Test Bank for Strategic Management and Business Policy Globalization Innovation and Sustainability 15th Wheelen

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Strategic Management and Business Policy, 15e **(Wheelen et al.)**
Chapter 2 Corporate Governance

1) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Analytical thinking

2) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

3) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Analytical thinking

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4) Which of the following statements is *not* 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) More than half of all publicly traded companies in the United States are incorporated in New York, requiring that the corporation be managed in accordance with NY state laws.
Answer: E
Difficulty: Moderate
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Analytical thinking

5) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

6) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

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7) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

8) Catalyst-level boards 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Analytical thinking

9) 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 everyday operations of the organization.
Answer: E
Difficulty: Moderate
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Analytical thinking

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10) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

11) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

12) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

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13) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Analytical thinking

14) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

15) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

16) The more active professional boards are being replaced by the board as a rubber stamp of the CEO.
Answer: FALSE
Difficulty: Moderate
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

17) Succession planning for the board and top management team is one of the five responsibilities of the board of directors.
Answer: TRUE
Difficulty: Moderate
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

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18) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

19) A 2011 McKinsey and Company survey found that less than ten percent of a board's time is spent on current strategy.
Answer: FALSE
Difficulty: Difficult
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

20) The lowest degree of involvement for a board of directors is the catalyst level of interaction.
Answer: FALSE
Difficulty: Easy
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

21) Generally, the smaller the corporation, the less active is its board of directors.
Answer: TRUE
Difficulty: Moderate
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

22) What are the responsibilities of the board of directors?
Answer: The five board of directors' responsibilities are
1. Effective board leadership, including the processes, makeup and output of the board
2. Strategy of the organization
3. Risk vs. initiative and the overall risk profile of the organization
4. Succession planning for the board and top management team
5. Sustainability
Difficulty: Moderate
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
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23) 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
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

24) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

25) According to _____ theory, _____ directors tend to identify with the corporation and its success.
A) agency; inside
B) corporate governance; inside
C) stewardship; inside
D) corporate governance; affiliated
E) stewardship; outside
Answer: C
Difficulty: Difficult
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

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26) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

27) The percentage of directors of small, publicly held U.S. corporations who are outsiders is approximately
A) 2 - 12%.
B) 20 - 40%.
C) 40 - 60%.
D) 60 - 80%.
E) 98 - 100%.
Answer: B
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

28) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Analytical thinking

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29) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Ethical understanding and reasoning

30) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

31) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

32) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

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33) _____ 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

34) An agency problem can occur when
A) the desires and objectives of the owners and agents conflict.
B) there is too much oversight.
C) the owners and agents share the same attitudes toward risk.
D) executives select risky strategies because they fear losing their jobs if the strategy fails.
E) there is a dual role for the CEO and chair of the board.
Answer: A
Difficulty: Difficult
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Analytical thinking

35) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

36) Korn/Ferry International reported that amongst the 100 largest companies listed in 2011 _____ of boards of directors had at least one female director.
A) 4%
B) 20%
C) 50%
D) 82%
E) 96%
Answer: E
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Diverse and multicultural work environments

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37) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Diverse and multicultural work environments

38) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

39) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

40) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

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41) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Analytical thinking

42) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Analytical thinking

43) The U.S. Clayton Act and the 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

44) 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 U.S. firms.
E) Interlocking directorates provide objective expertise about a firm's strategy.
Answer: B
Difficulty: Difficult
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Analytical thinking

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45) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

46) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

47) 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) provides little continuity.
Answer: B
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Analytical thinking

48) All of the following reflect survey findings of the reasons for which individuals serve on a board EXCEPT
A) notoriety/prestige.
B) interested in the business.
C) make a difference.
D) willing to always agree with executive decisions.
E) stay active in the business community.
Answer: D
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

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49) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

50) What percent of boards now have truly independent chairs?
A) less than 10%.
B) approximately 30%.
C) approximately 50%.
D) approximately 75%.
E) over 90%.
Answer: B
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

51) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

52) 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
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53) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

54) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

55) Outside directors may be executives of other firms but are not employees of the board's corporation.
Answer: TRUE
Difficulty: Easy
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

56) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

57) Agency theory suggests that the majority of a board needs to be from outside the firm.
Answer: TRUE
Difficulty: Moderate
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AACSB: Application of knowledge

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58) Stewardship theory proposes insiders (senior leadership) tend to identify with the corporation and its success.
Answer: TRUE
Difficulty: Easy
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

59) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Analytical thinking

60) The majority of outside directors are active or retired CEOs and COOs of other corporations.
Answer: TRUE
Difficulty: Easy
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

61) Codetermination has been used in Germany since the 1950s, but has not been used in the United States.
Answer: FALSE
Difficulty: Easy
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

62) A direct interlocking directorate occurs when two corporations have directors who also serve on the board of a third firm.
Answer: FALSE
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

63) 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
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AACSB: Analytical thinking

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64) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

65) A survey of directors of U.S. corporations found that the main reason individuals serve on a board is for the compensation.
Answer: FALSE
Difficulty: Easy
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

66) By 2012, 56% of the S&P 500 boards had split the role of chairperson and CEO.
Answer: TRUE
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

67) The combined chairperson/CEO position is being increasingly criticized because of the potential for conflict of interest.
Answer: TRUE
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

68) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

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69) 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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

70) Why is the use of the combined Chair/CEO role being increasingly criticized?
Answer: The use of the combined Chair/CEO role is increasingly criticized because of the potential for conflict of interest. The CEO is supposed to concentrate on strategy, planning, external relations, and responsibility to the board. The Chairman's responsibility is to ensure that the board and its committees perform their functions as stated in the board's charter. Critics of having one person in both roles ask how the board can properly oversee top management if the Chairman is also a part of top management.
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Analytical thinking

71) 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
Learning Obj.: 2.3: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States
AACSB: Application of knowledge

72) 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
Learning Obj.: 2.3: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States
AACSB: Ethical understanding and reasoning

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73) 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
Learning Obj.: 2.3: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States
AACSB: Ethical understanding and reasoning

74) 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
Learning Obj.: 2.3: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States
AACSB: Ethical understanding and reasoning

75) 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
Learning Obj.: 2.3: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States
AACSB: Application of knowledge

76) A benefit of the increased disclosure requirements of the Sarbanes-Oxley Act has been more reliable corporate financial statements.
Answer: TRUE
Difficulty: Moderate
Learning Obj.: 2.3: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States
AACSB: Application of knowledge

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77) The SEC requires that the audit, nominating, and compensation committees be staffed entirely by outside directors.
Answer: TRUE
Difficulty: Moderate
Learning Obj.: 2.3: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States
AACSB: Application of knowledge

78) 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 (SOX) 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, which is independent from management.
Difficulty: Difficult
Learning Obj.: 2.3: Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States
AACSB: Ethical understanding and reasoning

79) 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 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
Learning Obj.: 2.4: Discuss trends in corporate governance
AACSB: Application of knowledge

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80) 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
Learning Obj.: 2.4: Discuss trends in corporate governance
AACSB: Application of knowledge

81) The role of the board of directors in reviewing, evaluating, and shaping corporate strategy is likely to be less active in the future.
Answer: FALSE
Difficulty: Easy
Learning Obj.: 2.4: Discuss trends in corporate governance
AACSB: Application of knowledge

82) Society increasingly expects corporate boards to balance the economic goal of profitability with the social needs of society.
Answer: TRUE
Difficulty: Easy
Learning Obj.: 2.4: Discuss trends in corporate governance
AACSB: Application of knowledge

83) 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 in the 100 S&P companies 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
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Analytical thinking

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84) 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
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Analytical thinking

85) 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
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

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
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

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87) 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
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

88) Individuals such as Phil Knight at Nike and Steve Jobs at Apple who energized their companies and provided change and movement by providing a vision for that change are known as
A) transformational leaders.
B) strategic implementers.
C) strategists.
D) corporate governors.
E) directors.
Answer: A
Difficulty: Easy
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

89) 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
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
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90) 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
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Analytical thinking

91) 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
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

92) 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
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

93) 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
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

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94) Executive leadership is the directing of activities toward the accomplishment of corporate objectives.
Answer: TRUE
Difficulty: Easy
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

95) Transformational leaders transform organizations from market leaders in one industry to market leadership in another.
Answer: FALSE
Difficulty: Moderate
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

96) The negative side of confident executive leaders is that their very confidence may lead to *hubris*, in which their confidence blinds them to information that is contrary to a decided course of action.
Answer: TRUE
Difficulty: Difficult
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

97) Jeff Bezos, CEO of Amazon.com, uses the S team (senior management) to engage in continuous strategic planning.
Answer: TRUE
Difficulty: Moderate
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

98) Usually, the strategic planning staff is charged with supporting only top management in the strategic planning process.
Answer: FALSE
Difficulty: Moderate
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

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99) What are the responsibilities of top management?
Answer: Top management responsibilities involve getting things accomplished through and with others to meet the corporate objectives. Top management's job is multidimensional and oriented toward the welfare of the total organization. Specific top management tasks vary from firm-to-firm and 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
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

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