

**Chapter 5**  
**MULTIPLE CHOICE**

1. In the U.S., family businesses generate what percent of the gross domestic product?
- 35
  - 49
  - 75
  - 80

ANS: PTS: 1 REF: p. 137 OBJ: 5-1 TYPE: C  
NAT: Analytic | Economic Environments

2. Which item is *not* an advantage of a family-owned business?
- shared culture
  - focus on the long-run
  - reduced cost of control
  - commitment

ANS: PTS: 1 REF: p. 139 OBJ: 5-1 TYPE: C  
NAT: Analytic | Dynamics

3. Which family characteristic may be in conflict with a business?
- competition is valued
  - taking advantage of opportunities
  - perpetuate traditions
  - All of the above may be in conflict.

ANS: PTS: 1 REF: p. 140 OBJ: 5-1 TYPE: C  
NAT: Analytic | Dynamics

4. In a family business, the interests of the family and the interests of the business are best described as
- overlapping.
  - conflicting.
  - coinciding.
  - having no relationship with each other.

ANS: PTS: 1 REF: p. 137 OBJ: 5-1 TYPE: C  
NAT: Analytic | Dynamics

5. People with higher levels of \_\_\_\_\_ and \_\_\_\_\_ commitment are more likely to support efforts to promote change to improve the company's performance and survival.
- need-, cost
  - desire-, obligation-
  - cost-, desire-
  - strategy-, cost-

ANS: PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: C  
NAT: Analytic | Dynamics

6. A(n) \_\_\_\_\_ commitment may motivate a person to go "beyond the call of duty" to protect or extend personal financial interests in the company.
- Need-based
  - Obligation-based
  - Cost-based
  - Strategy-based

ANS: PTS: 1 REF: p. 144 OBJ: 5-2 TYPE: D  
NAT: Analytic | Dynamics

7. The close relationship of business factors and family concerns in a family business has been described as
- separation of domains.
  - a generational gap.
  - an example of blood being thicker than water.
  - overlapping.

ANS: PTS: 1 REF: p. 137 OBJ: 5-1 TYPE: C  
NAT: Analytic | Dynamics

8. A benefit of a strong family relationships is the greater willingness of family members to
- adopt new operating methods when needed.
  - act generously in compensating nonfamily employees.
  - sacrifice salaries and dividends when necessary.
  - emphasize short-run profits.

ANS: PTS: 1 REF: p. 138 OBJ: 5-1 TYPE: C  
NAT: Analytic | Dynamics

9. Steve, Harry, and Chris, who own and operate a family auto parts store, are experiencing tough times during a downturn in the local economy. To help the store survive these conditions, the brothers agree to each take a 25 percent reduction in salary for a one-year period. This decision
- demonstrates a weakness of financial management.
  - illustrates an important advantage of a family business.
  - reveals a lack of customer orientation in a family business.
  - reflects a lessening of entrepreneurial ambition in second-generation businesses.

ANS: PTS: 1 REF: p. 138 OBJ: 5-1 TYPE: A  
NAT: Reflective Thinking | Dynamics

10. A founder's core values may become part of the family business culture because
- the founder typically knows what is best for the company's culture.
  - others in the firm absorb traditions and values established by the founder.
  - the values coincide with modern management theory.
  - family members follow family traditions without excessive analysis.

ANS: PTS: 1 REF: p. 141 OBJ: 5-2 TYPE: C  
NAT: Analytic | Dynamics

11. Those with a(n) \_\_\_\_\_ commitment are the most likely to work hard because of their passion for the business.
- need-based
  - strategy-based
  - cost-based
  - desire-based

ANS: PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: C  
NAT: Analytic | Dynamics

12. Family members who join the business because of a concern that they may not be able to reach career success on their own display a(n) \_\_\_\_\_ commitment.
- desire-based

- b. obligation-based
- c. need-based
- d. cost-based

ANS:                   PTS: 1                   REF: p. 142                   OBJ: 5-2 TYPE: D  
NAT: Analytic | Dynamics

13. A family member who feels he/she ought to pursue a career in the family business is expressing a(n) \_\_\_\_\_ commitment.
- a. desire-based
  - b. obligation-based
  - c. cost-based
  - d. need-based

ANS:                   PTS: 1                   REF: p. 142                   OBJ: 5-2 TYPE: D  
NAT: Analytic | Dynamics

14. A family member who believes that joining the business may be the best way to benefit from what the family firm has to offer is revealing a (n) \_\_\_\_\_ commitment.
- a. desire-based
  - b. obligation-based
  - c. cost-based
  - d. need-based

ANS:                   PTS: 1                   REF: p. 142                   OBJ: 5-2 TYPE: D  
NAT: Analytic | Dynamics

15. A common problem for a founder in passing the business on to a daughter or son is
- a. introducing the child to outsiders such as bankers.
  - b. finding a suitable position for the son or daughter within the business.
  - c. arranging the transition from part-time to full-time employment.
  - d. deciding whether the child has the necessary temperament and ability.

ANS:                   PTS: 1                   REF: p. 145                   OBJ: 5-3 TYPE: C  
NAT: Analytic | Dynamics

16. An inherent problem for couples involved in a family business is that
- a. conflicts in the business tend to carry over into family life.
  - b. hours of work may become longer for one person.
  - c. uneven division of labor i.e. one person is only responsible for the menial tasks.
  - d. some husbands find their masculinity threatened when their wives are better managers.

ANS:                   PTS: 1                   REF: p. 145                   OBJ: 5-3 TYPE: C  
NAT: Analytic | Dynamics

17. Jane and Joe are experiencing a strain with their family relationship after running their family business for 5 years. Which issue might be the most likely underlying cause of the tension?
- a. Jane is the CEO while her husband is the CPA.
  - b. Joe started the business but has stepped down from the CEO position.
  - c. Jane and Joe's roles have not been carefully defined as the business has grown.
  - d. Their difference of opinions about a business matter is spilling over into their family time.

ANS:                   PTS: 1                   REF: p. 145                   OBJ: 5-3 TYPE: A  
NAT: Reflective Thinking | Dynamics

18. In considering the role of younger family members, the best philosophy is to recognize that

- a. a child should have a right to a job in the business if he or she desires.
- b. no family member should be hired at any level.
- c. children should have a right to prove themselves.
- d. sibling rivalry will always be an issue with second-generation managers.

ANS: PTS: 1 REF: p. 146 OBJ: 5-3 TYPE: C  
NAT: Analytic | Dynamics

19. From the children's standpoint, one common reason that they may be reluctant to join the family firm is a desire to
- a. make a difference in another industry.
  - b. prove their abilities without family assistance.
  - c. make a higher rate of pay.
  - d. help the parent avoid favoritism.

ANS: PTS: 1 REF: p. 146 OBJ: 5-3 TYPE: C  
NAT: Analytic | Dynamics

20. Sibling rivalry in a family business
- a. rarely affects nonfamily members in the firm.
  - b. may create disagreements about business policy.
  - c. is unusual if roles are determined before the siblings join the business.
  - d. is often good because it spurs business competition within the organization.

ANS: PTS: 1 REF: p. 147 OBJ: 5-3 TYPE: C  
NAT: Analytic | Dynamics

21. As the spouse of the President of *Two Men and a Truck*, Neil Bergeron serves the family business in a typical but critical role of
- a. making impartial decisions on controversial business matters when his wife, Melanie, asks.
  - b. filling the role of a company director so as to provide balance in family matters.
  - c. mediating family disputes.
  - d. supporting Melanie through the many hours the business requires.

ANS: PTS: 1 REF: p. 149 OBJ: 5-3 TYPE: A  
NAT: Reflective Thinking | Dynamics

22. In a 2007 study on family unity, \_\_\_ percent of respondents said family members share the same values.
- a. 87%
  - b. 65%
  - c. 50%
  - d. 38%

ANS: PTS: 1 REF: p. 144 OBJ: 5-2 TYPE: C  
NAT: Analytic | Dynamics

23. Which statement is the most correct about in-laws and possible complications in a family business?
- a. Rarely do in-laws impact the business since they are only indirectly involved and have limited decision making responsibilities if at all.
  - b. In-laws may impact the business if they are employed in the firm and are responsible for decision making.
  - c. There will be a complication only when in-laws are competing against another family member for a promotion.

d. In-laws will impact the business as they increase the number of persons who are either directly or indirectly involved in the family business.

ANS: PTS: 1 REF: p. 148 OBJ: 5-3 TYPE: C  
NAT: Analytic | Dynamics

24. A document that states the principles intended to guide a family firm through times of crisis and change, including the succession process is called the
- business plan
  - articles of incorporation
  - family business constitution
  - corporate by-laws

ANS: PTS: 1 REF: p. 152 OBJ: 5-4 TYPE: D  
NAT: Analytic | Ethical and Legal

25. If the spouse is not actively involved in the family business, how can they best support the entrepreneur?
- Serve as the mediator between any children wanting to enter the business and the entrepreneur.
  - Be a good listener.
  - Mandate they are given a copy of the books each month.
  - All of the above roles should be done.

ANS: PTS: 1 REF: p. 149 OBJ: 5-3 TYPE: C  
NAT: Analytic | Dynamics

26. Concerning the need for good management in the family business, which “best practice” is best?
- Resist preparing successors for leadership to avoid demoralizing those who are not selected.
  - Maintain rigid guidelines based on family traditions to guide the company into the future.
  - Emphasize the attraction and retention of family members.
  - Stimulate new thinking and fresh strategic insights by promoting learning.

ANS: PTS: 1 REF: p. 150 OBJ: 5-4 TYPE: C  
NAT: Analytic | Dynamics

27. To avoid a stifling atmosphere for nonfamily employees in a family business, the owner should
- promote only nonfamily members.
  - avoid all special consideration for family members.
  - make clear the extent of opportunity for nonfamily members.
  - minimize discussion about future management changes.

ANS: PTS: 1 REF: p. 151 OBJ: 5-4 TYPE: C  
NAT: Analytic | Dynamics

28. To protect the interests of both the family and the business in a family business, the owner should
- recognize a basic obligation to supply the family with employment of some type.
  - refuse to hire family members but, instead, reward them with generous dividends.
  - personally make all personnel decisions affecting family members.
  - identify the positions, if any, that are reserved for members of the family.

ANS: PTS: 1 REF: p. 151 OBJ: 5-4 TYPE: C  
NAT: Analytic | Dynamics

29. A nonfamily employee of a family business complains that the recent promotion of a family member was unfair. The owner should
- enter into a discussion of the roles and opportunities for both family members and outsiders.
  - clarify that family members always have the inside track, even though this fact is disappointing to the bypassed employee.
  - get the employee to think more positively by describing other attractive features of the employee's job.
  - acknowledge that a tension always exists and that it can never be dealt with satisfactorily.

ANS: PTS: 1 REF: p. 151 OBJ: 5-4 TYPE: A  
NAT: Reflective Thinking | Dynamics

30. A family retreat is designed to
- bring family members together to openly discuss business matters.
  - focus on business matters while avoiding extensive communication.
  - control the lines of communication.
  - announce the latest policy decisions and other changes in the business.

ANS: PTS: 1 REF: p. 151 OBJ: 5-4 TYPE: C  
NAT: Analytic | Dynamics

31. Patricia, a nonfamily employee of a family business, is concerned about competing with family members for future career opportunities. To protect her personal interests, she should
- align herself with the CEO to hopefully know when new positions will become open.
  - ask that the owner/manager clarify the extent of opportunities considering her skill set.
  - seek assurances that she will receive first consideration for promotion, ahead of family members who are not as qualified.
  - be realistic enough to leave the firm and seek employment in a nonfamily business.

ANS: PTS: 1 REF: p. 151 OBJ: 5-4 TYPE: A  
NAT: Reflective Thinking | Dynamics

32. Family retreats, which open lines of communication,
- use the founding entrepreneur as a communication facilitator.
  - avoid discussing sensitive issues for best results.
  - involve family members but not in-laws.
  - may result in formation of a family council to continue discussion.

ANS: PTS: 1 REF: p. 152 OBJ: 5-4 TYPE: C  
NAT: Analytic | Dynamics

33. Which statement is true concerning the process of preparing a family successor for leadership in the family business?
- A specific date can be decided for a smoother transition between the successor and the current manager.
  - The process should be short for best result so as to not stall out any company momentum.
  - The process is best when the parties age as the next generation will be better prepared.
  - The process should be as long and drawn out as possible for the successor to be ready.

ANS: PTS: 1 REF: p. 155 OBJ: 5-5 TYPE: C  
NAT: Analytic | Ethical and Legal

34. A family business constitution is sometimes labeled a \_\_\_\_\_.  
a. business plan

- b. by-law guide
- c. family creed
- d. succession plan

ANS:                   PTS: 1                   REF: p. 153                   OBJ: 5-4 TYPE: D  
NAT: Analytic | Ethical and Legal

35. In preparing for succession, the senior generation should have accountability meaning that before a transfer of management occurs,
- a. the estate of the senior generation should be settled and audited.
  - b. the senior generation should hold the next generation accountable for their actions.
  - c. the business should have a formal audit of the financial statements.
  - d. the next generation should develop long term plans for leadership and be held to these plans.

ANS:                   PTS: 1                   REF: p. 155                   OBJ: 5-5 TYPE: C  
NAT: Analytic | Ethical and Legal

36. Senior management will be more receptive to the junior generation advancing if the junior generation
- a. decides what time is best for their personal lives.
  - b. prepares for ownership by concentrating on learning “big” picture skills as opposed to basic management skills.
  - c. designs life plans for themselves and the business that involves what happens if the business fails,
  - d. proactively shares their preparation for advancement and ask for advice for implementation.

ANS:                   PTS: 1                   REF: p. 156                   OBJ: 5-5 TYPE: C  
NAT: Analytic | Ethical and Legal

37. What step is best for parents to decrease succession conflict among children active in the firm and those who are not?
- a. Letting those not involved in the company have a larger portion of an inheritance outside of the company and allow those involved in daily operations have more ownership of the business.
  - b. Letting the next generation reach a consensus about management of the company.
  - c. Changing the ownership of the company so common (voting) stock is only given to those active in the company and others receive preferred (nonvoting) stock.
  - d. Making decisions based on tax considerations, not what is best for the next generation or the business.

ANS:                   PTS: 1                   REF: p. 156                   OBJ: 5-5 TYPE: C  
NAT: Analytic | Ethical and Legal

38. Which statement is true concerning using available family talent in the succession plan?
- a. Younger family members working in the business should realize that mistakes early on in their careers should be considered in their future advancement.
  - b. If the available talent is not sufficient inside the company, the owner must bring in outside leadership even if it is not perceived as a favorable decision by the family at large.
  - c. If a younger family member would like to advance their career by working on a new direction for the company, a negative decision by their parent means they should not discuss their ideas with the board of directors.
  - d. It is rare a younger member will have the skill set to rescue a struggling company; therefore they should not be considered for a succession plan.

ANS: PTS: 1 REF: p. 154 OBJ: 5-5 TYPE: C  
NAT: Analytic | Ethical and Legal

39. Jim, the founder of a family business specializing in real estate, is contemplating turning the business over to his five children. One possibility, the founder believes, is to divide ownership equally among the children. This action would
- be next to impossible as gaining consensus from six persons is difficult.
  - be inherently unfair if any of the children work in the company.
  - potentially hinder the future functioning of the business.
  - require a possible change in corporate structure since the company deals in real estate.

ANS: PTS: 1 REF: p. 156 OBJ: 5-5 TYPE: A  
NAT: Reflective Thinking | Dynamics

40. Fran and Bob (who are married) own and manage a cleaning service. A potential advantage of this arrangement is that
- differences of opinion about the business won't carry over into family lives since they will see each other more hours daily.
  - it affords the opportunity to share more of their lives and build something together.
  - the business isn't likely to dissipate their energies as they can each work on separate sections.
  - they can count on working fewer hours in the business.

ANS: PTS: 1 REF: p. 145 OBJ: 5-3 TYPE: A  
NAT: Reflective Thinking | Dynamics

41. As a college student, Billy works part time in his mother's garden supply wholesaling business during the year and full time in the summer. He would like to enter into the business after he graduates. Based on the text, should his mother agree to his plan?
- No, as he needs to work externally to build his confidence in taking over from nonfamily members.
  - No, as he should see if he can succeed with the family safety net and possibly gain knowledge in another industry.
  - Yes, as he would simply continue the tasks he does in the summer when he works full time.
  - Yes, as his talents have already been fully developed and shouldn't be wasted on another company.

ANS: PTS: 1 REF: p. 146 OBJ: 5-2 TYPE: A  
NAT: Reflective Thinking | Dynamics

42. A parent might attempt to resolve a transfer of ownership by giving active children in the firm's management \_\_\_\_\_ stock and giving nonactive children \_\_\_\_\_ stock.
- preferred, common
  - growth, speculative
  - common, preferred
  - more, less

ANS: PTS: 1 REF: p. 156 OBJ: 5-5 TYPE: C  
NAT: Analytic | Finance

43. Tom is taking over the family business because it is what his parents have wanted him to do. He is showing a(n) \_\_\_\_\_ commitment.
- cost-based
  - obligation-based



- c. desire-based
- d. need-based

ANS: PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: A  
NAT: Reflective Thinking | Dynamics

44. John is more likely to pursue a long-term career in the family business if he is motivated by a(n) \_\_\_\_\_ commitment.
- a. cost-based
  - b. obligation-based
  - c. desire-based
  - d. need-based

ANS: PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: C  
NAT: Analytic | Dynamics

45. John and his brother Jack started a produce farm 20 years ago and are thinking about retirement. Over time, their children have worked at the farm and so the cousins have started talking about taking over management. At present, this produce farm is an example of \_\_\_\_\_.
- a. co-preneur managed business
  - b. cousin consortium
  - c. owner-managed business
  - d. sibling partnership

ANS: PTS: 1 REF: p. 136 OBJ: 5-1 TYPE: A  
NAT: Reflective Thinking | Dynamics

46. Jan and Jill started a business 20 years. Jill recently stepped down; her daughter Jenny has agreed to start managing the company with Jan's help; and the eventual goal is for Jenny to run the entire company. This process between Jan and Jenny is called \_\_\_\_\_.
- a. sibling partnership
  - b. family consortium
  - c. mentoring
  - d. Two of the above are true.

ANS: PTS: 1 REF: p. 155 OBJ: 5-5 TYPE: A  
NAT: Reflective Thinking | Dynamics