

Information Systems in Organizations (Wallace)

Chapter 2 Information Systems and Strategy

1) Cost of transportation is one of the five forces proposed by Porter.

Answer: FALSE

Page Ref: 39

Chapter LO: 1

Difficulty: Easy

2) The threat of new entrants in an industry is very high when startups open business with little capital and few employees.

Answer: TRUE

Page Ref: 40

Chapter LO: 1

Difficulty: Moderate

3) Network effects refers to the ability of a product to fit into a new system.

Answer: FALSE

Page Ref: 40

Chapter LO: 1

Difficulty: Easy

4) Presence of loyalty programs reduces the switching costs of a product or service.

Answer: FALSE

Page Ref: 40

Chapter LO: 1

Difficulty: Moderate

5) Power of suppliers is high when there are many suppliers in a market.

Answer: FALSE

Page Ref: 9

Chapter LO: 1

Difficulty: Moderate

6) The threat of substitutes is high when alternative products are available.

Answer: TRUE

Page Ref: 41

Chapter LO: 1

Difficulty: Easy

7) Rivalry within an industry will be high if firms compete mainly on price.

Answer: TRUE

Page Ref: 43

Chapter LO: 1

Difficulty: Moderate

8) Sustaining technologies streamline existing processes and give companies marginal advantages.

Answer: TRUE

Page Ref: 44

Chapter LO: 2

Difficulty: Easy

9) Creative destruction refers to an innovation that fails miserably and leads to huge losses within the industry.

Answer: FALSE

Page Ref: 44

Chapter LO: 2

Difficulty: Easy

10) Government action can influence how Porter's five forces operate in industries.

Answer: TRUE

Page Ref: 45

Chapter LO: 2

Difficulty: Easy

11) Companies are embedded in a complex ecosystem where events in one arena affect the whole community.

Answer: TRUE

Page Ref: 46

Chapter LO: 2

Difficulty: Easy

12) Procurement and technology support are primary activities of a value chain.

Answer: FALSE

Page Ref: 48

Chapter LO: 3

Difficulty: Easy

Course LO: Discuss the role of information systems in supporting business processes

13) A value chain can be extended by incorporating feedback from customers.

Answer: TRUE

Page Ref: 49

Chapter LO: 3

Difficulty: Easy

14) A benchmark is a reference point used as a baseline measurement.

Answer: TRUE

Page Ref: 50

Chapter LO: 3

Difficulty: Easy

15) A low-cost leadership strategy means offering a highly differentiated product at a price that is lower than the market price.

Answer: FALSE

Page Ref: 52

Chapter LO: 4

Difficulty: Easy

Course LO: Discuss the role of information systems in supporting business processes

16) Differentiating the product or service for a particular market niche is called product marketing.

Answer: FALSE

Page Ref: 53

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

17) All types of organizational strategies leverage information systems to succeed.

Answer: TRUE

Page Ref: 54

AACSB: Use of information technology

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

18) The operational requirements for nonprofit businesses are completely different from for-profit businesses.

Answer: FALSE

Page Ref: 56

Chapter LO: 5

Difficulty: Easy

Course LO: Discuss the role of information systems in supporting business processes

19) E-government involves efforts to make unclassified information available to citizens via the Internet, and offers many interactive online services to save people time-consuming visits to government offices.

Answer: TRUE

Page Ref: 58

Chapter LO: 5

Difficulty: Easy

Course LO: Discuss the role of information systems in supporting business processes

20) Funds and human effort applied to growing and transforming an organization are closely tied to strategy, innovation, and competitive advantage.

Answer: TRUE

Page Ref: 60

Chapter LO: 6

Difficulty: Easy

21) Which of the following is one of the five competitive forces proposed by Porter?

- A) employee productivity
- B) threat of substitutes
- C) market volatility
- D) governmental influence

Answer: B

Page Ref: 39

Chapter LO: 1

Difficulty: Easy

22) Durodoll is a leading manufacturer of decorative crafts in Canada. Which of the following, if true, will indicate that the threat of new entrants is high for Durodoll?

- A) Durodoll has a patent for its manufacturing process.
- B) The crafts that Durodoll manufactures are low-priced commodities.
- C) The process of manufacturing the crafts is labor intensive.
- D) The decorative goods' industry is capital intensive.

Answer: B

Page Ref: 40

AACSB: Reflective thinking skills

Chapter LO: 1

Difficulty: Moderate

23) Facebook, the world's most visited Web site as of June 2011, has millions of users. The large membership base of Facebook would mean that a user is likely to find most of his friends when he logs in to Facebook. Lack of this competence prevents new players from penetrating Facebook's market. This is an example of _____.

- A) monopolistic competition
- B) internal marketing
- C) network effects
- D) guerilla marketing

Answer: C

Page Ref: 40

AACSB: Analytic skills

Chapter LO: 1

Difficulty: Moderate

24) Network effects refer to the _____.

- A) increased value of a product or service resulting simply because there are more people using it
- B) process of selling a product or service through well established networks and consumer chains
- C) value obtained from providing fine services to a complex product or service
- D) increased value attached with a product or service that can be used for networking purposes

Answer: A

Page Ref: 40

Chapter LO: 1

Difficulty: Easy

25) Which of the following is the best example of an attempt to create network effects?

- A) An Internet service provider gives free access to social networking sites.
- B) A retailer gives volume discounts on large purchases.
- C) A kitchenware manufacturer introduces a differentiated range of products.
- D) AT&T introduces a family plan that provides free calls within the family.

Answer: D

Page Ref: 40

AACSB: Analytic skills

Chapter LO: 1

Difficulty: Moderate

26) _____ are the costs that customers incur when they change suppliers.

- A) Network costs
- B) Switching costs
- C) Capital expenditures
- D) Opportunity costs

Answer: B

Page Ref: 40

Chapter LO: 1

Difficulty: Easy

27) Which of the following strategies is devised to raise switching costs?

- A) A major supermarket issues loyalty cards to its customers.
- B) A vendor offers short-term incentives to retailers for stocking a product.
- C) An automotive company conducts a trade contest.
- D) A company offers commission to its employees for pushing the company's products.

Answer: A

Page Ref: 40

AACSB: Analytic skills

Chapter LO: 1

Difficulty: Moderate

28) Which of the following industries has the highest switching cost?

- A) packaged food
- B) textile
- C) software
- D) food and beverage

Answer: C

Page Ref: 41

Chapter LO: 1

Difficulty: Moderate

- 29) Which of the following companies will have the highest buying power?
- A) a company that sells agricultural products procured from numerous farmers
 - B) a firm that is an exclusive dealer for an automotive company
 - C) a bank that borrows from the Federal Reserve
 - D) a company that procures IT services from a large software company

Answer: A

Page Ref: 41

AACSB: Analytic skills

Chapter LO: 1

Difficulty: Moderate

- 30) ABC Company supplies milk to retail customers in the U.S. There are many sellers offering milk and price is a major determinant of market success. Which of the following predictions about ABC Company is most likely to be true?

- A) It will have strong control over its suppliers.
- B) It will be in a position to dictate terms with the buyers.
- C) It will have to face powerful buyers.
- D) It will have strong control over the market.

Answer: C

Page Ref: 41

AACSB: Reflective thinking skills

Chapter LO: 1

Difficulty: Moderate

- 31) If a supplier has a limited number of buyers, then the _____.

- A) regulators will have less power
- B) suppliers will have more power
- C) manufacturers will have unlimited power
- D) buyers will have more power

Answer: D

Page Ref: 41

Chapter LO: 1

Difficulty: Easy

- 32) How did online markets affect the balance of power between buyers and suppliers?

- A) The power imbalance between the buyers and the suppliers decreased.
- B) Buyers' focus shifted from being powerful to being cooperative.
- C) Sellers became more powerful than the buyers.
- D) Buyers became more powerful than the sellers.

Answer: D

Page Ref: 41

Chapter LO: 1

Difficulty: Moderate

33) Which of the following factors increases the power of suppliers?

- A) governmental regulations
- B) high switching costs
- C) low-scale operations
- D) competitive pressures

Answer: B

Page Ref: 41

Chapter LO: 1

Difficulty: Moderate

34) IBF Associates manufactures automotive components such as seat belts, seats, mufflers, etc. The company supplies its products to leading car manufacturers in Europe and America. Which of the following statements, if true, would indicate that IBF has high bargaining power?

- A) IBF has only four customers and all of them are large companies.
- B) IBF's customers do not expect differentiation in products such as seatbelts and mufflers.
- C) Automobile companies have signed a five-year contract with IBF.
- D) The automobile industry in Europe is characterized by low levels of competition.

Answer: C

Page Ref: 42

AACSB: Reflective thinking skills

Chapter LO: 1

Difficulty: Hard

35) _____ is high in an industry when alternative products that offer attractive savings are available.

- A) Market profitability
- B) Threat of substitutes
- C) Network effects
- D) Threat of new entrants

Answer: B

Page Ref: 42

Chapter LO: 1

Difficulty: Easy

36) Videoconferencing has evolved as an alternative for business travelling. This is an example of _____.

- A) the threat of substitutes in a market
- B) intensification of rivalry among competitors
- C) monopolistic competition in markets
- D) increased power of the suppliers

Answer: A

Page Ref: 42

Chapter LO: 1

Difficulty: Easy

37) Substitutes of a product _____.

- A) have the same technical specifications as the product
- B) are products of similar nature that operate in a different target market
- C) provide the same product or service through different means
- D) do not have direct impact on the profitability of the product

Answer: C

Page Ref: 43

Chapter LO: 1

Difficulty: Easy

38) Which of the following is a result of high rivalry among existing competitors?

- A) increased effectiveness of the industry
- B) decreased market profitability
- C) decreased threat of substitutes
- D) increased market prices

Answer: B

Page Ref: 43

Chapter LO: 1

Difficulty: Moderate

39) Rivalry in an industry is high when the _____.

- A) industry is characterized by differentiation
- B) market is in the development stage
- C) purchasing power of buyers is low
- D) companies compete on price

Answer: D

Page Ref: 43

Chapter LO: 1

Difficulty: Easy

40) Which of the following is a valid observation of the rivalry among existing competitors?

- A) It is damaging for the competitors.
- B) It leads to perfect competition.
- C) It results in losses for the customers.
- D) It helps the market grow in terms of quality.

Answer: A

Page Ref: 43

Chapter LO: 1

Difficulty: Easy

41) Competition is not severe in the telecommunication industry in Brazil. More than ninety percent of the market is dominated by four large players. Which of the following, if true, will increase the rivalry among these four players?

- A) A recent regulation by the government has made the entry of new players more difficult.
- B) The market growth has slowed down significantly in recent months.
- C) One of the dominant players decides to launch its products in Argentina.
- D) In order to strengthen national security, the Brazilian government has banned the use of Internet telephony.

Answer: B

Page Ref: 43

Chapter LO: 1

Difficulty: Easy

42) A disruptive innovation is _____.

- A) a new product or service that is harmful to the society or the people
- B) a method used in production that raises environmental concerns
- C) a new product or service that has the potential to reshape an industry
- D) an immediate response to a difficulty or a threat to a product or service

Answer: C

Page Ref: 43

Chapter LO: 2

Difficulty: Easy

43) Which of the following is an example of a disruptive innovation?

- A) LCD monitors replaced CRT monitors in televisions.
- B) Apple launched iPhone 4 replacing iPhone 3.
- C) Ford introduced small cars for the middle class.
- D) Land Rover markets most of its four-wheel drives in high-altitude regions.

Answer: A

Page Ref: 44

AACSB: Analytic skills

Chapter LO: 2

Difficulty: Moderate

44) Which of the following is an example of a sustaining technology?

- A) Digital cameras replaced chemical cameras that required film.
- B) Digital music sold over the Internet allowed one song at a time downloads.
- C) LCD monitors were introduced to replace analog monitors.
- D) Car manufacturers invented airbags to improve safety of passengers.

Answer: D

Page Ref: 44

AACSB: Analytic skills

Chapter LO: 2

Difficulty: Moderate

45) Which of the following is most closely associated with sustaining technologies?

- A) improvements that streamline existing processes
- B) radical breakthrough that replaces low-end products
- C) potential to reshape and reform an industry
- D) association with new product or service led by technology

Answer: A

Page Ref: 44

Chapter LO: 2

Difficulty: Easy

46) Which of the following is the most accurate justification for the view that the Internet is the most important disruptive innovation of the twentieth century?

- A) The Internet created uncertainties in the market by providing a platform for online trade.
- B) Switching costs have increased after the advent of the Internet as a medium of trade.
- C) The Internet reduced entry barriers for newcomers and empowered buyers with more information.
- D) Competition became oligopolistic with only a few companies investing in technology.

Answer: C

Page Ref: 44

AACSB: Analytic skills

Chapter LO: 2

Difficulty: Moderate

47) Creative destruction occurs when _____.

- A) disruptive innovations threaten established players
- B) sustaining technologies replace old procedures and processes
- C) bad industrial practices are eradicated through government regulations
- D) new products or services are introduced by underperforming players

Answer: A

Page Ref: 44

Chapter LO: 2

Difficulty: Easy

48) Why were innovations like Apple's iTunes considered to be disruptive innovations?

- A) These innovations, when introduced, were not legal.
- B) These innovations had a negative effect on all the existing market players.
- C) These innovations allowed the parent company to benefit in other product categories.
- D) These innovations involved more operational costs.

Answer: B

Page Ref: 45

Chapter LO: 2

Difficulty: Easy

49) What impact will patents have on a business with respect to Porter's five forces?

- A) Patents will result in increased market competition.
- B) Patents will result in increased rivalry within an industry.
- C) Patents will result in reduced threat of new entrants.
- D) Patents will result in increased bargaining power of buyers.

Answer: C

Page Ref: 45

Chapter LO: 2

Difficulty: Moderate

50) Which of the following governmental actions will increase the threat of new entrants in a market?

- A) The Federal Reserve reduces the interest rates on credit for small businesses.
- B) The Department of Commerce offers a patent to an existing player.
- C) The Government squeezes money from the market through open-market operations.
- D) The Federal Reserve increases the cash reserve ratio to tackle inflation.

Answer: A

Page Ref: 45

Chapter LO: 2

Difficulty: Moderate

51) Which of the following is commonly used by organizations to influence how the Porter's five forces operate?

- A) evasion of taxes to effect governmental action
- B) selling at prices below the existing market price
- C) lobbying for governmental action
- D) selling at prices above the existing market price

Answer: C

Page Ref: 45

Chapter LO: 2

Difficulty: Easy

52) Which of the following can be achieved by introducing anti-trust laws in a market?

- A) preventing the intensification of market competition
- B) preventing dominant players from abusing their power
- C) reducing tariffs and duties for existing players
- D) creating entry barriers for new players

Answer: B

Page Ref: 46

Chapter LO: 2

Difficulty: Easy

53) Which of the following pairs of products are complimentary to each other?

- A) computer and software
- B) tea and coffee
- C) petroleum and natural gas
- D) gold and silver

Answer: A

Page Ref: 46

Chapter LO: 2

Difficulty: Moderate

54) The ecosystem in which a company is embedded is a(n) _____.

- A) natural community that is restricted to the members of its value chain
- B) economic community that includes related industries
- C) economic community that focuses entirely on the company and its immediate competitors
- D) community constituted by markets that are not related to the company

Answer: B

Page Ref: 46

Chapter LO: 2

Difficulty: Easy

55) In cloud computing, employees use information systems that are _____.

- A) designed to perform without an Internet connection
- B) installed locally within an organization
- C) hosted by a vendor in a data center
- D) designed specifically for their organization

Answer: C

Page Ref: 47

Chapter LO: 2

Difficulty: Easy

56) Which of the following is based on the cloud computing concept?

- A) MS Access
- B) Google Docs
- C) Acrobat Reader
- D) Internet Explorer

Answer: B

Page Ref: 47

Chapter LO: 2

Difficulty: Moderate

57) The activities that are directly related to the process by which products and services are created, marketed, sold, and delivered are called _____ activities.

- A) composite
- B) support
- C) compound
- D) primary

Answer: D

Page Ref: 48

Chapter LO: 3

Difficulty: Easy

58) Which of the following is a primary activity of an automobile manufacturer?

- A) procurement management
- B) administrative infrastructure management
- C) human resource management
- D) inventory tracking

Answer: A

Page Ref: 48

AACSB: Analytic skills

Chapter LO: 3

Difficulty: Moderate

59) Which of the following is a support activity of a consumer goods manufacturer?

- A) outbound logistics
- B) marketing
- C) customer service
- D) research

Answer: D

Page Ref: 48

AACSB: Analytic skills

Chapter LO: 3

Difficulty: Moderate

60) Which of the following statements is true about the value chain?

- A) It ends when the customer buys a product.
- B) It involves components that are external to the company.
- C) It involves only the primary activities of a business.
- D) It does not involve the intermediaries that a company maintains.

Answer: B

Page Ref: 48

Chapter LO: 3

Difficulty: Moderate

61) Which of the following is NOT a typical component of a company's value chain?

- A) competitors
- B) suppliers
- C) customers
- D) intermediaries

Answer: A

Page Ref: 48

Chapter LO: 3

Difficulty: Easy

62) Which of the following actions of a sugar manufacturing company is an extension of its value chain?

- A) The company intensifies its marketing activities.
- B) The company buys a large sugar cane plantation in Cuba.
- C) The company adds a few more distributors.
- D) The company launches a new promotional program.

Answer: B

Page Ref: 48

AACSB: Analytic skills

Chapter LO: 3

Difficulty: Moderate

63) "The value chain does not end when the buyer pays for the product or service." Which of the following statements contradicts this judgment?

- A) Customer orientation is the key to success in modern business.
- B) Value chain includes all components that add value to a product or service.
- C) Total value transfer of tangible goods happens at the point of sale.
- D) Marketing success should be measured in terms of customer satisfaction.

Answer: C

Page Ref: 49

AACSB: Reflective thinking skills

Chapter LO: 3

Difficulty: Moderate

64) Alduro Plastics, a utensils manufacturing company, decides to extend its value chain by acquiring a manufacturer of raw materials. Which of the following, if true, would most support Alduro's decision?

- A) The company's major supplier displays a sloppy attitude while supplying materials.
- B) The company's production schedule is seasonal.
- C) The company has projected a growth of 8 percent for the current financial year.
- D) The company's managing director has resigned recently.

Answer: A

Page Ref: 49

AACSB: Analytic skills

Chapter LO: 3

Difficulty: Moderate

65) A company incorporates contributions from buyers who help add value to the company's products and services. Which of the following best describes this action?

- A) creation of a supply chain
- B) performing a promotional activity
- C) creation of a value chain
- D) extension of the value chain

Answer: D

Page Ref: 49

Chapter LO: 3

Difficulty: Easy

66) eBay's customers enrich the Web site by giving their reviews after every purchase. These reviews are used by buyers to evaluate the sellers in eBay. eBay also provides special privileges to sellers who have higher ratings. This is an example of _____.

- A) reverse engineering
- B) value chain extension
- C) focused strategy
- D) niche marketing

Answer: B

Page Ref: 49

AACSB: Analytic skills

Chapter LO: 3

Difficulty: Moderate

67) Which of the following is a major ethical issue arising out of value chain extension?

- A) Who is responsible when there is damage?
- B) How many members should there be in the chain?
- C) What should be the marketing strategy?
- D) Should the company make revenue by expansion?

Answer: A

Page Ref: 50

Chapter LO: 3

Difficulty: Easy

Course LO: Discuss the ethical and social issues raised by the use of information systems

68) A benchmark is a(n) _____.

- A) quantitative standard used in manufacturing
- B) minimum standard of performance in certain industries
- C) reference point used as a baseline measurement
- D) evaluative standard used to compare two industries

Answer: C

Page Ref: 50

Chapter LO: 3

Difficulty: Easy

69) An IT company uses industry average as a standard for measuring its financial performance. Here, the industry standard is used as a(n) _____.

- A) scheme
- B) outline
- C) benchmark
- D) objective

Answer: C

Page Ref: 50

Chapter LO: 3

Difficulty: Moderate

70) Which of the following is a useful benchmark for information systems?

- A) amount of IT spending per employee
- B) IT spending per square feet of office area
- C) number of computers in an organization
- D) number of programs installed on a computer

Answer: A

Page Ref: 51

Chapter LO: 3

Difficulty: Easy

71) Which of the following is a key attribute of the low-cost leadership strategy?

- A) providing unique add-ons to supplement the products or services
- B) focusing on a specific market segment
- C) optimizing the value chain by eliminating unwanted costs
- D) offering products and services with superior qualities

Answer: C

Page Ref: 52

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

72) Southwest Airlines offers better fares compared to most of its competitors. This helps the company attract customers who care for economic travelling. Which of the following strategies is being used by Southwest Airlines?

- A) product differentiation
- B) focused strategy
- C) focused differentiation
- D) low-cost leadership strategy

Answer: D

Page Ref: 52

AACSB: Analytic skills

Chapter LO: 4

Difficulty: Moderate

Course LO: Explain how IS can be used to gain and sustain competitive advantage

73) Which of the following is essential if an organization has to follow a low-cost leadership strategy?

- A) market leadership on product quality
- B) relentless search for ways to reduce operating expenses
- C) product differentiation to distinguish itself from competitors
- D) focus on a segment or sector of the market

Answer: B

Page Ref: 52

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

74) Which of the following statements describes the product differentiation strategy?

- A) special features for which customers are willing to pay more
- B) products sold in more than one market at different price levels
- C) prices of product or service are held at moderate levels
- D) products sold to the entire market

Answer: A

Page Ref: 52

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

75) The iPad challenges even the low-cost providers in the market due to its attractive features. Which of the following strategies is being used by Apple?

- A) focused strategy
- B) market leadership
- C) cost leadership strategy
- D) product differentiation

Answer: D

Page Ref: 52

Chapter LO: 4

Difficulty: Moderate

Course LO: Explain how IS can be used to gain and sustain competitive advantage

76) Differentiating the product or service for a particular market niche is called a _____.

- A) market leadership strategy
- B) focused strategy
- C) market penetration strategy
- D) cost leadership strategy

Answer: B

Page Ref: 53

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

77) Lifetime Television, an American cable television company, specifically targets women viewers. The channel is devoted to movies, sitcoms, and dramas that are either geared toward women or feature women in lead roles. This is an example of a _____ strategy.

- A) market leadership
- B) cost leadership
- C) focused
- D) price leadership

Answer: C

Page Ref: 53

AACSB: Analytic skills

Chapter LO: 4

Difficulty: Moderate

Course LO: Explain how IS can be used to gain and sustain competitive advantage

78) "The information and communications technology (ICT) component is at the very heart of the company's competitive advantage." Which of the following statements is the most accurate justification of this claim?

- A) Companies benefit from the cost savings made possible through information systems.
- B) Cost of implementing technology has increased over a period of time.
- C) Most businesses involve the sale of technical or technological services.
- D) Global technological investments have increased in the past ten years.

Answer: A

Page Ref: 54

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

79) "low-cost leaders must automate their processes." Which of the following is the most compelling reason to support this argument?

- A) Automation will help them differentiate their products.
- B) Automation will help them achieve significant improvements in quality.
- C) Automation will help them eliminate costly human labor.
- D) Automation can help the company improve its brand image.

Answer: C

Page Ref: 54

Chapter LO: 4

Difficulty: Moderate

Course LO: Explain how IS can be used to gain and sustain competitive advantage

80) Which of the following typically is the biggest cost component in an organization's IT spending?

- A) cost of keeping the IT services running
- B) cost of buying computer hardware
- C) cost of buying new software
- D) cost of building IT infrastructure other than computers

Answer: A

Page Ref: 54

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

81) Which of the following is a common way to decrease the IT spending of a company?

- A) shifting to proprietary software
- B) moving toward cloud computing
- C) increasing in-house IT personnel
- D) reducing outsourcing operations

Answer: B

Page Ref: 55

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

82) Which of the following is the best example of the strategic use of IT?

- A) maintaining the IT systems of a company
- B) establishing a data center to store key information
- C) transforming the business model of an organization
- D) licensing the software that a company will use

Answer: C

Page Ref: 55

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

83) IT acts as a strategic enabler when _____.

- A) it is used to manage day-to-day operations
- B) it focuses on the growth of an organization
- C) it is used to create work schedules
- D) employees learn to use IT services

Answer: B

Page Ref: 55

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

84) Which of the following is a tool used to reduce health care costs by digitizing patient history and treatment records, and making them available to health care providers as needed?

- A) magnetic resonance imaging
- B) ultrasonography
- C) medical imaging
- D) electronic medical record systems

Answer: D

Page Ref: 55

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

85) Which of the following is a feature of nonprofit organizations that differentiate them from for-profit organizations?

- A) lack of shareholders
- B) lack of target customers
- C) lack of stakeholders
- D) lack of products or services

Answer: A

Page Ref: 56

Chapter LO: 5

Difficulty: Easy

86) Which of the following statements is true about the IT strategy of nonprofit organizations?

- A) Nonprofit organizations have no shareholders and do not require a dedicated strategy.
- B) Nonprofit organizations do not require significant IT support unless they are transformational in nature.
- C) Nonprofit organizations need IT support and strategy to achieve their objectives.
- D) Nonprofit organizations may not invest in IT if their objectives are directly related to IT.

Answer: C

Page Ref: 56

Chapter LO: 5

Difficulty: Easy

Course LO: Discuss the role of information systems in supporting business processes

87) Which of the following is a strong reason to believe that IT is essential to manage nonprofit businesses?

- A) Some of the nonprofit organizations engage in sales and marketing.
- B) Operational requirements for nonprofits are similar to for-profit businesses.
- C) Most nonprofit organizations have a concealed profit motive.
- D) Many nonprofit organizations are supported and funded by for-profit businesses.

Answer: B

Page Ref: 56

Chapter LO: 5

Difficulty: Moderate

Course LO: Discuss the role of information systems in supporting business processes

88) Why are the operational requirements to run nonprofits considered similar to for-profit businesses?

- A) Operations such as payroll, accounting and finance, and human resources are essential for nonprofits.
- B) Most of the nonprofit organizations generate profit in some way, and operations are essential for tax planning.
- C) The procedural objectives for for-profit organizations and nonprofit organizations are the same.
- D) The branding requirements for for-profit organizations and nonprofit organizations are the same.

Answer: A

Page Ref: 56

Chapter LO: 5

Difficulty: Easy

Course LO: Discuss the role of information systems in supporting business processes

89) E-government involves _____.

- A) a supply chain system specifically designed for governmental trade
- B) governmental involvement in conducting e-commerce
- C) a government elected through online voting
- D) efforts to make unclassified information available to citizens online

Answer: D

Page Ref: 58

Chapter LO: 5

Difficulty: Easy

90) Which of the following is a major difference between a government's IT mission and the IT mission of a nonprofit organization?

- A) Governmental issues involve financial transactions, whereas nonprofits do not perform financial transactions using technology.
- B) Governmental issues will include aspects such as regulation and defense, whereas such issues will not concern nonprofit organizations.
- C) Governmental issues are limited to e-governance and tax collection, whereas nonprofits involve a variety of issues such as education and health.
- D) Governmental issues are strategic in nature, whereas the nonprofits' issues are operational in nature.

Answer: B

Page Ref: 58

Chapter LO: 5

Difficulty: Moderate

91) Identify the project for which governmental funding is most critical.

- A) a project to launch a new, low-cost car
- B) a scheme to improve the financial status of a company
- C) a research project on hybrid oil
- D) an infrastructure project that should be completed in one year

Answer: C

Page Ref: 58

AACSB: Analytic skills

Chapter LO: 5

Difficulty: Moderate

92) IT enabled the creation of electric meters that run "backwards." Which of the following statements best explains this statement?

- A) IT allowed customers to manipulate their electricity bills.
- B) IT has been instrumental in reducing the global power consumption.
- C) IT has not made any significant contribution to the field of electricity distribution and measurement.
- D) IT allowed customers to add electricity to the grid when they produce their own power.

Answer: D

Page Ref: 58

Chapter LO: 5

Difficulty: Moderate

93) Why is it essential for organizations to reduce the dollars that they spend on IT?

- A) Increased IT spending is usually associated with investor dissatisfaction and reduces companies' market value.
- B) Price competition for commodities is fierce and savings are essential for competitive advantage.
- C) IT is only an operational requirement and is not a strategy enabler.
- D) Organizations should spend money on things that create a comparative advantage rather than on IT.

Answer: B

Page Ref: 60

Chapter LO: 6

Difficulty: Moderate

Course LO: Explain how IS can be used to gain and sustain competitive advantage

94) "IT resources have become an infrastructure commodity." Which of the following statements best supports this claim?

- A) IT resources are available to all the players in a market.
- B) Implementation of IT resources increase employee productivity.
- C) Technology helps organizations perform better than their competitors.
- D) IT investments by companies have increased in recent years.

Answer: A

Page Ref: 60

Chapter LO: 6

Difficulty: Moderate

95) Xerox, a copier machine manufacturing company, sustains its investment in technological innovation, particularly in areas such as color science, digital imaging, and nanotechnology. These strategic investments, made only in specific areas, keep the company ahead of the competition. Which of the following messages does this example convey?

- A) Large IT investments are essential for the success of a company in today's business environment.
- B) The ability to extract the value of technology requires human imagination and innovation.
- C) IT investments should not be focused on certain aspects and should have a broad outlook.
- D) IT investments must be made on the most modern technology available in the market.

Answer: B

Page Ref: 60

AACSB: Analytic skills

Chapter LO: 6

Difficulty: Moderate

96) How can a company avoid the trap of competing only on price?

- A) by keeping the price at a level higher than the competitors
- B) by following a pricing strategy inconsistent with the market equilibrium
- C) by differentiating the products or services that it offers
- D) by selling at a price much lower than the competition

Answer: C

Page Ref: 60

Chapter LO: 6

Difficulty: Easy

97) List Porter's five forces.

Answer: Porter's model includes five interrelated forces that influence industry competition. The five forces are threat of new entrants, power of buyers, power of suppliers, threat of substitutes, and rivalry among existing competitors.

Page Ref: 39

Chapter LO: 1

Difficulty: Easy

98) Explain the threat of new entrants to businesses.

Answer: The threat of new entrants in an industry is very high when startups open shop with little capital, few employees, and next to no experience. Incumbents in the industry must keep their prices low to ward off newcomers, so profitability suffers. New entrants might also come from established companies in other industries, whose leaders decide to diversify and encroach on another.

Page Ref: 40

Chapter LO: 1

Difficulty: Easy

99) What are network effects? Provide an example.

Answer: Network effects refer to the increased value of a product or service that results simply because there are more people using it. A large customer base can be significant because of network effects. The value of Facebook, for example, is low if you can only connect a few people. But the more people who use that social network, the more valuable it becomes to everyone.

Page Ref: 40

Chapter LO: 1

Difficulty: Easy

100) What are switching costs?

Answer: Switching costs are the costs customers incur when they change suppliers. Royalty programs and initial costs, among other strategies, increase the costs of switching. For example, switching costs are high in the software industry.

Page Ref: 40

Chapter LO: 1

Difficulty: Easy

101) Explain the power of buyers.

Answer: The power of buyers increases when they have leverage over suppliers and can demand deep discounts and special services. If a supplier has a small number of buyers, the supplier is at a disadvantage since losing even one could be devastating. Buyer power also rises when many suppliers offer similar, undifferentiated products and the buyer can deal with any of them to get about the same product, with negligible switching costs.

Page Ref: 41

Chapter LO: 1

Difficulty: Easy

102) Explain the power of suppliers with an example.

Answer: The power of suppliers is the advantage sellers have when there is a lack of competition and they can charge more for their products and services. This is one of Porter's five competitive forces. Microsoft is an example. Given the dominance of its Windows operating system, PC assemblers around the world risk losing customers if they don't install it.

Page Ref: 41

Chapter LO: 1

Difficulty: Easy

103) Explain how rivalry among competitors affects businesses.

Answer: The profitability of an industry and its competitive structure is affected by the intensity of rivalry among existing competitors, particularly with respect to how they are competing, and what they compete on. If firms compete mainly on price, rivalry is high and the industry as a whole becomes less profitable because price cutting triggers rounds of retaliation and damaging price wars.

Page Ref: 43

Chapter LO: 1

Difficulty: Easy

104) What is a disruptive innovation? How is it different from sustaining technologies?

Answer: A disruptive innovation is a new product or service, often springing from technological advances, that has the potential to reshape an industry. For example, Kodak, Casio, Olympus, and other companies began offering digital cameras that needed no film in the 1990s, transforming the industry within a few short years.

Sustaining technologies, on the other hand, offer important improvements to streamline existing processes and give companies marginal advantages.

Page Ref: 43, 44

Chapter LO: 2

Difficulty: Easy

Course LO: Discuss the role of information systems in supporting business processes

105) What impact do government policies have on business? How do businesses try to influence government policies?

Answer: Government policies and funding priorities can have dramatic effects on how industries operate and how they evolve. Patents reduce the threat of new entrants. Government's market actions, taxes, and regulations also affect business. Government also affects the industry structure through judges and courts. For instance, anti-trust laws prevent dominant players from exploiting their power and becoming monopolies.

Organizations frequently lobby for government action to influence how the five forces operate and to improve industry profitability. Lobbyists concentrate on regulatory policy, taxes, government subsidies, and other issues that affect the industry.

Page Ref: 45, 46

Chapter LO: 2

Difficulty: Easy

106) What impact does environment have on businesses?

Answer: Companies are embedded in a complex ecosystem — an economic community that includes the related industries making complementary products and services, the competitors themselves, the suppliers, and also the consumers. Events in one arena, particularly a disruptive innovation, ripple through the whole community, affecting all the players and the five forces for the industries involved.

Page Ref: 46

Chapter LO: 2

Difficulty: Easy

107) Explain Porter's value chain model and the types of activities in it.

Answer: Porter's value chain model describes the activities a company performs to create value, as it brings in raw resources from suppliers, transforms them in some way, and then markets the product or service to buyers. In the model, the company performs primary activities directly related to the process by which products and services are created, marketed, sold, and delivered. Support activities encompass all the other processes and offices the company needs, including administration and management, human resources, procurement, and technology support.

Page Ref: 48

Chapter LO: 3

Difficulty: Easy

Course LO: Discuss the role of information systems in supporting business processes

108) What is a benchmark? Provide an example.

Answer: A benchmark is a reference point used as a baseline measurement. Often it indicates a measurement that would be considered optimal, or best practices within the industry, though it is sometimes simply an industry average. For the value chain, one benchmark might be the percent of total budget allocated to each of the primary and support activities.

Page Ref: 50

Chapter LO: 3

Difficulty: Easy

109) Explain various competitive strategies in business, with examples.

Answer: The low-cost leadership strategy means offering a similar product at a lower price compared to competitors. A relentless search for ways to reduce operating expenses and achieve efficiencies pervades this strategy. An example is Walmart.

Another approach is product differentiation, adding special features or unique add-ons for which customers are willing to pay more. The strategy tends to reduce threats from substitute products and also erects barriers to new entrants. An example is Apple.

Differentiating the product or service for a particular market niche is called a focused strategy. Research in Motion (RIM), for example, positions its Blackberry smartphone for the business and government segment, with its conservative looks and business-oriented features.

Page Ref: 52, 53

Chapter LO: 4

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage

110) Explain the importance of IT for nonprofit organizations.

Answer: While nonprofit organizations have no shareholders, they do have objectives that need strategic planning and that benefit from strategic use of information systems. Running, growing, and transforming the organization are all very relevant to nonprofits, just as they are to the for-profit world, and information systems play a key role.

Nonprofit organizations use IT for various operational requirements; they use information systems for payroll, accounting and finance, human resources, asset management, and related tasks. Many nonprofits also need information systems to track sales and customer transactions, since they may sell products and services, either as part of their mission or as ancillary activities.

Page Ref: 56

Chapter LO: 5

Difficulty: Easy

Course LO: Discuss the role of information systems in supporting business processes

111) Do you think the strategic importance of IT has reduced? Explain your answer.

Answer: Some think that IT resources have become so commonplace that their strategic importance has diminished and they have become an infrastructure commodity – a widely available staple, much like electricity or rail transport. Although many technologies are indeed commodities, this view may not be true as it requires human innovation for sustainable advantage from technology. Innovative information systems in which creative people leverage technology to grow and transform the organization are critical for effective strategy. Student answers will vary.

Page Ref: 60

Chapter LO: 6

Difficulty: Easy

Course LO: Explain how IS can be used to gain and sustain competitive advantage