

Strategic Management and Business Policy, 14e (Wheelen)
Chapter 2 Corporate Governance

1) The board of directors has an obligation to approve all decisions that might affect the long-run performance of the corporation.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

2) The term "corporate governance" refers to the relationship among the board of directors, top management, and the shareholders in determining the direction and performance of the corporation.

Answer: TRUE

Difficulty: Easy

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

AACSB: Ethical Understanding and Reasoning

3) The more active professional boards are being replaced by the board as a rubber stamp of the CEO.

Answer: FALSE

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

AACSB: Ethical Understanding and Reasoning

4) Succession planning for the board and top management team is one of the five responsibilities of the board of directors.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

5) Those directors who fail to act with due care and allow the corporation to be harmed may be held personally liable.

Answer: TRUE

Difficulty: Difficult

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

AACSB: Ethical Understanding and Reasoning

6) A 2011 McKinsey and Company survey found that less than 10 percent of a board's time is spent on strategy.

Answer: FALSE

Difficulty: Difficult

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

7) The lowest degree of involvement for a board of directors is the catalyst level of interaction.

Answer: FALSE

Difficulty: Easy

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

8) Generally, the smaller the corporation, the less active is its board of directors.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

AACSB: Reflective Thinking

9) Outside directors may be executives of other firms but are not employees of the board's corporation.

Answer: TRUE

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

10) Population theory states that problems arise in corporations because the agents (top management) are not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation.

Answer: FALSE

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

11) Agency theory suggests that the majority of a board needs to be from outside the firm.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

12) Stewardship theory proposes insiders tend to identify with the corporation and its success.

Answer: TRUE

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

13) A minority percentage of large corporations in the Americas and Europe may keep the firm's recently retired CEO on the board after retirement since there is a greater likelihood of a conflict of interest and less objectivity.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Reflective Thinking

14) The majority of outside directors are active or retired CEOs and COOs of other corporations.

Answer: TRUE

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

15) Codetermination has been used in Germany since the 1950s, but has not been used in the United States.

Answer: FALSE

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

16) A direct interlocking directorate occurs when two corporations have directors who also serve on the board of a third firm.

Answer: FALSE

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

17) Interlocking directorates are a useful method for gaining both inside information about an uncertain environment and objective expertise about potential strategies and tactics. They are, however, increasingly frowned upon because of the possibility of collusion.

Answer: TRUE

Difficulty: Difficult

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Ethical Understanding and Reasoning

18) While 97% of large U.S. corporations now use nominating committees to identify potential directors, this practice is not as common in Europe.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

19) The top criterion for selecting a good director in U.S. corporations is their willingness to challenge management when necessary.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

20) Approximately 68% of the top executives of the 100 largest U.S. companies hold the dual designation of chairman and CEO.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

21) The combined chair/CEO position is being increasingly criticized because of the potential for conflict of interest.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Ethical Understanding and Reasoning

22) A benefit of the increased disclosure requirements of the Sarbanes-Oxley Act has been more reliable corporate financial statements.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States

AACSB: Ethical Understanding and Reasoning

23) The SEC requires that the audit, nominating and compensation committees are staffed entirely by outside directors.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States

AACSB: Ethical Understanding and Reasoning

24) The role of the board of directors in the strategic management of the corporation is likely to be less active in the future.

Answer: FALSE

Difficulty: Easy

Chapter Objective: Discuss trends in corporate governance

25) Society increasingly expects corporate boards to balance the economic goal of profitability with the social needs of society.

Answer: TRUE

Difficulty: Easy

Chapter Objective: Discuss trends in corporate governance

AACSB: Ethical Understanding and Reasoning

26) Executive leadership is the directing of activities toward the accomplishment of corporate objectives.

Answer: TRUE

Difficulty: Easy

Chapter Objective: Explain how executive leadership is an important part of strategic management

27) Transformational leaders transform their organizations from market leaders in one industry to market leadership in another.

Answer: FALSE

Difficulty: Moderate

Chapter Objective: Explain how executive leadership is an important part of strategic management

28) The confidence levels of executive leaders may blind them to information that is contrary to a decided course of action; this may help to understand why overconfident CEOs are more likely to conduct mergers and acquisitions.

Answer: TRUE

Difficulty: Difficult

Chapter Objective: Explain how executive leadership is an important part of strategic management

AACSB: Application of Knowledge

29) Jeff Bezos, CEO of Amazon.com, uses the S team to engage in continuous strategic planning.

Answer: TRUE

Difficulty: Moderate

Chapter Objective: Explain how executive leadership is an important part of strategic management

AACSB: Application of Knowledge

30) Usually, the strategic planning staff is charged with supporting only top management in the strategic planning process.

Answer: FALSE

Difficulty: Moderate

Chapter Objective: Explain how executive leadership is an important part of strategic management

31) From the perspective of the public, the primary job of the board of directors is

A) to lend credence to the decisions of the executive committee.

B) dictated solely by legal requirements.

C) to act as representatives for public identification.

D) to closely monitor the actions of management.

E) insulated from legal judgments because management actually makes the decisions.

Answer: D

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

32) The relationship among the board of directors, top management, and shareholders is referred to as

A) corporate synergy.

B) corporate management.

C) corporate governance.

D) corporate strategy.

E) corporate responsibility.

Answer: C

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

AACSB: Ethical Understanding and Reasoning

33) The requirements of a board of directors vary significantly by country and by state; however, there is a developing consensus as to what the major responsibilities should be. Which of the following is NOT one of the responsibilities?

A) effective board leadership including the processes, makeup and output of the board

B) strategy of the organization

C) risk vs. initiative and the overall risk profile of the organization

D) becoming directly involved in managerial decisions

E) sustainability

Answer: D

Difficulty: Difficult

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

34) Which of the following statements is true regarding the board of directors?

A) The board is charged by law to act with due care.

B) If a director or the board as a whole fails to act with due care and, as a result, the corporation is in some way harmed, the careless director or directors can be held personally liable for the harm done.

C) Director liability insurance is often needed to attract people to become members of boards.

D) Directors must be aware of the needs of various constituent groups to balance all their interests.

E) all of the above

Answer: E

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

35) More than _____ of outside directors surveyed said that they had been named as part of a lawsuit against the corporation.

A) 40%

B) 50%

C) 60%

D) 70%

E) 80%

Answer: A

Difficulty: Difficult

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

36) A careless director or directors can be held personally liable for harm done to the corporation if they failed to act with

- A) codetermination.
- B) figurehead role.
- C) cumulative voting.
- D) accountability.
- E) due care.

Answer: E

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

AACSB: Ethical Understanding and Reasoning

37) Which of the following is NOT a task of the board of directors in strategic management?

- A) to monitor
- B) to implement
- C) to influence
- D) to initiate and determine
- E) to evaluate

Answer: B

Difficulty: Easy

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

38) Catalyst-level board of directors typically

- A) are less involved than active participation boards.
- B) take leading roles in establishing and modifying the company mission, objectives, and strategy.
- C) are involved in a limited degree of key decision making.
- D) are held to a greater degree of legal responsibility.
- E) experience more financial success than less involved boards.

Answer: B

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

AACSB: Analytical Thinking

39) A highly involved board does all of the following EXCEPT

- A) tends to be very active.
- B) provides advice when necessary.
- C) keeps management alert.
- D) takes their tasks of initiating and determining strategy very seriously.
- E) manage the every day operations of the organization.

Answer: E

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

AACSB: Analytical Thinking

40) The _____ boards typically never initiate or determine strategy unless a crisis occurs.

- A) rubber stamp
- B) active participation
- C) catalyst
- D) nominal participation
- E) minimal review

Answer: A

Difficulty: Easy

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

AACSB: Analytical Thinking

41) According to the text, most publicly owned large corporations today tend to have boards with what degree of involvement in the strategic management process?

- A) passive to minimal
- B) minimal to nominal
- C) rubber stamp type
- D) nominal to active
- E) active to catalyst

Answer: D

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

42) What percentage of public corporations have periodic board meetings devoted primarily to the review of overall strategy?

- A) 24%
- B) 34%
- C) 44%
- D) 64%
- E) 74%

Answer: E

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

43) When a board of directors is involved to a limited degree in the performance or review of selected key decisions, indicators, or programs of management, the degree of involvement is referred to as

- A) rubber stamp.
- B) nominal participation.

- C) active participation.
- D) minimal review.
- E) phantom.

Answer: B

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

AACSB: Analytical Thinking

44) Outside directors are defined as

- A) those individuals who scan the external environment.
- B) individuals on the board who are not employed by the board's corporation.
- C) those individuals with public relations responsibilities.
- D) board members who are also officers or executives employed by the corporation.
- E) individuals who organize and coordinate politically focused activities.

Answer: B

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

45) According to _____ theory, _____ directors tend to identify with the corporation.

- A) agency; inside
- B) corporate governance; inside
- C) stewardship; inside
- D) corporate governance; affiliated
- E) stewardship; outside

Answer: C

Difficulty: Difficult

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Reflective Thinking

46) Surveys of LARGE U.S. and Canadian corporations found outsiders make up what percentage of total board membership?

- A) 2%
- B) 30%
- C) 50%
- D) 80%
- E) 98%

Answer: D

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

47) The percentage of directors of small, publicly held U.S. corporations which are outsiders is approximately

- A) 2 - 12%.
- B) 20 - 40%.
- C) 40 - 60%.
- D) 60 - 80%.

E) 98 - 100%.

Answer: B

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

48) The theory which states that problems arise in corporations because top management no longer is willing to bear the brunt of their decisions unless they own a substantial amount of stock in the corporation is called

A) codetermination.

B) agency theory.

C) interlocking management theory.

D) strategic leadership theory.

E) ownership theory.

Answer: B

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

49) Research reveals that the likelihood of a firm engaging in illegal behavior or being sued declines

A) with a larger board.

B) with the addition of insiders on the board.

C) with the addition of outsiders on the board.

D) with a smaller board.

E) with a well-compensated board.

Answer: C

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Ethical Understanding and Reasoning

50) The average board member of a U.S. Fortune 500 firm serves on _____ board(s).

A) 3

B) 6

C) 9

D) 12

E) only 1

Answer: A

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

51) Board members who are not employed by the corporation, but handle the legal or insurance needs of the firm and are thus not true "outsiders," are what kind of directors?

A) affiliated directors

B) family directors

C) retired directors

D) management directors

E) interlocked directors

Answer: A

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Analytic Skills

52) Sixty-six percent of the outstanding stock in the largest U.S. and UK corporations is now owned by

- A) family directors.
- B) affiliated directors.
- C) institutional investors.
- D) retired directors.
- E) management directors.

Answer: C

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Reflective Thinking

53) _____ theory argues that senior executives over time tend to view the corporation as an extension of themselves.

- A) Population ecology
- B) Motivation
- C) Stewardship
- D) Agency
- E) Goal setting

Answer: C

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

54) An agency problem can occur when

- A) the desires and objectives of the owners and agents conflict.
- B) it is difficult or expensive for the owners to verify what the agent is actually doing.
- C) the owners and agents have different attitudes toward risk.
- D) executives do not select risky strategies because they fear losing their jobs if the strategy fails.
- E) all of the above

Answer: E

Difficulty: Difficult

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Reflective Thinking

55) Which of the following regions is the most globalized region of the world in terms of boards of directors with most companies having one or more non-national directors?

- A) Asia
- B) Middle East
- C) North American
- D) Pacific Rim
- E) Europe

Answer: E

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation
AACSB: Diverse and Multicultural Work Environments

56) What percentage of the 100 largest companies listed in 2011 had boards of directors with at least one woman member?

- A) 4%
- B) 20%
- C) 50%
- D) 82%
- E) 96%

Answer: E

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation
AACSB: Diverse and Multicultural Work Environments

57) A study by Korn/Ferry found that _____ of U.S. boards of directors had at least one ethnic minority member in 2007.

- A) 6%
- B) 26%
- C) 47%
- D) 78%
- E) 96%

Answer: D

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation
AACSB: Diverse and Multicultural Work Environments

58) The vast majority of inside directors are from all of the following EXCEPT

- A) lower-level operating employee.
- B) president of the corporation.
- C) vice-president of operational units.
- D) chief executive officer.
- E) vice-president of functional units.

Answer: A

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

59) Codetermination

- A) is the process by which both management and the board establish corporate strategic management.
- B) is the inclusion of a corporation's employees on its board.
- C) occurs when one or more individuals on one board also serve on other boards.
- D) is present when all board members are also employed by the corporation.
- E) occurs when minority shareholders concentrate their votes.

Answer: B

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

60) Which country pioneered the use of worker participation on corporate boards?

- A) England
- B) France
- C) Sweden
- D) Japan
- E) Germany

Answer: E

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

61) Under what circumstances does a DIRECT interlocking directorate exist?

- A) when both management and the board establish corporate strategic management
- B) when a corporation's employees are included on its board
- C) occurs when two firms share a director or when an executive of one firm sits on the board of a second firm
- D) when all board members are also employed by the corporation
- E) when two corporations have directors who serve on the board of a third firm

Answer: C

Difficulty: Difficult

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Analytical Thinking

62) Under what circumstances does an INDIRECT interlocking directorate exist?

- A) when both management and the board establish corporate strategic management
- B) when a corporation's employees are included on its board
- C) when one or more individuals on one board also serve on a board of a second firm
- D) when all board members are also employed by the corporation
- E) when two corporations have directors who serve on the board of a third firm

Answer: E

Difficulty: Difficult

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Analytical Thinking

63) The U.S. Clayton Act and Banking Act of 1933

- A) promote interlocking directorates by U.S. companies to foster better communications and working relationships.
- B) prohibit acts or contracts tending to create a monopoly.
- C) prevent unfair practices in interstate commerce.
- D) promote racial parity on the board of directors.
- E) prohibit interlocking directorates by U.S. companies competing in the same industry.

Answer: E

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

64) Which of the following is NOT descriptive of interlocking directorates?

- A) Interlocking directorates occur because large firms have a large impact on other corporations.
- B) Interlocking directorates are more common in small, family-owned companies.

C) Interlocking directorates are a useful method for gaining inside information about an uncertain environment.

D) Interlocking directorates occur in about 20% of the 1000 largest US firms.

E) Interlocking directorates provide objective expertise about a firm's strategy.

Answer: B

Difficulty: Difficult

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Reflective Thinking

65) The function of a nominating committee is to

A) find board members who have compatible viewpoints with management.

B) find outside board members for election by the stockholders.

C) search for internal employees who would provide valuable insight into the working operations of the corporation.

D) search for candidates who could bring prestige to the board.

E) find inside board members for election by the stockholders.

Answer: B

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

66) The percentage of large U.S. corporations using nominating committees to identify potential new directors is approximately

A) less than 6%.

B) 37%.

C) 57%.

D) 87%.

E) 97%.

Answer: E

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

67) A staggered board

A) increases the chances of a hostile takeover.

B) has only a portion of the board stand for election each year.

C) makes it easier for shareholders to curb a CEO's power.

D) is seen in less than 50% of U.S. boards.

E) all of the above

Answer: B

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Analytical Thinking

68) All of the following criteria reflect survey findings of the characteristics of a good director EXCEPT

A) willing to challenge management when necessary.

B) expertise on global business issues.

C) understands the firm's key technologies and processes.

- D) available for outside meetings to advise management.
- E) willing to always agree with executive decisions.

Answer: E

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

69) The average LARGE, publicly held U.S. corporation has around

- A) 7 directors.
- B) 10 directors.
- C) 19 directors.
- D) 25 directors.
- E) 30 directors.

Answer: B

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

70) The percentage of CEOs of the 100 largest companies who also serve as chairman of the board is

- A) less than 10%.
- B) approximately 20%.
- C) approximately 50%.
- D) approximately 68%.
- E) over 90%.

Answer: D

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

71) A lead director

- A) has not been a popular approach in the United Kingdom.
- B) creates a balance of power when the CEO is also Chair of the Board.
- C) has lost popularity in the United States since 2003.
- D) has no involvement in the CEO's evaluation.
- E) totally replaces the CEO position.

Answer: B

Difficulty: Difficult

Chapter Objective: Understand how the composition of a board can affect its operation

72) All of the following are true of the dual chair/CEO position EXCEPT

- A) it is being increasingly criticized because of the potential for conflict of interest.
- B) it endangers the ability to properly oversee top management.
- C) it is separated by law in Germany, the Netherlands, and Finland.
- D) it is more popular in American corporations than firms in the United Kingdom.
- E) firms with a dual chair/CEO role have significantly better stock performance.

Answer: E

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

AACSB: Reflective Thinking

73) The concept of the lead director originated in

- A) the United Kingdom.
- B) the United States.
- C) France.
- D) Sweden.
- E) Germany.

Answer: A

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

74) According to the text, which of the following is NOT a typical standing committee of boards of directors?

- A) audit committee
- B) compensation committee
- C) executive committee
- D) nominating committee
- E) public relations committee

Answer: E

Difficulty: Easy

Chapter Objective: Understand how the composition of a board can affect its operation

75) The New York Stock Exchange (NYSE) requires corporations to have

- A) a majority of the board be outsiders.
- B) cumulative voting.
- C) at least one employee director as a representative on the board.
- D) at least two outside directors providing stockholder representation.
- E) an audit committee composed entirely of independent, outside members.

Answer: E

Difficulty: Moderate

Chapter Objective: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States

AACSB: Ethical Understanding and Reasoning

76) The Sarbanes-Oxley Act was designed to protect

- A) retired workers from losing their pensions.
- B) CEOs from losing their golden parachutes.
- C) CEO salary increases.
- D) shareholders from the excesses and failed oversight of firms.
- E) corporations from misguided whistleblowers.

Answer: D

Difficulty: Moderate

Chapter Objective: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States

AACSB: Ethical Understanding and Reasoning

77) In implementing the Sarbanes-Oxley Act, the SEC required in 2003 that a company disclose

- A) the number of insiders on their PR committee.
- B) if it has adopted a code of ethics that applied to the CEO and the CFO.
- C) the CEO's pay.
- D) the CFO's pay.
- E) all of the above

Answer: B

Difficulty: Moderate

Chapter Objective: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States

AACSB: Ethical Understanding and Reasoning

78) Which of the following is NOT one of the four major issues researched by the S & P Corporate governance Scoring System?

- A) ownership structure and influence
- B) research and development initiatives
- C) financial stakeholder rights and relations
- D) financial transparency and information disclosures
- E) board structure and processes

Answer: B

Difficulty: Moderate

Chapter Objective: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States

AACSB: Ethical Understanding and Reasoning

79) The role of the board of directors in the strategic management of the corporation is likely to

- A) be more active in the future.
- B) be less active in the future.
- C) be nonexistent as planning departments take over.
- D) remain the same.
- E) shift more toward managing daily operations.

Answer: A

Difficulty: Moderate

Chapter Objective: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States

AACSB: Reflective Thinking

80) Which of the following is NOT a trend in corporate governance expected to continue?

- A) Institutional investors are becoming active on boards.
- B) Boards are getting more involved in shaping company strategy.
- C) Boards are getting larger.
- D) Shareholders are demanding that directors and top managers own more than token amounts of stock in the corporation.
- E) Outside directors are taking charge of annual CEO evaluations.

Answer: C

Difficulty: Moderate

Chapter Objective: Discuss trends in corporate governance

81) Which of the following is a trend in corporate governance?

- A) Boards are getting less involved in shaping corporate strategy.
- B) Shareholders are demanding that directors and top managers own less stock in the company.
- C) Boards are establishing mandatory retirement ages for board members.
- D) Boards are getting larger.
- E) Boards are looking for fewer members with international experience.

Answer: C

Difficulty: Moderate

Chapter Objective: Discuss trends in corporate governance

82) When calculating a "deserved pay" for CEOs based upon earnings growth and shareholder return, financial research firm Obermatt found that

- A) there is a negative correlation between CEO pay and company performance.
- B) there is a positive correlation between CEO pay and company performance.
- C) there is no correlation between CEO pay and company performance.
- D) CEO pay packages were rejected by 90% of shareholders.
- E) most compensation systems were aligned with the interests of shareholders.

Answer: C

Difficulty: Difficult

Chapter Objective: Explain how executive leadership is an important part of strategic management

83) All of the following are true of overconfident CEOs EXCEPT

- A) overconfident CEOs tend to charge ahead with mergers and acquisitions even though they are aware that most acquisitions destroy shareholder value.
- B) overconfident CEOs view their company as undervalued by outside investors.
- C) overconfident CEOs are more likely to do deals that diversify their firm's lines of businesses.
- D) the overconfidence of CEOs may lead to hubris.
- E) overconfident CEOs were less likely to make an acquisition when they could avoid selling new stock to finance them.

Answer: E

Difficulty: Difficult

Chapter Objective: Explain how executive leadership is an important part of strategic management

84) According to the text, one of the primary responsibilities of top management in strategic management is

- A) ensuring that day-to-day operations are efficient and well run.
- B) providing executive leadership.
- C) balancing the budget.
- D) managing the short-term planning process.
- E) making all important decisions.

Answer: B

Difficulty: Easy

Chapter Objective: Explain how executive leadership is an important part of strategic management

85) A description of what the company is capable of becoming is referred to as

- A) strategic vision.
- B) strategic concept.
- C) strategic mission.
- D) strategic flexibility.
- E) strategic familiarity.

Answer: A

Difficulty: Easy

Chapter Objective: Explain how executive leadership is an important part of strategic management

86) Which of the following provides an example of a transformational leader?

- A) Phil Knight at Nike has energized his corporation and commanded respect.
- B) Louis Gerstner proposed a new vision for IBM to change its business model from computer hardware to services.
- C) Microsoft CEO, Steve Ballmer, crawled under tables to plug in PC monitors and diagnosed problems with an operating system.
- D) Verizon Communications CEO Ivan Seidenberg showed his faith in his people by letting his key managers handle important projects and represent the company in public forums.
- E) all of the above

Answer: E

Difficulty: Easy

Chapter Objective: Explain how executive leadership is an important part of strategic management

AACSB: Application of Knowledge

87) Which of the following is NOT a key characteristic of transformational executive leaders?

- A) The CEO presents a role for others to identify with and to follow.
- B) The CEO communicates high performance standards for all employees.
- C) The CEO demonstrates confidence in the employees' abilities to meet the expressed high standards.
- D) The CEO energizes the board to formulate strategy.
- E) The CEO articulates a strategic vision for the corporation.

Answer: D

Difficulty: Moderate

Chapter Objective: Explain how executive leadership is an important part of strategic management

88) According to the research, in turbulent environments, the best type of planning is

- A) top-down strategic planning.
- B) bottom-up strategic planning.
- C) horizontal strategic planning.
- D) concurrent strategic planning.

E) composite strategic planning.

Answer: A

Difficulty: Moderate

Chapter Objective: Explain how executive leadership is an important part of strategic management

AACSB: Analytical Thinking

89) According to a survey of 156 large corporations, in what percentage of the firms were strategies first proposed in business units and then sent to headquarters for approval?

A) 10%

B) 36%

C) 50%

D) 66%

E) 96%

Answer: D

Difficulty: Easy

Chapter Objective: Explain how executive leadership is an important part of strategic management

90) For many large corporations the typical strategic planning staff has just fewer than how many people?

A) 5

B) 10

C) 7

D) 15

E) 3

Answer: B

Difficulty: Easy

Chapter Objective: Explain how executive leadership is an important part of strategic management

91) What are the responsibilities of the board of directors?

Answer: The five board of director responsibilities are effective board leadership; strategy of the organization; risk vs. initiative and the overall risk profile of the organization; succession planning for the board and top management team; and sustainability.

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

92) Explain the continuum of board involvement.

Answer: The board of directors continuum reflects the degree of involvement (from high to low) in the strategic management process. Boards can range from phantom boards with no real involvement to catalyst boards with a very high degree of involvement. Passive phantom or rubber stamp boards typically never initiate or determine strategy unless a crisis occurs.

Nominal participation reflects a board involved to a limited degree in the performance or review of selected key decisions, indicators, or programs of management. An active board approves, questions, and makes final decisions on mission, strategy, policies, and objectives. It also has active board committees and performs fiscal and management audits. The catalyst board takes the leading role in establishing and modifying the mission, objectives, strategy and policies. It also has a very active strategy committee.

Difficulty: Moderate

Chapter Objective: Describe the role and responsibilities of the board of directors in corporate governance

93) Contrast agency theory and stewardship theory.

Answer: Agency theory states that problems arise in corporations because the agents (top management) are not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation. The theory suggests that a majority of a board needs to be from outside the firm so that top management is prevented from acting selfishly to the detriment of the shareholders.

Stewardship theory proposed that, because of their long tenure with the corporation, insiders (senior executives) tend to identify with the corporation and its success. Rather than use the firm for their own ends, these executives are thus most interested in guaranteeing the continued life and success of the corporation.

Difficulty: Difficult

Chapter Objective: Understand how the composition of a board can affect its operation

94) Explain the difference between a direct and indirect interlocking directorate.

Answer: A direct interlocking directorate occurs when two firms share a director or when an executive of one firm sits on the board of a second firm. An indirect interlock occurs when two corporations have directors who also serve on the board of a third firm.

Difficulty: Difficult

Chapter Objective: Understand how the composition of a board can affect its operation

95) What are the criteria for selecting a good director?

Answer: Some of the top criteria provided by a survey for selecting a good director includes the following:

Willing to challenge management when necessary

Special expertise important to the company

Expertise on global business issues

Available for outside meetings to advise management

Understands the firm's key technologies and processes

Brings external contacts that are potentially valuable to the firm

Detailed knowledge of the firm's industry

High visibility in his or her field

Accomplished at representing the firm to stakeholders

Difficulty: Moderate

Chapter Objective: Understand how the composition of a board can affect its operation

96) Explain the impact of the Sarbanes-Oxley Act on corporate governance.

Answer: In response to the many scandals uncovered since 2000, the U.S. Congress passed the Sarbanes-Oxley Act in June 2002. This act was designed to protect shareholders from the excesses and failed oversight that characterized failures at Enron, Tyco, WorldCom, Adelphia Communications, Qwest, and Global Crossing, among other prominent firms. Several key elements of Sarbanes-Oxley were designed to formalize greater board independence and oversight. For example, the act required that all directors serving on the audit committees be independent of the firm and receive no fees other than for services as a director. Additionally, boards may no longer grant loans to corporate officers. The act also established formal procedures for individuals to report incidents of questionable accounting or auditing. Firms are prohibited from retaliating against anyone reporting wrong doing. Both the CEO and CFO must certify the corporation's financial information. The Act banned auditors from providing both external and internal audit services to the same company. The bill also required that firms identify whether they have a "financial expert" serving on the audit committee who is independent from management.

Difficulty: Difficult

Chapter Objective: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States

AACSB: Ethical Understanding and Reasoning

97) What are the responsibilities of top management?

Answer: Top management responsibilities involve getting things accomplished through and with others in order to meet the corporate objectives. Top management's job is thus multidimensional and is oriented toward the welfare of the total organization. Specific top management tasks vary from firm to firm and are developed from an analysis of the mission, objectives, strategies, and key activities of the corporation. Tasks are typically divided among the members of the top management team.

The CEO, with the support of the rest of the top management team, must successfully handle two primary responsibilities crucial to the effective strategic management of the corporation: (1) provide executive leadership and a strategic vision, and (2) manage the strategic planning process.

Difficulty: Moderate

Chapter Objective: Explain how executive leadership is an important part of strategic management