

***Organizational Theory, Design, and Change, 7e (Jones)***  
**Chapter 3 Organizing in a Changing Global Environment**

1) The term **organizational domain** refers to the particular range of goods and services that the organization produces, and the customers and other stakeholders it serves.

Answer: TRUE

Page Ref: 60

Difficulty: Easy

LO: 3-1

2) **Shareholders** are a part of an organization's **specific** environment.

Answer: FALSE

Page Ref: 61

Difficulty: Easy

LO: 3-1

3) **Suppliers** are a part of the **specific** environment of an organization.

Answer: TRUE

Page Ref: 61

Difficulty: Easy

LO: 3-1

4) The **specific environment** consists of forces from **outside** stakeholder groups that **directly** affect an organization's ability to secure resources.

Answer: TRUE

Page Ref: 61

Difficulty: Easy

LO: 3-1

5) **Global supply chain management** is the process of coordinating the flow of raw materials, components, semi-finished goods, and finished products around the world.

Answer: TRUE

Page Ref: 61

Difficulty: Easy

LO: 3-1

6) **Economic forces**, such as interest rates, are considered to be **specific** environmental forces rather than a **general** environmental forces.

Answer: FALSE

Page Ref: 63

Difficulty: Easy

LO: 3-1

7) The **forces** that constitute the **specific environment** **shape** the **general environment** and affect the ability of all organizations in a particular environment to obtain resources.

Answer: FALSE

Page Ref: 63

Difficulty: Moderate

LO: 3-1

8) **Environmental complexity** is a function of the strength, number, and interconnectedness of the specific and general forces that an organization has to manage.

Answer: TRUE

Page Ref: 66

Difficulty: Easy

LO: 3-2

9) One way to **reduce uncertainty** is to **increase** the number of specific and general environmental forces that are interconnected. Because, when forces begin to interact, the environment becomes **more predictable**.

Answer: FALSE

Page Ref: 66

Difficulty: Hard

LO: 3-2

10) As a company begins to produce a **wider variety of products** for **different groups** of customers, its environmental **complexity goes on decreasing**.

Answer: FALSE

Page Ref: 66

Difficulty: Easy

LO: 3-2

11) By **decreasing** the number of **suppliers**, an organization can **reduce the complexity** of its environment.

Answer: TRUE

Page Ref: 66

Difficulty: Easy

LO: 3-2

12) An organization can **reduce environmental uncertainty** by **entering into global markets**.

Answer: FALSE

Page Ref: 67

Difficulty: Moderate

LO: 3-2

13) The **environment** of an organization is considered to be **unstable and dynamic** if the organization **cannot predict** the way in which the forces will change over time.

Answer: TRUE

Page Ref: 67

Difficulty: Easy

LO: 3-2

14) **Environmental dynamism** is a function of the amount of resources available to support an organization's domain.

Answer: FALSE

Page Ref: 67

Difficulty: Easy

LO: 3-2

15) In a **rich, stable, and simple environment**, **resources are easy** to come by and **uncertainty is low**.

Answer: TRUE

Page Ref: 67

Difficulty: Easy

LO: 3-2

16) **Environmental richness** is a function of how much and how quickly forces in the specific and general environments change over time and thus increase the uncertainty an organization faces.

Answer: FALSE

Page Ref: 67

Difficulty: Easy

LO: 3-2

17) The **richer** the environment, the **more difficult** it is for organizations to **obtain resources**.

Answer: FALSE

Page Ref: 67

Difficulty: Easy

LO: 3-2

18) An **increase** in the level of environmental **richness** leads to an **increase** in the environmental **uncertainty**.

Answer: FALSE

Page Ref: 67

Difficulty: Moderate

LO: 3-2

19) An **increase** in the **level of competition** leads to a proportionate **increase** in the level of environmental **richness**.

Answer: FALSE

Page Ref: 67

Difficulty: Moderate

LO: 3-2

20) As the level of environmental complexity increases, the level of environmental uncertainty decreases.

Answer: FALSE

Page Ref: 67

Difficulty: Easy

LO: 3-2

21) Symbiotic interdependencies are the interdependencies that exist among organizations that compete for scarce inputs and outputs.

Answer: FALSE

Page Ref: 71

Difficulty: Easy

LO: 3-4

22) The interdependencies that exist between an organization and its suppliers and distributors are known as competitive interdependencies.

Answer: FALSE

Page Ref: 71

Difficulty: Easy

LO: 3-4

23) Symbiotic and competitive interdependencies exist in the specific environment.

Answer: TRUE

Page Ref: 71

Difficulty: Easy

LO: 3-4

24) Interdependencies are symbiotic when the outputs of one organization are inputs for another.

Answer: TRUE

Page Ref: 71

Difficulty: Easy

LO: 3-4

25) Cooptation is a strategy that manages symbiotic interdependencies by neutralizing problematic forces in the specific environment.

Answer: TRUE

Page Ref: 72

Difficulty: Easy

LO: 3-4

26) An interlocking directorate is a linkage that results when a director from one company sits on the board of another company.

Answer: TRUE

Page Ref: 72

Difficulty: Easy

LO: 3-4

27) A **collusion** is an agreement that commits two or more companies to share their resources to develop joint new business opportunities.

Answer: FALSE

Page Ref: 72

Difficulty: Easy

LO: 3-4

28) **Cooptation** is a strategy used for managing **competitive** resource interdependencies.

Answer: FALSE

Page Ref: 72

Difficulty: Easy

LO: 3-4

29) A **joint venture** is the **least formal** type of **strategic alliance**.

Answer: FALSE

Page Ref: 73

Difficulty: Easy

LO: 3-4

30) The alliance resulting from a **network** is less formal than the alliance resulting from a **contract**.

Answer: FALSE

Page Ref: 73

Difficulty: Easy

LO: 3-4

31) The **keiretsu** system is a **form** of **minority ownership**.

Answer: TRUE

Page Ref: 74

Difficulty: Easy

LO: 3-4

32) Both **collusions and cartels** are **illegal** in the United States.

Answer: TRUE

Page Ref: 77

Difficulty: Easy

LO: 3-3

33) **Cartels and collusion** **increase** the **stability and richness** of an organization's environment and **reduce** the **complexity** of relations among competitors.

Answer: TRUE

Page Ref: 77

Difficulty: Easy

LO: 3-4

34) Strategic alliances are a linkage mechanism that can be used to manage both competitive and symbiotic interdependencies.

Answer: TRUE

Page Ref: 78

Difficulty: Easy

LO: 3-3

35) Third-party linkage mechanisms tend to increase the complexity of the environment and thus reduce its richness.

Answer: FALSE

Page Ref: 78

Difficulty: Easy

LO: 3-3

36) Formal linkage mechanisms minimize the transaction costs associated with reducing uncertainty, opportunism, and risk.

Answer: TRUE

Page Ref: 82

Difficulty: Easy

LO: 3-4

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37) The term \_\_\_\_\_ refers to the particular range of goods and services that the organization produces, and the customers and other stakeholders it serves.

A) organizational design

B) organizational domain

C) organizational richness

D) organizational structure

Answer: B

Page Ref: 60

Difficulty: Easy

LO: 3-1

38) A defense company decided to sell the services of its scientists to commercial clients. This company is changing its \_\_\_\_\_.

A) organizational domain

B) symbiotic interdependencies

C) competitive interdependencies

D) core competences

Answer: A

Page Ref: 60

Difficulty: Moderate

LO: 3-1

39) \_\_\_\_\_ are a part of an organization's **specific environment**.

- A) Shop floor workers
- B) Shareholders
- C) Suppliers
- D) Managers

Answer: C

Page Ref: 61

Difficulty: Easy

LO: 3-1

40) The **specific environment** consists of forces from \_\_\_\_\_.

- A) outside stakeholder groups that directly affect an organization's ability to secure resources
- B) inside stakeholder groups that directly affect an organization's structure
- C) general environment that directly affect an organization's human resource practices
- D) inside stakeholder groups that directly affect an organization's competitive strategies

Answer: A

Page Ref: 61

Difficulty: Hard

LO: 3-1

41) **McDonald's** is trying to determine whether it should **make its own fast-food** containers **or buy** them from **international** suppliers. This decision is a part of the \_\_\_\_\_ management.

- A) structural environment
- B) competitive interdependency
- C) global supply chain
- D) symbiotic interdependency

Answer: C

Page Ref: 61

Difficulty: Easy

LO: 3-1

42) Which of the following forces is a **general environment** factor?

- A) suppliers
- B) interest rates
- C) distributors
- D) customers

Answer: B

Page Ref: 63

Difficulty: Easy

LO: 3-1

43) Which of the following statements is definitely **true** regarding environmental **complexity**?

- A) Environmental richness and environmental dynamism are inversely proportional to each other.
- B) As a company begins to produce a wider variety of products for different groups of customers, its environmental complexity begins to decrease.
- C) Environmental complexity is a function of the organizational structure selected by a company.
- D) The more interconnected the forces in an organization's specific and general environments, the more uncertainty the organization faces.

Answer: D

Page Ref: 66

Difficulty: Moderate

LO: 3-2

44) Which of the following is most likely to **increase** the environmental **complexity** for a company?

- A) the company changes its organizational structure from divisional to functional
- B) the company decreases its number of suppliers
- C) the company diversifies its business in an entirely new industry
- D) the company changes its organizational structure from centralized to decentralized

Answer: C

Page Ref: 66

Difficulty: Moderate

LO: 3-2

45) Which of the following terms refers to the **strength, number, and interconnectedness** of the specific and general forces that an organization has to manage?

- A) environmental complexity
- B) environmental dynamism
- C) environmental richness
- D) environmental naturalness

Answer: A

Page Ref: 66

Difficulty: Easy

LO: 3-2

46) When a company decides to produce **different products for different customers**, \_\_\_\_\_.

- A) the number of stakeholders decreases
- B) environmental complexity increases
- C) the organizational domain decreases
- D) environmental stability increases

Answer: B

Page Ref: 66

Difficulty: Moderate

LO: 3-2

47) An organization's environment will be **more uncertain** when \_\_\_\_\_.

- A) specific and general forces in the environment become interconnected
- B) the number of stakeholders in the specific environment decreases
- C) the company decreases the number of products it manufactures
- D) the company begins to follow the cost leadership strategy

Answer: A

Page Ref: 66

Difficulty: Moderate

LO: 3-2

48) An organization used to obtain supplies from **3,000 suppliers**, but now deals with less than **300**. By making this change, the organization has reduced its environmental \_\_\_\_\_.

- A) dynamism
- B) complexity
- C) richness
- D) depth

Answer: B

Page Ref: 66

Difficulty: Easy

LO: 3-2

49) Which of the following statements is definitely **true** regarding environmental **dynamism**?

- A) As a company decreases the number of suppliers, its environmental dynamism increases.
- B) A company can reduce its environmental dynamism by selecting a decentralized organizational structure.
- C) When a company enters into a foreign market, the dynamism of its environment increases.
- D) Environmental dynamism and environmental richness are directly proportional to each other.

Answer: C

Page Ref: 67

Difficulty: Hard

LO: 3-2

50) Which of the following statements is **true** regarding environmental **richness**?

- A) A rich environment is characterized by plentiful resources.
- B) In rich environments, uncertainty is high.
- C) Environmental richness and environmental complexity are directly proportional to each other.
- D) Increase in the level of competition leads to a proportionate increase in the level of environmental richness.

Answer: A

Page Ref: 67

Difficulty: Hard

LO: 3-2

51) As the \_\_\_\_\_ of the environment **increases**, the **resources** become **hard to obtain**.

- A) complexity
- B) dynamism
- C) richness
- D) depth

Answer: A

Page Ref: 67

Difficulty: Easy

LO: 3-2

52) Biotechnology **companies** in Boston have a **large pool of high-quality scientists** to choose from because of the presence of so many universities in the area. Based on the information given in this case we can say that the biotechnology companies in Boston have a \_\_\_\_\_ environment.

- A) broad
- B) complex
- C) dynamic
- D) rich

Answer: D

Page Ref: 67

Difficulty: Easy

LO: 3-2

53) Which of the following is most likely to **increase** the environmental **dynamism** for a company?

- A) the company increases the level of employee empowerment
- B) the company changes its organizational structure from functional structure to matrix structure
- C) the company enters into a long-term contract with one of its suppliers
- D) the company enters into a foreign market with new products

Answer: D

Page Ref: 67

Difficulty: Hard

LO: 3-2

54) Under which of the following situations, a company is most likely to experience **high levels** of environmental **richness**?

- A) the company uses a matrix organizational structure
- B) the company is not able to obtain sufficient quantity of required raw material due to new government restrictions
- C) the company is highly centralized
- D) the company has a monopoly in its industry

Answer: D

Page Ref: 67

Difficulty: Hard

LO: 3-2

55) As the \_\_\_\_\_, the environmental uncertainty decreases.

- A) environmental complexity decreases
- B) environmental dynamism increases
- C) environmental richness decreases
- D) environmental naturalness increases

Answer: A

Page Ref: 67

Difficulty: Easy

LO: 3-2

56) An organization operating in the computer industry has to quickly respond to the changes in the technology. In this case, the environment of the organization is said to be \_\_\_\_\_.

- A) complex
- B) dynamic
- C) rich
- D) broad

Answer: B

Page Ref: 67

Difficulty: Easy

LO: 3-2

57) Which of the following terms refers to the degree to which forces in the specific and general environments change quickly over time and thus contribute to the uncertainty an organization faces?

- A) environmental dynamism
- B) environmental richness
- C) environmental complexity
- D) environmental naturalness

Answer: A

Page Ref: 67

Difficulty: Easy

LO: 3-2

58) In the context of environmental dynamism, a company is said to be stable if \_\_\_\_\_.

- A) the number of outside stakeholders remains constant
- B) the number of specific and general forces that an organization has to manage remains stable
- C) forces affect the supply of resources in a predictable way
- D) the company is structured as per the matrix organizational structure

Answer: C

Page Ref: 67

Difficulty: Moderate

LO: 3-2

59) Which of the following terms refers to the amount of resources available to support an organization's domain?

- A) environmental dynamism
- B) environmental complexity
- C) environmental richness
- D) environmental naturalness

Answer: C

Page Ref: 67

Difficulty: Easy

LO: 3-2

60) Which of the following is most likely to be a reason for poor environment?

- A) resources are plentiful
- B) environmental uncertainty is low
- C) competition is high
- D) the country is wealthy

Answer: C

Page Ref: 67

Difficulty: Easy

LO: 3-2

61) Which of the following is most likely to increase environmental uncertainty?

- A) increase in the richness of the environment
- B) decrease in the dynamism of the environment
- C) decrease in the depth of the environment
- D) increase in the complexity of the environment

Answer: D

Page Ref: 67

Difficulty: Easy

LO: 3-2

62) A poor environment is most likely to lead to \_\_\_\_\_.

- A) a decrease in the level of environmental complexity
- B) an increase in the level of environmental stability
- C) an increase in the level of profit
- D) an increase in the level of environmental uncertainty

Answer: D

Page Ref: 67

Difficulty: Easy

LO: 3-2

63) The government attempted to **control** prescription drug **prices** during the 1990s. What would have been the **effect** of this change on this industry?

- A) It would have increased competition, thereby reducing the complexity of this environment.
- B) It would have made the environment more complex due to the reduction in profits.
- C) It would have increased the demand for drugs, thereby making the environment less dynamic.
- D) It would have enlarged the domain of this industry.

Answer: B

Page Ref: 68

Difficulty: Hard

LO: 3-2

64) According to the \_\_\_\_\_, an organization should minimize its dependence on other organizations for resources and find ways of influencing them to make resources available.

- A) organizational theory
- B) resource dependence theory
- C) contingency theory
- D) group theory

Answer: B

Page Ref: 69

Difficulty: Easy

LO: 3-4

65) Which of the following theories states that an organization must respond to the needs and demands of other organizations in its environment?

- A) contingency theory
- B) the enacted environment concept
- C) resource dependence theory
- D) transaction cost theory

Answer: C

Page Ref: 69

Difficulty: Easy

LO: 3-4

66) As per the resource dependence theory, in which of the following situations is an organization said to be weak?

- A) the organization is highly centralized
- B) there are only a few suppliers of a resource needed by the organization
- C) the organization uses a divisional organizational structure
- D) the organization manufactures a wide variety of products

Answer: B

Page Ref: 69

Difficulty: Moderate

LO: 3-4

67) \_\_\_\_\_ interdependencies exist between an organization and its suppliers.

- A) Competitive
- B) Symbiotic
- C) Distributive
- D) Convolutional

Answer: B

Page Ref: 71

Difficulty: Easy

LO: 3-4

68) \_\_\_\_\_ interdependencies exist among organizations that need the same scarce inputs and market their products to the same group of potential customers.

- A) Competitive
- B) Distributive
- C) Symbiotic
- D) Convolutional

Answer: A

Page Ref: 71

Difficulty: Easy

LO: 3-4

69) Two computer manufacturing companies, operating in the same industry, pool their resources to develop a new computer technology. This is an example of \_\_\_\_\_.

- A) licensing
- B) an interorganizational linkage
- C) franchising
- D) a symbiotic interdependency

Answer: B

Page Ref: 71

Difficulty: Easy

LO: 3-4

70) Nova Electronics is a company that manufactures computers. It depends on H&L, Inc. for the supply of microprocessor chips. H&L, Inc. is the only company that manufactures the particular type and quality of microprocessor chips that are required by Nova electronics. The relationship between Nova Electronics and H&L, Inc. is an example of a \_\_\_\_\_ interdependency.

- A) competitive
- B) sequential
- C) symbiotic
- D) distributive

Answer: C

Page Ref: 71

Difficulty: Moderate

LO: 3-4

71) Which of the following is the least formal and the least direct way to manage symbiotic interdependencies with suppliers and customers?

- A) merger
- B) developing reputation
- C) cooptation
- D) minority ownership

Answer: B

Page Ref: 71

Difficulty: Easy

LO: 3-4

72) The union does not like the work rules of an automobile plant. The plant forms a joint union-labor committee and gets key union leaders to join the committee. This is an example of \_\_\_\_\_.

- A) a strategic alliance
- B) a joint venture
- C) a merger
- D) cooptation

Answer: D

Page Ref: 72

Difficulty: Easy

LO: 3-4

73) A(n) \_\_\_\_\_ is a linkage that results when a director from one company sits on the board of another company.

- A) interlocking directorate
- B) strategic alliance
- C) network
- D) keiretsu

Answer: A

Page Ref: 72

Difficulty: Easy

LO: 3-4

74) Which of the following terms refers to a strategy that manages symbiotic interdependencies by neutralizing problematic forces in the specific environment?

- A) joint venture
- B) strategic alliance
- C) cooptation
- D) franchising

Answer: C

Page Ref: 72

Difficulty: Easy

LO: 3-4

75) A \_\_\_\_\_ is an agreement that commits two or more companies to share their resources to develop joint new business opportunities.

- A) cartel
- B) strategic alliance
- C) licensing agreement
- D) collusion

Answer: B

Page Ref: 72

Difficulty: Easy

LO: 3-4

76) Which of the following types of strategic alliances is the most formal?

- A) long-term contract
- B) network
- C) minority ownership
- D) joint venture

Answer: D

Page Ref: 73

Difficulty: Easy

LO: 3-4

77) Which of the following types of strategic alliances is the least formal?

- A) long-term contract
- B) network
- C) minority ownership
- D) joint venture

Answer: A

Page Ref: 73

Difficulty: Easy

LO: 3-4

78) A joint venture is a type of \_\_\_\_\_.

- A) takeover
- B) collusion
- C) strategic alliance
- D) cartel

Answer: C

Page Ref: 73

Difficulty: Easy

LO: 3-4

79) The Japanese system of *keiretsu* is a type of \_\_\_\_\_.

- A) long-term contract
- B) collusion
- C) minority ownership
- D) joint venture

Answer: C

Page Ref: 74

Difficulty: Easy

LO: 3-4

80) A \_\_\_\_\_ is a group of organizations, each of which owns shares in the other organizations in the group, and all of which work together to further the group's interests. It is a Japanese system.

- A) *hoteru*
- B) *byouin*
- C) *hikouki*
- D) *keiretsu*

Answer: D

Page Ref: 74

Difficulty: Easy

LO: 3-3

81) Which of the following strategies is most likely to be used for managing symbiotic resource interdependencies?

- A) collusion
- B) third-party linkage mechanism
- C) cartel
- D) minority ownership

Answer: D

Page Ref: 74

Difficulty: Easy

LO: 3-4

82) A \_\_\_\_\_ is a strategic alliance among two or more organizations that agree to establish and share the ownership of a new business.

- A) collusion
- B) merger
- C) joint venture
- D) cartel

Answer: C

Page Ref: 75

Difficulty: Easy

LO: 3-4

83) Which of the following interorganizational strategies for managing symbiotic interdependencies is the most formal?

- A) cooptation
- B) takeover
- C) strategic alliance
- D) franchising

Answer: B

Page Ref: 76

Difficulty: Easy

LO: 3-4

84) A \_\_\_\_\_ is a secret agreement among competitors to share information for a deceitful or illegal purpose.

- A) joint venture
- B) collusion
- C) strategic alliance
- D) cartel

Answer: B

Page Ref: 77

Difficulty: Easy

LO: 3-3

85) A \_\_\_\_\_ is an association of firms that explicitly agree to coordinate their activities.

- A) cartel
- B) strategic alliance
- C) collusion
- D) joint venture

Answer: A

Page Ref: 77

Difficulty: Easy

LO: 3-3

86) Which of the following statements is true regarding a cartel?

- A) Forming a cartel is illegal in the United States.
- B) A cartel is a strategic alliance among two or more organizations that agree to establish and share the ownership of a new business.
- C) A cartel is formed by companies to manage their symbiotic resource interdependencies.
- D) Participating in a cartel decreases the richness of a company's environment.

Answer: A

Page Ref: 77

Difficulty: Moderate

LO: 3-3

87) Which of the following strategies of managing competitive resource interdependencies involves a regulatory body that allows organizations to share information and regulate the way they compete?

- A) cartel
- B) third-party linkage mechanism
- C) joint venture
- D) cooptation

Answer: B

Page Ref: 78

Difficulty: Easy

LO: 3-3

88) A trade organization is an example of a \_\_\_\_\_.

- A) cartel
- B) joint venture
- C) third-party linkage mechanism
- D) collusion

Answer: C

Page Ref: 78

Difficulty: Easy

LO: 3-3

89) Typically, when a company gets associated with a third-party linkage mechanism, \_\_\_\_\_.

- A) the richness of the company's environment decreases
- B) the company can react more easily to the dynamism of the environment
- C) the complexity of the company's environment increases
- D) it loses its ability to enter into a strategic alliance

Answer: B

Page Ref: 78

Difficulty: Moderate

LO: 3-4

90) Which of the following methods of managing competitive interdependencies is most likely to be used by an organization to monopolize an industry and become the sole player in the industry?

- A) enter into a cartel
- B) enter into a joint venture
- C) enter into a merger
- D) enter into a long-term contract

Answer: C

Page Ref: 79

Difficulty: Easy

LO: 3-3

91) The costs of negotiating, monitoring, and governing exchanges between people are known as the \_\_\_\_\_ costs.

- A) transaction
- B) historical
- C) sunk
- D) opportunity

Answer: A

Page Ref: 79

Difficulty: Easy

LO: 3-4

92) Which of the following is most likely to increase transaction costs?

- A) having many possible trading partners
- B) investing in specific assets
- C) operating in a stable environment
- D) adopting a decentralized organizational structure

Answer: B

Page Ref: 81

Difficulty: Hard

LO: 3-4

93) When an organization is forced to rely on a small number of trading partners, the risk of \_\_\_\_\_.

- A) bounded rationality increases
- B) bounded rationality decreases
- C) opportunism decreases
- D) opportunism increases

Answer: D

Page Ref: 81

Difficulty: Easy

LO: 3-4

94) Which of the following **increases** the threat that **organization A** will behave **opportunistically** towards **organization B**?

- A) Organization A is dependent on organization B for scarce resources.
- B) The environment of organization A is richer than the environment of organization B.
- C) Organization A provides a service to organization B that only a few organizations can replicate.
- D) The environment that both organizations operate in is stable.

Answer: C

Page Ref: 81

Difficulty: Moderate

LO: 3-4

95) **Formal linkage mechanisms** should be used when companies \_\_\_\_\_.

- A) exchange specific assets
- B) have many possible exchange partners
- C) operate in stable environment
- D) have matrix organizational structure

Answer: A

Page Ref: 82

Difficulty: Moderate

LO: 3-4

96) **Internal transaction costs** are called \_\_\_\_\_ costs to distinguish them from the transaction costs of exchanges between organizations in the environment.

- A) historic
- B) sunk
- C) opportunity
- D) bureaucratic

Answer: D

Page Ref: 82

Difficulty: Easy

LO: 3-4

97) Which of the following statements about the **difference** between **transaction cost theory** and **resource dependence theory** is **true**?

- A) Transaction cost theory proposes the use of a merger as an interorganizational strategy but resource dependence theory advocates the use of joint venture.
- B) Transaction cost theory explains how to manage symbiotic interdependencies but resource dependence theory explain how to manage competitive interdependencies.
- C) Transaction cost theory is a **better predictor** than a resource dependence theory of why companies choose a certain form of interorganizational strategy.
- D) Resource dependence theory proposes the use of strategic alliances, but transaction cost theory recommends not using alliances.

Answer: C

Page Ref: 82,83

Difficulty: Moderate

LO: 3-4

98) A \_\_\_\_\_ is a business **authorized to sell** a company's products in a certain area.

- A) cartel
- B) joint venture
- C) franchise
- D) collusion

Answer: C

Page Ref: 84

Difficulty: Easy

LO: 3-4

99) \_\_\_\_\_ is the process of moving a value creation activity that was performed inside an organization to outside where it is done by another company.

- A) Outsourcing
- B) Cooptation
- C) Franchising
- D) Licensing

Answer: A

Page Ref: 85

Difficulty: Easy

LO: 3-4

100) A small restaurant hires an advertising firm to handle promotions and advertising. This is an example of \_\_\_\_\_.

- A) franchising
- B) licensing
- C) outsourcing
- D) cooptation

Answer: C

Page Ref: 85

Difficulty: Easy

LO: 3-4

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101) Define organizational domain.

Answer: The term organizational domain refers to the particular range of goods and services that the organization produces, and the customers and other stakeholders it serves. An organization establishes its domain by deciding how to manage the forces in its environment to maximize its ability to secure important resources. To obtain inputs, for example, an organization has to decide which suppliers to deal with from the range of possible suppliers and how to manage its relationships with its chosen suppliers. To obtain money, an organization has to decide which bank to deal with and how to manage its relationship with the bank so that the bank will be inclined to authorize a loan. To obtain customers, a company has to decide which set of customers it is going to serve and then how to satisfy their needs.

Page Ref: 60

Difficulty: Easy

LO: 3-1

The range of goods and services that the organization produces and the customers it serves.

1

2

Specific environment: The forces from outside stakeholder groups that directly affect an organization's ability to secure resources.

General environment: The forces that shape the specific environment and affect the ability of all organizations in a particular environment to obtain resources.

102) Differentiate between specific environment and general environment.

Answer: The specific environment consists of forces from outside stakeholder groups that directly affect an organization's ability to secure resources. Customers, distributors, unions, competitors, suppliers, and the government are all important outside stakeholders that can influence and pressure organizations to act in certain ways.

The general environment consists of forces that shape the specific environment and affect the ability of all organizations in a particular environment to obtain resources. General environment consists of forces such as economic, technological, political, and environmental forces.

Page Ref: 61,63

Difficulty: Easy

LO: 3-1

103) What is environmental complexity?

Answer: Environmental complexity is a function of the strength, number, and interconnectedness of the specific and general forces that an organization has to manage. The greater the number, and the greater the differences between them, the more complex and uncertain is the environment and the more difficult to predict and control.

Complexity increases if, over time, a company produces a wider variety of products for different groups of customers. Complexity can increase greatly when specific and general forces in the environment become interconnected—that is, when forces begin to interact so their effects on the organization become unpredictable.

Page Ref: 66

Difficulty: Easy

LO: 3-2

104) Discuss the resource dependence theory.

Answer: According to resource dependence theory, the goal of an organization <sup>1</sup>is to minimize its dependence on other organizations for the supply of scarce resources in its environment and to find ways to influence them to secure needed resources. Thus an organization must <sup>2</sup>simultaneously manage two aspects of its resource dependence: (1) It has to exert influence over other organizations so it can obtain resources, and (2) it must respond to the needs and demands of the other organizations in its environment.

The strength of one organization's dependence on another for a particular resource is a function of two factors. The first one is how vital the resource is to the organization's survival. The other factor is the extent to which other organizations control the resource.

Page Ref: 69

Difficulty: Easy

LO: 3-2

105) What is **cooptation**?

Answer: Cooptation is a **strategy that manages symbiotic interdependencies by neutralizing problematic forces in the specific environment**. An organization that wants to bring opponents over to its side gives them a stake in or claim on what it does and tries to satisfy their interests.

Page Ref: 72

Difficulty: Easy

LO: 3-3

106) **Describe** the various **strategies** that can be used for managing **competitive interdependencies**.

Answer: Following strategies can be used for managing competitive interdependencies:

**Collusion and cartel:** A **collusion** is a **secret agreement among competitors to share information for a deceitful or illegal purpose**, such as keeping prices high as in the flash memory chip industry. Organizations collude to reduce the competitive uncertainty they experience. A **cartel** is an **association of firms that explicitly agree to coordinate their activities** as Samsung and other chip makers did. Both of them are illegal in the United States.

**A third-party linkage mechanism:** A more formal but still indirect way for competing organizations to coordinate their activities is through a third-party linkage mechanism—a **regulatory body that allows organizations to share information and regulate the way they compete**. An example is a trade association, an organization that represents companies in the same industry and enables competitors to meet, share information, and informally allow them to monitor one another's activities.

**Strategic alliances:** Strategic alliances can be used to manage not only symbiotic interdependencies but competitive interdependencies. Competitors can cooperate and form a joint venture to develop common technology that will save them all a lot of money, even though they may be in competition for customers when their final products hit the market.

**Merger and takeover:** Mergers and takeovers **can improve a company's competitive position by allowing the company to strengthen and enlarge its domain and increase its ability to produce a wider range of products** to better serve more customers. 1 2

Page Ref: 77,78

Difficulty: Moderate

LO: 3-4

**Strategic alliance:** An agreement that commits two or more companies to share their resources to develop a new joint business opportunity.

107) You are a consultant to a large telecommunications company that markets many products to many customers. The company has many competitors. Briefly describe the level of uncertainty and recommend strategies for managing the organizational environment.

Answer: This company operates in a highly uncertain environment. This uncertainty stems from complexity, dynamism, and richness. The environment is complex because the company offers a wide range of products to many customers and must manage relationships with many outside stakeholder groups, such as customers, suppliers, competitors, and the government. The industry is extremely dynamic because technology changes rapidly and other forces, such as international forces, are also changing. Moreover, competition is intense in the industry. All of these factors increase uncertainty and transaction costs. The company will need to implement more formal interorganizational strategies. It should consider forming strategic alliances. It can form long-term contracts with suppliers. It can form joint ventures with competitors to share the risks and costs of developing new technology. Alliances allow the organization to react to the environment quickly. The organization may also consider outsourcing to avoid bureaucratic costs.

Page Ref: 64,82

Difficulty: Hard

LO: 3-2, 3-4