Chapter 2 Test Bank

True/False:

1. The resource-based theory views the firm as a bundle of resources capable of creating value for shareholders and other stakeholders.
Ans: T
Response: Easy, p. 29

2. Competitive advantage represents the ability of an organization to consistently outperform rivals in a given market.
Ans: T
Response: Easy, p. 30

3. A typical organization has a long list of distinctive competencies.
Ans: F
Response: Easy, p. 30

4. Socially complex activities can be, and usually are, understood by one individual and are easy for outsiders to replicate.
Ans: F
Response: Easy, p. 31

5. Royal Bank of Scotland has followed a strategy of offering a variety of products under one brand name.
Ans: F
Response: Easy, p. 32

6. The appropriability of resources refers to whether a competitor can capture the profit it generates.
Ans: T
Response: Easy, p. 34

7. In the UK, Marks and Spencer allotted 10% of store space for employee welfare activities such as in-house medical care.
Ans: T
Response: Easy, p. 36

8. The metaphor of the bathtub in describing management of resources describes the level of water in the tub as ‘resource stocks’ and the water entering the tub as ‘resource flows’.
Ans: T
Response: Easy, p. 38

9. In the 1990s, the UK’s Marks and Spencer stores expanded through Canada, Europe and the United States.
Ans: T

Response: Easy, p. 40

10. Employee socialization occurs not only by formal instruction, but also by observing other employees at work.
Ans: T
Response: Easy, p. 43

11. Most competitive resources are not causally ambiguous (e.g., the connection between activities and success is readily apparent).
Ans: F
Response: Easy, p. 44

12. When things go well, people tend to attribute success to their own efforts.
Ans: T
Response, Easy, p. 44

13. After World War II, the two railroad firms, Rock Island and Chicago-Northwestern, differed in their explanation of their economic downturns.
Ans: T
Response: Easy, p. 45

14. Luck can play a role in the resource environments available to a given company at a point in time.
Ans: T
Response: Easy, p. 45

15. The seven steps in managing resources include defining distinctive competencies by doing comparison with other firms.
Ans: T
Response: Easy, p. 46

16. Competence-destroying change in the environment can involve new competitors, regulation, or new technology.
Ans: T
Response: Easy, p. 47

17. The web's harmful affect on brick and mortar travel agency business is an example of 'competence-enhancing' change.
Ans: F
Response: Easy, p. 47

18. Resource stocks can experience an increase in value, an instance of 'competence-destroying' change.
Ans: F
Response: Easy, p. 47

19. Current competence and the resources that support it tend to erode.
Ans: T
Response: Easy, p. 48

20. Every strategist inherits a stock of resources and must sometimes leave them behind, and assets more appropriate to changing conditions must be developed.
Ans: T
Respone: Easy, p. 48

Multiple Choice:

21. ______ are combinations of resources that create value.
a. Capabilities
b. Competencies
c. Distinct competencies
d. Routines
Ans: A
Response: Easy, p. 30-31

22. ______ is an activity that follows patterns observed in the behaviour of others.
a. Distinctive competencies
b. Mimetic behaviour
c. X
Ans: B
Response: Easy, p. 31

23. Resources most likely to generate competitive market advantage have what characteristics?
a. Common
b. Tradeable, available on the open market
c. Easily substitutable
d. All of the above
e. None of the above
Ans: E
Response: Easy, p. 32

24. Research on value of brands as a resource shows the highest user loyalty for:
a. Televisions
b. Soft drinks
c. Beer
d. Cigarettes
Ans: D
Response: Easy, p. 34

25. A company should expect to wait the longest number of years before developing which resource?

a. databases
b. networks
c. company reputation
d. supplier know-how
e. employee know-how
Ans: C
Response: Medium, p. 40

26. Amazon stock lost value by mid 2000 due to
a. untalented employees
b. Lack of marketing skill
c. Lack of inventory management skill
d. Lack of publicity
Ans: C
Response: Medium, p. 42

27. Strategic risk estimates ____ about outcomes:
a. negativity
b. uncertainty
c. conviction
d. X
Ans: B
Response: Medium, p. 43

28. There is a trade-off between resource deployment and resource _______.
a. accumulation
b. commitment
c. expectation
d. focus
Ans: A
Response: Medium, p. 39

29. Which of the following is not true about Disney?
a. Disney appropriates most of the profit from its consumer goods due to its unique brand name.
b. Disney's 'human' stars such as Regis Philbin have more long-term success than classic stars such as Mickey and Minnie Mouse.
c. Disney purchased Pixar Animation studios in 2006.
d. Disney is known as one of the best places to work for U.S. graduates.
Ans: B
Response: Medium, p. 28

30. Which of the following is true about tangible resources?
a. Tangible resources are rare.
b. On their own, tangible resources are likely to create competitive advantage.
c. Tangible resources include knowledge and reputation.

d. Tangible resources can be combined with intangible resources to create capabilities.
Ans: D
Response: p. 30

31. Which of the following is true about routines?
a. Routines describe atypical behavioral patterns of firms.
b. Firm routines include the procedures for accounting and other processes.
c. Routines should never be changed or else firms will lose value.
d. Routines are combinations of tangible resources that create value.
Ans: B
Response: p. 30

32. Which of the following aspects is not a key component of helping a firm create sustainable advantage?
a. Branding
b. Education
c. Investment
d. Socialization
Ans: B
Response: Hard, p. 34

33. Research on value of brands as a resource shows the lowest user loyalty for:
a. Athletic shoes
b. Coffee
c. Garbage bags
d. Laundry detergent
Ans: C
Response: Easy, p. 34

34. Resource _______ accumulate from investments over time to support competitive advantage.
a. Competencies
b. Flows
c. Positions
d. Stocks
Ans: B
Response: p. 38

35. Which of the following is true about the 1998-2003 fall of Marks and Spencer?
a. Continued to use suppliers in the United Kingdom rather than cheaper suppliers overseas.
b. Did not face any local High Street competition in the apparel industry.
c. Eliminated its U.K. catalog business.
d. Established a wildly successful joint venture with lingerie firm Agent Provocateur.

Ans: C
Response: Hard, p. 40

36. _________ is one of the hardest intangible assets to replace, taking an average of 10.8 years.
a. Company reputation
b. Distributor know-how
c. Employee know-how
d. Product reputation
Ans: A
Response: p. 41

37. At 1.6 years, _________ is one of the shortest time periods for replacing an intangible asset.
a. Company reputation
b. Databases
c. Distributor know-how
d. Supplier know-how
Ans: C
Response: p. 41

38. Which of the following is not true about socialization?
a. Can help employees to identify with their organization.
b. Informs newcomers of "how we do things around here."
c. Involves the telling and interpreting of stories.
d. Purely a formal process.
Ans: D
Response: p. 43

39. ___________ refers to the lack of readily apparent connection between a firm's activities and its competitive success.
a. Causal ambiguity
b. External attribution
c. Overcommitment
d. Uncertain capacity
Ans: A
Response: p. 44

40. Resource flow decisions are multiple, with daily, detailed decisions usually left to:
a. Low level personnel
b. Middle personnel
c. Top level personnel
Ans: B
Response: p. 38

Short Answer:

41. What is mimetic behaviour? Provide an example of a firm that displays mimetic behavior.

Ans: Mimetic behaviour is activity that follows patterns observed in the patterns of others. One possible example is Wells Fargo, which significantly grew its business with the purchase of Wachovia in 2008 following similar acquisitions of banks by JP Morgan Chase and Bank of America, among others.
Response: p. 31, Hard

42. What are some of the risks associated with resource accumulation?
Ans: Uncertain capacity to accumulate resources, causal ambiguity, overcommitment, and external attribution.
Response: p. 43-45, Medium

43. Define distinctive competencies and give an example.
Ans: Distinctive competencies are the organization's unique resources, capabilities, and routines. One possible example is Disney's signature style.
Response: p. 30-31, Medium

44. Describe some of the strategic changes made by Disney in the last decade.
Ans: In the last decade, Disney purchased the highly successful Pixar Animation Studios, partnered with Apple to sell TV shows and movies on iTunes, and focused on computer-generated imagery in live action movies like the *Pirates of the Caribbean* trilogy.
Response: p. 28, Medium

45. Define routines and provide examples of how these routines might lead to distinctive competencies.

Ans: Routines systematize the knowledge required to create and replicate capabilities needed by the organization. One possible example of a routine leading to a distinctive competency might be Disney's processes and procedures for creating movies, started under Walt Disney, ultimately leading to their signature style.
Response: p. 30, Hard

46. Strategists try to create and maintain brand identity. Provide examples of five questions that strategists might ask in this process.

Ans: Possible answers include *What resources are at my disposal? What skills can I use or develop to create brand awareness? How can these be combined into more complex capabilities? What routines can I put into place to sustain my brand over time? How can I establish a brand image in the minds of my customers?*
Response: p. 34, Medium

47. Using the Internet as an example of a change in the environment, describe in detail three examples of firms that experienced competence-destroying changes.

Ans: One possible answer might include the decline in corporate contracts with outside travel agents and trained people in-house to make travel arrangements, due to the ease with which one can arrange airline, hotel, and car rental reservations online.
Response: p. 47, Easy

48. Using colder weather from climate change in the environment, describe in detail three examples of firms that experienced competence-enhancing changes.
Ans: Colder weather in the environment might be result in a competence-enhancing change for a variety of firms. For example, sole proprietors and small firms that specialize in clearing snowy driveways might find themselves with more work, although perhaps eventually more competing firms. Climate change might bring more policy work and regulation, and firms such as Ernst and Young have special divisions for Climate Change Advisory Services. Another beneficiary are firms that get more business in cold weather, such as ski resorts and snowmobile manufacturers.
Response: p. 47, Hard

Essay:

49. Describe the six step process that strategists can follow to manage the accumulation and deployment of resources?
Ans:
Step 1: Attend to Necessary Resources
Step 2: Determine Competitive Advantage (if any)
Step 3: Define Distinctive Competencies
Step 4: Decompose Distinctive Competencies to Focus Investment
Step 5: Look for Opportunities to Leverage Resources
Step 6: Plan for the Ongoing Renewal of Resources
Response: p. 46-47, Hard

50. What firm resources are associated with competitive advantage?
Ans: Tangible and intangible resources are the basic building blocks of competitive advantage. While most tangible resources are widely available and unlikely to create competitive advantage or meet performance demands by themselves, they can combine with intangible skills and knowledge to create capabilities. Routines provide a way of systematizing the possibilities of the organization's bundle of resources, and distinctive competencies are the organization's unique resources, capabilities, and routines.
Response: p. 29-31, Hard