# 4.03 Corporate Governance - Conflicts, Mechanisms, Risks, and Benefits

**Question 1**
Of the following, the most likely source of principal-agent conflict between managers and shareholders is managers' having:
A. remuneration tied to stock-based compensation.
B. different levels of risk tolerance than shareholders.
C. more limited access to information about the business.

**Question 2**
Which component of stakeholder management does a corporation least likely control?
A. Legal infrastructure
B. Contractual infrastructure
C. Organizational infrastructure

**Question 3**
An effective corporate governance system most likely:
A. helps protect creditor rights.
B. creates incentive for management to take fewer risks.
C. impedes a company's ability to respond quickly to market events.

**Question 4**
Which of the following factors is most appropriately a concern for potential shareholders?
A. An activist shareholder with a significant position
B. Executive remuneration that includes time-vested shares
C. Governance codes implemented on a "comply or explain" basis

**Question 5**
An argument supporting a dual-class structure of common equity is most likely that compared to single-class structures, dual-class structures better:
A. align voting power with economic ownership.
B. promote stability and long-term strategic investments.
C. remove conflicts of interest between noncontrolling shareholders and management.

**Question 6**
Which of the following topics is most likely to be voted on during a company's annual general meeting?
A. Approving the external auditor
B. Accepting a merger or acquisition
C. Amending the rights of a class of shares

**Question 7**
At a shareholders' annual general meeting (AGM), which of the following most likely requires a supermajority vote?
A. Merger or takeover transaction
B. Approval of financial statements
C. Election of directors and auditors

**Question 8**
Which of the following is most likely a responsibility of a board of director's remuneration committee?
A. Proposing the compensation for the external auditors
B. Evaluating the performance of the company's managers
C. Setting the criteria for what constitutes an independent director

**Question 9**
The founder of Company P, who owns 51% of the company, chooses to buy materials from Firm S, which is owned by a family relative. Firm S charges 25% above current market price for its products, which are of ordinary quality. In this scenario, conflicts of interest are most likely to arise between Company P's:
A. customers and suppliers.
B. creditors and board of directors.
C. controlling shareholder and minority shareholders.

**Question 10**
With regard to remuneration policies, which of the following practices is least likely to align executive compensation with shareholder interests?
A. Implementing clawback provisions
B. Giving shareholders "say on pay" rights
C. Granting stock options rather than performance shares

**Question 11**
Which of the following is a function of a company's board of directors?
A. Execute company strategy
B. Prepare company financial statements
C. Review merger and acquisition proposals

**Question 12**
Which function is least likely a responsibility of the audit committee?
A. Recommending an external auditor
B. Providing oversight of the application of accounting policies
C. Monitoring company-wide compliance with all relevant laws and regulations

**Question 13**
Stakeholder theory asserts that the primary responsibility of corporate governance is to:

A. maximize shareholder returns.
B. prioritize the needs of employees.
C. balance the competing needs of all interested parties.

**Question 14**
Which of the following is most accurate with regard to a dual-class share structure?
A. Shareholders have voting power equal to their percentage of ownership.
B. It may grant founders superior voting control even if their ownership level falls below 50%.
C. It typically grants outside shareholders greater voting power than insiders and family members.

**Question 15**
Which of the following is least likely a role of the governance committee?
A. Develop the company's code of ethics
B. Ensure compliance with applicable laws and regulations
C. Establish nomination and identification processes for director positions