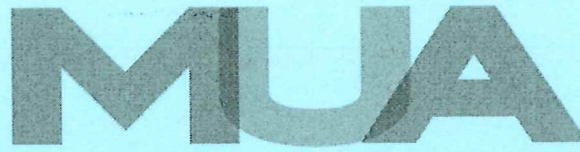


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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BMT 301: CORPORATE GOVERNANCE

DATE: 18TH DECEMBER 2024

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

CORPORATE GOVERNANCE CHALLENGES AT XYZ CORPORATION

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It involves balancing the interests of various stakeholders such as shareholders, management, customers, suppliers, financiers, government, and the community. Good corporate governance ensures accountability, fairness, and transparency in a company's relationship with its stakeholders. XYZ Corporation, a leading multinational company in the consumer electronics industry, experienced a major corporate governance scandal in 2023. The company was involved in various unethical practices that led to significant financial and reputational damage. This case study examines the corporate governance issues at XYZ Corporation, the impact of these issues, and the measures taken to address them.

Founded in the 1980s, XYZ Corporation grew rapidly to become a dominant player in the consumer electronics market. The company was renowned for its innovative products, robust supply chain, and extensive global reach. By 2020, XYZ Corporation was listed among the top 100 companies in the Fortune 500. In early 2023, an investigative report by a major financial news outlet revealed several corporate governance issues at XYZ Corporation. XYZ Corporation was found to have inflated its revenues and profits over the past five years. The company's financial statements were manipulated to meet market expectations and boost stock prices. Senior executives, including the CEO and CFO, were involved in insider trading. They sold significant shares just before the financial misreporting was exposed, avoiding substantial losses. The board of directors was criticized for lacking independence. Several board members had close ties with the company's top executives, leading to conflicts of interest and ineffective oversight. XYZ Corporation failed to implement robust risk management practices. The company's risk assessment processes were inadequate, and early warning signs of financial irregularities were ignored. Employees who attempted to report unethical practices faced retaliation. The company's whistleblower policies were weak, discouraging employees from coming forward.

The corporate governance issues at XYZ Corporation had severe consequences. The company's stock price plummeted by 50% following the scandal. Investors lost billions of dollars, and the company faced numerous lawsuits from shareholders. XYZ Corporation's reputation was severely damaged. Customers, suppliers, and business partners lost trust in the company, leading to a decline in sales and partnerships. The CEO, CFO, and several other senior executives resigned or were terminated. The board of directors underwent significant changes, with many members stepping down. Regulatory authorities launched investigations into XYZ Corporation's practices. The company faced heavy fines and sanctions for violating financial reporting and securities laws.

In the wake of the scandal, XYZ Corporation implemented several measures to address the corporate governance issues and restore stakeholder trust. The company appointed a new CEO and CFO with strong reputations for integrity and transparency. The board of directors was reconstituted to include a majority of independent members. XYZ Corporation overhauled its financial reporting processes and internal controls. An independent audit committee was established to oversee financial disclosures and prevent future misreporting. The company implemented comprehensive risk management frameworks and appointed a Chief Risk Officer (CRO) to oversee risk assessment and mitigation. XYZ Corporation strengthened its whistleblower policies, ensuring confidentiality and protection for employees who report unethical practices. A whistleblower hotline was established to facilitate anonymous reporting. Board members underwent training on corporate governance best practices, ethics, and compliance. The company also introduced regular board evaluations to ensure effective oversight.

Required:

- a) Evaluate the potential indicators of financial misreporting in a company's financial statements as per the case study. **(10 marks)**
- b) Discuss what roles the Chief Risk Officer (CRO) play in managing and mitigating risks within an organization **(10 marks)**
- c) Explain five legal implications of insider trading for company executives. **(5 marks)**

QUESTION TWO

- a) Analyze seven main causes of the growing need for Corporate development
(7 Marks)
- b) Describe four principles of Stakeholder Theory
(8 marks)

QUESTION THREE

- a) Assess tactics leaders employ to influence their followers' relationships (8 Marks)
- b) Examine four fundamental moral principles that form the basis of sound corporate governance.
(7 Marks)

QUESTION FOUR

- a) Depending on the kind of organization, a board of trustee's exact makeup and duties may change. Discuss the five functions and traits that are typical of a board of trustees.
(10 Marks)
- b) Describe the four main components of director compensation that have a significant impact on corporate governance.
(5 Marks)

QUESTION FIVE

- a) Describe five factors that are driving the growing interest in corporate governance.
(10 marks)
- b) Highlight five advantages that shareholders receive from sound corporate governance.
(5 marks)

QUESTION SIX

- a) Evaluate five governance instruments available to institutional investors, providing examples.
(10 marks)
- b) Examine five advantages of having a diverse board
(5 marks)