

KASNEB

CS PART III SECTION 5

GOVERNANCE AND ETHICS

PILOT PAPER

September 2015.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

MAHIGA LIMITED

Mahiga 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 Mahiga 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 County'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 Mahiga 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 Mahiga Limited are highly paid. However, the company has been experiencing extremely high turnover. In addition, several employees have either died or suffered from work related ailments. The earnings of Mahiga 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 to convince the Board of Mahiga 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 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.

- (a) Critically analyse the governance concerns in Mahiga Limited. (10 marks)
 - (b) You have recently been appointed as the company secretary of Mahiga Limited. As a governance expert, advise the company on the best way of improving governance practices. (10 marks)
 - (c) Advise the Board of Mahiga Limited on three alternative methods of solving conflicts other than through the courts. (10 marks)
 - (d) Outline advantages and disadvantages of the above identified methods of solving conflicts. (10 marks)
- (Total: 40 marks)

QUESTION TWO

- (a) Explain the meaning of the term "ethics". (3 marks)
 - (b) Discuss the importance of good corporate governance to the achievement of a country's development agenda. (12 marks)
- (Total: 15 marks)

QUESTION THREE

“Corporate Governance is a myth not a reality; it is an unnecessary cost with no significant corresponding benefits to an organisation”. This was a remark by a Chief Executive Officer of a listed company.

Critically analyse the above statement.

(15 marks)

QUESTION FOUR

Explain the roles of the following in promoting the practice of good governance in an organisation:

- (a) Board of Directors. (3 marks)
- (b) Board Chairman. (3 marks)
- (c) Audit Committee. (3 marks)
- (d) Company Secretary. (3 marks)
- (e) External Auditor. (3 marks)

(Total: 15 marks)

QUESTION FIVE

- (a) Describe the role of information communication in the practice of corporate governance. (8 marks)
- (b) Discuss the advantages of having independent directors in the Board of a company. (7 marks)

(Total: 15 marks)

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