

**SCHOOL OF COMPUTING AND ENGINEERING SCIENCES**

**BACHELOR OF BUSINESS INFORMATION TECHNOLOGY**

**END OF SEMESTER EXAMINATION**

**BBT 3107: CORPORATE GOVERNANCE AND SUSTAINABILITY**

# DATE: Tuesday, 7th September 2021 TIME: [17:00] 2 Hours

**SECTION A (Compulsory Question)**

# QUESTION ONE

1. Define Corporate Citizenship and construct arguments for and against Corporate

Citizenship (8 Marks).

(Topic – Corporate Social Responsibility)

Corporate Citizenship is the idea that companies should act as loyal citizens to the country where they carry out their business. They are expected to participate in the economic, social and legal good of the country through paying taxes, complying with all the laws and regulations and giving back to the society.

Arguments For:

1. Business receive their charter from the society, therefore have to respond to their needs.
2. Social Involvement create favorable publicity, therefore business gain customers and investors.
3. Modern Society is an Interdependent system, therefore internal activities have an impact on the external environment.

Arguments Against:

1. The primary task of companies is to maximize shareholders wealth; social involvement could reduce economic efficiency
2. Business pass the cost of their social involvement activities back to customers through charging higher prices.
3. Business people lack the social skills to deal with the problems of the society.
4. There is lack of accountability of business to the society.
5. Every listed company is required to hold Annual General Meeting (AGM) every calendar year. Discuss the standard agenda that should constitute the “Ordinary Business” for listed companies’ AGMs. (6 marks).

Topic – Introduction to Corporate Governance.

(Types of Companies)

Listed Companies: Are companies that are on stock exchange, raise capital on stock market and institutional Investors.

AGM AGENDA

1. Nomination and Election of the Board of Directors -
2. Distinguish between “Executive Directors,” “Non-Executive Directors,” and

“Independent NEDs,” (6 marks).

(Topic – Corporate Social Responsibility)

Executive Directors: They are a member of the board and at the same time full time employees of the company. They manage the everyday operations of the company and deal with the implementation of the business and strategic plans of the company.

Non-Executive Directors: Non-Employee Director means a member of the Board who is not also an employee of the Company.

They: review performance of the management, decide on remuneration of board and ensure appropriate succession planning, ensure that the financial system is accurate.

Independent Non-Executive Directors: a non-executive director who does not have any kind of relationship with the company that may affect the independence of his/her judgments.

1. Most companies use Corporate Social Responsibility (CSR) and Sustainability as interchangeable terms. Using clear examples, distinguish between CSR and Sustainability (4 marks).

CSR – This is the continuing commitment by businesses to behave ethically and contribute to economic development of its shareholders and the society at large.

Examples of CSR: Investing in environmentally conscious business, getting involved in volunteer work.

Sustainability: The process of change in which the current generation meet the needs of their present needs without compromising the ability of future generations to meet their own needs.

Examples of Sustainability: Technological developments, exploitation of resources, Economic Viability.

1. For family businesses to thrive and outlive their founders, they need to have a set of corporate governance that is different from other forms of corporate governance.

Highlight and elaborate the key governance structures for family business. (6 marks).

1. Ownership structure
2. Control mechanisms
3. Board of directors
4. Executive compensation
5. Dividend policy and succession.

**(Total 30 Marks).**

**Section B – Answer TWO questions ONLY in this section**

# QUESTION TWO

All independent board members of the troubled Kenya Power were ordered to resign in a purge orchestrated by the Treasury, The EastAfrican has learnt. The removal of the five directors, who handed in their resignations this past week, paves the way for Treasury to appoint a team to spearhead the rescue of the electricity distributor, which has issued a profit warning for three years in a row.

The Kenya Power Board slots currently consist of the chairman; Mahboub Maalim, two government representatives; representing the ministries of Energy and Treasury, and five independent directors. The Kenyan government owns 50.09 percent of the shares of the Nairobi Securities Exchange-listed electricity distributor.

“The board had weaknesses as some people who were politically appointed did not understand operations of the utility company,” one of the outgoing board members told The EastAfrican in confidence. As Kenya Power sank deeper into losses putting at risk the country’s energy security, the political appointees became a big liability prompting the majority shareholder, Treasury, to step in. “The shareholder (Treasury) wanted to totally re-organise the board, only that it wasn’t clear on how it is was going to do it, which prompted us to step aside,” added the board member. Corruption and mismanagement, which has seen more than 10 former senior managers of the company charged in court, has accelerated the utility’s decline.

Last month the utility issued a profit warning, indicating that its net earnings for the full year ended June 30 would drop by at least 25 percent, raising questions about its state of financial affairs. The AGM, which was scheduled to be held by December 31, 2019, was postponed to allow time for the appointment of the Auditor-General — which was done this past week — who was required to certify the company’s financial statements.

*(Adopted from the East African/Business, Tuesday, July 21, 2020).*

**Required:**

1. What is ‘corporate governance’ and why is it important for companies like Kenya Power to have a strong Corporate Governance (7 marks).

Corporate Governance: A set of policies and procedures that are put in place to ensure accuracy, consistency and responsiveness to key stakeholders; shareholders, regulators and the government.

Importance of Corporate Governance to Kenya Power:

1. Ensures Appropriate Internal control systems –
2. Guard against misuse of resources – Corruption
3. Ensures Accountability –
4. Ensures risk management and reduction -
5. What are the weaknesses in the appointment of board of directors in Kenya Power as a listed company and how should it be done? (8 marks).
6. Lack of expertise – Politicians who do not have the skills
7. Corruption - the political appointees became a big liability as it sunk into loses.
8. Social exclusion - Appointment of politicians

How appointment of BOD in a listed company should be done

# QUESTION THREE

A growing body of research shows that family firms are different from other organizations in significant ways. Most of the literature stress the role of noneconomic factors in the management of the family businesses as the key distinguishing feature that separates family firms from other organizational forms. The intertwined nature of family and business systems due to family embeddedness gives these firms their distinctive flavor, as reflected in several dimensions.

Because families are a social group with long histories and enduring memories, they provide a rich context for the emotional exchanges that affect both family members and family firms. By nature, families share a range of emotions, from warmth, intimacy, tenderness, love, consolation, and happiness to hatred, jealousy, ambivalence, and anger. The identity of family members is closely linked to the firm, which often carries their name, and how others perceive the firm directly affects the image and reputation of family owners. This means that personal pride and self-concept of family members tends to be intimately tied to the business.

**Required:**

1. Define a family business and briefly explain what makes them out-perform non-family businesses (8 marks).

Family business – Ownership and management is within family members, corporate governance issues are not tight unless they are souring for funds or institutional investors.

### Unified Vision, Innovation, and growth **-**Every member of a family business has a purpose and vision to make the business successful. Unlike public funds where employees work for their targets and income, family business work for the continuation of the business.

1. Trust - The relationship of family members is based on trust. This makes the business running since problems with the finances, management, or supervision may not be witnessed.
2. Unity - Families are brought together due to their unity. As follows, they are capable to place the interests of the business ahead of their self-interests.
3. Most family fail to be sustainable in the long term. Research by IFC, (2018) showed that approx. 67% of family businesses either collapse or are sold by the founder(s) during their own tenure while it is only 5 to 15% of the business which continue into the third generation in the hands of the descendants of the founder(s).

**Required:**

Discuss the weaknesses that lead to family failure (7 marks).

1. **Poor succession planning**
2. **Lack of trusted advisers**
3. **Family conflict.**
4. **Fundamental principles of business are not applicable**

# QUESTION FOUR

Safaricom Plc paid Michael Joseph an additional bonus of Sh127.5 million in the year ended March 2021, making him Kenya’s best paid non-executive board member of a firm listed on the Nairobi bourse. The bonus came in a period when he had already relinquished the chief executive post to Peter Ndegwa, whose appointment took effect on April 1, 2020. It is not clear whether the additional payout to Mr.Joseph, which was categorized under executive compensation, is linked to his nine-month stint as interim CEO after Safaricom’s long-time executive Bob Collymore died of cancer in July 2019. The company did not disclose in the annual report if there was any deferred compensation owed to Mr. Joseph.

But it says its executives are entitled to emoluments they have negotiated with the company, adding that non-executive directors, including its chair, do not receive bonuses. “The executive director’s (the CEO) remuneration is as per the negotiated employment contract and is employed on a fixed-term basis,” the Nairobi Securities Exchange-listed firm said. “Besides the basic salary, the executive director is entitled to an annual performance-based bonus and Vodafone Plc shares, residential accommodation, utility bills payment, children’s school fees and club membership.”

The company added that its non-executive directors are compensated in the form of fees “but are not entitled to any pension, bonus or long-term incentives such as performance share plans.”

Besides the Sh127.5 million bonus Mr Joseph earned in the review period, he also received Sh6.3 million worth of fees as chairman and non-executive director, taking his total compensation to Sh133.8 million. After stepping down as CEO, he remained as a non-executive director and was later elevated to chairman on August 1, 2020, to replace Nicholas Ng’ang’a, who retired as the Chairman of the company.

*(Adopted from BusinessDailyAfica, Wednesday July 07, 2021).*

# Required

1. Highlight the positive and weaknesses in Corporate Governance of Safaricom Plc from the above case scenario (7 marks).

Positive:

Weaknesses:

1. Who should determine the directors’ remuneration? (2 marks).
2. The boards for listed companies are required to have board committees. Indicate and discuss the roles of THREE key committees that every board should have. (6 marks)
3. They work on key issues in greater detail than would be possible at full Board meetings
4. They monitor progress under action plans developed by management
5. Each Committee reviews the results of its meetings with the full Board

**(Total 15 marks).**

# QUESTION FIVE

1. The 21st Century has been characterized by fundamental changes in both business and society. These fundamental changes provided the context within which the South African King’s Codes of Corporate Governance. Highlight and elaborate at least 3 unique features of King’s Codes of Corporate Governance (7 marks**).**
2. It is on ‘apply or explain’ approach to its principles and recommended practices where companies should explain if and why they differ from the King’s recommendations.
3. King 4 calls for integrated reporting (reporting of financial information with sustainability issues of social, economic and environmental impacts)
4. Board Composition -King 4 requires boards to be comprised of a majority of nonexecutive directors, of whom the majority should be independent
5. Explain what Integrated Reporting is and discuss the key aspects of Integrated

Reporting. (8 marks).

**(Total 15 marks).**

An integrated reporting (IR) is a concise communication process about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.

Key Aspects of IR

1. Environmental and Social Impact –
2. Management Commentary –
3. Financial Statements –
4. Governance Reports –
5. Corporate Communication -