



CORPORATE GOVERNANCE

1. Best Corporate Governance Practices for Boards and Committees
2. The Governance Crisis — Emerging Issues in Kenya's Pension Sector

PART ONE

BEST CORPORATE GOVERNANCE PRACTICES FOR BOARDS AND COMMITTEES

REFLECTION QUESTIONS

- ▶ 1. Who truly holds power?
- ▶ 2. How are decisions made?
- ▶ 3. Why do intelligent organizations fail?
- ▶ 4. Why do some careers collapse despite competence?
- ▶ 5. Why do some organizations decay from within?



Critical Examination

Before formulating structures, governance begins by addressing uncomfortable structural questions that determine execution limits.

THEORIES OF CORPORATE GOVERNANCE

Governance methodologies are conceptualized and analyzed through several core frameworks:

Agency Theory

Focuses on the separation of ownership and control, managing conflict between principals and agents.

Stewardship Theory

Views managers as inherently trustworthy and aligned stewards seeking to maximize asset value.

Resource Dependency

Emphasizes the board's role in securing vital external linkages, networks, and operating resources.

Stakeholder Theory

Balances the broader strategic interests of all affected communities, workers, and clients alike.

Transaction Cost

Examines transactional structures and costs that optimize operational and oversight boundaries.

Political Theory

Analyzes how power dynamics, coalitions, and legal frameworks define systemic influence allocation.

AGENCY THEORY MODEL

Classic framework mapping of the responsibilities chain (Berle and Means, 1932):



The Agency Problem & Agency Costs: Occur when goals between principals and agents diverge, requiring structural, financial, and regulatory checks to keep interests aligned.

AGENCY THEORY CONTEXT

Managing What Belongs to Another

Managers are entrusted with assets, opportunities, and resources that do not belong to them:

- ▶ **Capital:** Money, financing systems, and investments.
- ▶ **Reputation:** Public brand and corporate integrity.
- ▶ **Systems & Technology:** Intellectual and physical processes.
- ▶ **Human Capital:** Employee trust and productivity.
- ▶ **Opportunities:** Strategic positioning and operational leads.

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"And if you have not been trustworthy with someone else's property, who will give you property of your own?"

— Luke 16:12 (NIV)

Governance exists because human beings are capable of: self-interest, abuse of power, secrecy, manipulation, and negligence.

PARABLE OF THE TALENTS – MATHEW 25

14 "Again, it will be like a Master going on a journey, who called his servants and entrusted his property to them.

15 To one he gave five talents of money, to another two talents, and to another one talent, each according to his ability. Then he went on his journey.

16 The man who had received the five talents went at once and put his money to work and gained five more.

17 So also, the one with the two talents gained two more.

18 But the man who had received the one talent went off, dug a hole in the ground and hid his master's money.

19 "After a long time the master of those servants returned and settled accounts with them.

20 The man who had received the five talents brought the other five. 'Master,' he said, 'you entrusted me with five talents. See, I have gained five more.'

21 "His master replied, 'Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things. Come and share your master's happiness!'

22 "The man with the two talents also came. 'Master,' he said, 'you entrusted me with two talents; see, I have gained two more.'

23 "His master replied, 'Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things. Come and share your master's happiness!'

Key Metaphor: Institutional governance represents an accountability system demanding stewardship, return, and valuation.

PARABLE OF THE TALENTS – MATHEW 25

24 "Then the man who had received the one talent came. 'Master,' he said, 'I knew that you are a hard man, harvesting where you have not sown and gathering where you have not scattered seed.

25 So I was afraid and went out and hid your talent in the ground. See, here is what belongs to you.'

26 "His master replied, 'You wicked, lazy servant! So you knew that I harvest where I have not sown and gather where I have not scattered seed?

27 Well then, you should have put my money on deposit with the bankers, so that when I returned I would have received it back with interest.

28 "'Take the talent from him and give it to the one who has the ten talents.

29 For everyone who has will be given more, and he will have an abundance. Whoever does not have, even what he has will be taken from him.

30 And throw that worthless servant outside, into the darkness, where there will be weeping and gnashing of teeth.'

LESSONS & REFLECTIONS

Principles of Stewardship

The servants were: entrusted, expected to multiply value, and required to account.

- ▶ **Stewardship Demands Responsibility:** Asset ownership implies value growth.
- ▶ **Fear Destroys Innovation:** Reluctance leads to complete stagnation.
- ▶ **Passivity is Also Failure:** Non-action is a strategic deficit.

- ▶ **Productive Stewardship is Rewarded:** Active systems receive expansion.
- ▶ **Buried Opportunities Weaken Institutions:** Inaction erodes structural limits.

A Critical Question:

"What opportunities are buried in your organization because of:"

- ▶ Fear
- ▶ Bureaucracy
- ▶ Politics
- ▶ Resistance to change?

IDEAL BOARD COMPOSITION

STRUCTURE OF A BALANCED, SKILLED, AND INDEPENDENT BOARD:

1. Core Composition

- a) Mix of Executive and Non-Executive Directors (NEDs)
- b) Majority Non-Executive, with a strong proportion of Independent Directors

2. Skills Mix

A critical composition of diverse strategic, financial, sectoral, technological, legal, and operational competencies.

3. Leadership

- a) Clear separation of Chairperson and CEO
- b) Competent Committee Chairs (especially Audit & Risk)

4. Diversity

- a) Gender, professional background, and experience diversity
- b) Blend of industry expertise and governance competence

BOARD COMMITTEES OVERSIGHT

- ▶ **1. Extensions of the Board:** Committees operate as extensions of the Board—not substitutes.
- ▶ **2. Enhancement of Efficiency:** Enhance efficiency, depth, and oversight quality.
- ▶ **3. Regulatory Anchoring:** Anchored on the Law, Board Charter & Governance Best Practice.
- ▶ **4. Collective Responsibility:** Committees support decision-making, but the Board retains collective responsibility.
- ▶ **5. Competence Alignment:** Appropriate skills mix and independence.
- ▶ **6. Size & Membership:**
 - a) Optimal: 3–5 members
 - b) Rotation to avoid capture and complacency.

TERMS OF REFERENCE (TOR)

The Foundation of Committee Mandates

1. Mandate & Scope

Each Committee MUST have a clear ToR covering:

- Mandate & Purpose
- Authority (delegated vs advisory)
- Scope of work
- Decision-making limits
- Reporting lines to the Board

2. Operational Limits

Key Elements:

- Meeting frequency
- Quorum requirements
- Access to management & external experts
- Performance evaluation mechanisms

3. Structural Warning

*Where ToR is weak, committees become talk shops instead of value drivers.
Mandate definition determines executive utility.*

WORKING OF BOARD COMMITTEES

1. Effective Functioning

- a) Structured agenda aligned to mandate
- b) Timely and quality board papers
- c) Focus on strategic and oversight issues—not operations

2. Relationship with Management

- a) Management provides support, not control
- b) Committees must maintain independence of thought

3. Reporting to the Board

- a) Formal reports after each meeting
- b) Clear recommendations—not just discussions
- c) Escalation of risks and critical issues

4. Decision Discipline

- a) Committees recommend; Board decides (unless delegated authority exists)

RISKS, PITFALLS & BEST PRACTICE

⚠️ 1. Common Pitfalls

- ▶ Overlapping mandates → confusion
- ▶ Committees taking over management roles
- ▶ Weak attendance and passive participation
- ▶ Capture by dominant personalities

✅ 2. Best Practices

- ▶ Annual review of committee effectiveness
- ▶ Skills-based appointments
- ▶ Clear separation of oversight vs execution
- ▶ Strong ethical culture and accountability



"A well-constituted committee system is not about structure—it is about stewardship, discipline, and integrity in execution."

ROLE BOUNDARIES

When to Lead, Partner, or Stay Out:

- ▶ **1. Lead:** when direction, risk, or mission is at stake.
- ▶ **2. Partner:** when strategy must be shaped and strengthened.
- ▶ **3. Stay Out:** when management must execute and deliver.

Warning: Failure to distinguish these roles leads to interference, abdication, or confusion.

"The wisdom of the Board is not in doing more—but in knowing when to act, and when to step back."

Effective boards exercise discernment, not dominance.

BOARD BOUNDARIES MATRIX

DOMAIN-LEVEL ROLE RESPONSIBILITY ALLOCATION MATRIX:

Domain	Board Role	Strategic Action & Context
CEO Selection	LEAD	Ensures matching strategic succession parameters.
Strategy	PARTNER	Iterative formulation and stress-testing.
Day-to-Day Operations	STAY OUT	Full delegation to executive authority.
Culture and Values	LEAD	Establishes tone, codes of ethics, and stewardship parameters.
Financial Oversight	PARTNER	Strict reporting integration and systemic oversight.

"Partnering is not micromanaging—it's standing beside leadership with clarity and wisdom."

PART TWO

THE PENSION SECTOR'S INVISIBLE ENEMY:

Organisational Culture, Home Guards and the Governance Crisis

Inspired by the Governance Insights from:
Navigating Home Guards Syndrome and Animal Firm International Ltd



FROM 'ANIMAL FIRM' TO INSTITUTIONAL STEWARDSHIP

UNDERSTANDING ANIMAL FIRM

Operational Indicators of System Decay:

Silence

Replacing courage inside meeting parameters.

Fear

Replacing objective organizational truth.

Self-Preservation

Systems protecting themselves instead of people.

Tradition Normalization

Harmful behaviors normalized over time.

"Cultural erosion happens incrementally—when exceptions are structurally accommodated, they establish the new operational baseline."

THE HOME GUARD SYNDROME

Institutional Resistance Markers

- ▶ Resistance to reform
- ▶ Fear of disrupting the status quo
- ▶ Silencing whistleblowers
- ▶ Protecting harmful systems
- ▶ Fear of innovation
- ▶ Silencing younger talent
- ▶ Bureaucratic delays
- ▶ Protecting power centres

"The greatest resistance to transformation often comes from within."

"Organizations often decay internally before they collapse externally."

AN ALLEGORICAL EXAMINATION

The Animal Firm International Ltd — A Governance Allegory

This book exposes organizational behaviour. The Ark in the story symbolises the institution, while the flood symbolises inevitable crisis.

THEME 1

Power without
analysis

THEME 2

Loyalty without
integrity

THEME 3

Urgency without
evidence

THEME 4

Data without
verification

THEME 5

Consensus without
interrogation

LESSONS FROM THE ANIMAL FIRM

In *The Animal Firm International Ltd*, the Ark nearly failed before the flood. Not because of external pressure. But because of:

- ▶ Dominant voices
- ▶ Passive approvals
- ▶ Manipulated ledgers
- ▶ Urgency narratives
- ▶ Weak interrogation

- ▶ **Decision Architecture:** The Ark did not lack intelligence. It lacked disciplined decision architecture.
- ▶ **Stress Testing:** Will your institution's Ark float under fiscal, regulatory and demographic floods?

NAVIGATING HOME GUARDS

Understanding Institutional Self-Sabotage

This book examines a different risk: Not incompetence. Not corruption. But internal resistance to change.

The "Home Guard" Mindset:

- ▶ Protects precedent over progress
- ▶ Defends legacy projects over strategic shifts
- ▶ Equates dissent with disloyalty
- ▶ Prioritises comfort over courage
- ▶ It is subtle. It is dangerous.

Common Symptoms:

- ▶ "We have always done it this way."
- ▶ "This may destabilise the institution."
- ▶ "Let us form another committee."

Convergence of Animal Firm and Home Guards

"Institutions rarely collapse because of lack of strategy."

"They collapse when systems meant to protect integrity are quietly captured."

"And in many organisations, that capture begins at Management."

THE GOVERNANCE ZOO

An allegorical breakdown of problematic behavioral archetypes in corporate bodies:



The Hyena

Opportunistic exploiter



The Fox

Manipulator



The Sheep

Passive follower



The Ostrich

Silent observer



The Hippo

Bureaucratic blocker



The Monkey

Endless activity



The Owl

Wise but ignored



The Question

Which animal dominates
our institutions?

ARCHETYPE ANALYSIS

THE FOX

The Clever Manipulator

- ▶ Exploits loopholes in the systems
- ▶ Creates unnecessary complexity to profit from confusion
- ▶ Manipulates information or processes
- ▶ Turns stakeholder desperation into opportunity



"When cleverness replaces integrity, trust in the sector begins to collapse."

ARCHETYPE ANALYSIS

THE LION

Silent Leadership

Common leadership rationalization:

"I am the Managing Director... but governance is someone else's problem."

"Silence from leadership fuels institutional and sectoral dysfunction."

Behavioral Markers:

- ▶ Sees unethical practices but avoids intervention
- ▶ Prioritizes image over accountability
- ▶ Ignores governance gaps until crisis emerges
- ▶ Watches corruption, cartels, or inefficiencies grow silently

"An institution that only admires appearances without confronting reality eventually loses the ability to distinguish truth from illusion."

ARCHETYPE ANALYSIS

THE SHEEP

The Compliant Participant

- ▶ Follows broken systems without questioning
- ▶ Normalizes unethical shortcuts and inefficiency
- ▶ Accepts poor governance as “industry practice”
- ▶ Fears speaking up against wrongdoing or manipulation

Mindset: “This is how things are done here”.



“Passive compliance silently sustains institutional failure.”

ARCHETYPE ANALYSIS

THE MONKEY

Talking, movement, overwhelmed

- ▶ Busy... But Not Necessarily Productive
- ▶ Confuses activity with impact
- ▶ Creates endless meetings without decisions
- ▶ Generates movement without strategic direction
- ▶ Overwhelms teams with noise, urgency, and congestion
- ▶ Appears busy while real problems remain unresolved

Common Phrases:

- ▶ "Let's form another committee."
- ▶ "We are working on it."
- ▶ "We have held many meetings."
- ▶ "I am very busy!"

THE COST OF MONKEY CULTURE

When Busyness Replaces Strategic Governance

- ▶ Delayed decision making frustrate stake
- ▶ Endless processes increase project costs
- ▶ Teams become reactive instead of strategic
- ▶ Innovation slows under administrative congestion
- ▶ Clients lose trust in institutions and firms
- ▶ Being overwhelmed becomes a badge of importance.



"Some organizations are exhausted not because they are effective... but because they are disorganized."

ARCHETYPE ANALYSIS

THE HYENA

The Opportunistic Exploiter

- ▶ Thrives in disputes, delays, and system confusion
- ▶ Benefits from weak governance and regulatory loopholes
- ▶ Feeds on stakeholders' desperation and institutional inefficiencies

Key Philosophy: "Why fix the system when disorder benefits me?"

"Ethical firms build communities and legacies; Hyenas feed on broken systems."

"The Hyena profits from confusion, but sustainable firms are built on clarity, trust, and integrity."

ARCHETYPE ANALYSIS

THE HIPPO

The Heavyweight Blocker

- ▶ Creates bottlenecks in approvals and transactions
- ▶ Slows innovation, digitization, and reform
- ▶ Resists transparency and accountability systems
- ▶ Uses bureaucracy and delays as instruments of control

Systemic Costs: Delayed approvals, poor records systems, and institutional inertia increase project costs, disputes, and mistrust.



"When delay becomes culture, inefficiency becomes institutionalized injustice."

ARCHETYPE ANALYSIS

THE OWL

The Wise but Ignored Professional

- ▶ Identifies risks early, protects institutional integrity, safeguards sustainability, and sees dangers others ignore.
- ▶ Advises on ethical practice and institutional reform
- ▶ Produces reports and recommendations that are ignored
- ▶ Excluded or transferred when greed, politics, and expediency dominate decisions

Often Branded As: "The Idealist, The Compliance Person, Too Principled, Always Raising Issues, Negative, Not a Team Player"

"Many institutional crises occur not because warnings were absent... but because wisdom was ignored."

"Is your organization empowering the Owl... or silencing it?"

INSTITUTIONAL COMMUNICATION

THE COST OF SILENCE

"Organizations Die When Truth Cannot Travel Safely."

When employees fear speaking:

- ▶ corruption grows
- ▶ innovation dies
- ▶ risks remain hidden
- ▶ fear becomes culture.

THE MOST DANGEROUS EMPLOYEE

Not the incompetent one.

The politically protected unethical high performer.

Because:

- ▶ results can hide toxicity
- ▶ fear silences accountability
- ▶ leadership becomes compromised.

CULTURAL ENTROPY

Home Guards Syndrome in The 'Animal Firm' Culture

Operational Characteristics:

- ▶ 1. Loyalty to personalities
- ▶ 2. Manipulation of information
- ▶ 3. Fear of accountability
- ▶ 4. Institutional capture
- ▶ 5. Silence in meetings
- ▶ 6. Protection of networks
- ▶ 7. Resistance to reform

"Thrives where authority is unquestioned and loyalty replaces professionalism."

Solution Matrix:

Leaders shape culture through behaviour, decisions, and ethical standards. Encourages open discussion, responsible challenge, and professional independence.

THE BRIDGE TO TODAY'S TOPIC

Two Lenses. One Institutional Reality.

- ▶ **Animal Firm reveals instinct:** power, fear, ego, territorial behaviour.
- ▶ **Home Guards Syndrome reveals strategy:** protecting position over purpose.
- ▶ **Intersection:** When instinct meets insecurity, culture shifts from stewardship to survival.
- ▶ **Outcome:** Together they expose the anatomy of organisational entropy.



ORGANISATIONAL CULTURE

The “Organizational DNA” & “Organizational Soul”

“Organizational culture is the lifeblood of an institution—it breathes meaning into systems, animates structures, and sustains purpose when strategies fade.”



"Culture is to an organization what oxygen is to living beings. Culture is what makes the organizations' heartbeat."

Culture is the life of an organization—when it thrives, the institution lives; when it decays, no structure can save it.

THE ICEBERG PRINCIPLE

Visible vs Invisible

What people see is only 10%

What is visible is only a fraction of what truly matters. The unseen is 90%; the unseen keeps the iceberg from sinking, but is also what can sink a ship.

"Wise leadership invests more in the inner life and invisible systems than in outward appearance. Neglect of the unseen will always have dangerous results"

Culture cannot be seen... Hence it is often ignored

OBJECTIVE (STRATEGY)

We focus on what we see and can measure or document:

Vision, mission, espoused values, member numbers, structures, policies, processes, procedures, services/products, financial statements

SUBJECTIVE (CULTURE)

We ignore what we do not see:

Ideas, historic patterns, lived values, attitudes, unconscious beliefs, assumptions, perceptions, feelings, fears, leadership styles, stories, myths, group norms

ENTROPY CYCLE

- ▶ 1. Insecurity
- ▶ 2. Gatekeeping
- ▶ 3. Talent Suppression
- ▶ 4. Exit of High Performers
- ▶ 5. Decline in Standards
- ▶ 6. Crisis

ANTI-ENTROPY CYCLE

- ▶ 1. Clarity
- ▶ 2. Mentorship
- ▶ 3. Transparent Pipeline
- ▶ 4. Empowerment
- ▶ 5. Cultural Stability
- ▶ 6. Sustainable Legacy



WHAT LEGACY ARE YOU LEAVING?

"Plant trees you may never sit under."

ACTIVE STEWARDSHIP

BUILD WHAT MUST OUTLIVE YOU

Do not merely:

- ▶ occupy office,
- ▶ protect titles,
- ▶ manage tasks.

Instead:

- ▶ build systems,
- ▶ protect trust,
- ▶ strengthen institutions,
- ▶ prepare future generations.

The Accountability Check:

"The master returned and asked for an account."

One day:

- ▶ Boards will ask,
- ▶ auditors will ask,
- ▶ regulators will ask,
- ▶ history will ask.

What will your stewardship report say?

CONCLUSION

The Jungle Will Remember You

- ▶ Leadership is temporary.
- ▶ Institutions must endure.
- ▶ Choose stewardship.

- ▶ Excellence is intentional.
- ▶ Succession is governance discipline.
- ▶ Home Guards protect territory.
- ▶ Stewards build legacy.
- ▶ Lead for tomorrow.
- ▶ Review your culture health.



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