PAN AFRICA CHRISTIAN UNIVERSITY
BACHELORS OF BUSINESS LEADERSHIP
END TERM EXAMINATION-VALLEY ROAD

DEPARTMENT: BUSINESS
COURSE CODE: BUS 306
COURSE TITLE: CORPORATE GOVERNANCE
Time: 17:30HRS-20:30HRS

Instructions
•Read all questions carefully before attempting.
•Answer **QUESTION ONE** and any other **FOUR** questions out of the **SIX** provided

SECTION ONE ANSWER ALL THE QUESTIONS {40 MARKS}

QUESTION ONE
Read the case study below and answer the questions that follow.
On paper, Robert Nardelli, seemed to be doing everything right. Selected personally by the founders, Arthur Blank, Kenneth Langone, and Bernard Marcus, the board of directors felt that the company was lucky to have hired Nardelli from General Electric to be CEO of Home Depot in December 2000. Between 2000 and 2005, the company opened more than 900 stores, doubled sales to $81.5 billion, and achieved earnings per share growth of at least 20% every year. According to Nardelli, the company had the strongest balance sheet in the industry and tremendous potential for future growth. The board loved Nardelli and had been happy to support his decisions.
The stockholders, however, were not as satisfied with Nardelli's performance. They wondered why Home Depot's common stock had fallen 30% since Nardelli had taken charge of the company. In addition, Nardelli was increasingly being attacked for having "excessive compensation," given the firm's poor stock performance. People questioned why he was

receiving $38.1 million annually in salary, cash bonuses, and stock options. Nardelli was one of the six executives highlighted in a July 24, 2006 Fortune article entitled "The Real CEO Pay Problem." Stockholders were unhappy with Nardelli's tendency to manipulate negative performance data. For example, when same store sales failed to increase in 2005, he announced that management would no longer report that figure. When a Business Week reporter questioned his persuading the board not to use stock price to decide his compensation, Nardelli responded that he and the board had felt that the leadership team should be measured on things over which the team had direct control, such as earnings per share instead of stock price compared to the retail index.

Since Nardelli saw little growth opportunity in the company's retail stores, he pushed to make the stores run more efficiently. Importing ideas, people, and management concepts from the military was one way to reshape an increasingly unwieldy Home Depot into a more centralized and efficient organization. Under Nardelli, the emphasis was on building a disciplined manager corps, one predisposed to following orders, operating in high-pressure environments, and executing with high standards. He hired ex-military to be store managers. The previous constant flow of ideas and suggestions flowing up the organization from Home Depot's many employees was replaced by major decisions and goals flowing down from top management. Former Home Depot executives reported that a "culture of fear" had caused customer service to decline. The once-heavy ranks of full-time store employees had been replaced with part timers to reduce labor costs. Since 2001, 98% of Home Depot's 170 top executives had left the company. The University of Michigan's American Customer Satisfaction Index, compiled in 2005, revealed that Home Depot, with a score of 67, had slipped to last place among major U.S. retailers.

Nardelli did not react well to criticism. For example, the agenda for the May 2006 shareholders meeting contained a number of shareholder proposals dealing with "excessive" senior management compensation, separating the position of Chairman of the Board from another management position, requiring a majority (instead of plurality) vote for board member elections, shareholder approval for future "extraordinary" retirement benefits for senior executives, and disclosure of the monetary value of executive benefits. The votes on these proposals indicated an unusually high level of shareholder dissent, with at least one-third of shareholders voting for every proposal—votes cast before the meeting. Upon arriving at the annual shareholders meeting, people were surprised to note a number of changes from previous annual meetings. For one thing, except for CEO Nardelli, none of the members of the board of directors were present. For another, shareholders were allowed to speak about their shareholder proposals, but each had a time limit that was carefully tracked by a giant clock. Nardelli did not present a performance review, refused to acknowledge comments or answer questions, and adjourned the meeting after 30 minutes. Many of the shareholders were enraged by Nardelli's arrogance. Pushed by the shareholders to reduce the CEO's large compensation package, the board of directors finally asked Nardelli to accept future stock awards being tied to increases in the company's stock price. Nardelli flatly refused and instead quit the company in January 2007 taking with him a $210 million retirement package. Observers could not understand why the board had been so generous with a CEO who during his tenure had been more concerned with building his own compensation than in building shareholder wealth.

ai. Describe the achievements of Nardelli (**6mks**)

ii. Highlight the major problems faced by Home Depot Company (**6mks**)

iii. Did the board of directors in this company succeed or fail? Explain (**6mks**)

b. Define the term Corporate governance (**2mks**)

c. Explain Five aspects of addressed by global corporate governance **(10mks)**
d. Citing examples, describe five strategies of risk management **(10mks)**

QUESTION TWO

a. Explain three corporate governance principles **(6mks)**
b. Assuming that you were the Chief Executive Officer in your organization, explain three relationship roles you would play to your employees **(6mks).**
c. State three skills necessary for a Board director **(3mks)**

QUESTION THREE

a. Explain three duties of primary shareholders **(6mks)**
b. Discuss three types of risk you are likely to face in your organization as a manager **(6mks)**
c. State Three corporate governance theories other than stewardship theory **(3mks)**

QUESTION FOUR

a. Explain five long term benefits of good governance to Kenya Airways **(10mks)**
b. Enumerate five areas of responsibility as far as CEO- Board relationship is concerned **(5mks)**

QUESTION FIVE

a. Bryan is a member of the audit committee. Describe his responsibilities in that position **(4mks)**
b. Highlight different ways of empowering employee stakeholders **(3mks)**
c. Examine four ways in which globalization affects the economy and the society at large **(8mks)**

QUESTION SIX

a. Discuss the guidelines of good corporate governance in Kenya **(10mks)**
b. Highlight the significance of Corporate governance **(5mks)**

End of exam