Chapter 03
Assessing the Internal Environment of the Firm

**True / False Questions**

1. One advantage of SWOT analysis is that it helps managers to identify strengths that are almost always sources of sustainable competitive advantages.
   
   True  False

2. The SWOT analysis can show managers how to achieve a competitive advantage.
   
   True  False

3. The strengths and capabilities of a firm are enough to enable it to achieve a competitive advantage in the marketplace.
   
   True  False

4. Toyota paid a heavy price for its excessive emphasis on cost control. By focusing on one strength exclusively, it suffered severe losses. This is an example of the limitations of a SWOT analysis.
   
   True  False
5. In conducting a SWOT analysis, a risk for strategists is that they rely on traditional definitions of their industry and competitive environment and therefore focus too narrowly on current competitors.
   True  False

6. The SWOT framework is sufficient as the primary basis for evaluating the external opportunities and threat of the company.
   True  False

7. The SWOT framework is not sufficient as the primary basis for evaluating the internal strengths and weaknesses of a company.
   True  False

8. Top managers have learned not to rely on SWOT to stimulate self-reflection and group discussions about how to improve their firm and position for success.
   True  False

9. Company strengths and weaknesses are tied to its stated goals and objectives.
   True  False

10. If a firm builds its strategy on a capability that cannot, by itself, create or sustain competitive advantage, it is wasting its time and resources.
    True  False

11. Focusing too narrowly on current customers, technologies and competitors can lead a company to overlook periphery industry boundaries and a new set of competitive relationships.
    True  False

12. Encyclopedia Britannica lost competitive positioning due to a misunderstanding of the change in competitors, when the CD-based encyclopedia became popular for home computers.
    True  False

13. The static nature of the SWOT assessment is a positive advantage for it as an evaluation framework.
    True  False

14. Value-chain analysis assumes that the basic economic purpose of a firm is to create value and it is a useful framework for analyzing the strengths and weaknesses of the firm.
    True  False

15. In value-chain analysis, value is measured by the market value of the total stock outstanding of the company.
    True  False
16. Primary activities contribute to the physical creation of a product or service, its sale and transfer to the buyer, and its service after the sale.

   True  False

17. The value-chain concept assumes that both primary and support activities are capable of producing value for customers.

   True  False

18. Inbound logistics include all activities associated with transforming inputs into the final product form such as machining, packaging, assembly, equipment, testing, printing, and facility operations.

   True  False

19. Support activities provide support for primary activities, but not each other.

   True  False

20. Establishing a customer service hotline to handle customer complaints would be considered a primary activity in value-chain analysis.

   True  False

21. Technology development is a much broader concept than research and development.

   True  False

22. In value-chain analysis, finance and accounting are considered part of the general administration of a firm.

   True  False

23. Frito-Lay uses crowdsourcing to make its Super Bowl ads. This is an example of a primary activity in the value chain.

   True  False

24. Campbell Soup uses an electronic network to facilitate its continuous-replenishment program with its most progressive retailers. This is known as an operations primary activity in the value chain.

   True  False

25. Technip has developed intelligent pipes that can monitor and regulate the temperature throughout an oil pipeline. This is an example of a procurement support activity in the value chain.

   True  False

26. At Sephora.com, a customer service representative taking a phone call from a repeat customer has instant access to what shade of lipstick she likes best. This is an example of a procurement support activity in the value chain.

   True  False
27. Managers should focus their attention on interrelationships among value-chain activities within the firm, not on relationships among activities within the firm and other organizations (such as suppliers and customers).

True  False

28. Some leading edge companies are applying the prosumer concept. Here, firms team up with their suppliers and alliance partners to satisfy their customer needs.

True  False

29. Value-chain analysis can only be applied to manufacturing operations.

True  False

30. Information technology (IT) can also play a key role in enhancing the value that a company can provide its customers and, in turn, increasing its own revenues and profits. IT is an activity within the support activities of general administration.

True  False

31. Campbell Soup uses electronic networks in order to improve the efficiency of outbound logistics. This is an example of relationships among activities within the firm and with other stakeholders that are part of the company expanded value chain.

True  False

32. Some firms find great value by not incorporating their customers into the value creation process.

True  False

33. Crowdsourcing has many benefits, including the example in which McDonalds set up a Twitter campaign to promote positive word of mouth which became a platform for people looking to bash the chain.

True  False

34. Strong brands are typically built through consistent, effective marketing, and companies need to weigh the potential for misbehaving customers to thwart their careful efforts.

True  False

35. Porsche received a lot of negative feedback when it announced plans to release an SUV, but it went ahead anyway, and the Porsche Cayenne was a great success. This is an example of a peril of making decisions based on crowdsourcing.

True  False

36. At times, the difference between manufacturing and service is in providing a customized solution rather than mass production, as is common in manufacturing.

True  False

37. A travel agent does not add value by creating an itinerary that includes transportation, accommodations, and activities that are customized to your budget and travel dates.

True  False
38. A law firm renders services that are specific to client needs and circumstances. This is an example of the transformation process of a service organization.
   True False

39. The activities that may provide support only to one company may be critical to the primary value-adding activity of another firm.
   True False

40. The resource-based view of the firm focuses solely on the internal analysis of the operations of the firm.
   True False

41. Tangible resources are assets that are relatively easy to identify such as financial and physical assets.
   True False

42. Intangible resources of a firm refer to its capacity to deploy tangible resources over time and leverage those resources effectively.
   True False

43. Financial resources such as cash and cash equivalents are intangible resources.
   True False

44. Effective strategic planning processes are intangible resources.
   True False

45. Company reputation with customers, suppliers and other stakeholders is an intangible resource.
   True False

46. Examples of organizational capabilities are outstanding customer service, excellent product development capabilities, superb innovation processes, and flexibility in manufacturing processes.
   True False

47. Harley-Davidson sells accessories, clothing, toys and motorcycles. They have a brand image in common which is a tangible resource.
   True False

48. Comcast gets a bad review on Yelp. This is an example of harm to a tangible resource.
   True False

49. FedEx employees take computer-based job competency tests every 6 to 12 months in order to identify areas of individual weakness and provide input to a computer database of employee skills. This is an example of a tangible resource.
   True False
50. Trade secrets are intangible resources.
   True False

51. Modern plant and facilities as well as favorable manufacturing locations are tangible resources.
   True False

52. Patents, copyrights, and trademarks are intangible resources.
   True False

53. Products and services that are difficult to imitate help firms sustain their profitability.
   True False

54. Path dependency has no impact on the inimitability of resources.
   True False

55. Capabilities that exhibit causal ambiguity are difficult to imitate.
   True False

56. For a resource to provide a firm with potential sustainable advantages it must satisfy only two criteria: rareness and difficulty in substitution.
   True False

57. Firms that are successful in creating competitive advantages that are sustainable for a period of time do not have to be concerned about profits being retained by employees or managers.
   True False

58. Employee exit cost is a factor that can increase employee bargaining power and help him or her appropriate profits of the firm.
   True False

59. Amazon Prime is an example of a difficult to imitate capability that gives it competitive advantage over its rivals.
   True False

60. Dell lost its competitive advantage by 2009 in part because it placed its efforts on operational excellence to the exclusion of reinvention.
   True False

61. The corporate culture at Southwest airlines is an example of causal ambiguity.
   True False
62. People want to partner with you because they have heard you are a credible company built through a culture of trust. In a sense, being a great company to work for also makes you a great company to work with. This is an example of causal ambiguity.

True  False

63. Two valuable firm resources (or two bundles of resources) are strategically equivalent when each one can be exploited separately to implement the same strategies.

True  False

64. Though two teams could have different ages, functional backgrounds, experience, and so on, they could be strategically equivalent and thus substitutes for one another.

True  False

65. Several pharmaceutical firms have seen the value of patent protection erode in the face of new drugs that are based on different production processes and act in different ways, but can be used in similar treatment regimes. This example illustrates the lack of sustainable competitive advantage being offered by the product.

True  False

66. Financial analysis provides an accurate way to assess the relative strengths of firms and can be used as a complete guide to study companies.

True  False

67. Leverage ratios provide measures of the capacity of a firm to meet its long-term financial obligations.

True  False

68. Historical comparisons are most appropriate during periods of recession or economic boom.

True  False

69. When using industry norms as a standard of comparison, managers must be sure that the firms used in the comparisons are representative of all sizes and strategies within the industry.

True  False

70. The current ratio is used to measure long-term solvency.

True  False

71. The price-earnings ratio is used to measure profitability.

True  False

72. The total debt ratio is used to measure profitability.

True  False

73. Inventory turnover is a measure of asset utilization.

True  False
74. The profit margin ratio is used to measure long-term solvency.
   True  False

75. The return on assets ratio is used to measure short-term solvency of the firm.
   True  False

76. A meaningful ratio analysis need only include how ratios change over time.
   True  False

77. When using industry norms as a standard of comparison, managers must be sure that the firms used in the comparisons are representative of all sizes and strategies within the industry.
   True  False

78. When evaluating the financial performance of a firm, it is important to compare the results with industry norms.
   True  False

79. A primary benefit of the balanced scorecard is that it complements financial indicators with operational measures of customer satisfaction, internal processes, and the innovation and improvement activities of the organization.
   True  False

80. The balanced scorecard enables managers to evaluate their business from only two perspectives: customer and financial.
   True  False

81. An important implication of the balanced scorecard is that managers need not look at their job as primarily balancing stakeholder demands.
   True  False

82. A strength of the balanced scorecard is that it is very easy to implement and that there is little need for executive sponsorship.
   True  False

83. In considering the business from the innovation and learning perspective using the balanced scorecard, the ability of the firm to do well is more dependent on its intangible and tangible assets.
   True  False

84. In considering the business from the customer perspective using the balanced scorecard, company performance is essential.
   True  False
85. In considering the business from the internal business perspective using the balanced scorecard, customer-based measures must be translated into indicators of what the firm must do internally to meet customer expectations.

True    False

86. In considering the business from the internal business perspective using the balanced scorecard, periodic financial statements are used to indicate the consequences of improved quality, response time, productivity, and innovative products. These consequences include improved sales.

True    False

87. For the balanced scorecard to work, managers must articulate goals for five categories of customer concerns: time, quality, performance and service, cost, and design.

True    False

88. Excellent customer performance results from processes, decisions, and actions that occur only in the marketing efforts of the firm.

True    False

89. To survive and prosper, managers must not make frequent changes to existing products and services, because it will confuse the customer.

True    False

90. The ability of a firm to do well from an innovation and learning perspective is most dependent on its tangible assets.

True    False

91. For the balanced scorecard implementation to be effective, a set of rules for employees that address continuous process improvement and the personal improvement of individual employees needs to be established so that employees buy-in to the change.

True    False

Multiple Choice Questions

92. Which of the following is not a limitation of SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis?

A. Organizational strengths may not lead to competitive advantage.
B. The SWOT focus on the external environment is too broad and integrative.
C. SWOT gives a one-shot view of a moving target.
D. SWOT overemphasizes a single dimension of strategy.
93. Which of the following is a limitation of SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis?

A. Organizational strengths may not lead to competitive advantage.
B. The SWOT focus on internal environment is too broad and integrative.
C. SWOT gives a multi-shot view of a moving target.
D. SWOT overemphasizes a multiple dimensions of strategy.

94. A key _________ of SWOT is that it is primarily a static assessment.

A. strength
B. threat
C. opportunity
D. weakness

95. Strategists who rely on traditional definitions of their industry and competitive environment often focus their sights too _________ on current customers, technologies, and competitors.

A. broadly
B. narrowly
C. aggressively
D. widely

96. Company __________, no matter how unique or impressive, may not enable it to achieve a competitive advantage in the marketplace.

A. strengths and opportunities
B. strengths and threats
C. opportunities
D. strengths and capabilities

97. Sometimes firms become preoccupied with _________ or a key feature of the product or service they are offering and ignore other factors needed for competitive success.

A. multiple strengths
B. multiple opportunities
C. a single strength
D. a single opportunity

98. __________ among organizations is played out over time.

A. Negotiation
B. Sustainability
C. Competition
D. Learning
99. Focusing too narrowly on current customers, technologies, and competitors can lead to a failure to notice important changes on the periphery of their environment that may trigger the need to redefine industry boundaries and identify a whole new set of competitive relationships. This is a result of relying

A. on traditional definitions of all industries and competitive environments.
B. on traditional definitions of the relevant industry and competitive environment.
C. solely on intuition.
D. on a superficial evaluation of the relevant industry and competitive environment.

100. Toyota, the giant automaker, paid a heavy price for its __________ emphasis on cost control. The resulting problems with quality and the negative publicity led to severe financial losses and an erosion of its reputation in many markets.

A. minimal
B. superficial
C. low-budget
D. excessive

101. Competition among organizations is played out over time. As circumstances, capabilities, and strategies change, ________ techniques do not reveal the dynamics of the competitive environment.

A. transactional analysis
B. variable analysis
C. static analysis
D. continuous

102. A SWOT analysis alone __________ helps a firm develop competitive advantages that it can sustain over time.

A. usually
B. often
C. rarely
D. regularly

103. Inbound logistics include

A. machining and packaging.
B. repair and parts supply.
C. promotion and packaging.
D. warehousing and inventory control.

104. In assessing its primary activities, an airline would examine

A. employee training programs.
B. baggage handling.
C. criteria for lease versus purchase decisions.
D. the effectiveness of its lobbying activities.
105. Advertising is a __________ activity. Supply of replacement parts is a __________ activity.

A. support; primary
B. primary; primary
C. primary; support
D. support; secondary

106. Which of the following examples demonstrates how successful organizations manage their primary activities?

A. Motorola has revised its compensation system to reward employees who learn a variety of skills.
B. Wal-Mart implemented a sophisticated information system that resulted in reduced inventory carrying costs and shortened customer response times.
C. National Steel improved its efficiency by reducing the number of job classifications.
D. Hewlett Packard has cut lead time from five days to one by employing JIT inventory management.

107. Which of the following is not an advantage of Just-In-Time inventory systems?

A. reduced raw material storage costs
B. minimized idle production facilities and workers
C. reduced work-in-process inventories
D. reduced dependence on suppliers

108. XYZ Corp. is focusing on the objective of low-cost, high quality, on-time production by minimizing idle productive facilities and workers. The XYZ Corp. is taking advantage of a __________ system.

A. Last In, First Out (LIFO)
B. Highly mechanized
C. First In, First Out (FIFO)
D. Just-In-Time (JIT)

109. __________ is/are associated with collecting, storing, and distributing the product or service to buyers. They consist of warehousing, material handling, delivery operation, order processing, and scheduling.

A. Services
B. Inbound logistics
C. Outbound logistics
D. Operations

110. Customer service includes

A. product promotion.
B. procurement of critical supplies.
C. product distribution.
D. parts supply.
111. Which of the following is a support activity?

A. inbound logistics
B. customer service
C. technology development
D. operations

112. Which of the following lists consists of support activities?

A. human resource management, technology development, customer service, and procurement
B. human resource management, customer service, marketing and sales, and operations
C. customer service, information systems, technology development, and procurement
D. human resource management, technology development, procurement, and general administration

113. Human resource management consists of activities involved in the recruiting, hiring, training, development, and compensation of all types of personnel. It supports

A. only individual primary activities.
B. mostly support activities but does have some impact on primary activities.
C. only individual support activities.
D. both individual primary and support activities and the entire value chain.

114. According to value-chain analysis, which of the following would be considered part of the general administration in a firm?

A. information systems
B. technology development
C. human resource management
D. procurement

115. A marketing department that promises delivery faster than the ability of the production department to produce is an example of a lack of understanding of the

A. interrelationships among functional areas and firm strategies organizational culture and leadership.
B. organizational culture and leadership.
C. need to maintain the reputation of the company.
D. synergy of the business units.

116. In a retail service industry, which of the following is not a primary value-chain activity?

A. purchasing goods
B. human resource management
C. partnering with vendors
D. operating stores
117. In terms of value chain analysis, a telephone operating company would find that negotiating and maintaining ongoing relations with regulatory bodies are important activities for achieving

A. returns on investment.
B. customer awareness.
C. competitive advantage.
D. better employees.

118. General administration is sometimes viewed as only _______ but can be a powerful source of competitive advantage.

A. income
B. value
C. overhead
D. unimportant

119. German truck and trailer manufacturer, Schmitz Cargobull, mainly serves customers that are operators of truck or trailer fleets. What sets the company apart is its expertise in telematics (the integrated application of telecommunications data) to monitor the current state of any Schmitz Cargobull-produced trailer. This is an example of using _______ to enhance customer value and increase _______ position.

A. sales; competitive
B. operations; marketing
C. information technology; competitive
D. human resources; marketing

120. In an interview with Lise Saari, former director of global workforce research at IBM, she notes that HR must be a true partner of the business, with a deep and up-to-date understanding of business realities and objectives, and must ensure HR initiatives fully support them at all points of the value chain. This is an example of

A. relationships among activities within the firm and with other stakeholders.
B. relationships between firms.
C. interrelationships among activities within the firm.
D. interrelationships among firms.

121. Regarding the value-chain concept, the most important interrelationship is between the organization and its

A. board of directors.
B. employees.
C. management.
D. customers.
122. In contrast to ________ interactions, which allow the firm to gain insights on the needs of a particular customer, ________ offers the opportunity to leverage the wisdom of a larger crowd.

A. consumer; sourcing  
B. prosumer; outsourcing  
C. prosumer; crowdsourcing  
D. marketing; crowdsourcing

123. In using crowdsourcing as a means to integrate the customer into the value chain, there are some perils to consider. Which of the following is not related to crowdsourcing perils?

A. Giving customers the opportunity to tarnish the company brand.  
B. Asking for consumer input when demand is highly uncertain.  
C. Repeatedly getting feedback from the same customer.  
D. Asking for consumer input when demand is certain.

124. Accounting is a sort of transformation process that converts daily records of individual transactions into monthly financial reports. The ________ are the inputs, accounting is the operation that adds value, and ________ are the outputs.

A. transaction records; financial statements  
B. financial statements; transaction records  
C. employee records; transaction records  
D. health records; transaction statements

125. A travel agent adds value by creating an itinerary that includes transportation, accommodations, and activities that are customized to your budget and travel dates. In terms of the value chain analysis, this is an example of a ________ organization.

A. retail  
B. service  
C. manufacturing  
D. travel

126. For an engineering services firm, ____________ provides inputs, the transformation process is the engineering itself, and innovative designs and practical solutions are the outputs.

A. experimentation  
B. customer support  
C. research and development  
D. human resource management
127. The resource-based view (RBV) of the firm combines the following two perspectives:

A. the primary and support activities of the firm.
B. the interrelationships among the primary activities of the firm and corporate management.
C. the internal analysis of the firm and the external analysis of the industry and competitive environment.
D. the industry and the competitive environment.

128. The three key types of resources that are central to the resource-based view of the firm are

A. tangible resources, intangible resources, and organizational structure.
B. culture, tangible resources, intangible resources.
C. tangible resources, intangible resources, and organizational capabilities.
D. tangible resources, intangible resources, and top management.

129. In the resource-based view of the firm, examples of tangible resources include

A. financial resources, human resources, and firm competencies.
B. financial resources, physical resources, and technological resources.
C. financial resources, physical resources, and the capacity to combine intangible resources.
D. outstanding customer service, innovativeness of products, and reputation.

130. ___________ are typically embedded in unique routines and practices that have evolved and accumulated over time such as effective work teams.

A. Tangible resources
B. Intangible resources
C. Reputational resources
D. Organizational capabilities

131. Apple combines and packages proven technology in new and innovative ways. This is an example of its use of

A. tangible resources.
B. intangible resources.
C. organizational capabilities.
D. strong primary activities.

132. ___________ are the competencies or skills that a firm employs to transform inputs into outputs.

A. Tangible resources
B. Reputational resources
C. Organizational capabilities
D. Intangible resources
133. Which of the following is not an example of organizational capabilities?

A. outstanding customer service  
B. reputation with customers for quality and reliability  
C. innovativeness of products and services  
D. ability to hire, motivate, and retain human capital

134. The ability to hire, motivate, and retain human capital is an example of _______ capabilities in the resource-based view of the firm.

A. tangible  
B. organizational  
C. management  
D. design

135. In order to be considered strategic resources that contribute competitive advantage, they must have several characteristics. Which of the following is not one of these?

A. rare  
B. valuable  
C. inexpensive to imitate  
D. costly to substitute

136. Which of the following is not a tangible resource?

A. technical and scientific skills  
B. trade secrets, patents, copyrights  
C. state-of-the art machinery  
D. company borrowing capacity

137. Intangible resources are typically embedded in _______ routines and practices that have evolved and accumulated over time.

A. rare  
B. standard  
C. unique  
D. obvious

138. The culture of a firm also may be a resource that provides competitive advantage. Which of these companies might be a good example of this intangible resource?

A. Google  
B. Kmart  
C. Costco  
D. Walmart
139. For a resource to provide a firm with the potential for a sustainable competitive advantage, it must have four attributes. Which of the following is not one of these attributes?

A. rare
B. valuable
C. easy for competitors to substitute
D. difficult for competitors to imitate

140. A competitive advantage based on inimitability can be sustained for at least some time, if it has the following characteristics:

A. psychographic uniqueness, path dependency, causal ambiguity, and substitutability.
B. physical uniqueness, path dependency, causal ambiguity, and social complexity.
C. rarity, path dependency, causal ambiguity, and social substitutability.
D. geographic uniqueness, cause dependency, social ambiguity, and path complexity.

141. A crash R&D program by one firm cannot replicate a successful technology developed by another firm, when research findings cumulate. This is an example of

A. social complexity.
B. physical uniqueness.
C. path dependency.
D. causal ambiguity.

142. A variety of firm resources include interpersonal relations among managers in the firm, its culture, and its reputation with its suppliers and customers. Such competitive advantages are based upon

A. path dependency.
B. social complexity.
C. physical uniqueness.
D. tangible resources.

143. All of the following are examples of socially complex organizational phenomena except

A. a firm's culture.
B. complex physical technology.
C. interpersonal relations among a firm's managers.
D. leadership and trust.

144. A resource is valuable and rare but neither difficult to imitate nor without substitutes. This should enable the firm to attain

A. no competitive advantage.
B. a temporary competitive advantage.
C. competitive parity.
D. a sustainable competitive advantage.
145. Employees will be able to obtain a proportionately high level of profits they generate (relative to the firm) if

A. suppliers are loyal to the firm.
B. their expertise is firm-specific.
C. the cost to the firm of replacing them is high.
D. the firm's resources are path dependent.

146. Which of the following is not a factor that helps to explain the extent to which employees and managers will be able to obtain a proportionately high level of the profits that they generate?

A. Employees have high bargaining power.
B. The cost of employee replacement is high.
C. The cost of exit is high for an employee.
D. Managers have low bargaining power.

147. Amazon Prime is credited for helping to increase the Amazon stock price by nearly 300 percent from 2008 to 2010. This competitive advantage is known as

A. causal ambiguity.
B. product rarity.
C. service validity.
D. substitutability.

148. Four factors help explain the extent to which employees and managers will be able to obtain a proportionately high level of the profits that they generate. Which is not one of these factors?

A. employee bargaining power
B. employee replacement cost
C. employee exit costs
D. competitor bargaining power

149. Which of the following groups generally is charged with creating value through the process of organizing, coordinating, and leveraging employees as well as other forms of capital such as plant, equipment, and financial capital?

A. unions
B. boards of directors
C. managers
D. stakeholders
150. Raymond Ozzie, the software designer who was critical in the development of Lotus Notes, was able to dictate the terms under which IBM acquired Lotus. This illustrates that he had ______ bargaining power based on the ________ cost required by the firm to replace him.

A. low; low  
B. low; high  
C. high; low  
D. high; high

151. Historical comparisons provide information to managers about changes in the competitive position of a firm. Historical comparisons often are misleading.

A. if the overall strategy of the firm is the same.  
B. if the firm shows constant growth.  
C. in periods of recession or economic boom.  
D. if the firm’s stock is publicly traded.

152. The best measure of company ability to meet imminent financial obligations is known as the

A. debt ratio.  
B. profit margin.  
C. total asset turnover.  
D. current ratio.

153. Which of the following would be most difficult to assess?

A. the liquidity position of a firm  
B. market share growth  
C. the legitimacy and reputation of a firm  
D. the efficiency with which a firm utilizes its assets

154. Which of these categories of financial ratios is used to measure the ability of a firm to meet its short-term financial obligations?

A. liquidity ratios  
B. profitability ratios  
C. activity ratios  
D. leverage ratios

155. Ratios that reflect whether or not a firm is efficiently using its resources are known as

A. turnover ratios.  
B. leverage ratios.  
C. liquidity ratios.  
D. profitability ratios.
156. Which of the following is a profitability ratio?

A. current ratio  
B. total debt ratio  
C. total asset turnover  
D. return on equity

157. Financial ratio analysis measures the performance of the firm based on all but which of the following?

A. balance sheet  
B. market valuation  
C. income statement  
D. industry comparison

158. Comparing your firm with all other firms in your industry assesses ________ performance.

A. excessive  
B. consistent  
C. relative  
D. non-comparable

159. Making comparisons between a firm and its most direct rivals is useful because firms within the same strategic industry group have ________ strategies.

A. different  
B. the same  
C. similar  
D. relative

160. In making the decision to enter the pharmaceutical industry, a company would not need to consider which of the following?

A. historical comparisons  
B. comparisons with industry norms  
C. comparisons with key competitors  
D. comparisons with non-competitors

161. A firm that takes on too much long-term debt to finance operations will see an immediate impact on its indicators of ________ financial leverage.

A. short-term  
B. long-term  
C. relative  
D. comparable
162. Apple Inc. reported revenues of 171 billion USD and net income of 37 billion USD in 2012. These figures represent a stunning annual growth in revenue and net income of 57 percent and 43 percent, respectively, for the 2011 to 2013 time period. This information indicates the importance of using __________ to evaluate company financial performance.

A. financial ratios  
B. industry norms  
C. historical comparisons  
D. competitor analysis

163. The balanced scorecard provides top managers with a __________ view of the business.

A. detailed and complex  
B. simple and routine  
C. fast but comprehensive  
D. long-term financial

164. The balanced scorecard, developed by Kaplan and Norton, helps to integrate

A. financial analysis and the reputation of a firm.  
B. intangible resources and operational measures.  
C. financial analysis and stakeholder perspectives.  
D. short-term perspectives and strategic positioning.

165. The balanced scorecard enables managers to consider their business from all of the following perspectives except

A. customer perspective.  
B. internal perspective.  
C. innovation and learning perspective.  
D. ethical perspective.

166. An important implication of the balanced scorecard approach is that

A. managers need to recognize that satisfaction of stockholder demands is their primary job.  
B. the emphasis on customer satisfaction and financial goals are only a means to that end.  
C. managers should not look at their job as primarily balancing stakeholder demands.  
D. gains in financial performance must come at a cost of employee satisfaction.

167. The financial perspective of the balanced scorecard answers which of the following questions?

A. How do customers see us?  
B. What must we excel at?  
C. How do we look to shareholders?  
D. Can we continue to improve and create value?
168. The innovation and learning perspective of the balanced scorecard answers which of the following questions?

A. How do customers see us?
B. What must we excel at?
C. How do we look to shareholders?
D. Can we continue to improve and create value?

169. The customer perspective of the balanced scorecard answers which of the following questions?

A. How do customers see us?
B. What must we excel at?
C. How do we look to shareholders?
D. Can we continue to improve and create value?

170. The internal business perspective of the balanced scorecard answers which of the following questions?

A. How do customers see us?
B. What must we excel at?
C. How do we look to shareholders?
D. Can we continue to improve and create value?

171. The internal measures should reflect business processes that have ______ impact on customer satisfaction. These include factors that affect cycle time, quality, employee skills, and productivity.

A. the least
B. variable
C. the most
D. potential

172. From the innovation and learning perspective, survival is dependent upon managers making __________ changes to existing products and services as well as introduce entirely new products with expanded capabilities.

A. few
B. no
C. frequent
D. rare

173. If managers do not recognize from the beginning that the balanced scorecard is not a __________ and fail to commit to it long term, the organization will be disappointed.

A. panacea
B. quick fix
C. marketing ploy
D. cheap solution
With the total performance indicators in place at Sears, it can evaluate if a single store improves its employee attitude by 5 percent and therefore predict with confidence that if the revenue growth in the district as a whole is 5 percent, the revenue growth in this particular store would be 5.5 percent. This is an example of the _______ perspective of the balanced scorecard.

A. customer  
B. internal business  
C. financial  
D. innovation and learning
Chapter 03 Assessing the Internal Environment of the Firm  

**Answer Key**

**True / False Questions**

1. One advantage of SWOT analysis is that it helps managers to identify strengths that are almost always sources of sustainable competitive advantages.
   
   **FALSE**
   
   The strengths and capabilities of a firm, no matter how unique or impressive, may not enable it to achieve a competitive advantage in the marketplace.

2. The SWOT analysis can show managers how to achieve a competitive advantage.
   
   **FALSE**
   
   SWOT has its limitations. It is just a starting point for discussion. By listing the company attributes, managers have the raw material needed to perform more in-depth strategic analysis. However, SWOT cannot show them how to achieve a competitive advantage. They must not make SWOT analysis an end in itself, temporarily raising awareness about important issues but failing to lead to the kind of action steps necessary to enact strategic change.

3. The strengths and capabilities of a firm are enough to enable it to achieve a competitive advantage in the marketplace.
   
   **FALSE**
   
   The strengths and capabilities of a firm, no matter how unique or impressive, may not enable it to achieve a competitive advantage in the marketplace. If a firm builds its strategy on a capability that cannot, by itself, create or sustain competitive advantage, it is essentially a wasted use of resources.
4. Toyota paid a heavy price for its excessive emphasis on cost control. By focusing on one strength exclusively, it suffered severe losses. This is an example of the limitations of a SWOT analysis.

**TRUE**

Sometimes firms become preoccupied with a single strength or a key feature of the product or service they are offering and ignore other factors needed for competitive success. For example, Toyota, the giant automaker, paid a heavy price for its excessive emphasis on cost control. The resulting problems with quality and the negative publicity led to severe financial losses and an erosion of its reputation in many markets.

**5.** In conducting a SWOT analysis, a risk for strategists is that they rely on traditional definitions of their industry and competitive environment and therefore focus too narrowly on current competitors.

**TRUE**

Strategists who rely on traditional definitions of their industry and competitive environment often focus their sights too narrowly on current customers, technologies, and competitors. Hence they fail to notice important changes on the periphery of their environment that may trigger the need to redefine industry boundaries and identify a whole new set of competitive relationships.

**6.** The SWOT framework is sufficient as the primary basis for evaluating the external opportunities and threat of the company.

**FALSE**

While we believe SWOT analysis is very helpful as a starting point, it should not form the primary basis for evaluating the internal strengths and weaknesses of the company or the opportunities and threats in the environment.
7. The SWOT framework is not sufficient as the primary basis for evaluating the internal strengths and weaknesses of a company.

**TRUE**
While we believe SWOT analysis is very helpful as a starting point, it should not form the primary basis for evaluating the internal strengths and weaknesses of the company or the opportunities and threats in the environment.

8. Top managers have learned not to rely on SWOT to stimulate self-reflection and group discussions about how to improve their firm and position for success.

**FALSE**
SWOT analysis is a tried-and-true tool of strategic analysis. SWOT (strengths, weaknesses, opportunities, threats) analysis is used regularly in business to initially evaluate the opportunities and threats in the business environment as well as the strengths and weaknesses of a firm’s internal environment. Top managers rely on SWOT to stimulate self-reflection and group discussions about how to improve their firm and position it for success.

9. Company strengths and weaknesses are tied to its stated goals and objectives.

**TRUE**
Company strengths and capabilities, no matter how unique or impressive, may not enable it to achieve a competitive advantage in the marketplace. It is akin to recruiting a concert pianist to join a gang of thugs; even though such an ability is rare and valuable, it hardly helps the organization attain its goals and objectives.
10. If a firm builds its strategy on a capability that cannot, by itself, create or sustain competitive advantage, it is wasting its time and resources.

TRUE
If a firm builds its strategy on a capability that cannot, by itself, create or sustain competitive advantage, it is essentially a wasted use of resources.

11. Focusing too narrowly on current customers, technologies and competitors can lead a company to overlook periphery industry boundaries and a new set of competitive relationships.

TRUE
Strategists who rely on traditional definitions of their industry and competitive environment often focus their sights too narrowly on current customers, technologies, and competitors. Hence they fail to notice important changes on the periphery of their environment that may trigger the need to redefine industry boundaries and identify a whole new set of competitive relationships.

12. Encyclopedia Britannica lost competitive positioning due to a misunderstanding of the change in competitors, when the CD-based encyclopedia became popular for home computers.

TRUE
Consider Encyclopedia Britannica, whose competitive position was severely eroded by a nontraditional competitor, the CD-based encyclopedias (e.g., Microsoft Encarta) that could be used on home computers followed by online encyclopedias (e.g., Wikipedia).
13. The static nature of the SWOT assessment is a positive advantage for it as an evaluation framework.

**FALSE**
A key weakness of SWOT is that it is primarily a static assessment. It focuses too much company attention on one moment in time. Essentially, this is like studying a single frame of a motion picture. You may be able to identify the principal actors and learn something about the setting, but it does not tell you much about the plot.

Learning Objective: 03-01 The benefits and limitations of SWOT analysis in conducting an internal analysis of the firm.
Level of Difficulty: 2 Medium
Topic: The benefits and limitations of SWOT analysis

14. Value-chain analysis assumes that the basic economic purpose of a firm is to create value and it is a useful framework for analyzing the strengths and weaknesses of the firm.

**TRUE**
Value-chain analysis views the organization as a sequential process of value-creating activities. It provides greater insights into analyzing the competitive position of a firm than SWOT analysis does by itself.

Learning Objective: 03-02 The primary and support activities of a firm’s value chain.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

15. In value-chain analysis, value is measured by the market value of the total stock outstanding of the company.

**FALSE**
Value is the amount that buyers are willing to pay for what a firm provides them and is measured by total revenue, a reflection of the price the product of the firm commands and the quantity it can sell.

Learning Objective: 03-02 The primary and support activities of a firm’s value chain.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis
16. Primary activities contribute to the physical creation of a product or service, its sale and transfer to the buyer, and its service after the sale.

**TRUE**
The five primary activities in the Porter value chain model (inbound logistics, operations, outbound logistics, marketing and sales, and service) contribute to the physical creation of the product or service, its sale and transfer to the buyer, and its service after the sale.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
*Learning Objective: 03-02 The primary and support activities of a firm's value chain.*  
*Level of Difficulty: 2 Medium*  
*Topic: Value-Chain Analysis*

17. The value-chain concept assumes that both primary and support activities are capable of producing value for customers.

**TRUE**
Both types of activities can add value, either directly or through important relationships with other activities.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
*Learning Objective: 03-02 The primary and support activities of a firm's value chain.*  
*Level of Difficulty: 2 Medium*  
*Topic: Value-Chain Analysis*

18. Inbound logistics include all activities associated with transforming inputs into the final product form such as machining, packaging, assembly, equipment, testing, printing, and facility operations.

**FALSE**
Inbound logistics is primarily associated with receiving, storing, and distributing inputs to the product. Operations include all activities associated with transforming inputs into the final product form, such as machining, packaging, assembly, testing, printing, and facility operations.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
*Learning Objective: 03-02 The primary and support activities of a firm's value chain.*  
*Level of Difficulty: 2 Medium*  
*Topic: Value-Chain Analysis*
19. Support activities provide support for primary activities, but not each other.

**FALSE**  
Support activities (procurement, technology development, human resource management, and general administration) either add value by themselves or add value through important relationships with both primary activities and other support activities.

20. Establishing a customer service hotline to handle customer complaints would be considered a primary activity in value-chain analysis.

**TRUE**  
Service is a primary activity which includes all actions associated with providing service to enhance or maintain the value of the product, such as installation, repair, training, parts supply, and product adjustment.

21. Technology development is a much broader concept than research and development.

**TRUE**  
Every value activity embodies technology. The array of technologies employed in most firms is very broad, ranging from technologies used to prepare documents and transport goods to those embodied in processes and equipment or the product itself. Technology development related to the product and its features supports the entire value chain, while other technology development is associated with particular primary or support activities.
22. In value-chain analysis, finance and accounting are considered part of the general administration of a firm.

**TRUE**

General administration consists of a number of activities, including general management, planning, finance, accounting, legal and government affairs, quality management, and information systems. Administration typically supports the entire value chain and not individual activities.

**AACSB: Analytical Thinking**
**Accessibility: Keyboard Navigation**
**Blooms: Understand**

Learning Objective: 03-02 The primary and support activities of a firm's value chain.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

23. Frito-Lay uses crowdsourcing to make its Super Bowl ads. This is an example of a primary activity in the value chain.

**TRUE**

Marketing and sales activities are associated with purchases of products and services by end users and the inducements used to get them to make purchases. They include advertising, promotion, sales force, quoting, channel selection, channel relations, and pricing. Frito-Lay uses crowdsourcing to create competition for ads. The best ones air during the Super Bowl.

**AACSB: Analytical Thinking**
**Accessibility: Keyboard Navigation**
**Blooms: Understand**

Learning Objective: 03-02 The primary and support activities of a firm's value chain.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

24. Campbell Soup uses an electronic network to facilitate its continuous-replenishment program with its most progressive retailers. This is known as an operations primary activity in the value chain.

**FALSE**

Outbound logistics is associated with collecting, storing, and distributing the product or service to buyers. These activities include finished goods, warehousing, material handling, delivery vehicle operation, order processing, and scheduling. Campbell Soup uses an electronic network to facilitate its continuous-replenishment program with its most progressive retailers.

**AACSB: Analytical Thinking**
**Accessibility: Keyboard Navigation**
**Blooms: Understand**

Learning Objective: 03-02 The primary and support activities of a firm's value chain.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis
25. Technip has developed intelligent pipes that can monitor and regulate the temperature throughout an oil pipeline. This is an example of a procurement support activity in the value chain.

FALSE
In collaboration with oil services giant Schlumberger, Technip has developed intelligent pipes that can monitor and regulate the temperature throughout an oil pipeline, which is an important value-added activity for its customers, large oil producers. Fluctuating temperatures can cause changes in pipe diameter, which makes the flow of oil more variable. This is an example of technology development as a support activity in the value chain.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 03-02 The primary and support activities of a firm's value chain.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

26. At Sephora.com, a customer service representative taking a phone call from a repeat customer has instant access to what shade of lipstick she likes best. This is an example of a procurement support activity in the value chain.

FALSE
Service is a primary activity in the value chain that includes all actions associated with providing service to enhance or maintain the value of the product, such as installation, repair, training, parts supply, and product adjustment. At Sephora.com, a customer service representative taking a phone call from a repeat customer has instant access to what type of lipstick she likes best.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 03-02 The primary and support activities of a firm's value chain.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

27. Managers should focus their attention on interrelationships among value-chain activities within the firm, not on relationships among activities within the firm and other organizations (such as suppliers and customers).

FALSE
The importance of relationships among value-chain activities has two levels: (1) interrelationships among activities within the firm and (2) relationships among activities within the firm and with other stakeholders that are part of the expanded value chain of the firm.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis
28. Some leading edge companies are applying the prosumer concept. Here, firms team up with their suppliers and alliance partners to satisfy their customer needs.

**FALSE**
In the future, we will be talking more and more about the prosumer, a customer/producer who is even more extensively integrated into the value chain. As a consequence, production processes will be customized more precisely and individually. Including customers in the actual production process can create greater satisfaction among them, result in significant cost savings, and generate innovative ideas for the firm.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

29. Value-chain analysis can only be applied to manufacturing operations.

**FALSE**
The value chain can be applied to service organizations, suggesting that the value-adding process may be configured differently depending on the type of business a firm is engaged in.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

30. Information technology (IT) can also play a key role in enhancing the value that a company can provide its customers and, in turn, increasing its own revenues and profits. IT is an activity within the support activities of general administration.

**TRUE**
Information technology (IT) can also play a key role in enhancing the value that a company can provide its customers and, in turn, increasing its own revenues and profits. General administration consists of a number of activities, including general management, planning, finance, accounting, legal and government affairs, quality management, and information systems.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis
31. Campbell Soup uses electronic networks in order to improve the efficiency of outbound logistics. This is an example of relationships among activities within the firm and with other stakeholders that are part of the company expanded value chain.

**FALSE**

Relationships among value-chain activities exist at two levels: (1) interrelationships among activities within the firm and (2) relationships among activities within the firm and with other stakeholders (e.g., customers and suppliers) that are part of the firm’s expanded value chain.

**AACSB: Analytical Thinking**
**Accessibility: Keyboard Navigation**
**Blooms: Understand**

**Learning Objective:** 03-03 *How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.*

**Level of Difficulty:** 2 Medium

**Topic:** Value-Chain Analysis

32. Some firms find great value by *not* incorporating their customers into the value creation process.

**FALSE**

When addressing the value-chain concept, it is important to focus on the interrelationship between the organization and its most important stakeholder, its customers. Some firms find great value by directly incorporating their customers into the value creation process.

**AACSB: Analytical Thinking**
**Accessibility: Keyboard Navigation**
**Blooms: Understand**

**Learning Objective:** 03-03 *How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.*

**Level of Difficulty:** 2 Medium

**Topic:** Value-Chain Analysis

33. Crowdsourcing has many benefits, including the example in which McDonalds set up a Twitter campaign to promote positive word of mouth which became a platform for people looking to bash the chain.

**FALSE**

While crowdsourcing offers great promise, in practice such programs are difficult to run. At times, customers can hijack them. McDonalds set up a Twitter campaign to promote positive word of mouth. But this initiative became a platform for people looking to bash the chain.

**AACSB: Analytical Thinking**
**Accessibility: Keyboard Navigation**
**Blooms: Understand**

**Learning Objective:** 03-03 *How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.*

**Level of Difficulty:** 2 Medium

**Topic:** Value-Chain Analysis
34. Strong brands are typically built through consistent, effective marketing, and companies need to weigh the potential for misbehaving customers to thwart their careful efforts.

TRUE
Strong brands are typically built through consistent, effective marketing, and companies need to weigh the potential for misbehaving customers to thwart their careful efforts.

Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

35. Porsche received a lot of negative feedback when it announced plans to release an SUV, but it went ahead anyway, and the Porsche Cayenne was a great success. This is an example of a peril of making decisions based on crowdsourcing.

TRUE
Firms are generally more likely to ask for customer input when market conditions are changing. However, this often backfires when demand is highly uncertain, because customers in such markets often don't know what they want or what they will like. For example, Porsche received a lot of negative feedback when it announced plans to release an SUV, but it went ahead anyway, and the Porsche Cayenne was a great success.

Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

36. At times, the difference between manufacturing and service is in providing a customized solution rather than mass production, as is common in manufacturing.

TRUE
At times, the difference between manufacturing and service is in providing a customized solution rather than mass production, as is common in manufacturing.

Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis
37. A travel agent does not add value by creating an itinerary that includes transportation, accommodations, and activities that are customized to your budget and travel dates.

**FALSE**

The value chain can be applied to service organizations, suggesting that the value-adding process may be configured differently depending on the type of business a firm is engaged in. A travel agent adds value by creating an itinerary that includes transportation, accommodations, and activities that are customized to your budget and travel dates.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  

Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.  
Level of Difficulty: 2 Medium  
Topic: Value-Chain Analysis

38. A law firm renders services that are specific to client needs and circumstances. This is an example of the transformation process of a service organization.

**TRUE**

The value chain can be applied to service organizations, suggesting that the value-adding process may be configured differently depending on the type of business a firm is engaged in. A law firm renders services that are specific to client needs and circumstances. This is an example of the transformation process of a service organization.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  

Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.  
Level of Difficulty: 2 Medium  
Topic: Value-Chain Analysis

39. The activities that may provide support only to one company may be critical to the primary value-adding activity of another firm.

**TRUE**

The value chain can be applied to service organizations, suggesting that the value-adding process may be configured differently depending on the type of business a firm is engaged in. The activities that may provide support only to one company may be critical to the primary value-adding activity of another firm.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  

Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.  
Level of Difficulty: 2 Medium  
Topic: Value-Chain Analysis
40. The resource-based view of the firm focuses solely on the internal analysis of the operations of the firm.

**FALSE**
The resource-based view (RBV) of the firm combines two perspectives: (1) the internal analysis of phenomena within a company and (2) an external analysis of the industry and its competitive environment.

41. Tangible resources are assets that are relatively easy to identify such as financial and physical assets.

**TRUE**
Tangible resources are assets that are relatively easy to identify. They include the physical and the financial assets that an organization uses to create value for its customers.

42. Intangible resources of a firm refer to its capacity to deploy tangible resources over time and leverage those resources effectively.

**FALSE**
Intangible resources are organizational assets that are difficult to identify and to account for and are typically embedded in unique routines and practices, including human resources, innovation resources, and reputation resources.
43. Financial resources such as cash and cash equivalents are intangible resources.

**FALSE**
Intangible resources are organizational assets that are difficult to identify and to account for and are typically embedded in unique routines and practices, including human resources, innovation resources, and reputation resources. Tangible resources are assets that are relatively easy to identify. They include the physical and the financial assets that an organization uses to create value for its customers.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-04 The resource-based view of the firm and the different types of tangible and intangible resources, as well as organizational capabilities.
Level of Difficulty: 2 Medium
Topic: Resource-Based View of the Firm

44. Effective strategic planning processes are intangible resources.

**FALSE**
Intangible resources are organizational assets that are difficult to identify and to account for and are typically embedded in unique routines and practices, including human resources, innovation resources, and reputation resources. Tangible resources are assets that are relatively easy to identify. They include the physical and the financial assets that an organization uses to create value for its customers.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-04 The resource-based view of the firm and the different types of tangible and intangible resources, as well as organizational capabilities.
Level of Difficulty: 2 Medium
Topic: Resource-Based View of the Firm

45. Company reputation with customers, suppliers and other stakeholders is an intangible resource.

**TRUE**
Intangible resources are organizational assets that are difficult to identify and to account for and are typically embedded in unique routines and practices, including human resources, innovation resources, and reputation resources.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-04 The resource-based view of the firm and the different types of tangible and intangible resources, as well as organizational capabilities.
Level of Difficulty: 2 Medium
Topic: Resource-Based View of the Firm
Examples of organizational capabilities are outstanding customer service, excellent product development capabilities, superb innovation processes, and flexibility in manufacturing processes.

**TRUE**
Organizational capabilities are not specific tangible or intangible assets, but rather the competencies or skills that a firm employs to transform inputs into outputs. In short, they refer to an organization's capacity to deploy tangible and intangible resources over time and generally in combination and to leverage those capabilities to bring about a desired end.

**FALSE**
Intangible resources are organizational assets that are difficult to identify and to account for and are typically embedded in unique routines and practices, including human resources, innovation resources, and reputation resources.

**FALSE**
Intangible resources are organizational assets that are difficult to identify and to account for and are typically embedded in unique routines and practices, including human resources, innovation resources, and reputation resources.
49. FedEx employees take computer-based job competency tests every 6 to 12 months in order to identify areas of individual weakness and provide input to a computer database of employee skills. This is an example of a tangible resource.

**TRUE**
Tangible resources organizational assets that are relatively easy to identify, including physical assets, financial resources, organizational resources, and technological resources.

50. Trade secrets are intangible resources.

**FALSE**
Tangible resources organizational assets that are relatively easy to identify, including physical assets, financial resources, organizational resources, and technological resources. Intangible resources are organizational assets that are difficult to identify and to account for and are typically embedded in unique routines and practices, including human resources, innovation resources, and reputation resources.

51. Modern plant and facilities as well as favorable manufacturing locations are tangible resources.

**TRUE**
Tangible resources organizational assets that are relatively easy to identify, including physical assets, financial resources, organizational resources, and technological resources.
52. Patents, copyrights, and trademarks are intangible resources.

**FALSE**

Tangible resources organizational assets that are relatively easy to identify, including physical assets, financial resources, organizational resources, and technological resources. Intangible resources are organizational assets that are difficult to identify and to account for and are typically embedded in unique routines and practices, including human resources, innovation resources, and reputation resources.

**AACSB: Analytical Thinking**
**Accessibility: Keyboard Navigation**
**Blooms: Understand**
**Learning Objective: 03-04 The resource-based view of the firm and the different types of tangible and intangible resources, as well as organizational capabilities.**
**Level of Difficulty: 2 Medium**
**Topic: Resource-Based View of the Firm**

53. Products and services that are difficult to imitate help firms sustain their profitability.

**TRUE**

For a resource to provide a firm with the potential for a sustainable competitive advantage, it must have four attributes. Among these is the idea that the resource must be difficult for competitors to imitate.

**AACSB: Analytical Thinking**
**Accessibility: Keyboard Navigation**
**Blooms: Understand**
**Learning Objective: 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.**
**Level of Difficulty: 2 Medium**
**Topic: Resource-Based View of the Firm**

54. Path dependency has no impact on the inimitability of resources.

**FALSE**

Many resources cannot be imitated because of what economists refer to as path dependency. This means that resources are unique and therefore scarce because of all that has happened along the path followed in their development and/or accumulation. Competitors cannot buy these resources quickly and easily; they must be built up over time in ways that are difficult to accelerate.

**AACSB: Analytical Thinking**
**Accessibility: Keyboard Navigation**
**Blooms: Understand**
**Learning Objective: 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.**
**Level of Difficulty: 2 Medium**
**Topic: Resource-Based View of the Firm**
55. Capabilities that exhibit causal ambiguity are difficult to imitate.

**TRUE**
One source of inimitability is termed causal ambiguity. This means that would-be competitors may be thwarted because it is impossible to disentangle the causes (or possible explanations) of either what the valuable resource is or how it can be re-created.

56. For a resource to provide a firm with potential sustainable advantages it must satisfy only two criteria: rarity and difficulty in substitution.

**FALSE**
For a resource to provide a firm with the potential for a sustainable competitive advantage, it must have four attributes. First, the resource must be valuable in the sense that it exploits opportunities and or neutralizes threats in the environment of the firm. Second, it must be rare among the current and potential competitors of the firm. Third, the resource must be difficult for competitors to imitate. Fourth, the resource must have no strategically equivalent substitutes.

57. Firms that are successful in creating competitive advantages that are sustainable for a period of time do not have to be concerned about profits being retained by employees or managers.

**FALSE**
Firms may be successful in creating competitive advantages that can be sustainable for a period of time. However, much of the profits can be retained by its employees and managers or other stakeholders instead of flowing to the owners of the firm.
58. Employee exit cost is a factor that can increase employee bargaining power and help him or her appropriate profits of the firm.

**FALSE**
Employee exit costs may tend to reduce employee bargaining power. An individual may face high personal costs when leaving the organization. Thus, the threat of the individual leaving may not be credible. In addition, employee expertise may be firm-specific and of limited value to other firms.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.
Level of Difficulty: 2 Medium
Topic: Resource-Based View of the Firm

59. Amazon Prime is an example of a difficult to imitate capability that gives it competitive advantage over its rivals.

**TRUE**
Amazon Prime has proven to be extremely hard for rivals to copy. It enables Amazon to exploit its wide selection, low prices, network of third-party merchants, and finely tuned distribution system, while keying into that faintly irrational human need to maximize the benefits of a club that you have already paid to join. The four criteria a resource must possess in order to maintain a sustainable advantage are: valuable, rarity, difficult to imitate, and difficult to substitute.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.
Level of Difficulty: 2 Medium
Topic: Resource-Based View of the Firm

60. Dell lost its competitive advantage by 2009 in part because it placed its efforts on operational excellence to the exclusion of reinvention.

**TRUE**
Dell illustrates what can happen when a company emphasizes optimization to the exclusion of reinvention. According to author Inder Sidhu, the Dell obsession with operational excellence prevented it from delivering innovations that the market wanted, costing it a great deal of goodwill and prestige.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.
Level of Difficulty: 2 Medium
Topic: Resource-Based View of the Firm
61. The corporate culture at Southwest airlines is an example of causal ambiguity.

**TRUE**
When Continental and United tried to mimic the successful low-cost strategy of Southwest Airlines, the planes, routes, and fast gate turnarounds were not the most difficult aspects for them to copy. Those were all rather easy to observe and, at least in principle, easy to duplicate. However, they could not replicate Southwest’s culture of fun, family, frugality, and focus since no one can clearly specify exactly what that culture is or how it came to be.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.
Level of Difficulty: 2 Medium
Topic: Resource-Based View of the Firm

62. People want to partner with you because they have heard you are a credible company built through a culture of trust. In a sense, being a great company to work for also makes you a great company to work with. This is an example of causal ambiguity.

**FALSE**
Company resources may be imperfectly inimitable because they reflect a high level of social complexity. Such phenomena are typically beyond the ability of firms to systematically manage or influence. When competitive advantages are based on social complexity, it is difficult for other firms to imitate them.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.
Level of Difficulty: 2 Medium
Topic: Resource-Based View of the Firm

63. Two valuable firm resources (or two bundles of resources) are strategically equivalent when each one can be exploited separately to implement the same strategies.

**TRUE**
The fourth requirement for a firm resource to be a source of sustainable competitive advantage is that there must be no strategically equivalent valuable resources that are themselves not rare or inimitable. Two valuable firm resources (or two bundles of resources) are strategically equivalent when each one can be exploited separately to implement the same strategies.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.
Level of Difficulty: 2 Medium
Topic: Resource-Based View of the Firm
64. Though two teams could have different ages, functional backgrounds, experience, and so on, they could be strategically equivalent and thus substitutes for one another.

**TRUE**
Clearly, a firm seeking to imitate another high-quality top management team from a competitor firm would be unable to copy the team exactly. However, it might be able to develop its own unique management team. Though these two teams would have different ages, functional backgrounds, experience, and so on, they could be strategically equivalent and thus substitutes for one another.

**AACSB: Analytical Thinking**
**Accessibility:** Keyboard Navigation
**Blooms:** Understand
**Learning Objective:** 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.
**Level of Difficulty:** 2 Medium
**Topic:** Resource-Based View of the Firm

65. Several pharmaceutical firms have seen the value of patent protection erode in the face of new drugs that are based on different production processes and act in different ways, but can be used in similar treatment regimes. This example illustrates the lack of sustainable competitive advantage being offered by the product.

**TRUE**
The fourth requirement for a firm resource to be a source of sustainable competitive advantage is that there must be no strategically equivalent valuable resources that are themselves not rare or inimitable. Two valuable firm resources (or two bundles of resources) are strategically equivalent when each one can be exploited separately to implement the same strategies. Several pharmaceutical firms have seen the value of patent protection erode in the face of new drugs that are based on different production processes and act in different ways, but can be used in similar treatment regimes. The coming years will likely see even more radical change in the pharmaceutical industry as the substitution of genetic therapies eliminates certain uses of chemotherapy.

**AACSB: Analytical Thinking**
**Accessibility:** Keyboard Navigation
**Blooms:** Understand
**Learning Objective:** 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.
**Level of Difficulty:** 2 Medium
**Topic:** Resource-Based View of the Firm

66. Financial analysis provides an accurate way to assess the relative strengths of firms and can be used as a complete guide to study companies.

**FALSE**
The financial position of a firm should not be analyzed in isolation. Important reference points are needed. Some issues that must be taken into account to make financial analysis more meaningful include: historical comparisons, comparisons with industry norms, and comparisons with key competitors.

**AACSB: Analytical Thinking**
**Accessibility:** Keyboard Navigation
**Blooms:** Understand
**Learning Objective:** 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
**Level of Difficulty:** 2 Medium
**Topic:** Evaluating Firm Performance: Two Approaches
67. Leverage ratios provide measures of the capacity of a firm to meet its long-term financial obligations.

**TRUE**
Financial leverage ratios are also known as long-term solvency ratios. They measure the capacity of the firm to meet its long-term obligations.

**Learning Objective:** 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
**Level of Difficulty:** 1 Easy
**Topic:** Evaluating Firm Performance: Two Approaches

68. Historical comparisons are most appropriate during periods of recession or economic boom.

**FALSE**
Exhibit 3.9 illustrates a 10-year period of return on sales (ROS) for a hypothetical company. As indicated by the dotted trend lines, the rate of growth (or decline) differs substantially over time periods, and periods of recession and economic boom may make the trends unreliable.

**Learning Objective:** 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
**Level of Difficulty:** 2 Medium
**Topic:** Evaluating Firm Performance: Two Approaches

69. When using industry norms as a standard of comparison, managers must be sure that the firms used in the comparisons are representative of all sizes and strategies within the industry.

**FALSE**
Comparing a firm with all other firms in that industry assesses relative performance. Banks often use such comparisons when evaluating the creditworthiness of an individual firm.

**Learning Objective:** 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
**Level of Difficulty:** 2 Medium
**Topic:** Evaluating Firm Performance: Two Approaches

70. The current ratio is used to measure long-term solvency.

**FALSE**
The current ratio (current assets divided by current liabilities) is used to measure short-term solvency or liquidity.

**Learning Objective:** 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
**Level of Difficulty:** 2 Medium
**Topic:** Evaluating Firm Performance: Two Approaches
71. The price-earnings ratio is used to measure profitability.

**FALSE**
The price-earnings ratio (price per share divided by earnings per share) is used to measure market value.

**AACSB:** Analytical Thinking
**Accessibility:** Keyboard Navigation
**Blooms:** Understand

**Learning Objective:** 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
**Level of Difficulty:** 2 Medium
**Topic:** Evaluating Firm Performance: Two Approaches

72. The total debt ratio is used to measure profitability.

**FALSE**
The total debt ratio (the difference between total assets and total equity, divided by total assets) is used to measure long-term solvency.

**AACSB:** Analytical Thinking
**Accessibility:** Keyboard Navigation
**Blooms:** Understand

**Learning Objective:** 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
**Level of Difficulty:** 2 Medium
**Topic:** Evaluating Firm Performance: Two Approaches

73. Inventory turnover is a measure of asset utilization.

**TRUE**
Inventory turnover (cost of goods sold divided by inventory) is a measure of asset utilization.

**AACSB:** Analytical Thinking
**Accessibility:** Keyboard Navigation
**Blooms:** Understand

**Learning Objective:** 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
**Level of Difficulty:** 2 Medium
**Topic:** Evaluating Firm Performance: Two Approaches

74. The profit margin ratio is used to measure long-term solvency.

**FALSE**
The profit margin ratio (net income divided by sales) is used to measure profitability of the firm.

**AACSB:** Analytical Thinking
**Accessibility:** Keyboard Navigation
**Blooms:** Understand

**Learning Objective:** 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
**Level of Difficulty:** 2 Medium
**Topic:** Evaluating Firm Performance: Two Approaches
75. The return on assets ratio is used to measure short-term solvency of the firm.

**FALSE**
The return on assets ratio (net income divided by total assets) is used to measure the profitability of the firm.

Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
Level of Difficulty: 2 Medium
Topic: Evaluating Firm Performance: Two Approaches

76. A meaningful ratio analysis need only include how ratios change over time.

**FALSE**
A meaningful ratio analysis must go beyond the calculation and interpretation of financial ratios. It must include how ratios change over time as well as how they are interrelated.

Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
Level of Difficulty: 2 Medium
Topic: Evaluating Firm Performance: Two Approaches

77. When using industry norms as a standard of comparison, managers must be sure that the firms used in the comparisons are representative of all sizes and strategies within the industry.

**FALSE**
Comparing a firm with all other firms in that industry assesses relative performance. Banks often use such comparisons when evaluating the creditworthiness of an individual firm.

Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
Level of Difficulty: 2 Medium
Topic: Evaluating Firm Performance: Two Approaches
When evaluating the financial performance of a firm, it is important to compare the results with industry norms.

**TRUE**

When you are evaluating financial performance of a firm, remember also to compare it with industry norms. The company current ratio or profitability may appear impressive at first glance. However, it may pale when compared with industry standards or norms.

A primary benefit of the balanced scorecard is that it complements financial indicators with operational measures of customer satisfaction, internal processes, and the innovation and improvement activities of the organization.

**TRUE**

A balanced scorecard provides top managers with a fast but comprehensive view of the business. In a nutshell, it includes financial measures that reflect the results of actions already taken, but it complements these indicators with measures of customer satisfaction, internal processes, and the innovation and improvement activities of the organization (operational measures that drive future financial performance).

The balanced scorecard enables managers to evaluate their business from only two perspectives: customer and financial.

**FALSE**

The balanced scorecard enables managers to consider their business from four key perspectives: customer, internal, innovation and learning, and financial.
81. An important implication of the balanced scorecard is that managers need not look at their job as primarily balancing stakeholder demands.

**TRUE**
A key implication is that managers do not need to look at their job as balancing stakeholder demands. The balanced scorecard provides a win-win approach, increasing satisfaction among a wide variety of organizational stakeholders, including employees, customers, and stockholders.

82. A strength of the balanced scorecard is that it is very easy to implement and that there is little need for executive sponsorship.

**FALSE**
The key limitation of the balanced scorecard is that some executives may view it as a quick fix that can be easily installed. Implementing a balanced metrics system is an evolutionary process. It is not a one-time task that can be quickly checked off as completed. If managers do not recognize this from the beginning and fail to commit to it long term, the organization will be disappointed.

83. In considering the business from the innovation and learning perspective using the balanced scorecard, the ability of the firm to do well is more dependent on its intangible and tangible assets.

**TRUE**
The ability of the firm to do well from an innovation and learning perspective is more dependent on its intangible than tangible assets. Three categories of intangible assets are critically important: human capital (skills, talent, and knowledge), information capital (information systems, networks), and organization capital (culture, leadership).
84. In considering the business from the customer perspective using the balanced scorecard, company performance is essential.

**TRUE**
How a company is performing from the perspective of its customers is a top priority for management. The balanced scorecard requires that managers translate their general mission statements on customer service into specific measures that reflect the factors that really matter to customers.

85. In considering the business from the internal business perspective using the balanced scorecard, customer-based measures must be translated into indicators of what the firm must do internally to meet customer expectations.

**TRUE**
Customer-based measures are important. However, they must be translated into indicators of what the firm must do internally to meet customer expectations. The internal measures should reflect business processes that have the greatest impact on customer satisfaction.

86. In considering the business from the internal business perspective using the balanced scorecard, periodic financial statements are used to indicate the consequences of improved quality, response time, productivity, and innovative products. These consequences include improved sales.

**TRUE**
Measures of financial performance indicate whether the company strategy, implementation, and execution are indeed contributing to bottom-line improvement. Typical financial goals include profitability, growth, and shareholder value. Periodic financial statements remind managers that improved quality, response time, productivity, and innovative products benefit the firm only when they result in improved sales, increased market share, reduced operating expenses, or higher asset turnover.
87. For the balanced scorecard to work, managers must articulate goals for five categories of customer concerns: time, quality, performance and service, cost, and design.

**FALSE**
For the balanced scorecard to work, managers must articulate goals for four key categories of customer concerns: time, quality, performance and service, and cost.

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88. Excellent customer performance results from processes, decisions, and actions that occur only in the marketing efforts of the firm.

**FALSE**
Excellent customer performance results from processes, decisions, and actions that occur throughout organizations in a coordinated fashion, and managers must focus on those critical internal operations that enable them to satisfy customer needs.

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89. To survive and prosper, managers must not make frequent changes to existing products and services, because it will confuse the customer.

**FALSE**
To survive and prosper, managers must make frequent changes to existing products and services as well as introduce entirely new products with expanded capabilities.
90. The ability of a firm to do well from an innovation and learning perspective is most dependent on its tangible assets.

**FALSE**
The ability of a firm to do well from an innovation and learning perspective is more dependent on its intangible than tangible assets.

91. For the balanced scorecard implementation to be effective, a set of rules for employees that address continuous process improvement and the personal improvement of individual employees needs to be established so that employees buy-in to the change.

**TRUE**
Problems often occur in the balanced scorecard implementation efforts when the commitment to learning is insufficient and employee personal ambitions are included. Without a set of rules for employees that address continuous process improvement and the personal improvement of individual employees, there will be limited employee buy-in and insufficient cultural change. Thus, many improvements may be temporary and superficial.

**Multiple Choice Questions**
Which of the following is not a limitation of SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis?

A. Organizational strengths may not lead to competitive advantage.
B. The SWOT focus on the external environment is too broad and integrative.
C. SWOT gives a one-shot view of a moving target.
D. SWOT overemphasizes a single dimension of strategy.

Among the limitations of SWOT are: organizational strengths may not lead to competitive advantage; the SWOT focus on the external environment is too narrow; it gives a one-shot view of a moving target; and it overemphasizes a single dimension of strategy.

Which of the following is a limitation of SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis?

A. Organizational strengths may not lead to competitive advantage.
B. The SWOT focus on internal environment is too broad and integrative.
C. SWOT gives a multi-shot view of a moving target.
D. SWOT overemphasizes a multiple dimensions of strategy.

Among the limitations of SWOT are: organizational strengths may not lead to competitive advantage; the SWOT focus on the external environment is too narrow; it gives a one-shot view of a moving target; and it overemphasizes a single dimension of strategy.

A key _________ of SWOT is that it is primarily a static assessment.

A. strength
B. threat
C. opportunity
D. weakness

A key weakness of SWOT is that it is primarily a static assessment. It focuses too much of company attention on one moment in time. Essentially, this is like studying a single frame of a motion picture.
95. Strategists who rely on traditional definitions of their industry and competitive environment often focus their sights too _________ on current customers, technologies, and competitors.

A. broadly
B. narrowly
C. aggressively
D. widely

Strategists who rely on traditional definitions of their industry and competitive environment often focus their sights too narrowly on current customers, technologies, and competitors.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-01 The benefits and limitations of SWOT analysis in conducting an internal analysis of the firm.
Level of Difficulty: 2 Medium
Topic: The benefits and limitations of SWOT analysis

96. Company ________, no matter how unique or impressive, may not enable it to achieve a competitive advantage in the marketplace.

A. strengths and opportunities
B. strengths and threats
C. opportunities
D. strengths and capabilities

Company strengths and capabilities, no matter how unique or impressive, may not enable it to achieve a competitive advantage in the marketplace.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-01 The benefits and limitations of SWOT analysis in conducting an internal analysis of the firm.
Level of Difficulty: 2 Medium
Topic: The benefits and limitations of SWOT analysis

97. Sometimes firms become preoccupied with _________ or a key feature of the product or service they are offering and ignore other factors needed for competitive success.

A. multiple strengths
B. multiple opportunities
C. a single strength
D. a single opportunity

Sometimes firms become preoccupied with a single strength or a key feature of the product or service they are offering and ignore other factors needed for competitive success.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-01 The benefits and limitations of SWOT analysis in conducting an internal analysis of the firm.
Level of Difficulty: 2 Medium
Topic: The benefits and limitations of SWOT analysis
98. __________ among organizations is played out over time.

A. Negotiation  
B. Sustainability  
C. Competition  
D. Learning

Competition among organizations is played out over time.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Learning Objective: 03-01 The benefits and limitations of SWOT analysis in conducting an internal analysis of the firm.  
Level of Difficulty: 2 Medium  
Topic: The benefits and limitations of SWOT analysis

99. Focusing too narrowly on current customers, technologies, and competitors can lead to a failure to notice important changes on the periphery of their environment that may trigger the need to redefine industry boundaries and identify a whole new set of competitive relationships. This is a result of relying

A. on traditional definitions of all industries and competitive environments.  
B. on traditional definitions of the relevant industry and competitive environment.  
C. solely on intuition.  
D. on a superficial evaluation of the relevant industry and competitive environment.

Strategists who rely on traditional definitions of their industry and competitive environment often focus their sights too narrowly on current customers, technologies, and competitors. Hence they fail to notice important changes on the periphery of their environment that may trigger the need to redefine industry boundaries and identify a whole new set of competitive relationships.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Learning Objective: 03-01 The benefits and limitations of SWOT analysis in conducting an internal analysis of the firm.  
Level of Difficulty: 2 Medium  
Topic: The benefits and limitations of SWOT analysis
100. Toyota, the giant automaker, paid a heavy price for its _________ emphasis on cost control. The resulting problems with quality and the negative publicity led to severe financial losses and an erosion of its reputation in many markets.

A. minimal  
B. superficial  
C. low-budget  
D. excessive

Toyota, the giant automaker, paid a heavy price for its excessive emphasis on cost control. The resulting problems with quality and the negative publicity led to severe financial losses and an erosion of its reputation in many markets.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  

Learning Objective: 03-01 The benefits and limitations of SWOT analysis in conducting an internal analysis of the firm.  
Level of Difficulty: 2 Medium  
Topic: The benefits and limitations of SWOT analysis

101. Competition among organizations is played out over time. As circumstances, capabilities, and strategies change, _________ techniques do not reveal the dynamics of the competitive environment.

A. transactional analysis  
B. variable analysis  
C. static analysis  
D. continuous

Competition among organizations is played out over time. As circumstances, capabilities, and strategies change, static analysis techniques do not reveal the dynamics of the competitive environment.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  

Learning Objective: 03-01 The benefits and limitations of SWOT analysis in conducting an internal analysis of the firm.  
Level of Difficulty: 2 Medium  
Topic: The benefits and limitations of SWOT analysis
102. A SWOT analysis alone ________ helps a firm develop competitive advantages that it can sustain over time.

A. usually  
B. often  
C. rarely  
D. regularly

SWOT analysis has much to offer, but only as a starting point. By itself, it rarely helps a firm develop competitive advantages that it can sustain over time.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  

Learning Objective: 03-01 The benefits and limitations of SWOT analysis in conducting an internal analysis of the firm.  
Level of Difficulty: 2 Medium  
Topic: The benefits and limitations of SWOT analysis

103. Inbound logistics include

A. machining and packaging.  
B. repair and parts supply.  
C. promotion and packaging.  
D. warehousing and inventory control.

Inbound logistics is associated primarily with receiving, storing, and distributing inputs to the product. It includes material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  

Learning Objective: 03-02 The primary and support activities of a firm's value chain.  
Level of Difficulty: 2 Medium  
Topic: Value-Chain Analysis

104. In assessing its primary activities, an airline would examine

A. employee training programs.  
B. baggage handling.  
C. criteria for lease versus purchase decisions.  
D. the effectiveness of its lobbying activities.

Five primary activities: inbound logistics, operations (which would include baggage handling for an airline), outbound logistics, marketing and sales, and service contribute to the physical creation of the product or service, its sale and transfer to the buyer, and its service after the sale.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  

Learning Objective: 03-02 The primary and support activities of a firm's value chain.  
Level of Difficulty: 2 Medium  
Topic: Value-Chain Analysis
Advertising is a ________ activity. Supply of replacement parts is a ________ activity.

A. support; primary
B. primary; primary
C. primary; support
D. support; secondary

Five primary activities (inbound logistics, operations, outbound logistics, marketing and sales, and service) contribute to the physical creation of the product or service, its sale and transfer to the buyer, and its service after the sale. Inbound logistics is primarily associated with receiving, storing, and distributing inputs to the product. Marketing and sales activities include advertising.

106. Which of the following examples demonstrates how successful organizations manage their primary activities?

A. Motorola has revised its compensation system to reward employees who learn a variety of skills.
B. Wal-Mart implemented a sophisticated information system that resulted in reduced inventory carrying costs and shortened customer response times.
C. National Steel improved its efficiency by reducing the number of job classifications.
D. Hewlett Packard has cut lead time from five days to one by employing JIT inventory management.

Just-in-time (JIT) inventory systems were designed to achieve efficient inbound logistics, which is one of the five primary activities in value-chain analysis. With JIT inventory systems, parts deliveries arrive at the assembly plants only hours before they are needed.
107. Which of the following is not an advantage of Just-In-Time inventory systems?

A. reduced raw material storage costs  
B. minimized idle production facilities and workers  
C. reduced work-in-process inventories  
D. reduced dependence on suppliers

With JIT inventory systems, parts deliveries arrive at the assembly plants only hours before they are needed. This requires greater reliance on superior performance of suppliers.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Learning Objective: 03-02 The primary and support activities of a firm's value chain.  
Level of Difficulty: 2 Medium  
Topic: Value-Chain Analysis

108. XYZ Corp. is focusing on the objective of low-cost, high quality, on-time production by minimizing idle productive facilities and workers. The XYZ Corp. is taking advantage of a __________ system.

A. Last In, First Out (LIFO)  
B. Highly mechanized  
C. First In, First Out (FIFO)  
D. Just-In-Time (JIT)

Just-in-time (JIT) inventory systems were designed to achieve efficient inbound logistics, which is one of the five primary activities in value-chain analysis. With JIT inventory systems, parts deliveries arrive at the assembly plants only hours before they are needed, which reduces idle production capacity.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Learning Objective: 03-02 The primary and support activities of a firm's value chain.  
Level of Difficulty: 2 Medium  
Topic: Value-Chain Analysis

109. __________ is/are associated with collecting, storing, and distributing the product or service to buyers. They consist of warehousing, material handling, delivery operation, order processing, and scheduling.

A. Services  
B. Inbound logistics  
C. Outbound logistics  
D. Operations

Outbound logistics is associated with collecting, storing, and distributing the product or service to buyers. These activities include finished goods, warehousing, material handling, delivery vehicle operation, order processing, and scheduling.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Learning Objective: 03-02 The primary and support activities of a firm's value chain.  
Level of Difficulty: 2 Medium  
Topic: Value-Chain Analysis
Customer service includes

A. product promotion.
B. procurement of critical supplies.
C. product distribution.
D. parts supply.

Service activity includes all actions associated with providing service to enhance or maintain the value of the product, such as installation, repair, training, parts supply, and product adjustment.

111. Which of the following is a support activity?

A. inbound logistics
B. customer service
C. technology development
D. operations

Support activities in the value chain can be divided into four generic categories: general administration, human resource management, technology development, and procurement.

112. Which of the following lists consists of support activities?

A. human resource management, technology development, customer service, and procurement
B. human resource management, customer service, marketing and sales, and operations
C. customer service, information systems, technology development, and procurement
D. human resource management, technology development, procurement, and general administration

Support activities in the value chain can be divided into four generic categories: general administration, human resource management, technology development, and procurement.
113. Human resource management consists of activities involved in the recruiting, hiring, training, development, and compensation of all types of personnel. It supports

A. only individual primary activities.
B. mostly support activities but does have some impact on primary activities.
C. only individual support activities.
D. both individual primary and support activities and the entire value chain.

Human resource management consists of activities involved in the recruiting, hiring, training, development, and compensation of all types of personnel. It supports both individual primary and support activities and the entire value chain.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-02 The primary and support activities of a firm's value chain.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

114. According to value-chain analysis, which of the following would be considered part of the general administration in a firm?

A. information systems
B. technology development
C. human resource management
D. procurement

General administration consists of a number of activities, including general management, planning, finance, accounting, legal and government affairs, quality management, and information systems. Administration typically supports the entire value chain and not individual activities.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-02 The primary and support activities of a firm's value chain.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis
A marketing department that promises delivery faster than the ability of the production department to produce is an example of a lack of understanding of the

A. interrelationships among functional areas and firm strategies organizational culture and leadership.
B. organizational culture and leadership.
C. need to maintain the reputation of the company.
D. synergy of the business units.

Important to value-chain analysis are interrelationships which are the collaborative and strategic exchange relationships between value-chain activities either (a) within firms or (b) between firms. Strategic exchange relationships involve exchange of resources such as information, people, technology, or money that contribute to the success of the firm.

Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

In a retail service industry, which of the following is not a primary value-chain activity?

A. purchasing goods
B. human resource management
C. partnering with vendors
D. operating stores

Primary value-chain activities include: inbound logistics, operations, outbound logistics, marketing and sales, and service. Human resource management is a support activity.

Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis
117. In terms of value chain analysis, a telephone operating company would find that negotiating and maintaining ongoing relations with regulatory bodies are important activities for achieving

A. returns on investment.
B. customer awareness.
C. competitive advantage.
D. better employees.

Although general administration is sometimes viewed only as overhead, it can be a powerful source of competitive advantage. In a telephone operating company, for example, negotiating and maintaining ongoing relations with regulatory bodies can be among the most important activities for competitive advantage.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

118. General administration is sometimes viewed as only _______ but can be a powerful source of competitive advantage.

A. income
B. value
C. overhead
D. unimportant

Although general administration is sometimes viewed only as overhead, it can be a powerful source of competitive advantage.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis
German truck and trailer manufacturer, Schmitz Cargobull, mainly serves customers that are operators of truck or trailer fleets. What sets the company apart is its expertise in telematics (the integrated application of telecommunications data) to monitor the current state of any Schmitz Cargobull-produced trailer. This is an example of using _______ to enhance customer value and increase _______ position.

A. sales; competitive
B. operations; marketing
C. information technology; competitive
D. human resources; marketing

Information technology (IT) can also play a key role in enhancing the value that a company can provide its customers and, in turn, increasing its own revenues and profits. Schmitz Cargobull, a German truck and trailer manufacturer, uses IT to further its competitive position.

120. In an interview with Lise Saari, former director of global workforce research at IBM, she notes that HR must be a true partner of the business, with a deep and up-to-date understanding of business realities and objectives, and must ensure HR initiatives fully support them at all points of the value chain. This is an example of

A. relationships among activities within the firm and with other stakeholders.
B. relationships between firms.
C. interrelationships among activities within the firm.
D. interrelationships among firms.

Managers must not ignore the importance of relationships among value-chain activities. These can be collaborative and strategic exchange relationships between value-chain activities either (a) within firms or (b) between firms. With regard to this example of the Lise Saari interview, this demonstrates interrelationships among activities within the firm.
121. Regarding the value-chain concept, the most important interrelationship is between the organization and its

A. board of directors.
B. employees.
C. management.
D. customers.

When addressing the value-chain concept, it is important to focus on the interrelationship between the organization and its most important stakeholder, its customers. Some firms find great value by directly incorporating their customers into the value creation process.

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Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis

122. In contrast to _________ interactions, which allow the firm to gain insights on the needs of a particular customer, _________ offers the opportunity to leverage the wisdom of a larger crowd.

A. consumer; sourcing
B. prosumer; outsourcing
C. prosumer; crowdsourcing
D. marketing; crowdsourcing

In contrast to prosumer interactions, which allow the firm to gain insights on the needs of a particular customer, crowdsourcing offers the opportunity to leverage the wisdom of a larger crowd.

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Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.
Level of Difficulty: 2 Medium
Topic: Value-Chain Analysis
123. In using crowdsourcing as a means to integrate the customer into the value chain, there are some perils to consider. Which of the following is not related to crowdsourcing perils?

A. Giving customers the opportunity to tarnish the company brand.
B. Asking for consumer input when demand is highly uncertain.
C. Repeatedly getting feedback from the same customer.
D. Asking for consumer input when demand is certain.

Research has identified three areas of particular concern: Strong brand reputation, high demand uncertainty, too many initiatives.

124. Accounting is a sort of transformation process that converts daily records of individual transactions into monthly financial reports. The __________ are the inputs, accounting is the operation that adds value, and __________ are the outputs.

A. transaction records; financial statements
B. financial statements; transaction records
C. employee records; transaction records
D. health records; transaction statements

Accounting is a sort of transformation process that converts daily records of individual transactions into monthly financial reports. In this example, the transaction records are the inputs, accounting is the operation that adds value, and financial statements are the outputs.
125. A travel agent adds value by creating an itinerary that includes transportation, accommodations, and activities that are customized to your budget and travel dates. In terms of the value chain analysis, this is an example of a ____________ organization.

A. retail  
B. service  
C. manufacturing  
D. travel

A travel agent adds value by creating an itinerary that includes transportation, accommodations, and activities that are customized to your budget and travel dates. These are the operations, or transformation processes, of a service organization.

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Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.  
Level of Difficulty: 2 Medium  
Topic: Value-Chain Analysis

126. For an engineering services firm, ________________ provides inputs, the transformation process is the engineering itself, and innovative designs and practical solutions are the outputs.

A. experimentation  
B. customer support  
C. research and development  
D. human resource management

For an engineering services firm, research and development provides inputs, the transformation process is the engineering itself, and innovative designs and practical solutions are the outputs.

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Learning Objective: 03-03 How value-chain analysis can help managers create value by investigating relationships among activities within the firm and between the firm and its customers and suppliers.  
Level of Difficulty: 2 Medium  
Topic: Value-Chain Analysis
The resource-based view (RBV) of the firm combines the following two perspectives:

A. the primary and support activities of the firm.
B. the interrelationships among the primary activities of the firm and corporate management.
C. the internal analysis of the firm and the external analysis of the industry and competitive environment.
D. the industry and the competitive environment.

The resource-based view (RBV) of the firm combines two perspectives: (1) the internal analysis of phenomena within a company and (2) an external analysis of the industry and its competitive environment.

The three key types of resources that are central to the resource-based view of the firm are

A. tangible resources, intangible resources, and organizational structure.
B. culture, tangible resources, intangible resources.
C. tangible resources, intangible resources, and organizational capabilities.
D. tangible resources, intangible resources, and top management.

Firm resources are all assets, capabilities, organizational processes, information, and knowledge controlled by a firm that enable it to develop and implement value-creating strategies. The three types of resources are tangible resources, intangible resources, and organizational capabilities.
In the resource-based view of the firm, examples of tangible resources include

A. financial resources, human resources, and firm competencies.
B. financial resources, physical resources, and technological resources.
C. financial resources, physical resources, and the capacity to combine intangible resources.
D. outstanding customer service, innovativeness of products, and reputation.

Examples of tangible resources are financial resources, physical resources, organizational resources, and technological resources.

Intangible resources are typically embedded in unique routines and practices that have evolved and accumulated over time such as effective work teams.

A. Tangible resources
B. Intangible resources
C. Reputational resources
D. Organizational capabilities

Intangible resources are typically embedded in unique routines and practices that have evolved and accumulated over time. These include human resources (e.g., experience and capability of employees, trust, and effectiveness of work teams).
Apple combines and packages proven technology in new and innovative ways. This is an example of its use of

A. tangible resources.
B. intangible resources.
C. organizational capabilities.
D. strong primary activities.

Organizational capabilities are the competencies or skills that a firm employs to transform inputs into outputs. Examples of organizational capabilities are outstanding customer service, excellent product development capabilities, superb innovation processes, and flexibility in manufacturing processes.

Learning Objective: 03-04 The resource-based view of the firm and the different types of tangible and intangible resources, as well as organizational capabilities.

Level of Difficulty: 2 Medium
Topic: The Resource-Based View of the Firm

131. Apple combines and packages proven technology in new and innovative ways. This is an example of its use of

A. tangible resources.
B. intangible resources.
C. organizational capabilities.
D. strong primary activities.

Organizational capabilities are the competencies or skills that a firm employs to transform inputs into outputs. Examples of organizational capabilities are outstanding customer service, excellent product development capabilities, superb innovation processes, and flexibility in manufacturing processes.

Learning Objective: 03-04 The resource-based view of the firm and the different types of tangible and intangible resources, as well as organizational capabilities.

Level of Difficulty: 2 Medium
Topic: The Resource-Based View of the Firm

132. ______ are the competencies or skills that a firm employs to transform inputs into outputs.

A. Tangible resources
B. Reputational resources
C. Organizational capabilities
D. Intangible resources

Organizational capabilities are the competencies or skills that a firm employs to transform inputs into outputs. Examples of organizational capabilities are outstanding customer service, excellent product development capabilities, superb innovation processes, and flexibility in manufacturing processes.

Learning Objective: 03-04 The resource-based view of the firm and the different types of tangible and intangible resources, as well as organizational capabilities.

Level of Difficulty: 2 Medium
Topic: The Resource-Based View of the Firm
133. Which of the following is not an example of organizational capabilities?

A. outstanding customer service  
B. reputation with customers for quality and reliability  
C. innovativeness of products and services  
D. ability to hire, motivate, and retain human capital

Organizational capabilities are the competencies or skills that a firm employs to transform inputs into outputs. Examples of organizational capabilities are outstanding customer service, excellent product development capabilities, superb innovation processes, and flexibility in manufacturing processes. Reputation with customers for quality and reliability is an intangible resource.

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Topic: The Resource-Based View of the Firm

134. The ability to hire, motivate, and retain human capital is an example of ______ capabilities in the resource-based view of the firm.

A. tangible  
B. organizational  
C. management  
D. design

Organizational capabilities are the competencies or skills that a firm employs to transform inputs into outputs. Examples of organizational capabilities are outstanding customer service, excellent product development capabilities, superb innovation processes, and flexibility in manufacturing processes. The ability to hire, motivate, and retain human capital is an example of organizational capabilities in the resource-based view of the firm.

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Learning Objective: 03-04 The resource-based view of the firm and the different types of tangible and intangible resources, as well as organizational capabilities.  
Level of Difficulty: 2 Medium  
Topic: The Resource-Based View of the Firm
135. In order to be considered strategic resources that contribute competitive advantage, they must have several characteristics. Which of the following is not one of these?

A. rare  
B. valuable  
C. inexpensive to imitate  
D. costly to substitute  

The resource-based view (RBV) of the firm perspective states that company competitive advantages are due to their endowment of strategic resources that are valuable, rare, costly to imitate, and costly to substitute.

136. Which of the following is not a tangible resource?

A. technical and scientific skills  
B. trade secrets, patents, copyrights  
C. state-of-the-art machinery  
D. company borrowing capacity  

Tangible resources are assets that are relatively easy to identify. They include the physical and financial assets that an organization uses to create value for its customers. Among them are financial resources, physical resources, organizational resources, and technological resources.
137. Intangible resources are typically embedded in _______ routines and practices that have evolved and accumulated over time.

A. rare  
B. standard  
C. unique  
D. obvious  

Much more difficult for competitors to account for or imitate are intangible resources, which are typically embedded in unique routines and practices that have evolved and accumulated over time.

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Learning Objective: 03-04 The resource-based view of the firm and the different types of tangible and intangible resources, as well as organizational capabilities.  
Level of Difficulty: 2 Medium  
Topic: The Resource-Based View of the Firm  

138. The culture of a firm also may be a resource that provides competitive advantage. Which of these companies might be a good example of this intangible resource?

A. Google  
B. Kmart  
C. Costco  
D. Walmart  

Much more difficult for competitors (and, for that matter, the company managers) to account for or imitate are intangible resources, which are typically embedded in unique routines and practices that have evolved and accumulated over time. The company culture may also be a resource that provides competitive advantage. Google is a good example of a corporate culture that is difficult to imitate.

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Learning Objective: 03-04 The resource-based view of the firm and the different types of tangible and intangible resources, as well as organizational capabilities.  
Level of Difficulty: 2 Medium  
Topic: The Resource-Based View of the Firm
139. For a resource to provide a firm with the potential for a sustainable competitive advantage, it must have four attributes. Which of the following is not one of these attributes?

A. rare  
B. valuable  
C. easy for competitors to substitute  
D. difficult for competitors to imitate

For a resource to provide a firm with the potential for a sustainable competitive advantage, it must have four attributes. First, the resource must be valuable in the sense that it exploits opportunities and/or neutralizes threats in the firm's environment. Second, it must be rare among current and potential competitors of the firm. Third, the resource must be difficult for competitors to imitate. Fourth, the resource must have no strategically equivalent substitutes.

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Level of Difficulty: 1 Easy  
Topic: The Resource-Based View of the Firm

140. A competitive advantage based on inimitability can be sustained for at least some time, if it has the following characteristics:

A. psychographic uniqueness, path dependency, causal ambiguity, and substitutability.  
B. physical uniqueness, path dependency, causal ambiguity, and social complexity.  
C. rarity, path dependency, causal ambiguity, and social substitutability.  
D. geographic uniqueness, cause dependency, social ambiguity, and path complexity.

An advantage based on inimitability will not last forever. Competitors will eventually discover a way to copy most valuable resources. However, managers can forestall them and sustain profits for a while by developing strategies around resources that have at least one of the following four characteristics: physical uniqueness, path dependency, causal ambiguity, and social complexity.

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Level of Difficulty: 2 Medium  
Topic: The Resource-Based View of the Firm
A crash R&D program by one firm cannot replicate a successful technology developed by another firm, when research findings cumulate. This is an example of

A. social complexity.
B. physical uniqueness.
C. path dependency.
D. causal ambiguity.

Path dependency means that resources are unique and therefore scarce because of all that has happened along the path followed in their development and/or accumulation. A crash R&D program generally cannot replicate a successful technology, when research findings cumulate. These path-dependent conditions build protection for the original resource. The benefits from experience and learning through trial and error cannot be duplicated overnight.

A variety of firm resources include interpersonal relations among managers in the firm, its culture, and its reputation with its suppliers and customers. Such competitive advantages are based upon

A. path dependency.
B. social complexity.
C. physical uniqueness.
D. tangible resources.

Resources of a firm may be imperfectly imitable, because they reflect a high level of social complexity. A wide variety of firm resources may be considered socially complex. Examples include interpersonal relations among the managers in a firm, its culture, and its reputation with its suppliers and customers.
143. All of the following are examples of socially complex organizational phenomena except

A. a firm’s culture.
B. complex physical technology.
C. interpersonal relations among a firm’s managers.
D. leadership and trust.

Social complexity is a characteristic of the resources of a firm that is costly to imitate because the social engineering required is beyond the capability of competitors, including interpersonal relations among managers, organizational culture, and reputation with suppliers and customers.

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Learning Objective: 03-05 The four criteria that a firm’s resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.
Level of Difficulty: 2 Medium
Topic: The Resource-Based View of the Firm

144. A resource is valuable and rare but neither difficult to imitate nor without substitutes. This should enable the firm to attain

A. no competitive advantage.
B. a temporary competitive advantage.
C. competitive parity.
D. a sustainable competitive advantage.

Resources and capabilities must be rare and valuable as well as difficult to imitate or substitute in order for a firm to attain competitive advantages that are sustainable over time. When a resource is valuable and rare but neither difficult to imitate nor without substitutes, it is likely to result in a temporary competitive advantage.

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Learning Objective: 03-05 The four criteria that a firm’s resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.
Level of Difficulty: 2 Medium
Topic: The Resource-Based View of the Firm
Employees will be able to obtain a proportionately high level of profits they generate (relative to the firm) if

A. suppliers are loyal to the firm.
B. their expertise is firm-specific.
C. the cost to the firm of replacing them is high.
D. the firm's resources are path dependent.

Several factors help explain the extent to which employees and managers will be able to obtain a proportionately high level of the profits, including if they generate high employee replacement costs. If employee skills are idiosyncratic and rare (a source of resource-based advantages), they should have high bargaining power based on the high cost required by the firm to replace them.

146. Which of the following is not a factor that helps to explain the extent to which employees and managers will be able to obtain a proportionately high level of the profits that they generate?

A. Employees have high bargaining power.
B. The cost of employee replacement is high.
C. The cost of exit is high for an employee.
D. Managers have low bargaining power.

Four factors help explain the extent to which employees and managers will be able to obtain a proportionately high level of the profits that they generate: employee bargaining power, employee replacement cost, employee exit costs, and manager bargaining power. Manager power is based on how well they create resource-based advantages. They are generally charged with creating value through the process of organizing, coordinating, and leveraging employees as well as other forms of capital such as plant, equipment, and financial capital. Such activities provide managers with sources of information that may not be readily available to others.
Amazon Prime is credited for helping to increase the Amazon stock price by nearly 300 percent from 2008 to 2010. This competitive advantage is known as

A. causal ambiguity.
B. product rarity.
C. service validity.
D. substitutability.

Causal ambiguity means that would-be competitors may be thwarted because it is impossible to disentangle the causes (or possible explanations) of either what the valuable resource is or how it can be re-created. The continued success of Amazon as the largest global online marketplace is an example of competitive advantage through causal ambiguity. Competitors recently tried to imitate the Amazon free shipping strategy, but with limited success. The reason is that Amazon has developed an array of interrelated elements of strategy which their rivals find too difficult to imitate.

Learning Objective: 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.

Level of Difficulty: 2 Medium

Topic: The Resource-Based View of the Firm

Four factors help explain the extent to which employees and managers will be able to obtain a proportionately high level of the profits that they generate. Which is not one of these factors?

A. employee bargaining power
B. employee replacement cost
C. employee exit costs
D. competitor bargaining power

Four factors help explain the extent to which employees and managers will be able to obtain a proportionately high level of the profits that they generate: employee, bargaining power, employee replacement cost, employee exit costs, and manager bargaining power.
149. Which of the following groups generally is charged with creating value through the process of organizing, coordinating, and leveraging employees as well as other forms of capital such as plant, equipment, and financial capital?

A. unions  
B. boards of directors  
C. managers  
D. stakeholders

Manager power is based on how well they create resource-based advantages. They are generally charged with creating value through the process of organizing, coordinating, and leveraging employees as well as other forms of capital such as plant, equipment, and financial capital. Such activities provide managers with sources of information that may not be readily available to others.

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Learning Objective: 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.

Level of Difficulty: 2 Medium  
Topic: The Resource-Based View of the Firm

150. Raymond Ozzie, the software designer who was critical in the development of Lotus Notes, was able to dictate the terms under which IBM acquired Lotus. This illustrates that he had _____ bargaining power based on the ________ cost required by the firm to replace him.

A. low; low  
B. low; high  
C. high; low  
D. high; high

If employee skills are idiosyncratic and rare (a source of resource-based advantages), they should have high bargaining power based on the high cost required by the firm to replace them. For example, Raymond Ozzie, the software designer who was critical in the development of Lotus Notes, was able to dictate the terms under which IBM acquired Lotus.

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Learning Objective: 03-05 The four criteria that a firm's resources must possess to maintain a sustainable advantage and how value created can be appropriated by employees and managers.

Level of Difficulty: 2 Medium  
Topic: The Resource-Based View of the Firm
151. Historical comparisons provide information to managers about changes in the competitive position of a firm. Historical comparisons often are misleading

A. if the overall strategy of the firm is the same.
B. if the firm shows constant growth.
C. in periods of recession or economic boom.
D. if the firm’s stock is publicly traded.

Exhibit 3.9 illustrates a 10-year period of return on sales (ROS) for a hypothetical company. As indicated by the dotted trend lines, the rate of growth (or decline) differs substantially over time periods, and periods of recession and economic boom may make the trends unreliable.

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Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
Level of Difficulty: 2 Medium
Topic: Evaluating Firm Performance: Two Approaches

152. The best measure of company ability to meet imminent financial obligations is known as the

A. debt ratio.
B. profit margin.
C. total asset turnover.
D. current ratio.

According to Exhibit 3.8, short-term solvency ratios are also known as liquidity ratios. The best measure of the ability of a company to meet imminent financial obligations is the current ratio, the ratio of current assets to current liabilities.

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Blooms: Remember

Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
Level of Difficulty: 1 Easy
Topic: Evaluating Firm Performance: Two Approaches
153. Which of the following would be most difficult to assess?

A. the liquidity position of a firm
B. market share growth
C. the legitimacy and reputation of a firm
D. the efficiency with which a firm utilizes its assets

The legitimacy and reputation of a firm are harder to assess, because there is no simple mathematical formula to compute them.

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Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
Level of Difficulty: 2 Medium
Topic: Evaluating Firm Performance: Two Approaches

154. Which of these categories of financial ratios is used to measure the ability of a firm to meet its short-term financial obligations?

A. liquidity ratios
B. profitability ratios
C. activity ratios
D. leverage ratios

Short-term solvency ratios are also known as liquidity ratios. These ratios are used to assess the ability of a company to meet imminent financial obligations.

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Blooms: Remember

Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
Level of Difficulty: 1 Easy
Topic: Evaluating Firm Performance: Two Approaches

155. Ratios that reflect whether or not a firm is efficiently using its resources are known as

A. turnover ratios.
B. leverage ratios.
C. liquidity ratios.
D. profitability ratios.

Asset utilization (or turnover) ratios are one measure of whether a firm is efficiently using its resources.

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Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.
Level of Difficulty: 1 Easy
Topic: Evaluating Firm Performance: Two Approaches
156. Which of the following is a profitability ratio?

A. current ratio  
B. total debt ratio  
C. total asset turnover  
D. return on equity  

Profitability ratios include: profit margin, return on assets, and return on equity.

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Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.  
Level of Difficulty: 1 Easy  
Topic: Evaluating Firm Performance: Two Approaches

157. Financial ratio analysis measures the performance of the firm based on all but which of the following?

A. balance sheet  
B. market valuation  
C. income statement  
D. industry comparison  

Financial ratio analysis a technique for measuring the performance of a firm according to its balance sheet, income statement, and market valuation.

AACSB: Analytical Thinking  
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Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.  
Level of Difficulty: 1 Easy  
Topic: Evaluating Firm Performance: Two Approaches

158. Comparing your firm with all other firms in your industry assesses _________ performance.

A. excessive  
B. consistent  
C. relative  
D. non-comparable  

Comparing your firm with all other firms in your industry assesses relative performance. Banks often use such comparisons when evaluating company creditworthiness.

AACSB: Analytical Thinking  
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Blooms: Understand

Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.  
Level of Difficulty: 2 Medium  
Topic: Evaluating Firm Performance: Two Approaches
Making comparisons between a firm and its most direct rivals is useful because firms within the same strategic industry group have _______ strategies.

A. different  
B. the same  
C. similar  
D. relative

Firms with similar strategies are members of a strategic group in an industry. Furthermore, competition is more intense among competitors within groups than across groups. Thus, you can gain valuable insights into the financial and competitive position of a firm, if you make comparisons between a firm and its most direct rivals.

Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.

Level of Difficulty: 2 Medium  
Topic: Evaluating Firm Performance: Two Approaches

In making the decision to enter the pharmaceutical industry, a company would not need to consider which of the following?

A. historical comparisons  
B. comparisons with industry norms  
C. comparisons with key competitors  
D. comparisons with non-competitors

The financial position of a firm should not be analyzed in isolation. Important reference points are needed. We will address some issues that must be taken into account to make financial analysis more meaningful: historical comparisons, comparisons with industry norms, and comparisons with key competitors.
161. A firm that takes on too much long-term debt to finance operations will see an immediate impact on its indicators of ________ financial leverage.

A. short-term  
B. long-term  
C. relative  
D. comparable

A firm that takes on too much long-term debt to finance operations will see an immediate impact on its indicators of long-term financial leverage.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.  
Level of Difficulty: 1 Easy  
Topic: Evaluating Firm Performance: Two Approaches

162. Apple Inc. reported revenues of 171 billion USD and net income of 37 billion USD in 2012. These figures represent a stunning annual growth in revenue and net income of 57 percent and 43 percent, respectively, for the 2011 to 2013 time period. This information indicates the importance of using __________ to evaluate company financial performance.

A. financial ratios  
B. industry norms  
C. historical comparisons  
D. competitor analysis

When evaluating company financial performance, it is very useful to compare its financial position over time. This provides a means of evaluating trends. For example, Apple Inc. reported revenues of 171 billion USD and net income of 37 billion USD in 2012. These figures represent a stunning annual growth in revenue and net income of 57 percent and 43 percent, respectively, for the 2011 to 2013 time period. Had Apple's revenues and net income in 2013 been 80 billion USD and 20 billion USD, respectively, it would still be a very large and highly profitable enterprise. However, such performance would have significantly damaged Apple's market valuation and reputation as well as the careers of many of its executives.

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Learning Objective: 03-06 The usefulness of financial ratio analysis, its inherent limitations, and how to make meaningful comparisons of performance across firms.  
Level of Difficulty: 2 Medium  
Topic: Evaluating Firm Performance: Two Approaches
163. The balanced scorecard provides top managers with a __________ view of the business.

A. detailed and complex  
B. simple and routine  
C. fast but comprehensive  
D. long-term financial

A balanced scorecard provides top managers with a fast but comprehensive view of the business. In a nutshell, it includes financial measures that reflect the results of actions already taken, but it complements these indicators with measures of customer satisfaction, internal processes, and the innovation and improvement activities of the organization.

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Blooms: Remember  
Learning Objective: 03-07 The value of the "balanced scorecard" in recognizing how the interests of a variety of stakeholders can be interrelated.  
Level of Difficulty: 1 Easy  
Topic: Evaluating Firm Performance: Two Approaches

164. The balanced scorecard, developed by Kaplan and Norton, helps to integrate

A. financial analysis and the reputation of a firm.  
B. intangible resources and operational measures.  
C. financial analysis and stakeholder perspectives.  
D. short-term perspectives and strategic positioning.

The balanced scorecard enables managers to consider their business from four key perspectives: customer, internal, innovation and learning, and financial.

AACSB: Analytical Thinking  
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Blooms: Remember  
Learning Objective: 03-07 The value of the "balanced scorecard" in recognizing how the interests of a variety of stakeholders can be interrelated.  
Level of Difficulty: 1 Easy  
Topic: Evaluating Firm Performance: Two Approaches
165. The balanced scorecard enables managers to consider their business from all of the following perspectives except

A. customer perspective.
B. internal perspective.
C. innovation and learning perspective.
D. ethical perspective.

The balanced scorecard enables managers to consider their business from four key perspectives: customer, internal, innovation and learning, and financial.

Learning Objective: 03-07 The value of the "balanced scorecard" in recognizing how the interests of a variety of stakeholders can be interrelated.

Level of Difficulty: 1 Easy
Topic: Evaluating Firm Performance: Two Approaches

166. An important implication of the balanced scorecard approach is that

A. managers need to recognize that satisfaction of stockholder demands is their primary job.
B. the emphasis on customer satisfaction and financial goals are only a means to that end.
C. managers should not look at their job as primarily balancing stakeholder demands.
D. gains in financial performance must come at a cost of employee satisfaction.

A key implication is that managers do not need to look at their job as balancing stakeholder demands. The balanced scorecard provides a win-win approach, increasing satisfaction among a wide variety of organizational stakeholders, including employees (at all levels), customers, and stockholders.

Learning Objective: 03-07 The value of the "balanced scorecard" in recognizing how the interests of a variety of stakeholders can be interrelated.

Level of Difficulty: 2 Medium
Topic: Evaluating Firm Performance: Two Approaches

167. The financial perspective of the balanced scorecard answers which of the following questions?

A. How do customers see us?
B. What must we excel at?
C. How do we look to shareholders?
D. Can we continue to improve and create value?

Measures of financial performance indicate whether the company strategy, implementation, and execution are indeed contributing to bottom-line improvement. This interests the shareholder.

Learning Objective: 03-07 The value of the "balanced scorecard" in recognizing how the interests of a variety of stakeholders can be interrelated.

Level of Difficulty: 2 Medium
Topic: Evaluating Firm Performance: Two Approaches
168. The innovation and learning perspective of the balanced scorecard answers which of the following questions?

A. How do customers see us?
B. What must we excel at?
C. How do we look to shareholders?
D. Can we continue to improve and create value?

Given the rapid rate of markets, technologies, and global competition, the criteria for success are constantly changing. To survive and prosper, managers must make frequent changes to existing products and services as well as introduce entirely new products with expanded capabilities. The company ability to do well from an innovation and learning perspective is more dependent on its intangible than tangible assets.

169. The customer perspective of the balanced scorecard answers which of the following questions?

A. How do customers see us?
B. What must we excel at?
C. How do we look to shareholders?
D. Can we continue to improve and create value?

Clearly, how a company is performing from the customer perspective is a top priority for management. The balanced scorecard requires that managers translate their general mission statements on customer service into specific measures that reflect the factors that really matter to customers.
170. The internal business perspective of the balanced scorecard answers which of the following questions?

A. How do customers see us?
B. What must we excel at?
C. How do we look to shareholders?
D. Can we continue to improve and create value?

The internal measures should reflect business processes that have the greatest impact on customer satisfaction. These include factors that affect cycle time, quality, employee skills, and productivity.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-07 The value of the "balanced scorecard" in recognizing how the interests of a variety of stakeholders can be interrelated.
Level of Difficulty: 2 Medium
Topic: Evaluating Firm Performance: Two Approaches

171. The internal measures should reflect business processes that have _____ impact on customer satisfaction. These include factors that affect cycle time, quality, employee skills, and productivity.

A. the least
B. variable
C. the most
D. potential

The internal measures should reflect business processes that have the greatest impact on customer satisfaction. These include factors that affect cycle time, quality, employee skills, and productivity.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Learning Objective: 03-07 The value of the "balanced scorecard" in recognizing how the interests of a variety of stakeholders can be interrelated.
Level of Difficulty: 2 Medium
Topic: Evaluating Firm Performance: Two Approaches
172. From the innovation and learning perspective, survival is dependent upon managers making ________ changes to existing products and services as well as introduce entirely new products with expanded capabilities.

A. few  
B. no  
C. frequent  
D. rare  

Given the rapid rate of markets, technologies, and global competition, the criteria for success are constantly changing. To survive and prosper, managers must make frequent changes to existing products and services as well as introduce entirely new products with expanded capabilities.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Learning Objective: 03-07 The value of the "balanced scorecard" in recognizing how the interests of a variety of stakeholders can be interrelated.  
Level of Difficulty: 2 Medium  
Topic: Evaluating Firm Performance: Two Approaches

173. If managers do not recognize from the beginning that the balanced scorecard is not a _________ and fail to commit to it long term, the organization will be disappointed.

A. panacea  
B. quick fix  
C. marketing ploy  
D. cheap solution  

There is general agreement that there is nothing inherently wrong with the concept of the balanced scorecard. The key limitation is that some executives may view it as a quick fix that can be easily installed. If managers do not recognize this from the beginning and fail to commit to it long term, the organization will be disappointed.

AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Learning Objective: 03-07 The value of the "balanced scorecard" in recognizing how the interests of a variety of stakeholders can be interrelated.  
Level of Difficulty: 2 Medium  
Topic: Evaluating Firm Performance: Two Approaches
With the total performance indicators in place at Sears, it can evaluate if a single store improves its employee attitude by 5 percent and therefore predict with confidence that if the revenue growth in the district as a whole is 5 percent, the revenue growth in this particular store would be 5.5 percent. This is an example of the _______ perspective of the balanced scorecard.

A. customer  
B. internal business  
C. financial  
D. innovation and learning

Sears, the retailer, found a strong causal relationship between employee attitudes, customer attitudes, and financial outcomes. Through an ongoing study, Sears developed what it calls its total performance indicators (TPI) which is a set of indicators for assessing its performance with customers, employees, and investors. The Sears quantitative model has shown that a 5 percent improvement in employee attitudes leads to a 1.3 percent improvement in customer satisfaction, which in turn drives a 0.5 percent improvement in revenue. Thus, if a single store improved its employee attitude by 5 percent, Sears could predict with confidence that if the revenue growth in the district as a whole were 5 percent, the revenue growth in this particular store would be 5.5 percent.

AACSB: Analytical Thinking  
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