c) Poison pills

d) Corporate charters

6. What is the primary role of an audit committee in corporate governance?

a) Review and approve executive compensation packages

b) Monitor and assess the financial reporting process

c) Lobby for favorable tax policies

d) Negotiate labor union contracts

7. Which corporate governance mechanism aims to prevent hostile takeovers by making the company less attractive to potential acquirers?

a) Staggered boards

b) Independent directors

c) Proxy access

d) Say-on-pay votes

Section C: Corporate Social Responsibility (CSR)

8. What is the central concept behind Corporate Social Responsibility (CSR)?

a) Maximizing shareholder profits at any cost

b) Balancing the interests of all stakeholders, including the community and the environment

c) Ignoring the concerns of customers and employees

d) Minimizing taxes and regulatory compliance

9. Which of the following is an example of a CSR initiative?

a) Polluting local water sources

b) Paying employees below minimum wage

c) Donating a portion of profits to a local charity

d) Avoiding taxes through offshore tax havens

Section D: Case Study

10. Read the following scenario and answer the question.

XYZ Corporation's CEO is also the Chair of the Board of Directors and holds a substantial number of shares in the company. The company has been facing financial difficulties, and there are concerns about the CEO's leadership and decision-making. Shareholders have proposed that the CEO's roles as Chair and CEO should be separated.

What corporate governance issue is highlighted in this scenario?

a) The importance of having a CEO with a significant shareholding

b) The need for shareholders to take a more active role in management

- Establish a whistleblower program. This will encourage employees to report any wrongdoing they observe without fear of retaliation.

XYZ Corporation should also take steps to address the specific allegations of environmental and social abuses. This may involve conducting independent investigations, taking corrective action, and implementing new policies and procedures to prevent future abuses.

PAPER # 5

Section A: Short Answer Questions (50 marks)

1. What is corporate governance? (2 marks)
2. What are the key principles of corporate governance? (4 marks)
3. What are the different types of corporate governance structures? (4 marks)
4. What are the roles and responsibilities of the board of directors? (6 marks)
5. What are the different types of agency costs? (4 marks)
6. How can agency costs be mitigated? (4 marks)
7. What is the role of shareholders in corporate governance? (4 marks)
8. What are the different types of shareholder rights? (4 marks)
9. What is the role of stakeholders in corporate governance? (4 marks)
10. What are the different types of corporate governance codes? (4 marks)

Section B: Long Answer Questions (50 marks)

1. Discuss the importance of corporate governance. (10 marks)
2. Explain the different mechanisms of corporate governance. (10 marks)
3. Critically evaluate the role of the board of directors in corporate governance. (10 marks)
4. Discuss the different types of agency costs and how they can be mitigated. (10 marks)
5. Analyze the role of shareholders in corporate governance and the different types of shareholder rights. (10 marks)

Answers

Answer: The board of directors plays a critical role in corporate governance. Their main responsibilities include:

- Overseeing company strategy and decision-making.
- Appointing and monitoring the performance of the CEO and other top executives.
- Ensuring financial transparency and accuracy.
- Reviewing and approving major corporate transactions.
- Safeguarding the interests of shareholders and other stakeholders.
- Establishing and enforcing the company's code of ethics and values.
- Managing risk and ensuring compliance with legal and regulatory requirements.

8. Explain the concept of "executive compensation." What are the potential problems associated with excessive executive compensation?

Answer: Executive compensation refers to the monetary and non-monetary benefits provided to top executives (e.g., CEOs) in a company. Potential problems associated with excessive executive compensation include:

- Misaligned incentives: High compensation packages may encourage executives to focus on short-term gains at the expense of long-term sustainability.
- Inequity: Large executive pay compared to other employees can lead to morale and motivation issues.
- Excessive risk-taking: Executives might take excessive risks to meet performance targets, potentially harming the company.
- Shareholder discontent: Shareholders may feel that excessive compensation is unjust and not in their best interests.

9. Briefly describe the importance of transparency and accountability in corporate governance. Provide an example of how a lack of transparency can negatively impact a company.

Answer: Transparency and accountability are essential in corporate governance to build trust and ensure responsible decision-making. A lack of transparency can lead to distrust among stakeholders. For example, if a company hides its financial information or conceals unethical practices, it can lead to reputational damage, regulatory fines, and investor withdrawal. Enron's accounting scandal is a prime example of how a lack of transparency can lead to corporate downfall.