

Chapter 8

1. What is one of the challenges of the maturity stage of any sale organization?
 - a. Avoiding any of the new concepts that will threaten traditional business activities
 - b. Maintaining the level of profitability to which the company is accustomed
 - c. Eliminating conflicts between long-term and new salespeople
 - d. Getting the new hires to use the tried and true methods of doing things
2. What is an advantage of being a sole proprietor?
 - a. Can personally reap the rewards of being in business
 - b. More personal liability
 - c. Vulnerability in case the owner becomes incapacitated
 - d. Lack of expertise and advice from other stakeholders in the business
3. Three brokers decided to form a real estate company. They want to limit their personal liability as well as insulate the company's profits from taxes. To achieve these goals, they can form
 - a. a sole proprietorship.
 - b. a limited partnership.
 - c. a general partnership.
 - d. a limited liability company.
4. An organization that functions as a sole legal entity and has perpetual existence and unlimited owners is
 - a. a limited partnership.
 - b. a sole proprietorship.
 - c. a corporation.
 - d. an S corporation.
5. What type of legal ownership is limited to a certain number of shareholders who must pay taxes on their own personal tax returns?
 - a. Limited partnership
 - b. Limited liability company
 - c. Corporations
 - d. S corporation
6. A relatively risk-free way to start up a business, provide name recognition, and supply the freedom to be an independent owner with a proven product or service is to
 - a. become a franchisee.
 - b. join the multiple listing service.
 - c. join a national corporation.
 - d. form a controlled business arrangement.
7. What is a disadvantage of becoming a franchisee?
 - a. Name recognition
 - b. Entry and exit fees and monthly referral fees
 - c. Purchasing power to assemble cross-marketing strategies
 - d. Technical expertise from the franchisor

8. What government agency, if any, requires that franchisors provide extensive information about their franchise in the uniform franchise offering circular (UFOC)?
 - a. Federal Trade Commission (FTC)
 - b. Department of Housing and Urban Development (HUD)
 - c. Department of Justice (DOJ)
 - d. No federal government agency mandates franchise disclosures, only state agencies

9. What type of arrangement could become an issue under the Real Estate Settlement Procedures Act?
 - a. Franchise offerings
 - b. Affiliating with a national corporation
 - c. Affiliated business arrangement
 - d. Cooperative listing services

10. An existing real estate company plans to expand its geographic territory. An excellent way to do this is to
 - a. acquire an existing company already located in the new territory.
 - b. open a second office, hiring new salespeople to staff it.
 - c. buy into a franchise organization.
 - d. form a new company with existing salespeople as the shareholders.

11. One of the riskiest ways to recruit experienced salespeople is to
 - a. affiliate with a multiple listing service.
 - b. join a franchise.
 - c. acquire another real estate company.
 - d. require a college degree.

12. What is one of the *MOST* difficult tasks when acquiring an existing business?
 - a. Evaluating its managers
 - b. Appraising its value
 - c. Assessing the condition of its office equipment
 - d. Avoiding rumors

13. An organization's internal structure reflects
 - a. the complexity of the company.
 - b. the profitability of the company.
 - c. the way the work of the business is organized.
 - d. the productivity of the company.

14. Since rumors begin to circulate before a merger or acquisition, the transition plan should include all of the following *EXCEPT*
 - a. bribery.
 - b. containment.
 - c. organization.
 - d. launch.

15. When the broker's business expanded, the broker realized that he needed to hire several nonselling staff to support administrative functions. The broker is not yet ready to hire a full-time sales manager. This type of organization is *MOST* likely
- a one-person organization.
 - a monolithic organization.
 - a decentralized organization.
 - a controlled business arrangement.
16. Many organizations today streamline their operations by forming a number of work groups or departments utilizing fewer layers of management. These organizations are called
- independent.
 - monolithic.
 - decentralized.
 - informal.
17. The order in which authority travels in an organization is known as
- the chain of command.
 - the line of authority.
 - the informal organization.
 - the staff of authority.
18. In a real estate organization, what authority is typically given to the people responsible for contributing directly to the achievement of the company's objectives?
- Staff authority
 - Support service authority
 - Line authority
 - Supervisory authority
19. The *BEST* way to ensure that workers know exactly what to do in the company is to
- give them a flow chart of the organization.
 - give them authority to make decisions.
 - allow them to be creative.
 - develop job descriptions for each position.
20. Why do people work outside the formal organizational structure?
- Right people are in charge
 - Work is not properly organized
 - People are fulfilling their responsibilities
 - Effective communications

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1. b One of the challenges of the maturity stage of any organization is maintaining the level of profitability to which it has become accustomed, let alone growing profit. Unfortunately, the competition and the marketplace may be moving in new directions. 150
2. a The broker who is in business as a sole proprietor can personally reap the rewards of being in business. The sole proprietor is exposed to more liability and cannot benefit from the expertise and advice from other stakeholders in the business. The business is vulnerable if the sole proprietor dies or becomes incapacitated. 152
3. d Limited liability companies (LLCs) are appealing alternatives to S corporations (S corps) and limited partnerships since they limit personal liability while sheltering the company's profits from taxes; the investors are members, rather than partners or shareholders, of the LLC. 152
4. c A corporation is a sole legal entity created under state laws, has perpetual existence, and limits liability of the individual owners. Unfortunately, the corporation pays taxes on its profits and so do the stockholders (i.e., double taxation). 154
5. d The S corporation offers the same first four advantages of a corporation and overcomes one of the major disadvantages, the double taxation, but the number of shareholders is limited. The investors in a limited liability company are members, rather than partners or shareholders, of the limited liability company. 154
6. a Real estate brokers choose to enter into a franchise for brand recognition, technical expertise, and exposure to more clients while still retaining ownership. 157
7. b The cost-benefit is not always apparent, especially the entry and exit fees, monthly royalties, and mandatory advertising costs; additionally, the brand may not have power in a particular marketplace. 158
8. a The FTC requires franchisors to provide a great deal of information about the franchise in a standardized format, known as the UFOC. Some states have similar requirements as well. 159
9. c An affiliated business arrangement (AfBA) is a network of interrelated companies, owned by one holding corporation, that offer services tied to a real estate transaction. Brokers must use caution when entering into AfBAs to avoid Real Estate Settlement Procedures (RESPA) problems. 161
10. a For the company doing the pursuing, joining forces with another may be the most suitable way to expand operations, gain managerial or staff talent, or gain other assets to strengthen the organization or its position in the marketplace. 162
11. c One of the riskiest ways to recruit experienced salespeople is to acquire another real estate company. Many times, other companies actively recruit the salespeople who are in a company that is being acquired, and they may defect to another company. 162
12. b One of the most difficult tasks when acquiring another company is determining the value of that company. Not all financial records may be available, and some may not be accurate. 164
13. c An internal operating structure is essentially the organization of work performed in that company. As the scope of work grows, the structure of the organization becomes more complex. Work has to be properly organized so the company can work efficiently but, most importantly, provides a structure that motivates and inspires the people who do the work. 167
14. a A transition plan needs to address several issues: containment, organization, and launch. It should not include bribery. 166
15. b A monolithic organization is a highly centralized operation, functioning as a single (mono) unit with the work structured to flow from one source of authority at the top of the organization. The one-person and one- to ten-agent organizations are monolithic in

the sense that one person at the top of the organization (e.g., the broker/owner) is the chief in charge of the entire scope of the organization's work. 170

16. c A decentralized organization consists of a number of work groups or departments with fewer layers of management at the top of the organization. They are often viewed as more functionally efficient. 172
17. a The chain of command establishes a formal hierarchy by charting how authority travels and by providing an orderly process for making decisions, issuing instructions, and commanding or directing work. 173
18. c Line authority is given to the people who are responsible for contributing directly to the achievement of the company's objectives; these work groups include the sales offices or the property management, leasing, or new construction departments. 173
19. d Job descriptions state how positions function and convert the scope of authority. They describe the activities for which the person is accountable. 174
20. b People work outside the formal organizational structure when work is not properly organized, when the wrong people are in positions of authority, and when people are not fulfilling their responsibilities. 176-177