under the idea of corporate citizenship, reflecting the notion of voluntarily giving back to society.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #77  
Topic: Stakeholders and Competitive Advantage

78. Which of following practices of a firm satisfies its ethical responsibilities?
- A. Using plastic as the packaging material though it is harmful to the environment, yet legal
  - B. Outsourcing production to a less developed country and paying wages that are below its own country's accepted minimum wages
  - C. Using advertising and other forms of promotion to endorse luxurious lifestyles
  - D. Selling vaccines at a subsidized price in a less developed country even though this results in reduced shareholder returns**

Selling vaccines at a subsidized price in a less developed country even though this results in reduced shareholder returns, satisfies a firm's ethical responsibilities. A firm's ethical responsibilities go beyond its legal responsibilities. They embody the full scope of expectations, norms, and values of its stakeholders. Managers are called upon to do what society deems just and fair.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #78  
Topic: Stakeholders and Competitive Advantage

79. In the pyramid of corporate social responsibility, \_\_\_\_\_ are the foundational building block.
- A.** economic responsibilities
  - B. ethical responsibilities
  - C. philanthropic responsibilities
  - D. legal responsibilities

Economic responsibilities are the foundational building block, followed by legal, ethical, and philanthropic responsibilities. The business enterprise is first and foremost an economic institution.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #79

Topic: Stakeholders and Competitive Advantage

80. The society and shareholders mandatorily require a firm to perform its \_\_\_\_\_.
- A. ethical responsibilities
  - B. philanthropic responsibilities
  - C.** legal responsibilities
  - D. political responsibilities

Society and shareholders require economic and legal responsibilities. Ethical and philanthropic responsibilities result from a society's expectations toward business.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #80

Topic: Stakeholders and Competitive Advantage

81. Which of the following responsibilities results from a society's mere expectations of a business and not because the society and the shareholders mandatorily require the business to demonstrate it?
- A. Economic responsibilities
  - B. Legal responsibilities
  - C. Contract responsibilities
  - D.** Philanthropic responsibilities

Society and shareholders require economic and legal responsibilities. Ethical and philanthropic responsibilities result from a society's expectations toward business.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #81

Topic: Stakeholders and Competitive Advantage

82. Which of the following statements is true of the social responsibilities of a business?
- A.** A firm's ethical responsibilities go beyond its legal responsibilities.
  - B. Shareholders mandatorily require a firm to perform its ethical and philanthropic responsibilities.
  - C. Ethical responsibilities are the foundational building block of a firm's social responsibility.
  - D. Legal responsibilities are often subsumed under the idea of corporate citizenship, reflecting the notion of voluntarily giving back to society.

A firm's ethical responsibilities go beyond its legal responsibilities. They embody the full scope of expectations, norms, and values of its stakeholders. Managers are called upon to do what society deems just and fair.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #82  
Topic: Stakeholders and Competitive Advantage

83. The society and the shareholders just expect, and not mandatorily require a firm to:
- A. pay fair dividends and returns to the investors.
  - B. follow the employment laws of a country.
  - C. provide safe and quality products to the customers.
  - D.** pay its workers more than the minimum living wages.

Society and shareholders require economic and legal responsibilities. Ethical and philanthropic responsibilities result from a society's expectations toward business. A firm's ethical responsibilities go beyond its legal responsibilities.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #83  
Topic: Stakeholders and Competitive Advantage

84. In the final step of the stakeholder impact analysis, a firm:
- A. identifies its stakeholders' interests and claims.
  - B. differentiates its internal stakeholders from its external stakeholders.
  - C. recognizes the opportunities and threats stakeholders present.
  - D.** decides a course of action to address the stakeholders' concerns.

In the final step of the stakeholder impact analysis, the firm asks, "What should we do to effectively address any stakeholder concerns?"

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #84  
Topic: Stakeholders and Competitive Advantage

85. The U.S. government legitimized claims by thousands of businesses and individuals in the aftermath of the BP oil spill in the Gulf of Mexico, causing the claims to become of great urgency to BP. This best represents the process of \_\_\_\_\_.  
**A.** addressing stakeholder concerns  
 B. identifying stakeholders  
 C. establishing competitive parity  
 D. implementing a cost-leadership strategy

While addressing stakeholder concerns, a firm asks "What should we do to effectively address any stakeholder concerns?" In the last step in stakeholder impact analysis, managers need to decide the appropriate course of action for the firm, given all of the preceding factors. Thinking about the attributes of power, legitimacy, and urgency helps to prioritize the legitimate claims and to address them accordingly.

AACSB: Analytic  
 Accessibility: Keyboard Navigation  
 Blooms: Understand  
 Difficulty: 2 Medium  
 Learning Objective: 01-05 Conduct a stakeholder analysis.  
 Rothaermel - Chapter 01 #85  
 Topic: Stakeholders and Competitive Advantage

86. The \_\_\_\_\_ is a model that links strategy analysis, strategy formulation, and strategy implementation, which together help managers plan and implement a strategy that can improve performance and result in competitive advantage.  
 A. Ansoff's growth strategy matrix  
**B.** AFI strategy framework  
 C. Sarbanes-Oxley Act  
 D. stakeholder impact analysis

The AFI strategy framework is a model that links three interdependent strategic management tasks—analyze, formulate, and implement—that, together, help managers plan and implement a strategy that can improve performance and result in competitive advantage.

AACSB: Analytic  
 Accessibility: Keyboard Navigation  
 Blooms: Remember  
 Difficulty: 1 Easy  
 Learning Objective: 01-05 Conduct a stakeholder analysis.  
 Rothaermel - Chapter 01 #86  
 Topic: The AFI Strategy Framework

87. Managers use the AFI strategy framework primarily to:  
 A. help their business achieve and sustain competitive parity.  
 B. minimize the wealth of their shareholders.  
 C. help reduce the economic contribution of their business.  
**D.** explain and predict differences in firm performance.

Managers use the AFI strategy framework to do two things: (1) to explain and predict differences in firm performance, and (2) to help managers formulate and implement a strategy that results in superior performance.

AACSB: Analytic  
 Accessibility: Keyboard Navigation  
 Blooms: Understand  
 Difficulty: 2 Medium  
 Learning Objective: 01-05 Conduct a stakeholder analysis.  
 Rothaermel - Chapter 01 #87  
 Topic: The AFI Strategy Framework

88. According to AFI strategy framework, in which of the following tasks of strategic management is a firm's vision, mission, and values identified?
- A. Strategy control
  - B. Strategy analysis**
  - C. Strategy formulation
  - D. Strategy implementation

In strategy analysis the topics covered are: Strategic leadership and the strategy process: What roles do strategic leaders play? What are the firm's vision, mission, and values? What is the firm's process for creating strategy (how does strategy come about)?

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #88  
Topic: The AFI Strategy Framework

89. In the AFI strategy framework, strategy analysis primarily involves:
- A. evaluating the effects of internal resources and core competencies on a firm's potential to gain and sustain a competitive advantage.**
  - B. designing a business, corporate, and global strategy to gain and sustain a competitive advantage.
  - C. organizing a firm in order to effectively put the formulated strategy into practice.
  - D. deciding the type of corporate governance that would be most effective in the implementation of a strategy.

Strategy analysis involves internal analysis, that is, what effects do internal resources, capabilities, and core competencies have on the firm's potential to gain and sustain a competitive advantage?

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #89  
Topic: The AFI Strategy Framework

90. Which of the following stages in the AFI strategy framework involves designing a business, corporate, and global strategy?
- A. Strategy control
  - B. Strategy implementation
  - C. Strategy analysis
  - D. Strategy formulation**

Strategy formulation involves formulating a business strategy: How should the firm compete (cost leadership, differentiation, or integration)?; Corporate strategy: Where should the firm compete (industry, markets, and geography)?; and, Global strategy: How and where (local, regional, national, and international) should the firm compete around the world?

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #90  
Topic: The AFI Strategy Framework

91. Which of the following tasks in the AFI strategy framework involves putting the formulated strategy into practice through organizational structure, culture, and controls?
- A. Strategy formulation
  - B. Strategy implementation**
  - C. Strategy analysis
  - D. Strategy evaluation

Strategic implementation, the "I" in the AFI strategy framework, includes organizing the firm (its structure, culture, and controls) to put the formulated strategy into practice.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #91

Topic: The AFI Strategy Framework

92. During strategy implementation, managers primarily focus on deciding the:
- A. type of corporate governance that is most effective and ways in which it can put the formulated strategy into practice.**
  - B. industries and markets the firm should compete in to be able to gain and sustain a competitive advantage.
  - C. relationship between competitive advantage and firm performance.
  - D. role strategic leaders should play in gaining and sustaining a competitive advantage.

During strategy implementation, managers' focus on the following questions: How should the firm organize to put the formulated strategy into practice? What type of corporate governance is most effective? How does the firm anchor strategic decisions in business ethics?

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #92

Topic: The AFI Strategy Framework

93. For a strategist, which of the following is NOT an implication of effective strategic management?
- A. The difference between a firm's success and failure lies in its strategy.
  - B. The principles of strategic management can be applied universally to all organizations.
  - C. A firm's performance is determined by a set of independent factors, which includes firm and industry effects.**
  - D. It is necessary to maintain an awareness of key stakeholders and how they can affect or be affected by managerial actions.

Firm and industry effects, are interdependent. Both are relevant in determining firm performance.

AACSB: Analytic

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #93

Topic: Implications for the Strategist

94. Define strategic management. What prevented Apple from going bankrupt approximately 15 years before its sudden success in 2012?

Strategic management, the topic of this course, is the integrative management field that combines analysis, formulation, and implementation in the quest for competitive advantage.

As mentioned in Chapter Case 1, On August 20, 2012, Apple's stock market valuation reached \$623 billion, making it the most valuable public company of all time. A mere 15 years earlier, Apple would likely have gone bankrupt if arch-rival Microsoft (who enjoyed the same position with a valuation of \$615 billion in December 1999) had not invested \$150 million in Apple.

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-01 Explain the role of strategy in a firms quest for competitive advantage.

Rothaermel - Chapter 01 #94

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

95. What are the elements of a good strategy?

A good strategy consists of three simple elements:

1. A diagnosis of the competitive challenge. This element is accomplished through strategy analysis of the firm's external and internal environments.
2. A guiding policy to address the competitive challenge. This element is accomplished through strategy formulation, resulting in the firm's corporate, business, and functional strategies.
3. A set of coherent actions to implement the firm's guiding policy. This element is accomplished through strategy implementation.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-01 Explain the role of strategy in a firms quest for competitive advantage.

Rothaermel - Chapter 01 #95

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

96. How is competitive advantage different from competitive parity?

A firm that achieves superior performance relative to other competitors in the same industry or the industry average has a competitive advantage. To gain a competitive advantage, a firm needs to provide either goods or services consumers value more highly than those of its competitors, or goods or services similar to the competitors' at a lower price. Should two or more firms perform at the same level, they have competitive parity.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.

Rothaermel - Chapter 01 #96

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

97. How can a firm gain and sustain competitive advantage. Elaborate.

To gain a competitive advantage, a firm needs to provide either goods or services consumers value more highly than those of its competitors, or goods or services similar to the competitors' at a lower price. The rewards of superior value creation and capture are profitability and market share. Managers achieve this combination of value and cost through strategic positioning. Also, competitive advantage has to come from performing different activities or performing the same activities differently than rivals are doing.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium*

*Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #97*

*Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage*

98. What is the relationship between economic contribution and competitive advantage?

Strategy is about creating superior value, while containing the cost to create it. Managers achieve this combination of value and cost through strategic positioning. That is, they stake out a unique position within an industry that allows the firm to provide value to customers, while controlling costs. The greater the difference between value creation and cost, the greater the firm's economic contribution and the more likely it will gain competitive advantage.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium*

*Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #98*

*Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage*

99. JetBlue's "Customer Bill of Rights" declared its dedication to "bringing humanity back to air travel." Discuss this statement in light of the strategies for obtaining competitive advantage.

As mentioned in Strategy Highlight 1.1, when David Neeleman established JetBlue, his strategy was to provide air travel at even lower costs than SWA. At the same time, he wanted to offer better service and more amenities.

JetBlue copied and improved upon many of SWA's cost-reducing activities. For example, it started out by using just one type of airplane (the Airbus A320) to lower the costs of aircraft maintenance and pilot training. It also chose to fly point to point, directly connecting highly trafficked city pairs. The point-to-point business model focuses on directly connecting fewer, but more highly trafficked city pairs. The point-to-point system lowers costs by not offering baggage transfers and schedule coordination with other airlines. In addition, JetBlue flew longer distances and transported more passengers per flight than SWA, further driving down its costs. Initially, JetBlue enjoyed the lowest cost per available seat-mile (an important performance metric in the airline industry) in the United States.

At the same time, JetBlue also attempted to enhance its differential appeal by driving up its perceived value. Its intent was to combine high-touch (to enhance the customer experience) and high-tech (to drive down costs). Some of JetBlue's value-enhancing features included high-end 100-seat Embraer regional jets with leather seats, individual TV screens with popular movie and television programming, 100 channels of XM Satellite Radio, and free in-flight Wi-Fi capabilities, along with friendly and attentive on-board service and other amenities. Also, because one-third of customers prefer speaking to a live reservation agent (despite a highly functional website for reservations and other travel-related services), JetBlue decided to employ stay-at-home parents in the United States instead of following industry best practice by outsourcing its reservation system to India. The company suggests this "home sourcing" is more productive than outsourcing; it also says that customers' appreciation of the reservation experience more than makes up for the wage differential between the U.S. and India.

*AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium*

*Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #99*

*Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage*

100. KD Inc. has decided to integrate a cost-leadership strategy with a differentiation strategy. The management believes this will help the company provide the best value to its customers and shareholders. Why is this decision to combine different business strategies NOT an effective way to gain and sustain a competitive advantage?

Strategic positioning requires trade-offs. Strategy is as much about deciding what not to do, as it is about deciding what to do. Because resources are limited, managers must carefully consider their strategic choices in the quest for competitive advantage. Trying to be everything to everybody will likely result in inferior performance.

Although the idea of combining different business strategies seems appealing, it is actually quite difficult to execute an integrated cost-leadership and differentiation position. Cost-leadership and differentiation are distinct strategic positions. Pursuing them at the same time results in trade-offs that work against each other. For instance, higher perceived customer value comes with higher costs. Many firms that attempt such an integration strategy end up being stuck in the middle; that is, the managers have failed to carve out a clear strategic position. In their attempt to be everything to everybody, these firms end up being neither a low-cost leader nor a differentiator.

*AACSB: Reflective Thinking  
Blooms: Apply  
Difficulty: 2 Medium*

*Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #100*

*Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage*

101. Why is it important for firms in the same industry to choose distinct but different strategic positions?

In strategic positioning, firms stake out a unique position within an industry that allows the firm to provide value to customers, while controlling costs. Strategic positioning requires trade-offs, however. The managers need to make conscious trade-offs that enable each company to strive for competitive advantage in its respective industry, using different competitive strategies (For example, cost leadership versus differentiation). Competition focuses on creating value for customers (through lower prices or better service and selection, in this example) rather than destroying rivals. Even though two firms compete in the same industry, both can win if they have a distinct and well-executed competitive strategy.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #101

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

102. Discuss the major hallmarks of what strategy is NOT.

The following are the major hallmarks of what strategy is NOT:

1. Grandiose statements are not strategy. Firms may say things like, "Our strategy is to win" or "We will be #1." Such statements of desire, on their own, are not strategy. They provide little managerial guidance and frequently fail to address the economic fundamentals.
2. A failure to face a competitive challenge is not strategy. If the firm does not define a clear competitive challenge, managers have no way of assessing whether they are making progress in addressing it.
3. Operational effectiveness, competitive benchmarking, or other tactical tools are not strategy. People casually refer to a host of different policies and initiatives as some sort of strategy: pricing strategy, Internet strategy, alliance strategy, operations strategy, IT strategy, brand strategy, marketing strategy, HR strategy, China strategy, and so on. All these elements may be a necessary part of a firm's functional and global initiatives to support its competitive strategy, but these elements are not sufficient to achieve competitive advantage.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #102

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

103. What are the factors that determine firm performance?

Firm performance is determined primarily by two factors: industry and firm effects.

- Industry effects describe the underlying economic structure of the industry. They attribute firm performance to the industry in which the firm competes.
- Firm effects attribute firm performance to the actions managers take within a chosen industry.
- Corporate effects refer to the value-creation potential of a large, diversified enterprise.

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-03 Differentiate the role of firm effects and industry effects in determining firm performance.  
Rothaermel - Chapter 01 #103

Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

104. What is the relationship between firm effects and industry effects?

A firm's performance is more closely related to its managers' actions (firm effects) than to the external circumstances surrounding it (industry effects). Firm and industry effects, however, are interdependent. Both are relevant in determining firm performance.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-03 Differentiate the role of firm effects and industry effects in determining firm performance.  
Rothaermel - Chapter 01 #104  
Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

105. In terms of the relationship between individual firms and society at large, why was HP not able to sustain its competitive advantage?

Once a leading technology company, Hewlett-Packard was known for innovation, resulting in superior products. The "HP way of management" included lifetime employment, generous benefits, work/life balance, and freedom to explore ideas, among other perks. However, HP has not been able to address the competitive challenges of mobile computing or business IT services effectively. As a result, HP's stakeholders suffered. Shareholder value was destroyed. The company also had to lay off tens of thousands of employees in recent years. Its customers no longer received the innovative products and services that made HP famous.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #105  
Topic: Stakeholders and Competitive Advantage

106. Outline the relationship between strategic management and the role of business in society.

Companies with successful strategies generate value for society. When firms compete in their own self-interest while obeying the law and acting ethically, they ultimately create value. In so doing, they make society better. Value creation lays the foundation for the benefits that successful economies can provide: education, public safety, and health care, among others. Superior performance allows a firm to reinvest some of its profits and to grow, which in turn provides more opportunities for employment and fulfilling careers.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #106  
Topic: Stakeholders and Competitive Advantage

107. Describe any two black swan events that occurred in the first decade of the 21<sup>st</sup> century. Also mention the impact of these events.

In the first decade of the 21<sup>st</sup> century, several black swan events eroded the public's trust in business as an institution and capitalism as an economic system. One of these events occurred when the accounting scandals at Enron, Arthur Andersen, WorldCom, Tyco, Adelphia, and Parmalat (of Italy) came to light. Those events led to bankruptcies, large-scale job loss, and billions of dollars in shareholder-value destruction. As a result, the public's trust in business and free-market capitalism began to erode.

Another black swan event occurred in the fall of 2008 with the global financial crisis, which shook the entire free-market system to its core. A real estate bubble had developed in the United States, fueled by cheap credit and the availability of subprime mortgages.

When that bubble burst, many entities faced financial stress or bankruptcy—those who had unsustainable mortgages, investors holding securities based on those mortgages, and the financial institutions that had sold the securities. Some went under, and others were sold off at fire-sale prices. Home foreclosures skyrocketed as a large number of lenders defaulted on their mortgages. House prices in the U.S. plummeted by roughly 30 percent. The Dow Jones Industrial Average (DJIA) lost about half its market value, plunging the United States into a deep recession.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #107

Topic: Stakeholders and Competitive Advantage

108. Who are a firm's stakeholders?

Stakeholders are organizations, groups, and individuals who can affect or be affected by a firm's actions. Stakeholders have a vested claim or interest in the performance and continued survival of the firm. Stakeholders can be grouped by whether they are internal or external to a firm. All stakeholders make specific contributions to a firm, which in turn provides different types of benefits to different stakeholders.

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #108

Topic: Stakeholders and Competitive Advantage

109. Provide examples of a firm's internal and external stakeholders.

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

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #109

Topic: Stakeholders and Competitive Advantage

110. A firm is embedded in a multifaceted exchange relationship with a number of diverse internal and external stakeholders. Elaborate on this statement.

All stakeholders make specific contributions to a firm, which in turn provides different types of benefits to different stakeholders. Employees contribute their time and talents to the firm, receiving wages and salaries in exchange. Shareholders contribute capital in the hope that the stock will rise and the firm will pay dividends. Communities provide real estate, infrastructure, and public safety. In return, they expect that companies will pay taxes, provide employment, and not pollute the environment. The firm, therefore, is embedded in a multifaceted exchange relationship with a number of diverse internal and external stakeholders. If any of the stakeholders withholds participation in the firm's exchange relationships, it can have severe negative performance implications.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #110  
Topic: Stakeholders and Competitive Advantage

111. Elaborate on stakeholder strategy.

Stakeholder strategy is an integrative approach to managing a diverse set of stakeholders effectively in order to gain and sustain competitive advantage. The unit of analysis is the web of exchange relationships a firm has with its stakeholders. Stakeholder strategy allows firms to analyze and manage how various external and internal stakeholders interact to jointly create and trade value.

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #111  
Topic: Stakeholders and Competitive Advantage

112. Why is it not advisable for managers to have single-minded focus on shareholders alone?

A core tenet of stakeholder strategy is that a single-minded focus on shareholders alone exposes a firm to undue risks that can undermine economic performance and can even threaten the very survival of the enterprise. The strategist's job, therefore, is to understand the complex web of exchange relationships among different stakeholders. By doing so, the firm can proactively shape the various relationships in order to maximize the joint value created, and manage the distribution of this larger pie in a fair and transparent manner.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.  
Rothaermel - Chapter 01 #112  
Topic: Stakeholders and Competitive Advantage

113. How can effective stakeholder management benefit firm performance?

Effective stakeholder management can benefit firm performance in the following ways:

- Satisfied stakeholders are more cooperative and thus more likely to reveal information that can further increase the firm's value creation or lower its costs.
- Increased trust lowers the costs for firms' business transactions.
- Effective management of the complex web of stakeholders can lead to greater organizational adaptability and flexibility.
- The likelihood of negative outcomes can be reduced, creating more predictable and stable returns.
- Firms can build strong reputations that are rewarded in the marketplace by business partners, employees, and customers.

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-04 Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.

Rothaermel - Chapter 01 #113

Topic: Stakeholders and Competitive Advantage

114. What are the three important stakeholder attributes that managers need to pay attention to during all stages of the stakeholder impact analysis?

In each step of the stakeholder impact analysis, managers must pay particular attention to three important stakeholder attributes: power, legitimacy, and urgency.

- A stakeholder has power over a company when it can get the company to do something that it would not otherwise do.
- A stakeholder has a legitimate claim when it is perceived to be (legally) valid or otherwise appropriate.
- A stakeholder has an urgent claim when it requires a company's immediate attention and response.

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #114

Topic: Stakeholders and Competitive Advantage

115. What is meant by stakeholder impact analysis?

Stakeholder impact analysis provides a decision tool with which managers can recognize, prioritize, and address the needs of different stakeholders. This tool helps the firm achieve a competitive advantage while acting as a good corporate citizen. Stakeholder impact analysis takes managers through a five-step process of recognizing stakeholders' claims.

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-05 Conduct a stakeholder analysis.

Rothaermel - Chapter 01 #115

Topic: Stakeholders and Competitive Advantage

116. Discuss the five steps involved in stakeholder impact analysis.

- Step 1: Identify stakeholders. In step 1, the firm asks, "Who are our stakeholders?" In this step, the firm focuses on stakeholders that currently have, or potentially can have, a material effect on a company.
- Step 2: Identify stakeholders' interests. In step 2, the firm asks, "What are our stakeholders' interests and claims?" Managers need to specify and assess the interests and claims of the pertinent stakeholders using the power, legitimacy, and urgency criteria.
- Step 3: Identify opportunities and threats. In step 3, the firm asks, "What opportunities and threats do our stakeholders present?" Since stakeholders have a claim on the company, opportunities and threats are two sides of the same coin.
- Step 4: Identify social responsibilities. In step 4, the firm asks, "What economic, legal, ethical, and philanthropic responsibilities do we have to our stakeholders?"
- Step 5: Address stakeholder concerns. Finally, in step 5, the firm asks, "What should we do to effectively address any stakeholder concerns?" In the last step in stakeholder impact analysis, managers need to decide the appropriate course of action for the firm, given all of the preceding factors.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #116

Topic: Stakeholders and Competitive Advantage

117. Why are institutional investors much more potent stakeholders in public companies than individual investors?

Public companies pay much more attention to large institutional investors than to the millions of smaller, individual investors. Institutional investors have considerable sway because of the size of their assets under management (AUM). Although both individual and institutional investors can claim the same legitimacy as stockholders, institutional investors have much more power over a firm. They can buy and sell a large number of shares at once, or exercise block-voting rights in the corporate-governance process. These abilities make institutional investors much more potent stakeholders.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #117

Topic: Stakeholders and Competitive Advantage

118. Keeping in mind the process of stakeholder impact analysis, how was Sony Corp. able to transform threats into opportunities?

In the best-case scenario, managers transform threats into opportunities. Sony Corp., for example, was able to do just that. In 2001, the Dutch government blocked Sony's entire holiday season shipment of PlayStation game systems (valued at roughly \$500 million) into the European Union due to a small but legally unacceptable amount of toxic cadmium discovered in one of the system's cables. This incident led to an 18-month investigation in which Sony inspected over 6,000 supplier factories around the world to track down the source of the problem. The findings allowed Sony to redesign and develop a cutting-edge supplier management system that now adheres to a stringent extended value chain responsibility.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #118

Topic: Stakeholders and Competitive Advantage

119. What is meant by corporate social responsibility (CSR)?

To identify a firm's responsibilities toward its stakeholders, scholars have advanced the notion of corporate social responsibility (CSR). This framework helps firms recognize and address the economic, legal, ethical, and philanthropic expectations that society has of the business enterprise at a given point in time. CSR goes beyond the notion of encouraging businesses to "just be nice." Instead, managers need to realize that society grants shareholders the right and privilege to create a publicly traded stock company, and therefore the firm owes something to society. Moreover, CSR provides managers with a conceptual model that more completely describes a society's expectations and can guide strategic decision making more effectively. In particular, CSR has four components: economic, legal, ethical, and philanthropic responsibilities.

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #119  
Topic: Stakeholders and Competitive Advantage

120. What are the economic responsibilities of a business?

The business enterprise is first and foremost an economic institution. Investors expect an adequate return for their risk capital. Consumers expect safe products and services at appropriate prices and quality. Suppliers expect to be paid in full and on time. Governments expect the firm to pay taxes and to manage natural resources such as air and water under a decent stewardship. To accomplish all this, firms must obey the law and act ethically in their quest to gain and sustain competitive advantage.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #120  
Topic: Stakeholders and Competitive Advantage

121. List a few legal responsibilities of a business.

Laws and regulations are a society's codified ethics, embodying notions of right and wrong. They also establish the rules of the game. For example, business as an institution can function because property rights exist and contracts can be enforced in courts of law. Managers must ensure that their firms obey all the laws and regulations, including but not limited to labor, consumer, and environmental laws. Due to a firm's significant legal responsibilities, many companies appoint compliance officers; some even have an office of corporate citizenship.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #121  
Topic: Stakeholders and Competitive Advantage

122. Discuss the ethical responsibilities of a business.

Legal responsibilities often define only the minimum acceptable standards of firm behavior. Frequently, managers are called upon to go beyond what is required by law. The letter of the law cannot address or anticipate all possible business situations and newly emerging concerns like Internet privacy or advances in genetic engineering and stem-cell research. A firm's ethical responsibilities, therefore, go beyond its legal responsibilities. They embody the full scope of expectations, norms, and values of its stakeholders. Managers are called upon to do what society deems just and fair. An example would be, developing an ethical sourcing policy to help source raw materials of the highest quality, while adhering to fair trade and responsible growing practices.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #122  
Topic: Stakeholders and Competitive Advantage

123. Discuss the pyramid of corporate social responsibility (CSR).

The pyramid summarizes the four components of corporate social responsibility. Economic responsibilities are the foundational building block, followed by legal, ethical, and philanthropic responsibilities. Society and shareholders require economic and legal responsibilities. Ethical and philanthropic responsibilities result from a society's expectations toward business. The pyramid of CSR symbolizes the need for firms to carefully balance their social responsibilities. Doing so ensures not only effective strategy implementation, but also long-term viability.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #123  
Topic: Stakeholders and Competitive Advantage

124. With regard to stakeholder impact analysis, in what way did Starbucks go beyond its legal responsibilities and fulfill its ethical responsibilities?

A firm's ethical responsibilities, sometimes, go beyond its legal responsibilities. They embody the full scope of expectations, norms, and values of its stakeholders. Managers are called upon to do what society deems just and fair. Starbucks, for example, developed an ethical sourcing policy to help source coffee of the highest quality, while adhering to fair trade and responsible growing practices.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #124  
Topic: Stakeholders and Competitive Advantage

125. What are the philanthropic responsibilities of a firm?

Philanthropic responsibilities are often subsumed under the idea of corporate citizenship, reflecting the notion of voluntarily giving back to society. For example, Microsoft's corporate philanthropy program has donated more than \$3 billion in cash and software to people who can't afford computer technology.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #125  
Topic: Stakeholders and Competitive Advantage

126. In terms of BP's social responsibilities, many experts argued that, technical problems aside, BP's Deepwater Horizon disaster was caused by systemic problems. Discuss this statement in terms of stakeholder impact analysis.

As discussed in Strategy Highlight 1.2, technical problems aside, many experts argued that BP's problems were systemic because management had repeatedly failed to put an adequate safety culture in place. In 2005, for example, BP experienced a catastrophic accident at a Texas oil refinery, which killed 15 workers. A year later, a leaking BP pipeline caused the largest oil spill ever on Alaska's North Slope. BP's strategic focus on cost reductions, initiated a few years earlier, may have significantly compromised safety across the board.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #126  
Topic: Stakeholders and Competitive Advantage

127. What is the AFI strategy framework?

The AFI strategy framework is a model that links three interdependent strategic management tasks—analyze, formulate, and implement—that, together, help managers plan and implement a strategy that can improve performance and result in competitive advantage.

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #127  
Topic: The AFI Strategy Framework

128. List the three broad tasks in the AFI strategy framework.

Effectively managing the strategy process is the result of three broad tasks listed in the AFI framework:

1. Analyze (A)
2. Formulate (F)
3. Implement (I)

The tasks of analyze, formulate, and implement are the pillars of research and knowledge about strategic management. These tasks are highly interdependent and frequently happen simultaneously.

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #128  
Topic: The AFI Strategy Framework

129. What is the AFI strategy framework used for?

Managers use the AFI framework to do two things: (1) to explain and predict differences in firm performance, and (2) to help managers formulate and implement a strategy that results in superior performance.

AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #129  
Topic: The AFI Strategy Framework

130. What are the topics and questions managers need to address in the strategy analysis stage of the AFI strategy framework?

The topics and questions covered in strategy analysis are:

- Strategic leadership and the strategy process: What roles do strategic leaders play? What are the firm's vision, mission, and values? What is the firm's process for creating strategy (how does strategy come about)?
- External analysis: What effects do forces in the external environment have on the firm's potential to gain and sustain a competitive advantage?
- Internal analysis: What effects do internal resources, capabilities, and core competencies have on the firm's potential to gain and sustain a competitive advantage?
- Business models, competitive advantage, and firm performance: How does the firm make money? How can it assess and measure competitive advantage? What is the relationship between competitive advantage and firm performance?

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy*

*Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #130  
Topic: The AFI Strategy Framework*

131. What issues should be addressed by managers during the strategy formulation stage of the AFI strategy framework?

The issues to be addressed during strategy formulation are:

- Business strategy: How should the firm compete (cost leadership, differentiation, or integration)?
- Corporate strategy: Where should the firm compete (industry, markets, and geography)?
- Global strategy: How and where (local, regional, national, and international) should the firm compete around the world?

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy*

*Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #131  
Topic: The AFI Strategy Framework*

132. What are the issues to be addressed by managers during the strategy implementation stage of the AFI strategy framework?

The topics and questions to be addressed by managers during the AFI strategy framework are:

- Organizational design: How should the firm organize to put the formulated strategy into practice?
- Corporate governance and business ethics: What type of corporate governance is most effective? How does the firm anchor strategic decisions in business ethics?

*AACSB: Analytic  
Blooms: Remember  
Difficulty: 1 Easy*

*Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #132  
Topic: The AFI Strategy Framework*

133. Strategy is the science of success and failure. Elaborate on this statement.

The difference between a firm's success and failure lies in a firm's strategy. Competition is everywhere. The principles of strategic management can be applied universally to all organizations. They work in organizations from government to free enterprise, from publicly owned companies to privately owned ones, from for-profit to non-profit organizations, and in developed as well as emerging economies. Firm performance is determined by a set of interdependent factors, including firm and industry effects. A strategist is empowered by the fact that the actions they create have more influence on firm performance than the external environment.

To be more effective, the strategist follows a three-step process:

1. Analyze the external and internal environments.
2. Formulate appropriate business and corporate strategies.
3. Implement the formulated strategies through structure, culture, and controls.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-05 Conduct a stakeholder analysis.  
Rothaermel - Chapter 01 #133  
Topic: Implications for the Strategist

134. Not long after Apple became the world's most valuable company, signs of trouble emerged. This made it more difficult for Apple to sustain its competitive advantage. Explain.

As discussed in Chapter Case 1, not long after Apple became the world's most valuable company, signs of trouble emerged. Although Apple enforced its intellectual property in a legal dispute with Samsung, it entered into a licensing agreement with HTC, a Taiwanese maker of mobile phones. Some argue that Apple under Steve Jobs' leadership would never have entered any agreements that would allow direct competitors to benefit from Apple's proprietary technology.

Despite Apple's courtroom victory against Samsung, Samsung sold more smartphones than Apple in 2012. With its Galaxy S3 model running on Google's Android system, sales prove that Samsung has a viable competitor against Apple's iPhone 5. In 2013, Samsung introduced the new Galaxy S4 model, further intensifying the head-on competition with Apple.

Uncharacteristically, Apple botched the product launch for the iPhone 5. The embedded Apple map app was far inferior to Google maps, which was used in earlier versions of the iPhone. Subsequently, Apple's top management team also experienced sudden turnover, with some of its executives being forced out. In one instance, CEO Tim Cook asked Scott Forstall, vice president of iPhone and iOS Software and a Steve Jobs protégé, to leave after Forstall refused to sign an apology letter to customers for the shortcomings on the iPhone 5's mapping service. The head of Apple's famed retail operations was also forced out after only six months on the job.

After reaching \$623 billion in market valuation and becoming the world's most valuable company, by March 2013 Apple's share price had dropped more than 30 percent from a high of over \$700 to \$420, wiping out over \$200 billion in shareholder value. Clearly, while it is difficult to gain a competitive advantage in the first place, it is that much more difficult to sustain it.

AACSB: Analytic  
Blooms: Understand  
Difficulty: 2 Medium

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.  
Rothaermel - Chapter 01 #134  
Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

# 1 Summary

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