



**National University of
Science and Technology**
Think in Other Terms



**FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
BACHELOR OF COMMERCE (HONORS) FINANCE & FISCAL STUDIES
PART IV FINAL EXAMINATION - DECEMBER 2014
CORPORATE GOVERNANCE AND ETHICS [CFI 4107]**

TIME ALLOWED: THREE (3) HOURS

Instructions to Candidates

1. Answer **Question One** in Section A and any other **Three** from Section B.
2. Questions may be written in any order, but must be legibly numbered.
3. Start the answer to each full question on a fresh page of the answer sheet.
4. Write legibly.

Information for candidates

1. This paper contains SIX (6) Questions
2. This paper contains FOUR (4) printed pages, including cover page.
3. The businesses in this question paper are intended to be fictitious.

SECTION A- COMPULSORY

[Total 25 Marks]

Question 1

Read the case below and answer questions that follow.

The Powerzim Company is a distributor of electricity in Zimbabwe. In effect, Powerzim purchases electricity from companies making electricity and then distributes this through a network of cables to companies and private individuals throughout the country. Electricity is generated from a variety of sources, including burning coal, natural gas, nuclear power, and a small amount from renewal resources such as wind and wave power.

Powerzim's shares are owned by three other companies, who take an active interest in the profitability of Powerzim. There are three other electricity distribution companies in the country where Powerzim operates. The board of Powerzim is currently considering the proposal to purchase electricity from Mozambique. This source of supply is quoted as being cheaper as compared to sources in Zimbabwe, although the electricity is generated by burning coal. If this supply is taken, Powerzim will stop purchasing electricity from an old nuclear power station and some of the expensive wind power plants. The Environmental Management Agency (EMA) has learnt of the proposal and is currently participating in a media campaign in an attempt to block the change by giving Powerzim bad publicity.

The board, managers and employees in Powerzim appear indifferent, although changing the source of supply will provide a price advantage over Powerzim's competitors, effectively guaranteeing their jobs for several years.

Required:

- a) Identify the stakeholders who will be interested and/or affected by the decision of Powerzim Company to change electricity suppliers. In your response, evaluate the impact of that decision on the stakeholders. **[15 Marks]**

- b) Discuss the actions the board can take with respect to each stakeholder group.
[10 Marks]

SECTION B- CHOOSE ANY THREE (3) QUESTIONS.

Question 2

[Total 25 Marks]

For each of the situations below, identify the ethical threats and recommend ethical safeguards, explaining why those safeguards are appropriate.

Situation A

AB is CEO of Company X and is also a non-executive director of Company Y and sits on the remuneration committee of that company. CD is CEO of Company Y and is also a non-executive director of Company X and sits on the remuneration committee of that company. AB and CD are good friends and play golf together every Saturday.

[12.5 Marks]

Situation B

The chairman of Company Z does not like conflict on the board. When a new director is appointed, the chairman always ensures that the director's family members obtain highly paid jobs in the company, and in the case of children, that they are sponsored by Company Z through college. Company Z is very profitable, although the board appears to be ineffective in querying the actions of the chairman.

[12.5 Marks]

Question 3

[Total 25 Marks]

The board of directors must be selected on grounds of merit, based on a clearly defined capability matrix, skills mix and integrity in areas such as legal, finance, marketing, audit, technical, human resources, strategic and economic planning. Explain why this is important in view of the role of board of directors.

[25 Marks]

Question 4

[Total 25 Marks]

Corporate Governance shortcomings, self aggrandizement by top management, abuse of company assets and high salaries of senior managers have been cited as the major contributors to the downward spiral in state enterprises' performance in Zimbabwe. Why do we have such problems despite having internal audit departments in these parastatals?

[25 Marks]

Question 5

[Total 25 Marks]

Critically analyse the benefits that can be derived if an organisation engages in voluntary and mandatory disclosures.

[25 Marks]

Question 6

[Total 25 Marks]

Explain why conflicts of interest matter and how organizations can manage conflicts of interest.

[25 Marks]

END OF EXAMINATION PAPER