Chapter 2 - Strategic Leadership

TRUE/FALSE

1. Different approaches to leadership by CEOs such as Jack Welch and Sam Walton demonstrate the profound influence strategic leaders can have on an organization.

   ANS: T PTS: 1 DIF: med REF: p. 34
   OBJ: 1 NOT: application

2. Strategic leadership is the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary.

   ANS: T PTS: 1 DIF: med REF: p. 35
   OBJ: 1 NOT: knowledge

3. Strategic leadership entails the set of assumptions, premises, and accepted wisdom that bounds or frames a manager's understanding of the firm.

   ANS: F PTS: 1 DIF: med REF: p. 35
   OBJ: 1 NOT: knowledge

4. Effective strategic leaders are willing to make candid, courageous, yet pragmatic, decisions—decisions based mostly on the leader's seasoned intuition.

   ANS: F PTS: 1 DIF: med REF: p. 37
   OBJ: 2 NOT: comprehension

5. A manager's decision discretion is influenced by his or her own characteristics, environmental sources external to the firm, and characteristics of the Board of Directors.

   ANS: F PTS: 1 DIF: hard REF: p. 37
   OBJ: 2 NOT: comprehension

6. Firm size, firm age, tolerance for ambiguity, and commitment to strategic outcomes are all examples of characteristics of the organization that may affect managerial discretion.

   ANS: F PTS: 1 DIF: hard REF: p. 37
   OBJ: 2 NOT: comprehension

7. External environmental factors that may affect managerial discretion include industry structure, rate of market growth, and degree of product differentiation.

   ANS: T PTS: 1 DIF: hard REF: p. 37
   OBJ: 2 NOT: comprehension

8. In addition to determining new strategic initiatives, top-level managers also develop the appropriate organizational structure and reward systems of a firm.

   ANS: T PTS: 1 DIF: med REF: p. 40
   OBJ: 3 NOT: knowledge

9. The more heterogeneous and the larger the top management team, the easier it is to implement strategy effectively.

ANS: F PTS: 1 DIF: hard REF: p. 42
OBJ: 3 NOT: comprehension

10. The more homogeneous a top management team, the more likely those managers will be innovative and willing to pursue strategic change.

ANS: F PTS: 1 DIF: med REF: p. 41
OBJ: 3 NOT: comprehension

11. Heterogeneous top management teams are more likely to change their firm's strategies when necessary and to support innovation.

ANS: T PTS: 1 DIF: med REF: p. 41
OBJ: 3 NOT: comprehension

12. It is very uncommon for a CEO to appoint a number of outside board members.

ANS: F PTS: 1 DIF: med REF: p. 42
OBJ: 4 NOT: comprehension

13. The experience that results from long tenure in a firm is known to extend the breadth of an executive's knowledge base.

ANS: F PTS: 1 DIF: med REF: p. 44
OBJ: 4 NOT: comprehension

14. Selection of an insider as a new CEO indicates a firm's desire to encourage innovation and strategic change.

ANS: F PTS: 1 DIF: med REF: p. 46
OBJ: 4 NOT: comprehension

15. When a new CEO is selected from outside the firm, a change of strategy is likely, especially if the top management team is homogenous and highly cohesive.

ANS: F PTS: 1 DIF: hard REF: p. 46
OBJ: 4 NOT: comprehension

16. An organization leader's new vision must take into account the current and core competencies of the firm.

ANS: T PTS: 1 DIF: med REF: p. 50
OBJ: 5 NOT: comprehension

17. Neither hiring temporary workers nor star players is sufficient for developing an effective organizational team.

ANS: T PTS: 1 DIF: hard REF: p. 51
OBJ: 6 NOT: comprehensive

18. The training of future strategic leaders yields a competitive advantage for a firm, in part because knowledge and skills are necessary for successful execution of strategy.

ANS: T PTS: 1 DIF: med REF: p. 51
OBJ: 6 NOT: comprehension

19. Competitive aggressiveness, proactiveness, risk aversion, innovativeness, and autonomy are the five dimensions characterizing a firm's entrepreneurial orientation.

ANS: F PTS: 1 DIF: hard REF: p. 52
OBJ: 6 NOT: comprehension

20. Corporate cultures emerge in organizations, but their development is so subtle that top managers cannot influence their formation.

ANS: F PTS: 1 DIF: med REF: p. 52
OBJ: 6 NOT: comprehension

21. Money motivates, social capital inspires.

ANS: T PTS: 1 DIF: med REF: p. 55
OBJ: 8 NOT: comprehension

22. An emphasis on strategic controls encourages managers to focus on more short-term goals and efficient operations.

ANS: F PTS: 1 DIF: med REF: p. 58
OBJ: 9 NOT: comprehension

MULTIPLE CHOICE

1. Effective strategic leadership entails the ability to articulate clear ____ and ____.
   a. employee attitudes, corporate culture
   b. strategic change, performance trends
   c. goals, objectives
   d. strategic intent, motivate followers

ANS: D PTS: 1 DIF: hard REF: p. 36
OBJ: 1 NOT: comprehension

2. The ability to manage ____ may be the most important skill a strategic leader must have.
   a. human capital
   b. capital resources
   c. responses to competitors' actions
   d. investment strategies

ANS: A PTS: 1 DIF: med REF: p. 50
OBJ: 1 NOT: comprehension

3. Some researchers argue that a firm's long-term competitiveness depends on the:
   a. ability of managers to maintain a constant managerial frame.
   b. ability of managers to challenge their managerial frames on a continual basis.
   c. ability of managers to fend off change.
   d. abilities of lower-level management teams.

ANS: B PTS: 1 DIF: med REF: p. 40

OBJ: 1 NOT: comprehension

4. Which of the following is NOT a factor that determines the amount of a manager's decision discretion?
   a. Characteristics of the manager
   b. Characteristics of the organization
   c. Cohesiveness of the Board of Directors
   d. External environmental sources

   ANS: C PTS: 1 DIF: med REF: p. 37
   OBJ: 2 NOT: comprehension

5. All of the following are external environmental sources that affect managerial discretion EXCEPT:
   a. industry structure.
   b. corporate culture.
   c. market growth rate.
   d. potential for product differentiation.

   ANS: B PTS: 1 DIF: med REF: p. 37
   OBJ: 2 NOT: knowledge

6. All of the following are characteristics of the organization that affect managerial discretion EXCEPT:
   a. size of the company.
   b. availability of resources.
   c. corporate culture.
   d. degree of managerial self-confidence.

   ANS: D PTS: 1 DIF: med REF: p. 37
   OBJ: 2 NOT: knowledge

7. A characteristic of the manager that may affect managerial discretion is his/her:
   a. interpersonal skills.
   b. commitment to the firm.
   c. tolerance for ambiguity.
   d. aspiration levels.

   ANS: A PTS: 1 DIF: med REF: p. 37
   OBJ: 2 NOT: knowledge

8. The larger the top management team:
   a. the more difficult it is for the team to implement strategies.
   b. the more likely it is that the team will be homogeneous.
   c. the less innovative the team's decisions are.
   d. the higher quality the team's decisions are.

   ANS: A PTS: 1 DIF: med REF: p. 42
   OBJ: 3 NOT: knowledge

9. A heterogeneous top management team is composed of individuals with:
   a. different functional backgrounds, experience, and education.
   b. similar experiences and similar education.
   c. a high level of education.
   d. a similar level of technical training.

   ANS: A PTS: 1 DIF: med REF: p. 40
   OBJ: 3 NOT: knowledge

10. Which of the following is NOT associated with heterogeneous top management teams?

a. Innovation
b. Identification of environmental changes
c. Diminished debate
d. Strategic change

ANS: C PTS: 1 DIF: hard REF: p. 41
OBJ: 3 NOT: comprehension

11. The more involved a board of directors is in shaping the firm's strategic direction:
a. the lower is the corporation's performance.
b. the higher is the corporation's performance.
c. the more likely it is that the firm's top management team is homogenous in its makeup.
d. the more difficult it becomes to make executive decisions.

ANS: B PTS: 1 DIF: med REF: p. 42
OBJ: 3 NOT: comprehension

12. A CEO obtains power from all of the following EXCEPT:
a. the fact that many of the outside directors are appointed by the CEO.
b. the CEO is also the chairman of the board.
c. the tenure of the top management team is shorter than that of the board.
d. the fact that inside board members report to the CEO.

ANS: C PTS: 1 DIF: hard REF: p. 42
OBJ: 4 NOT: comprehension

13. Which of the following is NOT related to a CEO's having long tenure in his or her position?
a. more effective strategic control
b. greater influence on organizational decisions
c. more limited perspective
d. high level of innovation

ANS: D PTS: 1 DIF: hard REF: p. 42
OBJ: 4 NOT: comprehension

14. An external labor market is:
a. the opportunities for managerial positions within a firm.
b. a collection of career opportunities for managers in organizations outside of the one for which they currently work.
c. the relationship between the CEO and its subordinates.
d. influential in the building of a homogenous top management team.

ANS: B PTS: 1 DIF: med REF: p. 44
OBJ: 4 NOT: knowledge

15. Which of the following is NOT a benefit to the firm using the internal labor market to select a new CEO?
a. Internal hiring results in a higher turnover rate of existing personnel.
b. Insiders are familiar with the firm's products.
c. Insider hiring reflects a desire for continuity.
d. Insiders are more familiar with a firm's operating procedures.

ANS: A PTS: 1 DIF: med REF: p. 45
OBJ: 4 NOT: comprehension

16. A CEO's commitment to the status quo is influenced strongly by:

a. educational training.
b. the prestige of the university from which the CEO earned his or her degree.
c. long tenure with one firm.
d. the breadth of knowledge of the top management team.

ANS: C PTS: 1 DIF: med REF: p. 45
OBJ: 4 NOT: comprehension

17. Which of the following is NOT likely to encourage change in a firm's strategy?
a. A new CEO from outside the firm
b. A homogeneous top management team
c. A top management team with managers from different functional backgrounds
d. A new CEO from outside the industry

ANS: B PTS: 1 DIF: hard REF: p. 45 (Figure 2.2)
OBJ: 4 NOT: comprehension

18. A new CEO selected from outside the firm:
a. will successfully guide the company to higher profits.
b. has a narrower perspective of the firm and its competitive environment.
c. usually encourages innovation and strategic change.
d. will not be inclined to change the strategic direction of the firm.

ANS: C PTS: 1 DIF: med REF: p. 45
OBJ: 4 NOT: comprehension

19. When the top management team is homogeneous and a new CEO is selected from inside the firm, it is:
a. unlikely for the current strategy to change.
b. likely that product innovation will continue.
c. likely there will be a change in strategy.
d. unlikely the new CEO will have a long tenure.

ANS: A PTS: 1 DIF: med REF: p. 45 (Figure 2.2)
OBJ: 4 NOT: comprehension

20. If a firm is to have an adequate number of highly qualified managers, it must tap the following highly qualified labor pool:
a. Former employees.
b. College interns.
c. Foreign-born but U.S.-trained applicants.
d. Women.

ANS: D PTS: 1 DIF: med REF: p. 45
OBJ: 4 NOT: knowledge

21. Which of the following is NOT an action of effective strategic leadership?
a. Establishing ethical practices
b. Fostering an effective corporate culture
c. Developing human capital
d. De-emphasizing core competencies

ANS: D PTS: 1 DIF: med REF: p. 48
OBJ: 5 NOT: comprehension

22. Determining the strategic direction for the firm refers to:
a. developing a short-term vision of the firm's strategic intent.

b. developing a tactical strategic response.
c. developing a long-term vision of the firm's strategic intent.
d. the top management team's heterogeneous status.

ANS: C PTS: 1 DIF: med REF: p. 54
OBJ: 5 NOT: knowledge

23. It is clear that large firms:
a. develop core competencies in a single functional area when implementing strategy.
b. exploit core competencies across different organizational units when implementing strategy.
c. have an identifiable brand name in order to create a competitive advantage during the implementation stage.
d. make a number of acquisitions in order to develop and exploit core competencies within the organization.

ANS: B PTS: 1 DIF: med REF: p. 52
OBJ: 5 NOT: comprehension

24. Human capital refers to the:
a. number of employees employed by a firm.
b. resources available to the Human Resources department.
c. number of individuals comprising the top management team.
d. knowledge and skills of the firm's work force.

ANS: D PTS: 1 DIF: med REF: p. 50
OBJ: 5 NOT: knowledge

25. Much of the development of U.S. industry can be attributed to:
a. the educational level of its workforce.
b. its emphasis on innovation.
c. the effectiveness of its human capital.
d. the country's financial markets.

ANS: C PTS: 1 DIF: med REF: p. 50
OBJ: 6 NOT: knowledge

26. The effective development and management of the firm's _____ may be the primary determinant of its sustainable competitive advantage.
a. capital base
b. human capital
c. technology
d. competitive edge

ANS: B PTS: 1 DIF: med REF: p. 51
OBJ: 6 NOT: knowledge

27. The process of transferring host-country or third-country national managers into the domestic market of the multinational firm is known as:
a. expatriation.
b. repatriation.
c. inpatriation.
d. reverse patriation.

ANS: C PTS: 1 DIF: hard REF: p. 51
OBJ: 6 NOT: knowledge

28. Many companies are now requiring ____ for top management positions.
    a. development of a successful advertising campaign
    b. MBAs from prestigious schools
    c. specialized knowledge in a functional area
    d. global competency

ANS: D PTS: 1 DIF: med REF: p. 51
OBJ: 6 NOT: comprehension

29. Which of the following will lead to the probability that a manager will be a successful strategic leader?
    a. Appointing many outside board members
    b. Increasing the firm’s sales
    c. Increased expenditures on capital equipment
    d. Training and development programs

ANS: D PTS: 1 DIF: med REF: p. 51
OBJ: 6 NOT: comprehension

30. The benefits of training and development programs include all of the following <u>EXCEPT</u>:
    a. establishing independent core values.
    b. promoting the firm’s strategic vision.
    c. providing a systematic view of the organization.
    d. building knowledge and skills.

ANS: A PTS: 1 DIF: hard REF: p. 51
OBJ: 6 NOT: comprehension

31. Which of the following is a source of competitive advantage at General Electric?
    a. The firm’s Internet strategy
    b. The firm’s emphasis on technology management
    c. The firm’s system of training and development of future leaders
    d. The firm’s strategic orientation

ANS: C PTS: 1 DIF: hard REF: p. 51
OBJ: 6 NOT: application

32. To successfully implement a firm’s strategy, employees must be viewed as:
    a. a cost to be minimized.
    b. expendable.
    c. a resource to be maximized.
    d. part of the organization that must be restructured.

ANS: C PTS: 1 DIF: med REF: p. 50
OBJ: 6 NOT: comprehension

33. Which of the following statements is true regarding effective organizational cultures?
    a. Once a corporate culture is developed, strategic leaders can focus on other activities.
    b. It is not possible to develop a corporate culture into a core competency.
    c. A central task of strategic leaders is to change the corporate culture on an annual basis after analyzing the changes occurring in the competitive environment.
    d. Organizational culture can be a source of competitive advantage because it influences employee behavior and the firm’s conduct in the marketplace.

ANS: D PTS: 1 DIF: med REF: p. 52
OBJ: 6 NOT: comprehension

34. If a firm is a market leader, rather than a market follower, it can be characterized as being ____.
a. proactive
b. aggressive
c. strategic
d. risk-taking

ANS: A PTS: 1 DIF: med REF: p. 52
OBJ: 6 NOT: knowledge

35. The concept of employee autonomy is highly related to the concept of ____.
a. cohesiveness
b. loyalty
c. charisma
d. empowerment

ANS: D PTS: 1 DIF: med REF: p. 52
OBJ: 7 NOT: comprehension

36. Which of the following is NOT one of the five dimensions thought to characterize a firm's entrepreneurial orientation?
a. Autonomy
b. Reactivity
c. Risk taking
d. Innovativeness

ANS: B PTS: 1 DIF: hard REF: p. 52
OBJ: 6 NOT: knowledge

37. A firm that has the ability to be a market leader rather than a follower is said to be:
a. innovative.
b. a risk taker.
c. proactive.
d. competitively aggressive.

ANS: C PTS: 1 DIF: med REF: p. 52
OBJ: 6 NOT: knowledge

38. Competitive aggressiveness describes a firm's:
a. tendency to engage in new ideas and creative processes.
b. tendency to allow employees to take actions free of organizational constraints.
c. ability to be a leader in the marketplace.
d. propensity to take actions that allow it to outperform rivals consistently and substantially.

ANS: D PTS: 1 DIF: med REF: p. 52
OBJ: 6 NOT: knowledge

39. Shaping and reinforcing a new firm culture requires all of the following EXCEPT:
a. effective communication.
b. effective performance appraisals.
c. the firing of non-performing employees.
d. an appropriate reward system.

ANS: C PTS: 1 DIF: med REF: p. 52
OBJ: 7 NOT: comprehension

40. One catalyst for critical changes in the organizational culture is:
a. the selection of top managers from outside the corporation.
b. change in the industry structure.
c. new competition from foreign firms.
d. decreasing industry profits.

ANS: A PTS: 1 DIF: med REF: p. 53
OBJ: 7 NOT: comprehension

41. The Enron scandal is a good example of ____.
    a. managerial opportunism
    b. failure to implement the balanced scorecard
    c. poor implementation of corporate culture
    d. failure to adhere to the counsel of staff attorneys

ANS: A PTS: 1 DIF: med REF: p. 56
OBJ: 8 NOT: application

42. When organizations are reported to engage in unethical practices:
    a. poor financial controls will usually be to blame.
    b. the value in the stock market tends to drop sharply.
    c. the Justice Department oversees the reorganization of the firm.
    d. they become takeover targets.

ANS: B PTS: 1 DIF: hard REF: p. 56
OBJ: 8 NOT: comprehension

43. The ____ is a framework firms can use to verify that they have established both strategic and financial controls.
    a. managerial model
    b. holistic control system
    c. balanced scorecard
    d. dual oversight system

ANS: C PTS: 1 DIF: med REF: p. 59
OBJ: 9 NOT: knowledge

44. ____ provide information about the results of past actions, but do not communicate the drivers of the firm's future performance.
    a. Financial controls
    b. Accounting information systems
    c. Policies and procedures
    d. Strategic feedback systems

ANS: A PTS: 1 DIF: med REF: p. 59
OBJ: 9 NOT: knowledge

45. Which of the following is <u>NOT</u> one of the four perspectives in the balanced scorecard framework?
    a. entrepreneurial
    b. financial
    c. customer
    d. learning and growth

ANS: A PTS: 1 DIF: med REF: p. 59
OBJ: 9 NOT: knowledge

46. In the balanced scorecard framework ____ controls are used to assess the organization's performance relative to learning and growth.
    a. developmental
    b. strategic
    c. holistic
    d. financial

ANS: B PTS: 1 DIF: med REF: p. 59
OBJ: 9 NOT: knowledge

47. Criteria for reevaluating internal business processes using the balanced scorecard include all of the following <u>EXCEPT</u> ____.
    a. improvements in innovative ability
    b. asset utilization improvements

c. increases in employee morale
d. changes in employee turnover

ANS: A PTS: 1 DIF: med REF: p. 59
OBJ: 9 NOT: knowledge

48. Most corporate restructuring is designed to ____.
a. refocus the firm on its core businesses
b. reduce costs, especially labor costs
c. simultaneously stimulate centralization and decentralization.
d. generate rapid growth

ANS: A PTS: 1 DIF: med REF: p. 59
OBJ: 9 NOT: comprehension

49. Ethical practices within a firm tend to increase:
a. as its top managers gain experience.
b. the effectiveness of strategic implementation processes.
c. the market performance of the firm.
d. as the firm becomes more international in its operations.

ANS: B PTS: 1 DIF: med REF: p. 56
OBJ: 8 NOT: comprehension

50. Managerial opportunism occurs when managers:
a. have opportunities in the external labor market.
b. have opportunities in the internal labor market.
c. take actions that are in their own best interests but not in the firm's best interests.
d. take actions that are in their own best interests and also in the firm's best interests.

ANS: C PTS: 1 DIF: med REF: p. 56
OBJ: 8 NOT: knowledge

51. In the text, unethical practices are compared to ____.
a. a terminal illness
b. broken promises
c. corporate schizophrenia
d. a contagious disease

ANS: D PTS: 1 DIF: med REF: p. 56
OBJ: 8 NOT: knowledge

52. The practices associated with an ethical culture have become *institutionalized* in the firm if they:
a. are integrated to form a written code of ethics.
b. are mentioned in the firm's mission statement.
c. are first embraced by the CEO of the company.
d. become the set of behaviors and actions accepted by most of the firm's employees and stakeholders.

ANS: D PTS: 1 DIF: med REF: p. 57
OBJ: 8 NOT: comprehension

53. Actions that effective strategic leaders can take to develop an ethical organizational culture include all of the following <u>EXCEPT</u>:
a. communicating goals that describe the firm's ethical standards.
b. using reward systems that recognize acts of courage.
c. relying on the fundamental goodness of individuals.
d. creating a work environment where individuals are treated with dignity.

ANS: C PTS: 1 DIF: med REF: p. 57
OBJ: 8 NOT: comprehension

54. Organizational controls provide:
    a. the parameters within which strategies are to be implemented.
    b. goals and objectives that must be achieved.
    c. information on action steps to be taken to implement the corporate strategy.
    d. managers with guidelines on how to treat employees.

ANS: A PTS: 1 DIF: med REF: p. 58
OBJ: 9 NOT: knowledge

55. Financial controls focus on:
    a. the strategic actions of the firm.
    b. the long-term performance of the firm.
    c. short-term financial outcomes.
    d. the risk taking ability of the top management team.

ANS: C PTS: 1 DIF: med REF: p. 58
OBJ: 9 NOT: knowledge

56. Strategic controls focus on the:
    a. short-term performance of the firm.
    b. outcomes of strategic actions.
    c. long-term goals of the firm.
    d. content of strategic actions.

ANS: D PTS: 1 DIF: med REF: p. 58
OBJ: 9 NOT: knowledge

57. An emphasis on ____ produces short-term and risk-averse managerial decisions.
    a. strategic controls
    b. corporate culture
    c. financial controls
    d. balanced organizational controls

ANS: C PTS: 1 DIF: med REF: p. 58
OBJ: 9 NOT: comprehension

ESSAY

1. What is strategic leadership and how important are top-level managers as an organizational resource?

ANS:
Strategic leadership is the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change. The six key components of strategic leadership are: determining a strategic direction, exploiting and maintaining core competencies, developing human capital, sustaining an effective organizational culture, emphasizing ethical practices, and establishing balanced organizational control systems. The CEO has primary responsibility for strategic leadership, which is shared with the board of directors, the top management team and divisional general managers. Strategic leaders have complex, substantial decision-making responsibilities that cannot be delegated. Strategies cannot be formulated and implemented to achieve above-average returns without effective strategic leaders.

PTS: 1 REF: p. 35|p. 36 OBJ: 1

2. Define top management teams and explain the effect of top management team characteristics on the effectiveness of a firm's strategy.

ANS:
The top management team is defined as the key managers in the organization who are responsible for selecting and implementing the firm's strategy or strategies. Typically, the top management team includes all officers of the firm (defined by the title of vice president or above) and/or those who serve as a member of the board of directors. Team characteristics have been shown to affect the strategy of the organization. A heterogeneous top management team is composed of individuals with varied functional backgrounds, experiences, and education. A homogeneous team's members are similar to one another. A heterogeneous team is more likely to formulate an effective strategy because of its varied expertise and knowledge. Additionally, heterogeneous top management teams have been shown to positively affect performance. In particular, heterogeneous teams positively affect innovation and strategic change in firms.

PTS: 1 REF: p. 40|p. 42 OBJ: 3

3. Discuss how the managerial labor market (CEO succession) and the top management team composition interact to affect strategy.

ANS:
Internal labor markets represent the opportunities for managerial positions (including the position of CEO) within a firm. The external labor market is the collection of career opportunities for managers in firms outside of the one for which they currently work. CEOs may be selected from internal or external candidates. Internal CEO selection is preferred by employees, and external CEO succession is considered a sign that the board of directors wants change. Internal CEOs are less likely to seek change in the firm's strategy than external CEOs. It is important to note that the CEOs selection from the internal or external labor market and the top management team's composition interact and affect the likelihood of strategic change. If a firm hires a new internal CEO and has a homogeneous top management team, it is unlikely that the firm's strategy will change. If the firm employs a new internal CEO but has a heterogeneous top management team, it will maintain a stable strategy but will pursue it with innovation. If the top management team is homogeneous but an external CEO is chosen, the situation will be ambiguous. Finally, if the top management team is heterogeneous and an external CEO is chosen, strategic change is likely.

PTS: 1 REF: p. 44|p. 46 (Figure 2.2) OBJ: 3

4. Describe the importance of core competencies in the pursuit of value creation and above-average returns.

ANS:
Core competencies are the resources and capabilities that serve as a source of competitive advantage over rivals. Typically, core competencies refer to an organization's functional skills. Strategic leaders must verify that their firm exploits its core competencies in the implementation of its strategies. In large, related diversified firms, core competencies are exploited effectively when they are shared across organizational units.

PTS: 1 REF: p. 47 OBJ: 5

5. Define human capital and its importance to the firm's efforts if these are to be successful.

ANS:

Human capital represents the knowledge and skills of the firm’s entire workforce. Effective strategic leaders view human capital as a resource to be maximized rather than as a cost to be minimized. As a result, the use of programs designed to train current and future leaders are needed if these leaders are to have the skills necessary to develop the remaining human capital of the firm. Programs that gain outstanding results in the training of future leaders can become a competitive advantage for a firm.

PTS: 1 REF: p. 50|p. 51 OBJ: 6

6. Define organizational culture and discuss the ways in which a firm’s culture can be changed.

ANS:
Organizational culture is the set of ideologies, symbols, and core values that is shared throughout the organization and that influences the way the firm conducts its business. It is more difficult to change a firm’s culture than to sustain it. But effective strategic leadership recognizes when a change in a firm’s culture is often necessary. Incremental changes to the firm’s culture are typically used to implement strategies. Sometimes radical changes are used to support strategies that differ from the firm’s historical pattern. Shaping and reinforcing change in an organization’s culture require: communication and problem solving, selection processes that find people with the right values, effective performance appraisals, and appropriate reward systems. Change occurs when it is actively supported by the CEO, other top managers, and middle management. Selecting top managers from outside the corporation can also be a catalyst for change in a firm’s culture.

PTS: 1 REF: p. 52|p. 53 OBJ: 8

7. Describe what strategic leaders can do to establish and emphasize ethical practices.

ANS:
Ethical practices should be institutionalized within the organization. That is, ethical practices should become the set of behavior commitments and actions accepted by the firm’s employees and other stakeholders. Strategic leaders can shape ethical practices in a firm by:
(1) establishing and communicating specific goals to describe the firm’s ethical standards (e.g., developing and disseminating a code of conduct),
(2) continuously revising and updating the code of conduct, based on inputs from people throughout the firm and from other stakeholders (e.g., customers and suppliers),
(3) disseminating the code of conduct to all stakeholders to inform them of the firm’s ethical standards and practices,
(4) developing and implementing methods and procedures to use in achieving the firm’s ethical standards (e.g., use of internal auditing practices that are consistent with the standards),
(5) creating and using explicit reward systems that recognize acts of courage (e.g., rewarding those who use proper channels and procedures to report observed wrongdoing), and
(6) creating a work environment in which all people are treated with dignity.

PTS: 1 REF: p. 55|p. 57 OBJ: 8

8. Describe organizational controls and discuss their use and importance.

ANS:

Controls are the formal, information-based procedures used by managers to maintain or alter patterns in organizational activities. Controls provide the parameters within which strategies are to be implemented and corrective actions when adjustments are required. There are two main types of controls: financial and strategic. Financial controls focus on short-term financial outcomes. Strategic controls focus on the content of strategic actions. Financial controls give feedback about the outcomes of past actions. Strategic controls communicate the drivers of the firm's future performance. The balanced scorecard approach allows firms to verify that they have established both strategic and financial controls.

PTS: 1 REF: p. 58|p. 60 OBJ: 9