# *CHAPTER 1*

# Cost Management and Strategic Decision Making Evaluating Opportunities and Leading Change

## ANSWERS TO REVIEW QUESTIONS

**1.1 Refer to the list of key terms at the end of Chapter 1 and the glossary.**

**1.2 The primary objective of cost management is to find opportunities for improvements in costs and customer value and to lead changes to achieve those opportunities.**

**1.3 The value chain is a way to describe relations among an organization's operations. The value chain describes how an organization assigns its resources to these operations and how one operation affects other operations. It is important for managers to understand the value chain because it can be the basis for competitive advantages and is the starting point for making improvements in the organization.**

**1.4 Strategic decision making involves obtaining and using resources to meet an organization's goals by exploiting its competitive advantages. Competitive advantages may be from lower cost operations, higher customer value, and ability to innovate. Examples of strategic decisions include a) outsourcing support services to gain a cost advantage, b) adding product features that customers value at low cost, and c) focusing resources on development or acquisition of new technology.**

**1.5 Cost management techniques include:**

- **Comparing performance over time and against competitors**
- **Benefit-cost analysis of plans and decision alternatives**
- **Value-chain analysis of alternative resource arrangements and processes**
- **Learning and educating others about the organization, its competitors, and its environment**
- **Measuring the expected efficiency of acquiring and using resources in alternative operations**
- **Identifying opportunities for improving the value and cost of new or existing products and services**
- **Leading organizational change**
- **Measuring actual outcomes of activities, products, and services**

- **Developing measures and methods for motivating and evaluating personnel**
- **Communicating the results of cost management activities effectively**
- **Explaining and interpreting differences between actual outcomes and plans or expectations**

**1.6** **Cross-functional teams are composed of individuals who bring diverse technical and personal attributes. Cross-functional teams provide wide representation of interests and diversity of perspective. Because of this diversity, cross-functional teams may generate more creative solutions to problems and identify more innovative opportunities than individuals or less diverse teams.**

**1.7** **Benefit-cost analysis compares expected benefits and costs using both quantitative and qualitative information. Long-term and short-term impact on strategic goals should be considered.**

**1.8** **Outsourcing portions of an organization's value chain means that payments are made to others for products or services and other resources that had been used to perform the outsourced operations have been freed up and may be saved or used for other operations. Contracts and other assurances (market forces, reputation) also have replaced internal control of the outsourced operations.**

**1.9** **Ethical standards can guide individuals' behavior when circumstances or others create pressures to make questionable decisions. An organization benefits from ethical standards by attracting and retaining individuals who share those standards and by providing a framework and climate for responsible decision making. Society benefits from ethical standards that are followed because trust and ethical behavior is the least cost prescription for efficient business relations.**

**1.10** **A code of ethics is a professional or organizational statement of values and prescribed behavior. An unethical person could perform adequately within an organization or profession by adhering to a code of ethics. However, a person with a strong set of ethical standards probably does not need a code of ethics to control his or her behavior. An ethical person can use a code of ethics to bolster his or her actions against those that might try to improperly influence behavior.**

**1.11** **The strategic missions of build, hold, harvest, and divest can represent different stages of an organization's lifecycle. The build mission is apparent when new ideas and products capture the marketplace and growth is rapid (but perhaps variable and risky). The hold mission is appropriate when the firm's ideas and products have become mainstream and the main task is to fend off imitators. The harvest mission signals a time to control costs and manage cash flow, probably to fund the next generation of new ideas and products. The divest mission signals the end of the lifecycle, at least for current owners and managers, and it is time to liquidate assets and fund new operations.**

**1.12** **Strategic advantages derive from unique capabilities, which are difficult to imitate, to create and deliver products. These unique capabilities can be the results of creating new knowledge (e.g., through R&D), imitation of others (e.g., reverse engineering and lower cost production), or by experimentation with new processes, products, or joint ventures with other firms. Maintaining competitive advantages is possible by staying ahead of competitors and by protecting proprietary knowledge and customer relations.**

**1.13** **Quantitative information may be expressed in numerical quantities, such as number of units, dollars of cost, and so on. Qualitative information describes attributes, such as color, perceived quality, taste, and so on.**

**1.14** **Kotter's eight elements of leading change are:**

1. **Identify a need for change**
2. **Create a team to lead and manage the change**
3. **Create a vision of the change and a strategy for achieving the vision**
4. **Communicate the vision and strategy for change and have the change team be a role model**
5. **Encourage innovation and remove obstacles to change**
6. **Ensure that short-term achievements are frequent and obvious**
7. **Use successes to create opportunities for improvement in the entire organization**
8. **Reinforce a culture of more improvement, better leadership, and more effective management**