

Organizational Theory, Design, and Change, 7e (Jones)

Chapter 8 Organizational Design and Strategy in a Changing Global Environment

1) An organization's strategy is a specific pattern of decisions and actions that managers take to use core competences to achieve a competitive advantage and outperform competitors.

Answer: TRUE

Page Ref: 207

Difficulty: Easy

LO: 8-1

2) Developing competitive advantage increases an organization's ability to obtain scarce resources.

Answer: TRUE

Page Ref: 208

Difficulty: Easy

LO: 8-1

3) An organization's brand name is considered to be a functional resource.

Answer: FALSE

Page Ref: 209

Difficulty: Easy

LO: 8-1

4) The plant equipment possessed by a company is considered to be an organizational resource.

Answer: TRUE

Page Ref: 209

Difficulty: Easy

LO: 8-1

5) Coca-Cola uses its marketing skills to defend its niche against PepsiCo. This is an example of a functional-level strategy.

Answer: FALSE

Page Ref: 211

Difficulty: Easy

LO: 8-3

6) A functional-level strategy is a plan to combine functional core competences in order to position the organization so that it has a competitive advantage in its domain.

Answer: FALSE

Page Ref: 211

Difficulty: Easy

LO: 8-3

7) A corporate-level strategy is a plan of action to strengthen an organization's functional and organizational resources, as well as its coordination abilities, in order to create core competences.

Answer: FALSE

Page Ref: 212

Difficulty: Easy

LO: 8-3

8) Business-level strategy is the responsibility of the top-management team.

Answer: TRUE

Page Ref: 212

Difficulty: Easy

LO: 8-2

9) According to contingency theory, an organization's design should ensure that all the functions in the organization use the same organizational structure.

Answer: FALSE

Page Ref: 215

Difficulty: Moderate

LO: 8-4

10) Typically, the sales function in an organization uses a tall, centralized structure to coordinate its activities.

Answer: FALSE

Page Ref: 215

Difficulty: Easy

LO: 8-4

11) Typically, the manufacturing function in an organization uses an organic structure and decentralized decision-making.

Answer: FALSE

Page Ref: 216

Difficulty: Easy

LO: 8-4

12) A speedy response to market changes is not vital to the competitive success of an organization that is following a low-cost business-level strategy.

Answer: TRUE

Page Ref: 220

Difficulty: Easy

LO: 8-2

13) A firm pursuing a low-cost strategy will likely have a mechanistic structure.

Answer: TRUE

Page Ref: 220

Difficulty: Easy

LO: 8-4

14) Organizations pursuing differentiation business-level strategy generally operate in a simple, stable, and slow-moving environment.

Answer: FALSE

Page Ref: 221

Difficulty: Moderate

LO: 8-4

15) Organizations following a low-cost business-level strategy typically produce a wide range of products to suit the needs of different groups of customers.

Answer: FALSE

Page Ref: 221

Difficulty: Moderate

LO: 8-4

16) A strategy in which an organization takes over and owns its distributors is known as backward vertical integration.

Answer: FALSE

Page Ref: 225

Difficulty: Easy

LO: 8-3

17) The more an organization pursues vertical integration the larger it becomes, and the bureaucratic costs associated with managing the strategy rise sharply.

Answer: TRUE

Page Ref: 226

Difficulty: Easy

LO: 8-3

18) The strategy of related diversification involves an organization entering a new domain in which it can use one or more of its existing core competences to create a low-cost or differentiated competitive advantage in that new domain.

Answer: TRUE

Page Ref: 226

Difficulty: Easy

LO: 8-5

19) Organizations with a strategy of unrelated diversification are likely to use a conglomerate structure.

Answer: TRUE

Page Ref: 227

Difficulty: Easy

LO: 8-4

20) The bureaucratic costs associated with managing unrelated diversification are much greater than those associated with related diversification.

Answer: FALSE

Page Ref: 229

Difficulty: Moderate

LO: 8-4

21) Considerably more communication and coordination are needed to create value from related diversification than from the other corporate-level strategies.

Answer: TRUE

Page Ref: 229

Difficulty: Easy

LO: 8-4

22) A global strategy is oriented toward local responsiveness and a company pursuing this strategy decentralizes control to subsidiaries and divisions in each country in which it operates to produce and customize products to local markets.

Answer: FALSE

Page Ref: 230

Difficulty: Moderate

LO: 8-5

23) A multidomestic strategy is oriented toward cost reduction, with all the principal value-creation functions centralized at the lowest cost global location.

Answer: FALSE

Page Ref: 230

Difficulty: Easy

LO: 8-5

24) The need to coordinate and integrate global activities increases as a company moves from a transnational strategy to a multidomestic strategy.

Answer: FALSE

Page Ref: 230

Difficulty: Easy

LO: 8-5

25) As companies change from a multidomestic to an international, global, or transnational strategy, they require a more complex structure, control system, and culture to coordinate the value-creation activities associated with implementing that strategy.

Answer: TRUE

Page Ref: 231

Difficulty: Moderate

LO: 8-5

26) Which of the following terms refers to the pattern of decisions and actions that managers take to use core competences to achieve a competitive advantage and outperform competitors?

- A) product formation chain
- B) PERT chart
- C) strategy
- D) value engineering

Answer: C

Page Ref: 207

Difficulty: Easy

LO: 8-1

27) _____ are the skills and abilities in value creation activities that allow a company to achieve superior efficiency, quality, innovation, or customer responses.

- A) Core competences
- B) Environmental contingencies
- C) Rites of enhancement
- D) Organizational foundation skills

Answer: A

Page Ref: 207

Difficulty: Easy

LO: 8-1

28) The skills of Microsoft's software design group are an example of _____.

- A) organizational resources
- B) rites of integration
- C) functional resources
- D) rites of enhancement

Answer: C

Page Ref: 208

Difficulty: Easy

LO: 8-1

29) Which of the following is an example of a functional resource?

- A) plant equipment
- B) corporate reputation
- C) capital reserves
- D) skills of a technical expert

Answer: D

Page Ref: 208

Difficulty: Easy

LO: 8-1

30) To become core competences, the functional resources possessed by an organization should be _____.

- A) plentiful and easily available
- B) easily replaceable with alternative resources
- C) unique and difficult to imitate
- D) cheap

Answer: C

Page Ref: 209

Difficulty: Easy

LO: 8-1

31) Land is an example of a(n) _____.

- A) liquid asset
- B) organizational resource
- C) deferred revenue asset
- D) functional resource

Answer: B

Page Ref: 209

Difficulty: Easy

LO: 8-1

32) _____ strategy is a plan to use and combine an organization's functional core competences to position it so it has a competitive advantage in its domain or segment of its industry.

- A) Functional-level
- B) Corporate-level
- C) Business-level
- D) Environmental-level

Answer: C

Page Ref: 211

Difficulty: Easy

LO: 8-3

33) 3M and HP, invest heavily to improve their skills in R&D and product design. This is an example of a _____ strategy.

- A) functional-level
- B) business-level
- C) supply-level
- D) corporate-level

Answer: A

Page Ref: 211

Difficulty: Moderate

LO: 8-3

34) In order to strengthen an organization's technical and human resources, a manager trains and develops his subordinates. This is an example of a _____ strategy.

- A) global expansion
- B) corporate-level
- C) business-level
- D) functional-level

Answer: D

Page Ref: 211

Difficulty: Moderate

LO: 8-3

35) Coca-Cola uses its marketing skills to defend its niche against PepsiCo. This is an example of a _____ strategy.

- A) functional-level
- B) contingency-level
- C) corporate-level
- D) business-level

Answer: D

Page Ref: 211

Difficulty: Easy

LO: 8-3

36) _____ strategy is a plan to use and develop core competences so that the organization can not only protect and enlarge its domain but can also expand into new domains.

- A) Functional-level
- B) Business-level
- C) Environmental-level
- D) Corporate-level

Answer: D

Page Ref: 212

Difficulty: Easy

LO: 8-3

37) Mercedes-Benz used its competences in R&D and product development to enter the household products and aerospace industries. This is an example of a(n) _____ strategy.

- A) environmental-level
- B) functional-level
- C) business-level
- D) corporate-level

Answer: D

Page Ref: 212

Difficulty: Moderate

LO: 8-3

38) Honda takes its strength in engine production and uses it to produce cars, motor bikes, and lawnmowers, creating value in different markets. This is an example of a _____ strategy.

- A) supplier-level
- B) business-level
- C) corporate-level
- D) functional-level

Answer: C

Page Ref: 212

Difficulty: Moderate

LO: 8-3

39) A U.S. auto manufacturer establishes plants in Europe and in Asia. This is an example of a (n) _____.

- A) vertical integration
- B) global expansion
- C) horizontal integration
- D) unrelated diversification

Answer: B

Page Ref: 212

Difficulty: Easy

LO: 8-3

40) Which of the following functions would be responsible for implementing a just-in-time inventory system?

- A) manufacturing
- B) R&D
- C) marketing
- D) materials management

Answer: D

Page Ref: 213

Difficulty: Easy

LO: 8-1

41) A core competence in _____ management can allow an organization quickly to discover and respond to customer needs.

- A) financial
- B) human resource
- C) materials
- D) marketing

Answer: D

Page Ref: 214

Difficulty: Easy

LO: 8-1

42) According to _____ theory, an organization's design should permit each function to develop a structure that suits its human and technical resources.

- A) strategic choice
- B) contingency
- C) resource dependence
- D) transaction cost

Answer: B

Page Ref: 215

Difficulty: Easy

LO: 8-4

43) Typically, the R&D function in an organization uses _____.

- A) centralized decision-making
- B) a mechanistic structure
- C) a high level of standardization
- D) a flat organizational structure

Answer: D

Page Ref: 216

Difficulty: Moderate

LO: 8-4

44) Which of the following companies will most likely have a mechanistic structure?

- A) a pharmaceutical company that has a core competence in R&D
- B) a soft-drink company that has a core competence in marketing
- C) a medical equipment manufacturer that has a core competence in manufacturing
- D) a telecommunications company that operates in a dynamic environment

Answer: C

Page Ref: 216

Difficulty: Hard

LO: 8-4

45) Typically, the manufacturing function in an organization uses _____.

- A) a high level of standardization
- B) an organic structure
- C) a flat organizational structure
- D) decentralized decision-making

Answer: A

Page Ref: 216

Difficulty: Moderate

LO: 8-4

46) Which of the following statements is true regarding organizational culture?

- A) A competitor can easily imitate another organization's culture.
- B) Culture is easy to control and manage.
- C) Culture is embedded in the day-to-day interactions of functional personnel.
- D) Culture cannot be a source of competitive advantage.

Answer: C

Page Ref: 216

Difficulty: Moderate

LO: 8-4

47) Which of the following functions typically has the most organic structure?

- A) sales
- B) manufacturing
- C) materials management
- D) R&D

Answer: D

Page Ref: 216

Difficulty: Easy

LO: 8-4

48) McDonald's core competences in manufacturing, marketing, and materials management create a competitive advantage over rivals Burger King and Wendy's. This is an example of a _____ strategy.

- A) business-level
- B) global expansion
- C) corporate-level
- D) functional-level

Answer: A

Page Ref: 217,218

Difficulty: Moderate

LO: 8-2

49) Walmart specialize in selling low-price clothing to customers who want or can afford to pay only a

modest amount for their attire and Neiman Marcus specializes in selling high-priced clothing made by exclusive designers to wealthy customers who want prestige or status. Based on this information we can conclude that _____.

- A) organizational structure of Walmart is taller than that of Neiman Marcus
- B) Walmart and Neiman Marcus have chosen different domains in which to compete
- C) Walmart has an organic structure and Neiman Marcus has a mechanistic structure
- D) as compared to Walmart, Neiman Marcus operates in a more complex environment

Answer: B

Page Ref: 218

Difficulty: Moderate

LO: 8-2

50) A _____ business-level strategy is a plan whereby an organization produces high-priced, quality products aimed at particular market segments.

- A) differentiation
- B) market penetration
- C) lateral diversification
- D) vertical integration

Answer: A

Page Ref: 218

Difficulty: Easy

LO: 8-2

51) _____ strategy involves specializing in one segment of a market and concentrating all of the organization's resources on that segment.

- A) Vertical integration
- B) Diversification
- C) Horizontal integration
- D) Focus

Answer: D

Page Ref: 219

Difficulty: Easy

LO: 8-2

52) A focus strategy is a(n) _____ strategy.

- A) business-level
- B) functional-level
- C) supply-level
- D) environmental-level

Answer: A

Page Ref: 219

Difficulty: Easy

LO: 8-2

53) KFC specializes in the chicken segment of the fast-food market. This is an example of a _____ strategy.

- A) market penetration
- B) focus
- C) vertical integration
- D) conglomerate diversification

Answer: B

Page Ref: 219

Difficulty: Easy

LO: 8-2

54) Which of the following statements is true regarding an organization following a low-cost strategy?

- A) Low-cost organizations typically use complex organizational structures.
- B) Typically, low-cost organizations use centralized decision-making.
- C) The organizational structure used by a low-cost organization generally has higher integration than that used by a differentiator.
- D) An organic structure is more suitable for a low-cost organization than a mechanistic structure.

Answer: B

Page Ref: 220, 221

Difficulty: Hard

LO: 8-4

55) Which of the following statements is true regarding an organization following a differentiation strategy?

- A) Differentiators generally use simple organizational structures.
- B) A speedy response to market changes is not vital to the competitive success of a differentiator.
- C) An organic structure is more suitable for a differentiator than a mechanistic structure.
- D) The organizational structure used by differentiators generally has lower integration than that used by a low cost organization.

Answer: C

Page Ref: 220, 221

Difficulty: Hard

LO: 8-1

56) Typically, an organization that uses a differentiation strategy _____.

- A) does not respond to market changes quickly
- B) operates in a complex, uncertain environment
- C) focuses its resources on producing one product
- D) has a mechanistic structure

Answer: B

Page Ref: 220, 221

Difficulty: Moderate

LO: 8-4

57) Typically, an organization that uses a low-cost strategy _____.

- A) is not leaders in product development
- B) produce a wide range of products to suit the needs of different groups of customers
- C) operates in a complex, uncertain environment
- D) responds quickly to the changes in the environment of the organization

Answer: A

Page Ref: 220, 221

Difficulty: Moderate

LO: 8-4

58) Which of the following structures is the most appropriate for an organization that pursues a low-cost strategy?

- A) functional structure
- B) product team structure
- C) organic structure
- D) matrix structure

Answer: A

Page Ref: 221

Difficulty: Easy

LO: 8-4

59) Which of the following structures is the most appropriate for an organization that pursues a differentiation strategy?

- A) functional structure
- B) centralized structure
- C) mechanistic structure
- D) matrix structure

Answer: D

Page Ref: 221

Difficulty: Easy

LO: 8-4

60) For a soft drinks company, which of the following will be considered forward vertical integration?

- A) establishing a company that manufactures and sells snack foods
- B) buying a bottling and trucking company that distributes soft drinks
- C) buying sugar plantations
- D) taking over a company that provides software services

Answer: B

Page Ref: 225

Difficulty: Moderate

LO: 8-3

61) Which of the following terms refers to a strategy in which an organization takes over and owns its suppliers or its distributors?

- A) unrelated diversification
- B) market penetration
- C) vertical integration
- D) product differentiation

Answer: C

Page Ref: 225

Difficulty: Easy

LO: 8-3

62) For a soft drinks company, which of the following will be considered backward vertical integration?

- A) buying a bottling and trucking company that distributes soft drinks
- B) establishing a company that manufactures and sells snack foods
- C) taking over a company that provides software services
- D) buying sugar plantations

Answer: D

Page Ref: 225

Difficulty: Moderate

LO: 8-3

63) A shoe manufacturer acquires the retail stores that sell its shoes. This is an example of a(n)

- A) forward vertical integration
- B) unrelated diversification
- C) market penetration
- D) sequential horizontal integration

Answer: A

Page Ref: 225

Difficulty: Easy

LO: 8-3

64) Which of the following is the primary disadvantage of backward and forward vertical integration?

- A) increased bureaucratic costs
- B) decreased product quality
- C) decreased environmental richness
- D) loss of control over inputs

Answer: A

Page Ref: 226

Difficulty: Moderate

LO: 8-3

65) Which of the following strategies is most likely to help a company to avoid the problem of opportunistic suppliers?

- A) vertical integration
- B) product differentiation
- C) related diversification
- D) market penetration

Answer: A

Page Ref: 226

Difficulty: Easy

LO: 8-3

66) The strategy of _____ involves an organization entering a new domain in which it can use one or more of its existing core competences to create a low-cost or differentiated competitive advantage in that new domain.

- A) cost leadership
- B) related diversification
- C) vertical integration
- D) market penetration

Answer: B

Page Ref: 226

Difficulty: Easy

LO: 8-3

67) A computer manufacturer uses its competence in product design to produce laser printers. Which of the following strategies is being pursued by this company?

- A) vertical integration
- B) product development
- C) market penetration
- D) related diversification

Answer: D

Page Ref: 226

Difficulty: Moderate

LO: 8-3

68) Which of the following strategies involves entering a completely new domain?

- A) market penetration
- B) product development
- C) unrelated diversification
- D) vertical integration

Answer: C

Page Ref: 226

Difficulty: Easy

LO: 8-3

69) Which of the following core competences is most likely to be used by a company to create value while pursuing unrelated diversification?

- A) engineering expertise
- B) core competences in material management
- C) top-management's ability to efficiently control a group of organizations
- D) control over a scarce resource

Answer: C

Page Ref: 226

Difficulty: Moderate

LO: 8-3

70) In a _____ structure, each business is placed in a self-contained division and there is no contact between divisions.

- A) conglomerate
- B) mechanistic
- C) functional
- D) matrix

Answer: A

Page Ref: 227

Difficulty: Moderate

LO: 8-4

71) Which of the following structures is a variant of the multidivisional structure?

- A) matrix structure
- B) conglomerate structure
- C) functional structure
- D) mechanistic structure

Answer: B

Page Ref: 227

Difficulty: Easy

LO: 8-4

72) A retail clothing chain buys a real estate business and an investment banking firm. Which of the following structures is most appropriate for this organization?

- A) matrix structure
- B) product team structure
- C) mechanistic structure
- D) conglomerate structure

Answer: D

Page Ref: 227

Difficulty: Moderate

LO: 8-4

73) Which of the following structures is characterized by a small corporate headquarters staff?

- A) mechanistic structure
- B) conglomerate structure
- C) matrix structure
- D) functional structure

Answer: B

Page Ref: 227

Difficulty: Moderate

LO: 8-4

74) Which of the following statements is true regarding related diversification?

- A) The bureaucratic costs associated with managing related diversification are much greater than those associated with unrelated diversification.
- B) Considerably more communication and coordination are needed to create value from unrelated diversification than from related diversification.
- C) A functional structure is most suitable for an organization that is pursuing a strategy of related diversification.
- D) If unrelated diversification is to provide the gains comparable to those obtained from related diversification, a much larger corporate headquarters staff is required to coordinate interdivisional activities.

Answer: A

Page Ref: 228, 229

Difficulty: Hard

LO: 8-4

75) Which of the following statements is true regarding unrelated diversification?

- A) The bureaucratic costs associated with managing unrelated diversification are much greater than those associated with related diversification.
- B) An organization pursuing a strategy of unrelated diversification tries to obtain value by sharing resources or by transferring functional skills from one division to another.
- C) Organizations with a strategy of unrelated diversification are likely to use a conglomerate structure.
- D) Considerably more communication and coordination are needed to create value from unrelated diversification than from related diversification.

Answer: C

Page Ref: 227

Difficulty: Hard

LO: 8-4

76) In the case of related diversification, when the coordination problems become very severe, which of the following organizational structures is most likely to be used to increase integration?

- A) functional structure
- B) conglomerate structure
- C) multidivisional matrix structure
- D) product team structure

Answer: C

Page Ref: 229

Difficulty: Easy

LO: 8-4

77) Which of the following corporate-level strategies is most likely to have the lowest bureaucratic costs?

- A) related diversification
- B) forward vertical integration
- C) unrelated diversification
- D) backward vertical integration

Answer: C

Page Ref: 229

Difficulty: Easy

LO: 8-4

78) Which of the following strategies is most likely to have the highest bureaucratic costs?

- A) unrelated diversification
- B) backward vertical integration
- C) related diversification
- D) forward vertical integration

Answer: C

Page Ref: 229

Difficulty: Easy

LO: 8-4

79) In the context of global expansion strategies, which of the following strategies has the highest need to coordinate and integrate global activities?

- A) transnational strategy
- B) global strategy
- C) international strategy
- D) multidomestic strategy

Answer: A

Page Ref: 230

Difficulty: Easy

LO: 8-5

80) In the context of global expansion strategies, which of the following strategies involves R&D and marketing being centralized at home and all the other value-creation functions being decentralized to national units?

- A) multidomestic strategy
- B) vertical integration strategy
- C) market penetration strategy
- D) international strategy

Answer: D

Page Ref: 230

Difficulty: Easy

LO: 8-5

81) In the case global business, a _____ strategy is often used for situations in which both local responsiveness and cost reduction are needed. As per this strategy, some functions are centralized while others are decentralized at the global location best suited to achieving these objectives.

- A) transnational
- B) vertical integration
- C) market penetration
- D) product development

Answer: A

Page Ref: 230

Difficulty: Easy

LO: 8-5

82) Which of the following statements is true regarding a transnational strategy?

- A) A transnational strategy is focused on achieving both local responsiveness and cost reduction.
- B) Typically, the organizational structure used by a company implementing a transnational strategy is less complex than that used by a company implementing a multidomestic strategy.
- C) A transnational strategy does not require integration and coordination of activities on a global level.
- D) A global geographic structure is typically used by a company that is implementing a transnational strategy.

Answer: A

Page Ref: 230

Difficulty: Moderate

LO: 8-5

83) Which of the following statements is true regarding a global strategy?

- A) A global strategy is oriented toward cost reduction.
- B) A company pursuing a global strategy completely decentralizes control to subsidiaries and divisions in each country in which it operates.
- C) The bureaucratic costs incurred to solve communications and measurement problems are much higher for a company pursuing a global strategy than that pursuing a transnational strategy.
- D) The organizational structure required for pursuing a multidomestic strategy is more complex than that required for pursuing a global strategy.

Answer: A

Page Ref: 230, 231

Difficulty: Hard

LO: 8-5

84) Companies implementing which of the following global expansion strategies are most likely to require the most complex structure and control system?

- A) multidomestic strategy
- B) international strategy
- C) global strategy
- D) transnational strategy

Answer: D

Page Ref: 231

Difficulty: Easy

LO: 8-5

85) The _____ strategy does not require coordination of activities on a global level because value-creation activities are handled locally, by country or world region.

- A) international
- B) multidomestic
- C) global
- D) transnational

Answer: B

Page Ref: 231

Difficulty: Easy

LO: 8-5

86) A company pursuing a multidomestic strategy generally operates with a _____ structure.

- A) global matrix
- B) global product team
- C) multidivisional matrix
- D) global geographic

Answer: D

Page Ref: 232

Difficulty: Easy

LO: 8-5

87) A laundry detergent manufacturer established self-contained foreign divisions in every country in which it operates. Authority is decentralized to managers in each overseas division, and they devise the appropriate strategy for responding to the needs of the local environment.

This company is pursuing _____ a(n) strategy.

- A) multidomestic
- B) international
- C) global
- D) transnational

Answer: A

Page Ref: 232

Difficulty: Moderate

LO: 8-5

88) A steel producer implements a strategy to achieve economies of scale throughout its world operations. Which of the following structures should it adopt?

- A) global geographic
- B) global product group
- C) functional structure
- D) multidivisional matrix

Answer: B

Page Ref: 233

Difficulty: Easy

LO: 8-5

89) Which of the following statements is true regarding a global product group structure?

- A) Typically, a global product group structure is used by an organization that is implementing a transnational strategy.
- B) A global product group structure increases local responsiveness of an organization.
- C) A global product group structure allows different product groups to transfer and share their competences.
- D) A global product group structure lowers the bureaucratic costs associated with resource transfers between corporate headquarters and the company's global divisions.

Answer: D

Page Ref: 233, 234

Difficulty: Moderate

LO: 8-5

90) A global matrix structure is most appropriate for a company pursuing a(n) _____ strategy.

- A) multidomestic
- B) international
- C) global
- D) transnational

Answer: D

Page Ref: 234

Difficulty: Easy

LO: 8-5

91) What are the various sources of core competences?

Answer: The core competences of an organization are a product of the specialized resources and coordination abilities that it possesses and other organizations lack.

1. Specialized resources: Two kinds of resources provide an organization with core competences that give it a competitive advantage: functional resources and organizational resources.

Functional resources are the skills possessed by an organization's functional personnel.

Organizational resources are the company-specific skills and competence that give an organization a competitive advantage.

2. Coordination abilities: Another source of core competences is coordination ability. Effective coordination of resources leads to a competitive advantage.

Page Ref: 208, 209

Difficulty: Easy

LO: 8-1

92) What are the two types of specialized resources that provide an organization with core competences? Explain with an example.

Answer: Two kinds of resources provide an organization with core competences that give it a competitive advantage: functional resources and organizational resources.

Functional resources: Functional resources are the skills possessed by an organization's functional personnel. For example, the skills embedded in Google's many different software engineering teams constitute its single biggest functional resource. The quality of 3M's many different R&D groups is the source of its continued growth.

Organizational resources: Organizational resources are the company-specific skills and competence that give an organization a competitive advantage. They include the skills of a company's top-management team, the vision of its founder or CEO, and the possession of valuable and scarce resources such as land, capital reserves, and plant equipment. They also include intangibles such as a company's brand name and its corporate reputation. For example, brand names, like Coca-Cola and Toyota, and reputations, such as Google's and Microsoft's, are organizational resources that are unique and difficult to imitate.

Page Ref: 208, 209

Difficulty: Easy

LO: 8-1

93) What are the four levels of strategy?

Answer: The four levels of strategy are:

1. Functional-level strategy: Functional-level strategy is a plan of action to strengthen an organization's functional and organizational resources, as well as its coordination abilities, to create core competences.
2. Business-level strategy: Business-level strategy is a plan to use and combine an organization's functional core competences to position it so it has a competitive advantage in its domain or segment of its industry.
3. Corporate-level strategy: Corporate-level strategy is a plan to use and develop core competences so the organization not only can protect and enlarge its existing domain but can also expand into new domains.
4. Global expansion strategy: Global expansion strategy involves choosing the best strategy to expand into overseas markets to obtain scarce resources and develop core competences.

Page Ref: 211, 212

Difficulty: Moderate

LO: 8-4

94) Explain how effective culture is an important source of competitive advantage?

Answer: A competitor can easily imitate another organization's structure, but it is very difficult for a competitor to imitate another organization's culture, for culture is embedded in the day-to-day interactions of functional personnel. Culture is very difficult to control and manage, let alone imitate or copy, so a company that has an effective culture has an important source of competitive advantage.

The coordination abilities that stem from an organization's culture emerge gradually and are a product of many factors: an organization's property rights system, its structure, its ethics, and the characteristics of its top-management team. Because these factors can be combined in many different ways, reproducing another organization's culture is difficult.

Page Ref: 216, 217

Difficulty: Moderate

LO: 8-4

95) What are the different types of business-level strategies?

Answer: The different types of business-level strategies are:

1. Low-cost business-level strategy: It is a plan whereby an organization produces low-priced goods and services for all customer groups.
2. Differentiation business-level strategy: It is a plan whereby an organization produces high-priced, quality products aimed at particular market segments.
3. Focus strategy: Focus strategy involves specializing in one segment of a market and focusing all of the organization's resources on that segment.

Page Ref: 218, 219

Difficulty: Easy

LO: 8-2

96) What are the advantages of vertical integration?

Answer: Vertical integration is a strategy in which an organization takes over and owns its suppliers (backward vertical integration) or its distributors (forward vertical integration).

An organization that supplies its own inputs and/or disposes of its own outputs may be able to keep for itself the profits previously earned by its independent suppliers and distributors.

Moreover, production cost savings often arise when an organization owns its suppliers because, for example, inputs can now be designed so they can be assembled at a lower cost. Also, because it now controls the reliability and quality of inputs, this can save an organization a great deal of money if products eventually have to be repaired under guarantee. An organization can call attention to its uniqueness by making its products different from those of its rivals and this can be achieved with the help of backward or forward integration. Finally, taking over a supplier by vertical integration avoids problems that result when there are only a few suppliers in an industry who may try to take advantage of an organization by, for example, raising the prices of inputs or reducing their quality.

Page Ref: 225, 226

Difficulty: Moderate

LO: 8-3

97) What are the disadvantages of vertical integration?

Answer: Control of overlapping input and output domains enhances an organization's competitive advantage in its core domain and creates new opportunities for value creation. But an organization also needs to look at the bureaucratic costs associated with owning its suppliers and distributors.

The more an organization pursues vertical integration the larger it becomes, and the bureaucratic costs associated with managing the strategy rise sharply because of communication and coordination problems and the simple fact that managers are expensive to employ. Too much vertical integration can be a strategic mistake.

Page Ref: 226

Difficulty: Easy

LO: 8-3

98) What type of organizational structure is typically used by an organization that pursues the strategy of unrelated diversification?

Answer: When a company pursues unrelated diversification, it enters new domains that have nothing in common with its core domain. Organizations with a strategy of unrelated diversification are likely to use a conglomerate structure.

In a conglomerate structure, each unrelated business is a self-contained division. Because there is no need to coordinate activities between divisions, only a small corporate headquarters staff is needed. Communication is from the top down and occurs most often on issues that concern bureaucratic costs, such as decisions about the level of financial expenditure necessary to pursue new value-creation opportunities.

Page Ref: 226, 227

Difficulty: Easy

LO: 8-4

99) Explain the implementation of the multidomestic strategy of global expansion.

Answer: A multidomestic strategy is oriented toward local responsiveness. A company pursuing this strategy decentralizes control to subsidiaries and divisions in each country in which it operates to produce and customize products to local markets.

When a company pursues a multidomestic strategy, it generally operates with a global geographic structure. When using this structure, a company duplicates all value-creation activities and establishes an overseas division in every country or world area in which it operates. Authority is then decentralized to managers in each overseas division, and they devise the appropriate strategy for responding to the needs of the local environment. Managers at global headquarters use market and output controls, such as return on investment, growth in market share, and operation costs, to evaluate the performance of overseas divisions. On the basis of such global comparisons, they can make decisions about capital allocation and orchestrate the transfer of new knowledge among divisions.

One problem with a global geographic structure and a multidomestic strategy is that the duplication of specialist activities across countries raises a company's overall cost structure. Moreover, the company is not taking advantage of opportunities to transfer, share, or leverage its competences and capabilities on a global basis.

Page Ref: 232

Difficulty: Moderate

LO: 8-5

100) What are the disadvantages of the global product-group structure?

Answer: The main failing of the global product-group structure is that although it allows a company to achieve superior efficiency and quality, it is weak when it comes to responsiveness to customers because the focus is still on centralized control. Moreover, this structure makes it difficult for the different product groups to trade information and knowledge and to obtain the benefits from transferring, sharing, and leveraging their competences.

Page Ref: 234

Difficulty: Easy

LO: 8-5