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Information Systems Today, 7e **(Valacich)**
Chapter 2 Gaining Competitive Advantage Through Information Systems

1) At the _____ level of a firm, the routine, day-to-day business processes and interactions with customers occur.
A) strategic
B) tactical
C) operational
D) managerial
E) executive
Answer: C
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

2) Why are information systems typically used at the operational level?
A) to create a risk information sheet
B) to define all project tasks
C) to identify all business activities
D) to create use cases
E) to increase efficiency
Answer: E
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

3) Which of the following actions is a part of operational planning?
A) making day-to-day decisions that are highly structured and recurring
B) effectively utilizing and deploying organizational resources to achieve strategic objectives
C) focusing on long-term strategic questions facing the organization
D) dealing with complex problems with broad and long-term ramifications for the organization
E) focusing on balancing performance across the organization
Answer: A
AACSB: Analytical thinking; Information technology
Difficulty: Moderate
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

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4) _____ are a set of activities an organization performs in order to reach their business goals.
A) Business processes
B) Business standards
C) Business technocracies
D) Business data flow models
E) Business cases
Answer: A
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

5) With respect to decision making in organizations, _____ decisions are those in which the procedures to follow for a given situation can be specified in advance.
A) comparative
B) structured
C) unscrupulous
D) asymmetrical
E) disfigured
Answer: B
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

6) Ben White is the manager of a retail store. His work typically includes the routine, day-to-day interactions with customers. Once in a while, he also solves customers' problems and deals with dissatisfied customers. Additionally, he has to keep track of inventory and issue an order for additional inventory with levels below a specified level. Ben is a(n) _____ level manager.
A) operational
B) tactical
C) strategic
D) managerial
E) executive
Answer: A
AACSB: Analytical thinking; Information technology
Difficulty: Moderate
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Application

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7) With respect to organizational decision-making levels, _____ decisions can be programmed directly into operational information systems so that they can be made with little or no human intervention.
A) asymmetrical
B) semistructured
C) unstructured
D) comparative
E) structured
Answer: E
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

8) A(n) _____ refers to anything that occurs as part of a daily business of which a record must be kept.
A) transaction
B) investment
C) capital asset
D) value chain analysis
E) use case
Answer: A
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

9) At the _____ level of an organization, functional managers focus on monitoring and controlling operational-level activities and providing information to higher levels of the organization.
A) managerial
B) executive
C) strategic
D) superficial
E) illusive
Answer: A
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

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10) The executive level of an organization is also known as the _____ level.
A) managerial
B) tactical
C) operational
D) strategic
E) illusory
Answer: D
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

11) _____ decision making in an organization is referred to as semistructured decision making because solutions and problems are not clear-cut and often require judgment and expertise.
A) Illusive-level
B) Operational-level
C) Managerial-level
D) Executive-level
E) Strategic-level
Answer: C
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

12) The managerial level of an organization is also known as the _____ level.
A) functional
B) tactical
C) executive
D) operational
E) strategic
Answer: B
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

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13) Identify the focus of managers at the tactical level of an organization.
A) deploying organizational resources to achieve the strategic objectives of the organization
B) managing routine, day-to-day business processes and interactions with customers
C) designing long-term strategic questions facing the organization
D) solving complex problems with broad and long-term ramifications for the organization
E) maintaining the efficiency of business processes within the organization
Answer: A
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

14) Jane Estroisch works as a manager in a multidomestic firm. She focuses on the long-term questions facing the organization such as which countries to compete in and what organizational policies to follow. Jane is in the _____ level of the organization.
A) operational
B) tactical
C) executive
D) functional
E) managerial
Answer: C
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Application

15) Managers in the _____ level of an organization are referred to as "executives."
A) operational
B) tactical
C) functional
D) strategic
E) managerial
Answer: D
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

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16) _____ decisions deal with complex problems with broad and long-term ramifications for an organization.
A) Executive-level
B) Functional-level
C) Tactical-level
D) Operational-level
E) Managerial-level
Answer: A
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

17) With respect to organizational decision-making levels, for _____ decisions, some procedures to follow for a given situation can be specified in advance, but not to the extent where a specific recommendation can be made.
A) unstructured
B) planned
C) semistructured
D) asymmetrical
E) structured
Answer: C
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

18) At the _____ level of an organization, managers focus on long-term strategic questions facing the organization, such as which products to produce, which countries to compete in, and what organizational strategy to follow.
A) managerial
B) tactical
C) operational
D) executive
E) illusory
Answer: D
AACSB: Analytical thinking
Difficulty: Easy
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Classification: Concept

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19) Managers at the _____ level include the president and chief executive officer, vice presidents, and possibly the board of directors.
A) functional
B) executive
C) tactical
D) operational
E) illusive
Answer: B
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

20) _____ decisions are referred to as unstructured decisions because the problems are relatively complex and non-routine.
A) Managerial-level
B) Tactical-level
C) Executive-level
D) Operational-level
E) Illusive-level
Answer: C
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

21) To assist _____ decision making, information systems are used to obtain aggregate summaries of trends and projections of the future.
A) managerial-level
B) functional-level
C) tactical-level
D) operational-level
E) executive-level
Answer: E
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

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22) At the _____ level of an organization, information systems provide key performance indicators (KPIs) that are focused on balancing performance across the organization.
A) illusive
B) operational
C) tactical
D) managerial
E) executive
Answer: E
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

23) Information systems at the _____ level of an organization often help in automating repetitive activities.
A) tactical
B) strategic
C) managerial
D) operational
E) executive
Answer: D
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

24) Which of the following actions would an organization take if it decides to pursue a best-cost provider strategy?
A) offering the best prices in its industry on its goods and/or services
B) attempting to gain monopoly in the market by means of an unhealthy competition
C) offering products or services of reasonably good quality at competitive prices
D) providing high quality products at low prices in specific markets
E) offering low quality products at low prices with high quality after-sales services
Answer: C
AACSB: Analytical thinking
Difficulty: Moderate
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Classification: Concept

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25) Which of the following is an example of a best-cost provider strategy?
A) Different car manufacturers compete in the tiny super car category with prices starting at $150,000 and running as high as $600,000.
B) Aerodoungle's Eridla brand is considered a luxury car. Some of Eridla's models like the ES model, however, are in the midrange of prices for cars.
C) Global furniture retailer Rusicwood provides customers with affordable solutions for better living by offering home furnishings that combine good design, function, and quality with low prices.
D) Wild Hog builds motorcycles that target only the high end of the heavyweight market-the high-end premium cruiser market-with names such as Wolf, Mastiff, and Bulldog.
E) Streetsuit's everyday low prices (EDLP) strategy hinges upon its ability to obtain consumer goods at the cheapest possible price and pass these savings on to consumers.
Answer: C
AACSB: Analytical thinking
Difficulty: Difficult
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Application

26) Walmart pursues a _____ strategy by which it offers the best prices in its industry on its goods and/or services.
A) best-cost provider
B) decreased market share
C) low-cost leadership
D) broad differentiation
E) focused differentiation
Answer: C
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

27) Which of the following is an implication for firms that have a threat of new entrants into their market?
A) increased cost
B) reduced quality
C) increased demand for services
D) increased price
E) decreased market share
Answer: E
AACSB: Analytical thinking
Difficulty: Moderate
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Classification: Concept

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28) For a firm, reduced prices, need for increased quality, and demand for more services would result due to _____.
A) threat of substitute products from other industries
B) customers' bargaining power
C) high threat of new entrants into the market
D) traditional rivals within the industry
E) increase in suppliers' bargaining power
Answer: B
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

29) _____ is the process of analyzing an organization's activities to determine where value is added to products and/or services and what costs are incurred for doing so.
A) Value networking
B) Value chain analysis
C) Value migration
D) Value shop
E) Value grid trial
Answer: B
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

30) With reference to assessing value for the IS infrastructure, architectural value is derived from _____.
A) the infrastructure's ability to enhance the profitability of the business
B) an investment's ability to extend the infrastructure's capabilities to meet business needs today and in the future
C) an investment's impact on enabling the infrastructure to better meet business processing requirements
D) assessing the extent to which an investment helps to meet requirements for control, security, and integrity as required by a governing body or a key customer
E) the infrastructure's ability to improve product quality and customer satisfaction
Answer: B
AACSB: Information technology
Difficulty: Moderate
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

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31) While assessing value of the IS infrastructure, "before-and-after" assessments of infrastructure characteristics such as interoperability, portability, scalability, recoverability, and compatibility can be taken to measure _____ value.
A) economic
B) operational
C) regulatory
D) architectural
E) compliance
Answer: D
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

32) While assessing value of the IS infrastructure, _____ value is derived from assessing an investment's impact on enabling the infrastructure to better meet business processing requirements.
A) architectural
B) regulatory
C) operational
D) economic
E) compliance
Answer: C
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

33) While assessing value of the IS infrastructure, the _____ value can be derived by measuring the impact of not investing in a particular project.
A) operational
B) economic
C) compliance
D) regulatory
E) architectural
Answer: A
AACSB: Information technology
Difficulty: Easy
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34) While assessing value of the IS infrastructure, _____ value is derived from assessing the extent to which an investment helps to meet requirements for control, security, and integrity as required by a governing body or a key customer.
A) architectural and tactical
B) tactical
C) operational
D) regulatory and compliance
E) economic
Answer: D
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

35) With respect to the components of a business model, _____ is the utility that the product/service has to offer to customers.
A) cost structure
B) value grid
C) value migration
D) value proposition
E) revenue stream
Answer: D
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

36) With reference to assessing value for the IS infrastructure, _____ value is the contribution an investment makes toward improving the infrastructure's ability to enhance the profitability of the business.
A) architectural
B) operational
C) regulatory
D) compliance
E) economic
Answer: E
AACSB: Information technology
Difficulty: Easy
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37) Unstructured decisions can be programmed directly into operational information systems so that they can be made with little or no human intervention.
Answer: FALSE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

38) At the executive level, information systems are typically used to optimize processes and to better understand the underlying causes of any performance problems.
Answer: FALSE
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

39) Tactical-level decision making is more structured and routine than operational-level decision making.
Answer: FALSE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

40) Managerial-level decision making is referred to as semistructured decision making.
Answer: TRUE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

41) Executive-level decisions are referred to as unstructured decisions.
Answer: TRUE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

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42) With respect to the organizational decision making levels, top-level managers typically focus on problems within a specific business function, such as marketing or finance.
Answer: FALSE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

43) For unstructured organizational decisions, few or no procedures to follow for a given situation can be specified in advance.
Answer: TRUE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

44) Most organizations have three general decision-making levels: operational, managerial, and executive.
Answer: TRUE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

45) Operational, managerial, and executive decision-making levels are all supported by a single type of information system.
Answer: FALSE
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

46) In an organizational setup, a functional area represents a discrete area of an organization that focuses on a specific set of activities.
Answer: TRUE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

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47) Organizational learning is the ability of an organization to use past behavior and information to improve its business processes.
Answer: TRUE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

48) Organizational strategy is a firm's plan to accomplish its mission and goals as well as to gain or sustain competitive advantage over rivals.
Answer: TRUE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

49) In an organization, managers use value chain analysis to identify opportunities where information systems can be used to develop a competitive advantage.
Answer: TRUE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

50) The set of activities that add value throughout the organization is known as the value chain within an organization.
Answer: TRUE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

51) The use of information systems has become one of the primary ways that organizations improve their value chains.
Answer: TRUE
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

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52) Choosing and implementing an emerging information system is not sufficient to gain or sustain competitive advantage.
Answer: TRUE
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

53) Describe the differences between operational-level decision making and tactical-level decision making by managers in organizations.
Answer: At the operational level of a firm, the routine, day-to-day business processes and interactions with customers occur. Operational planning typically has a time frame of a few hours or days, and the managers at the operational level, such as foremen or supervisors, make day-to-day decisions that are highly structured and recurring.

At the managerial level (or tactical level) of the organization, functional managers focus on monitoring and controlling operational-level activities and providing information to higher levels of the organization. Managers at this level, referred to as midlevel managers, focus on effectively utilizing and deploying organizational resources to achieve the strategic objectives of the organization. Managerial-level decision making is not nearly as structured or routine as operational-level decision making. Managerial-level decision making is referred to as semistructured decision making because solutions and problems are not clear-cut and often require judgment and expertise.
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Synthesis

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54) Explain the differences between tactical-level decision making and executive-level decision making by managers in organizations.
Answer: At the managerial level (or tactical level) of the organization, functional managers focus on monitoring and controlling operational-level activities and providing information to higher levels of the organization. Managers at this level, referred to as midlevel managers, focus on effectively utilizing and deploying organizational resources to achieve the strategic objectives of the organization. Managerial-level decision making is not nearly as structured or routine as operational-level decision making. Managerial-level decision making is referred to as semistructured decision making because solutions and problems are not clear-cut and often require judgment and expertise.

At the executive level (or strategic level) of the organization, managers focus on long-term strategic questions facing the organization, such as which products to produce, which countries to compete in, and what organizational strategy to follow. Executive-level decisions deal with complex problems with broad and long-term ramifications for the organization.
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Synthesis

55) Explain how information systems implemented in the operational level are different from those implemented at the strategic level.
Answer: Information systems at the operational level are designed to automate repetitive activities, such as sales transaction processing, and to improve the efficiency of business processes at the customer interface.

Information systems at the strategic level are used to obtain aggregate summaries of trends and projections of the future. At the executive level, information systems provide KPIs that are focused on balancing performance across the organization.
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Synthesis

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56) List Porter's primary competitive forces that analyze the competition within an industry.
Answer: Porter's primary competitive forces that analyze the competition within an industry include:
1. the rivalry among competing sellers in an industry
2. the threat of potential new entrants into an industry
3. the bargaining power that customers have within an industry
4. the bargaining power that suppliers have within an industry
5. the potential for substitute products from other industries
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.1: Discuss how information systems can be used for automation, organizational learning, and strategic advantage.
Classification: Concept

57) Companies pursuing a _____ strategy attempt to achieve economies of scale by developing products for the worldwide market, which can be sold in large quantities.
A) home-replication
B) multidomestic business
C) transnational business
D) production orientation
E) global business
Answer: E
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

58) In the context of international business strategies, the strategy that decides which aspects of the organization should be under central control and which should be decentralized is known as _____ strategy.
A) transnational business
B) global business
C) international business
D) multidomestic
E) home-replication
Answer: A
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

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59) A _____ strategy is attempted by companies that are extremely flexible and responsive to the needs and demands of local markets.
A) home-replication
B) transaction exposure
C) transnational business
D) free trade
E) multidomestic business
Answer: E
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

60) Organizations pursuing a _____ strategy view international operations as secondary to their home operations.
A) home-entity
B) home-replication
C) multidomestic
D) transnational
E) national
Answer: B
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

61) In the context of international business strategies, focusing on core competencies in a domestic market is an advantage of a(n) _____ strategy.
A) import
B) global
C) multidomestic
D) home-replication
E) transnational
Answer: D
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

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62) Which of the following statements is true about firms pursuing a home-replication strategy?
A) They attempt to achieve economies of scale by producing identical products in large quantities for a variety of different markets.
B) They view their home operations as secondary to international operations, thus providing a minor role to information systems in facilitating this strategy.
C) They focus on their domestic customers' needs and wants and merely export their products to generate additional sales.
D) They have a need to create integrated networks between the home office and multiple local subsidiaries.
E) They leverage the flexibility offered by a decentralized organization while at the same time reaping economies of scale enjoyed by centralization.
Answer: C
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

63) Identify an advantage of a transnational business strategy.
A) can achieve benefits of multidomestic and global strategies
B) has the ability to control localization
C) has the ability to refine a task into a number of subtasks
D) can apply predicate logics and set theories
E) can determine the organizational dynamics within a company
Answer: A
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

64) Which of the following is a disadvantage for firms that pursue a global strategy?
A) lack of control over subsidiaries
B) limited knowledge transfer between individual subsidiaries
C) lack of interest in obtaining additional knowledge about foreign operations
D) inability to control decentralization
E) inability to react to local market conditions
Answer: E
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

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65) Which of the following statements is true about firms pursuing a multidomestic business strategy?
A) There is a huge amount of data and control information flow between the home and subsidiary locations.
B) The knowledge transfer between subsidiaries is abundant.
C) They have standard offerings across markets and give preference to international business.
D) They use a loose federation of associated business units.
E) They work in a centralized fashion and the home location exerts strong control on the subsidiaries.
Answer: D
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

66) Which of the following is a disadvantage for firms pursuing a multidomestic business strategy?
A) limited knowledge transfer between individual subsidiaries
B) exerting unnecessary control over subsidiaries
C) lack of interest in obtaining additional knowledge about foreign operations
D) inability to react quickly to local challenges and opportunities
E) restriction of decision-making ability of subsidiaries
Answer: A
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

67) A(n) _____ business strategy allows companies to leverage the flexibility offered by a decentralized organization, while at the same time reaping economies of scale enjoyed by centralization.
A) international
B) global
C) multidomestic
D) transnational
E) home-replication
Answer: D
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

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68) Which of the following actions distinguishes firms pursuing a transnational business strategy from firms using other business strategies?
A) responding to local challenges and opportunities quickly
B) exerting strong control over its subsidiaries
C) striking a balance between centralization and decentralization
D) responding to global challenges and opportunities quickly
E) standardizing product offerings to achieve economies of scale
Answer: C
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

69) Unilever decides when to centralize and when to decentralize depending on the products and the local markets. This is an example of a(n) _____ company.
A) transnational
B) home-replication
C) multidomestic
D) national
E) import
Answer: A
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

70) Mystic Co., a Texas-based fashion apparel company with subsidiaries in more than 25 countries across the world, is one of the most recognized brands in the global and domestic markets. In a recent interview with The New York Times, the CEO and spearhead of Mystic Co., Burt Swager said, "The secret of the company's success is its ability to strike the right balance between centralization and decentralization." Mystic Co. is a firm that successfully pursues a(n) _____ business strategy.
A) global
B) transnational
C) home-replication
D) multidomestic
E) international
Answer: B
AACSB: Analytical thinking; Reflective thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Application

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71) Freeconomics is the leveraging of digital technologies to _____.
A) provide high quality products and services at low prices as a business strategy for gaining a competitive advantage
B) provide free product information to customers as a business strategy for gaining a competitive advantage
C) provide dissatisfied customers easy access to business premises and top management of the firm
D) match customer preferences with product features to increase the customer base
E) provide free goods and services to customers as a business strategy for gaining a competitive advantage
Answer: E
AACSB: Information technology
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

72) According to basic economics within a competitive marketplace, the price of a product is set by its _____.
A) opportunity cost
B) sunk cost
C) marginal cost
D) transaction cost
E) fixed cost
Answer: C
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

73) Which of the following defines marginal cost?
A) It is the cost of an alternative that must be forgone in order to pursue a certain action.
B) It is the cost of producing an additional unit of output.
C) It is the cost that is independent of the level of goods or services produced by the business.
D) It is the cost that has already been incurred and cannot be recovered.
E) It is the cost incurred in making an economic exchange.
Answer: B
AACSB: Analytical thinking
Difficulty: Moderate
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Classification: Concept

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74) With respect to general approaches for applying freeconomics to various industries, reduction of sale price of one item in order to sell something else of value is known as _____ approach.
A) labor exchange
B) gift economy
C) freemium
D) zero marginal cost
E) cross subsidies
Answer: E
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

75) With respect to general approaches for applying freeconomics to various industries, the _____ approach means creating an environment that allows people to participate and collaborate to create something of value for everyone.
A) gift economy
B) freemium
C) cross subsidies
D) zero marginal cost
E) labor exchange
Answer: A
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

76) Which of the following actions of a firm suggests that it uses the freemium approach for applying freeconomics?
A) It provides free services to customers and gets paid for it by third parties.
B) It reduces the sale price of one item in order to sell something else of value.
C) It distributes products to customers without an appreciable cost to anyone.
D) It offers basic services for free but charges a premium for special features.
E) It allows people to participate and collaborate to create something of value.
Answer: D
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

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77) Iver Audio is an all-in-one music management tool that was first marketed in 1999. Most users can use the Basic version that is free, but a $19.99 upgrade provides extra features such as supertagging, faster ripping and burning. Which of the following explains this approach for applying freeconomics?
A) labor exchange approach
B) freemium approach
C) zero marginal cost approach
D) cross subsidies approach
E) gift economy approach
Answer: B
AACSB: Analytical thinking; Information technology
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Application

78) Infostruct is a free, Web-based, collaborative, multilingual encyclopedia project supported by the non-profit Wikimedia Foundation. Its 17 million articles have been written collaboratively by volunteers around the world, and almost all of its articles can be edited by anyone with access to the site. This allows people to participate and create something of value for everyone. Wikipedia is pursuing a _____ approach for applying freeconomics.
A) gift economy
B) zero marginal cost
C) labor exchange
D) cross subsidies
E) freemium
Answer: A
AACSB: Analytical thinking; Information technology
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Application

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79) Madfly Communication, a mobile manufacturer, offers free mobile connections to people who buy its mobile phones. The cost of the mobile connection is actually included in the price of the mobile phone. Madfly Communication is pursuing a(n) _____ approach for applying freeconomics.
A) cross subsidies
B) gift economy
C) zero marginal cost
D) advertising
E) freemium
Answer: A
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Application

80) Web sites like Ultramuzzic.com and Sonetz.com pursue a(n) _____ approach for applying freeconomics when they offer free music downloads for users because reproduction and distribution of these products come at no cost.
A) gift economy
B) zero marginal cost
C) advertising
D) cross subsidies
E) freemium
Answer: B
AACSB: Analytical thinking; Information technology
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Application

81) The ability to quickly react to local conditions is an advantage of home-replication business strategies.
Answer: FALSE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

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82) The inability to react to local market conditions is a major disadvantage of firms pursuing a multidomestic business strategy.
Answer: FALSE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

83) In contrast to global organizations where most of the resources are centralized in different countries, different resources in a transnational company need to be centralized in the company's home country.
Answer: FALSE
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

84) Any industry that utilizes digital technologies is on a path toward increasingly lower costs, ultimately toward a price of free-or at least "free" for consumers.
Answer: TRUE
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

85) The concept of freeconomics cannot be applied to industries other than Web e-mail or online searches.
Answer: FALSE
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

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86) How are firms pursuing a global business strategy different from firms pursuing a multidomestic business strategy?
Answer: Firms pursuing a global business strategy work in a centralized fashion. As the decisions are made at the headquarters, the organization can be characterized as a centralized hub. The headquarters gives the overall strategic direction. Hence, it has control of the entire company and the knowledge that is generated within the company. However, the need to achieve economies of scale prohibits implementation of local strategies, and thus, a global company cannot quickly react to local challenges and opportunities. Here, data flows extensively from the subsidiaries to the home location, and the home location exerts strong control on the subsidiaries.

The multidomestic business strategy uses a loose federation of associated business units, each of which is rather independent in their strategic decisions. In other words, the degree of integration is very low, and the individual subunits can respond quickly to their respective market demands. Thus, multidomestic companies can be extremely flexible and responsive to the needs and demands of local markets, and any opportunities arising in local markets can be quickly seized. However, by working in a decentralized fashion, much of the knowledge generated is retained at the local subsidiaries. Knowledge transfer between the individual subsidiaries is often limited and leads to inefficiencies and mistakes that can be potentially repeated across subsidiaries. Hence, for companies following a multidomestic business strategy, very little data and control information flow between the home and subsidiary locations.
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Synthesis

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87) Define the term freeconomics. Briefly explain the different approaches of freeconomics.
Answer: Freeconomics is the leveraging of digital technologies to provide free goods and services to customers as a business strategy for gaining a competitive advantage.
Typically, firms can implement the following approaches for applying freeconomics to various industries:
1. Advertising - In this approach, services are provided free of charge to the customers and the firm is paid by a third party.
2. Freemium - In this approach, the firm provides free basic services to the customers but charges them a premium for special services.
3. Cross subsidies - In this approach, the firm reduces the sale price of one item in order to sell something else of value.
4. Zero marginal cost - In this approach, products are distributed to customers without an appreciable cost to anyone.
5. Labor exchange - In this approach, the firm provides services to the customers. The act of using the services creates value for the company.
6. Gift economy - In this approach, the firm creates an environment that allows people to participate and collaborate to create something of value for everyone.
AACSB: Analytical thinking; Information technology
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Concept

88) Compare and contrast firms pursuing a global business strategy and a transnational business strategy.
Answer: A global business strategy involves functioning in a centralized fashion. As the decisions are made at the headquarters, the organization can be characterized as a centralized hub. The headquarters gives the overall strategic direction. Hence, it has control of the entire company and the knowledge that is generated within the company. However, the need to achieve economies of scale prohibits implementation of local strategies, and thus, a global company cannot quickly react to local challenges and opportunities. Here, data flows extensively from the subsidiaries to the home location, and the home location exerts strong control on the subsidiaries.

Companies using a transnational business strategy selectively decide which aspects of the organization should be under central control and which should be decentralized. This business strategy allows companies to leverage the flexibility offered by a decentralized organization (to be more responsive to local conditions) while at the same time reaping economies of scale enjoyed by centralization. However, this business strategy is also the most difficult as the company has to strike a balance between centralization and decentralization. In contrast to global organizations where most of the resources are centralized in a company's home country, different resources in a transnational company can be centralized in different countries depending on where the company can achieve the greatest returns or cost savings.
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.2: Describe how information systems support business models used by companies operating in the digital world.
Classification: Synthesis

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89) According to _____, the number of transistors that could be squeezed onto a silicon chip would double every 18 months.
A) Metcalfe's law
B) Megan's law
C) Murphy's law
D) Moore's law
E) Ashby's law
Answer: D
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

90) In the context of organizational requirements for innovation, to deploy innovative information systems well, people in the organization must be willing to do whatever they can to bypass and eliminate internal bureaucracy, set aside political squabbles, and pull together for the common good. These requirements can be categorized as _____ requirements.
A) process
B) customer
C) resource
D) quality
E) risk tolerance
Answer: A
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

91) Organizations deploying innovative information systems must have the human capital necessary to deploy the new systems. These requirements can be categorized as _____ requirements.
A) resource
B) process
C) risk tolerance
D) customer
E) quality
Answer: A
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

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92) _____ are new technologies, products, or services that eventually surpass the existing dominant technology or product in a market.
A) Constructive innovations
B) Adaptive innovations
C) Disruptive innovations
D) Facultative innovations
E) Extensive innovations
Answer: C
AACSB: Analytical thinking
Difficulty: Easy
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

93) According to the disruptive growth engine, executive leadership will allow a firm to _____.
A) effectively identify and evaluate potential disruptive innovations
B) gain credibility and to bridge sustaining and disruptive product development
C) gain the greatest disruptive opportunities
D) build a disruptive team of expert innovators
E) educate those closest to customers and competitors in order to identify opportunities
Answer: B
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

94) Which of the following statements is true about the e-business innovation cycle?
A) The vertical dimension of the cycle shows the life expectancy of a particular information technology, and the horizontal dimension shows time.
B) The vertical dimension of the cycle shows the extent to which an organization derives value from a particular information technology, and the horizontal dimension shows time.
C) The vertical dimension of the cycle shows the expected investments required for a particular information technology, and the horizontal dimension shows time.
D) The vertical dimension of the cycle shows the efficiency of a particular information technology, and the horizontal dimension shows life expectancy of that information technology.
E) The vertical dimension of the cycle shows the user-friendliness of a particular technology, and the horizontal dimension shows the investment in that technology.
Answer: B
AACSB: Information technology
Difficulty: Moderate
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

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95) In an e-business innovation cycle, after an organization scans the environment for new emerging and enabling technologies, the next step is to _____.
A) create jobs, groups, and processes that are all devoted to scanning the environment
B) select the database and data storage advances
C) address the current opportunity to grab customers and market share
D) match the most promising new technologies with current economic opportunities
E) assess the value of the use of technology for customers and internal clients
Answer: D
AACSB: Information technology
Difficulty: Moderate
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

96) Risk tolerance for people within the organization should be low for the deployment of innovative information systems.
Answer: FALSE
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

97) The e-business innovation cycle puts strategy ahead of technology.
Answer: FALSE
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

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98) Explain the organizational requirements for innovation.
Answer: There are three types of organizational requirements for innovation:
1. Process requirements-To deploy innovative information systems well, people in the organization must be willing to do whatever they can to bypass and eliminate internal bureaucracy, set aside political squabbles, and pull together for the common good.
2. Resource requirements-Organizations deploying innovative information systems must also have the human capital necessary to deploy the new systems. The organization must have enough employees available with the proper systems knowledge, skills, time, and other resources to deploy these systems. Alternatively, the organization must have resources and able systems partners available to outsource the development of such systems if necessary.
3. Risk tolerance requirements-The last characteristic of an organization ready for the deployment of innovative information systems is that its members must have the appropriate tolerance for risk and uncertainty as well as the willingness to deploy and use new systems that may not be as proven and pervasive as more traditional technologies. If people within the organization desire low risk in their use of information systems, then gambling on cutting-edge systems will probably not be desirable or tolerable for them.
AACSB: Analytical thinking
Difficulty: Moderate
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

99) Define disruptive innovation and how it leads to the innovator's dilemma.
Answer: Disruptive innovations are new technologies, products, or services that eventually surpass the existing dominant technology or product in a market. Within every market, there are customers who have relatively high, moderate, or low performance requirements from the existing product offerings. Over time, as disruptive innovations and incremental improvements are introduced into an industry, the capabilities of the products in all segments (i.e., low to high performance) improve; as product capabilities improve at the high-performance end of the market, the number of potential customers for these products gets relatively smaller. At the same time, as the low-end products also improve, they are increasingly able to capture more and more of the mainstream marketplace.

These developments caused by disruptive innovations, typically ignored by established market leaders, lead to loss of their market dominance and hence lead to market failure. This is given by a term known as innovator's dilemma.
AACSB: Information technology
Difficulty: Difficult
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

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100) Distinguish between the terms e-commerce and e-business.
Answer: E-commerce generally means the use of the Internet and related technologies to support commerce. E-business has a broader meaning and refers to the use of nearly any information technology or system to support every part of the business.
AACSB: Information technology
Difficulty: Easy
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

101) Discuss three new ways to think about investments in disruptive innovations as suggested by the e-business innovation cycle.
Answer: The three new ways to think about investments in disruptive innovations as suggested by the e-business innovation cycle are:
1. Put Technology Ahead of Strategy. This approach says that technology is so important to strategy and to success that you have to begin with technology. Given how important technology is today and how fast it changes, if you start with a strategy and then try to retrofit technology into your aging strategy, you are doomed. This approach argues that you begin by understanding technology and develop a strategy from there.
2. Put Technology Ahead of Marketing. The second way that this approach turns conventional wisdom on its head is that, like strategy, marketing also takes a backseat to the technology. A very traditional marketing-oriented approach would be to go first to your customers and find out from them what their needs are and what you ought to be doing with technology. The trouble with this approach is that, given the rapid evolution of technology, your customers are not likely to know about new technologies and their capabilities. They are the last place you ought to be looking for ideas about new technologies and their impact on your business. If they know about the new technology, then chances are your competitors already do too, meaning that this technology is not the one to rest your competitive advantage on.
3. Innovation Is Continuous. The third way that this approach is interesting-and potentially troubling-is that the process has to be ongoing. The Emerging Technologies group is constantly on the lookout for the "next new thing" that will revolutionize the business. The rate of information technology evolution is not likely to slow down, and innovative organizations truly cannot-and do not-ever rest.
AACSB: Information technology
Difficulty: Moderate
Learning Obj.: 2.3: Explain why and how companies are continually looking for innovative ways to use information systems for competitive advantage.
Classification: Concept

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