

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE**

**AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2018/2019**

**YEAR IV SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF SUPPLY CHAIN MANAGEMENT**

**HSM 2414: CORPORATE GOVERNANCE**

**DATE: AUGUST 2019 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO**

**QUESTIONS**

**QUESTION ONE (30 MARKS)**

You have been appointed as an auditor of a mediuim-sized listed company. In discussion with the Chairman of the Board, you discovered that he has serious concerns about the quality of decision-making by the board of directors. He believes that decision by the board are often taken on the basis of insufficient information and without due regard for either risk on the environmental, social and governance (ESG) issues involved. He mentioned that a recent example of poor decision-making had been a decision by the board to invest a large amount of money in developing a major new product, only to discover that there were serious concerns about environmental impact of the product and a very high probability that the product would be tanned by Kenya Bureau of Standards (KEBS). The board therefore cancelled the product development project with a large write-off of the expenditure already incurred. This was just one example of a badly informed decision-making by the board and the chairman says that there has been others. He want to improve the work of the board, but is unsure about what need to be done. Thus corporate governance is of vital significance for the success of any organization.

**Required:**

a) Define the terms corporate governance as used in business world. (2 marks)

b) Basing on the characteristics of the board, why do you think the board acted hasty in making risky decision? Discuss. (12 marks)

c) List and explain the environmental, social and governance (ESG) that would have impacted the development of the product (16 marks)

**QUESTION TWO (20 MARKS)**

Corporate governance structure often combines controls, policies and guidelines that drive the organization towards its objectives stakeholders need. List and explain various mechanism/systems of corporate governance.

**QUESTION THREE (20 MARKS**)

a) Discuss the advantages of audit committee (10 marks)

b) Discuss the factor the external auditors consider when evaluating internal audit functions

(10 marks)

**QUESTION FOUR (20 MARKS)**

Corporate governance policies are formulated by the board and management, and made available to the stakeholders. Discuss the issues these policies should address.

**QUESTION FIVE (20 MARKS)**

Write short notes on the following: (5 marks each)

a) Transaction cost theory

b) Short term components of CEO compensations

c) Rights of a shareholder

d) Friendly take over