L.O.a: Describe corporate governance.

1. Which of the following is the *most appropriate* definition of corporate governance?
    A. A system of defined roles for management and the majority shareholders.
    B. A system of checks and balances to minimize the conflicting interests among shareowners.
    C. A system of internal controls and procedures by which individual companies are managed.

2. Analyst 1: Corporate governance is the system of internal controls and procedures by which individual companies are managed.
   Analyst 2: Corporate governance provides a framework that defines the rights, roles and responsibilities of various groups within an organization.
   Which analyst's statement is *most likely* correct?
    A. Analyst 1.
    B. Analyst 2.
    C. Both.

L.O.b: Describe a company's stakeholder groups and compare interests of stakeholder groups.

3. Which of the following is *least* likely a common interest of shareholders and creditors?
    A. High profits.
    B. High return on invested capital.
    C. Dividends.

4. Which of the following scenarios is *least* likely to create a conflict of interest between shareholders and management?
    A. A company's decision to venture into new markets.
    B. A takeover bid from a rival firm.
    C. A proposal to redraft the employee bonus structure.

5. Which of the following is *not* a function of the board of directors?
    A. To protect shareholder interests and provide strategic direction.
    B. To protect the interest of management in front of shareholders.
    C. To monitor company and management performance.

6. Which group of stakeholders is *least* likely to benefit from an increase in the market value of a company?
    A. Company management.
    B. Customers.
    C. Shareholders.

7. Which of the following is *least* likely an interest of the government as a stakeholder?
    A. Higher company profits.
    B. Higher management compensation.
    C. Environmental impact of the business's activities.

L.O.c: Describe principal–agent and other relationships in corporate governance and the conflicts that may arise in these relationships.

8. An agency relationship is *most* likely described as:
    A. a relationship arising when a principal is hired to act in the best interest of the agent and involves obligations, trust and expectations of loyalty.
    B. a relationship arising when a principal hires an agent to perform particular tasks or services where the agent is expected to act in the best interests of the principal.
    C. a relationship arising when a principal hires an agent to perform particular tasks or services where the agent is expected to act in the best interests of the stakeholders.

9. The shareholders of a company own a portfolio of several companies and have a high risk tolerance. Such a scenario can create a conflict of interest between:
    A. shareholders and management.
    B. customers and management.
    C. creditors and customers.

10. A company is making a takeover bid on a rival firm and the valuators have proposed a bid at a premium of 50% to the target's share price. The company is currently owned 70% by a majority shareholder and the remaining ownership is fragmented among small shareholders. The said scenario can result in a conflict between:
    A. controlling shareholder and management.
    B. shareholders and the government.
    C. controlling shareholder and minority shareholders.

11. Management and board of director's conflicts can arise as a result of:
    A. limited information provided to the board.
    B. management having an ownership stake in the business.
    C. management's decision to invest in a profitable business line.

L.O.d: Describe stakeholder management.

12. Stakeholder management is *best* described as:
    A. identifying, prioritizing, and understanding the interests of stakeholder groups, and, on that basis, managing the company’s relationships with these groups.
    B. identifying, prioritizing, and understanding the interests of shareholders and managing shareholder relationships with other stakeholders.

C. identifying, prioritizing and understanding the interests of stakeholders and serving those interests first that maximize company profits.

13. Which of the following is *not* a stakeholder management infrastructure?
    A. Legal infrastructure.
    B. Environmental infrastructure.
    C. Contractual infrastructure.

14. Governance procedures and practices are part of which of the following?
    A. Legal infrastructure.
    B. Contractual infrastructure.
    C. Organizational infrastructure.

L.O.e: Describe mechanisms to manage stakeholder relationships and mitigate associated risks.

15. Which of the following is *least* likely to be done at an extra-ordinary general meeting?
    A. Amendments to a company's bylaws.
    B. Voting on a merger transaction.
    C. Approval of financial statements.

16. Which of the following is typically a means to protect the rights and interests of employees?
    A. Proxy voting.
    B. Code of ethics and business conduct.
    C. Covenants.

17. Which of the following is a mechanism to protect the rights of creditors?
    A. Proxy voting.
    B. Regulations to protect the environment.
    C. Collateral to secure a loan.

L.O.f: Describe functions and responsibilities of a company's board of directors and its committees.

18. A company wants to incorporate best practices in its corporate governance procedures relating to the company's compensation committee. The *least appropriate* step would be to:
    A. include a retired executive from the firm.
    B. link compensation with long-term objectives.
    C. include a representative from a different industry.

19. Which of the following committees is *most likely* responsible for establishing criteria for appointment of board of directors and search process?
    A. Nominations committee.

B. Governance committee.
C. Remuneration committee.

20. Which of the following is *not* a responsibility of the governance committee?
    A. Oversee implementation of the corporate governance code.
    B. Ensure compliance with relevant laws and regulations throughout the company.
    C. Determining factors that constitute director independence.

21. The risk committee is *least* likely to:
    A. establish enterprise risk management plans.
    B. determine the risk appetite of the company.
    C. monitor investment in risky projects.

L.O.g: Describe market and non-market factors that can affect stakeholder relationships and corporate governance.

22. Which of the following is a form of shareholder activism?
    A. Annual shareholder meetings.
    B. Analyst calls.
    C. Proposing shareholder resolutions.

23. Persuading shareholders to vote for a group seeking a controlling position in a company is known as a:
    A. proxy contest.
    B. tender offer.
    C. hostile takeover.

L.O.h: Identify potential risks of poor corporate governance and stakeholder management and identify benefits from effective corporate governance and stakeholder management.

24. Which of the following is *not* a risk of poor corporate governance?
    A. High control on all corporate levels.
    B. Risk of going bankrupt.
    C. Risk of losing employees to competitors.

25. A poor corporate governance structure is *most* likely to:
    A. improve operational freedom and efficiency.
    B. reduce corporate governance costs to increase profits.
    C. increase the cost of debt.

L.O.i: Describe factors relevant to the analysis of corporate governance and stakeholder management.

26. Which of the following can create a divorce between ownership and voting control?

A. A skewed shareholding structure where one shareholder owns majority of the company's shares.
B. Dual class of shares with different voting rights.
C. Equal voting power of all outstanding shares.

27. Which of the following can be a red flag while analyzing corporate governance and stakeholder management of a company?
    A. Disclosure of the director's profiles.
    B. Disclosure of the director's bonus and compensation structure.
    C. Multiple directors engaging in related party transactions with the company.

L.O.j: Describe environmental and social considerations in investment analysis.

28. An investment analyst would be *most* likely concerned about environmental pollution caused by a company because:
    A. it would lower costs and increase profits.
    B. it would result in environmental degradation.
    C. it can result in regulatory action and penalties.

L.O.k: Describe how environmental, social, and governance factors may be used in investment analysis.

29. Excluding companies from investment universe that violate accepted standards of environmental concerns is an example of:
    A. positive screening.
    B. best in class.
    C. negative screening.

30. Considering a single factor in investment, such as energy efficiency or climate change is known as:
    A. best in class.
    B. thematic investing.
    C. impact investing.

Solutions

1. C is correct. Corporate governance is the system of internal controls and procedures by which individual companies are managed.

2. C is correct. Both statements are correct.

3. C is correct. Both creditors and shareholders desire high profits, however dividends are only particular to shareholders.

4. A is correct. A decision to venture into new markets would increase the company's revenue and profits which is in the interest of both shareholders and employees. In a takeover scenario, the management may fear losing their employment; however, the offer may be attractive for shareholders. Similarly, a proposal to redraft the bonus structure can create a conflict in that shareholders would want to reduce expenses whereas the management would want higher bonuses.

5. B is correct. The board of director's responsibility is to protect shareholder interests and ensure the management works in the best interest of shareholders. Protecting management interests in front of shareholders is not a responsibility of the board.

6. B is correct. An increase in market value of a company can benefit management because their compensation is likely to be linked with company value. Shareholders directly benefit from higher market value. Customers are least likely to benefit from an increase in market value of the company.

7. B is correct. Management compensation does not directly impact the government's interest as a stakeholder. Being a tax collector, the government is interested in the company's profits whereas as in order to safeguard the interests of the public the government would want to ensure the environmental impact of the business's activities is not negative.

8. B is correct. The agency relationship is a relationship arising when a principal hires an agent to perform particular tasks or services where the agent is expected to act in the best interests of the principal.

9. A is correct. When shareholders have a high risk tolerance, they would support venturing into risky projects. The management however, would be more risk averse in order to secure their employment.

10. C is correct. In the given ownership structure the controlling shareholder would have more influence than minority shareholder and can use this position to the detriment of minority shareholders.

11. A is correct. The board's monitoring role can be compromised when management gives limited information to the board hence creating a conflict.

12. A is correct. Stakeholder management involves identifying, prioritizing, and understanding the interests of stakeholder groups, and, on that basis, managing the company’s relationships with these groups.

13. B is correct. The stakeholder management framework includes legal infrastructure, contractual infrastructure, organizational infrastructure and governmental infrastructure.

14. C is correct. Governance procedures and practices are part of the organizational infrastructure.

15. C is correct. Approval of financial statements requires simple majority and is done at ordinary general meetings and do not require an extra-ordinary general meeting.

16. B is correct. A code of ethics and business conduct protects the rights of employees and ensures they are treated fairly.

17. C is correct. Collateral to secure a debt is used to protect creditors.

18. A is correct. A retired executive can have good terms with the senior management and thus the independence of the committee can be compromised.

19. A is correct. The nomination committee establishes criteria for the board of directors and the search process.

20. C is correct. Determination of factors constituting director independence is a responsibility of the nomination committee.

21. C is correct. Monitoring investment is the responsibility of the investment committee.

22. C is correct Proposing shareholder resolutions is a form of shareholder activism.

23. A is correct. In a proxy contest, shareholders are persuaded to vote for a group seeking a controlling position on a company’s board of directors

24. A is correct. Effective corporate governance ensures control at all corporate levels which can help identify and manage risks at an early stage.

25. C is correct. Poor corporate governance can hinder a company's ability to meet its debt obligations and therefore increase its cost of debt.

26. B is correct. Dual share classes with different voting rights can create a divorce between ownership and voting control.

27. C is correct. Multiple directors engaging in related party transactions with the company can create a conflict of interest which can be of concern to investors.

28. C is correct Environmental pollution would be a concern for investment analysts as it can invite regulatory action against the company and imposition of penalties, which can lower profits.

29. C is correct. Excluding companies that violate environmental protection standards is an example of negative screening.

30. B is correct. Thematic investing strategies typically consider a single factor, such as energy efficiency or climate change.