



PAN AFRICA CHRISTIAN UNIVERSITY

**DOCTOR OF PHILOSOPHY IN ORGANIZATIONAL
LEADERSHIP**

END OF SEMESTER EXAMINATION

**DEPARTMENT
LEADERSHIP**

**COURSE CODE
POLD 707**

**COURSE TITLE
CORPORATE GOVERNANCE (POLD 707)**

**EXAM DATE
APRIL 2025**

TIME

Duration: 3 hours

INSTRUCTIONS

- Read all questions carefully before attempting.
- Answer Question One (Compulsory) and any other two questions (Total 20 Marks)

Question One (Compulsory)

DAIMA BANK LIMITED (DBL)

Once publicised as a rising star in the banking sector, the collapse of Daima Bank Limited (DBL) was not only a financial downfall but also an indicator of systemic failures in corporate oversight. An intricate web of events led to the lack of corporate governance at DBL, its profound implications and eventual end. Established in the 1990s, it initially carved a place for itself in Kenya's banking sector. The bank's rapid growth and expansion was fueled by ambitious lending practices and an increasing market presence. However, behind the facade of success lurked governance gaps that would eventually unravel, exposing its vulnerability.

A pivotal moment in the exposure of DBL's governance deficiencies was the revelation of fraudulent activities within the institution. The bank's management were engaged in a scheme to inflate its financial position, misrepresenting the true health of the bank. Such deceptive practices not only eroded investor and depositor confidence but also underscored the absence of internal controls and ethical oversight. At the heart of DBL's governance shortcomings was a failure of board oversight. The board, entrusted with the responsibility of ensuring the bank's adherence to ethical practices and regulatory compliance, faltered in its duties. Key decisions, particularly in risk management and loan approval processes were inadequately scrutinised, contributing to the bank's eventual financial turmoil. The provisions of the memorandum of association which was supposed to be used as the constitutive document were grossly violated.

DBL's lack of effective risk management mechanisms became a critical factor in its downfall. Risk assessments were superficial and warning signs were either ignored or not thoroughly investigated. The absence of a robust risk culture within the organisation allowed risky lending practices to flourish unchecked, leading to a significant buildup of non-performing loans.

Mr. Joe Cliff, the chairman of the bank, disbanded the audit committee so as to provide an enabling environment for siphoning finances from the bank. The collapse of DBL also raised questions about the effectiveness of regulatory oversight in the financial sector. Regulatory authorities, tasked with ensuring the stability and integrity of financial institutions, were criticised for lapses in supervision. The unfolding of events revealed that DBL had been able to operate with insufficient regulatory scrutiny, contributing to an environment conducive to malfeasance.

Lack of corporate governance at DBL had far-reaching consequences for various stakeholders. Fiduciary duties were deeply neglected by the Board. As a consequence, shareholders faced significant financial losses as the true extent of the bank's insolvency became apparent. Depositors, including individuals and businesses, saw their funds frozen, leading to a loss of trust in the broader banking sector. The reputational damage inflicted upon DBL reverberated throughout the industry, impacting Kenya's financial stability. The absence of good corporate governance practices at DBL prompted legal and ethical questions. Investigations revealed instances of insider trading that facilitated financial irregularities. The absence of a robust ethical framework within the institution allowed such practices to persist unchecked, highlighting the critical role that ethical guidelines and accountability mechanisms play in corporate governance.

In the aftermath of DBL's collapse, efforts were made to reform Kenya's banking sector and enhance corporate governance standards. The Central Bank of Kenya implemented measures

to strengthen regulatory oversight and the government introduced reforms aimed at preventing a repetition of similar governance failures. These efforts emphasised the need for a comprehensive and vigilant approach to governance in the financial industry. DBL's downfall stands as a stark reminder of the perils associated with inadequate corporate governance. The aftermath of the DBL saga has prompted a re-evaluation of governance standards and regulatory mechanisms, serving as a catalyst for change and a testament to the enduring importance of corporate governance in safeguarding the integrity and stability of financial institutions.

Required

(a) Lack of corporate governance at DBL had far-reaching consequences to various stakeholders. Identify FIVE affected stakeholders and discuss the consequences to them. (5 marks)

(b) Certain duties were heavily neglected by DBL's board. Examine FIVE of these duties. (5 marks)

Question Two

The Environmental, Social, and Governance (ESG) framework expands the definition of corporate success beyond financial profit. Justify this expansion (5 Marks)

Question Three

Discuss mechanisms available for leaders to build ethical climates in organizations (5 marks)

Question Four

Institutional Theory explains variations in corporate governance practices across different countries. Critically evaluate this statement (5 Marks)