

Chapter 3—The Internal Organization: Resources, Capabilities, Core Competencies, and Competitive Advantages

TRUE/FALSE

1. According to the Opening Case, Apple's strong financial performance in poor economic times is largely credited to its innovation capabilities.

ANS: F PTS: 1 DIF: Medium REF: 71

OBJ: 03-01 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy and innovation

2. People are a critical resource for helping organizations learn how to continuously innovate.

ANS: T PTS: 1 DIF: Easy REF: 72

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing human capital

3. Firms should seek to continually develop new core competencies because all core competencies have limited life spans.

ANS: T PTS: 1 DIF: Easy REF: 72

OBJ: 03-01 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

4. The sustainability of a competitive advantage depends upon the imitability of the core competence, the availability of substitutes for the core competence, and the rate of obsolescence of the core competence.

ANS: T PTS: 1 DIF: Medium REF: 72

OBJ: 03-01 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

5. Firms achieve strategic competitiveness and earn above average returns when their unique core competencies are effectively acquired, bundled, and leveraged to take advantage of opportunities in the external environment in ways that create value for customers.

ANS: T PTS: 1 DIF: Easy REF: 72

OBJ: 03-01 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

6. Analyzing the internal environment enables a firm to determine what it *might be able to do* by identifying what opportunities exist.

ANS: F PTS: 1 DIF: Hard REF: 73

OBJ: 03-01 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff

& Rubin: Strategic & systems skills

7. Analyzing the internal environment enables a firm to determine what it *can do* by identifying what opportunities exist.

ANS: T PTS: 1 DIF: Hard REF: 73

OBJ: 03-01 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

8. Given enough time, any firm's competitive advantage can be imitated by its competitors.

ANS: T PTS: 1 DIF: Easy REF: 72

OBJ: 03-01 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

9. Some resources, such as financial capital, have inherent value to the firm, while others are not inherently valuable.

ANS: F PTS: 1 DIF: Hard REF: 73

OBJ: 03-01 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

10. In the global economy, traditional factors such as labor costs, access to financial resources and raw materials, and protected or regulated markets are no longer sources of competitive advantage.

ANS: F PTS: 1 DIF: Easy REF: 73

OBJ: 03-01 TYPE: knowledge

NOT: AACSB: Multicultural & Diversity | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

11. A global mind-set is free of the assumptions of a single country, culture, or context.

ANS: T PTS: 1 DIF: Easy REF: 73

OBJ: 03-01 TYPE: knowledge

NOT: AACSB: Multicultural & Diversity | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

12. Analysis of the firm's internal organization examines the firm's portfolio of resources but excludes the bundles of heterogeneous resources and capabilities.

ANS: F PTS: 1 DIF: Easy REF: 73

OBJ: 03-02 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Knowledge of general business functions

13. Value is measured by the variable and fixed costs associated with the production and marketing of a particular product compared with the revenue and profits the product generates.

ANS: F PTS: 1 DIF: Hard REF: 74

OBJ: 03-02 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff

& Rubin: Managing strategy & innovation

14. Value is created when the firm exploits its core competencies or competitive advantages to meet or exceed the demanding standards of global competition.

ANS: T PTS: 1 DIF: Medium REF: 74

OBJ: 03-02 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

15. Creating customer value is the source of the firm's potential to earn above-average returns.

ANS: T PTS: 1 DIF: Easy REF: 74

OBJ: 03-02 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

16. The challenge and difficulty of making effective decisions are implied by preliminary evidence suggesting that one-half of organizational decisions fail.

ANS: T PTS: 1 DIF: Easy REF: 75

OBJ: 03-02 TYPE: knowledge

NOT: AACSB: Reflective Thinking Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

17. The need to meet quarterly earnings numbers disciplines managers to accurately examine the firm's internal organization.

ANS: F PTS: 1 DIF: Medium REF: 75

OBJ: 03-02 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Foundational skills

18. Firms and managers can learn from the failure resulting from a mistake—that is, what *not* to do when seeking competitive advantage.

ANS: T PTS: 1 DIF: Medium REF: 75

OBJ: 03-02 TYPE: knowledge

NOT: AACSB: Reflective Thinking Skills | Management: Leadership Principles | Dierdorff & Rubin: Managing decision-making processes

19. The Chapter 3 Strategic Focus makes the point that the management development process at GE was valuable, rare, but easy to imitate and substitutable.

ANS: F PTS: 1 DIF: Hard REF: 77

OBJ: 03-04 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

20. The Strategic Focus shows that GE's success was primarily based on tangible rather than intangible resources.

ANS: F PTS: 1 DIF: Hard REF: 77

OBJ: 03-03 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

21. The executive leadership program at GE helped managers develop capabilities to deal with uncertainty, complexity, and intraorganizational conflict.

ANS: F PTS: 1 DIF: Medium REF: 76

OBJ: 03-01 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

22. Judgment is the capability of making successful decisions when no obviously correct model or rule is available or when relevant data are unreliable or incomplete.

ANS: T PTS: 1 DIF: Easy REF: 76

OBJ: 03-01 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

23. Resources are bundled to create capabilities which in turn are the source of core competencies which are then the basis of competitive advantages.

ANS: T PTS: 1 DIF: Medium REF: 78

OBJ: 03-04 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

24. Coca-Cola's brand name is a tangible source of competitive advantage for the company.

ANS: F PTS: 1 DIF: Easy REF: 79 (Table 3.2)

OBJ: 03-03 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

25. Trademarks and copyrights are examples of a firm's tangible resources.

ANS: T PTS: 1 DIF: Easy REF: 78 (Table 3.1)

OBJ: 03-03 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

26. The value of tangible assets such as the firm's borrowing capacity and its physical plant are high because they can be easily leveraged to derive additional value.

ANS: F PTS: 1 DIF: Hard REF: 79

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

27. Although an organization's good reputation is a valuable resource that takes years of superior marketplace competence to achieve, it is not a good basis for building a competitive advantage because it can be destroyed almost instantly by bad publicity.

ANS: F PTS: 1 DIF: Medium REF: 80

OBJ: 03-03 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

28. Compared to tangible resources, intangible resources are an inferior source of core competencies.

ANS: F PTS: 1 DIF: Medium REF: 79

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

29. The foundation of many capabilities lies in the unique skills and knowledge of a firm's employees.

ANS: T PTS: 1 DIF: Easy REF: 80

OBJ: 03-04 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing human capital

30. Capabilities of an organization emerge spontaneously through the interaction of tangible and intangible resources.

ANS: F PTS: 1 DIF: Medium REF: 80

OBJ: 03-04 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

31. Older employees are less valuable resources to firms than younger employees, because the older employees have lower stocks of knowledge. Consequently, employee reductions should begin with early retirement inducements.

ANS: F PTS: 1 DIF: Medium REF: 80

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing human capital

32. GE was effective in developing its human capital, but failed in transferring that knowledge throughout the organization.

ANS: F PTS: 1 DIF: Medium REF: 80

OBJ: 03-03 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing human capital

33. Capabilities can be developed quickly in response to changes in the new competitive landscape.

ANS: F PTS: 1 DIF: Medium REF: 80

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

34. Capabilities are often developed in specific functional areas such as manufacturing, R&D, and marketing.

ANS: T PTS: 1 DIF: Medium REF: 80

OBJ: 03-04 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

35. Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals.

ANS: T PTS: 1 DIF: Medium REF: 80

OBJ: 03-05 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

36. Core competencies are the activities a company performs especially well compared with competitors and through which the firm adds unique value to its goods and services.

ANS: T PTS: 1 DIF: Easy REF: 81

OBJ: 03-03 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy and innovation

37. The more core competencies a firm has, the more likely it is to generate a sustained competitive advantage.

ANS: F PTS: 1 DIF: Medium REF: 81

OBJ: 03-03 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

38. Every core competence is a capability and every capability is a core competence.

ANS: F PTS: 1 DIF: Easy REF: 80-81

OBJ: 03-05 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

39. Only capabilities that are valuable, common, costly to imitate, and substitutable can be strategic capabilities.

ANS: F PTS: 1 DIF: Easy REF: 82-85 | 82 (Figure 3.4)

OBJ: 03-05 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

40. Valuable capabilities allow the firm to exploit strengths or neutralize weaknesses in the internal environment.

ANS: F PTS: 1 DIF: Hard REF: 82

OBJ: 03-05 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

41. Costly-to-imitate capabilities are those which other firms cannot easily develop as they have no strategic equivalent.

ANS: F PTS: 1 DIF: Hard REF: 83
OBJ: 03-05 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

42. Capabilities may be costly to imitate if they are causally ambiguous or socially complex.

ANS: T PTS: 1 DIF: Medium REF: 83
OBJ: 03-05 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

43. Of Southwest Airline's competitors, Ryanair has been the most successful at imitating Southwest's low-cost strategy.

ANS: T PTS: 1 DIF: Medium REF: 83
OBJ: 03-05 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

44. Interpersonal relationships, trust, friendships, and a firm's reputation are all examples of complex social phenomena that make capabilities costly to imitate.

ANS: T PTS: 1 DIF: Medium REF: 83
OBJ: 03-05 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

45. Ryanair's unique capability is that it has been able to significantly cut costs but remain popular with its customers.

ANS: F PTS: 1 DIF: Medium REF: 84
OBJ: 03-05 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

46. An important capability of Ryanair is its excellent customer service, caring staff, and policy of having no hidden charges.

ANS: F PTS: 1 DIF: Medium REF: 84
OBJ: 03-05 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

47. A company can earn above-average returns only when the value it creates is less than the costs incurred to create that value.

ANS: F PTS: 1 DIF: Easy REF: 82
OBJ: 03-06 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

48. A company can earn above-average returns only when the value it creates is less than the costs incurred to create that value.

ANS: F PTS: 1 DIF: Easy REF: 85

OBJ: 03-06 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

49. Primary activities in the value chain create value, whereas support activities in the value chain generate costs.

ANS: F PTS: 1 DIF: Medium REF: 85

OBJ: 03-06 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

50. The essential purpose of the value chain is to create additional value without incurring significant costs while doing so and to capture the value that has been created.

ANS: T PTS: 1 DIF: Medium REF: 85-86

OBJ: 03-06 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

51. One criteria for a resource or capability to be a source of competitive advantage is that it allows the firm to perform a value-creating activity that competitors cannot perform.

ANS: T PTS: 1 DIF: Medium REF: 85

OBJ: 03-06 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

52. The Internet has changed many aspects of the value chain for a broad range of firms.

ANS: T PTS: 1 DIF: Easy REF: 88

OBJ: 03-06 TYPE: knowledge

NOT: AACSB: Information Technology | Management: Information Technology | Dierdorff & Rubin: Strategic & systems skills

53. A firm should outsource only activities where it cannot create value or where it is at a substantial disadvantage compared to competitors.

ANS: T PTS: 1 DIF: Medium REF: 89

OBJ: 03-06 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

54. Firms should outsource only activities where they can create the most value or where they are at an advantage compared to competitors.

ANS: F PTS: 1 DIF: Easy REF: 89

OBJ: 03-07 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

55. One benefit of outsourcing is that it allows a firm to focus on those few value chain activities where it can produce the greatest value.

ANS: T PTS: 1 DIF: Medium REF: 89

OBJ: 03-07 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

56. Firms should never outsource a primary activity because of the danger of the activity being imitated by rivals.

ANS: F PTS: 1 DIF: Hard REF: 89

OBJ: 03-07 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

57. Two concerns about outsourcing are the potential loss of a firm's innovative ability and the loss of jobs within companies that decide to outsource some of their work.

ANS: T PTS: 1 DIF: Medium REF: 89

OBJ: 03-07 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

58. If a core competence is emphasized when it is no longer competitively relevant, it can become a core rigidity.

ANS: T PTS: 1 DIF: Easy REF: 90

OBJ: 03-08 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

59. At the conclusion of the internal analysis, firms must identify their strengths and weaknesses in resources, capabilities, and core competencies.

ANS: T PTS: 1 DIF: Easy REF: 90

OBJ: 03-08 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

60. Any core competency has the potential to lose its value creating ability.

ANS: T PTS: 1 DIF: Medium REF: 90

OBJ: 03-08 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

MULTIPLE CHOICE

1. According to the Opening case, Apple's strong financial performance in poor economic times is largely credited to its _____.
 - a. financial resources.
 - b. innovation capabilities.

- c. attractive external environment.
- d. brand name.

ANS: B PTS: 1 DIF: Easy REF: 71

OBJ: 03-01 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

2. Which event played a role in the loss of Apple's innovative abilities some years ago?
- a. The downturn in the economy.
 - b. The departure of Steve Jobs as CEO.
 - c. Increased competition from Dell.
 - d. Having no resources to perform R&D.

ANS: B PTS: 1 DIF: Medium REF: 72

OBJ: 03-01 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

3. It is increasingly difficult for a firm to develop and sustain a competitive advantage because of the effects of globalization and
- a. the rapid development of the Internet's capabilities.
 - b. extensive use of outsourcing within the borders of the U.S.
 - c. the declining number of inventions and patents developed by U.S. citizens.
 - d. the simultaneous erosion of the U.S. work ethic and the U.S. education system.

ANS: A PTS: 1 DIF: Medium REF: 72

OBJ: 03-01 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing strategy & innovation

4. Which of the following is NOT required for a firm to achieve strategic competitiveness and earn above-average returns from its core competencies?
- a. Core competencies must be acquired.
 - b. Core competencies must be bundled.
 - c. Core competencies must be internationalized.
 - d. Core competencies must be leveraged.

ANS: C PTS: 1 DIF: Medium REF: 72

OBJ: 03-01 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

5. Which of the following is NOT a factor affecting sustainability of a competitive advantage?
- a. The availability of substitutes for a firm's core competence.
 - b. The rate at which obsolescence of the core competence occurs because of environmental changes.
 - c. The imitability of a core competence.
 - d. The length of time the core competence has existed.

ANS: D PTS: 1 DIF: Medium REF: 72

OBJ: 03-01 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

6. Internal analysis enables a firm to determine what the firm
- can do.
 - should do.
 - will do.
 - might do.

ANS: A PTS: 1 DIF: Medium REF: 73

OBJ: 03-01 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

7. The proper matching of what a firm *can do* with what it *might do* allows the firm to
- balance the internal characteristics of the firm with the characteristics of the external environment.
 - overcome the rigidity and inertia resulting from a history of success.
 - develop its vision, pursue its mission, and select and implement its strategies.
 - develop core competencies based on human knowledge.

ANS: C PTS: 1 DIF: Medium REF: 73

OBJ: 03-01 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

8. The key to maintaining competitive advantage and earning above-average returns over the long run is to effectively manage current core competencies
- in a way that uniquely bundles and leverages the firm's existing resources.
 - and develop a continuous stream of new competitive advantages.
 - and imitate the core competencies of successful competitors.
 - in order to preserve and enhance them against the firm's competitors.

ANS: B PTS: 1 DIF: Hard REF: 72

OBJ: 03-01 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

9. Which of the following is not a component of internal analysis leading to competitive advantage?
- Tangible and intangible resources.
 - Analysis of supplier power.
 - Capabilities.
 - Core competencies.

ANS: B PTS: 1 DIF: Hard REF: 74 (Figure 3.1)

OBJ: 03-01 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

10. Value consists of
- A product's proprietary characteristics and by its attributes for which customers are willing to pay.
 - A product's performance characteristics and by its attributes for which customers are willing to pay.
 - A product's proprietary characteristics and by its attributes for which customers consider paying for.
 - A product's performance characteristics and by its attributes for which customers consider paying for.

ANS: B PTS: 1 DIF: Medium REF: 74

OBJ: 03-02 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

11. _____ is/are the source of a firm's _____, which is/are the source of the firm's _____.
- Resources, capabilities, core competencies
 - Capabilities, resources, core competencies
 - Capabilities, resources, above average returns
 - Core competencies, resources, competitive advantage

ANS: A PTS: 1 DIF: Medium REF: 74 (Figure 3.1)

OBJ: 03-02 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

12. _____ is measured by a product's performance characteristics and its attributes for which customers are willing to pay.
- Competitive advantage
 - Profit potential
 - Contribution
 - Value

ANS: D PTS: 1 DIF: Medium REF: 74

OBJ: 03-02 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Knowledge of general business functions

13. _____ of organizational decisions fail.
- Few
 - About one-quarter
 - About half
 - Most

ANS: C PTS: 1 DIF: Medium REF: 75

OBJ: 03-02 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

14. By emphasizing core competencies when formulating strategies, companies learn to compete primarily on the basis of _____.
- intangible resources.
 - their primary activities.
 - firm-specific differences.
 - efficiency of production.

ANS: C PTS: 1 DIF: Hard REF: 75

OBJ: 03-02 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

15. A decision that results in failure _____.
- is a career-ending event because it is so unusual.
 - often results from lack of accountability.

- c. fosters organizational inertia.
- d. allows for learning.

ANS: D PTS: 1 DIF: Medium REF: 75

OBJ: 03-02 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Leadership Principles | Dierdorff & Rubin: Managing decision-making processes

16. The three conditions that characterize difficult managerial decisions concerning resources, capabilities, and core competencies are
- a. complexity, rarity, and human intellectual capital.
 - b. uncertainty, complexity, and intraorganizational conflicts.
 - c. imitability, complexity, and interorganizational conflicts.
 - d. imitability, comparability, and human intellectual capital.

ANS: B PTS: 1 DIF: Medium REF: 75-76

OBJ: 03-02 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

17. As discussed in the Strategic Focus, GE's executive leadership program helped managers develop capabilities to deal with all of the following EXCEPT
- a. uncertainty.
 - b. complexity.
 - c. powerful buyers.
 - d. intraorganizational conflict.

ANS: C PTS: 1 DIF: Medium REF: 76

OBJ: 03-02 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

18. The overall lesson from the Strategic Focus about GE's capabilities was the importance of _____ as a core competence
- a. financial resources
 - b. physical resources
 - c. human resources
 - d. brand name and reputation

ANS: C PTS: 1 DIF: Hard REF: 77

OBJ: 03-02 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing strategy and innovation

19. A person who has made a successful decision when no obviously correct model or rule is available or when relevant data are unreliable or incomplete has exercised
- a. foresight.
 - b. judgment.
 - c. effective strategic thinking.
 - d. decisiveness.

ANS: B PTS: 1 DIF: Medium REF: 76

OBJ: 03-02 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Leadership Principles | Dierdorff & Rubin: Managing decision-making processes

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

25. All of the following are tangible resources EXCEPT
- production equipment.
 - distribution centers.
 - firm's reputation.
 - formal reporting structures.

ANS: C PTS: 1 DIF: Medium REF: 78 (Table 3.1)

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

26. Tangible resources include
- assets that are people-dependent such as know-how.
 - assets that can be seen and quantified.
 - organizational culture.
 - a firm's reputation.

ANS: B PTS: 1 DIF: Medium REF: 78

OBJ: 03-03 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

27. Complete the following about the difference between tangible and intangible resources. Tangible resources are ____ constrained because they are _____ to leverage.
- less; easier
 - less; easier
 - more; harder
 - more; harder

ANS: C PTS: 1 DIF: Hard REF: 79

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

28. Compared to tangible resources, intangible resources are
- of less strategic value to the firm.
 - not the focus of strategic analysis.
 - a superior source of core competencies.
 - more likely to be reflected on the firm's balance sheet.

ANS: C PTS: 1 DIF: Medium REF: 79

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

29. Compared to tangible resources, intangible resources are ____ and ____.
- less visible; more difficult to copy.
 - less visible; less difficult to copy.
 - more visible; more difficult to copy.
 - more visible; less difficult to copy.

ANS: A PTS: 1 DIF: Medium REF: 79

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

30. The critical executive skill of the current business age is the ability to
- manage technological innovation.
 - manage human intellect.
 - initiate change and overcome inertia.
 - coordinate tangible and intangible resources.

ANS: B PTS: 1 DIF: Medium REF: 79

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing human capital

31. Which of the following is NOT a reputational resource?
- Customer opinion that the firm's product are high quality.
 - Employees viewing the firm as a terrible place to work.
 - Suppliers' opinion that the firm pays its bills in a timely manner.
 - Customer opinion that using the firm's product makes them attractive.

ANS: B PTS: 1 DIF: Hard REF: 79 (Table 3.2)

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

32. An investor is considering buying a restaurant that has been in operation for a number of years. The restaurant has a highly-reputed chef, and many long-term kitchen and wait staff who work together smoothly. It has a reputation for dishes of consistently high quality and an appealing dining atmosphere.
- The success of this restaurant is so heavily based on human resources that the business will likely be subject to inertia in the future.
 - The investor will find that the restaurant's financial statements will undervalue the true value of its resources.
 - The investor should be aware that intangible assets are difficult to leverage into additional business.
 - The investor should search for a firm which has competitive advantages based on tangible resources.

ANS: B PTS: 1 DIF: Hard REF: 79

OBJ: 03-03 TYPE: application

NOT: AACSB: Reflective Thinking Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

33. The Strategic Focus on GE in Chapter 3 details actions by the company which resulted in significant increases in the firm's stock value. The resources which played the greatest role in these actions were
- Technological.
 - Reputation.
 - Human.
 - Organizational.

ANS: C PTS: 1 DIF: Medium REF: 77 | Table 3.2

OBJ: 03-03 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff &

Rubin: Managing strategy & innovation

34. Which of the following is a true statement about capabilities?
- Capabilities exist when resources have been purposely integrated to achieve a specific task or set of tasks.
 - Valuable capabilities are based almost entirely on tangible resources.
 - Capabilities based on human capital are more vulnerable to obsolescence than other intangible capabilities because of the tendency for employee knowledge to become outdated.
 - The link between firm financial performance and capabilities is dependent on whether the capabilities are based on tangible or intangible resources.

ANS: A PTS: 1 DIF: Hard REF: 80

OBJ: 03-04 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

35. When firms lay off employees they are
- treating employees as an intangible resource.
 - recognizing the reduced value of labor in the value chain.
 - eroding the organization's knowledge resources.
 - temporarily sacrificing a tangible asset that is easily replace.

ANS: C PTS: 1 DIF: Hard REF: 80

OBJ: 03-03 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing human capital

36. Because capabilities are often client-specific and/or based on the firm's human capital,
- capabilities are fragile and subject to sudden loss of value.
 - they often evolve and develop over time.
 - capabilities are easily transferred from one firm to another as employees change jobs.
 - these types of capabilities are considered primary activities in the value chain.

ANS: B PTS: 1 DIF: Medium REF: 80

OBJ: 03-04 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing human capital

37. _____ can be viewed as the capacity to take action.
- Strategic assets
 - Human capital
 - Core competencies
 - Functional capabilities

ANS: C PTS: 1 DIF: Medium REF: 81

OBJ: 03-04 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

38. _____ is an example of a capability that is based in the functional area of distribution.
- Effective use of logistics management techniques
 - Effective control of inventories through point-of-purchase data collection
 - Effective organizational structure
 - Product and design quality

ANS: A PTS: 1 DIF: Medium REF: 81 (Table 3.3)
OBJ: 03-04 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing logistics & technology

39. Capabilities
- tend to be developed through firm-wide interactions and reside in the firm as a whole.
 - tend to be concentrated in the support activities of the value chain.
 - tend to be concentrated in the primary activities of the value chain.
 - are often developed in specific functional areas.

ANS: D PTS: 1 DIF: Hard REF: 80
OBJ: 03-04 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

40. How many core competencies should a firm seek to develop?
- 1 or 2
 - 3 or 4
 - 5 or 6
 - As many as possible.

ANS: B PTS: 1 DIF: Medium REF: 81
OBJ: 03-04 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

41. It is vital for firms to develop
- one strong core competency.
 - as many core competencies as possible.
 - three or four core competencies.
 - an ever-changing array of competencies, as competencies rarely last longer than two years.

ANS: C PTS: 1 DIF: Medium REF: 81
OBJ: 03-04 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

42. To provide a sustainable competitive advantage, a capability must satisfy all of the following criteria EXCEPT
- be technologically innovative.
 - be hard for competing firms to duplicate.
 - be without good substitutes.
 - be valuable to customers.

ANS: A PTS: 1 DIF: Medium REF: 82
OBJ: 03-05 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

43. From a customer's point of view, for an organization's capability to be a core competence it must be
- inimitable and unique.
 - valuable and unique.
 - inimitable and nonsubstitutable.

d. valuable and nonsubstitutable.

ANS: B PTS: 1 DIF: Hard REF: 82

OBJ: 03-05 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

44. Valuable capabilities

- a. allow the firm to exploit opportunities in its external environment.
- b. allow the firm to neutralize threats in its internal environment.
- c. allow the firm to exploit opportunities or neutralize threats in its external environment.
- d. none of these are correct.

ANS: C PTS: 1 DIF: Easy REF: 82

OBJ: 03-05 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

45. Capabilities that other firms cannot develop easily are classified as

- a. costly to imitate.
- b. rare.
- c. valuable.
- d. nonsubstitutable.

ANS: A PTS: 1 DIF: Easy REF: 83

OBJ: 03-05 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

46. A major department store chain has a strict policy of banning photographs or videos of its sales floor or back room operations. It also does not allow academics to conduct studies of it for publication in research journals. In fact, some of its own top managers refer to the management's policies on secrecy as "verging on paranoid." These policies indicate that the top management of the firm believes the organization's core competencies are

- a. causally ambiguous.
- b. unobservable.
- c. imitable.
- d. common.

ANS: C PTS: 1 DIF: Hard REF: 83

OBJ: 03-05 TYPE: application

NOT: AACSB: Reflective Thinking Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

47. Several months ago, a restaurant developed a new appetizer that is a hit with customers. Many customers go to the restaurant just for the appetizer and it was at the center of a recent highly positive review by a food critic. Preparation involves common ingredients and average culinary skills levels, but requires a very high oven temperature which significantly increases utility costs. Several competing restaurants have since added their own version of the appetizer to their menu. Which criteria for assessing capabilities/core competencies is met?

- a. The restaurant has the capability to develop something that is valuable.
- b. The restaurant has the capability to develop something that is rare.
- c. The restaurant has the capability to develop something that is costly to imitate.
- d. All of these are met.

ANS: A PTS: 1 DIF: Hard REF: 82

OBJ: 03-05 TYPE: application

NOT: AACSB: Reflective Thinking Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

48. In the airline industry, frequent-flyer programs, ticket kiosks, and e-ticketing are all examples of capabilities that are ____ but no longer ____.
- rare; valuable
 - valuable; rare
 - socially complex; rare
 - valuable; causally ambiguous

ANS: B PTS: 1 DIF: Medium REF: 83

OBJ: 03-05 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

49. Costly-to-imitate capabilities can emerge for all of the following reasons EXCEPT
- lack of scientific transference.
 - social complexity.
 - unique historical conditions.
 - causal ambiguity.

ANS: A PTS: 1 DIF: Medium REF: 83

OBJ: 03-05 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

50. A financial management firm has existed for over 70 years. Some of its original clients' grandchildren are now clients of the firm themselves. The partners and staff of the firm have spent most or all of their careers with the firm. Many have even married into each other's families. This firm has capabilities that would be costly to imitate because of its
- access to large amounts of financial capital.
 - possession of causally ambiguous core competencies.
 - social complexity.
 - unique historical conditions.

ANS: C PTS: 1 DIF: Hard REF: 83

OBJ: 03-05 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

51. Southwest Airlines has a complex interrelationship between its culture and staff that adds value in ways that other airlines cannot (such as jokes on flights or the cooperation between gate personnel and pilots). These examples illustrate which of the following criteria for sustainable competitive advantage?
- valuable.
 - rare.
 - costly to imitate.
 - nonsubstitutable.

ANS: C PTS: 1 DIF: Hard REF: 83

OBJ: 03-05 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

52. The Strategic Focus on Ryanair noted that for years it was the only airline able to
- operate without hidden charges.
 - win awards for customer service two years in a row.
 - imitate Southwest's low-cost strategy.
 - successfully train its staff to be friendly to customers.

ANS: C PTS: 1 DIF: Hard REF: 84

OBJ: 03-05 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

53. Organizational culture is
- amorphous and changeable.
 - not easily imitable.
 - so difficult to analyze that most firms should choose to ignore it.
 - typically fragile in the face of changes in the external environment.

ANS: B PTS: 1 DIF: Medium REF: 83

OBJ: 03-05 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

54. Gamma, Inc., has struggled for industry dominance with Ardent, Inc., its main competitor, for years. Gamma has gathered and analyzed large amounts of competitive intelligence about Ardent. It has observed as much of the firm's internal functioning and technology as it can legally, yet Gamma cannot understand why Ardent has a competitive advantage over it. The source of Ardent's success is
- impregnable.
 - causally ambiguous.
 - rationaly obscure.
 - elusive.

ANS: B PTS: 1 DIF: Medium REF: 83

OBJ: 03-05 TYPE: application

NOT: AACSB: Reflective Thinking Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

55. If a firm has a service that is valuable, rare, and costly-to-imitate, but a substitute exists for the service, the firm will
- achieve competitive parity.
 - have a competitive disadvantage.
 - have a temporary competitive advantage.
 - gain a sustainable competitive advantage.

ANS: C PTS: 1 DIF: Hard REF: 85 (Table 3.5)

OBJ: 03-05 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

56. ACME Corp. is a leading provider of radios to the commercial market. Its products all rely on printed circuit board technology. ACME has protected its market leadership with continued advancements in this technology which it patents. A competitor has developed a radio for this market with equal performance but uses a software-based solution instead of circuit boards. ACME's technology leadership fails which capability test?
- The value test

- b. The rareness test
- c. The substitutability test
- d. It fails all three of these tests

ANS: C PTS: 1 DIF: Medium REF: 83 | 85

OBJ: 03-05 TYPE: application

NOT: AACSB: Reflective Thinking Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

57. Firms that achieve competitive parity can expect to
- a. earn below-average returns.
 - b. earn average returns.
 - c. earn above-average returns.
 - d. initially earn above-average returns, declining to average returns.

ANS: B PTS: 1 DIF: Hard REF: 85 (Table 3.5)

OBJ: 03-05 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

58. A veterinary practice has added a pet boarding and grooming facility. Most of the practice's competitors also provide these services. The veterinary practice is gaining competitive
- a. advantage.
 - b. parity.
 - c. disadvantage.
 - d. neutrality.

ANS: B PTS: 1 DIF: Medium REF: 85 (Table 3.5)

OBJ: 03-05 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

59. A local restaurant, Farm Fresh Ingredients, has become highly successful through its menu based solely on organically-raised chicken, beef, and organic seasonal produce. It has opened new locations in other cities, and these new locations are becoming highly profitable. Farm Fresh can expect that, at best, its competitive advantage will be
- a. permanent.
 - b. sustainable.
 - c. temporary.
 - d. defensible.

ANS: C PTS: 1 DIF: Hard REF: 85 (Table 3.5)

OBJ: 03-05 TYPE: application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

60. Primary activities are
- a. the activities most likely to be imitated by competitors.
 - b. involved in a product's physical creation, its distribution, and its service after the sale.
 - c. the core competencies of the organization.
 - d. the activities most crucial to implementing the firm's business strategy.

ANS: B PTS: 1 DIF: Medium REF: 85

OBJ: 03-06 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff &

Rubin: Knowledge of general business functions

61. Regardless of the industry, the most valuable links on a firm's value chain will likely be
- financial managers.
 - technology experts.
 - people who have knowledge of customers.
 - research and development specialists.

ANS: C PTS: 1 DIF: Medium REF: 86

OBJ: 03-06 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Knowledge of general business functions

62. Value-creating primary activities include
- purchasing raw materials and supplies.
 - recruiting, training, developing, and compensating employees.
 - selecting appropriate distribution channels.
 - planning corporate strategy and setting goals.

ANS: C PTS: 1 DIF: Hard REF: 87 (Tables 3.6 and 3.7)

OBJ: 03-06 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Strategic & systems skills

63. Examples of support activities include all of the following EXCEPT
- technology development.
 - human resource management.
 - service after the sale.
 - procurement.

ANS: C PTS: 1 DIF: Medium REF: 86 (Figure 3.3)

OBJ: 03-06 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Knowledge of general business functions

64. Value chain analysis is a tool used to
- analyze a firm's external environment for value-creating opportunities.
 - analyze a firm's primary and support activity in isolation from influences of the external environment.
 - understand the parts of the firm's operation that create value and those that do not.
 - identify the firm's core competencies in each of the primary activities of the firm.

ANS: C PTS: 1 DIF: Hard REF: 85

OBJ: 03-06 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

65. Value chain activities
- are used to identify the industry profit pool that the firm should target.
 - show that there are multiple means that can be used to implement a business strategy.
 - focus on the links between primary activities, because these are the true source of competitive advantage for the firm.
 - can be used in not-for-profit organizations if the analysis focuses on support activities.

ANS: B PTS: 1 DIF: Medium REF: 85

OBJ: 03-06 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Knowledge of general business functions

66. Value chain support activities include
- converting inputs into products.
 - developing advertising and promotional campaigns.
 - distributing the product to customers.
 - recruiting, hiring, and training personnel.

ANS: D PTS: 1 DIF: Medium REF: 87 (Table 3.7)

OBJ: 03-07 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

67. Outsourcing is the
- spinning off of a value-creating activity to create a new firm.
 - selling of a value-creating activity to other firms.
 - purchase of a value-creating activity from an external supplier.
 - use of computers to obtain value-creating data from the Internet.

ANS: C PTS: 1 DIF: Medium REF: 89

OBJ: 03-07 TYPE: knowledge
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

68. A major reason outsourcing is being used is that
- it increases the innovative potential of the firm.
 - few firms possess superior capability in all primary and support activities.
 - it permits unlimited access to capital resources.
 - competitors do not have access to the same external sources.

ANS: B PTS: 1 DIF: Medium REF: 89

OBJ: 03-07 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

69. Which of the following is TRUE about outsourcing?
- Outsourcing allows firms to be more flexible, and requires minimal coordination.
 - Outsourcing allows firms to concentrate on those areas in which they can create value.
 - Outsourcing strengthens the creative and innovative functions within the firm.
 - Outsourcing is only effective when it includes all support activities.

ANS: B PTS: 1 DIF: Hard REF: 89

OBJ: 03-07 TYPE: comprehension
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

70. A major U.S. manufacturer of children's toys believes its main competitive advantage lies in its continuing development of innovative toys and games. The company is facing increasing competition on price and it is strongly considering outsourcing to offshore firms as a means of reducing costs. The LAST function this firm should consider outsourcing is
- production.
 - research and development.
 - information technology.

d. distribution.

ANS: B PTS: 1 DIF: Medium REF: 89

OBJ: 03-07 TYPE: application

NOT: AACSB: Reflective Thinking Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

71. True Colors, Inc., sells interior and exterior household paints. It is planning to outsource most production of its paint offshore. The top management of True Colors is concerned that its middle managers may not possess the skills needed to successfully implement outsourcing. Consequently, all the following are high priority training topics for True Colors managers EXCEPT
- partnership governance.
 - deal making.
 - change management.
 - customer relations.

ANS: D PTS: 1 DIF: Hard REF: 89

OBJ: 03-07 TYPE: application

NOT: AACSB: Reflective Thinking Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

72. The owner of a store retailing fine quality fabrics for home-sewers bewails the fact that few young women know how to do fine tailoring, much less simple dressmaking. Many potential customers are unable to appreciate the premium quality of the fabrics available and are deterred by the high prices, as well as the complexity of fine sewing. In the past, the store had a strong demand for fabrics, large classes for women learning the fine points of sewing, and a reputation for excellent service and technical advice. Now the store is earning lower-than-average returns. This case is an example of
- the hazard of competitors being able to imitate a firm's core competency.
 - the need for firms to stick to their core competencies through temporary downturns in market demand.
 - the lack of intangible resources undermining the core competencies of the firm.
 - core competencies that have become core rigidities.

ANS: D PTS: 1 DIF: Medium REF: 90

OBJ: 03-08 TYPE: application

NOT: AACSB: Reflective Thinking Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

73. Which of the following is NOT an external event that reveals the "dark side" of core capabilities?
- A new competitor figures out a better way to serve the firm's customers.
 - New technologies emerge and replace those used by the firm.
 - A firm changes its focus to a new core competence.
 - Political or social events shift the foundation of current core capabilities.

ANS: C PTS: 1 DIF: Hard REF: 90

OBJ: 03-08 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

74. Acme Auto Repair has a thriving business based on its reputation for high-quality work, honesty, and skilled employees. For continued long-term success, Acme's owner should
- concentrate on maintaining Acme's present core competencies.
 - focus on developing Acme's future competitive advantages.
 - place more emphasis on tangible resources which are less vulnerable to obsolescence than intangible resources.

- d. recognize that core competencies derived from human resources are more subject to becoming core rigidities than are core competencies based on other types of resources.

ANS: B PTS: 1 DIF: Hard REF: 90

OBJ: 03-08 TYPE: comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

75. Ultimately, the cause of all core capabilities becoming core rigidities is
- changes in the external and internal environment.
 - inertia and employee resistance to change.
 - strategic myopia and managerial inflexibility.
 - failure to accurately analyze the value chain.

ANS: C PTS: 1 DIF: Hard REF: 90

OBJ: 03-08 TYPE: knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

ESSAY

1. Describe the importance of internal analysis to the strategic success of the firm.

ANS:

By analyzing its internal environment, a firm determines what actions it can take based on its unique resources, capabilities and core competencies. The firm's core competencies are the source of the firm's competitive advantage. Internal analysis allows the firm to compare what it is capable of doing (what it "*can do*") with what it "*might do*" (which is a function of opportunities and threats in the external environment). Matching what a firm can do with what it might do allows the firm to develop its vision, pursue its strategic mission, and select and implement its strategies. This allows the firm to leverage its unique bundle of resources and capabilities to gain competitive advantage.

PTS: 1 DIF: Medium REF: 73 OBJ: 03-01

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes

2. What are the differences between tangible and intangible resources? Which category of resources is more valuable to the firm?

ANS:

Resources are either tangible or intangible. *Tangible* resources are those assets that can be observed and quantified. There are four types of tangible assets: financial resources (borrowing capacity, ability to generate internal funds); physical resources (plant and equipment, access to raw materials); technological resources (patents, trademarks, copyrights, and trade secrets), and organizational resources (formal reporting structure, planning, controlling and coordinating systems). *Intangible* resources are those assets in the firm that are less visible. There are three types of such resources: human resources (knowledge, trust, management capabilities, and organizational routines), resources for innovation (ideas, scientific capability, and capacity for innovation), and reputation (reputation with customers, i.e., the firm's brand name and perceptions of product quality, and relationships with suppliers). Intangible assets develop over time and are deeply rooted in the organization's history. Consequently, they are difficult for competitors to analyze and imitate. In addition, intangible resources can be leveraged to create new value to the firm. These properties give intangible resources a greater ability to create sustainable competitive advantage than do tangible resources.

PTS: 1 DIF: Medium REF: 78-79 OBJ: 03-03
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

3. Define capabilities and how they affect the firm's strategic success.

ANS:

Capabilities exist when resources have been purposely integrated to achieve a specific task or tasks. Examples of tasks are human resource activities, product marketing, and research and development. Capabilities are based on developing, carrying, and exchanging information and knowledge through the firm's human capital. Many of the firm's capabilities are based on the unique skills and knowledge of its employees and their functional expertise. The knowledge possessed by human capital is among the most significant of a firm's capabilities. Capabilities are often developed in specific functional areas (such as manufacturing or marketing) or in a part of a functional area (e.g., advertising).

PTS: 1 DIF: Medium REF: 80 OBJ: 03-04
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

4. Describe the four specific criteria that managers can use to decide which of their firm's capabilities have the potential to create a sustainable competitive advantage.

ANS:

Managers must identify whether their firm has capabilities that are valuable and nonsubstitutable from the customer's point of view, and unique and inimitable from the firm's competitors' point of view. Only capabilities with these four characteristics are core competencies that can lead to sustainable competitive advantage. A *valuable* capability is one that helps the firm to exploit opportunities or to neutralize threats in the external environment. *Rare* means that few if any competitors possess the particular capability. *Costly-to-imitate* means a capability cannot be easily developed by other firms. Often, this kind of capability is rooted in the organization's culture or its unique history. Capabilities may also be costly to imitate if they are causally ambiguous or involve social complexity. Finally, *nonsubstitutable* capabilities do not have strategic equivalents that are rare and inimitable.

PTS: 1 DIF: Medium REF: 82-85 OBJ: 03-05
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

5. Describe a value chain analysis. How does a value chain analysis help a firm gain competitive advantage?

ANS:

A value chain analysis allows a firm to understand the activities that create value for the firm and those that do not. A value chain analysis follows the product from its raw-material stage to the final customer. The purpose is to add as much value as possible as cheaply as possible and to capture that value. To conduct a value chain analysis, managers should study and identify all activities of the firm and evaluate their impact on the effort to create value for the customer. This analysis should be conducted with an attempt to assess the competitor's capabilities in these same areas. There are two central types of activities in a value chain, primary and support activities. Primary activities are involved in a product's physical creation, its sale and distribution to buyers, and its service after the sale. The *support* activities are those activities necessary for the primary activities to take place. If the firm can either perform the activity in a manner that is superior to how competitors perform it or perform a value-creating activity that competitors cannot complete, then the activity may be a source of competitive advantage.

PTS: 1 DIF: Medium REF: 85-89 OBJ: 03-06
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Strategic & systems skills

6. Why is it important to prevent core competencies from becoming core rigidities?

ANS:

All core competencies have the potential to become core rigidities and to generate failure. Each competence is a potential weakness if it is emphasized when it is no longer competitively relevant. The success that the competence generated in the past can generate organizational inertia and complacency. A core competence can become obsolete if competitors figure out a better way to serve the firm's customers, if new technologies emerge, or if political or social events shift in the external environment. If the organization's managers react to these changes with inflexibility and strategic myopia, then core rigidities are created.

PTS: 1 DIF: Medium REF: 90 OBJ: 03-08
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Managing strategy & innovation

CASE

Case Scenario 1: Heartsong LLC.

Heartsong LLC is a designer and manufacturer of replacement heart valves based in Peoria, Illinois. While a relatively small company in the medical devices field, it has established a worldwide reputation as the provider of choice high-quality, leading-edge artificial heart valves. Most of its products are sold to large regional hospital systems and research hospitals. Specialty heart centers are another emerging, but fast-growing, market for its valves. While Heartsong would like to grow quickly, its growth is constrained by the need to finance larger production runs and then carry this additional inventory. For products like those of Heartsong, vendors typically do not collect payment until the unit is actually used in surgery. Moreover, heart valves are usually required on short notice which means that they must be either onsite, or inventoried at a nearby location. If nearby, then transport of the unit to a hospital or heart center occurs within a matter of hours, and sometimes minutes. For this reason, accelerated growth would require Heartsong to both finance increased production of its heart valves, along with carrying increased levels of inventory that are in fact sitting on their customers' shelves. In fact, inventory-carrying cost is its single largest cost outside of research and development. While profitable growth is necessary if Heartsong is to continue extending its competitive advantage through increasingly greater investments in basic heart valve R&D, it is not clear that the company can internally support all these increased financial commitments (R&D, manufacturing, and inventory). Doc Watson, the CEO of Heartsong, is considering an outside contractor, EdFex, to handle the inventorying, warehousing, and delivery of its valves. EdFex has secure, high-tech warehouses in most major population centers around the country, and can ensure delivery of a product to these markets from its warehouses in less than one hour.

1. (Refer to Case Scenario 1) What value-chain activities appear to underlie Heartsong's competitive advantage?

ANS:

The best answers will begin by noting that Heartsong has the capacity to design leading-edge medical products and then take these designs and turn them into reliably manufactured, high-quality replacement heart valves. Thus, basic R&D and quality precision manufacturing are likely to be critical value-creating facets for this firm.

PTS: 1

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2. (Refer to Case Scenario 1) Why might an outsourcing arrangement with EdFex be attractive to Heartsong?

ANS:

The best answers will start by observing that the scenario suggests that Heartsong needs to grow if it is going to continue being competitive and successful. However, Heartsong is also capital constrained and an outsourcing arrangement with EdFex allows it to more efficiently manage this significant aspect of its cost base (inventory and delivery). This outsourcing solution would be ideal if it would allow Heartsong to maintain a centralized warehouse with heart valve inventory in major population centers, instead of its present practice of carrying inventory on the shelves of each of its hospital customers. As a result, Heartsong could grow its market presence, while more efficiently managing the need to have heart valves available on short notice.

PTS: 1

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3. (Refer to Case Scenario 1) What are the implications of an EdFex outsourcing arrangement for the capabilities underlying Heartsong's competitive advantage?

ANS:

The best answers will develop the theme that the EdFex outsourcing arrangement is truly likely to be win-win. With the arrangement in place, Heartsong is able to devote its financial, human capital, and managerial resources to basic R&D and quality precision manufacturing; and, EdFex does what it does best in logistics. Moreover, it is hard to contemplate that EdFex would ever think of entering the heart valve industry - thus, EdFex does not pose a direct threat as a future competitor. It does however pose an indirect threat to Heartsong to the extent it can hold the firm hostage, and extract exorbitant fees for its logistic services.

PTS: 1

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Case Scenario 2: ERP Inc.

ERPI is a leading provider of enterprise integration software (EIS). EIS allows a firm to connect and integrate processes across all aspects of its business, regardless of where they are located around the world. ERPI is a product-focused company, whereas most competitors in its market space, like Oracle, operate as "solutions companies." Oracle and Microsoft have begun to devote considerable resources to the development of and acquisition of products to compete in the EIS space. Despite these recent threats, one benefit of its product-focused strategy is that ERPI's proprietary product is generally recognized as being 200% to 300% better than competitors' software. ERPI estimates it will take 2 to 3 years for competitors to develop the capabilities needed to bring a competing product to market. ERPI invests a considerable percentage of its profits in basic R&D to support its core products. As evidence of this, among its competitors the firm maintains the largest in-house programming staff dedicated solely to the development of advanced enterprise integration software. Installation and related consulting for EIS typically cost between \$100 and \$200 million, with the ERPI software component accounting for about 20% of the installed cost (the remaining 80% is spent on the actual installation, not counting the value of the customer's time). ERPI's target market consists of the world's largest manufacturing and industrial firms and it currently enjoys a 60 percent market share.

4. (Refer to Case Scenario 2) How valuable, rare, costly to imitate, and nonsubstitutable are ERPI's capabilities?

ANS:

The best answers will simply walk through the respective columns in Table 3.5 and reach the conclusion that, at least in the near term, ERPI has a sustainable competitive advantage. Its EIS software is valuable given that it is 200% to 300% better than competitors' products. It is similarly rare and nonsubstitutable since it is proprietary, and currently has a two-year lead on the alternatives. A similar rationale can be invoked to support the argument that ERPI's capabilities in software programming are going to be costly to imitate. A competitor would have to hire a similar workforce or acquire a company that currently occupies the same market space. This strong position is further bolstered by the fact that a large percentage of the market is voting with its feet in favor of ERPI.

PTS: 1

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5. (Refer to Case Scenario 2) How sustainable is ERPI's competitive advantage?

ANS:

The best answers will build on the basic notions developed in response to question 4. Students will argue that ERPI's competitive advantage is sustainable as long as its technology continues to define the leading edge of EIS products and that substitute solutions do not encroach much on its two-year lead. However, and as is consistent with most high-technology markets, as students pick apart ERPI's capabilities following the categories in Table 3.5 they should begin to see that sustained competitive advantage in this particular market space may be difficult, particularly given the presence of large, aggressive competitors like Oracle and Microsoft, which are intent on gaining a presence in the EIS market.

PTS: 1

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6. (Refer to Case Scenario 2) Imagine that ERPI's historic growth strategy has focused on making one sale and then moving on to the next target company. After several years of building market share using this approach, what new resources has ERPI developed?

ANS:

This question asks students to take a more dynamic perspective of potentially valuable resources that companies and their customers create together, but that the company itself can exploit (a perfect example of a co-specialized asset). The best answers will begin by observing that if ERPI has focused historically on transactions (making the sale), then it has given little explicit consideration to customers as long-term relationships beyond the need to provide technical support (lifetime value of a customer beyond the first sale). Shifting attention to ERPI installations as relationships suggests that the company now has a customer list to die for. This list is especially valuable since (1) the target companies have invested upwards of \$200 million in ERPI proprietary systems and, (2) once installed, given the pervasive nature of EIS systems, those target firms are unlikely to simply switch to another system.

PTS: 1

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7. (Refer to Case Scenario 2) Which of the following best describes ERPI?

- a. ERPI is at a competitive disadvantage.
- b. ERPI is at a competitive parity.
- c. ERPI is has a temporary competitive advantage.
- d. ERPI is has a sustainable competitive advantage.

ANS:

d

PTS: 1 DIF: Hard REF: 85 OBJ: 03-05 TYPE: application
NOT: AACSB: Reflective Thinking Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

8. (Refer to Case Scenario 2) Which of the following represents the maximum level of performance ERPI should expect to achieve?
- a. Below-average returns.
 - b. Average returns.
 - c. Average to above average returns.
 - d. Above average returns.

ANS:

c

PTS: 1 DIF: Hard REF: 85 OBJ: 03-05 TYPE: application
NOT: AACSB: Reflective Thinking Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

9. (Refer to Case Scenario 2) If the time for the competitor to produce a product similar to ERPI's were 2-3 months instead of 2-3 years, which portion of your assessment of ERPI's capabilities would change?
- a. Valuable
 - b. Rare
 - c. Costly-to-imitate
 - d. None of these would change

ANS:

b

PTS: 1 DIF: Medium REF: 82-85 OBJ: 03-05 TYPE: application
NOT: AACSB: Reflective Thinking Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

Case Scenario 3: B.B. Mangler.

B.B. Mangler is a top U.S. business-to-business distributor of maintenance, repair, and service equipment, components, and supplies such as compressors, motors, signs, lighting and welding equipment, and hand and power tools. Customers include contractors, service and maintenance shops, manufacturers, hotels, government, and health care and educational facilities. Mangler's industry is typically referred to as MRO, which is an acronym for maintenance, repair, and supplies. Mangler states its strategy as having the "capacity to quickly offer an unmatched breadth of lowest total cost MRO solutions to business." Mangler's GoMRO sourcing center for indirect spot buys locates products through its unique database of 8,000 suppliers and 5 million products. Mangler also dominates the North American market in terms of its sheer local physical presence. It has 388 physical branches in the U.S. largest cities, including Puerto Rico (90% of sales), 184 in Canada, and five in Mexico. This physical presence also has garnered them a reputation for excellent, dependable service in their target markets, which in turn translates into a vast and loyal clientele.

10. (Refer to Case Scenario 3) Mangler's physical locations are best an example of
- a core competency.
 - a capability.
 - an intangible resource.
 - a tangible resource.

ANS:
d

PTS: 1 DIF: Medium REF: 78-85 OBJ: 03-03 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

11. (Refer to Case Scenario 3) Mangler's reputation among its customers is an example of
- a core competency
 - a capability
 - an intangible resource
 - a tangible resource

ANS:
c

PTS: 1 DIF: Medium REF: 78-85 OBJ: 03-03 TYPE: application
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation

12. (Refer to Case Scenario 3) The Internet threatens to displace physical locations as a basis for competitive advantage. If Mangler's vast network of branch offices were an integral part of its core competencies, what might the branches become if the basis for competitive advantage in the MRO industry moves to the Internet?
- a core rigidity
 - a capability
 - an intangible resource
 - a tangible resource

ANS:
a

PTS: 1 DIF: Medium REF: 78-85 | 90 OBJ: 03-08 TYPE: application
NOT: AACSB: Reflective Thinking Skills | Management: Creation of Value | Dierdorff & Rubin:

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