Chapter 5 Quiz

True / False Questions

1. Corporate governance is the system that directs and controls business corporations.
   True    False

2. The development of a separate corporate entity limited organizations to raising funds from individual shareholders in order to grow their operations.
   True    False

3. Managers only are accountable to their owners.
   True    False

4. The board of directors runs the organization on a day-to-day basis.
   True    False

5. The term *outside director* can be misleading because some outside members may have direct connections to the company.
   True    False

6. The audit committee is comprised of independent specialists who have no connection to the company.
   True    False

7. The primary responsibility of the compensation committee is to oversee compensation packages for corporation employees.
   True    False

8. The corporate governance committee represents a more public demonstration of the organization's commitment to ethical business practices.
   True    False

9. While the issue of corporate governance has reached new heights of media attention in the wake of recent corporate scandals, the topic has received increasing attention for over a century.
   True    False

10. In contrast to the Cadbury report's focus on internal governance, the King report included a code of corporate practices and conduct that went beyond the corporation itself.
    True    False

11. "King II" formally recognized the need to move the stakeholder model forward and to consider a triple bottom line instead of a single bottom line of profitability.
    True    False

12. The Cadbury report argued for a guideline of "comply or else."
    True    False

13. A set of guidelines that require companies to abide by a set of operating standards or face stiff financial penalties refers to the "comply or explain" methodology.
    True    False
Chapter 5 Quiz

14. The Sarbanes-Oxley Act of 2002 incorporates the "comply or else" approach.
   True    False

15. Corporations who now face numerous misconduct charges often had the governance model in place.
   True    False

16. Oversight of the board of directors remains in tact even when the roles of chief executive officer and chairman of the board merge.
   True    False

17. Efficiency is the main argument for merging the chief executive officer and the chairman of the board positions together.
   True    False

18. Effectively governed organizations must have mechanisms in place that oversee the long-term strategy of the company.
   True    False

19. To be truly effective, a board of director can foster a culture of "no dissent."
   True    False

20. The board of an organization can be effective if it takes an active role in assessing leadership talent.
   True    False

21. Walter Salmon developed a 50-question checklist to assess the quality of an organization's board.
   True    False

22. One question in Salmon's 22-question checklist includes: Is there a way for outside directors to alter the meeting agenda set by your CEO?
   True    False

23. Simply having the mechanisms in place will, in itself, guarantee good governance.
   True    False

24. Enron maintained an audit committee consisting exclusively of nonexecutives.
   True    False

25. A fiduciary responsibility is ultimately based on trust.
   True    False

26. The key safeguards to defend against fraud or incompetence are properly constituted boards, separation of the functions of chairman and of chief executive, audit committees, vigilant shareholders, and financial reporting and auditing systems that provide full and timely disclosure.
   True    False
Chapter 5 Quiz

Multiple Choice Questions

27. The process that directs and controls organizations is known as:
   A. corporate management
   B. corporate guidance
   C. corporate governance
   D. corporate control

28. Before the development of ______, managers and owners of organizations were the same people.
   A. venture capitalists
   B. proprietorships
   C. partnerships
   D. large corporations

29. Managers carry accountability to ______.
   A. the owner's interests only
   B. the public's interests only
   C. the government's interests only
   D. both the owner's and the public's interests

30. The owners of a corporation are typically a fragmented group consisting of all of the following, except:
   A. individual public shareholders
   B. the government
   C. employees
   D. other companies

31. A board of directors typically consists of ______.
   A. inside members
   B. shareholder members
   C. outside members
   D. both inside and outside members

32. Who oversees the governance of an organization?
   A. The board of directors
   B. The audit committee
   C. The frontline managers
   D. The compensation committee
33. Who is responsible for overseeing the financial reporting process of an organization?  
A. The board of directors  
B. The audit committee  
C. The frontline managers  
D. The compensation committee  

34. Who is responsible for monitoring the ethical business practices of an organization?  
A. The board of directors  
B. The audit committee  
C. The governance committee  
D. The frontline managers  

35. In 1992, who led a committee in Great Britain on the new topical issue of corporate governance?  
A. Daniel Everton  
B. Mervyn King  
C. Alexander Elkins  
D. Adrian Cadbury  

36. What was the focus of the Cadbury report?  
A. Internal governance  
B. Shareholder model  
C. Stakeholder model  
D. The triple bottom line  

37. The Cadbury report argued for a guideline of ______.  
A. "comply or resign"  
B. "comply or else"  
C. "comply or explain"  
D. "explain or else"  

38. The Sarbanes-Oxley Act of 2002 incorporates the approach of ______.  
A. "comply or else"  
B. "comply or resign"  
C. "comply or explain"  
D. "explain or else"  

39. The set of guidelines that requires companies to abide by a set of operating standards or face stiff financial penalties refers to ______.  
A. "comply or explain"  
B. "comply or resign"  
C. "explain or else"  
D. "comply or else"
Chapter 5 Quiz

40. The set of guidelines that requires companies to abide by a set of operating standards and to explain why they choose not to refers to ________.
   A. "explain or else"
   B. "comply or explain"
   C. "comply or else"
   D. "comply or resign"

41. What would be a reason to merge the roles of the chief executive officer and the chairman of the board?
   A. Extensive company knowledge
   B. Efficiency
   C. Ethical reasoning
   D. Effectiveness

42. What would be a negative consequence of merging the roles of the chief executive officer and the board of directors?
   A. Extensive company knowledge
   B. Efficiency
   C. Ethical reasoning
   D. Effectiveness

43. Which of the following describes the first step in a policy of disregarding the corporate governance model?
   A. Merge the roles of chief executive officer (CEO) and chairman of the board into one individual.
   B. Separate the roles of chief executive officer (CEO) and chairman of the board into different individuals.
   C. Hire outside individuals to sit on the board of directors.
   D. Assign the senior management team of the firm to serve on the board of directors.

44. To be truly effective, a board of an organization must do all of the following, except:
   A. Mix up roles
   B. Ensure individual accountability
   C. Create a climate of trust
   D. Give peer performance evaluations

45. Which of the following is NOT a step to being a truly effective board?
   A. Create a climate of trust and candor.
   B. Foster a culture of "rubber stamping."
   C. Let the board assess leadership talent.
   D. Ensure individual accountability.
46. Which of the following is NOT a question on Walter Salmon's checklist to assess the quality of an organization's board?
A. Are the insiders limited to the CEO, the COO, and the CFO?
B. Is your board the right size (15 to 20 members)?
C. Do you take the right measures to build trust among directors?
D. Are there three or more outside directors to every insider?

47. Even with a board that passes all of the tests and meets all of the established criteria, ethical misconduct still comes down to ______.
A. the corporate culture
B. the situation
C. the personalities involved
D. the environment

48. The fiduciary responsibility of a manager is ultimately based on ______.
A. educational background
B. experience
C. charisma
D. trust

49. A commitment to good corporate governance can make a company ______.
A. less profitable
B. unattractive to investors
C. more profitable
D. as profitable as a commitment to bad corporate governance

50. All of the following personalities received media coverage for corporate scandals, except:
A. Wagoner at General Motors
B. Lay at Enron
C. Scrushy at HealthSouth
D. Rigas at Adelphia Cable

51. A Harvard/Wharton study showed that U.S.-based firms with better governance have ______ sales growth compared to their peers.
A. slower
B. faster
C. above average
D. the same