**Session 11 BUSA 7800 - Strategic Management Chapter 10**

Learning Outcomes

At the end of this session you should be able to:

* 1. Describing the steps of the controlling function.
  2. Explain the advantages and disadvantages of feedback control.
  3. Differentiate between the behavioural controls of culture, rewards and boundaries.
  4. Explain the purpose of corporate governance.
  5. Describe the role of corporate governance mechanisms in ensuring that the interests of managers are aligned with those of shareholders.

Chapter 10 - Strategic Control and Corporate Governance

**I. Feedback Control**

What is done in the controlling function?

The control process is a three-step process:

1. Measuring actual performance,
2. Comparing actual performance against a performance standard, and
3. Taking managerial action to correct deviations or inadequate standards.

When is feedback control most appropriate?

What are some disadvantages of the feedback control?

**II. Information Control: Responding Effectively to Environmental Change**

What is the key question addressed by informational control?

Why do strategic control systems that gather information on the firm's environment have potential to upset senior managers?

**III. Behavioural Controls**

How are behavioural controls useful?

Behavioural control systems use the three levers of:

1. Culture
2. Rewards
3. Boundaries

**A. Building a Strong and Effective culture**

What is organizational culture?

In what areas does culture set implicit boundaries of acceptable behaviour?

How does organizational culture relate to monitoring?

How can a firm install a certain culture?

**B. Motivating with Rewards and Incentives**

How is the reward system an effective control mechanism and motivator?

What are some common characteristics of effective incentive and reward systems?

* *Objectives are well understood, and broadly accepted*
* *Rewards are clearly linked to performance and desired behaviours*
* *The compensation “system” is perceived as fair and equitable*

How is there a link between incentives and organizational culture?

**C. Setting Boundaries and Constraints**

*i. Focusing Efforts on Strategic Priorities*

What is the purpose of focusing efforts on strategic priorities?

What are some examples of firms setting strategic priorities?

*ii. Providing Short-Term Objectives and Action Plans*

What are the benefits of short-term objectives and action plans?

Why do action plans need to be specific?

*iii. Improving Operational Efficiency and Effectiveness*

How do rule based controls help improve operational efficiency and effectiveness?

What is the difference between a rule and a policy (guideline)?

*iv. Minimize Improper and Unethical Conduct*

How do rules and guidelines minimize improper and unethical conduct?

**D. Behavioural Control in Organizations: Situational Factors**

What type of controls do we use for salespeople where it's difficult to monitor their effort but simple to determine their contribution in the form of sales?

What type of controls do we use to manage an automotive parts plant where tasks are repetitive and routine and there is little need for innovation?

**IV. The Role of Corporate Governance**

What does corporate governance address?

**A. The Modern Corporation: The Separation of Owner and Management**

What is a corporation?

What is meant by limited liability?

What is a problem associated with widely dispersed ownership?

What is the principal-agent problem between shareholders and managers?

What is the root of the problem that the principal faces?

**B. Governance Mechanisms: Aligning the Interests of Owners and Managers**

How do we minimize the potential for managers to act in their own self-interest?

1. The board of directors are committed and involved
2. Shareholder activism, and
3. The effective use of managerial incentives

*1. A Committed and involved Board of Directors*

What is the board of directors’ fiduciary duty?

What is the importance of director independence?

What is the best way to guarantee that the board of directors acts in the best interest of the shareholders?

*2. Shareholder Activism*

How has the power of shareholders increased in recent years?

What is meant by institutional investors "shifting from traders to owners"?

*3. Managerial Rewards and Incentives*

From a corporate governance perspective, what is one of the most critical roles of the board of directors?

 How do stock options work to motivate CEOs?

What is a problem with stock options as a motivator?

**C. External Governance Control Mechanisms**

In this section, we address several external control mechanisms that have been developed in most modern economies.

**1. The Market for Corporate Control**

What are some examples of opportunistic behaviour by senior managers?

How is the market for corporate control a possible solution to managers' opportunistic behaviour?

**2. Auditors**

What do auditors do?

How can auditors have a ‘conflict of interest’ with their clients that they audit?

What tends to happen to some auditors that “go by the book”?

**3. Banks and Analysts**

What do stock analysts do?

Why do analysts’ recommendations to sell certain stocks happen much more rarely than other recommendations?

**4. Regulatory Bodies**

How are CEO's in Canada now being held responsible for the accuracy of their financial data?

**5. Media and Public Activists**

How can the media act as an external control mechanism?

**D. Corporate Governance: An International Perspective**

How can concentrated ownership of firms particularly in other countries cause problems?

**Next Session:**

Chapter 11 - Strategic Leadership