DQ1 Gilbert

Hi Gilbert,

Thank you for a very interesting discussion on rules-based corporate governance. You bring up an interesting portion about the investors. I would like to expound on this point.

In the rules-based corporate governance, the rules being enshrined into law gives the investor appropriate confidence and information on the investment firm, such that the investment is secured (Broshko & Li, 2006). This is mostly the case with the USA. Most investors will feel that should the rules not be followed, there will be compensation allowed by law, and also appropriate punishment and restitution will be made (Broshko & Li, 2006). Under this type of corporate governance, there is a form of security for the investor. However, this also does serious damage to firms that have gone bankrupt and investors are not able to receive their full investment back, this can also be a risk. This is most unfortunate in the cases where the cause of the fall is changing market conditions, for instance the recent COVID 19 pandemic.

On the other hand, the principles-based corporate governance, looks like an ideal situation to tackle a challenge like the pandemic, however, the risk is now in the information available to the investors. Some firms may be truthful with their figures, however, others will not. An example is the fall of Uchumi supermarkets, and the ensuing public scandal (Mugo, 2015). In this case, the public was ill-informed and the accounts were falsified to feed a different image to the public. Most people lost their investment almost unfairly. The Kenyan law has no solid guides on this, and reverts to the company act that is lenient on the directors.

References

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