PAN AFRICA CHRISTIAN UNIVERSITY

DOCTOR OF PHILOSOPHY IN ORGANIZATIONAL LEADERSHIP

END OF SEMESTER EXAMINATION

DEPARTMENT

LEADERSHIP

COURSE CODE

POLD 707

COURSE TITLE

CORPORTAE GOVERNANCE (POLD 707)

EXAM DATE

APRIL 2023

TIME

Duration: 3 hours

INSTRUCTIONS

- Read all questions carefully before attempting.
- Answer Question One (Compulsory) and any other two questions**(Total 20 Marks)**

Question One (Compulsory)

In 2007, two business associates came together and bought a controlling interest in a listed company. The Company, then known as Magari International Limited (MIL) was one of the leading companies in its market of operations.

The two business associates formed two private companies through which they acquired controlling interest in MIL. Between these two companies, their other individual nominees and themselves, they controlled over 85% of the issued and paid up share capital.

At the time of acquisition by the two business associates, MIL assets base was extremely healthy. The assets included commercial property from which MIL was earning rental income.

The two business associates soon began to differ on business decisions taken by the board of directors which they had appointed comprising of seven members. None of the two sat on the board, but their appointed nominees formed the board membership. Indeed, in the first five years, three Chief Executive Officers (CEOs) had left the company. The board itself did not appear to have the final authority and powers over the business of the company.

Being a listed company, the regulator questioned the board on more than one occasion, why there was such a large turnover of senior management, including the CEOs.

In 2012, their differences reached a breaking point and they sought the court's intervention. While they were busy fighting in the court corridors, the board operations in terms of major business decisions stalled because the nominee board members could not agree on a common direction. They took sides with the individuals who put them on the board. Management was unable to operate effectively, business suffered with key staff opting to seek employment elsewhere. Suppliers were not paid on time, and most of them opted to take legal action to recover their money. The organization engaged a number of lawyers to deal with the legal cases.

The court, after considering all the grievances and concerns of all the parties, and the effect of ant decision on other shareholders and stakeholders, decided not to award a winding up order, but instead directed them to seek the help of a consultant in corporate governance in an effort to salvage MIL.

In 2013, they engaged the services of a corporate governance consultant who advised them on the need for good corporate governance, objectives of corporate governance, the composition and structure of the board and ways of eliminating the barriers to visionary leadership so that MIL could be able to achieve its vision. They were also informed of the various roles that their nominee directors should perform in order to promote good governance in MIL.

The parties considered the views, advise and recommendations of the consultant and unanimously agreed to implement them. This marked the beginning of MIL turnaround. The board started operating effectively, staff morale and revenue increased culminating in improved shareholders and stakeholder's confidence.

Required:

a) Examine five governance issues that require to be addressed by management in order to help Magari International Limited (MIL) to operate as a viable business. (5 Marks)
b) By use of examples from the case study, justify the need for good corporate governance to the management and board members of MIL. (5 marks).

Question Two

Perhaps the most powerful myth about corporations is that they are ultimately held accountable by the marketplace and they, therefore, must maximize profits to compete for investors. Discuss some of the abuses of power that this view has promoted in large corporations and how corporate governance can help alleviate these abuses (5 marks).

Question Three

Discuss mechanisms available for leaders to build ethical climates in organizations (5 Marks)

Question Four

Some commentators have questioned the contribution which non-executive directors (NEDs) may make to the work of the board. Critically examine the usefulness of NEDs to an organization in light of the criticisms which have been made concerning their effectiveness. (5 Marks)

Question Five

It has been said that "if the past teaches us anything about corporate social responsibility, it is that the risks of doing nothing far outweigh the risks of doing something". Explore this statement in depth in the light of your knowledge of the historical development and ethical background of corporate responsibility (5 marks)

MARKING SCHEME

Question One

a) Corporate governance issues

- Conflict of Interest
- Board Composition- including absence of Independent directors
- Board Oversight role.
- Inadequate regulatory framework
- Stakeholder management and treatment
- Risk Management
- Integrity

5 issues well discussed x 1 mark = 5 marks

b) Justify the need for good corporate governance

The importance of corporate governance is made apparent by the positive impacts that occur when risks are controlled, and organizational procedures are streamlined and consistent. Corporate governance helps in the following ways

- Efficient Processes – due to the repeatability and consistency of tasks performed.
- Visibility of Errors – this repeatability and consistently helps to quickly identify the nonconformities in processes.
- Reduced Costs – when tasks are streamlined, companies can eliminate the waste from scrap, rework, and any other costly inefficiencies.
- Smoother–Running Operations – regular disruptions from inconsistent processes are eliminated, as operation specifics become either 'conform' or 'non-conform'.
- Compliance – a culture that supports corporate governance allows for its product to reach the market while meeting its intended specifications and working correctly.

5 justifications well examined, with examples x1 mark = 5 marks

Question Two

Abuses of power

- Falsifying financials- showing high profits or the hiding of losses- window dressing of accounts
  Corporate Governance Solutions: government regulation, Role of independent directors
- Money Laundering-
  Corporate Governance Solutions: Use of internal controls including the internal and external audit functions
- Insider Trading-
  Corporate Governance Solutions: Anti -insider training policies and whistle blowing
- Manipulating prices
  Corporate Governance Solutions -Ethical policies
- False advertising

  Corporate Governance Solutions- Ethical policies

5 abuses well explained x I mark = 5 marks

Question Three

Ethical Climate

Leaders can foster ethical climate by;

- Practicing transparency and accountability.
- They should provide open access to information about strategies and performance
- Keep their promises and commitments,
- Be open about decision making,
- Accept responsibility for wrongdoing,
- Reward behavior that supports transparency and truthfulness
- Comply with the organization's rules
- Character evaluation should be a part of hiring, retention, and promotion practices.
- Leaders should convey, through their actions, that the organization's reputation and long-term success are more important than short-term gains.
- Leaders should regularly examine complaints by employees and other stakeholders to determine whether the organization's operations are in alignment with its values

5 mechanisms, well discussed, including pros and cons x I mark = 5 marks

Question four

- NEDs are appointed to the board of a company to bring balance to the board, and to contribute to decision-making by contributing views and opinions based on their skills and experience.

- NEDs should be independent. However, all directors are expected to display independence of mind and opinion when acting as a director, even if they are not officially classed as independent.

- NEDs also act as a check on the power of executive directors to control the company, which is why the audit committee and remuneration committee should consist entirely of NEDs.

- While they have the same legal rights as executive directors, they are independent directors and are not under employment contracts, unlike their executive counterparts..

Their role is to

- provide constructive challenge/criticism,
- strategic guidance,
- offer specialist advice
- hold management to account
- They represent the interests of stakeholders other than the major shareholders

Usefulness- 4 x .5 marks = 2 marks

However, they face the following challenges;

- NEDs may not understand enough about the business of the company, and so are unable to contribute effectively to strategic decision making.
- It is also argued that NEDs are unable to spend enough time in a company to contribute adequately. Many NEDs commit themselves for about 20 – 30 days a year with a company, and the rest of their time is spent in other jobs or on other appointments.
- It has been argued that in many companies NEDs are inclined to rely on the opinion of executive directors, and that the influence of senior executive directors is therefore sometimes much greater than it ought to be,
- NEDs often come from the same „background" as their executive director colleagues, and many are executive directors of other companies. NEDs may therefore fail in their role of „monitoring" the executive management.
- It has also been argued by some entrepreneurial businessmen that NEDs can slow down the process of making business decisions. However, a function of NEDs is to ensure that major decisions are taken after due consideration, and should not be taken quickly, at greater risk, by senior executives.
- It has been argued that NEDs should help to make the board more accountable to shareholders, but in practice they rarely meet with shareholders.

A good answer would end with a summary and overall assessment.

4 challenges x 0.5 marks = 2 marks

Summary- 1 mark

Question Five

Arguments for CSR

- Favourable reputation may enable a firm to Charge premium prices, Aid brand differentiation and brand value, Customer loyalty etc
- It improves the public image of the company through for instance favourable media coverage
- May improve the value of the shares traded in the stock market
- It is necessary to avoid government scrutiny, regulation and intervention.
- Since the society gives the business the charter to exist, the business must live up to the society's expectation.
- Businesses have a great deal of power which should be accompanied by an equal amount of societal responsibility
- Businesses should attempt to solve problems which other institutions have not been able to solve, after all they are known to be innovative and to come up with new ideas.
- Businesses have vast resources which they should specifically use to solve societal problems
- It is better to prevent events than to cure them. For instance organizations should assist in the problem of street children instead of dealing with hardcore criminals in the future.
- Easier access to finance
- Favourable social media sentiment

4 arguments for x 0.5 marks = 2 marks

Arguments against CSR

- It might be illegal to use shareholder resources in social activities
- Social actions cannot be measured
- It violates the objective of profit maximization
- It would lead to the increase of product/service prices
- Businesses and their managers lack social skills to solve societal problems.
- It would dilute the primary purpose of the business
- Businesses already have too much power and such involvement will give them even more power over the society
- Businesses lack accountability to the public or society. They are accountable to shareholders.
- Social responsibility activities may lack broad public support i.e. they may support the wrong projects.

5 arguments against x 0.5 marks = 2 mark

A good answer would end with a summary and overall assessment.

Summary – 1 mark