

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

### EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COOPERATIVE MANAGEMENT

**BCOP 412: CORPORATE GOVERNANCE**

**STREAMS: BCOP Y4S2**

**TIME: 2 HOURS**

**DAY/DATE: TUESDAY 17/04/2018**

**8.30 A.M – 10.30 A.M**

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**INSTRUCTION:**

- **Answer question one and any other two questions**

1. (a) Faida limited is a large diamond mining company providing employment to more than 10,000 people directly and approximately 100,000 people indirectly. The northern part of the county where Faida limited is located and has been operating from for the last fifty years is a rural setup where members have few opportunities. The county is the poorest in the country in terms of average income with two-thirds of the country's population living in extreme poverty. Although the company has a policy of employing at least 30% from the local community, this has been difficult to implement since majority from the local community are uneducated and therefore do not meet qualifications as required by Faida limited. For this reason, the company has been getting most of its employees from the southern part of the country from where all its shareholders and directors come from. In comparison with other companies, the employees of faida limited are highly paid.

However, the company has been experiencing extremely high turnout. In addition, several employees have either died or suffered from work related ailments. The earnings of Faida limited have been increasing for the last fifty years partly because of the high price of diamond in the global market. The company is among the highest tax payers and employers in the country. As part of its corporate social responsibility, the company has been financing political parties as well as political activists. For a political party or activist to qualify for such financing, such group has convince the board of faida limited that it has a good manifesto and policies that would improve the lives of citizens as well as promote governance in the county. Last year, the local communities of citizens as well as promote governance in the county. Last year, the local communities took the

company to court complaining that their health and those of their livestock were adversely affected by the gases, dust and chemicals discharged by the company. The high court ruled in favour of the company. This year, local politicians started inciting the local communities to vandalize property of the company citing among others the above complaints. The company sued the said politicians and some of them are already in police custody. However, the conflict seems to be escalating with the local community turning to attack employees of the company. Not only has this conflict led to the stalling of the company's operations but it has resulted into political fallout at the northern county.

**Required :**

- (a) Critically analyze the governance concerns in Faida limited and advise the company on the best way of improving governance practices. [10marks]
  - (b) Briefly explain any four key distinctions between the shareholder and stakeholder perspectives of corporate governance. [6marks]
  - (c) Internal controls are about assessing risk, providing oversight and reporting on the company's control posture. A good corporate practice should ensure protection of revenue leakages by instituting a strong internal control system.  
Required ; Briefly discuss the internal control framework/components. [8marks]
  - (d) Explain the steps that a company can be take to ensure that their corporate ethics policy is effective. [6marks]
2. (a) Agency problems can be resolved by proper corporate governance. Corporate governance lays emphasis on shareholders rights and enhancements of shareholders value. In many countries including Kenya, the concept of guidelines by the corporate governance Authority (CMA) and corporate governance for public sector popularly known as "Mwongozo"

**Required :**

- (i) Explain the reasons motivating the increasing interest in corporate governance. [10marks]
  - (ii) Discuss the importance of good corporate governance to the achievement of a country's development agenda. [10marks]
3. (a) The board of director of any company should compose of a balance of executive directors and non –executive directors (including at least one third independent and non independent directors) of diverse skills or expertise in order to ensure that no individual or small group of individuals can dominate the boards' decision –making processes.

**Required :**

- (i) Explain the distinction between 'independent director' and 'non executive director'. [4markss]
- (ii) Briefly explain any four measures that a company can undertake to enhance the effectiveness of its board members in their contribution to the management of the business. [6marks]
- (b) Corporate governance is backed by several theories . Identify and briefly discuss any two theories clearly describing how corporate governance link with shareholder value maximization. [10marks]
4. (a) You have recently been appointed as a member of the board of directors of XYZ co-operative limited. Describe any five roles you are required to fulfill. [10marks]
- (b) Elements of corporate governance are centered on internal and external mechanisms. Explain any five external governance mechanisms that firms can adopt to enhance control and accountability. [10marks]
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