

## MULTIPLE CHOICE

1. Brinker International operates restaurants in several different segments of the casual dining market. This is
- a relatively high level of diversification.
  - an example of product diversification.
  - unlikely to reduce variability in the firm's profitability since the restaurants are all in the casual dining category.
  - an example of related linked diversification.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 167 | 169  
OBJ: 06-01 TYPE: application

2. On the most basic level, corporate-level strategy is concerned with \_\_\_\_ and how to manage these businesses.
- whether the firm should invest in global or domestic businesses
  - what product markets and businesses the firm should be in
  - whether the portfolio of businesses should generate immediate above-average returns or should be troubled businesses which will create above-average returns only after restructuring
  - whether to integrate backward or forward.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 168  
OBJ: 06-01 TYPE: knowledge

3. The ultimate test of the value of a corporate-level strategy is whether the
- corporation earns a great deal of money.
  - top management team is satisfied with the corporation's performance.
  - businesses in the portfolio are worth more under the management of the company in question than they would be under any other ownership.
  - businesses in the portfolio increase the firm's financial returns.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 168  
OBJ: 06-01 TYPE: comprehension

4. The more "constrained" the relatedness of diversification,
- the less likely the firm's portfolio of businesses will reduce the firm's variability in profitability.
  - the wider the variation in the portfolio of businesses owned by the firm.
  - the more links there are among the businesses owned by an organization.
  - lower the proportion of total organizational revenue derived from the dominant-business.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 169-170  
OBJ: 06-02 TYPE: comprehension

5. Wm. Wrigley Jr. Company bought Life Savers and Altoids from Kraft. Thus, Wrigley
- is moving away from its traditional dominant-business strategy.
  - has become a conglomerate since Life Savers and Altoids are unrelated businesses.
  - is integrating vertically.
  - probably plans to restructure these companies and sell them off.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 170  
OBJ: 06-02 TYPE: application

6. A firm that earns less than 70% of revenue from its dominant business and has direct connections between its businesses is engaging in \_\_\_\_ diversification.
- unrelated
  - related constrained
  - related linked
  - dominant-business

ANS: B                      PTS: 1                      DIF: Medium                      REF: 170  
OBJ: 06-02 TYPE: knowledge

7. Which acquisition would be considered the LEAST related?
- a candy manufacturer purchases a chemical laboratory specializing in food flavorings.
  - a chain of garden centers acquires a landscape architecture firm.
  - a hospital acquires a long-term care nursing home.
  - an upscale “white-tablecloth” restaurant chain acquires a travel agency.

ANS: D                      PTS: 1                      DIF: Easy                      REF: 171  
OBJ: 06-02 TYPE: application

8. The lowest level of diversification is the \_\_\_\_ level.
- single business
  - dominant-business
  - related constrained
  - unrelated

ANS: A                      PTS: 1                      DIF: Easy                      REF: 170-171 (Table 6.1)  
OBJ: 06-02 TYPE: knowledge

9. Usually a company is classified as a single business firm when revenues generated by the dominant business are greater than \_\_\_\_ percent.
- 99
  - 95
  - 90
  - 70

ANS: B                      PTS: 1                      DIF: Medium                      REF: 171  
OBJ: 06-02 TYPE: knowledge

10. The more direct connections among businesses, the more \_\_\_\_ is the relatedness of the diversification.
- linked
  - constrained
  - integrated
  - intense

ANS: B                      PTS: 1                      DIF: Hard                      REF: 171  
OBJ: 06-02 TYPE: comprehension

11. The main difference between the related constrained level of diversification and the related linked level of diversification is
- the percentage of total organizational revenue that comes from the dominant business.
  - the level of sharing of resources and activities among the businesses.
  - whether the diversification is vertical or horizontal.
  - whether the diversification is value-creating or value-neutral.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 171  
OBJ: 06-02 TYPE: comprehension

12. Conglomerates follow the \_\_\_\_ diversification strategy:
- unrelated
  - related constrained
  - related linked
  - global

ANS: A                      PTS: 1                      DIF: Medium                      REF: 171  
OBJ: 06-02 TYPE: knowledge

13. GE has recently reorganized from eleven businesses down to six core businesses. The purpose of this reorganization is to transfer core competencies in different types of technologies among GE's businesses. This is an example of
- increasing market power through vertical integration.
  - efficient internal capital allocation.
  - a focus on financial economies.
  - increasing corporate relatedness.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 172-174  
OBJ: 06-03 TYPE: application

14. Which of the following reasons for diversification is most likely to increase the firm's value?
- increasing managerial compensation
  - reducing costs through business restructuring
  - taking advantage of changes in tax laws
  - conforming to antitrust regulation

ANS: B                      PTS: 1                      DIF: Easy                      REF: 173 (Table 6.1)  
OBJ: 06-03 TYPE: knowledge

15. Which of the following is a value-reducing reason for diversification?
- enhancing the strategic competitiveness of the entire company
  - expanding the business portfolio in order to reduce managerial employment risk
  - gaining market power relative to competitors

d. conforming to antitrust regulation

ANS: B                      PTS: 1                      DIF: Medium                      REF: 173-174 (Table 6.1)  
OBJ: 06-06 TYPE: comprehension

16. An office management firm has developed a system for efficiently organizing small medical and dental practices both through proprietary software and through unique training programs for staff. It has recently acquired a firm specializing in providing management services for veterinary practices. The office management firm is hoping to:
- achieve economies of scope.
  - implement vertical integration.
  - achieve financial economies through an unrelated acquisition.
  - acquire specialized talent from the veterinary management company.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 175  
OBJ: 06-04 TYPE: application

17. Firms that have selected a related diversification corporate-level strategy seek to exploit
- control shared among business-unit managers.
  - economies of scope between business units.
  - the favorable demand of buyers.
  - market power.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 175  
OBJ: 06-04 TYPE: comprehension

18. Firms seek to create value from economies of scope through all of the following EXCEPT
- activity sharing.
  - skill transfers.
  - transfers of corporate core competencies.
  - de-integration.

ANS: D                      PTS: 1                      DIF: Easy                      REF: 175  
OBJ: 06-04 TYPE: comprehension

19. The basic types of operational economies through which firms seek value from economies of scope are
- synergies between internal and external capital markets.
  - the leveraging of tangible resources.
  - the sharing of primary and support activities.
  - joint ventures and outsourcing.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 175  
OBJ: 06-04 TYPE: comprehension

20. The acquisition of Gillette Co. by Procter & Gamble will probably result in activity sharing because P&G has a reputation for technology transfer: the ability to take technology used in one brand and apply it to another brand. This is an example of

- a. operational relatedness.
- b. corporate relatedness.
- c. vertical integration.
- d. virtual integration.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 175  
OBJ: 06-04 TYPE: application

21. Which of the following is TRUE?
- a. Conglomerates are a fading presence on the U.S. business scene, but are common in emerging markets.
  - b. Unrelated diversified firms seek to create value through economies of scope.
  - c. The sharing of intangible resources, such as know-how, between firms is a type of operational sharing in related diversifications.
  - d. Related linked firms share more tangible resources and activities between businesses than do related constrained firms.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 175-176 | 182  
OBJ: 06-04 TYPE: knowledge

22. Research has shown that horizontal acquisitions
- a. tend to have disappointing financial results in the long run.
  - b. are being replaced by virtual acquisitions.
  - c. are riskier than vertical acquisitions.
  - d. are able to use activity sharing to successfully create economies of scope

ANS: D                      PTS: 1                      DIF: Medium                      REF: 176  
OBJ: 06-04 TYPE: knowledge

23. A noted professional art academy has founded an "artists and friends" travel company specializing in tours for artists to scenic locales, using its faculty as traveling teachers. In addition, the art academy has purchased a framing company to both make frames for academy art works, but also to sell museum-quality framing services to the public. The art academy is engaging in diversification based on \_\_\_\_ relatedness.
- a. Organizational
  - b. Corporate
  - c. Intellectual
  - d. Constrained

ANS: A                      PTS: 1                      DIF: Medium                      REF: 176  
OBJ: 06-04 TYPE: application

24. Dragonfly Publishers of children's books has purchased White Rabbit, another publisher of children's books. Both companies' books are sold to the same retail stores and schools. Their content is different, since Dragonfly produces children's literature, whereas White Rabbit focuses on child-level scientific and nature topics. Which of the following statements is probably TRUE about this acquisition?
- a. This is a horizontal acquisition.
  - b. This is an example of virtual integration.
  - c. Dragonfly is beginning to build a conglomerate.

d. Economies of scope are unlikely to result from this acquisition.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 176  
OBJ: 06-04 TYPE: application

25. The purchasing of firms in the same industry is called:
- unrelated diversification.
  - vertical integration.
  - networking the organization.
  - horizontal acquisition.

ANS: D                      PTS: 1                      DIF: Easy                      REF: 176  
OBJ: 06-04 TYPE: knowledge

26. In related linked diversified firms, \_\_\_\_ are a complex set of resources that link the different businesses through managerial and technological knowledge, experience, and expertise.
- corporate core competencies
  - strategies
  - support activities
  - intangible assets

ANS: A                      PTS: 1                      DIF: Medium                      REF: 176  
OBJ: 06-04 TYPE: knowledge

27. Multipoint competition occurs when
- firms have multiple retail outlets.
  - firms have multiple products in their primary industry.
  - diversified firms compete against each other in several markets.
  - firms have diversified portfolios of companies.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 177  
OBJ: 06-04 TYPE: knowledge

28. The drawbacks to transferring competencies by moving key people into new management positions include all EXCEPT
- the people involved may not want to move.
  - managerial competencies are not easily transferable to different organizational cultures.
  - managers with these skills are expensive.
  - top-level managers may resist having these key people transferred.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 177  
OBJ: 06-04 TYPE: knowledge

29. One method of facilitating the transfer of competencies between firms is to
- virtually integrate the two firms.
  - transfer key people into new management positions.
  - share support activities, such as purchasing practices.

d. restructure the weaker firm to mirror the structure of the more successful firm.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 177  
OBJ: 06-04 TYPE: comprehension

30. Xanadu, a U.S. manufacturer of pharmaceuticals, has acquired a firm in the same industry in Ireland. It plans to transfer one of its key managers from its plant in St. Louis to Ireland. What is the major threat to Xanadu's plant to transfer competencies from itself to the Irish firm?
- The St. Louis manager may quit Xanadu in order to remain in St. Louis.
  - American pharmaceutical manufacturing techniques may not transfer to Ireland.
  - Irish managers will refuse to take direction from a foreign executive.
  - The cost of transferring U.S. managers overseas is usually not cost-effective.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 177  
OBJ: 06-04 TYPE: application

31. Acquisitions to increase market power require that the firm have a \_\_\_\_ diversification strategy.
- unrelated
  - related
  - dominant-business
  - single business

ANS: B                      PTS: 1                      DIF: Hard                      REF: 177  
OBJ: 06-04 TYPE: application

32. When diversification results in two companies, such as UPS and FedEx simultaneously competing in numerous markets, this is called \_\_\_\_ competition.
- head-to-head
  - cross-domain
  - multipoint
  - horizontal

ANS: C                      PTS: 1                      DIF: Easy                      REF: 177-178  
OBJ: 06-01 TYPE: application

33. Cendant Corporation owns real estate brokerages, relocation services, lodging franchises and online travel services. It follows a \_\_\_\_ corporate strategy.
- dominant-business
  - related constrained diversification
  - related linked diversification
  - unrelated diversification

ANS: C                      PTS: 1                      DIF: Hard                      REF: 177-178  
OBJ: 06-04 TYPE: application

34. Whirlpool and Maytag have similar product lines. Whirlpool's increase in market power if it acquires Maytag would result from

- a. multipoint competition.
- b. an increase in scale.
- c. vertical integration.
- d. virtual integration.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 177-178  
OBJ: 06-04 TYPE: application

35. Backward integration occurs when a company
- a. produces its own inputs.
  - b. owns its own source of distribution of outputs.
  - c. is concentrated in a single industry.
  - d. is divesting unrelated businesses.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 179  
OBJ: 06-04 TYPE: knowledge

36. PorkPride Foods produces hams and other meat products. It owns hog raising operations. This is an example of a \_\_\_\_ business.
- a. de-integrated
  - b. vertically integrated
  - c. totally integrated
  - d. horizontally integrated

ANS: B                      PTS: 1                      DIF: Medium                      REF: 179  
OBJ: 06-04 TYPE: application

37. A company pursuing vertical integration can gain market power over its competitors through all of the following EXCEPT
- a. improved process innovation.
  - b. savings on operations costs.
  - c. improved product quality.
  - d. avoidance of market costs.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 179  
OBJ: 06-04 TYPE: comprehension

38. Which of the following is NOT a limit to vertical integration?
- a. bureaucratic costs
  - b. the loss of flexibility through investment in specific technologies
  - c. capacity balance and coordination problems from changes in demand
  - d. imitation of core technology by potential competitors

ANS: D                      PTS: 1                      DIF: Hard                      REF: 179  
OBJ: 06-04 TYPE: comprehension



39. Specialty Steel, Inc., needs a particular type of brick to line its kilns in order to safely achieve the high temperatures needed for the unusually strong steel it produces. The clay to make this brick is very rare and only two brick plants in the U.S. make this type of brick. Specialty Steel has decided to buy one of these brick plants. This is an example of
- backward integration.
  - forward integration.
  - horizontal integration.
  - virtual integration.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 179  
OBJ: 06-04 TYPE: application

40. Specialty Steel, Inc., needs a particular type of brick to line its kilns in order to safely achieve the high temperatures needed for the unusually strong steel it produces. The clay to make this brick is very rare and only two brick plants in the U.S. make this type of brick. Specialty Steel owns one of these brick plants and buys all of its production. The other brick manufacturer has recently developed an inexpensive new technology whereby ordinary clay can be used to make this fire brick. This significantly reduces the production cost of this type of brick.
- Specialty Steel has less flexibility now than if it were not vertically integrated.
  - This is an example of a capacity balance problem.
  - This is a result of conflicts of interest between the managers of the brick plant and the executives of Specialty Steel.
  - The market power of Specialty Steel has been de-integrated.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 179  
OBJ: 06-04 TYPE: application

41. Which of the following is TRUE?
- In response to global trends, most U.S. companies are becoming vertically integrated.
  - In Latin America and other emerging economies, dominant-business firms continue to characterize the private sector.
  - The enthusiasm of the U.S. capital markets for conglomerates has resulted in sustained unrelated diversification in the U.S. economy.
  - U.S. firms are moving away from unrelated diversification.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 179 | 184 | 189  
OBJ: 06-07 TYPE: comprehension

42. Disney has been successful both in the sharing of activities among divisions and in the transfer of knowledge among divisions. Disney can be said to have created
- dynamic stability.
  - inimitable competencies.
  - cross-fertilization.
  - synthesis.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 180  
OBJ: 06-04 TYPE: application

43. The use of e-commerce to allow firms to reduce the costs of processing transactions while improving their supply-chain management skills and tightening the control of their inventories is beginning to replace
- outsourcing.
  - unrelated diversification.
  - de-integration.
  - vertical integration.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 180  
OBJ: 06-04 TYPE: comprehension

44. When a firm simultaneously practices operational relatedness and corporate relatedness
- it is difficult for investors to observe the value created by the firm.
  - the firm is likely to be overvalued by investors.
  - the firm will suffer from diseconomies of scope which outweigh cost savings generated.
  - the firm is seeking to create value through financial economies.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 180  
OBJ: 06-04 TYPE: comprehension

45. Which type of diversification is most likely to create value through financial economies?
- related constrained
  - operational and corporate relatedness
  - Unrelated
  - related linked.

ANS: C                      PTS: 1                      DIF: Easy                      REF: 181  
OBJ: 06-05 TYPE: knowledge

46. Firms following an unrelated diversification strategy can reduce their overall risk when:
- resources are allocated among many businesses with different risk profiles.
  - they limit their growth to acquiring only successful companies.
  - synergies are developed among the business units.
  - management refuses to purchase businesses outside their sphere of expertise or knowledge.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 181  
OBJ: 06-05 TYPE: comprehension

47. Firms with internal capital markets have the following informational advantage(s):
- sharing information only with stockholders and no other outside stakeholders.
  - excluding negative information in reports to capital markets.
  - not sharing information about management compensation and providing limited financial information to stakeholders.
  - the legal ability to keep all financial information private.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 181  
OBJ: 06-05 TYPE: comprehension

48. Feline Follies, Inc., a distributor of cat-fancier products (such as food, cages, toys, feeders, and medications) is planning to buy a small, poor-performing manufacturer of concrete lawn statuary. This is Feline Follie's first venture into unrelated diversification. Feline Follies probably intends to create value from this diversification through
- efficient internal capital allocation.
  - economies of scale.
  - restructuring the manufacturer and selling it.
  - economies of scope.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 181-182  
OBJ: 06-05 TYPE: application

49. Firms practicing unrelated diversification can make better capital allocations to its subsidiary businesses than the external capital market can for all the following reasons EXCEPT
- corporate headquarters can change managerial incentives.
  - corporate headquarters has more complete information about the subsidiary businesses than the external capital market.
  - the firm can acquire other firms with innovative products instead of allocating capital to research and development.
  - the firm can make strategic changes in its subsidiary businesses.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 181-182  
OBJ: 06-05 TYPE: comprehension

50. Stock markets apply a "conglomerate discount" of 20% on unrelated diversified firms. This means that investors
- understand that the financial efficiencies of this strategy automatically make these stocks worth 20% more than their current market valuation.
  - believe that the value of conglomerates is 20% less than the value of the sum of their parts.
  - discount the expected future earnings of conglomerates by 20%.
  - have found that over time, conglomerates earn 20% more than the component companies would have earned independently.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 182  
OBJ: 06-05 TYPE: comprehension

51. Successful unrelated diversification through restructuring is typically accomplished by
- focusing on mature, low-technology businesses.
  - a "random walk" of good luck in picking firms to buy.
  - seeking out high technology firms in high growth industries.
  - a top management team that is not constrained by pre-established ideas of how the firm's portfolio should be developed.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 182  
OBJ: 06-05 TYPE: knowledge

52. Conglomerates tend to be profitable in emerging economies, more so than in developed economies, because

- a. the risk of doing business in emerging economies is spread across a diverse portfolio of businesses.
- b. the absence of a “soft” infrastructure of the counties supports the use of unrelated diversification.
- c. the conglomerate structure is more easily adapted to global competition.
- d. there are few competing investment opportunities for free cash flows generated by the firm.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 182  
OBJ: 06-05 TYPE: comprehension

53. The risk for firms that follow the unrelated diversification strategy in developed economies is that
- a. external investors tend to dump the stocks of conglomerates during economic downturns.
  - b. conglomerates are typically owned by one powerful entrepreneur and do not survive his/her retirement or death.
  - c. government regulations, especially in Europe, have periodically forced the dissolution of conglomerates.
  - d. competitors can imitate financial economies more easily than they imitate economies of scope.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 182  
OBJ: 06-05 TYPE: comprehension

54. What is the similarity between high-technology firms and service-based firms that makes them risky as restructuring candidates?
- a. They are human-resource dependent.
  - b. They have few tangible assets.
  - c. Both types of firm rely on financial economies.
  - d. The demand for their products is highly sensitive to economic downturns.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 182-183  
OBJ: 06-05 TYPE: comprehension

55. Which of the following firms would be the most likely to be a successful candidate for acquisition and restructuring?
- a. a medical practice
  - b. a management consulting firm that has a tradition of long term client-consultant relationships
  - c. a tire manufacturer established in 1910
  - d. a start-up communications technology firm

ANS: C                      PTS: 1                      DIF: Hard                      REF: 183  
OBJ: 06-06 TYPE: application

56. External incentives to diversify include
- a. the fact that other firms in an industry are diversifying.
  - b. pressure from stockholders who are demanding that the firm diversify.
  - c. changes in antitrust regulations and tax laws.

d. a firm's low performance.

ANS: C                      PTS: 1                      DIF: Easy                      REF: 183  
OBJ: 06-06 TYPE: comprehension

57. All of the following are internal firm incentives to diversify EXCEPT
- overall firm risk reduction.
  - uncertain future cash flows.
  - reinterpretation of antitrust laws.
  - low performance.

ANS: C                      PTS: 1                      DIF: Easy                      REF: 183  
OBJ: 06-06 TYPE: comprehension

58. Deregulation of previously government-regulated industries, such as banking, electric utilities, and telecommunications, has resulted in \_\_\_\_ in the deregulated industry.
- increased merger activity
  - spin-offs of unprofitable businesses
  - a decrease in the rate of acquisitions
  - over-diversification

ANS: A                      PTS: 1                      DIF: Medium                      REF: 184  
OBJ: 06-06 TYPE: knowledge

59. Because of the tax laws of the 1960s and 1970s, when dividends were taxed more heavily than capital gains, shareholders preferred that corporations
- pay dividends annually.
  - keep free cash flows for investment in acquisitions.
  - distribute capital gains regularly.
  - increase managerial salaries.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 184  
OBJ: 06-06 TYPE: comprehension

60. Free cash flows are
- liquid financial assets for which investments in current businesses are no longer economically viable.
  - liquid financial assets which for tax purposes must be reinvested in the firm if not distributed as dividends to shareholders.
  - the profits resulting after a restructured firm has been sold.
  - dividends that have been distributed to shareholders which are taxed as capital gains.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 184  
OBJ: 06-06 TYPE: knowledge

61. The \_\_\_\_ reduces some of the incentives to make acquisitions in high technology industries.
- elimination of the tax write-off for research and development in process



66. As the threat of corporate failure increases due to relatedness between a firm's business units, firms may decide to
- increase the firm's level of retained resources.
  - operate in less risky environments.
  - reduce the level of diversity in its investments.
  - pursue unproven product lines.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 186  
OBJ: 06-06 TYPE: comprehension

67. The Cherrywood Fine Furniture Company finds itself with excess capacity in its plant and equipment for furniture manufacturing. This excess capacity will be useful in
- unrelated diversification.
  - related diversification projects.
  - corporate restructuring.
  - multipoint competition

ANS: B                      PTS: 1                      DIF: Medium                      REF: 187  
OBJ: 06-06 TYPE: application

68. Intangible resources
- allow greater synergy for firms than do tangible assets.
  - are more flexible than tangible assets.
  - are value-neutral assets.
  - discourage diversification.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 187  
OBJ: 06-06 TYPE: comprehension

69. Personal motives for managers to seek diversification include a desire to
- improve their marketability to other firms.
  - effectively use corporate resources.
  - provide higher returns to corporate stakeholders.
  - increase their compensation.

ANS: D                      PTS: 1                      DIF: Easy                      REF: 188  
OBJ: 06-07 TYPE: comprehension

70. Isidore Crocker, CEO of Gotham Engines, is strongly in favor of acquiring Carolina Textiles, a firm in an unrelated industry. Some members of the board of directors are questioning Crocker's motives for the acquisition. They argue that it is not uncommon for CEOs to push for acquisitions because
- a successful acquisition will increase the CEO's power over the board of directors.
  - making an acquisition is an easier route to increased firm value than is improving the firm's core competencies.
  - higher CEO pay is related to larger organization size.
  - CEO's nearing retirement seek to create empires to continue their legacy.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 188  
OBJ: 06-07 TYPE: application

71. During the 1990's top executives of Titanic, Inc., followed a pattern of aggressive acquisitions and diversification. Now, Titanic is performing poorly and earning below average returns. Lusitania, a large conglomerate firm, is in the final stages of purchasing Titanic. Lusitania has announced that it will fire Titanic's current top executives. The Titanic executives are not worried about their impending job loss because they
- plan to take poison pills.
  - have golden parachutes.
  - have silver handcuffs.
  - have ironclad contracts.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 188  
OBJ: 06-07 TYPE: application

72. Which of the following is NOT a governance mechanism that may limit managerial tendencies to over-diversify?
- the market for corporate control
  - the Board of Directors
  - surveillance technologies
  - monitoring by owners

ANS: C                      PTS: 1                      DIF: Easy                      REF: 188  
OBJ: 06-07 TYPE: knowledge

73. Which of a firm's resources is the most flexible and should have the strongest relationship to the extent of diversification?
- Financial
  - Human
  - Intangible
  - property, plant and equipment

ANS: A                      PTS: 1                      DIF: Medium                      REF: 188  
OBJ: 06-06 TYPE: knowledge

74. The trend in diversification is a(an)
- increase in related diversification.
  - decrease in restructuring.
  - increase in unrelated diversification.
  - increase in firms using a dominant-business strategy.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 189  
OBJ: 06-06 TYPE: knowledge

75. The downside of synergy in a diversified firm is
- increasing independence of businesses.
  - the reduction of activity sharing.







10. Market power is derived primarily from the
- core competencies of the firm.
  - size of a firm and its resources and capabilities.
  - quality of a firm's top management team.
  - depth of a firm's strategy.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 201  
OBJ: 07-02 TYPE: comprehension

11. A primary reason for a firm to pursue an acquisition is to
- avoid increased government regulation.
  - achieve greater market power.
  - exit a hyper-competitive market.
  - achieve greater financial returns in the short run.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 201  
OBJ: 07-02 TYPE: comprehension

12. When a firm acquires its supplier, it is engaging in a(an)
- merger.
  - unrelated acquisition.
  - hostile takeover.
  - vertical acquisition.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 202  
OBJ: 07-02 TYPE: knowledge

13. Related acquisitions to build market power
- are likely to undergo regulatory review.
  - are rarely permitted to occur across international borders.
  - typically involve a firm purchasing one of its suppliers or distributors.
  - concentrate on capturing value at more than one stage in the value chain.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 202  
OBJ: 07-02 TYPE: comprehension

14. Baby Doe's, a designer and manufacturer of children's clothing, has decided to purchase a retail chain specializing in children's clothing. This purchase is a(an)
- merger.
  - unrelated acquisition.
  - horizontal acquisition.
  - vertical acquisition.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 202  
OBJ: 07-02 TYPE: application

15. Cross-border acquisitions are typically made to

- a. increase a firm's market power.
- b. reduce the cost of new product development.
- c. take advantage of higher education levels of labor in developed countries.
- d. circumvent barriers to entry in another country.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 203  
OBJ: 07-02 TYPE: comprehension

16. The presence of barriers to entry in a particular market will generally make acquisitions \_\_\_\_ as an entry strategy.
- a. less likely
  - b. more likely
  - c. Prohibitive
  - d. Illegal

ANS: B                      PTS: 1                      DIF: Easy                      REF: 203  
OBJ: 07-02 TYPE: comprehension

17. SpeakEasy, a U.S. software company that specializes in voice-recognition software, wishes to rapidly enter the growing technical translation software market. This market is dominated by firms making highly differentiated products. To enter this market SpeakEasy should consider a/an
- a. vertical acquisition of a firm that uses technical translation products.
  - b. acquisition of a highly related firm in the technical translation market.
  - c. cross-border merger, preferably with an Indian or Chinese company.
  - d. strategy of internally developing the technical translation products needed to compete in this market.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 203  
OBJ: 07-02 TYPE: application

18. Cross-border acquisitions are critical to U.S. firms competing internationally
- a. if they are to develop differentiated products for markets served.
  - b. when market share growth is the focus.
  - c. where consolidated operations are beneficial.
  - d. if they wish to overcome entry barriers to international markets.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 203  
OBJ: 07-02 TYPE: comprehension

19. Mittal Steels' acquisition of ISG, a U.S.-owned steel company, is an example of both a cross-border acquisition and a
- a. backward vertical acquisition.
  - b. forward vertical acquisition.
  - c. horizontal acquisition.
  - d. merger of equals.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 204

OBJ: 07-02 TYPE: application

20. The flurry of cross-border acquisitions in the steel industry by Mittal Steel and by Arcelor SA is
- an example of consolidation in the industry.
  - the result of overcapacity in the steel industry causing low steel prices.
  - a move by both firms to diversify.
  - allowing steel manufacturing to flourish in high-wage nations such as the U.S. and Europe.

ANS: A PTS: 1 DIF: Medium REF: 204-205

OBJ: 07-02 TYPE: application

21. EverBond, a firm specializing in adhesives and glues has invented a new type of strong adhesive that can be applied and then removed by a special process without damage to even delicate materials. Once EverBond obtains the patent on this process, there is a 60% chance that its invention will be effectively imitated within \_\_\_ years.
- One
  - Three
  - Four
  - Six

ANS: C PTS: 1 DIF: Medium REF: 205-206

OBJ: 07-02 TYPE: application

22. Which of the following is NOT one of the primary reasons many pharmaceutical firms use acquisitions?
- entering markets quickly
  - overcoming the high costs of internal product development
  - improving predictability of returns on investment.
  - extending patent rights on developed pharmaceuticals

ANS: D PTS: 1 DIF: Medium REF: 206

OBJ: 07-02 TYPE: comprehension

23. Internal product development is often viewed as
- carrying a high risk of failure.
  - the only reliable method of generating new products for the firm.
  - a quicker method of product launch than acquisition of another firm.
  - critical to the success of biotech and pharmaceutical firms.

ANS: A PTS: 1 DIF: Medium REF: 206

OBJ: 07-02 TYPE: comprehension

24. Entering new markets through acquisitions of companies with new products is not risk-free, especially if acquisition becomes a substitute for
- market discipline.
  - innovation.
  - risk analysis.
  - international diversification.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 206  
OBJ: 07-02 TYPE: comprehension

25. Compared to internal product development, acquisitions allow
- immediate access to innovations in mature product markets.
  - more predictable returns on investment.
  - slower market entry.
  - more effective use of company core competencies.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 206  
OBJ: 07-02 TYPE: comprehension

26. Research has shown that the more \_\_\_\_ the greater is the probability that an acquisition will be successful.
- related the acquired and acquiring firms are
  - diverse the resulting portfolio of competencies
  - disparate the corporate cultures
  - involved investment banking firms are in the due diligence process

ANS: A                      PTS: 1                      DIF: Medium                      REF: 207  
OBJ: 07-02 TYPE: knowledge

27. When a firm is overly dependent on one or more products or markets, and the intensity of rivalry in that market is intense, the firm may wish to \_\_\_\_ by making an acquisition.
- increase new product speed to market
  - broaden its competitive scope
  - increase its economies of scale
  - overcome entry barriers

ANS: B                      PTS: 1                      DIF: Medium                      REF: 207  
OBJ: 07-02 TYPE: comprehension

28. The fastest and easiest way for a firm to diversity its portfolio of businesses is through acquisition because
- of barriers to entry in many industries.
  - it is difficult for companies to develop products that differ from their current product line
  - innovation in both the acquired and the acquiring firm is enhanced by the exchange of competencies resulting from acquisition
  - unrelated acquisitions are usually uncomplicated because the acquired firm is allowed to continue to function independently as it did before acquisition.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 207  
OBJ: 07-02 TYPE: comprehension

29. Sales of watches among teenagers and 20-somethings are declining rapidly as this age group uses cellphones, iPods, and other devices to tell time. A company that specializes in selling inexpensive watches to this age group would do well to consider \_\_\_\_ in order to develop new products other than watches.
- unrelated diversification.

- b. backward integration.
- c. forward integration.
- d. horizontal acquisitions.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 207  
OBJ: 07-02 TYPE: application

30. JLB, Inc., manufacturers components for use in farm equipment. JLB sells its parts to U.S. farm equipment manufacturers. The market for tractors and farm implements needed in the U.S. is declining and there is increasing competition by foreign manufacturers of farm equipment. JLB should consider an acquisition because
- a. it is suffering from a lack of internal product development.
  - b. it is overly dependent on one product market.
  - c. it needs to acquire one of its foreign competitors so that it can conquer the entry barriers to the international market.
  - d. it requires greater economies of scale.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 207-208  
OBJ: 07-02 TYPE: application

31. Nirvana-Bound Vacations is a travel company that specializes in luxury vacations for mature travelers to India and Thailand. Nirvana-Bound has experienced little growth in its business, and its management has decided that the company needs to gain access to new knowledge, increase its capabilities, break its inertia, and become more agile by acquiring another company. The most suitable acquisition for this specific purpose would be
- a. a competing firm specializing in senior travel in Asia.
  - b. a firm specializing in land-based travel for seniors in the U.S.
  - c. a firm specializing in cruise vacations for mature travelers.
  - d. an Indian firm specializing in cosmetic surgery vacations for Americans.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 208  
OBJ: 07-02 TYPE: application

32. Research shows that about \_\_\_\_ percent of mergers and acquisitions are successful.
- a. 20
  - b. 40
  - c. 60
  - d. 80

ANS: A                      PTS: 1                      DIF: Medium                      REF: 208  
OBJ: 07-03 TYPE: knowledge

33. Each of the following is a rationale for acquisitions EXCEPT
- a. achieving greater market power.
  - b. overcoming significant barriers to entry.
  - c. increasing speed of market entry.
  - d. positioning the firm for a tactical competitive move.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 209 (Figure 7.1)  
OBJ: 07-02 TYPE: knowledge

34. Problems associated with acquisitions include all of the following EXCEPT
- excess managerial focus on acquisitions.
  - difficulties integrating the two firms.
  - the high costs of financing the acquisition.
  - excessive time spent on the due diligence process.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 209 (Figure 7.1)  
OBJ: 07-03 TYPE: comprehension

35. The factors that lead to poor long-term performance by acquisitions include all of the following EXCEPT firms
- insufficient diversification.
  - having too much debt.
  - being unable to achieve synergy.
  - growing too large.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 209 (Figure 7.1)  
OBJ: 07-03 TYPE: comprehension

36. According to a researcher cited in the text, the successful completion of the \_\_\_\_ phase is probably the single most important determinant of shareholder value creation in mergers and acquisitions.
- pre-acquisition negotiations
  - pre-acquisition due diligence
  - post-acquisition integration
  - post-acquisition restructuring

ANS: C                      PTS: 1                      DIF: Medium                      REF: 210  
OBJ: 07-03 TYPE: knowledge

37. Without effective due diligence the
- acquiring firm is likely to overpay for an acquisition.
  - firm may miss its opportunity to buy a well-matched company.
  - acquisition may deteriorate into a hostile takeover, reducing the value creating potential of the action.
  - may be unable to act quickly and decisively in purchasing the target firm.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 210  
OBJ: 07-03 TYPE: comprehension

38. Due diligence includes all of the following activities EXCEPT assessing
- differences in firm cultures.
  - tax consequences of the acquisition.
  - the level of private synergy between the two firms.
  - the appropriate purchase price.



ANS: C                      PTS: 1                      DIF: Medium                      REF: 210  
OBJ: 07-03 TYPE: comprehension

39. The use of high levels of debt in acquisitions has contributed to
- the increase in above-average returns earned by acquiring firms.
  - an increased risk of bankruptcy for acquiring firms.
  - the confidence of the stock market in firms issuing junk bonds.
  - an increase in investments that have long-term payoffs.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 211  
OBJ: 07-03 TYPE: comprehension

40. High levels of debt can be a positive force because it allows firms to
- take advantage of expansion opportunities.
  - postpone unnecessary investments.
  - invest in tax avoiding ventures.
  - discipline their managers.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 211  
OBJ: 07-03 TYPE: comprehension

41. \_\_\_\_ are unsecured obligations that are not tied to specific assets for collateral.
- Bearer bonds
  - No-load stocks
  - Penny stocks
  - Junk bonds

ANS: D                      PTS: 1                      DIF: Easy                      REF: 211  
OBJ: 07-03 TYPE: knowledge

42. Which of the following statements is FALSE?
- Synergy resulting from an acquisition generates gains in shareholder wealth beyond what they could achieve through diversification of their own portfolios.
  - Private synergy results when the combination of two firms yields competencies and capabilities that could not be achieved by combining with any other firm.
  - Although private synergy is easy to analyze, it is difficult to create.
  - Private synergy is more likely when the two firms in an acquisition have complementary assets.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 211  
OBJ: 07-03 TYPE: comprehension

43. Private synergy
- occurs in most related acquisitions and allows firms to see increased returns.
  - is frequently achieved in conglomerates.
  - is not easy to understand and imitate.

d. is assessed by managers during the due diligence process.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 212  
OBJ: 07-03 TYPE: comprehension

44. The expenses incurred by firms trying to create synergy through acquisition are called \_\_\_\_ costs
- Acquisition
  - participation
  - Transaction
  - Interaction

ANS: C                      PTS: 1                      DIF: Easy                      REF: 212  
OBJ: 07-03 TYPE: knowledge

45. Transaction costs include all of the following EXCEPT
- charges from investment bankers who complete due diligence for the acquiring firm.
  - the loss of key employees following the acquisition.
  - managers' time spent evaluating target firms.
  - managers' time spent planning the diversification strategy of the firm.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 212  
OBJ: 07-03 TYPE: knowledge

46. Which of the following is NOT a result of over-diversification?
- Executives do not have a rich understanding of all of the firm's business units.
  - Managers emphasize strategic controls rather than financial controls.
  - Firms use acquisition as a substitute for innovation.
  - Managers become short-term in their orientation.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 212  
OBJ: 07-03 TYPE: comprehension

47. Evidence suggests that firms using acquisitions as a substitute for internally developed innovations
- are able to offset the loss of research and development competencies by competencies in other areas.
  - extend their time-to-market for new product launches.
  - eventually encounter performance problems.
  - can leverage their core competencies across a broader range of products.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 212  
OBJ: 07-03 TYPE: comprehension

48. When managers become overly focused on making acquisitions, it is
- because the skills of top executives are better used in making acquisitions than they are in daily organization operations.
  - because it is more fun to do deals than to run the company.
  - due to pressure from major stakeholders to diversify the firm.

d. because acquisitions are a quick way to improve the financial standing of the firm.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 213  
OBJ: 07-03 TYPE: comprehension

49. Acquisitions can become a time sink for top level managers for all the following reasons EXCEPT
- the integration process after acquisition requires managerial attention.
  - they must prepare for acquisition negotiations.
  - managers are involved in the search for viable acquisition candidates.
  - only top managers can perform the required due diligence.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 213  
OBJ: 07-03 TYPE: comprehension

50. After Hewlett-Packard bought Compaq Computer, expert opinion was that “HP’s shareholders paid \$24 billion in stock to buy Compaq and in exchange got relatively little value.” One could predict that, as in other failed acquisitions and mergers, HP would engage in one or more of the following EXCEPT
- Downsizing
  - Downscoping
  - enhanced due diligence.
  - creating spin-offs.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 213-214 | 216-217  
OBJ: 07-05 TYPE: application

51. One problem with becoming too large is that large firms
- become excessively diverse and have difficulty focusing on strategic goals.
  - tend to have inadequate financial controls.
  - become attractive takeover targets.
  - usually increase bureaucratic controls.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 214  
OBJ: 07-03 TYPE: comprehension

52. Thomas is an upper-middle level manager for a firm that has been actively involved in acquisitions over the last 10 years. The firm has grown much larger as a result. Thomas has been dismayed to find that recently the managerial culture of the firm has been turning more and more to \_\_\_\_ controls.
- Bureaucratic
  - Strategic
  - Tactical
  - Organic

ANS: A                      PTS: 1                      DIF: Hard                      REF: 214  
OBJ: 07-03 TYPE: application

53. A friendly acquisition
- raises the price that has to be paid for a firm.

- b. enhances the complementarity of the two firms' assets.
- c. facilitates the integration of the acquired and acquiring firms.
- d. allows joint ventures to be developed.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 215  
OBJ: 07-04 TYPE: comprehension

54. \_\_\_\_ allows the acquiring firm to keep valuable human resources in the acquired firm from leaving.
- a. Financial slack
  - b. Private synergy
  - c. Effective integration
  - d. High compensation

ANS: C                      PTS: 1                      DIF: Medium                      REF: 215  
OBJ: 07-04 TYPE: knowledge

55. Which of the following is NOT an attribute of a successful acquisition?
- a. The acquiring firm has a large amount of financial slack.
  - b. The acquired and acquiring firms have complementary assets and/or resources.
  - c. Innovation and R&D investments continue as part of the firm's strategy.
  - d. Investments in advertising and image building are made quickly.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 216 (Table 7.1)  
OBJ: 07-04 TYPE: comprehension

56. Typically, in a failed acquisition, the organization will
- a. restructure.
  - b. go into bankruptcy.
  - c. focus on building private synergy.
  - d. increase integration.

ANS: A                      PTS: 1                      DIF: Easy                      REF: 217  
OBJ: 07-05 TYPE: comprehension

57. Ambrose is a scientist working for a pharmaceutical company. His company was acquired by a rival pharmaceutical company, and now it is involved in downsizing and downscoping. Ambrose is concerned about his job security, since he is actively involved in amateur sports in his community and does not wish to disrupt his current lifestyle. Ambrose's job will be most likely to be secure if
- a. Ambrose's research is in a non-core activity.
  - b. the acquisition has been financed by junk bonds.
  - c. Ambrose is in a position to take a poison pill.
  - d. Ambrose is a key employee in the firm's primary business.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 217  
OBJ: 07-04 TYPE: application



63. A leveraged buyout refers to
- a firm restructuring itself by selling off unrelated units of the company's portfolio.
  - a firm pursuing its core competencies by seeking to build a top management team that comes from a similar background.
  - a restructuring action whereby a party buys all of the assets of a business, financed largely with debt, and takes the firm private.
  - an action where the management of the firm and/or an external party buy all of the assets of a business financed largely with equity.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 220  
OBJ: 07-05 TYPE: knowledge

64. The term "leverage" in leveraged buyouts refers to the
- firm's increased concentration on the firm's core competencies.
  - amount of new debt incurred in buying the firm.
  - fact that the employees are purchasing the firm for which they work.
  - process of removing the firm's stock from public trading.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 220  
OBJ: 07-06 TYPE: knowledge

65. After a leveraged buyout, \_\_\_\_ typically occur(s).
- selling off of assets
  - further rounds of acquisitions
  - due diligence
  - private synergy

ANS: A                      PTS: 1                      DIF: Easy                      REF: 220  
OBJ: 07-05 TYPE: comprehension

66. Downsizing usually results in
- higher firm performance.
  - improved reputation of the firm.
  - an increase in human capital per employee.
  - an entrepreneurship boom.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 220  
OBJ: 07-06 TYPE: comprehension

67. Firms use downsizing as a restructuring strategy for different reasons, but the major tactical reason is
- poor unit performance from decreasing industry attractiveness.
  - decreasing market share from increasing industry competition.
  - shifting industry characteristics.
  - the desire to lower labor costs.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 220-221 (Figure 7.2)  
OBJ: 07-05 TYPE: comprehension

68. Which of the following is NOT one of the three main restructuring strategies?
- a. Realigning
  - b. Downsizing
  - c. Downscoping
  - d. leveraged buyouts

ANS: A                      PTS: 1                      DIF: Easy                      REF: 221 (Figure 7.2)  
OBJ: 07-05 TYPE: knowledge

69. An investor is analyzing two firms in the same industry. She is looking for long term performance from her investment. Both firms are basically identical except one firm is involved in substantial downsizing and the other firm is undertaking aggressive downscoping. The investor should invest in the:
- a. downscoping firm because the higher debt load will discipline managers to act in shareholders' best interests.
  - b. downscoping firm because it will be focusing on the firm's core businesses.
  - c. downsizing firm because it will be making decisions based on tactical strategies.
  - d. downsizing firm because it is eliminating employees who are essentially "dead weight" and are dragging down the firm's profitability.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 221  
OBJ: 07-06 TYPE: application

70. Whole-firm LBOs tend to result in all the following negative outcomes EXCEPT
- a. increased risk of bankruptcy.
  - b. failure to invest in R&D.
  - c. risk-averse management.
  - d. inefficient operations.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 221  
OBJ: 07-06 TYPE: comprehension

71. Compared with downsizing, \_\_\_\_ has (have) a more positive effect on firm performance.
- a. Reconfiguring
  - b. Downscoping
  - c. leveraged buyouts
  - d. Acquisitions

ANS: B                      PTS: 1                      DIF: Easy                      REF: 221  
OBJ: 07-06 TYPE: comprehension

72. Downsizing may be of more \_\_\_\_ value than \_\_\_\_ value.
- a. strategic, financial
  - b. political, financial
  - c. short-term, long-term
  - d. strategic, tactical

ANS: C                      PTS: 1                      DIF: Medium                      REF: 221  
OBJ: 07-06 TYPE: comprehension

### MULTIPLE CHOICE

1. The major reason that Chinese firms can invest in buying U.S., European, and South American firms is
- government policies in these regions that encourage foreign direct investment.
  - its vast foreign-exchange reserves from its trade surplus.
  - increasing anxiousness of owners in developed countries to “cash-out” and take profits rather than continue to operate businesses.
  - the economic downturn in these regions which has made the purchase price for firms relatively cheap.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 229  
OBJ: 08-01 TYPE: application

2. The impact of China on the world economy is due to
- the size of its domestic market.
  - the movement away from Communism by the Chinese government.
  - its highly-competitive state-owned firms.
  - the lack of protection for intellectual property rights.

ANS: A                      PTS: 1                      DIF: Easy                      REF: 230  
OBJ: 08-01 TYPE: knowledge

3. In order for firms to successfully exploit international markets, managers must have
- a strong national identity.
  - cross-functional integration skills.
  - command of foreign languages.
  - a global mindset.

ANS: D                      PTS: 1                      DIF: Easy                      REF: 231  
OBJ: 08-01 TYPE: comprehension

4. International strategy refers to a(an)
- action plan pursued by American companies to compete against foreign companies operating in the United States.
  - strategy through which the firm sells products in markets outside the firm's domestic market.
  - political and economic action plan developed by businesses and governments to cope with global competition.
  - strategy American firms use to dominate international markets.

ANS: B                      PTS: 1                      DIF: Easy                      REF: 232  
OBJ: 08-01 TYPE: knowledge

5. Raymond Vernon states that the classic rationale for international diversification is to
- pre-emptively dominate world markets before foreign companies can establish dominance.



- b. avoid domestic governmental regulation.
- c. extend the product's life cycle.
- d. expand the sales of the firm domestically.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 232  
OBJ: 08-01 TYPE: knowledge

6. Which of the following is NOT a motive for firms to become multinational?
- a. to take advantage of potential opportunities to expand the market for the firm's products.
  - b. to secure needed resources.
  - c. to avoid high domestic taxation on corporate income.
  - d. increasing universal product demand.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 232  
OBJ: 08-01 TYPE: comprehension

7. The increased pressures for global integration of operations have been driven mostly by
- a. new low cost entrants.
  - b. universal product demand.
  - c. increased levels of joint ventures.
  - d. the rise of governmental regulation.

ANS: B                      PTS: 1                      DIF: Easy                      REF: 232  
OBJ: 08-01 TYPE: comprehension

8. U.S. companies moving into the international market need to be sensitive to the need for local country or regional responsiveness due to
- a. increasing rejection of American culture across much of the world.
  - b. the sophistication of the international consumer due to the Internet.
  - c. customization required by cultural differences.
  - d. the increasing loss of economies of scale.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 233  
OBJ: 08-01 TYPE: comprehension

9. Which of the following is NOT a factor pressuring companies for local responsiveness?
- a. the need for local repair and service to customers
  - b. customization due to cultural differences
  - c. government pressure for firms to use local sources for procurement
  - d. availability of low labor costs

ANS: D                      PTS: 1                      DIF: Hard                      REF: 233  
OBJ: 08-01 TYPE: comprehension

10. The motivations for expanding into international markets include each of the following opportunities EXCEPT
- a. increasing the size of the firm's potential markets.

- b. gaining economies of scale.
- c. gaining a competitive advantage through location.
- d. favorable tax concessions and economic incentives by home-country governments.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 233  
OBJ: 08-01 TYPE: comprehension

11. Beer companies entered the global market because of
- a. fully-exploited domestic markets for beer.
  - b. lower labor costs in the emerging markets.
  - c. economies of scale offset research and development costs.
  - d. growing consumer preference in the developed world for beer over wine.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 233  
OBJ: 08-02 TYPE: application

12. Moving into international markets is a particularly attractive strategy to firms whose domestic markets
- a. demand a differentiation strategy for success.
  - b. are limited in opportunities for growth.
  - c. have developed unfriendly business attitudes toward the industry.
  - d. have too much regulation.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 233  
OBJ: 08-02 TYPE: comprehension

13. Most R&D intensive industries are international because
- a. of the need to make use of scientific talent in many nations.
  - b. large markets are necessary for earning above-average returns on investments.
  - c. of mandatory requirements by emerging economies that firms take part in joint ventures or direct investment in the country in order to sell their products in that country.
  - d. intellectual property is copied so rapidly that firms must move products into the international market immediately.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 234  
OBJ: 08-02 TYPE: comprehension

14. Optimal economies of scale in the international market for a standardized product derive from
- a. the ability to use similar production facilities.
  - b. effective investment in research and development.
  - c. access to a low-cost labor force.
  - d. rapid advances in new technology.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 234-235  
OBJ: 08-02 TYPE: comprehension

15. Firms with core competencies that can be exploited across international markets are able to
- a. achieve synergies and produce high quality goods at lower costs.

- b. enter new markets more quickly.
- c. enhance their market image and brand loyalty among local consumers.
- d. meet local government requirements more quickly than their international competitors.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 235  
OBJ: 08-02 TYPE: comprehension

16. The location advantages associated with locating facilities in other countries can include all of the following EXCEPT
- a. lower cost labor.
  - b. access to critical supplies.
  - c. access to customers.
  - d. evasion of host country governmental regulations.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 235  
OBJ: 08-02 TYPE: comprehension

17. Factors of production in Porter's model of international competitive advantage include all of the following EXCEPT
- a. labor.
  - b. capital.
  - c. infrastructure.
  - d. technology.

ANS: D                      PTS: 1                      DIF: Easy                      REF: 236  
OBJ: 08-03 TYPE: knowledge

18. In Porter's model, a specialized factor of production would include
- a. abundant natural resources.
  - b. a large workforce.
  - c. an extensive highway transportation system.
  - d. workers with advanced engineering skills.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 236  
OBJ: 08-03 TYPE: comprehension

19. South Korea is a successful international competitor
- a. even though it is deficient in all four factors of production in Porter's model.
  - b. in part because it has extensive expertise in manufacturing.
  - c. in part because it has a large, docile, unskilled workforce.
  - d. it has an abundance of natural resources.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 236  
OBJ: 08-03 TYPE: knowledge

20. All of the following are international corporate-level strategies EXCEPT the \_\_\_\_ strategy.
- a. Multidomestic

- b. Universal
- c. Global
- d. Transnational

ANS: B                      PTS: 1                      DIF: Easy                      REF: 236

OBJ: 08-03 TYPE: knowledge

21. A fundamental reason for a country's development of advanced and specialized factors of production is often its
- a. lack of basic resources.
  - b. monetary wealth.
  - c. small workforce.
  - d. protective tariffs.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 236

OBJ: 08-03 TYPE: comprehension

22. The four aspects of Porter's model of international competitive advantage include all of the following EXCEPT
- a. factors of production.
  - b. demand conditions.
  - c. political and economic institutions.
  - d. related and supporting industries.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 237 (Figure 8.2)

OBJ: 08-03 TYPE: knowledge

23. In France, fine dressmaking and tailoring have been a tradition predating Queen Marie Antoinette. Cloth manufacturers, design schools, craft apprenticeship programs, modeling agencies, and so forth, all exist to supply the clothing industry. This is an example of the \_\_\_\_ in Porter's model.
- a. strategy, structure and rivalry among firms
  - b. related and supporting industries
  - c. demand conditions
  - d. factors of production

ANS: B                      PTS: 1                      DIF: Medium                      REF: 237

OBJ: 08-03 TYPE: application

24. A large domestic market can provide the country's industries a chance at dominating the world market because
- a. they have been able to develop economies of scale at home.
  - b. they have access to abundant and inexpensive factors of production.
  - c. the related and supporting industries will have been developed.
  - d. the nation's culture and educational system will be adapted to producing the labor force needed for the industry.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 237-238

OBJ: 08-03 TYPE: comprehension

25. In addition to the four basic dimensions of Porter's "diamond" model, \_\_\_\_ may also contribute to the success or failure of firms.
- national work ethic
  - educational requirements
  - government policy
  - national pride

ANS: C PTS: 1 DIF: Medium REF: 238  
OBJ: 08-03 TYPE: comprehension

26. A multidomestic corporate-level strategy is one in which
- a corporation chooses not to compete internationally but where there are a number of international competitors in the firm's local marketplace.
  - the firm produces a standardized product, but markets it differently in each country in which it competes.
  - the firm customizes the product for each country in which it competes.
  - the firm competes in a number of countries, but it is centrally coordinated by the home office.

ANS: C PTS: 1 DIF: Medium REF: 239  
OBJ: 08-03 TYPE: knowledge

27. A global corporate-level strategy emphasizes
- differentiated products.
  - economies of scale.
  - sensitivity to local product preferences.
  - decentralizing control and limited monitoring.

ANS: B PTS: 1 DIF: Medium REF: 239  
OBJ: 08-03 TYPE: comprehension

28. A global corporate-level strategy differs from a multidomestic corporate-level strategy in that in a global strategy
- competitive strategy is dictated by the home office.
  - competitive strategy is decentralized and controlled by individual strategic business units.
  - products are customized to meet the individual needs of each country.
  - the firm sells in multiple countries.

ANS: A PTS: 1 DIF: Medium REF: 239-240  
OBJ: 08-03 TYPE: comprehension

29. A global strategy
- is easy to manage because of common operating decisions across borders.
  - achieves efficient operations without sharing resources across country boundaries.
  - increases risk because decision-making is centralized at the home office.
  - lacks responsiveness to local markets.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 240  
OBJ: 08-03 TYPE: comprehension

30. International corporate-level strategy focuses on
- the scope of operations through both product and geographic diversification.
  - competition within each country.
  - economies of scale.
  - sophistication of monitoring and controlling systems.

ANS: A                      PTS: 1                      DIF: Easy                      REF: 240  
OBJ: 08-03 TYPE: knowledge

31. A global corporate-level strategy assumes
- efficiency and customization can be achieved simultaneously.
  - a rise in income levels across the world.
  - increasing levels of cultural differences among nations.
  - more standardization of products across country markets.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 240  
OBJ: 08-03 TYPE: comprehension

32. A transnational corporate-level strategy seeks to achieve
- customization for the local market.
  - economies of scale and centralized strategic control.
  - global efficiency and local responsiveness.
  - standardization of products across countries.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 241  
OBJ: 08-03 TYPE: knowledge

33. Increasingly, customers worldwide are demanding emphasis on local requirements and companies are needing efficiency as global competition increases. This has triggered an increase in the number of firms using the \_\_\_\_ strategy.
- Multidomestic
  - Transnational
  - Universal
  - Global

ANS: B                      PTS: 1                      DIF: Medium                      REF: 241  
OBJ: 08-04 TYPE: comprehension

34. Terrorist attacks
- encourage firms to take truly global corporate strategies in order to offset losses in one region with gains in another.
  - are considered a “cost of doing business” by international firms.
  - have not decreased the level of international investment in any region except those



39. A firm may narrow its focus to a specific region of the world
- because that market is most different from its domestic market and so represents an unexploited “greenfield opportunity” for its products.
  - in order to obtain greater economies of scale.
  - because of political and economic agreements such as the European Union and the North American Free Trade Association.
  - to take advantage of limited protections of intellectual property so that it can manufacture innovative products without restrictions.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 245  
OBJ: 08-04 TYPE: comprehension

40. Most firms enter international markets sequentially, introducing their \_\_\_\_ first.
- most innovative products
  - largest and strongest lines of business
  - most generic products, which will be more likely to generate universal product demand,
  - products customized to the region

ANS: B                      PTS: 1                      DIF: Hard                      REF: 245  
OBJ: 08-04 TYPE: comprehension

41. A U.S. manufacturer of adaptive devices for persons with disabilities is considering expanding internationally. It is a fairly small company, but it is looking for growth opportunities. This company should primarily consider the option of
- licensing.
  - exporting.
  - a strategic alliance.
  - a greenfield venture.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 245  
OBJ: 08-05 TYPE: application

42. The choices that a firm has for entering the international market include all of the following EXCEPT
- exporting.
  - licensing.
  - leasing.
  - acquisition.

ANS: C                      PTS: 1                      DIF: Easy                      REF: 245 (Table 8.1)  
OBJ: 08-05 TYPE: comprehension

43. The problems associated with exporting include
- merging corporate cultures.
  - a partner's incompatibility.
  - difficulty in negotiating relationships.
  - high transportation costs.



ANS: D                      PTS: 1                      DIF: Medium                      REF: 246  
OBJ: 08-05 TYPE: comprehension

44. Lands' End is an example of a
- company that could expand globally after acquisition by a large, international firm (Sears) provided the resources.
  - firm that has entered international markets by acquiring local retailers who know the host countries' markets.
  - smaller firm that can sell products globally without large facilities overseas.
  - company using a web-based marketing and distribution process was not able to break into the international market due to lack of customization.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 245-246  
OBJ: 08-04 TYPE: application

45. Which of the following is NOT a disadvantage associated with exporting?
- potential loss of proprietary technologies
  - high transportation costs
  - loss of control over distribution activities
  - tariffs imposed by local governments

ANS: A                      PTS: 1                      DIF: Hard                      REF: 246  
OBJ: 08-05 TYPE: comprehension

46. A licensing agreement
- results in two firms agreeing to share the risks and the resources of a new venture.
  - is best way to protect proprietary technology from future competitor.
  - allows a foreign firm to purchase the rights to manufacture and sell a firm's products within a host country.
  - can be greatly impacted by currency exchange rate fluctuations.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 246  
OBJ: 08-05 TYPE: knowledge

47. Which of the following is NOT a typical disadvantage of licensing?
- little control over the marketing of the products
  - licensees may develop a competitive product after the license expires
  - lower potential returns than the use of exporting or strategic alliances
  - incompatibility of the licensing partners

ANS: D                      PTS: 1                      DIF: Medium                      REF: 246-247  
OBJ: 08-05 TYPE: comprehension

48. Host countries with emerging economies may encourage local firms to engage in strategic alliances with firms from developing countries because
- assets from the investing foreign company can be nationalized later.
  - disruption to the host-country's economy will be minimal
  - there will be less cultural conflict than in licensing arrangements.

d. the host-country firm gains access to the foreign firm's technology.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 247  
OBJ: 08-05 TYPE: comprehension

49. One of the primary reasons for failure of cross-border strategic alliances is
- the incompatibility of the partners.
  - conflict between legal and business systems.
  - security concerns and terrorism.
  - high debt financing.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 248  
OBJ: 08-05 TYPE: comprehension

50. In situations where there is high uncertainty, where cooperation is needed, and where strategic flexibility is important, \_\_\_\_ are most likely to succeed.
- licensing strategies
  - strategic alliances
  - Acquisitions
  - new wholly owned subsidiaries

ANS: B                      PTS: 1                      DIF: Hard                      REF: 248  
OBJ: 08-05 TYPE: comprehension

51. Which of the following is NOT a disadvantage of international acquisitions?
- They are very expensive and often require debt financing.
  - The acquiring firm has to deal with the regulatory requirements of a host country.
  - Merging the acquired and acquiring firm is difficult.
  - It is the slowest way to enter a new market.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 248-249  
OBJ: 08-05 TYPE: comprehension

52. The means of entry into international markets that offers the greatest control is
- licensing.
  - acquisitions.
  - joint ventures.
  - greenfield ventures.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 249  
OBJ: 08-05 TYPE: comprehension

53. Which of the following is an advantage associated with greenfield ventures?
- governmental support and subsidies in the host country
  - the lower cost of this type of venture
  - the level of control over the firm's technology, marketing and distribution
  - the lower level of risks involved

ANS: C                      PTS: 1                      DIF: Medium                      REF: 249  
OBJ: 08-05 TYPE: comprehension

54. If intellectual property rights in an emerging economy are not well-protected, the number of firms in the industry is rapidly growing, and the need for global integration is high, \_\_\_\_ is the preferred entry mode.
- Exporting
  - strategic alliance
  - wholly-owned subsidiary
  - Licensing

ANS: C                      PTS: 1                      DIF: Medium                      REF: 250  
OBJ: 08-05 TYPE: comprehension

55. The decision of what entry mode to use is primarily based on all of the following factors EXCEPT
- the industry's competitive conditions.
  - the country's situation and government policies.
  - the worldwide economic situation.
  - the firm's unique set of resources, capabilities, and core competencies.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 250  
OBJ: 08-05 TYPE: comprehension

56. Some large diversified business groups in emerging economies, such as Korean *chaebols*, have specialized management abilities that allow them to successfully \_\_\_\_ in emerging economies.
- make acquisitions
  - coordinate international joint ventures
  - establish greenfield ventures
  - set up licensing arrangements

ANS: A                      PTS: 1                      DIF: Medium                      REF: 250  
OBJ: 08-05 TYPE: knowledge

57. When a firm initially becomes internationally diversified, its returns
- remain stable.
  - decrease.
  - become more variable.
  - increase.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 251  
OBJ: 08-06 TYPE: knowledge

58. Which of the following is NOT one of the advantages associated with international diversification?
- reduction of overall risk
  - ease of coordination
  - economies of scale
  - stabilization of returns

ANS: B                      PTS: 1                      DIF: Medium                      REF: 251  
OBJ: 08-06 TYPE: comprehension

59. A nation's competitiveness depends on the capacity of its industry to \_\_\_\_ and thereby maintain its competitive advantage.
- diversify internationally
  - have access to critical resources
  - protect its proprietary capabilities
  - Innovate

ANS: D                      PTS: 1                      DIF: Medium                      REF: 252  
OBJ: 08-06 TYPE: comprehension

60. Internationally diversified firms
- earn greater returns on innovation than firms operating only in domestic markets.
  - are more likely to produce below-average returns for investors in the long run.
  - may need to decrease international activities when domestic profits are poor.
  - are generally unable to achieve high levels of synergy because of differences in cultures.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 252  
OBJ: 08-06 TYPE: comprehension

61. A product-diversified firm in Kenya has been approached by several large U.S. firms looking for prospective partners. From the perspective of the Kenyan firm, the best partner would be:
- an internationally-diversified U.S.-headquartered firm that is not product-diversified.
  - a U.S. firm that is making its first venture into international diversification.
  - a U.S. firm that is both internationally and product diversified.
  - No U.S. firm will be a good partner for the Kenyan firm because of the cultural differences.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 252  
OBJ: 08-06 TYPE: application

62. Instability in a national government creates all the following problems EXCEPT
- corruption.
  - economic risks and uncertainty created by government regulation.
  - theft of intellectual property.
  - conflicting legal authorities.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 253-254  
OBJ: 08-07 TYPE: comprehension

63. Bunyan Heavy Equipment, a U.S. firm, is investigating expanding into Russia using a greenfield venture. The committee researching this project has delivered a negative report. The main concern of the committee is probably
- loss of intellectual property due to Russian piracy.

- b. the fluctuation in the value of the ruble.
- c. the numerous and conflicting legal authorities in Russia.
- d. Russia's recent actions to gain state control of private firms' assets.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 253-256  
OBJ: 08-07 TYPE: application

64. Terrorism creates an economic risk for firms which
- a. reduces the amount of investment foreign companies will make in a country perceived to be terror-prone.
  - b. is created by governmental bans on doing business with terrorist regimes.
  - c. is offset by the above-average returns for firms which have learned how to operate in such an environment.
  - d. is absorbed by firms which are highly geographically diversified and which operate in both secure and insecure locations.

ANS: A                      PTS: 1                      DIF: Easy                      REF: 254 | 256  
OBJ: 08-07 TYPE: comprehension

65. Why do the Chinese violate Western companies' intellectual property rights?
- a. The rapid pace of new technology creation in China renders patents obsolete.
  - b. The collective nature of Chinese society does not promote individualistic rights.
  - c. Western companies are viewed as enemies whose intellectual property should be exploited.
  - d. The Chinese government actively promotes copyright and patent piracy.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 255  
OBJ: 08-07 TYPE: comprehension

66. A U.S. company that has developed a novel approach to curing a common eye disease is considering opening operations in India, a country in which there is a great need for this treatment. The treatment uses a proprietary combination of readily-available drugs and the price is moderate, but not low. The company can expect
- a. to earn above-average returns in India because of the high need for the treatment.
  - b. to have a difficult time earning above-average returns because Indian firms will probably copy the proprietary formula and sell the treatment at a lower price.
  - c. to earn above-average returns because India is increasingly enforcing intellectual property rights for foreign firms, especially in the medical field where the country has great need.
  - d. to earn below-average returns because India regulates the prices that can be charged for medical treatments and drugs so that these can be widely available to its population.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 255  
OBJ: 08-07 TYPE: application

67. The positive results associated with increasing international diversification have been shown to
- a. continue as the level of international diversification increases.
  - b. level off and become negative as diversification increases past some point.
  - c. become negative quickly.
  - d. be centered in only one or two industries.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 256-257  
OBJ: 08-08 TYPE: comprehension

68. Overseas Personal Security Services (OPSS) provides security and employee-tracking services for firms whose employees are traveling in or working in other countries. These services include bodyguards, chauffeurs trained in evasive maneuvers, and ransom insurance in countries with high levels of kidnapping. OPSS has grown rapidly and is highly profitable. OPSS is taking advantage of the:
- inherent economic risks of international operations.
  - inevitable culture clash between members of developed and emerging economies.
  - lack of related and supporting industries in many emerging economies.
  - threat of international terrorism.

ANS: D                      PTS: 1                      DIF: Easy                      REF: 255 | 256  
OBJ: 08-07 TYPE: application

69. Intellectual property rights will be respected in China when
- significant jail time is added to Chinese penalties for piracy.
  - Western firms pirate Chinese intellectual property.
  - Western companies aggressively sue Chinese pirates in Chinese courts.
  - the Chinese see themselves as creators of intellectual property and understand the importance of protections.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 255-257  
OBJ: 08-07 TYPE: comprehension

70. Arkadelphia Polymers, Inc., earns 60% of its revenue from exports to Europe and Asia. The CEO of the company would be
- concerned if the value of the dollar strengthened
  - pleased if the value of the dollar strengthened.
  - unconcerned about the fluctuation in the value of the dollar because the company is widely diversified geographically.
  - likely to consider moving to international strategic alliances or acquisitions if the value of the dollar fell and remained low.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 256  
OBJ: 08-07 TYPE: application

71. All of the following complicate the implementation of an international diversification strategy EXCEPT
- widespread multilingualism.
  - increased costs of coordination between business units.
  - cultural diversity.
  - logistical costs.

ANS: A                      PTS: 1                      DIF: Easy                      REF: 257  
OBJ: 08-08 TYPE: comprehension

72. Nature Dog, a California manufacturer of expensive organic dog foods and canine nutritional supplements is looking to expand internationally. It plans to use exporting as the first step into testing the international market for its products. The company would be best advised to target
- the Chinese market because it is so large.
  - the European market because it is culturally similar to the U.S.
  - the Mexican market because it is so close.
  - no international market. This is an example of a culturally-unique product.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 257  
OBJ: 08-08 TYPE: application

73. Rose Petal Cosmetics, a manufacturer of cosmetics and skin care products for women of color in the U.S., wishes to expand to markets in Asia and the Mid-East, as well as areas of Europe with many African and Mid-Eastern immigrants. A major competence of Rose Petal is effective marketing to American women-of-color. Rose Petal's main barrier to success in its target markets will probably be
- technological.
  - political.
  - cultural.
  - logistical.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 257  
OBJ: 08-08 TYPE: application

## MULTIPLE CHOICE

1. The code-sharing arrangement between Northwest Airlines and KLM was a cooperative alliance between airlines that involved no investment in a separate entity. This is an example of a(an)
- equity-based vertical complementary alliance.
  - equity-based horizontal complementary alliance
  - nonequity-based vertical complementary alliance.
  - nonequity-based horizontal complementary alliance.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 267-268 | 270  
OBJ: 09-01 | 09-02 TYPE: application

2. Fujitsu has had alliances with numerous firms over the years including Siemens, Dell, EDS, Intel, and Microsoft. According to the information in the textbook's scenario, each of these alliances focuses on a different product or service. This is an example of
- alliance versus alliance competition.
  - a stable alliance.
  - serial alliances.
  - alliances in a fast-cycle industry.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 267 | 272-273  
OBJ: 09-02 TYPE: application





8. Moon Flower cosmetics company executives are aware that their Asian customer base is interested in advanced skin care treatments beyond Moon Flower's traditional herbal and organic compounds. Moon Flower and a large American chemical company are in discussions to create a 50-50 partnership in a new firm which would create skin care treatments based on innovative chemical formulations which would be marketed both in Asia and in the U.S. Beyond being a cross-border alliance, this partnership can be called a(an)
- nonequity strategic alliance.
  - joint venture.
  - horizontal complementary alliance.
  - equity strategic alliance.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 269  
OBJ: 09-02 TYPE: application

9. A strategic alliance in which the partners own different percentages of the new company they have formed is called a(an)
- equity strategic alliance.
  - joint venture.
  - nonequity strategic alliance.
  - cooperative arrangement.

ANS: A                      PTS: 1                      DIF: Easy                      REF: 270  
OBJ: 09-02 TYPE: knowledge

10. China allows U.S. companies to ally with Chinese firms by purchasing minority ownership positions in the Chinese firms. These relationships are called
- joint ventures
  - network strategies
  - equity strategic alliances
  - nonequity strategic alliances

ANS: C                      PTS: 1                      DIF: Medium                      REF: 270  
OBJ: 09-02 TYPE: application

11. A nonequity strategic alliance exists when
- two firms join together to create a new company.
  - two or more firms have a contractual relationship to share resources and capabilities.
  - two partners in an alliance own unequal shares in the combined entity.
  - the partners agree to sell bonds instead of stock in order to finance a new venture.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 270  
OBJ: 09-02 TYPE: knowledge

12. Firms participate in strategic alliances for all the following reasons EXCEPT to
- enter markets more quickly.
  - acquire technology.
  - create values they could not develop acting independently.
  - retain tight control over intangible core competencies.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 271-273 (Table 9.1)  
OBJ: 09-02 TYPE: comprehension

13. The global airline industry is one in which
- national political interests prevent airlines from making international alliances.
  - the fast-cycle nature of the industry mandates heavy use of alliances.
  - most alliances tend to be vertical complementary.
  - alliance versus alliance competition dominates firm versus firm competition.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 273 | 284 | 286  
OBJ: 09-02 TYPE: application

14. Which of the following firms would be most likely to enter an alliance in order to maintain market stability?
- large home appliance manufacturing
  - electronic consumer goods manufacturing
  - natural gas utility
  - clothing retailing

ANS: C                      PTS: 1                      DIF: Medium                      REF: 272 (Table 9.1)  
OBJ: 09-02 TYPE: application

15. A relatively young firm has developed a method of transferring photographic images of surface textures onto any type of hard surface. This potentially has a huge market in the home-decorating field as well as any hard surface that is typically painted, such as car bodies. The type of alliance partner this firm would be searching for would be one with
- low-cost labor production facilities in another country.
  - similar products who could help the firm establish economies of scale.
  - access to franchises in new markets.
  - excess resources for investing.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 273-274 (Table 9.1)  
OBJ: 09-02 TYPE: application

16. Firms in a standard-cycle market may form alliances in order to
- take advantage of opportunities in emerging market countries.
  - more quickly distribute new products.
  - capture economies of scale.
  - share risky R&D investments.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 273  
OBJ: 09-02 TYPE: knowledge

17. A state-wide alliance of independent hospitals has formed in order to do group purchasing of medical supplies. Group purchasing allows the hospital alliance to negotiate lower prices with suppliers because of the large quantity of materials ordered. This is an example of the advantage of \_\_\_\_ resulting from an alliance.
- explicit collusion.
  - economies of scale.

- c. opportunistic behavior.
- d. distribution opportunities.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 273  
OBJ: 09-02 TYPE: application

18. Firms in \_\_\_\_ markets cooperate to pool resources and gain market power.
- a. slow-cycle
  - b. standard-cycle
  - c. fast-cycle
  - d. hyper-cycle

ANS: B                      PTS: 1                      DIF: Medium                      REF: 273-274  
OBJ: 09-02 TYPE: knowledge

19. The two types of complementary strategic alliances are
- a. vertical and horizontal.
  - b. macro and micro.
  - c. outsourcing and insourcing.
  - d. network and complementary

ANS: A                      PTS: 1                      DIF: Easy                      REF: 274  
OBJ: 09-03 TYPE: knowledge

20. All of the following are business-level cooperative strategic alliances EXCEPT
- a. synergistic strategic alliances.
  - b. uncertainty reduction strategic alliances.
  - c. complementary strategic alliances.
  - d. competition response strategic alliances.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 274 (Figure 9.1)  
OBJ: 09-03 TYPE: knowledge

21. A manufacturer of specialty jams and jellies has decided to ally itself with an orchard and vineyard growing rare strains of fruit. This is a(an) \_\_\_\_ strategy.
- a. vertical complementary
  - b. horizontal complementary
  - c. uncertainty reduction
  - d. network

ANS: A                      PTS: 1                      DIF: Medium                      REF: 274  
OBJ: 09-03 TYPE: application

22. \_\_\_\_ are LEAST likely to involve potential or current competitors.
- a. Mutual forbearance strategies
  - b. Tacit collusion strategies
  - c. Horizontal complementary strategic alliances

d. Vertical complementary strategic alliances

ANS: D                      PTS: 1                      DIF: Hard                      REF: 274-278  
OBJ: 09-03 TYPE: comprehension

23. Smith Commercial Lighting, Inc., which sells lighting for factories and businesses has entered an alliance with Revelation Lighting, Inc., a retailer of home decor lighting in order to expand into the trend of using industrial-type lighting in non-traditional style homes. Smith has invested 40% and Revelation has invested 60% into the new operation. This is an example of a(an)
- joint venture.
  - nonequity alliance.
  - horizontal complementary strategic alliance.
  - vertical complementary strategic alliance.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 275-276  
OBJ: 09-03 TYPE: application

24. Partners in a horizontal alliance can expect
- benefits proportional to their investments.
  - similar opportunities as a result of the alliance.
  - common management issues.
  - different outcomes.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 276  
OBJ: 09-03 TYPE: comprehension

25. Reduction of competition can be accomplished through all of the following EXCEPT
- predatory alliances.
  - explicit collusion.
  - tacit collusion.
  - mutual forbearance.

ANS: A                      PTS: 1                      DIF: Easy                      REF: 277  
OBJ: 09-03 TYPE: comprehension

26. The three main luxury hotels in a major tourist destination keep very close track of their competitors' room pricing, restaurant offerings, tour packages, and special services such as airport transportation and spa privileges. When one hotel makes adjustments in prices or offerings, the other hotels follow suit. It is possible that these hotels are
- engaging in tacit collusion.
  - following uncertainty reducing strategies.
  - monitoring business competitors for opportunistic behaviors.
  - following a competitive response strategy.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 277  
OBJ: 09-03 TYPE: application

27. Mutual forbearance is
- illegal in the U.S.
  - a type of competition reducing strategy.
  - a variety of risk-sharing by firms in highly fragmented industries.
  - exercised when alliance partners refrain from opportunistic behaviors.

ANS: B                      PTS: 1                      DIF: Easy                      REF: 277  
OBJ: 09-03 TYPE: comprehension

28. The fact that the prices consumers pay for branded breakfast cereals are above the prices that would exist if there were true competition suggests that the cereal manufacturers are engaging in
- excessive cooperation.
  - joint ventures.
  - tacit collusion.
  - horizontal strategic alliances.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 277  
OBJ: 09-03 TYPE: application

29. In the U.S., cooperative strategies to reduce competition may result in \_\_\_\_ if they are explicit.
- increased tax liabilities
  - litigation
  - government takeover of the firms
  - dissolution of the firm

ANS: B                      PTS: 1                      DIF: Medium                      REF: 277  
OBJ: 09-03 TYPE: comprehension

30. In free market economies \_\_\_\_ must decide how rivals can collaborate with their competitors without violating established regulations.
- the invisible hand
  - the government
  - consumers
  - the business community

ANS: B                      PTS: 1                      DIF: Medium                      REF: 278  
OBJ: 09-03 TYPE: comprehension

31. Why are alliances in the airline industry unstable?
- Unstable industries make for unstable alliances.
  - The potential for firms to take opportunistic actions is too widespread.
  - The industry is declining and profits are not sufficient to divide among alliance partners.
  - There is high rivalry among firms.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 278  
OBJ: 09-03 TYPE: application

32. Of the various business-level strategic alliances, \_\_\_\_ alliances have the most probability of creating sustainable competitive advantage, and \_\_\_\_ have the lowest.
- horizontal complementary, vertical complementary
  - vertical complementary, competition reducing
  - competition reducing, horizontal complementary
  - uncertainty reducing, competition reducing

ANS: B                      PTS: 1                      DIF: Hard                      REF: 278-279  
OBJ: 09-03 TYPE: comprehension

33. \_\_\_\_ strategic alliances have stronger focus on creation of value than do \_\_\_\_ strategic alliances.
- competition reducing, complementary
  - complementary, competition reducing
  - uncertainty reducing, complementary
  - collusive, uncertainty reducing

ANS: B                      PTS: 1                      DIF: Medium                      REF: 279  
OBJ: 09-03 TYPE: comprehension

34. For the purpose of diversification, a corporate-level cooperative strategy may be preferable to a merger or acquisition for all the following reasons EXCEPT
- a host nation may forbid a merger or acquisition.
  - opportunistic behaviors are less likely.
  - cooperative strategies require fewer resources.
  - cooperative strategies allow greater flexibility.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 280  
OBJ: 09-04 TYPE: comprehension

35. CNOOC (China National Offshore Oil Corporation) has been focusing on alliances that are “upstream” from its core business. This type of alliance is classified as a(an) \_\_\_\_ strategic alliance.
- synergistic
  - opportunistic
  - horizontal
  - diversifying

ANS: D                      PTS: 1                      DIF: Hard                      REF: 280  
OBJ: 09-04 TYPE: application

36. Firms entering into synergistic strategic alliances expect to attain
- technological complexity.
  - economies of scope.
  - monopolistic market power.
  - learning curve efficiencies.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 280  
OBJ: 09-04 TYPE: comprehension

37. \_\_\_\_ are sometimes used to consolidate and spin off poor performing businesses and to allow a company to focus on its core businesses, thus lowering the firm's level of diversification.
- Joint ventures
  - Synergistic alliances
  - Horizontal complementary alliances
  - Dynamic alliance networks

ANS: A                      PTS: 1                      DIF: Medium                      REF: 280  
OBJ: 09-04 TYPE: knowledge

38. The main goal of franchising for the franchisor, such as Wendy's or Dunkin Donut, is
- use of the brand name.
  - as a test for potential future acquisitions.
  - growth.
  - access to technology.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 280-282  
OBJ: 09-04 TYPE: comprehension

39. Which of the following statement is FALSE?
- Franchising is most appropriate in fragmented industries.
  - Franchising provides corporate growth with less risk than do mergers and acquisitions.
  - Successful franchising allows transfer of knowledge and skills from the franchisor to the franchisee.
  - Franchising agreements require more trust between firms than do other cooperative strategies.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 282  
OBJ: 09-04 TYPE: comprehension

40. In the franchising strategy, the most important competitive advantage for the franchisee is the franchisor's
- brand name.
  - capital resources.
  - access to a consolidated market.
  - geographic locations.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 282  
OBJ: 09-04 TYPE: comprehension

41. A businessperson in Atlanta who wishes to develop a luxury pet kennel approaches the owner of the highly successful Pet Resort and Day Spa in Houston to see if the owner is interesting in franchising the Pet Resort brand. The Atlanta businessperson's goal is to
- get venture capital from Pet Resort.
  - gain access to Pet Resort's tacit knowledge.
  - collude with Pet Resort to diminish competition in the kennel industry in Atlanta.
  - join in a vertical complementary alliance with Pet Resort.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 282  
OBJ: 09-04 TYPE: application

42. McDonald's, Hilton International, and Krispy Kreme all heavily rely on the \_\_\_\_ strategy.
- transnational
  - network cooperative
  - cross-border alliances
  - franchising cooperative

ANS: D                      PTS: 1                      DIF: Easy                      REF: 282  
OBJ: 09-04 TYPE: application

43. FrameCo, a maker of commercial greenhouses, has just extricated itself from a failing cooperative alliance with another firm. The expected synergies never were achieved, and FrameCo lost most of its investment. The top management of FrameCo should
- avoid future cooperative alliances because they lack the skills needed to manage them successfully.
  - should enter into future cooperative alliances only if the alliance is closely monitored by a third party to prevent opportunistic behavior by the alliance partner.
  - realize that most cooperative alliances fail and that it should ally itself only with an experienced alliance partner in the future.
  - internalize the knowledge about the successes and failures of this alliance so FrameCo can learn from the experience.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 282  
OBJ: 09-04 TYPE: application

44. If GM and Ferrari were to combine some of their automobile manufacturing operations to make a new line of cars under a new brand name, this would be characterized as a(an)
- collusive tactic.
  - merger.
  - cross-border strategic alliance.
  - international acquisition.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 283  
OBJ: 09-05 TYPE: application

45. Legitimately, a firm may pursue an international strategic alliance for all of the following reasons EXCEPT
- to enhance the compensation packages of top managers.
  - to leverage core competencies in new markets.
  - to operate within government restrictions in the local country.
  - to escape limited domestic growth opportunities.

ANS: A                      PTS: 1                      DIF: Easy                      REF: 283  
OBJ: 09-05 TYPE: comprehension

46. In some countries, the only legal way for foreign firms to invest in the country is through



- a. silent partner agreements.
- b. franchising.
- c. wholly-owned subsidiaries.
- d. partnership with a local firm.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 283  
OBJ: 09-05 TYPE: knowledge

47. In a cross-border alliance, the local partner is often a useful source of information about
- a. sources of capital.
  - b. the strengths of the foreign firm's technology.
  - c. market synergies.
  - d. long-term planning.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 283  
OBJ: 09-05 TYPE: comprehension

48. In general, cross-border alliances are more \_\_\_\_ and \_\_\_\_ than domestic alliances.
- a. uncertainty reducing, diversifying
  - b. complex, risky
  - c. highly leveraged, tightly monitored
  - d. flexible, trust-based

ANS: B                      PTS: 1                      DIF: Medium                      REF: 284  
OBJ: 09-05 TYPE: comprehension

49. A \_\_\_\_ cooperative strategy helps the firm diversify in terms of products offered, markets served, or both.
- a. corporate-level
  - b. business-level
  - c. national-level
  - d. industry-level

ANS: A                      PTS: 1                      DIF: Easy                      REF: 284  
OBJ: 09-04 TYPE: knowledge

50. The main reason that IBM is involved in multiple alliances is to
- a. consolidate a fragmented industry and thus gain market power.
  - b. stay on the cutting edge of technology.
  - c. capture the intangible resources of competitors in order to gain a competitive advantage against them in the future.
  - d. avoid government anti-trust regulations which would apply if IBM were to acquire the firms it allies itself with.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 285  
OBJ: 09-04 TYPE: application

51. Dynamic alliance networks work best in industries

- a. where technological innovations are introduced frequently.
- b. that are mature and stable in nature.
- c. where the coordination of product and global diversity is critical.
- d. that are characterized by predictable market cycles and demand.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 286  
OBJ: 09-04 TYPE: comprehension

52. Stable alliance networks will most often
- a. be used to enhance a firm's internal operations.
  - b. appear in mature industries with predictable market cycles.
  - c. emerge in industries with short product life cycles.
  - d. emerge in declining industries as a way to increase process innovations.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 286-288  
OBJ: 09-04 TYPE: comprehension

53. Which of the following statements is TRUE?
- a. Most cooperative strategies are successful if the basic agreements are well written and include appropriate monitoring strategies.
  - b. The large majority of cooperative strategies fail despite potential synergies.
  - c. Opportunistic behaviors are usually focused on gaining the use of the partner's manufacturing and financial resources.
  - d. Problems with international cooperative strategies usually concern financial-system differences between the partners.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 287  
OBJ: 09-06 TYPE: comprehension

54. Which of the following is NOT a risk for firms engaged in cooperative strategies?
- a. misrepresentation of a partner's competencies
  - b. false perception of partner trustworthiness
  - c. insufficient variation in firms' core competencies.
  - d. failure of partners to make complementary resources available to the partnership

ANS: C                      PTS: 1                      DIF: Hard                      REF: 287-288  
OBJ: 09-06 TYPE: comprehension

55. Greentech, Inc., is a bioengineering firm specializing in food crops. It is considering a cooperative alliance with an Asian agribusiness firm, AsiaFoods, to jointly produce improved crops for the Asian market. The risks that Greentech should consider before entering this alliance include all of the following EXCEPT
- a. Has AsiaFoods accurately represented its competencies?
  - b. Will AsiaFoods make alliance-specific investments?
  - c. Can Greentech expect opportunistic behavior from AsiaFoods?
  - d. Will Greentech be able to use a cost-minimization management strategy in the AsiaFoods alliance?



60. One disadvantage of developing effective monitoring systems to manage a strategic alliance is that
- firms will have to accept greater risks.
  - trust will be eroded.
  - spontaneous opportunities are minimized.
  - power coalitions will still develop.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 289  
OBJ: 09-07 TYPE: comprehension

61. In managing cooperative strategies, research indicates that \_\_\_\_ can be a capability that is valuable, rare, imperfectly imitable, and often nonsubstitutable giving these firms a competitive advantage.
- extensive capitalization
  - stability
  - trustworthiness
  - Internet competency

ANS: C                      PTS: 1                      DIF: Medium                      REF: 289  
OBJ: 09-07 TYPE: comprehension

62. The opportunity maximization approach is more difficult to establish in international relationships than in domestic relationships because of differences in all EXCEPT
- laws.
  - culture.
  - trade policies.
  - technology.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 289  
OBJ: 09-07 TYPE: comprehension

## MULTIPLE CHOICE

1. The use of excessively-generous stock options for executive compensation has been slowed in the past couple years for all of the following reasons EXCEPT
- criticism from corporate-governance activists.
  - the Sarbanes-Oxley Act.
  - a ruling by the Financial Accounting Standards Board.
  - widespread shareholder resistance.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 299  
OBJ: 10-05 TYPE: knowledge

2. Archibald Smith has moved from an upper-middle management job at Chromatic Array, Inc., to a similar position with Pixilair Corporation. The gap between CEO pay and the pay of other top executives at Chromatic was significantly larger than at Pixilair. What difference can Archibald expect?
- The working relationships among the top management team will be more collaborative at Pixilair than at Chromatic.
  - The focus of Chromatic's board of directors will have been more on the creation of

shareholder wealth than Pixilair's focus.

- c. The rating of Pixilair by Institutional Shareholders Services will be less favorable than Chromatic's rating.
- d. Pixilair will be more vulnerable to hostile takeover than Chromatic.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 300  
OBJ: 10-01 TYPE: application

3. Research suggests that firms with \_\_\_\_ perform better, especially when collaboration among top management team members is important.
- a. greater emphasis on stock options
  - b. larger proportion of insiders on the board of directors
  - c. smaller pay gap between the CEO and other top executives
  - d. where benchmarking is used for top executive pay

ANS: C                      PTS: 1                      DIF: Medium                      REF: 300  
OBJ: 10-05 TYPE: comprehension

4. A primary objective of corporate governance is to
- a. determine and control the strategic direction of an organization, so that the top executives are focused on maximizing corporate profits.
  - b. ensure that the interests of top-level managers are aligned with the interests of shareholders.
  - c. lobby legislators to pass laws that are aligned with the organization's interests.
  - d. resolve conflicts among corporate employees.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 300-301  
OBJ: 10-01 TYPE: comprehension

5. Which of the following is a FALSE statement about corporate governance?
- a. Governance is used to establish order between parties whose interests may be in conflict.
  - b. Corporate governance mechanisms sometimes fail to monitor and control top managers' decisions.
  - c. Corporate governance mechanisms can be in conflict with one another.
  - d. If properly established, the board of directors will remain effective as a governance mechanism for many years.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 301-302  
OBJ: 10-01 TYPE: comprehension

6. In the U.S. the fundamental goal of business is to
- a. ensure customer satisfaction.
  - b. maximize shareholder wealth.
  - c. provide job security.
  - d. generate profits.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 301

OBJ: 10-01 TYPE: comprehension

7. In the U.S., a firm's key stakeholder(s) is(are) the
- government.
  - executives.
  - shareholders.
  - customers.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 301  
OBJ: 10-01 TYPE: comprehension

8. Which of the following is NOT an internal governance mechanism?
- the board of directors
  - ownership concentration
  - executive compensation
  - the market for corporate control

ANS: D                      PTS: 1                      DIF: Easy                      REF: 301  
OBJ: 10-01 TYPE: comprehension

9. Amos Ball, Inc., is a printing company in Iowa that has been family owned and managed for three generations. Which of the following statements is most likely to be TRUE?
- Agency costs at Amos Ball are high.
  - If research findings are valid, Amos Ball, Inc., will perform better if a family member is CEO than if an outsider is CEO.
  - At Amos Ball, the opportunity for managerial opportunism is high.
  - The functions of risk-bearing and decision-making are separate at Amos Ball.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 302-306  
OBJ: 10-02 TYPE: application

10. The separation between firm ownership and management creates a(n) \_\_\_\_ relationship.
- governance
  - control
  - agency
  - dependent

ANS: C                      PTS: 1                      DIF: Easy                      REF: 303  
OBJ: 10-02 TYPE: comprehension

11. Shareholder value is
- the firm's free cash flow.
  - the total revenue of the firm.
  - determined by the size of the firm.
  - reflected in the price of the stock.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 303

OBJ: 10-02 TYPE: comprehension

12. An agency relationship exists when one party delegates
- decision making responsibility to a second party.
  - financial responsibility to employees.
  - strategy implementation actions to functional managers.
  - ownership of a company to a second party.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 303  
OBJ: 10-03 TYPE: knowledge

13. Managerial employment risk is the
- risk that managers will behave opportunistically.
  - risk undertaken by managers to earn stock options.
  - managers' risk of job loss, loss of compensation, and/or loss of reputation.
  - risk managers will not find a new top management position if they should be dismissed.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 304  
OBJ: 10-03 TYPE: knowledge

14. Product diversification provides two benefits to managers that do not accrue to shareholders: \_\_\_\_ and \_\_\_\_.
- greater experience in a wider range of industries, lessening of managerial employment risk
  - the manager frequently invests in the acquired firm which allows them extensive profits, the manager can frequently buy excess assets divested by the acquired firm
  - the manager's supervisory needs are lowered, the manager is allowed greater time to oversee a wider range of activities
  - the opportunity for higher compensation through firm growth, a reduction in managerial employment risk

ANS: D                      PTS: 1                      DIF: Hard                      REF: 304  
OBJ: 10-03 TYPE: comprehension

15. The top management team at Sierra Infusion is concerned about the declining performance of firms in their industry. The team members are becoming concerned about the security of their jobs at Sierra Infusion. At a meeting over dinner, the top management team agrees to go to the board of directors with a proposal for
- increased diversification of Sierra Infusion.
  - the addition of outside directors to the board.
  - increased shareholder participation in decision making.
  - greater concentration on Sierra's core industry.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 304  
OBJ: 10-03 TYPE: application

16. In contrast to managers' desires, shareholders usually prefer that free cash flows be
- used to diversify the firm.
  - returned to them as dividends.
  - used to reduce corporate debt.
  - re-invested in additional corporate assets.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 305  
OBJ: 10-03 TYPE: comprehension

17. A major conflict of interest between top executives and owners, is that top executives wish to diversify the firm in order to \_\_\_\_, while owners wish to diversify the firm to \_\_\_\_.
- generate free cash flows, reduce the risk of total firm failure
  - increase the price of the firm's stock, increase the dividends paid out from free cash flows
  - reduce the risk of total firm failure, reduce their total portfolio risk
  - reduce their employment risk, increase the company's value

ANS: D                      PTS: 1                      DIF: Hard                      REF: 305  
OBJ: 10-03 TYPE: comprehension

18. Agency costs reflect all of the following EXCEPT \_\_\_\_ costs.
- monitoring
  - enforcement
  - opportunity
  - incentive

ANS: C                      PTS: 1                      DIF: Medium                      REF: 306  
OBJ: 10-03 TYPE: knowledge

19. All of the following are unintended consequences of the Sarbanes-Oxley Act EXCEPT
- some foreign firms have delisted on U.S. stock exchanges.
  - a number of publicly-traded companies have decided to privatize.
  - an increased number of IPOs (initial public offerings) are expected.
  - internal auditing costs have increased by about one-third.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 307-308  
OBJ: 10-03 TYPE: comprehension

20. The Sarbanes-Oxley Act requires all of the following EXCEPT
- installation of an outsider as the lead director on the Board of Directors.
  - accounting firms are forbidden from providing both auditing and consulting services to clients.
  - CEOs and CFOs must personally certify the company's financial reports.
  - independence of the committees on the firm's Board of Directors.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 307  
OBJ: 10-04 TYPE: knowledge

21. Compared to managers, shareholders prefer
- safer strategies with greater diversification for the firm.
  - riskier strategies with more focused diversification for the firm.
  - safer strategies with more focused diversification for the firm.
  - riskier strategies with greater diversification for the firm.



ANS: B                      PTS: 1                      DIF: Hard                      REF: 308  
OBJ: 10-03 TYPE: comprehension

22. Usually, large block shareholders are considered to be those shareholders with at least \_\_\_\_ percent of the firm's stock.
- 5
  - 25
  - 50
  - 75

ANS: A                      PTS: 1                      DIF: Medium                      REF: 309  
OBJ: 10-04 TYPE: knowledge

23. Recent research evidence shows that ownership concentration is associated with
- increases in executive compensation.
  - greater managerial autonomy.
  - lower levels of product diversification.
  - companies in mature, slow-cycle industries.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 309  
OBJ: 10-04 TYPE: comprehension

24. As ownership of the corporation is diffused, shareholders' ability to monitor managerial decisions
- increases.
  - decreases.
  - remains constant.
  - is eliminated.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 309  
OBJ: 10-04 TYPE: comprehension

25. Institutional owners are
- shareholders in the large institutional firms listed on the New York Stock Exchange.
  - banks and other lending institutions that have provided major financing to the firm.
  - large block shareholders such as mutual funds and pension funds.
  - prevented by the Sarbanes-Oxley Act from owning more than 50% of the stock of any one firm.

ANS: C                      PTS: 1                      DIF: Easy                      REF: 310  
OBJ: 10-04 TYPE: knowledge

26. The ownership of major blocks of stock by institutional investors have resulted in all of the following EXCEPT
- making CEOs more accountable for their performance.
  - increasing the concentration of ownership of large U.S. firms.
  - focusing attention on ineffective boards of directors.



31. A virtually exclusive reliance on financial controls may occur when outsider-dominated boards exist. This may lead to all EXCEPT
- high executive turnover.
  - increased diversification of the firm.
  - excessive management compensation.
  - reduction in R&D expenditure.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 312  
OBJ: 10-04 TYPE: comprehension

32. The New York Stock Exchange requires that the audit committee be
- available to comment to external analysts.
  - composed solely of outside directors.
  - liable for any illegal actions by the top management team.
  - made up of CPAs with auditing experience.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 312  
OBJ: 10-04 TYPE: knowledge

33. Simon Leagreet, the Chairperson and CEO of L-EVA Industries, Inc., has long been the major power at L-EVA. A majority of the directors are concerned that while Mr. Leagreet has been responsible for the firm's earning above-average returns, that he has been displaying a tendency toward personal extravagance at the firm's expense. In order to limit Mr. Leagreet's power, Board of Directors plans to
- elect an insider as the lead director.
  - appoint another individual as chairperson of the Board of Directors.
  - require Mr. Leagreet to personally certify the firm's financial reports.
  - reduce the size of the stock option package provided to Mr. Leagreet.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 312  
OBJ: 10-04 TYPE: application

34. Several members of the board of directors of American Textile Products (ATP) have proposed creating the position of lead director. What circumstances would most likely have initiated this proposal?
- ATP has been the initiator of several hostile takeovers in the last two years.
  - The board has been successful in reducing the percentage of CEO pay that is composed of stock options.
  - The CEO/Chairperson of the Board has been suspected of opportunistic behavior.
  - The firm is traded on the New York Stock Exchange and must change its corporate governance to comply with the NYSE's new rules.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 313  
OBJ: 10-04 TYPE: application

35. The argument for having one individual serve as CEO and chairperson of the Board of Directors is that this
- provides unified leadership and direction for the firm.
  - strengthens the governance processes of the firm.
  - gives the Board of Directors more power.

d. is less expensive than maintaining two top executives.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 313  
OBJ: 10-04 TYPE: knowledge

36. Given the demands for greater accountability and improved performance, which of the following is NOT a voluntary change many boards of directors have initiated?
- moving toward having directors from different backgrounds
  - strengthening the internal management and accounting control systems
  - compensating directors with stock options rather than with fixed remuneration.
  - establishing and using formal processes to evaluate the board's performance

ANS: C                      PTS: 1                      DIF: Hard                      REF: 314  
OBJ: 10-04 TYPE: comprehension

37. Boards of directors are now becoming more involved in
- the strategic decision making process.
  - selecting new CEOs.
  - the firm's tax issues.
  - governmental relations.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 314  
OBJ: 10-04 TYPE: comprehension

38. Research suggests that boards of directors perform better if
- the CEO is also the chairperson of the board of directors.
  - the board includes employees as voting members.
  - the board is homogenous in composition.
  - outside directors own significant equity in the organization.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 314  
OBJ: 10-04 TYPE: comprehension

39. One means that is considered to improve the effectiveness of outside directors is
- mandating that all outside directors be drawn from government or academia rather than industry.
  - requiring that outside directors be former executives of the firm.
  - requiring outside directors to own significant equity stakes in the firm.
  - requiring that outside directors be truly objective by having no ownership interest in the firm.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 314  
OBJ: 10-04 TYPE: comprehension

40. Executive compensation is a governance mechanism that seeks to align managers' and owners' interests through all of the following EXCEPT
- bonuses.

- b. long-term incentives such as stock options.
- c. salary.
- d. penalties for inadequate firm performance.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 315  
OBJ: 10-04 TYPE: knowledge

41. The interests of multinational corporations' shareholders may be best served when there is
- a. a uniform compensation plan for all corporate executives, U.S. and foreign alike.
  - b. executive compensation that is primarily based on long-term performance.
  - c. elevation of foreign executive compensation to U.S. levels.
  - d. a variety of compensation plans for executives of foreign subsidiaries.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 315  
OBJ: 10-04 TYPE: comprehension

42. Managers in the U.S. receive \_\_\_\_ compensation than managers in the rest of the world.
- a. equivalent
  - b. higher
  - c. lower
  - d. more variable

ANS: B                      PTS: 1                      DIF: Medium                      REF: 315  
OBJ: 10-04 TYPE: knowledge

43. Top executives resist tying their compensation to long-term performance of the firm mainly because
- a. this delays their compensation for present actions to future years.
  - b. long-term firm performance is more easily manipulated by the board of directors through financial and accounting methods than are shorter-term measures of firm performance.
  - c. uncontrollable events may affect the long-term performance of the firm.
  - d. CEOs and other top executives tend to hold their jobs for five years or less, meaning they are not employed by the firm for the appropriate period of time.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 316  
OBJ: 10-04 TYPE: comprehension

44. There is some evidence that performance bonuses for executives based on annual results are \_\_\_\_ investments in R&D where the firm was highly diversified.
- a. negatively related to
  - b. positively related to
  - c. not correlated with
  - d. curvilinearly related to

ANS: A                      PTS: 1                      DIF: Medium                      REF: 316  
OBJ: 10-04 TYPE: comprehension

45. The longer the focus of managerial incentive compensation, the greater the \_\_\_\_ top-level managers.

- a. earnings potential for
- b. risks borne by
- c. incentives for
- d. potential tax burden for

ANS: B                      PTS: 1                      DIF: Medium                      REF: 316  
OBJ: 10-05 TYPE: comprehension

46. Which of the following reasons would NOT explain the difficulty of determining appropriate executive compensation?
- a. The decisions made by top-level managers are typically complex and nonroutine.
  - b. An executive's decisions often affect firm performance only over the long run.
  - c. A number of factors intervene between top-level management decisions and firm performance.
  - d. The compensation committee may not have comprehensive firm performance data.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 316  
OBJ: 10-04 TYPE: comprehension

47. The major determinant of CEO pay is(are)
- a. organizational performance.
  - b. organizational size.
  - c. the qualifications and experience of the CEO.
  - d. the proportion of insiders on the board of directors.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 316  
OBJ: 10-04 TYPE: knowledge

48. The board of directors of CamCell, Inc., wishes to design a CEO compensation plan that will align the personal interests of the CEO with the interests of the shareholders in long-term firm performance. The board wishes the CEO to take more short-term risks in order to achieve potentially higher long-term returns. Consequently, the board has decided on an incentive plan that involves payout based on the firm's performance five years in the future. CamCell is presently searching for a new CEO. Which of the following statements is true?
- a. This plan will be very attractive in luring candidates for the CEO position.
  - b. CamCell may have to over-compensate its CEO in order to offset the personal risk a CEO would undertake under this plan.
  - c. Institutional investors disapprove of long-term executive incentive plans and they may sell their blocks of stock in CamCell.
  - d. This type of plan is likely to cause the CEO to underinvest in R&D in order to boost CamCell's long-term profitability.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 316  
OBJ: 10-05 TYPE: application

49. The market for corporate control serves as a means of governance when
- a. the firm is overpriced in the market.
  - b. internal controls have failed.

- c. the corporation has greatly exceeded performance expectations.
- d. the top management team's interests and the owners' interests are aligned.

ANS: B                      PTS: 1                      DIF: Easy                      REF: 317  
OBJ: 10-06 TYPE: comprehension

50. There is some evidence that those firms targeted for takeover by active corporate raiders are
- a. usually on the verge of bankruptcy.
  - b. typically under-performing their industry.
  - c. often performing above their industry averages.
  - d. always outperforming their industry.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 317  
OBJ: 10-06 TYPE: comprehension

51. If the market for corporate control were efficient as a governance device, then only \_\_\_\_ would be targets for takeovers.
- a. firms with unethical top executives
  - b. firms earning above-average returns
  - c. poorly-performing firms
  - d. over-valued firms

ANS: C                      PTS: 1                      DIF: Medium                      REF: 317  
OBJ: 10-06 TYPE: comprehension

52. The board of directors of CyberScope, Inc., is designing a stock option plan for its CEO that will motivate the CEO to increase the market value of the firm. Consequently, the board is
- a. setting the option strike price substantially higher than the current stock price.
  - b. insuring that the strike price value of the options can be lowered if the organizational environment becomes more risky.
  - c. having the stock option plan designed by insiders on the board of directors who are familiar with day-to-day operations of the firm.
  - d. consulting accounting advisors to make sure that the plan transfers wealth to the CEO without immediately appearing on the balance sheet of CyberScope.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 317  
OBJ: 10-05 TYPE: application

53. When executives have ownership positions or stock options with their employing firm, they are
- a. going to actively defend their firm from takeover attempts.
  - b. likely to gain financially if their employing firm is taken over by another.
  - c. pressure the board of directors to reprice their stock options.
  - d. likely to be terminated by the acquiring firm even in a friendly takeover.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 317-318  
OBJ: 10-06 TYPE: comprehension

54. Agricultural Chemicals, Inc., was the target of a hostile takeover six months ago. The CEO and the top executives successfully fended off the takeover and are concentrating on strategies to improve the performance of the firm. Which of the following is most likely to be TRUE?
- Hostile takeover attempts are so common that they do not reflect negatively on the firm's performance. They are more a function of general market conditions.
  - The fact that a hostile takeover has occurred is proof that the firm was under-performing.
  - Research shows that once a hostile takeover has been defeated, the firm is safe from other hostile takeover attempts for many years.
  - The CEO and top executives should not consider their jobs secure.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 319  
OBJ: 10-06 TYPE: application

55. All of the following statements are TRUE about the use of defense tactics by the target firm during a hostile takeover EXCEPT
- defense tactics are usually beneficial for the executives of the target firm.
  - defense tactics are opposed by institutional investors.
  - defense tactics are typically ineffective in deterring the takeover.
  - defense tactics make the costs of a takeover lower.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 319  
OBJ: 10-06 TYPE: knowledge

56. Ambrose Bierce, the CEO of DictionAry, has been paid a lump sum amounting to three years' salary because DictionAry has been bought in a hostile takeover by its main competitor. Ambrose received
- a golden parachute.
  - a poison pill.
  - greenmail.
  - a silver handshake.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 320 (Table 10.2)  
OBJ: 10-06 TYPE: application

57. The repurchase at a premium of shares of stock that have been acquired by the aggressor firm in a hostile takeover in exchange for an agreement that the aggressor will no longer target the company for takeover is called
- greenmail.
  - a standstill agreement.
  - crossing the palm with silver.
  - a poison pill.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 320 (Table 10.2)  
OBJ: 10-06 TYPE: knowledge

58. Historically, \_\_\_\_ have been at the center of the German corporate governance structure.
- banks
  - institutional shareholders
  - public pension funds



d. government agencies

ANS: A                      PTS: 1                      DIF: Easy                      REF: 321  
OBJ: 10-07 TYPE: knowledge

59. James Abercrombie has a thriving consulting firm specializing in training boards of directors in decision-making skills. Mr. Abercrombie has had striking success in reducing conflict and hostility among directors and allowing boards to develop more cohesiveness. Mr. Abercrombie is considering expanding his consulting practice overseas. Which of the following statements is most likely to be TRUE?
- Mr. Abercrombie will have a large market in Japan because the culture highly values consensus decision making.
  - Japanese firms will have little interest in Mr. Abercrombie's specialty because these skills are already practiced at a high level.
  - German firms will not be interested in Mr. Abercrombie's services because the German system of decision-making is based on authority and few conflicts emerge.
  - Mr. Abercrombie should find significant need for his services in companies in transitional economies.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 321  
OBJ: 10-07 TYPE: application

60. German executives are not dedicated to the maximization of shareholder value largely because
- the roles of CEO and chairperson of the board of directors are usually combined.
  - large institutional investors control large blocks of stock.
  - private shareholders rarely have large ownership positions in the firm.
  - of the focus on stewardship-management in German firms rather than the financial performance focus of U.S. firms.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 321  
OBJ: 10-07 TYPE: knowledge

61. Which of the following statements is FALSE?
- The Vorstand of a German corporation makes decisions about organization direction and management.
  - The Vorstand is elected by the firm's employees.
  - Membership of U.S. boards of directors is less directly influenced by the company's employees than is the membership of German Aufsichtsrat.
  - Banks have less influence on the governance of German corporations than they do on U.S. corporations.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 321  
OBJ: 10-07 TYPE: knowledge

62. Japanese keiretsu are
- management structures related to total quality management systems.
  - company unions which are a type of governance system.
  - the banks owing the largest shares of stock in the firm.
  - a system of cross-shareholding among firms.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 322  
OBJ: 10-07 TYPE: knowledge

63. In Japan, the principal source of the active monitoring of large companies comes from
- boards of directors.
  - stock brokerage companies.
  - the government.
  - banks.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 322  
OBJ: 10-07 TYPE: knowledge

64. \_\_\_\_ is an important influence in Japanese corporate governance structures.
- Innovation
  - Consensus
  - Competition
  - Individualism

ANS: B                      PTS: 1                      DIF: Easy                      REF: 322  
OBJ: 10-07 TYPE: knowledge

65. Which of the following is TRUE of trends in Japan's corporate governance structure?
- Some major Japanese firms are bringing in more outsiders onto their boards of directors.
  - The market for corporate control has collapsed with the economic crises in Japan.
  - Banks' influence over corporations is increasing.
  - Traditionally privately-owned Japanese firms are going public.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 322-323  
OBJ: 10-07 TYPE: knowledge

66. The CEO of Skyco, a publicly-traded company that has been earning below-average returns, has been publicly criticized by shareholders for persuading the board of directors to give her interest-free loans, for having the company purchase and furnish a lavish apartment in Paris for her personal use on her twice-yearly trips there, and for excessive stock options. The CEO's behavior may be indication of
- reasonably compensating a CEO.
  - a weak board of directors.
  - the laxity of institutional investors.
  - the difference in risk propensity between owners and managers.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 324  
OBJ: 10-08 TYPE: application

67. The governance mechanism most closely connected with deterring unethical behaviors by holding top management accountable for the corporate culture is
- ownership concentration.
  - the market for corporate control.

- c. executive compensation systems.
- d. the board of directors.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 324  
OBJ: 10-08 TYPE: comprehension

68. International Food Services (IFS) has a contract with the Marines to supply meals for its troops in Iraq and other foreign assignments. As a means of increasing profits, IFS has used substandard ingredients in these meals and has consistently lied about this practice during quality investigations by the Marines. Who is ultimately responsible for the corporate climate that resulted in this wrongdoing?
- a. the director of food service for IFS
  - b. the board of directors of IFS
  - c. the employees directly involved in the wrongdoing
  - d. the head of contract services for the Marines

ANS: B                      PTS: 1                      DIF: Medium                      REF: 324  
OBJ: 10-08 TYPE: application

## MULTIPLE CHOICE

1. In the past, Sony's decentralized product divisions have
- a. encouraged competition and innovation through an entrepreneurial spirit.
  - b. have fostered innovation through cooperation among divisions.
  - c. motivated its divisions to share core competencies with one another.
  - d. historically made heavy use of integrative devices.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 333  
OBJ: 11-01 TYPE: application

2. The Connect service was created by Sony to coordinate all of the Sony businesses. This is an example of a(n) \_\_\_\_\_ designed to overcome some of the deficiencies of its SBU multidivisional structure.
- a. strategic control
  - b. integrative device
  - c. accountability change
  - d. matrix technique

ANS: B                      PTS: 1                      DIF: Medium                      REF: 333 | 347  
OBJ: 11-04 TYPE: application

3. Which of the following is TRUE?
- a. Organizations tend to change structure too frequently which erodes their competitive advantage.
  - b. Large organizations can retain a simple structure as long as they have a focus strategy.
  - c. Flexibility in structure is more important than stability.
  - d. Strategy has a more important influence on structure, than structure has on strategy.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 334  
OBJ: 11-02 TYPE: comprehension

4. The Amos Ball Printing Company was established in 1866. Currently, Amos Ball V is the CEO and chairman of the board. The company has traditionally used a functional structure. Five years ago, the company branched into online publishing and small-batch printing in addition to its regular large-batch operations. Both new businesses are significantly different in technology and marketing from each other and from Ball's traditional business. Despite the hiring of experienced professionals in these new endeavors, performance continues to be poor and it is affecting Ball's overall performance. Which of the following statements is TRUE?
- Organizational inertia may be inhibiting structural change.
  - Mr. Ball has insufficient power to change the structure of the organization.
  - Restructuring must only be done from a position of strength, so it is necessary to wait until the company's overall performance improves before making radical changes.
  - These businesses are too disparate to coordinate within one corporate structure.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 335  
OBJ: 11-01 TYPE: application

5. A firm's \_\_\_\_ specifies the work to be done and how to do it.
- structure
  - controls
  - culture
  - strategy

ANS: A                      PTS: 1                      DIF: Easy                      REF: 335  
OBJ: 11-01 TYPE: knowledge

6. Structural stability affects the organization's ability to:
- resist organizational inertia.
  - cope with uncertainty about cause-and-effect relationships in the global economy.
  - develop new competitive advantages.
  - predictably manage its daily work routines.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 335  
OBJ: 11-01 TYPE: knowledge

7. Selecting the organizational structure and controls that effectively implement the chosen strategy is a challenge for managers because:
- firms must be flexible while retaining a degree of stability.
  - managers are never able to obtain all the information necessary to make the best selection.
  - the structure of a firm should not duplicate the structures of its competitors.
  - the environment changes too rapidly for corporations to maintain a consistent corporate structure.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 335  
OBJ: 11-02 TYPE: comprehension

8. To a great extent, organizational inertia which inhibits efforts to change structure, exists because



13. Alfred Chandler found that firms grow in a predictable pattern; that the firm's growth patterns determine its structural form. Which form corresponds to the FINAL stage in Chandler's theory?
- functional
  - simple
  - vertically integrated
  - multidivisional

ANS: D                      PTS: 1                      DIF: Medium                      REF: 339-340 (Figure 11.1)  
OBJ: 11-02 TYPE: knowledge

14. Andermeyer Jewelers has been in existence since the 1870s. It specializes in high-end jewelry using both colored precious stones and diamonds. Generations of wealthy families have patronized Andermeyer. Andermeyer has been owned and managed by the Andermeyer family since its founding, and has never had more than 20 designers and jewelers in its shop. Andermeyer Jewelers should use the \_\_\_\_ structure.
- simple
  - functional
  - matrix
  - network

ANS: A                      PTS: 1                      DIF: Easy                      REF: 339-340  
OBJ: 11-02 TYPE: application

15. Typically, an organization using a simple structure would be
- large.
  - small.
  - of any size if the firm is privately held.
  - a family-owned-and-managed firm of any size.

ANS: B                      PTS: 1                      DIF: Easy                      REF: 340  
OBJ: 11-02 TYPE: comprehension

16. In most cases, the focus strategy is best managed using a \_\_\_\_ structure.
- simple
  - functional
  - multidivisional
  - vertical

ANS: A                      PTS: 1                      DIF: Medium                      REF: 340  
OBJ: 11-02 TYPE: comprehension

17. The benefits of a simple structure include all of the following EXCEPT
- ease of coordination within the organization.
  - no need for sophisticated information systems.
  - active involvement by the owner-manager.
  - specialists can develop deep expertise.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 340

OBJ: 11-02 TYPE: comprehension

18. Functional structures work best for firms with
- diverse product lines.
  - a single product line in a single geographic market.
  - single or dominant business strategies.
  - conglomerate strategies.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 341  
OBJ: 11-02 TYPE: comprehension

19. Leslie is a newly-graduated certified public accountant with a specialty in corporate tax. She wishes to join an organization which will allow her to concentrate on corporate tax and become deeply proficient in this area. Leslie should look for a position in a firm with a \_\_\_\_ structure.
- simple
  - functional
  - multidivisional
  - network

ANS: B                      PTS: 1                      DIF: Hard                      REF: 341  
OBJ: 11-02 TYPE: application

20. One disadvantage of the functional structure is that
- career paths and professional development are limited.
  - dual reporting relationships blur lines of authority.
  - the CEO cannot coordinate and control the efforts of functional level employees.
  - communication is difficult among organizational functions.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 341  
OBJ: 11-03 TYPE: comprehension

21. Which of the following does NOT cause a firm to move from a functional structure to a multidivisional structure?
- increasing diversification
  - coordination and control issues
  - need for knowledge-sharing among specialists
  - greater amounts of data and information to process

ANS: C                      PTS: 1                      DIF: Hard                      REF: 341  
OBJ: 11-03 TYPE: comprehension

22. The multidivisional structure was initially designed to produce three major benefits over the functional form. Which of the following is NOT one of the three benefits?
- aligning the corporate structure with the demands of global expansion
  - more accurate monitoring of the performance of each business
  - facilitation of comparison between divisions
  - stimulating managers of poorly performing divisions to look for ways of improving performance

ANS: A                      PTS: 1                      DIF: Easy                      REF: 341  
OBJ: 11-04 TYPE: comprehension

23. Jumbo Industrial Supply has grown from a one-location firm with a restricted product line, to a multi-state organization with numerous product lines and a large sales staff. Sales have doubled every year for the last three years. It currently has a simple structure with Jared Smith, the owner-manager, making all major decisions. Jumbo is probably now experiencing or will soon experience
- coordination and control problems.
  - bureaucratic inefficiencies.
  - excessive competition among division managers.
  - limited communication among functional specialists.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 341  
OBJ: 11-02 TYPE: application

24. The noted business historian Alfred Chandler viewed the multidivisional structure as an innovative response to
- an emerging professional management philosophy.
  - the increasing demand by consumers for both quality and low-price.
  - coordination and control problems.
  - a shift toward the global economy.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 342  
OBJ: 11-04 TYPE: knowledge

25. Some experts consider the \_\_\_\_ structure to be one of the 20<sup>th</sup> century's most significant organizational innovations because of its value to diversified firms.
- network
  - cooperative
  - multidivisional
  - functional

ANS: C                      PTS: 1                      DIF: Easy                      REF: 342  
OBJ: 11-04 TYPE: knowledge

26. To successfully implement a cost leadership strategy, there is a need for
- freedom from constraining rules.
  - centralization of authority.
  - communication between functional silos.
  - sharing of competencies among divisions.

ANS: B                      PTS: 1                      DIF: Easy                      REF: 342  
OBJ: 11-03 TYPE: comprehension

27. Which of the following is NOT associated with an organizational structure that supports a cost leadership strategy?



- a. centralization
- b. specialization
- c. formalization
- d. integration

ANS: D                      PTS: 1                      DIF: Easy                      REF: 342  
OBJ: 11-03 TYPE: comprehension

28. \_\_\_\_ is the degree to which rules and procedures govern work.
- a. Formalization
  - b. Centralization
  - c. Specialization
  - d. Unification

ANS: A                      PTS: 1                      DIF: Easy                      REF: 342  
OBJ: 11-03 TYPE: knowledge

29. Agatha Adams has founded Insurance Specialists to process medical claims for physicians' practices. She plans to compete on the basis of cost, offering the lowest processing cost per claim in her market area. Ms Adams' company should
- a. be the strategic center firm in a network structure.
  - b. have a specialized multidivisional structure.
  - c. develop alliances with firms with complementary competencies.
  - d. have a highly centralized, functional structure.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 342-343  
OBJ: 11-03 TYPE: application

30. Firms seeking to differentiate particularly need support from the \_\_\_\_ and \_\_\_\_ functions.
- a. finance, accounting
  - b. engineering, operations
  - c. product R&D, marketing
  - d. management information, finance

ANS: C                      PTS: 1                      DIF: Easy                      REF: 343  
OBJ: 11-03 TYPE: comprehension

31. Wal-Mart's effective strategy/structure configuration is
- a. cost leadership/functional.
  - b. differentiation/functional.
  - c. related-constrained/multidivisional.
  - d. related-linked/multidivisional.

ANS: A                      PTS: 1                      DIF: Easy                      REF: 343  
OBJ: 11-02 TYPE: application

32. Typically, a successful firm pursuing a differentiation strategy will

- a. have a very hierarchical structure.
- b. require a structure which is very formal.
- c. use cross-functional development teams.
- d. develop free-standing business units.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 343  
OBJ: 11-03 TYPE: comprehension

33. Which of the following is a TRUE statement about organizational structures for implementing business-level strategies?
- a. A cost leadership strategy requires a simple structure emphasizing high specialization, centralization, and structured job roles.
  - b. A differentiation strategy requires a functional structure with limited formalization, broad job descriptions, and an emphasis on the R&D and marketing functions.
  - c. An integrated cost leadership/differentiation strategy requires a multidivisional structure using high formalization, decentralized decision-making, and vertical coordination.
  - d. A focused strategy requires a functional structure featuring high levels of both specialization and formalization.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 343-344  
OBJ: 11-03 TYPE: comprehension

34. The integrated cost leadership/differentiation strategy is difficult to implement mostly because
- a. the primary and support activities required to implement the cost leadership and differentiation strategies conflict.
  - b. this strategic approach demands more flexibility than most firms can manage.
  - c. the dual reporting relationships required for this strategy slows organizational decision-making.
  - d. the cost leadership strategy requires less structured job roles than does the differentiation strategy.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 344-345  
OBJ: 11-03 TYPE: comprehension

35. Successful implementation of the differentiation strategy requires a structure that
- a. has specialized jobs.
  - b. decentralizes decision-making.
  - c. focuses on the finance function.
  - d. is dominated by the operations function.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 343-344  
OBJ: 11-03 TYPE: comprehension

36. The \_\_\_\_ structure is the most appropriate structure for implementing the integrated cost leadership /differentiation strategy.
- a. simple
  - b. functional
  - c. multidivisional

d. strategic business unit

ANS: B                      PTS: 1                      DIF: Medium                      REF: 345  
OBJ: 11-03 TYPE: comprehension

37. Increasingly diversified firms that have decided to shift to a related-constrained strategy should change their organizational structure to the \_\_\_\_ structure.
- a. combination
  - b. functional
  - c. network
  - d. multidivisional

ANS: D                      PTS: 1                      DIF: Hard                      REF: 345  
OBJ: 11-04 TYPE: comprehension

38. Which of the following is NOT a variation of the multidivisional structure?
- a. competitive form
  - b. regional form
  - c. cooperative form
  - d. strategic business unit form

ANS: B                      PTS: 1                      DIF: Easy                      REF: 345 (Figure 11.4)  
OBJ: 11-04 TYPE: knowledge

39. The cooperative multidivisional firm
- a. establishes profit centers based on products or markets.
  - b. has a flat organizational structure which broadens jobs and empowers workers.
  - c. is a structure organized around both functional specialization and business projects.
  - d. is a structure requiring heavy use of horizontal integrative devices.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 345  
OBJ: 11-04 TYPE: knowledge

40. Which of the following is a TRUE statement about implementing corporate-level strategies and effective organizational structures?
- a. Firms pursuing a related-linked strategy should implement a competitive structure with a competitive culture and centralized strategic planning activities.
  - b. Firms pursuing an unrelated diversification strategy should use an SBU structure with a small corporate staff, emphasize the R&D function, and integrate divisions to achieve synergies.
  - c. Firms pursuing a related-linked strategy should use an SBU structure, emphasize interdependence among divisions, and manage the strategic planning function from the central office.
  - d. Firms pursuing a related-constrained strategy should implement a cooperative structure, use integrative devices to link divisions, centralize the R&D function, and emphasize sharing.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 345-346  
OBJ: 11-04 TYPE: comprehension

41. The \_\_\_\_ structure is an organizational structure that combines both functional specialization and business product or project specialization.
- functional
  - worldwide geographic area
  - network
  - matrix

ANS: D                      PTS: 1                      DIF: Easy                      REF: 347  
OBJ: 11-04 TYPE: knowledge

42. The heavy use of integrative mechanisms in the cooperative multidivisional organizational structure is intended to achieve
- economies of scope.
  - cost efficiencies.
  - sensitivity to cultural diversity.
  - quick response to local customer needs.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 347  
OBJ: 11-04 TYPE: comprehension

43. When a corporation pursues a related-constrained diversification strategy, financial controls may not add value to strategy implementation efforts since it is difficult to
- use them without reducing cooperation among divisional managers.
  - transfer capital between units.
  - maintain an arms-length relationship between headquarters and the divisions.
  - identify which objective criteria to monitor.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 347-348  
OBJ: 11-04 TYPE: comprehension

44. A firm pursuing a related-constrained diversification strategy would typically need all of the following EXCEPT
- centralization of some organizational functions for the sake of coordination.
  - frequent, direct contact between division managers.
  - division managers' rewards based on division financial performance.
  - temporary teams or task forces formed around specific projects.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 347-348  
OBJ: 11-04 TYPE: comprehension

45. Which of the following multidivisional structures is CORRECTLY paired with the appropriate corporate-level strategy?
- competitive form with related constrained strategy
  - cooperative form with unrelated strategy
  - SBU form with related linked strategy

d. competitive form with related linked strategy

ANS: C                      PTS: 1                      DIF: Hard                      REF: 348  
OBJ: 11-04 TYPE: knowledge

46. Icarus Aviation, Athena Instrumentation, and Hercules Miniaturization are strategic business units of Olympia Industries. One can expect that Icarus, Athena, and Hercules
- use integrative mechanisms to share core competencies among themselves.
  - compete with one another in Olympia's internal capital markets.
  - are not necessarily related to one another in terms of products or markets.
  - are network member firms while Olympia is the strategic center firms.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 348-350  
OBJ: 11-04 TYPE: application

47. A private university is made up of various "schools," such as the School of Journalism, the School of Business, the School of Law, the School of Arts and Sciences, and so forth. The university is experiencing some financial problems and the top administration has decided to implement a policy of "each tub on its own bottom," a colorful phrase that indicates that each school of the university is to become a profit center. This scheme is somewhat parallel to the organizational \_\_\_\_ structure.
- network
  - strategic business unit multidivisional
  - functional
  - matrix

ANS: B                      PTS: 1                      DIF: Medium                      REF: 349  
OBJ: 11-04 TYPE: application

48. In an SBU structure, \_\_\_\_ is/are evaluated using strategic controls, whereas \_\_\_\_ is/are evaluated using financial controls.
- each SBU, divisions within the SBUs
  - divisions within the SBUs, each SBU
  - managers of the SBUs, headquarters staff
  - headquarters staff, managers of the SBUs

ANS: A                      PTS: 1                      DIF: Medium                      REF: 349  
OBJ: 11-04 TYPE: comprehension

49. In the strategic business unit structure hierarchy, division managers look primarily to \_\_\_\_ for strategic guidance.
- headquarters personnel
  - the board of directors
  - stakeholders
  - the heads of their particular SBU

ANS: D                      PTS: 1                      DIF: Hard                      REF: 349  
OBJ: 11-04 TYPE: comprehension

50. In the \_\_\_\_ multidivisional structure there is complete independence among the firm's divisions.
- cooperative
  - matrix
  - competitive
  - SBU

ANS: C                      PTS: 1                      DIF: Medium                      REF: 350  
OBJ: 11-04 TYPE: comprehension

51. A firm pursuing an unrelated diversification strategy will utilize a \_\_\_\_ structure.
- network
  - cooperative form multidivisional
  - competitive form multidivisional
  - functional

ANS: C                      PTS: 1                      DIF: Medium                      REF: 350  
OBJ: 11-04 TYPE: comprehension

52. The fewest integrative devices are used in the \_\_\_\_ structure.
- simple
  - competitive multidivisional
  - SBU
  - network

ANS: B                      PTS: 1                      DIF: Medium                      REF: 350  
OBJ: 11-04 TYPE: comprehension

53. A firm that frequently acquires and divests other firms is most likely to use the \_\_\_\_ structure.
- matrix
  - competitive multidivisional
  - hybrid combination
  - horizontal complementary strategic alliance

ANS: B                      PTS: 1                      DIF: Hard                      REF: 350-351  
OBJ: 11-04 TYPE: comprehension

54. The CEO of Transector, Inc., set a 6.5 percent rate-of-return target for all divisions for the past year. Now, at the end of the year, three of the Transector's seven divisions have not met this rate-of-return goal. The division managers of these three under-performing divisions have all secretly contacted executive placement firms to investigate openings at other firms, because they know their future at Transector is in jeopardy as financial performance is all-important at Transector. Transector probably uses the \_\_\_\_ structure.
- competitive form of the multidivisional
  - SBU form of the multidivisional
  - worldwide geographic area
  - distributed strategic network

ANS: A                      PTS: 1                      DIF: Medium                      REF: 351  
OBJ: 11-04 TYPE: application

55. Megaline, Inc., follows the competitive form of the multidivisional structure. It has five divisions. One division has not met the rate-of-return goals for the past year. One division has exceeded the rate-of-return goals. The other three divisions met the rate-of-return goals. The headquarters office is making decisions about where to allocate capital in the next year.
- The poorest performing division will get the highest capital allocation so that it can fix its problems and achieve the rate-of-return goal next year.
  - The highest performing division will get the highest capital allocation because it has the best prospects for creating more wealth for the shareholders next year.
  - The average performing divisions which met the rate-of-return goals will receive the highest allocation because their performance exactly matched corporate requirements.
  - All divisions will receive the same capital allocation for the next year because this organizational structure rewards divisional managers based on achievement of strategic goals.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 351  
OBJ: 11-04 TYPE: application

56. The most centralized and most costly form of the multidivisional structure is the
- integrated.
  - competitive.
  - SBU.
  - cooperative.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 351  
OBJ: 11-04 TYPE: knowledge

57. In the competitive form of the multidivisional structure, the focus of headquarters is on all the following EXCEPT
- integration.
  - performance appraisal.
  - resource allocation.
  - long range planning.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 351  
OBJ: 11-04 TYPE: comprehension

58. Implementing the multidomestic strategy requires decentralization
- to facilitate the tailoring of products to the demand in local markets.
  - to develop economies of scale.
  - in order to achieve economies of scope.
  - to reduce bureaucracy and speed up decision-making.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 352  
OBJ: 11-05 TYPE: comprehension

59. A worldwide geographic area structure is an organizational form in which
- multiple alliances across the globe link complementary businesses.
  - standardized products are offered across country markets.
  - national interests dominate and management adapts to local or cultural differences.
  - responsiveness to local demand is combined with economies of scale.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 352  
OBJ: 11-05 TYPE: knowledge

60. A multidomestic strategy would be associated with
- high levels of coordination.
  - low levels of formalization.
  - many integrative mechanisms.
  - interdependent divisions.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 352  
OBJ: 11-05 TYPE: comprehension

61. Galatea Foods was founded in Greece by Galatea Chronos in 1978, and the company spread rapidly through Western Europe. Ms. Chronos retains the office of CEO. The Spanish division is headed by her oldest son. The North European division is headed by her only daughter, and the French-Italian division is headed by Ms. Chronos' brother. This company probably uses the \_\_\_\_ strategy.
- network
  - multidomestic
  - global
  - transnational

ANS: B                      PTS: 1                      DIF: Medium                      REF: 353  
OBJ: 11-05 TYPE: application

62. The primary disadvantage of the multidomestic strategy and worldwide geographic area structure relates to limited
- centralization.
  - coordination across divisions.
  - ability to meet local market needs.
  - potential for global efficiency.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 354  
OBJ: 11-05 TYPE: comprehension

63. One of the primary disadvantages of the global strategy and worldwide product divisional structure is that
- it is difficult to achieve economies of scale.
  - the firm must develop centers to offer after-sales service to customers.
  - it is difficult to respond effectively to local market needs and preferences.
  - achieving economies of scale with this strategy/structure combination is nearly impossible.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 355



OBJ: 11-05 TYPE: comprehension

64. Ichabod Industries has a Latin American Division, a European Division, an Industrial Lubricants Division, and a Food Service Division. Ichabod Industries probably uses the \_\_\_\_ organizational structure.
- horizontal complementary strategic alliance
  - competitive multidivisional
  - strategic business unit multidivisional
  - hybrid combination

ANS: D PTS: 1 DIF: Hard REF: 355-356  
OBJ: 11-05 TYPE: application

65. The need for organizational employees to be able to function effectively in a culturally-diverse environment is most critical in a \_\_\_\_ strategy.
- multidomestic
  - transnational
  - global
  - focus

ANS: B PTS: 1 DIF: Medium REF: 356  
OBJ: 11-05 TYPE: knowledge

66. Unilever is changing from a multidomestic strategy to a transnational strategy. In order to implement this change, Unilever must move to the \_\_\_\_ organizational structure.
- combination
  - worldwide product divisional
  - worldwide geographic area
  - strategic business unit multidivisional

ANS: A PTS: 1 DIF: Medium REF: 357  
OBJ: 11-05 TYPE: application

67. Which of the following is NOT a preliminary task of the strategic center firm in a strategic network?
- strategic outsourcing
  - encouraging friendly rivalry among network members
  - allocating internal capital
  - supporting development of new core competencies

ANS: C PTS: 1 DIF: Medium REF: 358-359  
OBJ: 11-06 TYPE: comprehension

68. It is easy to identify the company that functions as the strategic center firm in
- horizontal complementary strategic alliances.
  - vertical complementary strategic alliances.
  - corporate-level cooperative partnerships.
  - international cooperative partnerships.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 360  
OBJ: 11-06 TYPE: comprehension

69. Airlines have forged a number of complementary strategic alliances, in part because many airlines are not profitable. Some airlines participate in several alliances simultaneously. This tends to
- make the partners' true loyalties and intentions unclear.
  - make the role of the strategic center firms more critical to alliance success.
  - distribute the alliances along several segments of the airline industry value chain.
  - be most effective when the alliances are with airlines headquartered in different nations.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 360  
OBJ: 11-06 TYPE: application

70. Toyota heavily uses a strategic network of vertical relationships. Toyota enables engineers in supplier firms to communicate easily with companies with whom Toyota has contracts for services. This results in the suppliers and the Toyota (the strategic center firm) being more
- interdependent.
  - rivalrous.
  - creative.
  - complementary.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 360  
OBJ: 11-06 TYPE: application

71. After years of negotiating short-term contracts with its suppliers, Icon Images has decided to agree to longer-term contracts. In doing this, Icon Images is hoping to
- reduce transaction costs.
  - increase negotiating leverage with suppliers.
  - become less dependent on its suppliers.
  - move toward horizontal alliances with its suppliers.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 360  
OBJ: 11-06 TYPE: application

72. McDonald's operates through a franchising system wherein the headquarters office uses strategic and financial controls to ensure that the franchisees are creating the greatest possible value. This is an example of a(an):
- worldwide product divisional structure.
  - strategic network.
  - SBU multidivisional structure.
  - simple structure.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 361  
OBJ: 11-06 TYPE: application