

Management Information Systems: Managing the Digital Firm, 15e (Laudon)
Chapter 3 Information Systems, Organizations, and Strategy

1) The interaction between information technology and organizations is influenced:

- A) solely by the decision making of middle and senior managers.
- B) by the development of new information technologies.
- C) by many factors, including structure, politics, culture, and environment.
- D) by two main macroeconomic forces: capital and labor.
- E) by the rate of growth of the organization.

Answer: C

Difficulty: Moderate

AACSB: Information technology

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

2) Which of the following statements about organizations is *not* true?

- A) An organization is a stable, formal social structure that takes resources from the environment and processes them to produce outputs.
- B) An organization is a formal, legal entity with internal rules and procedures that must abide by laws.
- C) An organization is a collection of people and other social elements.
- D) An informal group can be considered to be an organization.
- E) An organization is a collection of rights, privileges, obligations, and responsibilities delicately balanced over a period of time through conflict and conflict resolution.

Answer: D

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

3) According to the _____ definition of organizations, an organization is seen as a means by which capital and labor are transformed by the organization into outputs to the environment.

- A) microeconomic
- B) macroeconomic
- C) sociotechnical
- D) behavioral
- E) psychological

Answer: A

Difficulty: Challenging

AACSB: Reflective thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

- 4) Which of the following statements about the technical view of organizations is *not* true?
- A) It sees information systems as a way to rearrange the inputs and outputs of the organization.
 - B) It sees capital and labor as primary production factors.
 - C) It emphasizes group relationships, values and structures.
 - D) It sees the organization as a social structure similar to a machine.
 - E) It sees the inputs and outputs, labor and capital, as being infinitely malleable.

Answer: E

Difficulty: Challenging

AACSB: Analytical thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

- 5) Which of the following is *not* a major feature of organizations that impacts the use of information systems?

- A) Business processes
- B) Environments
- C) Goals
- D) Agency costs
- E) Leadership styles

Answer: D

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

- 6) Which of the following statements about business processes is *not* true?

- A) Business processes influence the relationship between an organization and information technology.
- B) Business processes are a collection of standard operating procedures.
- C) A business firm is a collection of business processes.
- D) Business processes are usually ensconced in an organization's culture.
- E) Business processes are typically unaffected by changes in information systems.

Answer: E

Difficulty: Challenging

AACSB: Reflective thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

7) Which of the following technologies disrupted the traditional publishing industry?

- A) Instant messaging
- B) e-mail
- C) Internet telephony
- D) PCs
- E) World Wide Web

Answer: E

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

8) Under Mintzberg's classification of organizational structure, knowledge-based organizations fall under the category of:

- A) entrepreneurial structures.
- B) divisionalized bureaucracies.
- C) professional bureaucracies.
- D) adhocracies.
- E) machine bureaucracies.

Answer: C

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

9) Mintzberg classifies a large bureaucracy existing in a slowly changing environment that produces standard products and is dominated by centralized management as a _____ bureaucracy.

- A) machine
- B) professional
- C) divisionalized
- D) multidivisional
- E) ad hoc

Answer: A

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

10) Which of the following is an example of a divisionalized bureaucracy?

- A) Startup firm
- B) University
- C) Fortune 500 firm
- D) Midsize manufacturer
- E) Consulting firm

Answer: C

Difficulty: Challenging

AACSB: Reflective thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

11) Along with capital, _____ is the primary production input that the organization uses to create products and services.

- A) structure
- B) culture
- C) politics
- D) feedback
- E) labor

Answer: E

Difficulty: Easy

AACSB: Information technology

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

12) The divergent viewpoints about how resources, rewards, and punishments should be distributed, and the struggles resulting from these differences are known as organizational:

- A) culture.
- B) politics.
- C) structure.
- D) environments.
- E) routines.

Answer: B

Difficulty: Easy

AACSB: Information technology

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

- 13) Which of the following statements about disruptive technologies is *not* true?
- A) Disruptive technologies radically change the business landscape and environment.
 - B) Disruptive technologies may be substitute products that perform better than other products currently being produced.
 - C) Disruptive technologies may sometimes simply extend the marketplace.
 - D) Disruptive technologies may put entire industries out of business.
 - E) Firms that invent disruptive technologies as first movers always become market leaders.

Answer: E

Difficulty: Moderate

AACSB: Information technology

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

- 14) As discussed in the chapter opening case, which of the following statements about Verizon is *not* true?

- A) Verizon is focusing on satellite-based television in its competition with AT&T.
- B) Verizon claims that its wireless network is the largest and most reliable in the United States.
- C) Verizon is investing in upgrading its high-speed networks.
- D) Verizon sees mobile ads and video as an investment for the future.
- E) Verizon offers a standalone video service.

Answer: A

Difficulty: Challenging

AACSB: Application of knowledge

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

- 15) All organizations have bedrock, unquestioned assumptions that define their goals and products.

Answer: TRUE

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

- 16) A professional bureaucracy is a knowledge-based organization where goods and services depend on the expertise and knowledge of professionals.

Answer: TRUE

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

17) Routines are also called standard operating procedures.

Answer: TRUE

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

18) How are the technical and behavioral definitions of an organization different?

Answer: The behavioral definition of an organization is that it is a collection of rights, privileges, obligations, and responsibilities that is delicately balanced over a period of time through conflict and conflict resolution. The technical definition sees an organization as an entity that takes inputs from the environment and processes these to create products that are then consumed by the environment. The technical view sees capital and labor as interchangeable units, with the ability to rearrange these units at will, whereas the behavioral view sees that rearranging some aspects of the organization, such as an information system, will have important consequences and changes for the organization's other units.

Difficulty: Challenging

AACSB: Analytical thinking

LO: 3-1: Which features of organizations do managers need to know about to build and use information systems successfully?

19) When a firm buys on the marketplace what it cannot make itself, the costs incurred are referred to as:

A) switching costs.

B) network costs.

C) procurement.

D) agency costs.

E) transaction costs.

Answer: E

Difficulty: Moderate

AACSB: Information technology

LO: 3-2: What is the impact of information systems on organizations?

20) All of the following statements are true about information technology's impact on business firms *except*:

A) it helps firms expand in size.

B) it helps firms lower the cost of market participation.

C) it helps reduce internal management costs.

D) it helps reduce transaction costs.

E) it helps reduce agency costs.

Answer: A

Difficulty: Moderate

AACSB: Information technology

LO: 3-2: What is the impact of information systems on organizations?

- 21) According to agency theory, the firm is viewed as a(n):
- A) unified, profit-maximizing entity.
 - B) task force organization that must respond to rapidly changing environments.
 - C) entrepreneurial endeavor.
 - D) "nexus of contracts" among self-interested individuals.
 - E) entrepreneurial structure.

Answer: D

Difficulty: Challenging

AACSB: Reflective thinking

LO: 3-2: What is the impact of information systems on organizations?

- 22) According to research on organizational resistance, the four components that must be changed in an organization in order to successfully implement a new information system are:

- A) environment, organization, structure, and tasks.
- B) technology, people, culture, and structure.
- C) organization, culture, management, and environment.
- D) tasks, technology, people, and structure.
- E) costs, tasks, structure, and management.

Answer: D

Difficulty: Challenging

AACSB: Information technology

LO: 3-2: What is the impact of information systems on organizations?

- 23) List three organizational factors that can prevent a firm in fully realizing the benefits of a new information system, and provide examples for each.

Answer: Features of organizations include the organization's culture, politics, and structure. A new information system might be resisted by end users or by managers for political reasons because they are concerned about the political changes the system implies. For example, a new system might lessen the authority of a manager in overseeing the employees, and he or she may not want to relinquish this power. A new information system might challenge the organization's culture and be resisted for this reason. For example, an information system might allow students at a university to take self-managed courses, while the university's basic cultural assumptions include the concept that professors are the purveyors of knowledge. An information system, by allowing the distribution of knowledge, may be better used in a company with a flatter organization. A company with a highly stratified hierarchy may have difficulty adjusting its business processes and structures to an information system that does not follow the same business hierarchy of information.

Difficulty: Challenging

AACSB: Analytical thinking

LO: 3-2: What is the impact of information systems on organizations?

24) What is agency theory? How does information technology enable a firm to reduce agency costs?

Answer: According to agency theory, the firm is viewed as a "nexus of contracts" among self-interested individuals rather than as a unified, profit-maximizing entity. A principal (owner) employs "agents" (employees) to perform work on his or her behalf. However, agents need constant supervision and management; otherwise, they will tend to pursue their own interests rather than those of the owners. As firms grow in size and scope, agency costs or coordination costs rise because owners must expend more and more effort supervising and managing employees. Information technology, by reducing the costs of acquiring and analyzing information, permits organizations to reduce agency costs because it becomes easier for managers to oversee a greater number of employees. By reducing overall management costs, information technology enables firms to increase revenues while shrinking the number of middle managers and clerical workers.

Difficulty: Challenging

AACSB: Application of knowledge; Information technology; Written and oral communication

LO: 3-2: What is the impact of information systems on organizations?

25) Which model is used to describe the interaction of external forces that affect an organization's strategy and ability to compete?

- A) Network economics model
- B) Competitive forces model
- C) Competitive advantage model
- D) Demand control model
- E) Agency costs model

Answer: B

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

26) Which of the following industries has the lowest barrier to entry?

- A) Automotive
- B) Computer chip
- C) Solar energy
- D) Airline
- E) Small retailer

Answer: E

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

27) All of the following are competitive forces in Porter's model *except*:

- A) suppliers.
- B) new market entrants.
- C) external environment.
- D) customers.
- E) substitute products.

Answer: C

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

28) Which of the following marketplace forces would be of least concern to a manufacturer of deep-sea oil rigs?

- A) Product differentiation
- B) Traditional competitors
- C) Low number of suppliers
- D) New market entrants
- E) Low number of customers

Answer: D

Difficulty: Challenging

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

29) Which of the following substitute products would be of most concern for a cable TV distributor?

- A) Satellite TV
- B) Broadcast TV
- C) Satellite radio
- D) The Internet
- E) Terrestrial radio

Answer: A

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

30) Walmart's attempt to increase its online presence is an example of a firm using information systems to:

- A) strengthen ties to its customers.
- B) simplify the industry value chain.
- C) develop synergies.
- D) focus on market niche.
- E) achieve low-cost leadership.

Answer: E

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

31) A firm can exercise greater control over its suppliers by having:

- A) more suppliers.
- B) fewer suppliers.
- C) global suppliers.
- D) local suppliers.
- E) only a single supplier.

Answer: A

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

32) Amazon's use of the Internet as a platform to sell books more efficiently than traditional bookstores illustrates which of the following strategies?

- A) Low-cost leadership
- B) Marketing effectiveness
- C) Focusing on market niche
- D) Strengthening supplier intimacy
- E) Developing synergies

Answer: A

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

33) The four major competitive strategies are:

- A) low-cost leadership, substitute products and services, customers; and suppliers.
- B) low-cost leadership, product differentiation, focus on market niche, and customer and supplier intimacy.
- C) new market entrants, substitute products and services, customers, and suppliers.
- D) low-cost leadership, new market entrants, product differentiation, and focus on market niche.
- E) customers, suppliers, new market entrants, and substitute products.

Answer: B

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

34) Walmart's continuous replenishment system allows it to do all of the following *except*:

- A) provide mass customization.
- B) transmit orders to restock directly to its suppliers.
- C) keep costs low.
- D) better meet customer demands.
- E) fine-tune merchandise availability.

Answer: A

Difficulty: Challenging

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

35) Firms use a _____ strategy to provide a specialized product or service for a narrow target market better than competitors.

- A) product differentiation
- B) market niche
- C) mass customization
- D) process efficiency
- E) low-cost leadership

Answer: B

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

36) The ability to offer individually tailored products or services using the same production resources as bulk production is known as:

- A) mass marketing.
- B) micromarketing.
- C) micro customization.
- D) niche customization.
- E) mass customization.

Answer: E

Difficulty: Easy

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

37) In environmental scanning, a firm may use information systems to:

- A) transform inputs into products and services.
- B) analyze the performance of its intranet.
- C) identify external events that may affect it.
- D) keep track of the temperature within its data centers.
- E) develop a unified organizational culture.

Answer: C

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

38) Which of the following is *not* a true statement about value webs?

- A) Value webs involve a collection of independent firms that use information technology to coordinate their value chains.
- B) Value webs are more customer-driven than traditional value chains.
- C) Value webs operate in a less linear fashion than traditional value chains.
- D) Value webs are inflexible and cannot adapt quickly to changes in supply and demand.
- E) Value webs involve highly synchronized industry value chains.

Answer: D

Difficulty: Challenging

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

39) Which of the following best illustrates the use of information systems to focus on market niche?

- A) A car manufacturer's Web site that lets you customize the features on the car you are purchasing.
- B) A restaurant chain analyzing local sales figures to determine which menu items to serve.
- C) A bookseller selling an e-book reader that reads only the bookseller's books.
- D) A department store creating specialized products for preferred customers.
- E) A clothes manufacturer expanding its offerings to new styles.

Answer: D

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

40) All of the following are IT-enabled products and services providing competitive advantage *except*:

- A) Amazon's one-click shopping.
- B) Apple's iPod and iTunes.
- C) Ping's golf club customization.
- D) PayPal's online person-to-person payment system.
- E) Nike's use of celebrities to market their products.

Answer: E

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

41) The Internet increases the bargaining power of customers by:

- A) creating new opportunities for building loyal customer bases.
- B) making more products available.
- C) making information available to everyone.
- D) lowering transaction costs.
- E) enabling the development of new services.

Answer: C

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

42) Procter and Gamble uses InnovationNet for which of the following?

- A) To enhance its core competencies
- B) To benchmark its progress against competitors
- C) To create synergies with its suppliers
- D) To take advantage of network economics
- E) To establish a virtual company

Answer: A

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

43) Which of the following is a competitive force challenging the publishing industry?

- A) Positioning and rivalry among competitors
- B) Low cost of entry
- C) Substitute products or services
- D) Customers' bargaining power
- E) Suppliers' bargaining power

Answer: C

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

44) The value chain model:

- A) categorizes five related advantages for adding value to a firm's products or services.
- B) sees the supply chain as the primary activity for adding value.
- C) categorizes four basic strategies a firm can use to enhance its value chain.
- D) highlights specific activities in the business where competitive strategies can best be applied.
- E) enables more effective product differentiation.

Answer: D

Difficulty: Easy

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

45) Which of the following represent the primary activities of a firm?

- A) Inbound logistics, operations, outbound logistics, sales and marketing, and service
- B) Inbound logistics, operations, outbound logistics, technology, and service
- C) Procurement, inbound logistics, operations, technology, and outbound logistics
- D) Procurement, operations, technology, sales and marketing, and services
- E) Organization infrastructure, human resources, technology, and procurement

Answer: A

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

46) Which of the following is a support activity in a firm's value chain?

- A) Inbound logistics
- B) Operations
- C) Sales and marketing
- D) Service
- E) Technology

Answer: E

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

47) Which of the following would a company employ to measure and compare its business processes to similar processes of other companies within their industry?

- A) Benchmarking
- B) Best practices
- C) Value chain analysis
- D) Strategic systems analysis
- E) Secondary activities

Answer: A

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

48) The most successful solutions or methods for achieving a business objective are called:

- A) value activities.
- B) best processes.
- C) core competencies.
- D) best practices.
- E) benchmarks.

Answer: D

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

49) Information systems can be used at the industry level to achieve strategic advantage by:

- A) building industrywide, IT-supported consortia and symposia.
- B) raising the bargaining power of suppliers.
- C) encouraging the entry of new competitors.
- D) enforcing standards that reduce the differences between competitors.
- E) decreasing switching costs.

Answer: A

Difficulty: Easy

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

50) In network economics, the value of a commercial software vendor's software products:

- A) increases as more people use them.
- B) decreases as more people use them.
- C) increases due to higher marginal gain in output.
- D) decreases according to the law of diminishing returns.
- E) is unrelated to the number of people that use them.

Answer: A

Difficulty: Moderate

AACSB: Application of knowledge

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

51) When two organizations pool markets and expertise that result in lower costs and generate profits, they are creating:

- A) a value web.
- B) a value chain.
- C) net marketplaces.
- D) core competencies.
- E) synergies.

Answer: E

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

52) Which of the following is an example of synergy in business?

- A) Amazon's use of the Internet to sell books
- B) Bank of America acquiring Countrywide Financial to reach a large pool of new customers
- C) Blockbuster combining traditional video rental with online video rental
- D) Walmart's order entry and inventory management system to coordinate with suppliers
- E) Nike's use of technology to improve its product offerings

Answer: B

Difficulty: Easy

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

53) Information systems enhance core competencies by:

- A) providing better reporting facilities.
- B) creating educational opportunities for management.
- C) allowing operational employees to interact with management.
- D) encouraging the sharing of knowledge across business units.
- E) fostering synergies among departments.

Answer: D

Difficulty: Moderate

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

54) The idea that the more any given resource is applied to production, the lower the marginal gain in output, until a point is reached where the additional inputs produce no additional output, is referred to as:

- A) the point of no return.
- B) the law of diminishing returns.
- C) supply and demand.
- D) network inelasticity.
- E) virtual economics.

Answer: B

Difficulty: Easy

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

55) Which of the following statements about network economics is *not* true?

- A) Uber is an example of a business model that is based on the principle of network economics.
- B) The law of diminishing returns does not always apply to every situation.
- C) From a network economics perspective, the value of a community of people grows as the number of participants in the community increases.
- D) Information technology can be strategically useful from a network economics perspective.
- E) In network economics, the marginal cost of adding new members to the network is higher than the marginal gain.

Answer: E

Difficulty: Challenging

AACSB: Application of knowledge

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

56) A virtual company:

- A) uses networks to link people, assets, and ideas.
- B) uses Internet technology to maintain a virtual storefront.
- C) uses Internet technology to maintain a networked community of users.
- D) provides entirely Internet-driven services or virtual products.
- E) is limited by traditional organizational boundaries.

Answer: A

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

57) Which of the following is an example of a keystone firm within a business ecosystem?

- A) Apple in the mobile platform ecosystem
- B) GUESS and the fashion ecosystem
- C) Citibank and the ATM ecosystem
- D) American Airlines and the computerized reservation ecosystem
- E) Nike and the athletic apparel ecosystem

Answer: A

Difficulty: Easy

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

58) _____ is a competitive strategy for creating brand loyalty by developing new and unique products and services that are not easily duplicated by competitors.

- A) Product differentiation
- B) Low-cost leadership
- C) Focusing on market niche
- D) Strengthening customer intimacy
- E) Strengthening supplier intimacy

Answer: A

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

59) The expenses incurred by a customer or company in lost time and resources when changing from one supplier or system to a competing supplier or system are known as:

- A) retention costs.
- B) preservation costs.
- C) differentiation costs.
- D) switching costs.
- E) variation costs.

Answer: D

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

60) The _____ model highlights the primary or support activities that add a margin of value to a firm's products or services where information systems can best be applied to achieve a competitive advantage.

- A) competitive forces
- B) value chain
- C) bargaining power
- D) new entrant
- E) rivalry

Answer: B

Difficulty: Moderate

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

61) The parts of an organization's infrastructure, human resources, technology, and procurement that make the delivery of the firm's products or services possible are known as _____ activities.

- A) primary
- B) auxiliary
- C) secondary
- D) service
- E) support

Answer: E

Difficulty: Moderate

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

62) A(n) _____ is a collection of independent firms that use information technology to coordinate their value chains to collectively produce a product or service for a market.

- A) value chain
- B) support web
- C) value web
- D) consortium
- E) net marketplace

Answer: C

Difficulty: Challenging

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

63) A(n) _____ is an activity for which a firm is a world-class leader.

- A) expertise area
- B) competitive advantage
- C) growth driver
- D) efficiency
- E) core competency

Answer: E

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

64) Why does Amazon need to worry about competitors in online shopping?

- A) E-commerce is affected by the law of diminishing returns.
- B) Internet technologies are universal, and therefore usable by all companies.
- C) Internet shopping produces cost transparency.
- D) The Internet enables the production or sales of substitute products or services.
- E) The Internet increases switching costs.

Answer: B

Difficulty: Challenging

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

65) Smart products are an example of the Internet of Things.

Answer: TRUE

Difficulty: Moderate

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

66) A company's competitive advantages ultimately translate into higher stock market valuations than its competitors.

Answer: TRUE

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

67) The competitive forces model cannot be used to analyze modern digital firms which face new competitive forces that are not true of traditional firms.

Answer: FALSE

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

68) Customers are one of the competitive forces that affect an organization's ability to compete.

Answer: TRUE

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

69) High product differentiation is a sign of a transparent marketplace.

Answer: FALSE

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

70) The effect of the Internet has been to decrease the bargaining power of customers.

Answer: FALSE

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

71) An efficient customer response system directly links consumer behavior to distribution and production and supply chains.

Answer: TRUE

Difficulty: Moderate

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

72) Information systems are used to enable new products and services via product differentiation.

Answer: TRUE

Difficulty: Moderate

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

73) Mass customization offers individually tailored products or services using the same resources as mass production.

Answer: TRUE

Difficulty: Moderate

AACSB: Information technology

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

74) Switching costs decrease when customers are strongly linked to products and platforms.

Answer: FALSE

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

75) The value chain model classifies all company activities as either primary or support activities.

Answer: TRUE

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

76) In the value chain model, support activities are most directly related to the production and distribution of the firm's products and services, which create value for the customer.

Answer: FALSE

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

77) When the output of some units in a firm can be used as inputs to other units, synergies develop, which can lower costs and generate profits.

Answer: TRUE

Difficulty: Easy

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

78) According to the network economics perspective, the more people offering products on eBay's site, the greater the value of the site to all who use it.

Answer: TRUE

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

79) The term *business ecosystem* describes the loosely coupled but interdependent networks of suppliers, distributors, outsourcing firms, transportation service firms, and technology manufacturers.

Answer: TRUE

Difficulty: Moderate

AACSB: Reflective thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

80) A firm can be said to have competitive advantage when it has access to resources that others do not.

Answer: TRUE

Difficulty: Easy

AACSB: Application of knowledge

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

81) The law of diminishing returns only applies to digital products.

Answer: FALSE

Difficulty: Easy

AACSB: Application of knowledge

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

82) The inventors of a disruptive technology typically benefit the most from the technology; it is rare that fast followers catch up quickly.

Answer: FALSE

Difficulty: Easy

AACSB: Application of knowledge

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

83) Smart products generally raise switching costs.

Answer: TRUE

Difficulty: Easy

AACSB: Application of knowledge

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

84) Mintzberg's classification identifies five forces in an industry's environment that affect the strategic position of a firm.

Answer: FALSE

Difficulty: Easy

AACSB: Application of knowledge

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

85) You are advising the owner of ABC Computers, a small local computer shop that repairs and also builds custom computers to order. What competitive strategies could ABC Computers employ? Which ones may it have difficulty executing?

Answer: Low-cost leadership: ABC Computers may have difficulty competing against the computer sales and warranty services of major national computer manufacturers, such as Dell, but may be able to implement low-cost leadership in comparison to any other local computer stores.

Product differentiation: Although many national computer manufacturers sell customized computers for individuals, ABC Computers may be able to differentiate its product by using superior components and adding more services to its product.

Focus on market niche: ABC Computers could focus on being a local store with in-store technology support and assistance as a market niche.

Customer and supplier intimacy: ABC Computers has an advantage in customer intimacy, in that it can develop relationships with local customers on a face-to-face basis. This advantage could be augmented to offset the low-cost leadership of national manufacturers, such as Dell. Because of much smaller production scales, ABC Computers will probably not be able to exercise as much control over suppliers as does Dell or other manufacturers.

Difficulty: Challenging

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

86) You are consulting with the owner of Better Fitness, a national chain of gyms. What strategies might Better Fitness use in applying information services to achieve a competitive advantage?

Answer: Better Fitness could use computers, smart products and mobile apps to monitor and evaluate health and fitness of members and customize workouts in product differentiation strategy. They could use information systems for sales and marketing data research in order to define a niche market that would bring greater profits. They could allow customers to review their health data and add additional information or view statistics to create customer intimacy. If the individual gyms are franchises, then a network could be used for franchisees to share data and research new sales tactics, etc.

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

87) The text describes Michael Porter's view of the Internet as somewhat negative. What negative influences does Porter see? Describe several positive influences the Internet has on business. Do these outweigh the negative influences?

Answer: Answers will vary. An example of a possible answer is:

Porter sees the Internet as creating ever more intense rivalry, through allowing new competitors to enter the market, and forcing competition on price alone, raising the bargaining power of customers, and dampening profits.

Positive influences of the Internet would be lowering telecommunications costs, creating new opportunities for building brands and loyal customer bases, lowering costs of globalization.

You could also view Porter's negative take on lowering the barrier to entry as a positive for new companies.

The Internet's influence being negative or positive depends in part on the point of view from which the influence is being seen. For example, a telephone utility is impacted negatively by the emergence of Internet telephony, whereas other industries may be impacted positively either through the use of this technology or through engaging in Internet telephony as a business.

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

88) Value chain analysis is useful at the business level to highlight specific activities in the business where information systems are most likely to have a strategic impact. Discuss this model, identify the activities, and describe how the model can be applied to the concept of information technology.

Answer: The value chain model identifies specific, critical leverage points where a firm can use information technology most effectively to enhance its competitive positions. Exactly where can it obtain the greatest benefit from strategic information systems? What specific activities can be used to create new products and services, enhance market penetration, lock in customers and suppliers, and lower operational costs? This model views the firm as a series or chain of basic activities that add a margin of value to a firm's products or services. These activities can be categorized as either primary activities or support activities.

- Primary activities are most directly related to the production and distribution of the firm's products and services that create value for the customer. Primary activities include: inbound logistics, operations, outbound logistics, sales and marketing, and service.

- Support activities make the delivery of the primary activities possible and consist of: organization infrastructure (administration and management), human resources (employee recruiting, hiring, and training), technology (improving products and the production process), and procurement (purchasing input).

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

89) How is the concept of core competency relevant to ABC Computers, a local computer store that repairs and builds custom computers? Give examples.

Answer: A core competency is an activity for which a company is a world leader, and from this perspective, ABC Computers does not have a core competency, as there are thousands of similar firms with longer track records. However, it might be good business practice for ABC Computers to define its core competencies in ways that differentiate its products from those of competitors and enable it to provide superior service or products. In defining a core competency, the business management can then determine ways to enable employees to understand and reach higher levels of quality production and service. For example, ABC Computers might define a core competency as being able to advise customers as to the types of system they really need, and ABC Computers could engage in knowledge gathering activities to help employees assess customer need.

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

90) How is Internet technology useful from a network economics perspective? Give examples.

Answer: In network economics, the cost of adding a participant in the network is negligible, while the gain in value is relatively much larger. The Internet itself is an example of a successful implementation of network economics—the more people participate, the more valuable and essential a commodity it is. If a company were to provide a service through the Internet such as a project management application, the costs to the company of adding another user are small (as the software infrastructure or application is already built), and the more users are signed up, the more profit is made.

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

91) Define and describe a business ecosystem. Give an example of a business ecosystem.

Answer: A business ecosystem is a collection of loosely coupled but interdependent industries (suppliers, distributors, technology manufacturers, etc.) that provides related services and products. It is similar to a value web, except that cooperation takes place across many industries rather than many firms.

Business ecosystems can be characterized as having one or a few keystone firms that dominate the ecosystem and create the platforms used by other niche firms. Keystone firms in the Microsoft ecosystem include Microsoft and technology producers such as Intel and IBM. Niche firms include thousands of software application firms, software developers, service firms, networking firms, and consulting firms that both support and rely on the Microsoft products. Another example of a business ecosystem is the mobile Internet platform. In this ecosystem there are four industries: device makers (Apple iPhone, Samsung, Motorola, LG, and others), wireless telecommunication firms (AT&T, Verizon, T-Mobile, Sprint, and others), independent software applications providers (generally small firms selling games, applications, and ring tones), and Internet service providers (who participate as providers of Internet service to the mobile platform).

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

92) Select a popular product or company that you are familiar with, such as Apple's iPad.

Apply Porter's competitive forces model to that product and/or company. Which of the four generic strategies is the company using?

Answer: Student answers will vary. One example answer using Apple's iPad is:

- Competitors to the iPad include the Microsoft Surface and many others, but few as widely known.
- New market entrants: There is not a huge barrier to entry in this field; many other technology companies offer tablet computers.
- Substitute products and services: Smartphones are a substitute product or service.
- Customers: The iPad still has the highest brand recognition among consumers, diminishing the bargaining power of customers. However, this advantage has diminished as other similar products that are as well designed enter the marketplace.

In terms of the iPad, Apple seems to be focused on product differentiation by creating a product with unique features and capabilities.

Difficulty: Challenging

AACSB: Analytical thinking; Written and oral communication

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

93) Why are disruptive technologies "tricky"? Provide examples.

Answer: Disruptive technologies can be tricky because firms that invent disruptive technologies as first movers do not always benefit if they lack the resources to exploit the technology or fail to see the opportunity. For example, the MITS Altair 8800 is widely regarded as the first PC, but its inventors did not take advantage of their first-mover status. Second movers, so-called fast followers such as IBM and Microsoft, reaped the rewards. Citibank's ATMs revolutionized retail banking, but other banks copied them. Now all banks use ATMs, and the benefits go mostly to the consumers.

Difficulty: Challenging

AACSB: Application of knowledge; Information technology; Written and oral communication

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

94) Why has the Internet made competitive rivalry more intense?

Answer: The Internet has made competitive rivalry more intense because Internet technology is based on universal standards that any company can use, making it easier for rivals to compete on price alone and for new competitors to enter the market. Because information is available to everyone, the Internet also raises the bargaining power of customers, who can quickly find the lowest-cost provider on the web, which may dampen profits. The Internet also widens the geographic market, increasing the number of competitors and reducing differences among competitors, and makes it more difficult to sustain operational advantages.

Difficulty: Challenging

AACSB: Application of knowledge; Information technology; Written and oral communication

LO: 3-3: How do Porter's competitive forces model, the value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems?

95) You are consulting for a natural food products distributor who is interested in determining the benefits it could achieve from implementing new information systems. What will you advise as the first step?

- A) Identify the business ecosystem the distributor is in
- B) Implement a strategic transition to the new system
- C) Perform a strategic systems analysis
- D) Benchmark existing systems
- E) Set up a strategic transition

Answer: C

Difficulty: Moderate

AACSB: Analytical thinking

LO: 3-4: What are the challenges posed by strategic information systems and how should they be addressed?

96) Sociotechnical changes affecting a firm adopting new information systems requiring organizational change can be considered:

- A) organizational adjustments.
- B) strategic transitions.
- C) systems alterations.
- D) business goal transitions.
- E) sociotechnical transitions.

Answer: B

Difficulty: Challenging

AACSB: Information technology

LO: 3-4: What are the challenges posed by strategic information systems and how should they be addressed?

97) Research has shown that a majority of firms are able to align their information technology with their business goals.

Answer: FALSE

Difficulty: Challenging

AACSB: Reflective thinking

LO: 3-4: What are the challenges posed by strategic information systems and how should they be addressed?

98) The use of Internet technologies allows companies to more easily sustain competitive advantage.

Answer: FALSE

Difficulty: Challenging

AACSB: Information technology

LO: 3-4: What are the challenges posed by strategic information systems and how should they be addressed?

99) What are the major factors to consider when performing a strategic systems analysis?

Answer: One major factor is the structure of the industry the firm is in. For example, what competitive forces are at work in the industry, and what is the basis for competition? What is the nature and direction of change in the industry, and how does the industry use IT?

A second major factor is determining the firm and industry value chains. For example, how is the company creating value for the customer? Are best practices being used and core competencies leveraged? Is the industry supply chain or customer base changing, and what will the effect be? Can the firm benefit from strategic partnerships or value webs? And where in the value chain will information systems provide the greatest value to the firm?

The third major factor to consider is has the firm aligned IT with its business strategy and goals. Have these goals been correctly stated or defined? Is IT improving the right business processes and activities in accordance with the firm's goals? Are we using the right metrics to measure progress?

Difficulty: Challenging

AACSB: Analytical thinking

LO: 3-4: What are the challenges posed by strategic information systems and how should they be addressed?

100) Research has shown that the more successfully a firm can align its IT with its business goals, the more profitable it will be. What practical steps should a firm use in aligning IT with its goals?

Answer: Steps to align IT with your organization's goals include: identifying your business strategy and goals and breaking these goals into concrete activities and processes; identifying how you measure progress toward these goals; determining how IT can help achieve these goals and improve business processes and activities; and measuring the actual performance of the business.

Difficulty: Challenging

AACSB: Application of knowledge; Information technology; Written and oral communication

LO: 3-4: What are the challenges posed by strategic information systems and how should they be addressed?