LO.a: Compare interests of key stakeholder groups and explain the purpose of a stakeholder impact analysis.

1. Which of the following statements is *least accurate*?
   A. Customers bring revenues and in exchange want companies to be responsible citizens.
   B. Bondholders provide debt capital and want timely interest payment.
   C. Stockholders provide risk capital and want a maximum return on investment.

2. Which of the following statements about bondholders and stockholders is *most accurate*?
   A. Bondholders and stockholders are equally interested in the long-term growth of a company.
   B. Bondholders are more interested in the long-term growth of a company relative to stockholders.
   C. Stockholders are more interested in the long-term growth of a company relative to bondholders.

3. Stakeholder impact analysis is carried out to:
   A. identify the stakeholders that are least important to the firm.
   B. identify stakeholders' interests and the resulting strategic challenges.
   C. improve sales.

4. Investors want a company to maximize its long-run profitability and grow profits over time. The metric *most likely* used to measure long-run profitability is:
   A. P/E.
   B. ROE.
   C. ROIC.

5. The stakeholder group which does not want a company to maximize long-run profitability and profit growth at their expense is:
   A. local communities.
   B. stockholders.
   C. suppliers.

LO.b: Discuss problems that can arise in principal–agent relationships and mechanisms that may mitigate such problems.

6. Agency problems can arise due to:
   A. information asymmetry between the principal and the agent.
   B. agents working in the best interests of their principals.
   C. management maximizing stockholder returns by finding the right balance between profitability and profit growth.

7. In order to satisfy personal goals related to status and income, a CEO would *least likely*:
   A. exit unprofitable projects which significantly increase the size of the company.
   B. buy new businesses to increase company size that can reduce profitability over time.

C. engage in projects with higher revenue growth rate that may not increase the long run profitability of the company.

8. The mechanism applied by shareholders to monitor and evaluate management is:
   A. the investment of corporate funds in executive perks.
   B. having a board of directors.
   C. granting extraordinary pay to senior managers.

9. Governance mechanisms are implemented to:
   A. award higher pay packages to senior executives.
   B. model agents' behavior toward achieving goals set by principals.
   C. provide job security to management.

LO.c: Discuss roots of unethical behavior and how managers might ensure that ethical issues are considered in business decision making.

10. Unethical behavior arises in the business environment due to:
    A. conflicts between customers and suppliers.
    B. conflict between management's personal goals, and the fundamental rights of the important stakeholders.
    C. conflict between the risk taking shareholders and the risk averse creditors.

11. At Shuman Inc., earnings are periodically overstated and expenses understated by the management in order to secure higher compensation. This is *best* known as:
    A. self-dealing.
    B. environmental degradation.
    C. anticompetitive behavior.

12. Softtech, a large-cap multinational, sells its popular operating system along with a package of web browsing options not required by the PC manufacturers, but made mandatory by Softtech because it strengthens the company's position in the industry. This is an example of:
    A. information manipulation.
    B. anticompetitive behavior.
    C. self-dealing.

13. Zeuss Investment, emphasizes a business culture which focuses on unrealistic performance goals, and makes decisions based entirely on the economic merits of a proposal. Such a business environment will *most likely* promote:
    A. unethical behavior.
    B. ethical behavior.
    C. an honest organizational culture.

14. To ensure that businesses remain ethical, the top management should *least likely*:
    A. set unrealistic performance goals.
    B. question themselves about the ethical results of a decision or action.

C. hire ethical leadership.

LO.d: Compare the Friedman doctrine, Utilitarianism, Kantian Ethics, and Rights and Justice Theories as approaches to ethical decision making.

15. The only social responsibility of business is to increase profits, given that the company stays within the rules of law. This argument is stated by:
    A. Immanuel Kant.
    B. Milton Friedman.
    C. John Rawls.

16. Topwear Fashions employ people at below average wages working ten hours a day under poor conditions. This is unethical according to the:
    A. Friedman Doctrine.
    B. rights theories.
    C. Kantian ethics.

17. The *difference principle* given by John Rawls is that:
    A. inequalities are justified if they benefit the least advantaged member of society.
    B. everyone is assumed to be ignorant of all of his or her personal traits.
    C. people have basic rights and institutions should provide benefits to them in lieu of those rights.

Solutions

1. A is correct. Customers provide a company with revenues and in exchange want high quality reliable products that are value for money. Local communities want companies that are responsible citizens. Section: Stakeholders and Corporate Performance.

2. C is correct. While bondholders are interested in long term growth, their primary concern is the financial stability of a firm and its ability to honor debt commitments. Section: Stakeholders and Corporate Performance.

3. B is correct. Stakeholder impact analysis is done to identify the most important stakeholders and give highest priority to pursuing strategies that satisfy their needs. Section: Stakeholder Impact Analysis.

4. C is correct. Long-run profitability can be measured by the return on invested capital or ROIC. ROIC conveys how efficiently managers are using the capital resources of the company (including the risk capital provided by stockholders) to produce profits. Section: Profitability, Profit Growth, and Stakeholder Claims.

5. C is correct. Suppliers would want to sell goods and services to profitable companies but will not want the company to maximize its profitability at their expense. Section: Profitability, Profit Growth, and Stakeholder Claims.

6. A is correct. Unscrupulous agents can take advantage of information asymmetries to maximize their own interests instead of their principals. Section: The Agency Problem.

7. A is correct. There is a strong relationship between company size and CEO status/compensation. To satisfy personal goals, a CEO might engage in buying new businesses to increase the size of the company. It is unlikely that a status-seeking CEO will exit projects which increase the size of the company. Section: The Agency Problem.

8. B is correct. Board of directors is one of the mechanisms to monitor and evaluate senior managers on behalf of stockholders. Section: The Agency Problem.

9. B is correct. Principals manage agency problems through a series of governance mechanisms. One of those is to shape the behavior of agents so that they act in accordance with the goals set by principals. Section: The Agency Problem.

10. B is correct. Unethical behavior arises due to a potential conflict between the goals of the enterprise, or the goals of individual managers, and the fundamental rights of important stakeholders. Section: Ethical Issues in Strategy.

11. A is correct. Self-dealing occurs when managers find a way to feather their own nests with corporate monies. Example: Tyco and Computer Associates.

12. B is correct. This is an example of anticompetitive behavior which involves actions aimed at harming actual or potential competitors, by using monopoly position in the industry, to improve a firm's profitability. This unethical behavior of Softtech violates the rights of end-users, the rights of downstream participants in the industry value chain - PC makers, and the rights of competitors. Section: Ethical Issues in Strategy.

13. A is correct. This is an example of unethical behavior. Section: The Roots of Unethical Behavior.

14. A is correct. Unrealistic performance goals might lead employees to cut corners and behave unethically. Ethical leaders help to set up an organization culture, that benefits other employees by behaving and working in an ethical way. Other employees often take their cues from business leaders, and if those leaders do not behave in an ethical manner, employees might not either.

15. B is correct. Friedman's basic position is that the only social responsibility of a business is to increase profits, but the company has to stay within the rules of law. According to him businesses should not undertake social expenditures beyond those required by law and needed for conducting the business efficiently. Section: The Friedman Doctrine.

16. C is correct. Kantian ethics are based on the philosophy of Immanuel Kant (1724–1804), who said that people should be treated as ends and never purely as means to the ends of others. People are not instruments, they have dignity, and should be respected. Section: Utilitarian and Kantian Ethics.

17. A is correct. According to the *difference principle*, inequalities are justified if they benefit the least advantaged person. Section: Justice Theories.