



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ECONOMICS, MARKETING, AND ENTREPRENEURSHIP

EXAMINATION PAPER

COURSE CODE : MSTM528
COURSE TITLE : Corporate Governance and Business Ethics
SPECIAL REQUIREMENTS : None
DURATION : 3 Hours
LEVEL : 2.1
DATE : 12 APR 2024

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue
2. Use of silent, non-programmable calculators is allowed
3. Answer ALL questions in Section A and any three (3) questions in Section B.
4. The number of marks for each question or part question is shown in brackets []
5. Begin each answer on a new page.
6. **DO NOT OPEN THIS PAPER UNTIL THE INVIGILATOR INSTRUCTS YOU.**

SECTION A (Compulsory)

QUESTION ONE

Corporate Governance Adding Value

When Cementos Argos first decided to adopt good governance practices, it faced an almost complete lack of knowledge on the subject in the Colombian market. Yet, in taking the decision to move towards good governance practices, it was essential to convey to the market what corporate governance meant for the company, and that the principles of good governance were not just a fad—they were here to stay. The company initially adopted a basic Code of Corporate Governance, which was subsequently amended in line with international benchmarks. The revised Code, emphasizing aspects of disclosure and free flow of information, was discussed with a variety of stakeholders, from employees to the Board of Directors.

Cementos Argos, following recommendations by its shareholders, the Board of Directors and other stakeholders, challenged itself to comply with the highest corporate governance standards advocated by international organizations. In 2004, the company finalized and published its Good Governance Code, which complies with the majority of NYSE, OECD, International Finance Corporation (World Bank Group), Brazilian Institute of Corporate Governance (IBGC) and other local institutions' recommendations for companies.

The management of Cementos Argos now understands that implementing better disclosure practices helps generate wealth for shareholders and facilitates access to investors. The management is also convinced that adopting good governance practices differentiates Cementos Argos from its competitors in the product and capital markets. Cementos Argos's structure of corporate governance focuses on five main pillars: fair treatment of shareholders; strengthening the structure and performance of the Board of Directors; developing procedures to provide accurate, complete and timely information; establishing an Ethics Code for employees; and regulating relations with different interest groups.

Finally, and notably, it was decided that both internal and external auditors should review and inform the market of Cementos Argos's compliance with its Good Governance Code.

The company's chief legal officer is charged with overseeing issues related to corporate governance. In addition to good corporate governance practices, Cementos Argos attaches great importance to corporate social responsibility and value-added initiatives that enhance the localities in which they operate. In particular, the company spent US\$ 2.6 million during 2005 on different community programs benefiting education, charity, health, nutrition and cultural arts.

The Board of Directors

The Board of Cementos Argos is composed of five non-executive directors, two of whom are independent. The Board is supported by three Board committees: Audit & Finance; Nominations and Remuneration; and Board Issues. The Audit & Finance Committee, composed of 4 directors (2 independent), the CEO, CFO and internal auditor, focuses on supervising internal control processes, assuring transparency and accurate disclosure of financial information, overseeing internal auditing activities and supporting Board decision-making on controls.

The Nominations and Remuneration Committee, composed of 3 directors, establishes policies on hiring, compensation and the development of key personnel. It proposes a compensation plan that is linked to both personal and company performances. The Committee is in charge of revising the company's senior management succession plan. The Board's compensation is approved by the Annual General Meeting, which may also dismiss and re-elect directors even before the end of their tenures.

The Board Issues Committee, composed of 3 directors and the CEO, concerns itself with the role and responsibilities of directors, recruitment of new members and defining the policies for ensuring proper Board composition. The Committee has also implemented an evaluation system for directors, and there is a continuous program of training and development for directors. The positions of CEO and Chairman of the Board are held by separate persons at Cementos Argos. The company's senior executives hold the title of Vice-President and are appointed in accordance with policies developed by the Nominations and Remuneration Committee.

The Results of Cementos Argos show that, on 31 January 2006, had a market capitalization of US\$ 5.8 billion. This number is up as compared with 31 December 2004 (US\$ 930 million) and the previous year-end (31 December 2005), when market capitalization reached US\$ 4.8 billion—creating a sizeable 420% increase in that one-year period alone. Cementos Argos prepares its financial statement in accordance with Colombian GAAP. In 2005, the company had net income of US\$ 722 million, reflecting an increase of 63% compared to 2004 (US\$ 442 million). Other financial performance results are as follows: Net operating revenues: • 2004 - US\$ 441.8 million (consolidated); • 2005 - US\$ 721.7 million (consolidated); Net costs and expenses: • 2004 - US\$ 41.3 million (consolidated); • 2005 - US\$ 115.0 million (consolidated); Net cash: • 2004 - US\$ 85.2 million (consolidated); • 2005 - US\$ 17.7 million (consolidated).

It is difficult to precisely measure the direct benefits of adopting good governance practices, but Cementos Argos can point to substantive results. Its shares have steadily increased in value by climbing 177% during 2005. After publishing the Good Governance Code, the company also more than quadrupled its number of shareholders. In addition, with the adoption of the Code, Cementos Argos surged ahead of its market competition, as capital investors rewarded the company by more than three times (3.4 times) oversubscribing to its last bond issuance. Being the fifth-largest cement producer in Latin America, Cementos Argos today supplies 51% of the local cement market and 32% of the local concrete market. In addition, Cementos Argos exports its products to 18 different countries and holds several investments in the United States, Panama, Venezuela, Haiti and Dominican Republic. Future Goals and Challenges Cementos Argos is still perfecting its governance system. Its main challenges are strengthening its Board of Directors and the Board committees. Better systems for overseeing compliance with its Code of Ethics (in effect since 2004) and enhancement of its disclosure practices are among the company's future corporate governance goals

- a) On which five main pillars is Cementos Argos; corporate governance structure based on? (5 marks)
- b) From the information provided are the pillars fully implemented? Justify your answer. (20 marks)

SECTION B: Answer any three questions in this section)

QUESTION TWO

Evaluate the benefits of having an Ethics policy and a corporate governance policy in an organization of your choice. (25 marks)

QUESTION THREE

How applicable are the following theories of corporate governance to an organization of your choice:

- i) Stakeholder theory?
- ii) Managerial hegemony?
- iii) Stewardship theory

(25 marks)

QUESTION FOUR

It is expected that the board composition should have diverse experience, gender balance, regional representation and the glass cliff phenomenon. Justify these and other characteristics that are expected of the board. (25 marks)

QUESTION FIVE

Examine any three basic ethical theories with an example of each in practice. Identify the limitations of each theory. (25 marks)

END OF QUESTION PAPER