

Cost Management: A Strategic Emphasis, 8e (Blocher)

Chapter 2 Implementing Strategy: The Value Chain, the Balanced Scorecard, and the Strategy Map

- 1) In SWOT analysis, strengths and weaknesses are most easily identified by looking:
 - A) At the firm as a potential customer.
 - B) Inside the firm at its specific resources.
 - C) At the firm's competition.
 - D) At the firm's product.
 - E) Outside the firm from a consultant's perspective.

- 2) In SWOT analysis, opportunities and threats are identified by:
 - A) Consultation with middle management.
 - B) Talking with the rank and file workers.
 - C) Looking outside the firm.
 - D) Brainstorming techniques.
 - E) Reviewing our corporate strategy.

- 3) Which of the following does **not** represent a possible opportunity for a manufacturing firm as a part of SWOT analysis?
 - A) Demographic trends.
 - B) Technological advances in the industry.
 - C) A patent developed by another firm for manufacturing a product.
 - D) Changes in regulation of the industry.
 - E) Changes in the economic environment facing all industries.

- 4) The balanced scorecard:
 - A) Is not comprehensive, since it doesn't include all the critical success factors which contribute to competitive success.
 - B) Helps focus managers' attention to bottom line profits.
 - C) Is forward looking, stressing nonfinancial measures that can lead to benefits in the future.
 - D) Fails to reflect environmental and social effects of the firm's operations.
 - E) Is heavily weighted toward the financial critical success factors.

- 5) The balanced scorecard can be made more effective by developing it at a detail level so that employees:
 - A) Can see how it is put together.
 - B) Appreciate all the effort that goes into its preparation.
 - C) Respect management for including them in its formulation.
 - D) Can see how their actions contribute to the success of the firm.
 - E) Do not feel left out.

- 6) The Euro is:
 - A) A combination of European nations that cooperate on economic and trade matters.
 - B) A version of Disney World located near Paris.
 - C) A currency used in many European countries.
 - D) A currency used in all European countries.

- 7) The main objective of value chain analysis is to identify stages of the value chain where the firm can:
- A) Justify increases in the price of the product or service.
 - B) Increase value to the customer or reduce cost in some way.
 - C) Outsource production to other producers.
 - D) Improve efficiency.
- 8) It is becoming more common to see manufacturing firms use the value chain to take strategic steps to improve the overall profitability of the firm by:
- A) Placing greater emphasis on the value chain.
 - B) Moving to an emphasis on upstream activities in the value chain.
 - C) Moving to an emphasis on downstream activities in the value chain.
 - D) Identifying most profitable customers.
 - E) Moving to an emphasis on both the upstream and downstream activities in the value chain.
- 9) With regard to critical success factors, which one of the following would **not** be considered a financial measure of success?
- A) Cash flow.
 - B) Growth in industry productivity.
 - C) Sales growth.
 - D) Earnings growth.
 - E) Reduction in the cost of inventory.
- 10) Which one of the following customer critical success factors is best measured by warranty expense?
- A) Quality.
 - B) Dealer and distributor efficiency and effectiveness.
 - C) Timeliness of delivery.
 - D) Customer satisfaction.
- 11) Which one of the following is **not** usually included as a perspective of the balanced scorecard?
- A) Financial Performance.
 - B) Tax Reporting.
 - C) Learning and Growth.
 - D) Customer Satisfaction.
 - E) Internal Business Processes.
- 12) Which of the following best describes the type of information that cost management must provide that is most important for the success of the organization?
- A) Short term information for decision making.
 - B) Reported financial information.
 - C) Reported nonfinancial information.
 - D) Information that addresses the strategic objectives of the organization.
 - E) Long-term planning information.

13) After critical success factors (CSFs) have been identified, the next step in developing a competitive strategy is to develop relevant and reliable measure for these CSFs. These measures are important to help the organization:

- A) Make profit for any extended period.
- B) Increase sales above previous year(s).
- C) Develop policies to enhance customer profitability.
- D) Improve productivity in selected product areas.
- E) Monitor progress toward achieving strategic goals.

14) A firm has decided to use the balanced scorecard. Which of the following is **not** an advantage the company will gain by using the balanced scorecard?

- A) It links the firm's CSFs to its strategy.
- B) It helps the firm monitor progress to achievement of its strategic goals.
- C) It can provide a basis for implementing strategic changes desired by the firm.
- D) It provides a comprehensive financial overview of the firm.
- E) It helps to coordinate activities in the firm.

15) During which step of value chain analysis will the company discover whether or not it has a cost advantage, and why?

- A) During the first step, when the value-chain activities are identified.
- B) During the first step, when the cost driver(s) are identified.
- C) During the second step, when the firm develops a competitive advantage by either reducing cost or adding value.
- D) The entire purpose of value chain analysis is to determine if the company has a cost advantage; therefore, it occurs in all steps.
- E) In the third step, when the company adopts and implements the balanced scorecard.

16) A local pharmaceutical firm has just announced its discovery of a revolutionary new drug for dieting. However, due to its deteriorating relationship with its union, the unionized portions of the company's employees have threatened to strike. In addition, the company's stock has started to drop due to the firm's difficulty in paying off some of its debt. In this example, what was the firm's core competency(ies)?

- A) Its research and development.
- B) Its human resources abilities.
- C) Its financing activities.
- D) Its operating activities.

17) During the strengths and weaknesses portion of a firm's SWOT analysis, which of the following would **not** be discovered?

- A) The firm's method of product distribution was not very efficient.
- B) Through continued research and development, the firm's products were state-of-the-art.
- C) Due to a lack of barriers to entry into the industry, several new competitors were beginning to enter the market.
- D) The production process needed to be reengineered to reduce unnecessary scrap.
- E) The firm's employees are trained in new manufacturing methods each month.

18) When a firm is determining its opportunities and threats, which of the following would **not** be mentioned?

- A) An intense rivalry with a local competitor was beginning to start a price war.
- B) The firm just received a patent on its main product.
- C) The success of the firm's latest marketing campaign.
- D) In spite of its patent, there are several substitute products consumers could use.
- E) Increased competition in some of its key product lines.

19) When the value of the U.S. dollar is declining relative to other currencies this means that:

- A) U.S. exporters will face a greater challenge in exporting U.S.-made products.
- B) U.S. firms will be eager to buy foreign products.
- C) U.S. firms will be less profitable.
- D) U.S. exporters will have a temporary advantage over other countries in foreign trade.
- E) The U.S. trade balance will worsen.

20) The cause and effect relationships among critical success factors are best captured in:

- A) The balanced scorecard.
- B) Business analytics.
- C) The value chain.
- D) The strategy map.
- E) SWOT analysis.

21) Which of the following types of organizations can most benefit from value chain analysis?

- A) Service firms.
- B) Not-for-profit organizations.
- C) Manufacturing firms.
- D) All types of organizations can benefit from value chain analysis.

22) Which of the following would **not** likely be a perspective of a balanced scorecard for a consumer products retailer?

- A) Learning and innovation.
- B) Internal processes.
- C) Financial performance.
- D) Customer satisfaction.
- E) Research and development.

23) Which of the following statements concerning value chain analysis is false?

- A) The goal of value chain analysis is to find areas where a company can either add value or reduce cost.
- B) The value chain focuses on the entire production process, as well as the sale of the product and service after the sale.
- C) If a company cannot compete in a specific area of the value chain, it might consider the option of outsourcing that portion of the value chain to someone who can perform it better.
- D) Throughout most industries, the most successful firms are the ones that operate within the entire value chain, thereby overseeing every aspect of the value chain for the customer.

24) Which of the following would likely **not** be considered part of the value chain in a service firm?

- A) Inspection of product.
- B) Advertising.
- C) Employee training.
- D) Customer service.
- E) Materials handling.

25) When performing value chain analysis, which of the following should a firm take into account?

- A) The firm's competitive position.
- B) Opportunities to reduce cost.
- C) Possible opportunities where value can be added.
- D) The decision to enter or leave an activity in the value chain.
- E) All of these answer choices are correct.

26) Both cost leadership and differentiated firms can improve on execution through:

- A) Improved automation and a higher output of products.
- B) Benchmarking and total quality management.
- C) Cost cutting and downsizing of personnel.
- D) Emphasis on research and product development.
- E) None of these answer choices are correct.

27) To increase profitability, companies such as IBM and General Electric have shifted their strategic focus toward:

- A) Increasing equipment sales.
- B) Improving software applications.
- C) Providing new and enhanced customer services.
- D) None of these answer choices are correct.

28) Which of the following is **not** a key benefit of the balanced scorecard (BSC)?

- A) It provides a means for implementing strategy.
- B) It provides an objective basis for determining each manager's compensation and advancement.
- C) It provides a framework for the firm to achieve a desired organizational change in strategy.
- D) It provides a baseline for how an organization's financial operations compare to competition within the industry.

29) A strategy map is:

- A) A detailed flowchart outlining which firm managers are responsible for each implementation of a firm's strategy and when these implementations are to take place.
- B) A cause and effect diagram of the relationships among the balanced scorecard perspectives to show how the achievement of critical success factors in each perspective affects the achievement of goals in other perspectives and the overall financial performance of the firm.
- C) A framework for the firm to achieve a desired organizational change in strategy while mapping the successes of other firms within the industry.
- D) None of these answer choices are correct.

30) Sustainability is the balancing of short and long term goals in all three dimensions of the company's performance. Those three areas are:

- A) Economic, social, and environmental.
- B) Economic, social, and financial.
- C) Economic, environmental, and political.
- D) Social, environmental, and financial.

31) Over the past several years it has become increasingly important for firms to improve achievement towards their social and environmental responsibilities. What is the best way the management accountant can help the firm improve on sustainability?

- A) Participate in programs of environmental organizations.
- B) Develop and implement a legal staff and public relations staff for dealing with sustainability issues that may affect the firm.
- C) Develop and implement a sustainability scorecard.
- D) Risk management.

32) In terms of strategic cost management for not-for-profit service organizations, which of the following is false?

- A) Not-for-profit organizations can benefit from strategic cost management since they must prove their effectiveness and efficiency to a number of different stakeholders.
- B) The balanced scorecard can be used to measure the organization's performance.
- C) Value chain analysis can be used for analyzing the organization's product design, product testing, advertising, and production processes.
- D) SWOT analysis is most helpful for non-profit organizations when it deals with the organization's competitive threats, opportunities, and critical success factors.

33) In order to remain competitive in the contemporary business environment, several firms have started training their employees to stop viewing problems as strictly functional - that is, as only a marketing problem, or an accounting problem, for example. What does this trend illustrate about strategic management?

- A) There has been a renewed emphasis on integrative thinking and solving problem cross-functionally.
- B) Functional barriers are an inherent part of a company's value chain.
- C) Firms are increasingly seeing the value of business analytics.
- D) SWOT analysis is designed to break down functional barriers.

34) Which of the following organizations presents awards to firms that excel at execution of strategy, based on criteria such as leadership, marketing, strategic planning and process management?

- A) International Organization for Standardization.
- B) Malcolm Baldrige National Quality Program.
- C) Global Reporting Initiative.
- D) World Resources Institute.
- E) American Institute of Certified Public Accountants.

- 35) The financial critical success factor of profitability can be measured by:
- A) Community service activities.
 - B) Customer returns and complaints.
 - C) Number of product defects.
 - D) Number of design changes.
 - E) Earnings from operations.
- 36) Using value-chain analysis, a firm can develop a competitive advantage by specifically looking for ways to:
- A) Add value and reduce cost.
 - B) Improve manufacturing productivity.
 - C) Improve customer service.
 - D) Improve product quality.
 - E) Reduce organizational risk.
- 37) Value activities can best be defined as:
- A) Activities that firms in the industry must perform to improve a product.
 - B) Activities that firms in the industry must perform in the process of producing the product or providing the service.
 - C) Activities that firms in the industry must perform in the process of closing down a product line, including customer service.
 - D) Activities that firms in the industry must perform to consider ways of marketing a product.
 - E) Activities that firms in the industry must perform in the process of considering new products, including customer service.
- 38) The World Resources Institute has defined:
- A) Types of cost management.
 - B) Categories for environmental performance indicators.
 - C) Methods for achieving sustainability.
 - D) Categories for economic performance indicators.
- 39) A firm succeeds on its ability to deliver products to customers more quickly than rival companies in its industry. This skill is an example of the firm's:
- A) Core competency.
 - B) Research effectiveness.
 - C) Production efficiency.
 - D) Cost control effectiveness.
 - E) Value-chain analysis.
- 40) SWOT analysis, a valuable analysis tool, stands for:
- A) Strengths - Workability - Opportunities - Threats.
 - B) Strategies - Weaknesses - Opportunities - Threats.
 - C) Strengths - Weaknesses - Observations - Threats.
 - D) Strengths - Weaknesses - Opportunities - Threats.
 - E) Strategies - Weaknesses - Observations - Threats.

- 41) Which of the following perspectives of a Balanced Scorecard would most likely be the ultimate goal in a strategy map for a public company?
- A) Learning and innovation.
 - B) Internal processes.
 - C) Financial performance.
 - D) Customer service.
 - E) Employees and community.
- 42) Some of the indicators of a growing concern for sustainability include:
- A) The immigration crisis in many countries.
 - B) The trend to economic nationalism.
 - C) The increased use of value chain analysis.
 - D) The increased concern about climate change.
 - E) The increased use of the balanced scorecard.
- 43) Patagonia, maker of clothing and gear for outdoor enthusiasts, is very conscious of sustainability issues. The company chose not to produce a product because:
- A) The cost of manufacturing the product exceeded its target cost.
 - B) There was not sufficient demand for the product at the planned price.
 - C) The environmental impact of toxic waste was unacceptable.
 - D) The environmental impact of producing the product in terms of carbon emissions and energy consumptions was unacceptable.
 - E) The company could not justify adding another product when there were acceptable alternatives already in the company's product offerings.
- 44) The increase of the U.S. dollar relative to other currencies has caused firms in the U.S. to:
- A) Experience increasing sales in the U.S.
 - B) Experience increasing sales worldwide.
 - C) Consider strategically beneficial investments overseas.
 - D) Require business partners to make payments in advance.
- 45) NAFTA and WTO refer to:
- A) Organizations with expertise in business process improvement.
 - B) Laws and organizations which regulate international trade.
 - C) Laws and regulations regarding sustainability.
 - D) Organizations and trade groups that work for global economic development.
- 46) The five steps of strategic decision-making include all of the following steps except:
- A) Obtain information and conduct analyses.
 - B) Determine the organization's critical success factors.
 - C) Identify the alternative actions.
 - D) Continue an on-going evaluation of the problem.
 - E) Choose and implement the desired action.

- 47) A final step in the SWOT analysis is to identify quantitative measures for the:
- A) Value propositions.
 - B) Competitor analyses.
 - C) Critical success factors.
 - D) Value propositions and also critical success factors.
 - E) Competitor analyses and also critical success factors.
- 48) Which of the following is least likely to be a critical success factor for a cost leadership firm?
- A) Financial measure of performance.
 - B) Learning and growth indicator.
 - C) Measure of operational efficiency.
 - D) Brand recognition.
- 49) All of the following are required resources for differentiation except:
- A) Product engineering.
 - B) Corporate reputation for quality.
 - C) Intense supervision of labor.
 - D) Strong marketing capability.
- 50) All of the following are required resources for cost leadership except:
- A) Substantial capital investment.
 - B) Strong marketing capability.
 - C) Products designed for ease of manufacturing.
 - D) Process engineering skills.
- 51) Which of the following is not a term used for a phase of the value chain?
- A) Operations.
 - B) Upstream.
 - C) Downstream.
 - D) Sustainability.
- 52) Which of the following measures would likely be found on the financial perspective section of a balanced scorecard?
- A) Sales growth.
 - B) Customer retention.
 - C) Efficiency of manufacturing.
 - D) Increase in number of sales staff.
- 53) A measure of research and development on the balanced scorecard could include:
- A) Market share.
 - B) Number of new products.
 - C) Sales growth.
 - D) Cash flows.

54) Which of the following is **not** a reason why global companies choose to report on corporate responsibility?

- A) Ethical considerations.
- B) Innovation and learning.
- C) Risk management.
- D) Market share.
- E) Saves time.

55) Which of the following is **not** an environmental performance indicator?

- A) Fossil fuel use.
- B) Carbon emissions.
- C) Fresh water usage.
- D) Percentage of employees with flu vaccinations.

56) The Global Reporting Initiative is an independent group that partners with other groups to address the measurement of sustainability, including a partnership with:

- A) The U.S. government.
- B) The U.S. Department of Defense.
- C) The United Nations.
- D) The European Commission.

57) Michael Porter's five competitive forces include which one of the following?

- A) Global competition.
- B) Intensity of demand by customers.
- C) Bargaining power of competitors.
- D) Intensity of rivalry among competitors.

58) Effective execution of the cost leadership strategy requires all of the following **except**:

- A) Incentives based on meeting strict quantitative goals.
- B) Frequent, detailed control reports.
- C) Tight cost control.
- D) Structured organization and policies.
- E) Strong coordination among functions: research, product development, manufacturing, and marketing.

59) The differentiation strategy requires all of the following resources, **except**:

- A) Strong marketing capability.
- B) Long tradition in the industry or unique skills.
- C) Product engineering.
- D) Products designed for ease of manufacture.
- E) Corporate reputation for quality or technology leadership.

60) Rowell Company is a manufacturer of agricultural chemicals located in Eastern North Carolina. Rowell sells its products directly to farmers in the Atlantic states the company is known for the quality of the product, its packaging, delivery and customer service. The production process at Rowell involves several steps, one of which involves the cleaning of each vat before a batch of a new chemical is added. This is done so there is no contamination of chemicals. Currently the cleansing of the batch is time-consuming, requiring a good bit of water and additional chemicals, to ensure that the vat is appropriately cleaned. The waste of the cleaning process is itself treated carefully, as many of the chemicals Rowell produces can be harmful to plants and animals if not properly handled. Rowell is considering an investment in new equipment that would speed up the cleaning process and would require less water and fewer additional chemicals. The new process would involve the application of heat and high air flow. The new cleaning equipment would however be quite expensive.

Required:

- (a) Comment on the strategic issues facing Rowell concerning the potential investment in the cleaning equipment.
- (b) What are the ethical questions, if any, that should be addressed in the above decision?

61) A major U.S. automaker from 1902 to 1966, Studebaker Corp. prospered in the late 1940s and into the 1960s. Its advertising after World War II emphasized quality of design and production. The corporation also used the stability of its work force in its advertisements, often featuring pictures of father and son working side by side in its factories.

Required:

- (a) From just this brief description of Studebaker Corporation, which type of competitive strategy-cost leadership or differentiation, would you guess Studebaker was using? Explain your choice.
- (b) Given your answer in Part (a), speculate on what market factors might have caused the corporation to go into bankruptcy and cease production in the mid-1960s.

62) Many products in the marketplace today are built from components designed and manufactured by sub-contractors. While the extent of this practice is not well known to consumers, manufacture and sale of multi-component units that use parts from many different companies continues to grow.

Required:

If the assembling company is using value-chain analysis in its strategic planning, comment on the following:

- (a) The cost justification for subcontracting.
- (b) The willingness of consumers to buy products they know contain subcontracted parts.
- (c) The problems of quality control facing the assembling company.

63) Exeter Industries produces and markets several lines of food and beverage products. The company plans to expand its market to cover a new geographical area, and the first products to be introduced into this new market are three of Exeter's coffees. A meeting of the marketing committee has been called to determine the pricing and promotional strategy for the introduction of these coffees. Exeter has adopted the differentiation strategy and is using the marketing committee to come up with the proper way to execute this strategy in the firm's pricing and promotional policy.

Mark Williams, vice president of marketing, has suggested that Exeter continue its policy of premium pricing for Rich Roast Coffee in the new market. "Rich Roast is a superior blend of Brazilian coffees and should have little difficulty gaining customer acceptance. The use of other promotional strategies doesn't appear necessary at this time."

Carol Randolph, general sales manager, agreed with this strategy for Rich Roast but recommended a different approach for Vitality Coffee, Exeter's brand of decaffeinated coffee. "Vitality is an unknown name in this region and will require a determined promotional effort to gain market share from other very competitive products. We could try penetration pricing or packaging options combined with either manufacturer's coupons or rebates. Whatever strategy we select, we should hit the market hard if we want to be successful."

Dan Felton has been appointed regional sales manager for the new geographical area and is concerned about the acceptance of Mellow Roast Coffee, a blend of regular and decaffeinated coffees. "This is a brand new type of coffee in this region and may just sit on the shelf unless we develop an effective advertising campaign." Pricing or packaging options will be worthless unless the product gains some visibility and the targeted customer base is made aware of the benefits of Mellow Roast. We need a good slogan like "A gentle wakeup without caffeine stress!"

Required:

Mark Williams has suggested the continuance of premium pricing for Rich Roast Coffee. Explain the strategic role of premium pricing, and describe the economic circumstances in the marketplace that would encourage the use of this pricing strategy. (CMA adapted)

64) Williams Instruments manufactures specialized surgical equipment for hospitals and clinics throughout the world. One of Williams' most popular products, comprising 40% of its revenues and 35% of its profits, is a blood pressure measuring device. Average production and sales are 400 units per month. Williams has achieved its success in the market through excellent customer service and product reliability. The manufacturing process consists primarily of assembly of components purchased from various electronic firms, plus a small amount of metalworking and finishing. The manufacturing operations cost \$600 per unit. The purchased parts cost Williams \$800, of which \$300 is for parts which Williams could manufacture in its existing facility for \$100 in materials for each unit, plus an investment in labor and equipment which would cost \$175,000 per month.

Also, Williams is considering outsourcing to another firm, Matrix Concepts, Inc., the marketing, distribution, and servicing for its units. This would save Williams \$75,000 in monthly materials and labor costs. The cost of the contract would be \$125 per product.

Required:

- (1) Prepare a value chain analysis for Williams to assist in the decision whether to manufacture or buy the parts, and whether to contract out the marketing, distribution, and servicing of the units.
- (2) Should Williams continue to: (a) purchase the parts or manufacture them? (b) provide the marketing, distribution and service, or outsource this activity to Matrix? Explain your answers.

65) Levis Strauss and Co, maker of Levi's familiar 501, 512, and 711 brands of jeans, also makes a brand that was introduced for discount retailers such as Walmart. Levi's strategy with the new jeans (the Signature brand) was to sell a competitively priced pair of jeans. The jeans are about one-half or less the price of the familiar 501, 512, and 711 jeans. To get costs down Levi's:

Uses cheaper fabrics and materials.
Shuns costly mass-market advertising.
Strictly limits the number of fits, styles, and colors.

Required:

1. Assess the new strategy at Levi. What do you think are the potential benefits and risks?
2. How will the firm's value chain and balanced scorecard change as a result of the new strategy?

66) Gordon Manufacturing produces high-end furniture products for the luxury hotel industry. Gordon has succeeded through excellence in design, careful attention to quality in manufacturing and in customer service, and through continuous product innovation. The manufacturing process at Gordon begins with a close consultation with each customer so that the finished product exactly meets the customer's specifications. This commonly means unique designs, special fabrics, and high levels of manufacturing quality. In addition, Gordon believes that a key competitive edge it has over other competitors is that it has an outstanding design staff that is able to work with customers to come up with product designs that go beyond the customer's expectations.

Anticipating a growth in the demand for luxury hotel rooms, Gordon has expanded its operations to include one new manufacturing plant, and by refitting some of the older plants with newer, more efficient equipment. The installation of the new equipment has caused some delays in filling some customer orders, and Gordon has shifted production from those plants with the delays to other manufacturing plants. The result has been an increase in some processing costs, transportation costs, and delays in meeting customer order deadlines. Also, the introduction of the new equipment has created some tensions with employees who see the new, more efficient equipment as a potential threat to their job security. There is also some disagreement among managers as to whether the new equipment will improve or reduce quality.

Required:

Develop a SWOT analysis for Gordon Manufacturing. List one or more items in each category.

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Required:

Present a value chain for Gordon Manufacturing with at least five activities and explain the role of each activity in the value chain.

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Required:

Present a balanced scorecard for Gordon Manufacturing with four perspectives and at least three quantitative critical success factors in each perspective.

69) The tire business is becoming increasingly competitive as new manufacturers from Southeast Asia and elsewhere enter the global marketplace. At the same time, customer expectations for performance, tread life, and safety continue to increase. An increasing variety of vehicles, from the small and innovative gas/electric vehicles to the large SUVs, place more demands on tire designers and on tire manufacturing flexibility. Established brands such as Goodyear and Firestone must look to new ways to compete and maintain profitability.

Required:

1. Is the competitive strategy of a global tire maker cost leadership or differentiation? Explain your answer.
2. What are the ethical issues, if any, for tire manufacturers?