TT TEXTBOOK TESTBANKS

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***Strategic Management and Business Policy, 16e* (Wheelen)**
Chapter 2 Corporate Governance

1) The board of directors has an obligation to
A) lend credence to the decisions of the executive committee.
B) make strategic decisions for the corporation.
C) act as representatives for public identification.
D) approve all decisions that might affect the long-term performance of the corporation.
E) insulate the corporation 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 in determining the direction and performance of the corporation 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: Challenging
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Analytical thinking

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

6) A board is charged by law to act with
A) codetermination.
B) affiliation.
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

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
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) In the continuum of board of directors, phantom level boards typically
A) have no degree of involvement.
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: A
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

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) Which type of boards are the most active in the board of directors' continuum?
A) Phantom
B) Rubber stamp
C) Minimal review
D) Catalyst
E) Active participation
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

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) A board is charged by law to make strategic decisions for the corporation.
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

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) In terms of the degree of involvement in strategic management, the phantom board is the most active.
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

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

19) Law and standards defining the responsibilities of boards of directors are uniform throughout the world.
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

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) A board can delineate a corporation's mission and specify strategic options to its management.
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 roles of the board in strategic management?
Answer: The role of the board of directors in strategic management is to carry out three basic tasks:
1. It should bring to management's attention developments from inside and outside the corporation that may have been overlooked. This is the monitoring role.
2. It evaluates and influences management's proposals, decisions, and actions.
3. It can delineate a corporation's mission and specific strategic options to its management. This is the initiation and determination role.
Difficulty: Moderate
Learning Obj.: 2.1: Describe the role and responsibilities of the board of directors in corporate governance
AACSB: Application of knowledge

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

26) The board of directors in a typical small U.S. corporation has ________ members.
A) 1-2
B) 6-7
C) 4-5
D) 8-9
E) 10-11
Answer: C
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 ________ members.
A) 2-3
B) 1-2
C) 3-4
D) 6-7
E) 8 or above
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) stewardship theory.
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

29) Research on family businesses has found that boards with a larger number of ________ tended to have better corporate governance and better performance than boards with fewer ________.
A) outsiders; outsiders
B) insiders; insiders
C) family members; non-family members
D) outsiders; insiders
E) insiders; outsiders
Answer: A
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Ethical understanding and reasoning

30) A survey of corporate directors found that 44% served on ________ board(s).
A) 2 or more
B) 6-7
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

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: Challenging
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) A 2018 Deloitte study of the board makeup of the Fortune 500 found that people of color held ________ of the corporate board of directors seats.
A) 4.8%
B) 20.23%
C) 50.09%
D) 33.25%
E) 19.5%
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

37) According to the Spencer Stuart executive recruiting firm, ________ of U.S. boards had an international director.
A) 6%
B) 26%
C) 33%
D) 78%
E) 96%
Answer: C
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 workers 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

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: Challenging
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: Challenging
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) What percentage of the 1000 largest U.S. firms shared at least one board member?
A) 45
B) 20
C) 5
D) 14
E) 30
Answer: B
Difficulty: Challenging
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Analytical thinking

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) In Europe, ________ percent of boards use nominating committees to identify potential directors.
A) 60
B) 30
C) 50
D) 87
E) 97
Answer: A
Difficulty: Moderate
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

49) ________ percent of U.S. boards have staggered boards.
A) 45
B) 63
C) 28
D) 37
E) 17
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 S&P 500 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 creates a balance in power when the CEO is also
A) the largest stockholder.

B) the Chair of the Board.
C) a board member.
D) the corporation's founder.
E) the chief financial officer (CFO).
Answer: B
Difficulty: Challenging
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
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

53) In which of the following countries is the combination of CEO and Chair roles (where one person takes on both roles) not banned by law?
A) The Netherlands
B) The United States
C) Finland
D) South Africa
E) Germany
Answer: B
Difficulty: Moderate
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 are sometimes called management directors.
Answer: FALSE
Difficulty: Easy
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

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

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) Outsiders tend to be more objective and critical of corporate activities.
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 inside directors are the chief executive officer and either the chief operating officer or the chief financial officer of the corporation.
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) An indirect interlocking directorate occurs when two corporations have directors who also serve on the board of a third firm.
Answer: TRUE
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: Challenging
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Analytical thinking

64) The practice of using nominating committees to identify potential directors is more common in Europe than in the United States.
Answer: FALSE
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

65) An argument in favor of staggered boards is that they make it more difficult for concerned shareholders to curb a CEO's power.
Answer: FALSE
Difficulty: Challenging
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

66) As of 2018, approximately 50% of the S&P 500 boards had split the role of chair 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 chair/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) In agency theory, how is conflict of interest different from moral hazard?
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. A conflict of interest arises when the desires or objectives of the owners and the agents conflict. In contrast, moral hazard refers to the situation where it is difficult or expensive for the owners to verify what the agents are actually doing.
Difficulty: Challenging
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Application of knowledge

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

70) What is the role of a lead director on a board?
Answer: In boards where the CEO and Chair positions are combined, a recommendation is that the outside directors elect a lead director. This person is consulted by the CEO/Chair regarding board affairs and coordinates the annual evaluation of the CEO. A lead director creates a balance in power when the CEO is also the Chair of the board.
Difficulty: Moderate
Learning Obj.: 2.2: Explain how the composition of a board can affect its operation
AACSB: Analytical thinking

71) Individuals who report incidents of questionable accounting or auditing in corporations are called
A) stakeholders.
B) whistleblowers.
C) auditors.
D) shareholders.
E) directors.
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

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

73) The Sarbanes-Oxley Act requires that a company disclose
A) the number of insiders on their PR committee.
B) whether it has an outside director who is a "financial expert" serving on the audit committee.
C) the CEO's pay.
D) the CFO's pay.
E) the COO's pay
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 examined 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) Minority shareholders have virtually no power in
A) large publicly owned corporations.
B) controlled corporations.
C) small publicly owned corporations.
D) technology corporations.
E) most publicly owned corporations.
Answer: B
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) The main purpose of the Sarbanes-Oxley Act was to protect the legal liabilities of directors in publicly owned corporations.
Answer: FALSE
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

77) Independent research using generally accepted measures of S&P's Corporate Governance Scoring System revealed that moving from the poorest to the best-governed categories had no effect on a firm's likelihood of receiving an investment-grade credit rating.
Answer: FALSE
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) Briefly describe what a "controlled company" is and its corporate governance implications.
Answer: A number of corporations are concerned that various requirements to improve corporate governance will constrain top management's ability to effectively manage the company. One approach to sidestepping new governance requirements is to become a "controlled company." This is a corporation in which an individual group or another company controls more than 50% of the voting shares. Such a firm is exempt from the requirements by the New York Stock Exchange and NASDAQ that a majority of the board and all members of key board committees be independent outsiders. In controlled companies, minority shareholders have virtually no power.
Difficulty: Challenging
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

80) A ________ is a term that refers to a dramatic event that empowers the current owners which will take place upon receiving an unwanted attempt at acquisition.
A) merger
B) poison pill
C) capitulation
D) takeover
E) greenmail
Answer: B
Difficulty: Moderate
Learning Obj.: 2.4: Discuss trends in corporate governance
AACSB: Application of knowledge

81) One trend in corporate governance is that corporate boards are getting bigger.
Answer: FALSE
Difficulty: Easy
Learning Obj.: 2.4: Discuss trends in corporate governance
AACSB: Application of knowledge

82) Identify and briefly describe any three recent trends in corporate governance.
Answer: One trend in corporate governance is that institutional investors (such as pension funds and mutual funds) are becoming active on boards and are putting increasing pressure on top management to improve corporate performance. A second trend is the demand from shareholders that directors and top managers own more than token amounts of stock in the corporation, in other words, to have more skin in the game. Finally, society, in the form of special interest groups, increasingly expects boards of directors to balance the economic goal of profitability with the social needs of society.
Difficulty: Moderate
Learning Obj.: 2.4: Discuss trends in corporate governance
AACSB: Application of knowledge

83) A large-scale research study that used more than 1500 companies with large market capitalization 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 large companies studied 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: A
Difficulty: Challenging
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Analytical thinking

84) ________ is when the confidence of executive leaders blinds them to information that is contrary to a decided course of action.
A) Overconfidence
B) Lethargy
C) Cognitive dissonance
D) Hubris.
E) Agency problems
Answer: D
Difficulty: Challenging
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Analytical thinking

85) ________ leadership is the directing of activities toward the accomplishment of corporate objectives.
A) Operational
B) Functional
C) Executive
D) Autocratic
E) Democratic
Answer: C
Difficulty: Easy
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

86) Leaders who provide change and movement in an organization by providing a vision for that change are called
A) transactional leaders.
B) transformational leaders.
C) functional leaders.
D) organizational leaders.
E) top leaders.
Answer: B
Difficulty: Moderate
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management

AACSB: Application of knowledge

87) A strategic vision is a description of what the company
A) has done in the past.
B) is doing currently.
C) is capable of becoming.
D) is doing in the marketplace.
E) is doing to be profitable.
Answer: C
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 Thasunda Brown Duckett at TIAA and Anita Roddick at The Body Shop 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
AACSB: Application of knowledge

90) According to the research, in stable environments, the most appropriate type of planning for multidivisional corporations is
A) top-down strategic planning.
B) bottom-up strategic planning.
C) horizontal strategic planning.
D) concurrent strategic planning.
E) composite strategic planning.
Answer: B
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) In what became clear was a mistake, Carly Fiorina used the power of her office and her considerable influence with a relatively weak board of directors to push through the Compaq Computer acquisition over the objections of the founders family and many significant shareholders. In this instance, Carly Fiorina is an example of a(n)
A) transformational leader.
B) overconfident leader.
C) transactional leader.
D) successful leader.
E) functional leader.
Answer: B
Difficulty: Moderate

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

93) Top management responsibilities, especially those of the CEO, involve getting things accomplished through and with others in order to meet the corporate objectives.
Answer: TRUE
Difficulty: Challenging
Learning Obj.: 2.5: Explain how executive leadership is an important part of strategic management
AACSB: Application of knowledge

94) Top management's enthusiasm (or lack of it) about the corporation tends to be contagious.
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: Challenging
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, 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

99) What are the key characteristics of transformational leaders?
Answer: Transformational leaders are those who provide change and movement in an organization by providing a vision for that change. They exhibit three key characteristics. The first is that they articulate a strategic vision for the corporation. They do this by envisioning the company not as it currently is but as it can become. The second is that they present a role for others to identify with and to follow. They empathize with followers and set an example in terms of behavior, dress, and actions. Finally, transformational leaders communicate high-performance standards and also show confidence in the followers' ability to meet these standards. They achieve this by empowering followers by raising their beliefs in their own capabilities.
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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