

BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING

In collaboration with

ZIMBABWE OPEN UNIVERSITY

BACHELOR OF COMMERCE

HUMAN RESOURCE MANAGEMENT & INDUSTRIAL RELATION

CORPORATE GOVERNANCE

CG-232

SESSIONAL EXAMINATION

Marks – 100

TIME ALLOWED: 3 HOURS

Instructions to candidates:

1. The examination consists of **Four** sections: A, B, C and D
2. Begin each answer to a new question on a new page
3. Answer questions according to instructions given in each section
4. Write answers in the answer booklet provided
5. Write legibly in grammatical English.

SECTION A - MULTIPLE CHOICE QUESTIONS

[10 MARKS]

Answer ALL questions. Each question carries ONE (1) mark

Choose the best alternative answer.

1. The quest to maximize profitability should be constrained by____.
 - a) Unethical obligations.
 - b) Lack of social responsibility.
 - c) Stakeholders.
 - d) Ethical obligations.

2. The framework for establishing good corporate governance and accountability was originally set up by the____.
 - a) Cadbury Committee
 - b) Nestlé Committee
 - c) Thornton Committee
 - d) Row tree Committee

3. Which of the following is not one the underlying principles of the corporate governance Combined Code of Practice?
 - a) Accountability
 - b) Acceptability
 - c) Integrity
 - d) Openness

4. A company may become insolvent if it____.
 - a) Cannot meet its budgeted level of profit
 - b) Has negative working capital
 - c) Cannot pay creditors in full after realisation of its assets
 - d) Makes a loss

5. Which of the following actions will not help directors to protect themselves from non-compliance with their obligations and responsibilities?
- a) Ensuring that regular management accounts are prepared by the company
 - b) Seeking professional help
 - c) Including a disclaimer clause in their service contracts
 - d) Keeping themselves fully informed about company affairs
6. Directors may not be disqualified for_____.
- a) Persistent breaches of company legislation
 - b) Being convicted of drunken driving
 - c) Paying inadequate attention to the company finances
 - d) Continuing to trade when the company is insolvent
7. Fraudulent trading may be_____.
- a) A civil and a criminal offence committed by any employee
 - b) A criminal offence committed only by directors of a limited company
 - c) A civil and a criminal offence committed only by directors of a limited company
 - d) A civil offence committed by any employee
8. Conflicts of interest among corporate governance participants are referred to as an_____.
- a) “Anything you can do, I can do better” problem.
 - b) Alignment problem.
 - c) Agency problem.
 - d) There are no conflicts of interest among corporate governance participants.
9. Effective corporate governance does all of the following except_____.
- a) Ensure corporate accountability.
 - b) Enhance the integrity and efficiency of the capital market.
 - c) Eliminate the prospect of fraud within an organization.

- d) Enhance the reliability and quality of public financial information.
10. Business Ethics can be defined as the _____, _____ and _____ that guide an organisation's conduct of its activities and relations with internal and external stakeholders
- a) Conduct, standards and policies
 - b) Convictions, commitment and principles
 - c) Trust, diligence and commitment
 - d) Principles, norms and standards

SECTION B –

[10 MARKS]

TRUE/FALSE QUESTIONS

Answer ALL questions.

State whether each of the following statements is TRUE or FALSE.

1. A cultural web can be used to describe or even to analyse culture at any level of the organizational hierarchy.
2. Stakeholders of a business are employees, trade unions and activists groups only.
3. An organization's Board of Directors is responsible for the ongoing assessment of joint stock exchange (JSE) policies relating to the duties and responsibilities of the Board and the delegation of powers among organization members.
4. Investors should not and do not rely on financial reports for decision making purposes.
5. Honesty means telling the truth when it is most beneficial to the company.
6. Ethics in the workplace is more important in the emerging corporate governance reforms.

7. Johnson and Scholes (1997) pointed out that "stakeholder mapping can be useful both for identifying stakeholders and for establishing political priorities in terms of managing stakeholder relationship."
8. The first model of corporate governance implementation is often regarded as the ideal model and involves one group of participants at director level.
9. Investors can be assisted in their roles as risk managers if the concept of "public" is broadened to include the financial media and analysts, such as stockbrokers, other advisors, and rating agencies.
10. It is the shareholders' duty to present a balanced and understandable assessment of the company.

SECTION C- SHORT ANSWER QUESTIONS

[30 marks]

Answer all questions in this section

1. Define corporate governance. **(2 marks)**
2. Outline three (3) stakeholders who influence an organization's social responsibility **(3 marks)**
3. Explain three (3) social responsibility activities that organisations can engage in to give back to the society they are operating in. **(6 marks)**
4. How does technology and systems risk affects an organisation. **(5 marks)**
5. What is the difference between a shareholder and a stakeholder? **(4 marks)**

6. According to the Cadbury Committee-Code of Best Practices, what are the expectations with regards to executive director's emoluments (pay)? **(4 marks)**
7. In what 2 ways does the internal audit department add value to an organisation? **(2 marks)**
8. Explain two (2) advantages of employee participation in corporate governance. **(4 marks)**

SECTION D Essay- Type Questions

[50 MARKS]

Answer any TWO questions from this section

QUESTION 1

[25 marks]

Read the following and answer the questions that follow.

You are the management consultant of ABC PTY LTD Company and recently Kobeng Company CEO (a newly formed company) has approached you to advise them on the establishment of their company Board of Directors.

As a management consultant give the Kobeng Company CEO detailed information on the roles of the Board of Directors, so to give them an idea on where they can start and who to consider for what position within the Board. Give an example for each role discussed.

(25 Marks)

QUESTION 2

(25 Marks)

Read the following and answer the questions that follow.

BEST PRACTICES FOR INTERNAL AUDIT

At a recent conference on corporate social responsibility, one speaker (Professor Diaboa) argued that professional codes of ethics for lecturers were not as useful as some have claimed because: ‘they assume professional lecturers to be rules-driven, when in fact most professionals are more driven by principles that guide and underpin all aspects of professional behaviour, including professional ethics.’

When quizzed from the audience about his views on the usefulness of professional codes of ethics, Professor Diaboa suggested that the costs of writing, implementing, disseminating and monitoring ethical codes outweighed their usefulness. He said that as long as professional lecturers personally observe the highest values of probity and integrity then there is no need for detailed codes of ethics.

- (a) Critically evaluate Professor Diaboa’s views on codes of professional ethics. Use examples of ethical codes, where appropriate, to illustrate your answer. **(12 marks)**
- (b) With reference to Professor Diaboa’s comments, explain what is meant by ‘integrity’ and assess its importance as an underlying principle in corporate governance. **(7 marks)**
- (c) Explain and contrast a deontological with a consequentialist based approach to business ethics. **(6 marks)**

QUESTION 3

(25 marks)

Read the following and answer the questions that follow.

In a recent case, it emerged that One Frank, a sales director at ABC Co, had been awarded a substantial over-inflation annual basic pay award with no apparent link to performance. When a

major institutional shareholder, Molefi Investments, looked into the issue, it emerged that Mr. Frank had a cross directorship with Joe Ngwao, an executive director of DEF Co. Mr. Ngwao was a non-executive director of ABC and chairman of its remunerations committee. Molefi Investments argued at the annual general meeting that there was ‘a problem with the independence’ of Mr. Ngwao and further, that Mr Frank’s remuneration package as a sales director was considered to be poorly aligned to Molefi’s interests because it was too much weighted by basic pay and contained inadequate levels of incentive.

Molefi Investments proposed that the composition of Mr Frank’s remuneration package be reconsidered by the remunerations committee and that Mr. Ngwao should not be present during the discussion. Another of the larger institutional shareholders, Hanoi House, objected to this, proposing instead that Mr. Ngwao and Mr. Frank both resign from their respective Non-executive directorships as there were ‘clear evidence of malpractice’. Molefi considered this too radical a step, as Mr. Ngwao’s input was, in its opinion, valuable on ABC’s board.

(a) Explain FOUR roles of a remunerations committee and how the cross directorship undermines these roles at ABC Co. **(12 marks)**

(b) Molefi Investments believed Mr. Frank’s remunerations package to be ‘poorly aligned’ to its interests. With reference to the different components of a director’s remunerations package, explain how Mr. Frank’s remuneration might be more aligned to shareholders’ interests at ABC Co. **(8 marks)**

(c) Evaluate the proposal from Hanoi House that both Mr. Ngwao and Mr. Frank be required to resign from their respective non-executive positions. **(5 marks)**

END OF EXAMINATION