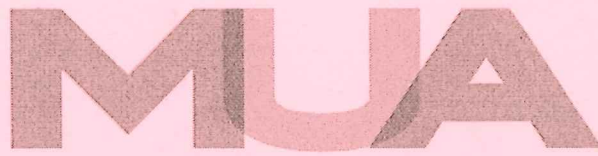


The
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POSTGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF MASTERS OF MANAGEMENT AND LEADERSHIP

MML 5108: CORPORATE GOVERNANCE

DATE: 28TH NOVEMBER 2023

DURATION: 3 HOURS

MAXIMUM MARKS: 60

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **FOUR (4)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **TWO** questions.
6. Question **ONE** carries **30 MARKS** and the rest carry **15 MARKS** each.

7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

CORPORATE GOVERNANCE IN PUBLIC LISTED COMPANIES

Corporate Governance is the process by which companies are led and managed. Different countries have corporate governance structures that reflect their unique economic, cultural, and legal environments. It is defined as "the method and structure used to lead and manage the business and affairs of a company towards promoting corporate accountability and commercial profitability with the ultimate goal of creating long-term shareholder value while taking into account the interests of other stakeholders."

In 2016, the Capital Markets Authority published the Code of Corporate Governance for Issuers of Securities to the Public (hereafter referred to as "the Code"). The advisory and technical support in the development of the Code was provided by The World Bank Corporate Governance team, the IFC's Africa Corporate Governance program, the Capital Markets team of the Finance, and Markets Global Practice's Capital Market team. The Code revoked the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya, 2002. These requirements were published after a steady wave of collapse of a number of companies due to maladministration on the part of the Management and boards. The Capital Market intends that the values, suggestions, and directives outlined in the Code would result in efficient public company governance.

The Code adopts the 'Apply or Explain' as opposed to 'Comply or Explain' approach. This approach is principle-based rather than rule-based, and recognizes that a satisfactory explanation for any non-compliance will be acceptable in certain circumstances. The approach requires Boards of Directors to fully disclose any non-

compliance to relevant stakeholders, including the Capital Markets Authority with a firm commitment to move towards full compliance.

The Code imposes minimum requirements that are meant to promote high standards of conduct as well as ensure that shareholders, directors, and their committees namely the audit committee, the remuneration and nomination committee, CEOs and management of public companies exercised their duties and responsibilities with clarity, assurance and effectiveness. Companies must comply with the principle of timely and balanced disclosure of all material information, and ensure protection of shareholder rights and equal treatment of all shareholders.

Required:

- a) In view of the excerpt, discuss any **five** internal control measures introduced by the Code for public listed companies. (10 marks)
- b) Critically explain any **five** responsibilities of the remuneration Committee of listed companies in Kenya. (10 marks)
- c) Analyze the 'comply or explain' approach to corporate governance. (5 marks)
- d) Elucidate any **five unethical** practices that lead to collapse of public listed companies in Kenya. (5 marks)

QUESTION TWO

- a) 'Directors of a Company face conflict of interest situations that affect their impartiality and objectivity in the discharge of their duties'. Describe any **five** techniques that can help Directors to manage conflict of interest. (10 marks)

- b) Distinguish between the shareholder and stakeholder model of corporate governance. (5 marks)

QUESTION THREE

A Board of Directors of Jahadi Enterprises is comprised of 6 Executives and 4 non-Executive Directors. The Chairman, a former Executive Director sits in the audit and remuneration committees as Chair. The Chairman is able to determine his remuneration every quarter. In addition, two of the non-Executive Directors had retired from being Executive Directors one year before their current appointment. In view of this statement:

- a) Briefly explain any **three** corporate governance challenges faced by the Board of Directors of Jahadi Enterprises. (3 marks)
- b) Advise the Board of Directors on any **three** factors that are considered when determining a Director's remuneration. (6 marks)
- c) Analyze the benefits and limitations of the audit committee in corporate governance. (6 marks)

QUESTION FOUR

- a) In relation to corporate governance theories, briefly explain any **three** excesses and abuses that may arise in a principal – agent relationship. (6 marks)
- b) 'Companies are about making money, not about social responsibility.' Critically discuss the statement citing arguments for and against corporate social responsibility. (9 marks)

