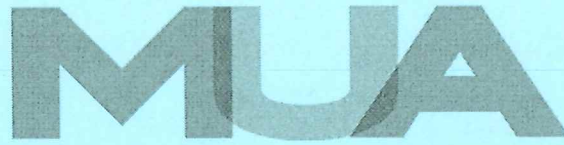


The
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POSTGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF MASTERS OF MANAGEMENT AND LEADERSHIP

MML 5108: CORPORATE GOVERNANCE

DATE: 28TH NOVEMBER 2022

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 KENYA

Before liberalization of Kenya 's economy in the 1990s which institutionalized privatization of government corporations, accountability in the public sector was largely lacking. Lack of accountability in the public sector was replicated in the private sector. Furthermore, inefficiency had been institutionalized which was compounded by the absence of a corporate governance framework.

With senior government officials owning shares in the few publicly held companies, the government was not fervent on enforcing securities laws. The boards of directors of many listed companies consisted of friends, relations and political associates of government officials. The situation was exacerbated by the fact that the national securities exchange (NSE) was under the control of family owned and managed stock brokers whose driving force was business, not regulation. Consequently, the NSE had a cordial relationship with listed companies and seldom invoked regulatory sanctions for non-compliance with listing or membership rules.

Privatization of government enterprises introduced new dynamics into the market place, for instance, new companies floated securities, and the public subscribed for them with enthusiasm. These companies were subsequently listed on the Nairobi Securities Exchange. The establishment and subsequent inauguration of the Capital Markets Authority (CMA) in 1990 did not fundamentally alter the corporate governance landscape in the country.

The desire to institutionalize the principles of corporate governance in Kenya led to the promulgation of the guidelines on principles of corporate governance for public listed companies in 2002 by the Capital Market Authority (CMA). The guidelines were developed taking into account the work undertaken by various jurisdictions through task forces and committees in the United Kingdom, Malaysia,

South Africa, Organization for Economic Corporation and Development (OECD), and the Commonwealth Association for Corporate Governance.

CMA has also supported in the development of the code of best practice for corporate governance in Kenya issued by the Private Sector Corporate Governance Trust in Kenya. In 2016, the Capital Market Authority gazette the Code of Corporate Governance for Issuers of Securities to the Public. The new corporate governance code was based on an 'apply or explain' principle, a change from the 'comply or explain' approach of the preceding guidelines. The new corporate governance code contained mandatory provisions which are the minimum standards that issuers must implement.

Required:

- a) In view of the excerpt above, discuss any **three** Code of Corporate Governance Practices recommended for Issuers of Securities to the Public. (6 marks)
- b) Discuss any **five** potential benefits of a Code of Ethics for private companies registered in Kenya. (10 marks)
- c) Critically explain any three Organization for Economic Cooperation and Development (OECD) principles of Corporate Governance. (6 marks)
- d) Analyze any **four** governance issues faced by companies in Kenya. (8 marks)

QUESTION TWO

- a) Briefly explain any **three** reasons that it is important to link the rewards of directors to performance of the companies they are managing. (6 marks)
- b) Discuss any **three** recommendations of the Cadbury Committee Report with regard to the Board of Directors. (9 marks)

QUESTION THREE

- a) Critically discuss the rationale of separating the role of the Chairman of the Board from that of the Chief Executive Officer (CEO). (10 marks)
- b) Briefly explain any five benefits of divulging non-financial information to shareholders of a Company. (5 marks)

QUESTION FOUR

- a) Examine any five factors responsible for the increasing attention to Corporate Social Responsibility (10 marks)
- b) Discuss why Chief Executive Officer succession planning should be top priority for a Board of Directors. (5 marks)