

# What is Corporate Governance?

## Worksheet

Corporate governance is the framework of rules and accountability ensuring companies operate ethically and transparently. It balances shareholder interests with stakeholder responsibility through board oversight, independent audits and disclosure requirements.

## Questions

1. The role of corporate governance is

- A) maximize CEO pay
- B) ensure ethical operations and stakeholder accountability
- C) hide financial problems
- D) eliminate the board

2. Independent directors are important because

- A) they're cheaper
- B) they reduce conflicts of interest
- C) they know the CEO well
- D) they're not needed

3. A board of directors' primary duty is to

- A) make the CEO rich
- B) serve shareholders and stakeholder interests
- C) prevent innovation
- D) increase debt

4. Transparency in governance means

- A) keeping secrets
- B) disclosing financial & operational info to stakeholders
- C) lying to auditors
- D) hiding risks

5. A public company's board includes independent directors with no management ties. They set strategy, review executive compensation and audit results. What's the benefit?

6. Shareholders of a corporation vote on a major merger. Why is strong governance required?

7. An internal audit discovers accounting irregularities. What must happen next?

8. Define: What is corporate governance?

9. Define: What is the role of the board of directors?

10. Define: Why are independent directors important?

## Answer Key

1. B) ensure ethical operations and stakeholder accountability - Governance balances interests and ensures transparency.
2. B) they reduce conflicts of interest - Independence ensures objective oversight.
3. B) serve shareholders and stakeholder interests - Boards balance long-term value and stakeholder responsibility.
4. B) disclosing financial & operational info to stakeholders - Transparency builds trust and accountability.
5. Independent directors lack conflicts of interest. They review CEO decisions objectively. Result: decisions serve shareholders, not just executives. Benefit: reduced corruption, aligned incentives, long-term value creation.
6. Governance requires: transparent disclosure of merger terms, shareholder debate, voting (not unilateral CEO decision). Result: decisions reflect shareholder interests, not just management ego. Protection: avoids value-destroying deals done for wrong reasons.
7. 1. Investigation: root cause analysis 2. Corrective action: accounting correction 3. Disclosure: inform audit committee & external auditors 4. Prevention: process improvement to avoid recurrence Governance ensures accountability, not cover-up.
8. The system of rules and accountability ensuring companies operate ethically, transparently and in service of shareholders and stakeholders.
9. Set company strategy, oversee management, approve budgets, review risks and ensure compliance with laws and ethics.
10. They lack management ties, reducing conflicts of interest and ensuring objective oversight of executive decisions.

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