Concepts Instructor’s Manual

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Strategic Management and Business Policy

Globalization, Innovation, and Sustainability

Fourteenth Edition

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PART A

SUGGESTIONS FOR TEACHING STRATEGIC MANAGEMENT

SUGGESTIONS FOR TEACHING STRATEGIC MANAGEMENT

Strategic management...Business policy...Strategy. Whatever its name, it's typically considered a "capstone" course in most business schools. Its primary job is to examine a business firm as a whole and to integrate the various functional disciplines. It generally includes industry analysis and competitive strategy with a healthy dose of SWOT analysis. It may also include corporate governance and/or social responsibility and ethics, depending upon the instructor. The course is generally expected to take a practical view of how business corporations actually function "in the real world." Nevertheless, there are many ways to teach strategic management. Some people are strong proponents of "the case method." Others argue that simulations are the best method of giving students a "hands-on" understanding of strategic decision making. A number of instructors also use experiential exercises, group projects, and audio-visual presentations. Very few, if any, argue for a straight lecture/discussion type of strategy course at the undergraduate and master's level. Each approach, however, has its strengths and weaknesses.

Lecture/discussion, for example, is a good way to communicate a lot of information and to critically analyze theoretical concepts. In a strategy course, however, the emphasis is typically on developing integrative and problem-solving skills. This is a weakness of the lecture/discussion approach.

The *simulation*, in contrast, is an excellent method to develop these skills and to put learning in the hands of the student rather than in the hands of the instructor. It also emphasizes strategy implementation, an aspect of strategic management often receiving little emphasis in most strategy courses. Its weaknesses include turning the instructor from a teacher into an administrator. If teams are used, there is a strong tendency for students to let the "computer geeks" take charge of decision making as the objective turns from strategy making to "playing the game."

The Case Method

The most popular as well as the most perceived effective approach to teaching strategic management is the case method. Its strengths include a real-world orientation (believed to generate student involvement) and the ability to focus on developing decision making skills by taking an integrative and conceptual, yet action-oriented approach. This method may not go well, however, if the instructor is inexperienced in the use of cases and/or the students are not motivated to do more than a superficial reading of the cases. A capable case instructor must be able to force the typical student to go beyond satisficing at a very low level (e.g., "In my opinion, they ought to fire the CEO.").

If given a free rein, the average undergraduate tends to “Monday morning quarterback” the case. For example, if everyone knows that Hershey Foods successfully developed and marketed a new type of sugar-free candy this year, there is a strong tendency to recommend this solution rather than other alternative courses of action. As a result, an instructor new to the case method must ensure that students truly understand that the best solution to any case problem is <u>not</u> (a) the one the instructor mentions, (b) what the company actually did, or (c) the most obvious solution. The best solution comes from the best analysis. This means that the instructor must work hard to ensure that students don't take the easy route by merely stating the symptoms as if they were underlying problems and going immediately to their desired solution without regard for other alternatives.

Possible Course Syllabus and Outlines

A number of policy instructors, including us, have a strong bias in favor of 75-minute classes meeting twice a week. Open class discussion or oral presentations of complex strategy cases usually require at least an hour's worth of time. Given the usual rigmarole involved in starting and ending a class, it is very difficult to handle a case well in a 50-minute period unless the case is analyzed over two class sessions. The course outlines you see below have been developed with generic activities. Instructors should explore MyManagementLab to review all possible activities in which students can participate.

One other variable, which complicates the development of a course outline, is the decision concerning the timing of the lectures on strategic management. Some instructors choose to spend the first part of their course lecturing over the book while the students quickly read the chapters. Others attempt to intersperse lectures with case discussions or presentations. The key question seems to be: How much information do students need before they can competently analyze their first comprehensive strategic management case? This is completely up to the instructor. We believe that a use of the strategic audit will help students to competently analyze their first comprehensive case even if they have not gone beyond corporate strategy in Chapter 7. We have found this point to be a good time to begin oral presentations, for example. The first case should, however, emphasize strategy formulation over implementation and be reasonably easy to analyze with each following case increasing in difficulty.

SAMPLE COURSE SYLLABUS

COURSE TITLE: STRATEGIC MANAGEMENT

Class Times & Location:

Course Web Site:

Instructor Information:

Office & Office Hours:

COURSE DESCRIPTION:

This course serves as a cohesive map for strategic management. It is designed to integrate the accepted theories in the area with real world applications to provide students with the basic knowledge and skills needed for strategic management. Lecture and class assignments given in the course are intended to help students understand the needs of modern public and private organizations, including emerging national and international trends.

COURSE OBJECTIVES

By the end of the course, students should be able to understand the basic elements of planning and implementing strategy.

RESOURCES

TEXTBOOK: Strategic Management and Business Policy: Globalization, Innovation, and Sustainability, 14th Edition by T. Wheelen, J. Hunger, A. Hoffman, and C. Bamford.
SOFTWARE: MyManagementLab (This is an optional resource, see www.mymanagementlab.com for more information.)
LIBRARY & INTERNET RESOURCES: Students are encouraged to use the university library and the Internet for research and to complete assignments when necessary.

COURSE COMPONENTS

EXAMS: A designated number of exams and a final exam will test students' understanding of the materials discussed in class and in the assigned readings.

CASE ASSIGNMENTS: Students will answer discussion questions from case applications assigned in the text. The goal is for students to apply the information discussed to these real-world situations to the concepts and principles presented in the course.

IN-CLASS EXERCISES: Throughout the semester, students are expected to be prepared to discuss issues relevant to the course and to participate in team exercises. For these exercises, students will be required to be actively involved to receive credit – i.e., making substantive comments, answering questions, and preparing short presentations. Points will be awarded by the instructor based on individual and group participation. Students should bring their textbook to class as part of their participation grade. Material for in-class assignments can be found at the conclusion of each chapter – see Ethical Dilemmas and Team Exercises.

GRADING

	Percentage	*Points*
In-Class Exercises/Participation	10%	50
Case Assignments *(4 at 25 points each)*	20%	100
Exam(s)	50%	250
Final Exam	20%	100
TOTAL POINTS		500

NOTE:

- Class attendance and participation in class discussion is expected and absences will affect your final grade.
- The due dates for assignments are non-negotiable and late work will be penalized.
- All assignments are to be professional in appearance and typed to receive full credit.

COURSE POLICIES

CLASSROOM BEHAVIOR: Classroom behavior that interferes with either the instructor's ability to conduct the class or the ability of students to benefit from the instruction is not acceptable. Students engaging in improper classroom behavior may have points deducted from their total points in the course, or if the situation warrants, be reprimanded to the university's committee on student discipline.

ACADEMIC HONESTY AND APPEALS: Students are expected to maintain the highest standards of academic integrity. Behavior that violates these standards is not acceptable. Examples are the use of unauthorized material, communication with fellow students during an examination, attempting to benefit from the work of another student, and similar behavior that defeats the intent of an examination or other class work. Cheating on exams, plagiarism, improper acknowledgement of sources in essays, and the use of a single essay or paper in more than one course without permission are considered very serious offences and shall be grounds for disciplinary action as outlined in the current General Catalogue.

COURSE OUTLINE 16-WEEK COURSE: SEMESTER

Week	**Assigned Reading**	**Generic Activities – see MyManagementLab for actual activities that correspond with this text**
1	**Chapter 1** Basic Concepts of Strategic Management **Module** Management Strategy	In class discussion: Strategy (Chapter 1)
2	**Chapter 2** Corporate Governance Context: Constraints and Challenges	In class exercise: Building Constraints (Chapter 2)
3	**Chapter 3** Social Responsibility and Ethics in Strategic Management	Case #1 (Chapter 3)
4	**Chapter 4** Environmental Scanning and Industry Analysis	In class discussion: Scanning (Chapter 4)
5	**Chapter 5** Internal Scanning: Organizational Analysis	In class discussion: Working with Apple

6	**Chapter 6** Strategy Formulation: Situation Analysis and Business Strategy	Case #2 (Chapter 6)
7		Exam 1
8	**Chapter 7** Strategy Formulation: Corporate Strategy	In class discussion: Corporations Need Direction (Chapter 7)
9	**Chapter 8** Strategy Formulation: Functional Strategy and Strategic Choice	Case #1 (Chapter 8)
10		In class exercise: Developing Synergy (Chapter 8)
11	**Chapter 9** Strategy Implementation: Organizing for Action	In class exercise: Team Building (Chapter 9)
12	**Chapter 10** Strategy Implementation: Staffing and Directing	Case #2: Hiring Decisions (Chapter 10)
13	**Chapter 11** Evaluation and Control	In class exercise: Evaluating the Evaluation (Chapter 11)
14	**Chapter 12** Suggestions for Case Analysis	In class discussion: Using Financials (Chapter 12)
15	**Putting It All Together**	Case Presentation
Final Exam		

COURSE OUTLINE 12-WEEK COURSE: SEMESTER

Week	Assigned Reading	Generic Activities – see MyManagementLab for actual activities that correspond with this text
1	**Chapter 1** Basic Concepts of Strategic Management **Module** Management Strategy	In class discussion: Strategy (Chapter 1)
2	**Chapter 2** Corporate Governance Context: Constraints and Challenges	In class exercise: Building Constraints (Chapter 2)
3	**Chapter 3** Social Responsibility and Ethics in Strategic Management	Case #1 (Chapter 3)
4	**Chapter 4** Environmental Scanning and Industry Analysis	In class discussion: Scanning (Chapter 4)
5	**Chapter 5** Internal Scanning: Organizational Analysis	In class discussion: Working with Apple
6	**Chapter 6** Strategy Formulation: Situation Analysis and Business Strategy	Case #2 (Chapter 6)
7	**Chapter 7** Strategy Formulation: Corporate Strategy	Exam 1
8	**Chapter 8** Strategy Formulation: Functional Strategy and Strategic Choice	In class exercise: Developing Synergy (Chapter 8)
9	**Chapter 9** Strategy Implementation: Organizing for Action	Case #1 (Chapter 9)

10	**Chapter 10** Strategy Implementation: Staffing and Directing	In class exercise: Team Building (Chapter 10)
11	**Chapter 11** Evaluation and Control	Case #2: Developing Controls (Chapter 11)
12	**Chapter 12** Suggestions for Case Analysis	Putting it All Together
Final Exam		

PART B

CHAPTER NOTES

CHAPTER ONE

BASIC CONCEPTS OF STRATEGIC MANAGEMENT

This chapter sets the stage for the study of strategic management and business policy. It summarizes research supporting the conclusion that those corporations that are able to learn from their experiences and manage strategically perform at a higher level than corporations that do not. It describes a number of triggering events that act to initiate strategic change in most organizations. A normative model of strategic management is presented as the basic structure underlying the book. Key concepts are defined and explained as part of the discussion of the model. The chapter also introduces the strategic audit as a method of operationalizing strategic decision making.

LEARNING OBJECTIVES

1. Understand the benefits of strategic management
2. Explain how globalization and environmental sustainability influence strategic management
3. Understand the basic model of strategic management and its components
4. Identify some common triggering events that act as stimuli for strategic change
5. Understand strategic decision-making modes
6. Use the strategic audit as a method of analyzing corporate functions and activities

TOPICS OUTLINE COVERED

1. The Study of Strategic Management
    a. Phases of Strategic Management
    b. Benefits of Strategic Management
2. Globalization, Innovation, and Sustainability: Challenges to Strategic Management
    a. Impact of Globalization
    b. Impact of Innovation
    c. Impact of Sustainability
3. Theories of Organizational Adaptation
4. Creating a Learning Environment
5. Basic Model of Strategic Management
    a. Environmental Scanning
    b. Strategy Formulation
    c. Strategy Implementation
6. Initiation of Strategy: Triggering Events
    a. Evaluation and Control
    b. Feedback/Learning Process
7. Strategic Decision Making
    a. What Makes a Decision Strategic
    b. Mintzberg’s Modes of Strategic Decision Making
    c. Strategic Decision-Making Process: Aid to Better Decisions
8. The Strategic Audit: Aid to Strategic Decision Making

SUGGESTED ANSWERS TO MYMANAGEMENTLAB QUESTIONS

1-1. How do the three elements of Globalization, Innovation, and Sustainability impact your understanding of Strategy?

Globalization is the integrated internationalization of markets and corporations. As more industries become global, strategic management is becoming more important in keeping track of international developments and positioning a company for long-term competitive advantage. Innovation is meant to describe new products, services, methods and organizational approaches that would position a company to achieve strong returns. Sustainability refers to a set of business practices that focus on the triple bottom line for an organization. Each of these is a new frontier that is impacting the way in which businesses develop and implement strategy.

1-2. Organizational strategy can be divided roughly into two categories: a) formulation and b) implementation. While there is legitimate crossover between the two, how would you characterize the issues involved in each effort?

There are four basic phases of strategic management. Phase 1 is basic financial planning, phase 2 is forecast-based planning, phase 3 is externally-oriented strategic planning, and phase 4 is strategic management. Phases 1, 2, and 3 are all considered part of the formulation category. Each of these stages suggests the need to scan the internal and external environment and develop a plan adapting to projections and forecast. The last phase, strategic management, is about the choices an organization makes to implement the planned strategy. In this stage, everyone across the organization is enlisted to support the strategic goals.

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

1-3. Why has strategic management become so important to today's corporations? (LO 1)

Research indicates that organizations that engage in strategic management generally outperform those that do not. The attainment of an appropriate match or fit between an organization's environment and its strategy, structure, and processes has positive effects on the organization's performance. The three most highly-rated benefits of strategic management are a clearer sense of a firm's strategic vision, a sharper focus on what is strategically important, and an improved understanding of a rapidly changing environment. As the world's environment becomes increasingly complex and changing, strategic management is used by today's corporations as one way to make the environment more manageable.

1-4. How does strategic management typically evolve in a corporation? (LO 1)

Strategic management in a corporation appears to evolve through four sequential phases according to Gluck, Kaufman, and Walleck. Beginning with basic financial planning, it develops into forecast-based planning, then into externally-oriented planning, and finally into a full-blown strategic management system. The evolution is most likely caused by increasing change and complexity in the corporation's external environment. The phases are thus likely to be characterized by a change from primarily an inward-looking orientation in the first phase to primarily an outward-looking orientation in the third phase, and to a more integrative orientation in the final strategic management phase with equal emphasis on both the external and internal environments.

1-5. What is a learning organization? Is this approach to strategic management better than the more traditional top-down approach in which strategic planning is primarily done by top management? (LO 3)

Simply put, a learning organization is one that is able to learn from its experiences. In reality, it is much more complicated. The text points out that learning organizations are skilled at four main activities: (1) systematic problem solving; (2) experimenting with new approaches; (3) learning from their own experience and past history as well as from the experiences of others; and (4) transferring knowledge quickly and efficiently throughout the organization. This means that people at all levels, not just top management, need to be involved in strategic management - by helping to scan the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures, and evaluation techniques. Research indicates that those organizations that are willing to experiment and able to learn from their experiences are more successful than those that do not.

Top-down strategic management assumes that only top management is in a position to contribute to strategic planning. This approach can work reasonably well in a bureaucratic organization with very little horizontal communication. Top-down strategic planning forces all units to get involved in the planning process and makes sure that all units fit into the overall corporate mission, objectives, strategies, and policies. A limitation of the top-down approach is that all motivation comes from the top and lower units may simply go through the motions in order to please the boss. The likelihood of fresh, new strategic concepts at lower levels of the organization becomes less, the more the stimulus for strategic planning comes from above.

1-6. Why are strategic decisions different from other types of decisions? (LO 5)

Strategic decisions deal with the long-run future of the entire organization and have three characteristics that differentiate them from other types of decisions: (1) they are rare – strategic decisions are unusual and typically have no precedent to follow; (2) they are consequential – strategic decisions commit substantial resources and demand a great deal of commitment; and (3) they are directive – strategic decisions set precedents for lesser decisions and future actions throughout the organization. See *Top Decisions: Strategic Decision-Making in Organizations* by Hickson, Butler, Cray, Mallory, and Wilson for further discussion.

1-7. When is the planning mode of strategic decision making superior to the entrepreneurial and adaptive modes? (LO 5)

The planning mode is generally superior to the entrepreneurial and adaptive modes when the organization is fairly large, when knowledge is spread throughout the organization, and when the organization has at least a moderate amount of time to engage in strategic planning. The book proposes that the planning mode is more rational and thus a better way of making most strategic decisions. It may not, however, always be possible. The entrepreneurial mode can be very useful when time is short, when one person or group is able to grasp the essentials of the business and its environment, and that person or group is able to influence the rest of the organization to accept its strategic decision. The adaptive mode is generally not considered to be very effective in most situations, but seems to be the fallback mode when entrepreneurial or planning modes can't operate effectively because of political infighting or lethargy.

ADDITIONAL DISCUSSION QUESTIONS FOR INSTRUCTORS

These are not found in the text and may be used by the instructor for classroom discussion or exams.

A1-1. Describe the triple bottom line. (LO 1)

The term used to describe a business' sustainability is the triple bottom line. John Elkington coined the phrase in 1994 to suggest that organizations do pay attention to three different bottom lines. These include: (1) Traditional profit/loss; (2) People Account – social responsibility of the organization; and (3) Planet Account – the environmental responsibility of the organization. This has become increasingly important for organizations today. For instance, companies seek LEED certification for their buildings and mold a reputation for being friendly to the world. LEED certification is available to buildings that are created to be self-sustaining, with little impact on the environment.

A1-2. What is meant by a *hierarchy of strategy*? (LO 3)

A hierarchy of strategy is a term used to describe the interrelationships among the three levels of strategy (corporate, business, and functional) typically found in large business corporations. Beginning with the corporate level, each level of strategy forms the strategic environment of the next level in the corporation. This means that corporate level objectives, strategies, and policies form a key part of the environment of a division or business unit. The objectives, strategies, and policies of the division or unit must therefore be formulated so as to help achieve the plans of the corporate level. The same is true of functional departments that must operate within the objectives, strategies, and policies of a division or unit.

A1-3. Does every business firm have business strategies? (LO 1)

Every business firm should have a business strategy for every industry or market segment it serves. A business strategy aims at improving the competitive position of a business firm's products or services in a specific industry or market segment. Firms must therefore have business strategies even if they are not organized on the basis of operating divisions. Nevertheless, it is still possible that some business firms do not have clearly stated business strategies. If they hope to be successful, however, they must have at least some rudimentary (even though unstated) position they take in terms of getting and keeping customers or clients.

A1-4. What information is needed for the proper formulation of strategy? Why? (LO 3)

In order to properly formulate strategy, it is essential to have information on the important variables in both the external and internal environments of the corporation. This includes general forces in the societal environment as well as the more easy-to-identify groups such as customers and competitors in the task environment. A corporation needs to have this information in order to identify a need it can fulfill via its corporate mission. It is also important to have information on the corporation's structure, culture, and resources. A corporation needs to have this information in order to assess its capabilities to satisfy a customer's need by making and/or distributing a product or service. Information on both the internal and external environments can also help a corporation predict likely opportunities and threats. Long-term strategies can be designed with these in mind.

A1-5. Reconcile the strategic decision-making process depicted in Fig. 1.5 with the strategic management model depicted in Fig. 1.2. (LO 3, LO 6)

The strategic management model depicts the key input variables (internal and external environments) and the key output factors (mission, objectives, strategy, and policies). It shows how strategy formulation, implementation, and evaluation and control are related, and how a change in any one factor (e.g., corporate objectives) affects other factors (e.g., strategies, policies, programs, budgets, procedures, evaluation and control techniques). This model, however, does not depict how these output factors are generated. In contrast, the strategic decision-making model depicts how the process of strategic management happens in the form of strategic decisions. It is a series of interrelated activities depicted as eight distinct steps. These two models therefore complement one another and are very useful in increasing one's understanding of strategic management.

SUGGESTIONS FOR STRATEGIC PRACTICE EXERCISE

This end of chapter exercise is a good way to motivate students to apply some of the concepts in the chapter, particularly those from the strategic management model. Decisions are made every day, but not all decisions are seen as strategic ones.

The text states that strategic decisions are (1) rare, (2) consequential, and (3) directive. These deal with the long-term future of the entire organization. To aid in the decision making, the authors suggest an eight step decision-making process. Found on page 25 in the text, these include: (1) evaluating current performance results; (2) reviewing corporate governance; (3) scanning and assessing the external environment; (4) scanning and assessing the internal corporate environment; (5) analyzing the strategic factors; (6) generating and selecting the best alternative strategy; (7) implementing selected strategies; and (8) evaluating implemented strategies. These guidelines for making and evaluating decisions at a strategic level can be important for leaders.

Most people in business on most days deal with company tactics and decisions at a level that is not strategic. However, every decision made by every employee in a company ultimately impacts the success of the strategy for that company. As pointed out by Malcolm Gladwell in his book *The Tipping Point*, it is the collection of thousands of decisions all aimed in relatively the same direction that can lead a company to the achievement of a strategy. How do you decide what type of decision is strategic?

Open today’s issue of *The Wall Street Journal* and look for an article about new moves being made by a corporation, specifically the decisions that are strategic. At what level is each of the decisions that you identified? Functional/Business/Corporate? Why do you believe this to be the case? What is your assessment of these decisions? Will they be effective? Why? How have you decided this?

This is a good exercise to encourage students to begin analyzing the strategic decision-making process. This exercise serves two purposes. It gets everyone up to speed in terms of identifying “real world” strategic decisions. It also forces them to re-read Chapter 1 to get a solid understanding of what differentiates a good from a poor strategic decision. Encourage them to use the models presented in the chapter to justify their reasoning. You can give them this assignment on the first day of class and then use the second day to discuss Chapter 1 and the various strategic decisions people have found. This is a good way to encourage student participation in the class.

CHAPTER TWO

CORPORATE GOVERNANCE

This chapter describes the basic governance mechanisms of the corporation: the board of directors and top management. These are the people who are primarily tasked with the strategic management process if the corporation is to have long-term success in accomplishing its mission. The responsibilities of both are described and explained. It proposes a board of directors' continuum on which boards can be placed in terms of their involvement in strategic management. Agency theory is contrasted with stewardship theory. The chapter explains how the composition of the board can affect both its performance and that of the corporation. It also describes the impact of the Sarbanes-Oxley Act on corporate governance in the U.S. and trends in corporate governance around the world. Top management is discussed in terms of executive leadership, strategic vision, and managing the strategic planning process.

LEARNING OBJECTIVES

1. Describe the role and responsibilities of the board of directors in corporate governance
2. Understand how the composition of a board can affect its operation
3. Describe the impact of the Sarbanes-Oxley Act on corporate governance in the United States
4. Discuss trends in corporate governance
5. Explain how executive leadership is an important part of strategic management

TOPICS OUTLINE COVERED

1. Role of the Board of Directors
    a. Responsibilities of the Board
    b. Members of a Board of Directors
    c. Nomination and Election of Board Members
    d. Organization of the Board
    e. Impact of the Sarbanes-Oxley Act on U.S. Corporate Governance
    f. Trends in Corporate Governance
2. The Role of Top Management
    a. Responsibilities of Top Management

SUGGESTED ANSWERS TO MYMANAGEMENTLAB QUESTIONS

2-1. What are the roles and responsibilities of an effective and active Board of Directors?

The board of directors is required by law to direct the affairs of the corporation, but not to manage them. Stuart has written that a board is responsible for (1) effective leadership, (2) strategy of the organization, (3) the balance of risk and initiative, (4) succession planning, and (5) sustainability. The role of the board is to carry out three basic tasks: (1) monitor; (2) evaluate and influence; and (3) initiate and determine.

2-2. What are the issues that suggest the need for oversight of a particular company's management team?

The board of directors holds the top management team responsible for implementing and guiding the strategy set forth. There are several red flags that would indicate the need for oversight of a management team. When the corporate objectives are not being met, management teams may be at fault. When a clear vision is not articulated, the CEO must be responsible. Also, when the strategic planning process is not being monitored by the top management team, oversight may be called for.

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

2-3. When does a corporation need a board of directors? (LO 1)

A board of directors is needed to protect the interests of the corporation's owners, its shareholders. By law, when a company incorporates, it must have a board of directors – even if the stock is only held by the founder and his/her spouse. A good case can be made that a small, closely-held corporation has no need for a board. Since the owners are likely to compose both top management and board membership, the board becomes superfluous at best, and may even create more problems than it solves by getting in the way of management's quick response to opportunities and threats. The board meets only to satisfy legal requirements. Even when stock is more widely owned in a publicly-held corporation, the board may be composed of nothing but a few insiders who occupy key executive positions and a few friendly outsiders who go along with the CEO on all major issues. Nevertheless, the rationale for the board of directors seems to be changing from simply one of safeguarding stockholder investments to a broader role of buffering the corporation from its task environment and forcing management to manage strategically. If nothing else, the board can do the corporation a great service by simply offering top management a different point of view. The board's connections to key stakeholders in the corporation's task environment can also provide invaluable information for strategic decision making. This is the main reason why advisory boards are often used by companies that are not incorporated and thus have no shareholders.

2-4. Who should and should not serve on a board of directors? What about environmentalists or union leaders? (LO 2)

This is a wide-open question with no simple answer. Some may argue that representatives from each stakeholder group in the corporation's task environment should be included so as to keep top management aware of key environmental considerations. Others may argue that only outsiders with no personal stake in the corporation (i.e., not a member of a local bank or a key supplier, etc.) would be best able to bring the amount of objectivity needed to help make strategic decisions. This is the point of view taken in the U.S. by the Sarbanes-Oxley Act. A good argument can be started by suggesting that a representative from labor be a director. This is done in Germany. If this makes some sense, who should it be – a union member who is an employee of the corporation or an employee of another corporation? If the firm is not unionized, what then? Further discussion can be generated by suggesting that the composition of the board reflects the key demographics of the corporation's workforce in terms of race, sex, and age. Environmentalists could provide excellent information to top management, but could be a problem if they argue only for environmental considerations without regard to the corporation's other stakeholders.

This question provides the instructor with the opportunity to get the class involved in a discussion of agency and stewardship theories. *Agency theory* suggests that insiders should be kept to a minimum and that the board be heavily composed of objective outsiders who own large blocks of stock. Because of their stake in corporate decisions, affiliated directors would not be considered for board membership. This would ensure that the board would primarily represent shareholder interests and objectively monitor the "hired hands" serving as top management. This is the point of view taken by the Sarbanes-Oxley Act in the U.S. In contrast, stewardship theory views top management as concerned "stewards" of the corporation – people who may have a greater concern for the corporation as a whole and its survival than do the shareholders, and who may only be interested in earnings per share and little else. *Stewardship theory* suggests that the board should be composed of people who can provide important information from the task environment and valuable insight to top management. It would work to consider interests beyond shareholder value.

2-5. Should a CEO be allowed to serve on another company's board of directors? (LO 2)

The majority of outside directors are active or retired CEOs of other corporations. The chapter states that the average board member of a U.S. Fortune 500 firm serves on three boards and that only 40% of U.S. boards limit the number of directorships a board member many hold in other corporations. CEOs from other firms are highly valued because they can provide excellent advice to the CEO. Having a CEO from another firm serve on a corporation's board of directors results in an interlocking directorate between the two corporations. The text points out that this is a good way to obtain inside information about an uncertain environment and objective expertise about potential strategies and tactics. For these and other reasons, well-interlocked firms are better able to survive in a highly competitive environment. This is a good reason for allowing a firm's CEO to serve on the boards of other companies. The CEO is likely to bring back information and contacts that can be very useful to the corporation.

There is a down side, however, to allowing a CEO to sit on the boards of other firms. For one thing, serving on another company's board requires time and energy devoted to something other than the job he/she is paid to fulfill. Given the increasing pressure placed on board members, such service is becoming increasingly onerous. Because of this, the typical CEO now sits on only one board in addition to his/her own – down from two additional boards in the 1990s. Consequently, a board should work closely with its CEO to decide which other boards are most useful to the company for the CEO to join.

2-6. What would be the result if the only insider on a corporation's board were the CEO? (LO 2)

One result would be a board composed primarily of outsiders who would be objective, but also dependent upon the CEO for information about the company and its activities. Thanks to Sarbanes-Oxley and other actions by the New York Stock Exchange, this appears to be a trend in most U.S. Fortune 500 companies. As of 2007, the typical U.S. Fortune 500 board had an average of ten directors, only two of whom being insiders. The number of insiders tends to be higher for boards in other countries. Even when a CEO might be the sole insider on the board, he/she still has a great deal of influence because the CEO usually also serves as the Chairman of the Board. Nevertheless, an increasing number of boards are selecting a "lead director" to oversee the evaluation of top management, so this can counter the dual CEO/Chair's power. A positive result of the CEO being the only insider on a board is that the board would be more likely to be objective and serious about its responsibility to oversee the corporation's management. A negative result would be the lessened opportunity to view potential successors in action or to obtain alternate points of view to management decisions.

2-7. Should all CEOs be transformational leaders? Would you like to work for a transformational leader? (LO 5)

According to the text, top management must successfully handle two responsibilities that are crucial to the effective strategic management of the corporation: (1) provide executive leadership and a strategic vision and (2) manage the strategic planning process. The text further argues that successful CEOs often provide this executive leadership by taking on many of the characteristics of the transformational leader by communicating a clear strategic vision, demonstrating a strong passion for the company, and communicating clear directions to others. Such transformational leaders, like Bill Gates at Microsoft, Steve Jobs at Apple, and Anita Roddick at The Body Shop, have been able to command respect and energize their employees. They not only articulated a strategic vision, but they also presented a role for others in the company to identify with and follow. Their communication of high performance standards coupled with their confidence in their fellow employees often raised performance to a high level. Nevertheless, such transformational leaders can be very difficult to work for and their overconfidence may even get the firm in trouble. Their forcefulness may drive other competent people away when they fail to allow for differences of opinion. Hint to the instructor: Once the class has discussed the pros and cons of transformational leaders, ask them how many would like to work for such an executive? Use Donald Trump as an example ("You're fired!"). You may be surprised by the number of people who would *not* like to work for such a CEO.

ADDITIONAL DISCUSSION QUESTIONS FOR INSTRUCTORS

These are not found in the text and may be used by the instructor for classroom discussion or exams.

A2-1. What recommendations would you make to improve the effectiveness of today's boards of directors? (LO 2)

The following are among the many suggestions often made:

- Add more outsiders (people not affiliated with the corporation) to the board of directors. Keep the percentage of insiders (typically top management) to less than 50% of board membership.
- Separate the positions of CEO and Chairman so that top management cannot unduly influence the

board's meetings and agenda. This should improve the board's ability to properly evaluate top management. If the Chair can't be separated from the CEO, select a Lead Director from among the outside directors.

- Use a committee composed of outsiders to nominate potential new directors. This will help to ensure that potential members are not friends of top management who may owe more allegiance to the CEO than to the shareholders.
- Nominate people to the board who have knowledge valuable to the board and who have expertise of value to top management. These should be people who will have the respect of top management and who can both advise and criticize top management as needed. Make sure that they are diverse in terms of background and experience.
- Require board members to own substantial amounts of stock in the corporation to ensure that they have a personal as well as professional stake in the welfare of the corporation.
- Allow shareholders to nominate people for election to director.

A2-2. Is there a conflict between Agency Theory and the concept of organizational stakeholders? (LO 2)

Agency theory is concerned with problems that occur in relationships between principals (owners) and their agents (top management). Because agents are, in effect, "hired hands," their interests are not usually aligned with those of the owner (stockholders) of a corporation. Consequently, agency theory is primarily interested in ways to better align these two sets of interests, such as management owning significant shares of stock or having a strong financial stake in the long-term performance of the corporation via long-term incentive plans. This helps to ensure that management looks beyond selfish short-term benefits of a decision to the more strategic issues that concern stockholders. The *concept of organizational stakeholders*, in contrast, looks at more than just owners and managers. It argues that groups other than stockholders and top management have a significant stake in the actions of the corporation and need to be considered in strategic decisions. What might benefit owners and management might hurt employees, the local community, or the environment. The concept of stakeholders thus proposes that the suggestions of agency theory are incomplete and insufficient to ensure that top management deals fairly not only with stockholders, but also with the needs of all concerned stakeholder groups. As it is currently defined, agency theory is more in agreement with Milton Friedman's narrow view of the responsibilities of a corporation than with the stakeholder view more common to concerns of social responsibility. (See Chapter 3 for Friedman's view of corporate responsibility.) This could change if society begins to consider top management not only as direct agents for stockholders, but also as indirect agents for other groups with a stake in the corporation's activities. Agency theory could thus be expanded to include the concerns of other interested groups and thus incorporate the stakeholder approach.

SUGGESTIONS FOR STRATEGIC PRACTICE EXERCISE

The end of chapter exercise asks the student to evaluate the "best" and the "worst" manager for whom the student has worked. The questionnaire is based on the concept of French and Raven's "bases of power." This concept is usually discussed in Introduction to Management as well as in Organizational Behavior textbooks as a part of their discussion of leadership. You may need to briefly explain what each base means as part of your discussion of their scores. Briefly, *reward power* is based on someone's ability to give another something that is valued for doing what the other person wants. *Coercive power* is based on someone's ability to give someone something that is disliked if the other person does not do what is desired. *Legitimate power* is like authority in that it is based on one person's belief that another person has the right to ask him/her to do something. *Referent power* is like charisma in that it is one person's ability to get others to identify with him/her and to want to be like that person. *Expert power* is based on a person's knowledge or abilities in an area that is important for job performance and that the person is willing to share with someone else.

List the five bases of power on the board. Ask around five members of the class to provide you with their scores for their "best manager" on each of the bases. Write their totals under each of the five bases on the board and then calculate the average for each base. Do the same thing for the same five students for their "worst boss." In most instances, the average "best boss" will score higher than the average "worst boss" on referent, expert, and reward power, and lower on coercive and legitimate power. Since the "best manager" tends to have many of the characteristics of the transformational leader, this questionnaire provides some interesting information to use in answering the fifth discussion question: *Would you like to work for a transformational leader?*

ADDITIONAL TEACHING MODULE

CORPORATE GOVERNANCE STYLES

Just as boards of directors vary widely on a continuum of involvement in the strategic management process, so do top management teams. For example, a top management team with a low involvement in strategic management will tend to be functionally oriented and will focus its energies on day-to-day operational problems; this type of team is likely either to be disorganized or to have a dominant CEO who continues to identify with his or her old division. In contrast, a top management team with high involvement will be active in strategic planning. It will try to get division managers involved in planning so that top management will have more time to scan the environment for challenges and opportunities.

Both the board of directors and top management can be placed on a matrix that reflects four basic styles of corporate governance.

Styles of Corporate Governance

Degree of Involvement by Top Management

High	Entrepreneurship Management	Partnership Management
Low	Chaos Management	Marionette Management
	Low	High

Degree of Involvement by Board of Directors

Chaos Management

When both the board of directors and top management have little involvement in the strategic management process, their style is referred to as *chaos management*. The board waits for top management to bring it proposals. Top management is operationally oriented and continues to carry out strategies, policies, and programs specified by the founding entrepreneur who died years ago. The basic strategic philosophy seems to be, "If it was good enough for old J.B., it's good enough for us." There is no strategic management being done here.

Entrepreneurship Management

A corporation with an uninvolved board of directors but a highly involved top management has *entrepreneurship management*. The board is willing to be used as a rubber stamp for top management's decisions. The CEO, operating alone or with a team, dominates the corporation and its strategic decisions. An example is Control Data Corporation under the leadership of its founder, William C. Norris. For twenty-nine years, Norris dominated both the company's top management and its board of directors. Insisting that the company could profit by addressing "society's unmet needs," Norris directed corporate investments into the rejuvenation of ghettos and support of wind-powered generators and tundra farming, among other projects. Although these investments tended to result in losses, few people were willing to challenge his strategic decisions. Some employees even referred to him as "the Pope." A former Control Data executive noted, "More often than not, he's proven his critics wrong, so now his visions aren't challenged."

Marionette Management

Probably the rarest form of strategic management style, *marionette management* occurs when the board of directors is deeply involved in strategic decision making, but top management is primarily concerned with operations. Such a style evolves when a board is composed of key stockholders who refuse to delegate strategic decision making to the president. The president is forced into a COO role and can do only what the board allows him/her to do. This style also occurs when a board fires a CEO but is slow to find a replacement. The COO or executive vice-president stays on as "acting" president or CEO until the selection process is complete. In the meantime, strategic management is firmly in the hands of the board of directors.

Marionette management occurred at Winnebago Industries when the company's board of directors, chaired by its founder, 72-year-old John K. Hanson, took away Ronald Haugen's title as chief executive officer but left him as company president. No new CEO was named. Hanson, whose family owned 46% of Winnebago's stock, had given up the CEO title in 1983 to President Haugen, a long-time employee. Outside observers noted that although Chairman Hanson did not also hold the title of CEO, he appeared to have taken on the CEO's responsibilities once again.

Partnership Management

Probably the most effective style of strategic management, *partnership management* is epitomized by a highly involved board and top management. The board and top management team work closely to establish the corporate mission, objectives, strategies, and policies. Board members are active in committee work and utilize strategic audits to provide feedback to top management on its implementation of agreed-upon strategies and policies. This appears to be the style in a number of successful corporations such as Texas Instruments, Target, and General Electric Company.