# CHAPTER 8.
# LEADERSHIP, CORPORATE GOVERNANCE, AND ACCOUNTABILITY

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## ABSTRACT

Leadership and corporate governance address two related but distinct problems: how collective purpose becomes credible action and how entrusted power remains answerable to legitimate claimants. This chapter develops an integrated, theoretically critical account of influence, fiduciary oversight, institutional accountability, and responsible enterprise direction. It compares trait, behavioral, contingency, transformational, transactional, servant, ethical, and distributed leadership perspectives with agency, stewardship, stakeholder, and institutional approaches to governance. The method is a critical, targeted synthesis of foundational scholarship, peer-reviewed meta-analytic evidence, professional standards, official Rwandan documents, and regulatory enforcement records, with an evidentiary cut-off of 24 October 2026. The 2 October 2026 capital-market governance regulations provide a newly enacted jurisdictional anchor, interpreted with explicit scope qualifications. Twelve sections trace leadership judgment, boards and committees, incentive conflicts, independence, alternative organizational forms, ethical reporting, digital and sustainability governance, failures and recovery, African institutional realities, and performance measurement. The documented Wells Fargo enforcement sequence is analyzed alongside a constructed Rwandan cooperative redesign; the latter is explicitly pedagogical rather than empirical. Original analytical outputs include a board-accountability map, comparative theory matrix, risk-oversight assignment instrument, governance scorecard, and reproducible expected-loss decision. The chapter argues that credible governance is neither an impressive board composition nor charismatic leadership in isolation. It is a testable configuration of authorized decision rights, informed challenge, verifiable controls, fair treatment, organizational learning, and remedy. The proposed synthesis is conceptual; it does not claim new causal identification or external validation.

**Keywords:** corporate governance; leadership theory; board independence; agency theory; stewardship; stakeholder accountability; ethical leadership; whistleblowing; AI governance; Rwanda.

## LEARNING OUTCOMES AND CHAPTER ROADMAP

On completing the chapter, readers should be able to (LO1) distinguish leadership, management, governance, and accountability in varying enterprise forms; (LO2) critically evaluate major leadership theories and identify their boundary conditions; (LO3) reconstruct formal and informal board–owner–management accountability relationships; (LO4) assess director independence, oversight, incentives, and conflicts of interest against organizational evidence; (LO5) design a risk-weighted governance architecture for a small enterprise or cooperative; (LO6) evaluate data, AI, cybersecurity, and sustainability oversight without conflating guidance with binding law; (LO7) diagnose a documented corporate-governance failure using multiple explanations and a temporal counterfactual; and (LO8) produce and defend a board memorandum using transparent arithmetic, stakeholder considerations, assurance evidence, and review triggers.

The chapter proceeds from conceptual and historical distinctions (8.0–8.1) to theories and responsible leadership (8.2–8.3), governance architecture and contested theories of control (8.4–8.5), board effectiveness (8.6), institutional diversity (8.7), ethical decisions (8.8), digital and sustainability oversight (8.9), failure analysis (8.10), African context (8.11), and governance measurement (8.12). An integrative synthesis, learning apparatus, case-based exercises, and references close the chapter. Chapter 5 established the managerial coordination cycle, Chapter 6 analyzed strategic choice, and Chapter 7 examined organization design. Chapter 8 asks who authorizes, challenges, supervises, and ultimately answers for the enterprise's consequential commitments. Detailed workforce systems belong to Chapters 9–12, risk quantification to Chapter 32, and the full ethical theory survey to Chapter 33.

## 8.0 INTRODUCTION: WHEN PERFORMANCE METRICS CONCEAL A GOVERNANCE PROBLEM

Imagine a Rwandan enterprise reporting rising revenue, a strong delivery dashboard, and favorable customer acquisition statistics. Its founder, who is also board chair, alone approves related-party purchases; a finance manager avoids questioning unusually timed payments; and the board receives attractive summaries without the underlying exceptions. If the enterprise later suffers a liquidity crisis, did leadership fail because the founder lacked vision, because the board lacked independent information, because incentives promoted selective disclosure, or because institutional procedures were bypassed? The answer cannot be inferred from a final loss. Each hypothesis identifies a different mechanism, remedy, and standard of evidence. This scenario is constructed for teaching and does not describe a named company.

Leadership is a social process by which people shape a shared interpretation of purposes, mobilize commitment, and influence coordinated action. Corporate governance is the allocation, exercise, monitoring, and accountability of authority through which an enterprise is directed and controlled. Accountability is the obligation and practical capacity to explain decisions and consequences to an authorized forum that can question, judge, and secure appropriate remedy. The first term emphasizes influence; the second, arrangements of authority and oversight; the third, answerability and consequences. They intersect because a board may possess formal authority but fail to exercise informed judgment, while an admired leader may achieve compliance through personal loyalty without creating a durable mechanism for challenge (Avolio et al., 2009; Adams et al., 2010; OECD, 2023).

The governing problem is philosophical as well as operational. Who is entitled to direct an enterprise, and on what grounds? What degree of uncertainty excuses a bad outcome, if the decision itself was diligent and fair? Can a majority owner's preference legitimate costs imposed on customers, employees, minority investors, or the public? Can an independent director be effective without information, time, courage, and a secure avenue of escalation? There is no single metric answering these questions. A defensible governance judgment must distinguish legal authority, moral justification, practical capability, and observed results rather than assuming that one implies the others (Freeman, 1984; Donaldson & Preston, 1995; OECD, 2023).

### 8.0.1 Evidence strategy, source hierarchy, and limits

This chapter applies a targeted, critical secondary-source synthesis rather than a systematic review or new field study. Seminal theory was selected for distinct explanations of leadership influence, governance incentives, fiduciary relationships, stakeholder claims, and institutional legitimacy. Peer-reviewed reviews and meta-analyses were favored for assessing the strength, inconsistency, and limits of empirical relationships. Primary standards were checked against the issuing organizations; Rwandan enterprise indicators were taken from the National Institute of Statistics of Rwanda (NISR), and case chronology from named supervisory and consumer-protection authorities. During October 2026, targeted searches included combinations of “transformational transactional leadership meta analysis,” “servant leadership systematic review,” “board composition endogeneity,” “G20 OECD corporate governance 2023,” “Rwanda Regulations No. 002/CMA/2026 official gazette 2 October 2026,” “Integrated Business Enterprise Survey 2024,” “Wells Fargo consent order 2016,” “Federal Reserve Wells Fargo enforcement 2018,” and “AI risk management board governance.” This purposive

collection is not exhaustive database screening; no PRISMA counts, invented interview material, original regression results, or new causal estimates are claimed.

The evidence hierarchy is explicit. Original theoretical publications establish propositions and assumptions; meta-analyses summarize selected empirical studies but remain sensitive to measurement and publication bias; regulatory actions document official findings within their legal scope; corporate statements establish what institutions report rather than independent proof of effectiveness; and illustrative calculations show logical implications of stated assumptions. For Rwanda, the legally authoritative source is now *Regulations No. 002/CMA/2026 of 02/10/2026 relating to the capital market corporate governance*, published in *Official Gazette* No. Special of 2 October 2026 and effective on publication (Capital Market Authority of Rwanda [CMA], 2026, arts. 50–52). A regulator-hosted 2024 code text with an unfilled instrument number is not treated as the law currently in force. Article 3 of the 2026 Regulations names an unusually broad range of entities; the regulator's practical approach to private companies and SMEs without capital-market activities remains a distinct interpretive and implementation question rather than a justification for ignoring the enacted text.

### 8.0.2 Three levels of explanation and the danger of moral hindsight

At the individual level, traits, values, expertise, emotional regulation, and courage affect choices; at the relational level, trust, silence, informal influence, and reciprocal obligations determine whether relevant information travels; at the institutional level, ownership rights, board mandates, law, contracts, and assurance channels determine who can act or constrain action. A satisfactory account of a scandal or a successful turnaround must connect these levels while preserving their differences. A chief executive's arrogance may aggravate danger, but a fraud-control failure cannot be remedied merely by appointing a more humble executive if segregation of duties, independent verification, and escalation remain absent.

Outcomes cannot retroactively determine whether the original decision process was justified. Decisions under uncertainty may fail despite adequate diligence; apparently successful decisions may conceal manipulation or unacceptable risk. Evaluation therefore asks what competent decision makers knew or could reasonably have discovered at the relevant time, what alternatives they considered, whether dissent and adverse evidence were heard, and what corrective action followed new information. This ex ante accountability standard prevents both the mythology of heroic leaders and the simplistic diagnosis that every organizational collapse proves the absence of a particular governance checklist (Adams et al., 2010; OECD, 2023).

### 8.0.3 Accountability, epistemic authority, and the limits of governance knowledge

The governance question has a distinct epistemological component: whose knowledge reaches the decision forum, by which route, and with what credibility? An enterprise can comply with a formally satisfactory reporting schedule while leaving directors unable to distinguish real customer consent from sales volume, genuine control closure from administrative sign-off, or a worker's safety warning from a reputationally inconvenient complaint. Bovens (2007) conceptualizes accountability through a relationship between an actor and a forum that can demand explanations, question conduct, and attach consequences. This analytical relation is more exact than invoking a generic 'culture of accountability'. It requires identifying the forum, its authority, the actor's obligation, the evidence available, and the possibilities of remedy.

The credibility of information is also structured by power. Fricker (2007) distinguishes forms of epistemic injustice in which persons are unfairly discounted as knowers or lack shared interpretive resources to make experiences intelligible. Applied cautiously to enterprise governance, this insight explains why a low-ranking employee's accurate warning may be marginalized while a senior executive's untested confidence is accepted. It does not imply that every disagreement reflects prejudice; evidence must still be tested. Rather, it directs boards to examine whose observations are systematically missing, which reporting channels expose subordinates to retaliation, and whether governance procedures permit independent corroboration. The resulting principle is both epistemic and ethical: a claim's evidential weight must not simply track its author's organizational status.

## 8.1 LEADERSHIP, MANAGEMENT, AND GOVERNANCE

### 8.1.1 Distinct functions and overlapping actors

Management coordinates planned activities, budgets, resources, systems, and operational control; leadership influences how people interpret and commit to those activities; governance establishes the authority within which choices are made and the means by which they are supervised. The distinction is analytical rather than a job-title taxonomy. A manager may lead effectively, a director may influence culture, and an employee without positional authority may lead a safety initiative. Equally, the same founder may simultaneously exercise ownership, board, and executive powers in a small firm. Overlap increases the need to articulate decision roles, especially where a conflict of interest makes self-approval unsafe (Avolio et al., 2009; OECD, 2023).

An owner ordinarily contributes capital and exercises rights defined by applicable law and constitutive instruments; a governing board oversees organizational direction and management within its fiduciary mandate; executives operate the business through delegated authority; and assurance functions evaluate information and processes. These relationships vary in unitary and two-tier systems, cooperatives, nonprofits, and public entities. The OECD (2023) treats board oversight as a function whose substance must be preserved across legal architectures, rather than equating good governance with the presence of one universal committee or reporting chart. The critical question is whether the system can make, review, and correct consequential decisions without the reviewer being indistinguishable from the person reviewed.

### 8.1.2 Authority, influence, legitimacy, and dissent

Formal authority rests on legally or organizationally recognized decision rights. Informal influence may arise from expertise, seniority, reputation, control of information, financial resources, or social relationships. Authority can be valid but unpersuasive; influence can be effective but unjustified. A technically knowledgeable procurement manager may become the de facto gatekeeper of supplier access even when formal authorization belongs elsewhere. A charismatic founder can inspire difficult innovation while discouraging correction. Responsible organizational leadership therefore requires both a legitimate mandate and institutionalized routes for contesting flawed judgments.

Dissent is particularly informative where information is dispersed. If employees expect retaliation for reporting unsafe practice or fraudulent accounting, senior leaders may interpret silence as consent. Edmondson's (1999) field research on psychological safety and team learning supplies a mechanism by which interpersonal risk affects disclosure, although that study does not establish a universal financial payoff from every form of voice. Good governance translates voice into procedural protections: direct access to independent oversight, documented issue handling, anti-retaliation safeguards, and feedback to reporters where confidentiality permits. Leaders must not confuse the absence of objections with evidence that controls are working.

### 8.1.3 Accountability as answerability, enforceability, and learning

The term accountability is frequently used to mean performance measurement, but its institutional content is broader. Answerability requires a decision maker to identify the mandate, relevant facts, rationale, and results; enforceability requires an authorized forum able to require correction, impose legitimate consequences, or withdraw delegated power. Organizational learning adds a third dimension: reliable records and candid review must reveal when a process, information system, or incentive is systematically defective. An enterprise with abundant reports but no forum able to act is transparent in appearance rather than accountable in substance.

A practical accountability record identifies the decision owner, approver, implementer, verifier, affected stakeholders, evidence source, escalation threshold, and review date. Where the owner and verifier are the same person, especially for cash transfers, related-party purchases, remuneration, and personal-data access, a compensating control is needed. Governance design should be proportional to risk, not restricted to large listed companies. A cooperative with a modest treasury and a family firm with three employees both require truthful records and a way to question misuse of entrusted resources, even if neither needs multiple standing committees.

## 8.2 CLASSICAL AND CONTEMPORARY LEADERSHIP THEORIES

### 8.2.1 Trait and behavioral explanations

The trait tradition asks which relatively enduring personal attributes are associated with leader emergence and effectiveness. Judge et al. (2002), synthesizing research using the five-factor personality model, found associations involving extraversion, conscientiousness, and other traits, while showing that neither personality alone nor a single ideal profile determines all outcomes. There are two inference problems: emergence can reflect selection by followers rather than actual skill, and effectiveness ratings may be contaminated by perceptions of confidence, gender, status, and prior success. Traits can guide development and selection only when supported by job-relevant evidence and not converted into deterministic assessments of individual worth.

Behavioral approaches shift attention from who leaders are to what they do, particularly structuring tasks and showing consideration for participants. Their practical value is that observable conduct can be coached, documented, and assessed. Yet generic behavior counts can mislead. Frequent consultation may be appropriate when staff possess dispersed knowledge but too slow during an immediate safety emergency; directive communication may be responsible when a chemical spill demands clear action but oppressive in complex professional deliberation. Leadership behavior must be evaluated against task interdependence, information quality, power disparities, and actual consequences rather than assumed to be universally effective (Avolio et al., 2009).

### 8.2.2 Contingency and situational leadership

Fiedler's (1967) contingency approach relates leadership effectiveness to the fit between leader orientation and situational favorableness, incorporating leader-member relationships, task structure, and position power. The decisive move is away from the claim that one leadership style works everywhere. It also illustrates the limitations of early contingency models: disputed measures and simplified categories make precise prescriptions difficult. Modern contingency reasoning should begin with explicit features of the setting, such as urgency, task novelty, expert distribution, geographic dispersion, regulatory constraints, and reversibility of decisions, instead of classifying an entire country or industry by a single cultural stereotype.

An operational model distinguishes four situations. Stable, repetitive work with substantial safety implications may justify well-defined authority and procedures. Ambiguous product development benefits from consultation and experimentation. Crisis response may require a temporary command structure with clearly bounded emergency powers. A cooperative membership dispute may require deliberative legitimacy even when a unilateral decision would be quicker. In each case the choice of influence mechanism is a conditional proposition, not an empirical prediction derived solely from managerial preference.

### 8.2.3 Transformational, transactional, and charismatic leadership

Transactional leadership coordinates effort through articulated expectations, contingent reward, and exception management. Transformational leadership seeks to alter how followers interpret purpose, capability, and collective possibility through idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Bass (1985) developed the latter as an extension of prior scholarship, while Judge and Piccolo's (2004) meta-analysis found positive relationships for transformational leadership and contingent reward, alongside substantial overlap between dimensions. Their evidence challenges the simple claim that visionary inspiration should replace sound contractual incentives and performance management.

These approaches carry a governance warning. Strong identification with an influential leader can increase commitment while reducing independent challenge; inspirational language may make short-term targets seem morally compulsory, and contingent bonuses can encourage gaming when the target ignores customer consent or external harm. A leader is not ethical because followers are enthusiastic, nor effective because an organization initially grows. Charisma should be assessed against countervailing information channels, institutional limits, willingness to admit error, and the ethical content of the advocated goal (Brown et al., 2005; CFPB, 2016).

### 8.2.4 Servant, ethical, relational, and distributed leadership

Servant leadership locates leadership responsibility in the growth and legitimate interests of people served, challenging conceptions of authority defined entirely by managerial privilege. Liden et al. (2008) operationalized the construct for empirical assessment; Eva et al. (2019) found substantial scholarship but also conceptual overlaps and unresolved boundary conditions. Humility and service can improve relational trust, but the term should not legitimate weak enforcement, neglect of organizational solvency, or paternalistic claims that leaders alone know what followers need. Servant leadership is a normative and relational orientation, not evidence that accountability structures can be discarded.

Ethical leadership focuses on visible normatively appropriate conduct, reinforcement, and communication. Brown et al. (2005) framed the phenomenon through social learning: people attend to what influential actors reward, tolerate, and punish. Relational accounts such as leader-member exchange examine differentiated reciprocal relationships. Distributed or shared leadership recognizes that specialized knowledge and mutual influence may be located across teams rather than in one heroic figure (Avolio et al., 2009). These perspectives widen understanding but also expose risks of factional favoritism, blurred responsibility, and exclusion from informal networks. Delegated influence needs clear decision rights and challengeability; collective leadership should never become collective evasion of responsibility.

### 8.2.5 Comparative evaluation and evidentiary cautions

Leadership studies employ diverse outcomes: follower satisfaction, subjective ratings, team output, retention, misconduct reporting, market returns, or public-service quality. Those criteria are not equivalent, and correlations can arise from common-source measurement or reverse causation. High-performing organizations may attract leaders evaluated positively after success; satisfied workers may rate the same conduct more favorably. Cross-country scale translation, hierarchy norms, sector-specific tasks, and the selective publication of statistically significant results complicate transportability. The defensible practical approach is triangulation across observable leader conduct, operational outcomes, stakeholder accounts, and independent risk or misconduct indicators (Judge et al., 2002; Judge & Piccolo, 2004; Eva et al., 2019).

**Table 8.1. Leadership perspectives: core mechanism, strength, and limits**

| Approach | Mechanism / expected contribution | Critical boundary or test |
|---|---|---|
| Traits | Attributes associated with emergence and performance | Prediction depends on role and outcome; selection effects |
| Behavioral | Task structuring and interpersonal consideration | Appropriate balance depends on risk and task |
| Contingency | Fit between leader approach and situational conditions | Context measurement and changes complicate prescriptions |
| Transformational / transactional | Shared meaning and contingent reinforcement | Construct overlap; charisma and target gaming |
| Servant / ethical | Service, fairness, social learning, legitimate conduct | Moral labels do not replace independent controls |
| Distributed / relational | Expertise and reciprocal influence across actors | Responsibility and unequal participation can be obscured |

Note. Original synthesis of Fiedler (1967), Judge et al. (2002), Judge and Piccolo (2004), Brown et al. (2005), Avolio et al. (2009), and Eva et al. (2019).

## 8.3 RESPONSIBLE LEADERSHIP AND CHARACTER

### 8.3.1 Integrity, practical wisdom, and bounded judgment

Integrity involves consistency between declared principles, decisions, and conduct when the same decision maker bears costs or gains private benefit. It is more demanding than personal honesty narrowly conceived: a leader who does not falsify an invoice may nevertheless suppress disconfirming information or knowingly

reward a target that depends on harmful behavior. Practical judgment involves evaluating feasible alternatives with attention to evidence, proportionality, uncertainty, and people affected. It does not require omniscience. A trustworthy leader publicly distinguishes what is known, what is assumed, what remains disputed, and what can trigger reversal (Brown et al., 2005; OECD, 2023).

Responsible judgment must also handle competing duties. A board may seek financial survival while protecting worker safety and the rights of creditors; a hospital leader must consider professional obligations even when service budgets are tight. Ethical commitments should operate as constraints on permissible methods, not as attractive language appended to an already approved strategy. Organizationally, the corresponding controls are conflict declarations, abstention rules, documented decision grounds, fair complaint channels, transparent stakeholder communication, and the retention of evidence needed to reconstruct choices.

### 8.3.2 Emotional competence, humility, courage, and power

Emotional competence includes recognizing stress, interpreting interpersonal signals without overconfidence, and regulating one's response when challenged. It should be assessed behaviorally rather than through a vague claim of personal charisma. Humility involves acknowledging dependence on others' expertise and permitting correction; courage involves acting on credible adverse evidence despite foreseeable reputational or career costs. Neither humility nor courage means indecision. During a fraud investigation, respectful treatment coexists with timely suspension of access and preservation of evidence. During a commercial crisis, clear instructions may be necessary, but legitimate dissent and safety reporting must remain protected.

Power asymmetry changes the meaning of voluntary agreement. When a leader controls remuneration, reference letters, promotion, and access to resources, a subordinate's apparent consent may reflect dependency rather than endorsement. Such asymmetries are intensified in small enterprises where relationships are close and outside employment opportunities scarce. Independent reporting, confidential consultation, conflict-resistant remuneration reviews, and separation of adjudication from alleged wrongdoing are governance complements to personal virtue. No credible integrity programme should assume that declaring a value removes the incentive to breach it (Treviño et al., 2003; Edmondson, 1999).

### 8.3.3 Charismatic excess, moral licensing, and the limits of leader-centric explanations

Charisma can help people persevere through uncertainty, yet the attribution of exceptional moral insight to one individual increases concentration risk. An inspiring founder may claim that ordinary procurement controls undermine trust, that whistleblowers are disloyal, or that investor questions threaten a larger mission. In these conditions, positive collective identity becomes a resource for silencing evidence. Similarly, a record of charitable activity or previous success does not authorize undisclosed related-party benefits. Governing bodies should evaluate claims and transactions independently of the leader's past reputation, and distinguish persuasive purpose from verifiable performance.

The remedy is not to eliminate strong leadership. It is to subject consequential authority to predictable limits and independent information. A responsible founder can state the mission and still decline to approve a contract with their own relative; a chief executive can champion expansion and still submit assumptions to a board committee with access to external expertise. Institutionalized criticism is not hostility to leadership. It is a mechanism through which legitimate influence becomes less dependent on the unusual virtue of the incumbent.

### 8.3.4 The ethical limits of organizational loyalty

The moral evaluation of leadership cannot be settled by organizational allegiance or measured success. A manager may sincerely identify with a cooperative's survival yet suppress member-payment discrepancies to protect its reputation; an executive may improve shareholder returns by transferring poorly disclosed risks to creditors or workers. These choices reveal a distinction between loyalty to a person, loyalty to an institution's authorized purpose, and loyalty to the rights that constrain the pursuit of that purpose. Stewardship without

factual candour can become paternalism, while accountability without regard for circumstances can become punitive formalism. Neither posture is ethically satisfactory.

A legitimate exercise of power requires a reasoned explanation proportionate to its effects on others. In consequential terms, a board should examine expected benefits, serious downside risks, and who bears them. In rights-based terms, some actions remain objectionable even when a financial calculation favors them: falsifying consent, retaliating against a truthful complainant, or withholding legally owed compensation are not ordinary trade-offs in an unconstrained objective function. The chapter develops these as practical governance tests rather than attempting the comprehensive normative-philosophy survey reserved for Chapter 33 (Donaldson & Preston, 1995; Fricker, 2007).

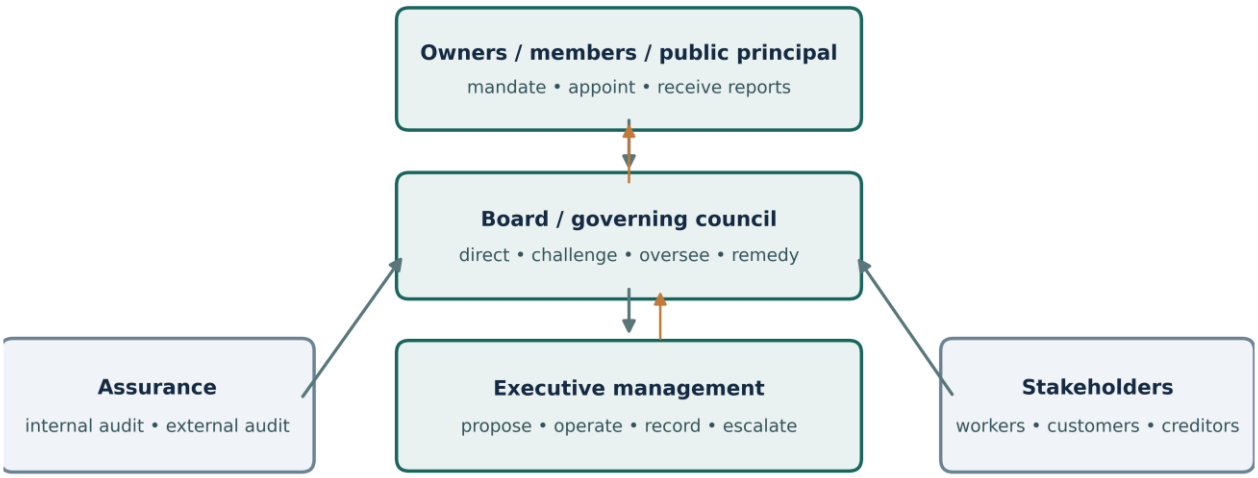
## 8.4 CORPORATE GOVERNANCE ARCHITECTURE

### 8.4.1 Governing relationships and the board's irreducible role

Corporate governance joins ownership rights, board direction, executive delegation, controls, disclosure, and external accountability. In a typical unitary-board company, shareholders elect directors subject to applicable legal provisions; directors guide strategy and oversee executives; executives make operational decisions; and assurance and supervisory actors test particular information and controls. The board's obligation to exercise informed judgment cannot be reduced to reviewing a completed report or ratifying decisions taken elsewhere. OECD (2023) identifies strategic oversight, executive appointment and succession, risk-management supervision, conflict control, reporting integrity, and communication among central board functions. The architecture must nevertheless be translated into the enterprise's constitutive documents and governing law.

Governance is an ongoing process rather than an annual event. Approval of a budget is followed by quarterly scrutiny of material variance; appointment of an executive is followed by performance assessment and succession planning; adoption of an ethics code is followed by testing complaint channels and sanction consistency. A board that delegates internal-control design to management retains responsibility for considering whether independent assurance is available and material deficiencies reach it. Conversely, directors should not routinely take over daily procurement or staffing and thereby obscure the line between oversight and execution.

**Figure 8.1. Formal authority, information and independent challenge in enterprise governance**




Note. Original conceptual diagram. Arrows represent normative governance relationships, not measured causal effects.

### 8.4.2 Committees, the company secretary, and assurance arrangements

Board committees assist with specialized analysis, most commonly audit, risk, nomination, and remuneration, and sometimes technology, sustainability, or ethics. Committees should possess written terms of reference, competent membership, access to necessary records and specialists, a reporting schedule, and explicit limits of delegated decision power. The full board remains accountable for its reserved matters. Committee proliferation is counterproductive where a small enterprise cannot support independent membership or where overlapping charters allow risks to fall between committees (OECD, 2023).

The audit committee typically assesses reporting integrity, internal-control weaknesses, auditor independence, and the effectiveness of the internal audit function. The risk committee reviews material exposures and risk appetite, while a nomination committee examines qualifications, diversity, conflicts, and succession. A company secretary can protect procedural continuity by recording resolutions, tracking disclosure obligations, and ensuring directors receive timely materials; the office should not become merely a typist or gatekeeper protecting the chair. The Institute of Internal Auditors' (IIA, 2024) Global Internal Audit Standards, effective January 2025, further emphasize governing-body support and independent internal-audit practice. Their professional application varies by entity and jurisdiction.

### 8.4.3 Internal control, the Three Lines Model, and external assurance

An internal-control system provides reasonable, not absolute, assurance over operations, reporting, and compliance. COSO's (2013) framework organizes control environment, risk assessment, control activities, information and communication, and monitoring. The IIA's (2020) Three Lines Model differentiates operational management responsibilities, specialized risk or compliance support, and independent internal audit, while recognizing that the board and external assurance actors have distinct roles. The model must not be misread as three departments that can each certify the others; their interconnections and independence are what give the design value.

A small enterprise may not employ a formal internal auditor, but it can maintain practical checks: monthly bank reconciliation reviewed by someone other than the preparer, dual approval for nonroutine payments, documented stock counts, and external review where warranted. These controls address particular vulnerabilities, not abstract compliance scores. Even in larger entities, an external financial-statement audit does not certify the absence of all fraud, the wisdom of a strategy, fairness of every employment decision, or effectiveness of all digital systems. The assurance statement must identify its scope, criteria, period, and limits (COSO, 2013; IIA, 2024).

**Table 8.2. Risk–oversight–owner allocation template**

| Governance exposure | Management owner / evidence | Board or independent oversight |
|---|---|---|
| Major capital allocation | CEO / investment case, liquidity scenario | Full board: authorize, monitor milestones |
| Reporting integrity | Finance director / reconciliations and exceptions | Audit committee: challenge and assurance |
| Material cyber incident | Technology leader / impact and response logs | Risk or full board: escalation, remedy |
| Related-party transaction | Proposer / disclosure, market comparisons | Disinterested directors: approval or rejection |
| Workforce complaints | Responsible manager / anonymized trend and case record | Independent route: fairness and retaliation risk |
| AI-assisted decisions | Use-case sponsor / tests, appeals, override records | Board risk oversight: purpose, harms, stop rule |

Note. Original practical tool informed by OECD (2023), IIA (2024), Tabassi (2023), and NIST (2024). Roles are illustrative, not legal delegations.

### 8.4.4 Rwanda's 2026 corporate-governance regulations: binding text and uncertain reach

An important distinction between an internationally recommended governance arrangement and a legally operative duty is now visible in Rwanda. The Capital Market Authority's *Regulations No. 002/CMA/2026 of 02/10/2026 relating to the capital market corporate governance* were published in *Official Gazette* No. Special of 2 October 2026 and took effect on that date. Article 50 expressly repeals the Capital Market Corporate Governance Code No. 09 of 2012; Articles 51 and 52 address language and commencement. The CMA's earlier regulator-hosted draft labeled '2024', whose instrument number was incomplete, therefore cannot be represented as the current binding instrument. The 2026 Regulations are a primary legal authority, not a proposal or a merely voluntary international benchmark (CMA, 2026).

Article 3 covers listed companies and issuers of securities to the public or a section of the public, and additionally names intended issuers, public companies, state-owned companies, private companies, and SMEs. This breadth is consequential: the scope clause cannot simply be paraphrased as applying only to listed companies. Equally, the combination of a capital-market regulatory title and broad entity categories leaves interpretive questions regarding supervisory implementation for companies with no securities activity. A defensible compliance assessment first identifies the entity's legal form, financing activities and regulated status, then checks the text, competent authority's guidance, other relevant sector-specific rules, and any applicable interpretive directions. Where uncertainty persists, the analyst must disclose it rather than infer either universal exemption or universal enforcement (CMA, 2026, art. 3).

For companies to which the operative provisions apply, Article 6 specifies a board of seven to eleven directors, with a smaller board of three to five directors for SMEs; at least half must be non-executive and at least one-third independent. Article 17 separates the chairperson and chief executive roles, requires the chairperson to qualify as independent, and provides for written allocation of responsibilities. Articles 21–25 address nominating, remuneration, and audit committees, the terms of reference for which require formal disclosure. Articles 16 and 41 concern conflicts of interest and interest disclosure, while Articles 37 and 48 address grievance and whistleblowing mechanisms and their reporting. These provisions create concrete documentary and decision duties rather than general appeals to good intentions (CMA, 2026).

The regulation's broader governance logic includes risk oversight and internal controls (arts. 27–32), shareholder relations (arts. 33–35), stakeholder engagement and environmental responsibility (art. 36), and financial and nonfinancial disclosure (arts. 38–49). The interpretation of these requirements must remain function-sensitive. An independent director who signs a declaration but receives inaccurate management information does not furnish meaningful challenge; a committee whose charter exists but never scrutinizes an exception does not produce genuine assurance. Conversely, the statutory structure should not be dismissed merely because a contextually smaller control mechanism would be cheaper. For a regulated issuer, lawful minimums constrain optimization; for an otherwise distinct cooperative or informal enterprise, governance principles can inform proportionate practices but cannot be imported as though corporate legal rules automatically apply to every organizational form.

International guidance complements, but does not replace, this jurisdictional analysis. The G20/OECD Principles (OECD, 2023) provide comparative benchmarks across systems; the Basel Committee (2015) addresses bank-specific risks; and the OECD (2024) sets out expectations for the state as owner. A small private business and a listed issuer may need very different assurance infrastructures even when their ethical obligations to use truthful records and respect stakeholder rights are comparable. Professional judgment therefore proceeds in two stages: determine non-negotiable legal requirements, and then test whether their implementation actually improves informed scrutiny, credible controls, and access to remedy.

## 8.5 AGENCY, STEWARDSHIP, AND STAKEHOLDER GOVERNANCE

### 8.5.1 Agency theory: incentives, information, and monitoring costs

Agency theory begins with a delegation problem: one party authorizes another to act, but their interests, information, and risk exposures need not coincide. Jensen and Meckling (1976) formalized agency costs as the combined consequences of monitoring expenditure, bonding commitments, and residual loss. A dispersed shareholder may struggle to observe management's investment quality; a lender may be exposed to risk shifting; minority owners may face appropriation by controlling shareholders. Boards and incentive contracts are responses to these problems, but neither eliminates opportunism or solves incomplete information. The theory is strongest when it makes observable predictions about conflicts, available monitoring, and the trade-offs between controls and delegated initiative.

The same analysis must avoid caricature. It does not follow that every employee seeks private gain, that each owner knows the company's interests, or that financial incentives always produce better outcomes. Excessive monitoring can crowd out professional judgment, redirect attention toward measurable targets, and make employees conceal problems. Agency costs arise between owners and managers, but also between majority and minority owners, creditors and shareholders, local communities and operators, or public principals and SOE management. The principal must therefore be defined for each relationship rather than assumed to be a unitary shareholder with homogeneous preferences.

Fama and Jensen (1983) advanced this analysis by distinguishing decision management, which initiates and implements choices, from decision control, which ratifies and monitors them. Their separation is especially important when residual claimants are numerous and dispersed, because those bearing the residual risk may be unable to supervise complex decisions directly. Yet the proposition is conditional on the costs of delegating expertise and verifying conduct. A family enterprise may rationally combine ownership and management while still separating conflicted approvals; a cooperative may require member-elected scrutiny without expecting every member to supervise each transaction. The functional distinction between initiation and ratification remains analytically useful even where a large-corporation board hierarchy would be disproportionate.

### 8.5.2 Stewardship theory and relational motivation

Stewardship theory offers a contrasting account: under certain organizational conditions, managers identify with collective goals, value achievement and professional recognition, and act as trustworthy custodians rather than narrowly self-interested agents. Davis et al. (1997) emphasized psychological and situational factors encouraging stewardship; Donaldson and Davis (1991) challenged the presumption that separating chair and chief executive always produces superior shareholder returns. This is not a claim that oversight is unnecessary. Rather, it suggests that intrusive controls may be inefficient where competence, identification, professional norms, and legitimate autonomy support responsible action.

Stewardship also has an epistemic vulnerability. Loyal managers may be sincerely committed yet poorly informed, prone to groupthink, or unable to challenge a respected founder. A board may mistake personal familiarity for verified reliability. A useful institutional synthesis allows trust and monitoring to coexist: delegate routine judgments to competent professionals, preserve transparent boundaries for conflicted transactions and major exposure, and periodically test whether trust remains justified. Oversight should be strongest at points where information is difficult to verify, personal interests intersect, or losses are irreversible.

### 8.5.3 Stakeholder governance and the distribution of claims

Stakeholder theory expands governance's relevant relationships beyond the owners–manager dyad. Freeman (1984) treated value creation as a network of relationships among parties who affect or are affected by the enterprise. Donaldson and Preston (1995) distinguished descriptive, instrumental, and normative arguments: stakeholders matter because firms actually depend on them, because their treatment can influence performance, and because some legitimate claims should be considered independently of measured profits. The distinctions prevent a common inferential mistake: evidence that fair employment helps retention does not

alone establish why employees deserve dignity, while a moral claim about fairness does not establish that every costly initiative raises returns.

The practical challenge is that stakeholder claims conflict. A supplier may demand immediate payment while a borrower requests relief and employees seek wage security; investors may rationally resist a capital expenditure with uncertain prospects. Governance must disclose how decision rights and legal duties set minimum constraints, how affected interests are heard, what compensating measures are feasible, and who remains accountable for distributional choices. Stakeholder engagement is not an automatic veto, nor can a board truthfully claim that every stakeholder benefits. Deliberation is credible when it records irreconcilable interests, feasible alternatives, risk exposure, and reasons for the selected balance (Donaldson & Preston, 1995; OECD, 2023).

### 8.5.4 A comparative institutional synthesis

Agency, stewardship, and stakeholder perspectives ask related but nonidentical questions. Agency theory asks how divergent incentives and hidden information can undermine delegated decisions; stewardship asks when identification and intrinsic motivation may substitute for intrusive control; stakeholder theory asks who has legitimate standing in defining enterprise success. A useful board design should test all three. For example, a farmer cooperative may trust its manager because of long association, yet still require dual authorization for large payments; it may respect member ownership while protecting seasonal workers and purchasers from unfair practices. No single theory supplies the entire architecture.

Empirical governance research complicates simple institutional formulas. Adams et al. (2010) show that board composition and board actions are jointly determined, so observing successful firms with a particular board arrangement does not establish that the arrangement caused success. Dalton et al. (1998) found limited evidence of consistent direct relations between common composition and leadership-structure measures and financial performance. The appropriate conclusion is not that boards are irrelevant, but that independent judgment and information quality should be studied as mechanisms, with performance indicators aligned to time, industry, governance exposure, and legal context.

### 8.5.5 Rival predictions and causal interpretation

Competing perspectives should be assessed through predictions that could be falsified, not through post hoc labels assigned to successful firms. Agency theory predicts particular vulnerability when delegated managers control both reporting and approval and have incentives diverging from residual claimants. Stewardship predicts that legitimate autonomy and identification can improve performance where professional competence and shared purposes are present. Stakeholder theory does not simply predict higher profit: its normative claim concerns whose justified interests must be considered, while its empirical propositions concern how specific relationships shape feasible cooperation. Evidence of greater profitability in participatory enterprises would be consistent with several mechanisms, including industry selection, favorable regulation, better access to finance, and employee commitment; it would not independently establish which theory is correct (Davis et al., 1997; Donaldson & Preston, 1995; Adams et al., 2010).

Contemporary synthesis makes this caution concrete. Farrell et al. (2026) meta-analyzed 513 samples from 54 countries concerning board size, independence, chief-executive duality, and firm performance. The relationships varied with the board attribute, cultural dimension, and whether performance was operationalized through accounting, market, or growth measures. National-culture measures are themselves broad proxies susceptible to within-country heterogeneity and ecological inference. Accordingly, the study is evidence against one-size-fits-all causal prescriptions, not proof that any named national culture requires a fixed governance style. A stronger research programme would compare comparable entities with observed enforcement, decision-process measures, and institutional context, while reporting sensitivity to omitted selection mechanisms.

## 8.6 BOARD EFFECTIVENESS AND INDEPENDENCE

### 8.6.1 Composition, competence, and collective decision quality

Board quality depends on the fit between the enterprise's important decisions and the collective skills available to examine them. Financial reporting, sector regulation, market strategy, operational risk, technology dependence, and stakeholder obligations may require different expertise. Diversity in backgrounds and perspectives can expand the information available, but demographic representation is not a substitute for substantive voice or access to board materials. Post and Byron's (2015) meta-analysis of 140 studies found relationships between women directors and accounting returns conditioned partly by institutional settings; the finding does not support an unconditional claim that a given board quota mechanically causes a precise return.

Directors need sufficient time, preparation, and independence to question management's causal story. A board comprising eminent but chronically unavailable professionals may be weaker than a smaller board with sector knowledge and timely access to evidence. A skill matrix should document essential competence, its source, gaps, conflicts, and planned learning. Succession planning must cover both the chief executive and key directors; abrupt replacement without preserving institutional memory can create new oversight failures. Periodic induction and scenario-based education are especially important as cybersecurity, cross-border finance, and disclosure obligations evolve (OECD, 2023).

### 8.6.2 Formal versus substantive independence

Formal independence normally examines employment, business, family, ownership, and other ties that might compromise objective judgment. Substantive independence additionally requires the intellectual and practical ability to act against pressure. A director may meet a formal tenure or ownership test yet rely on the chair for information, future appointments, or prestige. Conversely, a knowledgeable non-independent director may contribute crucial technical insight but must not dominate judgment on a transaction in which their interests are involved. The board needs both independence and expertise, with explicit rules for managing their tensions.

Separation of chair and CEO can reduce concentration and create a channel for challenge; the potential benefit is especially visible when evaluating executive pay, allegations against management, and succession. Yet the empirical record does not establish that separation mechanically improves all financial outcomes, and an independent chair may still collude or lack relevant competence (Donaldson & Davis, 1991; Dalton et al., 1998; Farrell et al., 2026). Jurisdiction is therefore decisive: Rwanda’s 2026 capital-market governance Regulations require distinct chair and CEO roles and an independent chair for entities within their applicable provisions (CMA, 2026, art. 17). A company cannot use inconclusive performance literature as a waiver from an applicable legal duty. Outside such a requirement, where roles are lawfully combined, independent sessions, a credible lead director, reserved matters, and direct auditor access can supply partial safeguards, but their effectiveness must be tested by actual conduct.

### 8.6.3 Board information, escalation, and evaluative routines

Board papers are a governance system, not a publicity product. An effective pack differentiates management's recommendation, relevant data, material assumptions, alternatives, dissenting analysis, legal requirements, financing constraints, and decision requested. It shows previous actions, unresolved exceptions, responsible individuals, and the age of material issues. Where a summary claims that complaints are declining, the board should request the numerator, exposure denominator, reporting-channel changes, severity, and comparison period. The aim is a defensible decision, not maximal document length.

Annual self-evaluation can examine attendance, preparation, contribution, independence, conflicts, committee performance, and whether decisions led to verifiable follow-up. But evaluation becomes ritual if the same chair selects all questions, suppresses candid responses, or equates meeting frequency with quality. Independent facilitation may be warranted where tensions are severe or ownership concentrated. A learning board also reviews at least one decision that went well and one that went badly, comparing initial assumptions with subsequent evidence to avoid judging diligence solely by outcomes.

### 8.6.4 Incentive design, remuneration, and governance of executive power

Executive remuneration aims to attract competence, reinforce legitimate priorities, and discourage value-destroying risk. Simple sales or share-price targets can distort decisions when employees can manipulate timing, conceal defects, or shift risk into later periods. Balanced incentives may combine risk-adjusted financial outcomes, customer consent, quality, regulatory compliance, and measured treatment of stakeholders, with appropriate deferral and malus or clawback provisions where lawful and practicable. Even sophisticated plans invite gaming if controls rely on manager-selected numbers without independent verification.

Bebchuk and Fried (2004) argue that management's influence over pay-setting can itself become a governance problem. This challenges the assumption that any compensation package approved by a board necessarily represents arm's-length optimization. A conflicted executive should not determine the relevant peer group, design their own performance criteria, or influence the independence of a remuneration committee. The board should explain the link between risk, time horizon, benchmarks, and awarded compensation, including outcomes not captured by headline earnings. A pay decision is more credible when an informed external reviewer can reconstruct its rationale and conflicts.

### 8.6.5 The board as an evidence-processing and deliberative institution

A board adds value not merely by aggregating the credentials of directors, but by creating a decision process that tests divergent hypotheses and prevents the executive narrative from becoming self-confirming. Meeting agendas should reserve adequate time for matters whose reversibility is low and stakeholder consequences high. For major investments, the board should distinguish the forecast supplied by management from the assumptions and data used to construct it, ask for credible downside cases, identify who might have better information, and record the conditions that would make subsequent abandonment rational. Minutes need not reproduce every statement, but should faithfully disclose decisions, material dissent, declared conflicts, requested evidence, and unresolved reservations.

A useful board-evaluation design samples actual decisions rather than relying exclusively on self-reported satisfaction. Reviewers can inspect whether papers reached directors sufficiently early, whether alternate options were presented, whether objections altered the decision or prompted verification, and whether delayed corrective actions were escalated. That does not eliminate discretion or guarantee better returns: collective deliberation itself can be slow, biased, or dominated by informal power. It does, however, distinguish a functioning decision forum from a formally constituted body that merely ratifies executive preferences (Bovens, 2007; Adams et al., 2010).

## 8.7 GOVERNANCE OF NONCORPORATE AND MIXED-OWNERSHIP ENTITIES

### 8.7.1 Family-controlled enterprises and founder transitions

Family enterprises can mobilize patient capital, long-term knowledge, reputation, and reciprocal trust, but concentrated control creates succession uncertainty, related-party exposures, and potential exclusion of nonfamily expertise. The governance problem is not that family ownership is intrinsically deficient; it is that family roles, ownership rights, managerial employment, and household obligations may overlap without being acknowledged. A written family constitution, shareholder agreement where applicable, decision-rights register, and conflict protocol can make expectations clearer. As a firm grows, separation of household expenditure and enterprise accounts becomes a non-negotiable protection for creditors and other stakeholders.

Succession involves more than selecting an heir. It requires an inventory of critical knowledge, transfer of commercial relationships, emergency signing authority, treatment of minority interests, and procedures for resolving competing family claims. An external adviser can strengthen specific financial or regulatory competence, but importing a full listed-company board may be disproportionate for a microenterprise. The central design test is whether the enterprise can continue lawful, informed operations when the founder is unavailable and whether disputed claims can be adjudicated without disrupting customer and worker obligations.

### 8.7.2 Cooperatives and democratic member accountability

Cooperatives organize enterprise around member participation and mutual benefit, so governance has to answer a question that investor-owned firms may not: how should a diverse membership exercise democratic rights without undermining timely professional management? A general assembly may authorize broad policy and elect oversight representatives; a governing committee may supervise management; member service standards may differ from simple shareholder return maximization. The principles of voice and mutuality are genuine governance resources, but they can be weakened by elite capture, low meeting participation, inadequate financial literacy, and managers' monopoly over records.

Rwanda's Law No. 057/2024 of 20 June 2024 governing cooperatives, published in Official Gazette No. 28 Bis of 8 July 2024, provides a national statutory basis for evaluating actual cooperative arrangements (Republic of Rwanda, 2024). A real redesign must read the relevant provisions and any implementing rules before assigning legal powers to a proposed committee or officer. Conceptually, a functioning cooperative needs accessible financial statements, election transparency, conflict-of-interest rules, independent verification of member balances, and intelligible routes for challenging a decision. Formal voting rights are insufficient when information is concentrated in a few hands.

### 8.7.3 Nonprofits, universities, and mission-based organizations

Nonprofit and institutional governance is accountable to purposes and beneficiaries that may not correspond to owners receiving residual profit. Trustees or governing councils must verify mission alignment, fiscal solvency, safeguarded donations, program quality, lawful employment, and accurate impact claims. Dependence on a founder, donor, or charismatic spiritual or educational leader can produce mission drift when questions are framed as personal disloyalty. The same disciplined distinction between executive initiative and independent fiduciary oversight remains relevant, though its legal expression depends on institutional form, jurisdiction, and governing statutes.

Impact measurement must distinguish activities from outcomes. The number of training certificates issued does not establish learning, professional competence, community benefit, or employment improvement. Nor can low administrative expenses alone establish effective stewardship if programme quality, safeguarding, or compliance collapses. A responsible governing body verifies evidence behind impact claims and ensures complaints can reach an independent forum. The board should be willing to discontinue a prestigious initiative if its outcomes are not credible or its opportunity cost undermines core beneficiaries.

### 8.7.4 State-owned enterprises and hybrid public mandates

State-owned enterprises may pursue commercial returns alongside access, infrastructure, stability, or other explicit public mandates. Their governance is vulnerable when political appointment, unclear ownership instructions, contingent public funding, and operational intervention obscure who bears losses and who evaluates performance. OECD's (2024) SOE guidelines recommend professionalized state ownership, transparent mandates, qualified board selection, disclosure, and separation of ownership from day-to-day management. These are international guidance, not automatically enforceable Rwandan provisions. Their transfer requires attention to public finance law, sector regulation, state ownership instruments, and democratic accountability.

A defensible public-enterprise scorecard distinguishes commercial viability from the cost and quality of assigned public services. A subsidy may be justified by an explicit social mandate while concealing inefficiency if the cost of that mandate is not disclosed. The opposite mistake is to judge essential service access solely by profit when tariff policy deliberately prioritizes affordability. Public-interest obligations should be costed, reported, and independently scrutinized, with procurement conflicts and political influence subject to documented safeguards (OECD, 2024).

## 8.8 ETHICAL DECISION-MAKING AND DILEMMAS

### 8.8.1 From abstract codes to governed choices

An ethics code has limited meaning unless directors and employees know how to apply it when legitimate goods conflict or material misconduct is suspected. A practical deliberative sequence identifies the decision, authorized actors, applicable law and rights, evidence available, affected parties, feasible alternatives, distributional consequences, unavoidable uncertainties, reasons for the choice, and channels of review. The process does not pretend that every value can be quantified into a single financial score. A decision may meet a profitability threshold yet be impermissible because it depends on deception, unsafe labor, or unlawful discrimination.

For example, a board evaluating a contract with a relative of the chief executive should not treat a competitive price as proof that the conflict is resolved. It needs full disclosure of beneficial interests, a decision on whether the conflicted person may receive documents or participate, independent price and quality comparisons, documented procurement criteria, and ongoing monitoring of performance. Conversely, an automatic prohibition on every family transaction may be disproportionate where supplier markets are very thin. Transparent abstention, independent review, and enforceable consequences address the conflict more directly than vague declarations of integrity (OECD, 2023; ISO, 2021).

### 8.8.2 Whistleblowing, employee voice, and investigative fairness

Whistleblowing channels should allow people to raise concerns about fraud, coercion, data misuse, consumer harm, workplace safety, or unlawful conduct without first asking permission from those implicated. A sound channel has multiple routes, a named independent recipient or authorized committee, confidentiality safeguards, a retaliation prohibition, secure case records, severity-based triage, response timelines, and an appeal or escalation procedure. These arrangements improve the probability that adverse information reaches a capable decision maker; they do not guarantee that every allegation is correct. OECD (2023) explicitly identifies board oversight of whistleblowing integrity and protection against retaliation as part of effective governance.

Procedural fairness also protects the person accused. Investigation should separate an allegation from a finding, preserve records without unnecessary exposure of personal information, permit reasoned response, protect witnesses, and document the basis for corrective action. Anonymous reports may warrant investigation when corroborating evidence exists but should not automatically establish guilt. Leaders should avoid both suppressing allegations for reputational reasons and publicly condemning an accused person before an appropriate process. Accountability requires evidence and due process together.

### 8.8.3 Transparency, privacy, and competing public interests

Transparency supports scrutiny when reports identify material transactions, conflicts, risks, and outcomes in a form users can evaluate. Yet indiscriminate disclosure may expose personal data, legitimate trade secrets, investigative records, and vulnerable witnesses. The appropriate principle is accountable disclosure: the intended audience receives information sufficient for its rights and decision duties, subject to justified protections. An investor may require material financial-risk information but not a whistleblower's home address; a data-subject rights process may require meaningful explanation without publishing the enterprise's security configuration.

The distinction is especially important for digitally mediated businesses and public-interest organizations. Publishing a high-level sustainability commitment can be ethically appropriate but misleading if it conceals unresolved high-impact risks or falsely implies assurance. The board should specify materiality, verification status, reporting boundaries, restatement rules, and accessible routes for correction. Governance communication is strongest when it makes uncomfortable limitations visible rather than manufacturing confidence through impressive visual formatting (OECD, 2023; IFRS Foundation, 2023a).

### 8.8.4 A reasoned sequence for difficult ethical trade-offs

When a governance decision involves competing interests, a transparent moral sequence is preferable to rhetorical declarations that every value has been optimized. The decision forum first establishes the facts and evidentiary limits, including who supplied the information and which relevant experiences may be absent. It then identifies enforceable law, contractual obligations, and basic protections that cannot be traded away merely for convenience. Among lawful, rights-respecting alternatives, it considers expected benefits, risk exposures, proportionality, distributional burdens, and the possibility of reversal. Finally, it states reasons, records dissent, names a responsible decision maker, and creates an avenue for appeal and independent verification. This is an applied deliberative structure, not an arithmetic equation capable of resolving every moral dispute.

The approach exposes three recurring failures. First, a decision may claim to be 'data-driven' while the relevant dataset excludes affected groups, inviting unjustified confidence. Second, a majority vote may be treated as sufficient authorization for practices that violate minority rights or legal duties. Third, disclosure may be mistaken for moral absolution, even though admitting that harm is occurring does not by itself justify continuing it. A governing body should therefore ask whether its rationale remains defensible when considered from the standpoint of the least powerful affected person, while keeping empirical predictions and moral requirements analytically separate (Fricker, 2007; Donaldson & Preston, 1995; Bovens, 2007).

## 8.9 GOVERNANCE OF DATA, ARTIFICIAL INTELLIGENCE, AND SUSTAINABILITY

### 8.9.1 Data governance as a board-level dependency

Data governance concerns authorized purposes, quality, custodianship, access, lineage, retention, rights, and correction mechanisms. It is not identical to selecting databases or maintaining servers. A board may legitimately delegate technical administration but must understand whether the enterprise can establish which information is used for major decisions, whether it is accurate enough for the purpose, who can modify it, and how material breaches or reporting errors reach oversight. Poor customer records can produce unfair debt collection; altered product-quality data can undermine procurement and safety; and incomplete supplier files can defeat anti-corruption controls. These are enterprise-governance failures even when a technical system functions as designed.

A minimum data-governance mandate assigns executive ownership of critical datasets, identifies lawful and legitimate uses, establishes access reviews, preserves correction and deletion routines where applicable, and records material incidents. The board should demand evidence of these practices through sampling and assurance, not a decorative assurance statement. Differences in national privacy law and sector-specific confidentiality obligations require a jurisdiction-by-jurisdiction compliance analysis. Detailed database and cybersecurity controls are examined in Chapters 28–29, while Chapter 8 focuses on responsibility for deciding, supervising, and remedying their use.

### 8.9.2 Algorithmic accountability and consequential AI decisions

Artificial intelligence can support financial forecasting, customer screening, recruitment, fraud detection, inventory allocation, and board information synthesis. It can also create systematic misclassification, unfair exclusion, fabricated explanations, overreliance, model drift, privacy exposure, and obscured vendor dependencies. The National Institute of Standards and Technology's (NIST) AI Risk Management Framework (Tabassi, 2023) offers a voluntary, cross-sector approach to governing, mapping, measuring, and managing AI risk; it does not provide a universal certification of legal compliance. Responsible board oversight starts by enumerating material use cases, identifying consequences for affected people, classifying the degree of autonomy, and determining who can stop or override the system.

Human accountability must remain traceable even if an automated tool proposes the output. For a hypothetical credit-screening model, a governing committee should ask which applicants were represented in development data, whether error rates differ across groups, how decisions can be explained and appealed, and what

monitoring occurs after economic conditions change. Overall accuracy can conceal serious discrimination when false negatives fall disproportionately on underserved applicants. A dashboard reporting 95% accuracy is not adequate without prevalence, base rates, type I and type II errors, decision thresholds, and the harms of incorrect classifications. These are governance questions because they concern authorization and legitimate treatment, not merely statistical programming.

### 8.9.3 Cybersecurity, incident escalation, and supplier dependence

Cybersecurity governance should specify risk appetite, critical services, accountable executives, material third parties, incident thresholds, business-continuity decisions, and board notification. The NIST Cybersecurity Framework 2.0 places GOVERN alongside IDENTIFY, PROTECT, DETECT, RESPOND, and RECOVER, making organizational roles and oversight explicit (NIST, 2024). A high-performance enterprise may still be fragile if a single cloud provider, payment processor, or outsourced payroll service represents an unmanaged dependency. The board need not administer firewalls but should test whether critical operations can continue, whether tabletop exercises have exposed gaps, and whether supplier contracts contain practicable notification and recovery provisions.

A decision to disclose a cyber incident involves jurisdiction-specific legal rules, customer rights, evidence preservation, and reputational effects. Speed matters, but speculative public statements can mislead, while indefinite silence can harm customers. Governance should establish in advance who decides what is material, who can authorize notification, and how communications are corrected when new facts emerge. Incident metrics should distinguish attempted attacks, confirmed compromises, service disruption, detection delay, and verified recovery rather than comparing undifferentiated counts across time.

### 8.9.4 Sustainability oversight and the boundary between reporting and impact

Sustainability-related governance concerns how the board oversees material environmental and social risks and opportunities, not simply whether the organization has a climate slogan. IFRS S1 and S2, issued in 2023, structure disclosure around governance, strategy, risk management, and metrics and targets, with S2 focusing on climate-related matters (IFRS Foundation, 2023a, 2023b). Applicability depends on jurisdiction and entity-specific requirements; issuance of an international standard alone does not legally compel every Rwandan SME to apply it. Separately, Rwanda's 2026 capital-market governance Regulations introduce domestic duties on stakeholder engagement and reporting of sustainability-related matters for entities within their scope (CMA, 2026, arts. 36, 47). The statutory reporting duty and the adoption of IFRS S1/S2 must not be presented as identical obligations. The G20/OECD Principles (2023) and SOE guidelines (OECD, 2024) similarly emphasize long-term resilience while preserving distinct legal roles.

A responsible board asks which physical, transition, resource, labor, and supply-chain risks are financially or socially significant; what evidence supports reported indicators; whether targets align with funded plans; and which harms fall outside financial materiality. It must also distinguish reporting quality from underlying impact. A report may accurately measure emissions but show no reduction; a company may reduce reported Scope 1 emissions by outsourcing a polluting activity without reducing total value-chain harm. For an agricultural cooperative, unreliable rainfall, post-harvest losses, water access, and farmer livelihoods can be governance priorities despite limited capacity for complex disclosure systems. Proportionality requires accurate basic records before elaborate narrative reporting.

### 8.9.5 Regulating innovation without surrendering judgment

Technological change creates a temptation to transfer accountability to vendors, consultants, models, or the language of standard compliance. A board is not relieved of responsibility merely because a technology was purchased from a reputable company or an external auditor validated a narrow technical test. Equally, refusing all AI or digital tools can jeopardize continuity, competitiveness, and access when a proportionate pilot would be ethically and commercially defensible. A stage-gated approval process should record the intended benefit, available baseline, legal constraints, data provenance, potential harms, independent challenge, override rights,

rollback criteria, and evaluation date. Technology adoption then becomes an accountable experiment rather than a proclamation of modernization (Tabassi, 2023; OECD, 2023).

**Table 8.3. Emerging-governance decisions and evidentiary limits**

| Domain | Decision requiring oversight | Minimum evidence / principal limitation |
|---|---|---|
| Customer data | Authorize collection, access, retention, correction | Purpose, lineage, access tests; legal rules vary |
| High-impact AI | Permit, modify, or suspend automated decisions | Error distribution, appeals, drift; accuracy is not fairness |
| Cyber resilience | Approve incident thresholds and recovery capacity | Exercise results, supplier dependence, verified RTO |
| Sustainability | Prioritize material risks and credible disclosures | Boundary, base year, sources; report is not impact |
| Cross-border platform | Assign contractual and jurisdictional duties | Verified contracts, responsible entities, dispute path |

Note. Original synthesis of Tabassi (2023), NIST (2024), IFRS Foundation (2023a, 2023b), and OECD (2023).

## 8.10 GOVERNANCE FAILURE, SCANDALS, AND RECOVERY

### 8.10.1 Failure as a process rather than a single event

Governance failure may emerge through managerial misconduct, ineffective oversight, flawed incentives, information suppression, shareholder conflicts, auditor deficiencies, weak regulatory enforcement, or cumulative institutional drift. An organizational scandal is typically visible only after a long period of warning signs and contested interpretations. Retrospective narratives therefore tend to compress multiple decision points into a simple story about one leader or one missing control. A better case method constructs a timeline, identifies decision rights at each stage, distinguishes official findings from public allegation, and asks which evidence should have reached which forum before the harm escalated.

Red flags have context-sensitive meanings. Unexplained reconciliation differences, repeated policy exceptions, rapid employee turnover in a control unit, a surge in sales followed by reversals, high-pressure targets, related-party purchasing, and complaints that bypass ordinary channels may deserve investigation. None alone proves fraud. Their governance significance lies in whether multiple indicators collectively warrant independent scrutiny, what records exist, and whether the organization discourages escalation. Controls should encourage early, proportionate examination without converting every anomaly into a presumption of guilt (COSO, 2013; OECD, 2023).

### 8.10.2 Documented case: Wells Fargo's sales-practices misconduct and supervisory response

In September 2016, the United States Consumer Financial Protection Bureau (CFPB, 2016) announced an enforcement action against Wells Fargo for unauthorized deposit and credit-card accounts, attributing the practices in part to sales targets and compensation incentives. The CFPB reported that the bank's own analysis identified more than two million deposit and credit-card accounts that may not have been authorized. This is a regulator's recorded finding and should not be recast as a newly estimated chapter result or evidence that every flagged account was independently adjudicated. The mechanism is important: a local performance metric became a source of harm when employees could improve the measure without creating the corresponding customer value.

The Federal Reserve's 2 February 2018 action imposed a growth restriction until Wells Fargo improved governance and controls, and addressed board oversight and risk-management deficiencies (Federal Reserve Board, 2018). The regulator stated that a strategy prioritizing growth without adequate coverage of key risks impeded escalation of compliance breakdowns to the board. This sequence reveals more than unethical frontline action: incentive design, upward information flows, firm-wide risk integration, and director challenge

were all within the supervisory concern. It would nevertheless be unwarranted to infer the exact culpability of every director or executive without the relevant underlying record.

On 3 June 2025, the Federal Reserve announced removal of the asset-growth restriction after concluding that conditions for its removal had been met, while other provisions of the 2018 action remained in place at that time (Federal Reserve Board, 2025). On 5 March 2026, the Board announced termination of the 2018 enforcement action following its determination that the bank met all required conditions, including improvements and third-party reviews (Federal Reserve Board, 2026). The chronology matters: neither the 2025 decision nor the 2026 termination erases the original consumer harm, and the bank's remediation record should be evaluated as a process of documented supervisory milestones rather than a simplistic before-and-after success story. Separate consumer-protection actions concerning other product lines require their own scope and dates (CFPB, 2022).

**Table 8.4. Wells Fargo: documented regulatory milestones**

| Date | Documented regulator action | Analytical significance / scope |
|---|---|---|
| 8 Sep 2016 | CFPB unauthorized-account enforcement and $100m CFPB penalty | Incentive and consent failures; official enforcement scope |
| 2 Feb 2018 | Federal Reserve restricts growth pending governance improvements | Firm-wide risk and board oversight central to remedy |
| 3 Jun 2025 | Federal Reserve removes asset-growth restriction | A specific threshold met; other 2018 provisions remained |
| 5 Mar 2026 | Federal Reserve terminates 2018 enforcement action | Conditions met after remediation and third-party review |

Note. CFPB (2016) and Federal Reserve Board (2018, 2025, 2026). The timeline concerns specified orders, not all legal proceedings.

### 8.10.3 Competing explanations and a counterfactual case analysis

An agency account emphasizes how sales rewards and dispersed information encouraged actions inconsistent with customer and owner interests. A leadership account examines whether managers normalized aggressive targets and whether subordinates could challenge the practices. A board-information account asks why material warning signals did not generate adequate enterprise-wide corrective attention. An institutional account examines the interaction of corporate procedures, external enforcement, and organizational responses. Each explanation contributes a mechanism; none can be tested solely by the observation that unauthorized accounts existed (Jensen & Meckling, 1976; Brown et al., 2005; Federal Reserve Board, 2018).

The relevant counterfactual is not a claim that one independent director would certainly have prevented misconduct. It asks whether a defined alternative governance design would plausibly have exposed the conduct sooner: independent comparison of account-opening rates with confirmed customer consent, incentives adjusted for reversals and complaints, direct audit-committee access to adverse reporting, and mandatory escalation of repeated exceptions. The design is analytically plausible and consistent with regulatory concerns; its actual causal effect in that historical case has not been estimated here. This distinction allows the case to teach preventability without claiming retrospective certainty.

### 8.10.4 Recovery, redress, and credible organizational learning

Recovery begins with preserving records, stopping ongoing harm, protecting customers and whistleblowers, and identifying the competent investigative forum. An independent review should separate allegations from confirmed findings, assess why detection and escalation failed, and specify how each corrective measure will be tested. Compensation, remediation, leadership changes, altered incentives, refreshed controls, and external assurance may all be necessary, but they answer different obligations. Public messaging should disclose verified progress without implying that trust has been fully restored by announcing a new code of conduct.

There is a difficult sequencing problem. Replacing all senior managers at once may display accountability but deprive an organization of knowledge needed to repair systems; preserving every incumbent may retain the incentives that caused the failure. A credible plan differentiates culpability, competence, and continuity, while assigning deadlines and independent evidence to remediation commitments. Regulatory closure confirms the conditions of a specific order; it is not equivalent to proof that the organization will never fail again. Post-crisis governance therefore requires recurrent testing, not a one-time symbolic reset (Federal Reserve Board, 2026; OECD, 2023).

## 8.11 LEADERSHIP IN AFRICAN INSTITUTIONAL CONTEXTS

### 8.11.1 Against cultural essentialism and universal transfer

African leadership is not a single stable style. The continent contains diverse legal traditions, languages, ownership arrangements, sectoral institutions, histories of colonial administration, patterns of urbanization, and degrees of capital-market development. Nkomo (2011) cautions against both colonial stereotypes and idealized counter-images that treat culture as an adequate explanation for every organizational practice. Bolden and Kirk (2009) describe tensions in the meanings attributed to African leadership and the role of leadership development in negotiating those meanings. These contributions provide reasons for contextual inquiry, not a mandate to attribute individual conduct to an entire society.

Relational leadership can draw on reciprocity, community obligation, reputation, and informal problem solving. These practices may reduce search and enforcement costs where contracts are hard to verify, but can also create favoritism, pressure to accommodate relatives, and resistance to reporting misconduct against respected figures. Conversely, formal rules can improve impartiality while becoming ceremonial if participants cannot contest decisions or access records. The relevant question is how formal obligations and informal relationships jointly shape authority, information, and accountability in the specific enterprise. International best practice is useful only when its function is understood and the resources to implement it are available.

### 8.11.2 Rwanda's enterprise landscape and the governance scale problem

NISR's Integrated Business Enterprise Survey for 2024 reports 278,060 business enterprises within its survey definition and describes informality at at least 87% of the business landscape (NISR, 2026). These are indicators of the survey's defined non-agricultural enterprise universe, not a claim that all Rwandan economic activity is informal or that every surveyed firm has no governance practices. The evidence challenges a textbook approach in which corporate governance begins and ends with the audit committee of a large listed company. Much practical governance concerns founder cash controls, record accuracy, consent in digital transactions, succession, fair supplier selection, and credible relationships with creditors and public authorities.

The formalization continuum also matters. A small enterprise may use an independent accountant annually rather than establish an internal-audit department; a cooperative may rely on accessible membership reports and periodic external assurance; a listed issuer may need materially more sophisticated board and disclosure systems. These distinctions affect implementation cost, not the underlying obligation to avoid fraud, misrepresentation, unsafe conduct, and arbitrary exploitation. Proportional governance requires a risk inventory, a minimum control set, an escalation route, and periodic review suited to the enterprise's real transaction volume and exposures.

### 8.11.3 Comparative institutions: Rwanda, regional enterprises, and OECD benchmarks

The 2 October 2026 capital-market governance Regulations sharpen the distinction between national legal requirements and comparative policy principles. Their Articles 3, 6 and 17 address applicability, board composition and chair–CEO separation; Articles 21–25 establish committee architecture; and Articles 37 and 47–49 address reporting and transparency. Their enactment makes an entirely voluntary reading untenable for covered entities. Nonetheless, the breadth of Article 3, especially its reference to private companies and SMEs, requires careful interpretation in light of competent regulatory guidance and interactions with company and

sector law. A credible Rwandan board-design memorandum should explicitly identify where a statutory minimum is clear, where interpretive uncertainty remains, and which practical safeguards are justified independently of a legal mandate (CMA, 2026).

International comparators such as the G20/OECD Principles (2023), OECD SOE Guidelines (2024), and the Basel Committee's bank-specific principles (2015) distinguish fiduciary responsibilities, board competence, risk oversight, and shareholder or public accountability. Their value lies in articulating functions against which domestic arrangements can be scrutinized. Their risk lies in misleading legal equivalence, because supervisory powers, ownership structures, resources, and enforcement conditions differ. A listed issuer operating under a national mandatory board rule cannot elect a smaller committee merely because an academic efficiency model recommends one; a small member-governed association should not automatically be treated as a listed commercial company solely because the words 'board' and 'governance' are used in both cases.

Regional integration expands governance exposure beyond domestic firms. An enterprise trading across the East African Community or African Continental Free Trade Area may face counterparties governed by different contract rules, data practices, standards, and dispute mechanisms. Directors must ask which entity promises performance, which currency and payment arrangements create risk, whose records will substantiate shipments, and which authority can investigate cross-border harm. Leadership capacity does not require mastery of every regulation but does require verified responsibility, qualified local advice, and clear escalation. Specialized trade and compliance instruments remain assigned to Chapters 26 and 30.

### 8.11.4 Constructed Rwanda cooperative redesign: design assumptions and authority boundaries

Consider an explicitly hypothetical farmer-marketing cooperative in Rwanda with 150 members, annual sales of RWF 180 million, five elected oversight members, and a salaried general manager. The cooperative receives grain, sells aggregated lots, pays members based on verified quantities and agreed quality grades, and finances storage during seasonal price fluctuations. Its underlying governance problem is that the general manager approves purchases, edits stock records, and informs the board through one consolidated monthly report. Members complain that payment delays and grading disputes cannot be checked independently. These figures and events are invented solely for analytical instruction; no factual allegation about an existing cooperative is implied.

A defensible redesign would reserve policy, major financing, approval of conflicted transactions, appointment and review of the manager, and independent audit arrangements to the competent governing bodies under applicable law and the cooperative's statutes. It would separate receipt weighing from payment authorization, introduce member-accessible settlement statements, require documented recusal in related-party supplier contracts, provide an independent complaint route, and reconcile cash, stock, and member balances at defined intervals. The general manager would retain operational authority within explicit thresholds. The result is not a recommendation to burden a cooperative with corporate committees it cannot sustain; it is a response to observable control concentrations and member information asymmetry (Republic of Rwanda, 2024; OECD, 2023).

**Table 8.5. Hypothetical Rwandan cooperative: governance redesign**

| Observed design weakness | Proposed safeguard | Verifier / performance evidence |
|---|---|---|
| One manager edits stock and authorizes pay | Separate weighing, ledger changes, approval | Sample counts and bank-to-member reconciliation |
| Board sees only a summary | Exception log with source documentation | Oversight committee monthly review |
| Potential supplier conflicts | Declare interests; recusal; comparables | Disinterested review and recorded resolution |
| Member payment disputes linger | Accessible complaints and review deadlines | Member register, aging, remedy sampling |
| Weak succession and document | Deputy authority; protected record access | Annual exercise and board evaluation |

| Observed design weakness | Proposed safeguard | Verifier / performance evidence |
|---|---|---|
| custody | | |
| Digital tools purchased without review | Test pilot, privacy controls, reversible rollout | Use-case inventory and periodic review |

Note. All enterprise features, amounts, and proposed governance changes are hypothetical. Legal authority must be aligned with Republic of Rwanda (2024).

### 8.11.5 Transferability, equity, and implementation constraints

Governance reform cannot be assumed successful because the design is conceptually sound. Members may lack time to attend meetings, reports may be inaccessible in preferred languages, seasonal workers may not have a voice, and independent assurance may be expensive. A phased programme should begin with record integrity and cash authority, then strengthen accessible communication and elections, and subsequently evaluate more specialized oversight. The implementation test is whether an ordinary member can understand the basis of payment, challenge an error, and receive an accountable decision without needing a privileged relationship with leadership.

An African-rooted governance curriculum should therefore avoid both copying sophisticated board forms uncritically and excusing weak oversight as an unavoidable cultural trait. It should teach institutional design as a resource-constrained choice that is judged by verifiable rights, the flow of decision-relevant information, protection against misuse of power, and realistic mechanisms of remedy. Those tests apply to Rwanda, regional enterprises, and international comparators alike, even though the structures satisfying them may differ (Bolden & Kirk, 2009; Nkomo, 2011).

## 8.12 GOVERNANCE PERFORMANCE MEASUREMENT

### 8.12.1 Why board activity is not board effectiveness

Board performance is often inferred from attendance, the number of committees, meeting frequency, director independence, or the publication of policies. Such indicators can be useful descriptions of governance inputs but cannot by themselves establish effective monitoring. A board that meets monthly may ignore fraud warnings; a board with high formal independence may depend entirely on management for information; a low incidence of reported misconduct may reflect silence rather than high integrity. The measurement architecture must distinguish inputs, processes, intermediate signals, verified outcomes, and unintended consequences (Adams et al., 2010; OECD, 2023).

A balanced scorecard should follow a defined causal account. If timely escalation of exceptions is believed to improve control correction, measure both the share of material issues escalated within the approved interval and whether corrective actions were independently verified. If stakeholder engagement is meant to improve service fairness, examine resolved complaints by severity, remedy adequacy, and repeat occurrences, not only attendance at consultation forums. Measurement should be sensitive to the possibility of gaming: rewarding a department for fewer reported incidents can make suppression attractive. The indicator requires a counter-measure of reporting accessibility or independent sampling.

### 8.12.2 Governance scorecard design and threshold logic

The board's scorecard should normally cover strategic oversight, information quality, assurance, conflict management, leadership succession, stakeholder remedy, technology oversight, and organizational learning. Each indicator must specify unit, denominator, data provenance, frequency, accountable owner, verification method, and decision response. Thresholds should be treated as management rules, not discovered natural constants. A high-severity control breach may trigger immediate independent review regardless of a favorable overall score; a minor reporting delay may justify coaching rather than sanction. The scorecard should report

unresolved exceptions and age, since a high closure percentage may conceal a small number of dangerous, persistent matters.

A hypothetical measure illustrates denominator discipline: if eight material issues were due for escalation and six were reported within the prescribed time, the timely-escalation proportion is 6/8 = 75%. But this ratio excludes unobserved issues, and management might reduce the count by reclassifying events as nonmaterial. Independent review of issue classification and a control sample is therefore required before claiming improved governance. Governance outcomes are jointly produced with business conditions, so a scorecard should inform inquiry rather than substitute for causally identified evidence of effectiveness.

**Table 8.6. Governance process scorecard with corrective triggers**

| Measure (unit) | Data and denominator | Illustrative response to exception |
|---|---|---|
| Critical issues escalated on time (%) | Due material issues; independent classification sample | Review late issue and reporting incentive |
| High-risk actions verified (%) | Closed critical actions independently tested | Reopen failed actions; retain named owner |
| Related-party review coverage (%) | Material relevant transactions sampled | Suspend unreviewed approval and investigate |
| Board evidence quality (audit result) | Pack accuracy, alternative cases, source trace | Request corrected source record |
| Whistleblower retaliation concern (cases) | Investigated reports and follow-up findings | Independent protection and case review |
| AI adverse-appeal response (days) | Valid appeal cases by severity and age | Suspend use if harm threshold exceeded |

Note. Indicators are proposed and unvalidated. Zero reports of harm do not necessarily imply zero harm.

### 8.12.3 Expected-loss decision analysis: a reproducible illustration

A proposed control investment should be evaluated with transparent inputs rather than the assertion that stronger oversight is always costless. Assume a hypothetical cooperative faces a 5% annual probability of a serious unauthorized-payment event causing a RWF 100 million loss if it occurs. Management proposes a control package expected to reduce the annual probability to 1%, at a recurring cost of RWF 1.2 million per year and an initial setup expenditure of RWF 2 million. Assume independence of annual loss events, constant probabilities, annual end-of-year benefits, a three-year horizon, a 12% discount rate, and no salvage value. All inputs are invented for instruction; neither probability is estimated from Rwandan empirical data.

Baseline annual expected loss is 0.05 × RWF 100 million = RWF 5 million; revised annual expected loss is 0.01 × RWF 100 million = RWF 1 million. The expected reduction is RWF 4 million each year, leaving RWF 2.8 million after the recurring control cost. For an annual net benefit B, discount rate r, horizon T, and initial cost I, net present value is NPV = −I + B × [1 − (1 + r)^−T]/r. With B = 2.8 million, r = 0.12, T = 3, and I = 2 million, the annuity factor is 2.401831, and NPV ≈ RWF 4.725 million. The arithmetic shows an expected-value case for the control under the assumptions; it does not mean the event cannot occur after implementation or that the board may ignore liquidity and nonfinancial harm.

To test robustness, hold the baseline probability at 5%, event severity at RWF 100 million, and costs constant, while varying the control's true residual annual event probability p. The control remains positive-NPV if (0.05 − p) × 100 − 1.2 > 2 / 2.401831, with monetary quantities in millions, implying p < approximately 2.967%. If the control reduces annual event probability only to 3%, its calculated three-year NPV is slightly negative; if residual probability is 2%, its NPV is positive. These are sensitivity cases rather than confidence intervals. A board should require an evidence plan for estimating effectiveness, consider whether the enterprise can finance the initial outlay, and acknowledge severe customer or member harm that an expected monetary loss cannot morally price.

**Table 8.7. Three-year control sensitivity (illustrative, RWF millions)**

| Residual event probability | Annual expected loss reduction | Net annual expected benefit | Three-year NPV |
|---|---|---|---|
| 1% (base scenario) | 4.00 | 2.80 | 4.725 |
| 2% | 3.00 | 1.80 | 2.323 |
| 3% | 2.00 | 0.80 | −0.079 |
| 4% | 1.00 | −0.20 | −2.480 |

Note. Baseline probability 5%; severity RWF 100m; annual control cost RWF 1.2m; initial cost RWF 2m; r=12%; T=3. All inputs hypothetical. Scenario estimates rounded from NPV = −2 + [100(0.05 − p) −1.2] × 2.401831.

### 8.12.4 Evaluating governance change without causal overreach

An organization that introduces board training and subsequently reports lower losses cannot immediately attribute the improvement to training. Economic shocks, staff turnover, changed insurance coverage, selection of different customers, better accounting, and chance may account for some variation. Reliable evaluation ideally compares appropriate units or time periods, controls for measurement changes, and examines mechanisms predicted before implementation. An interrupted time series may be useful where sufficiently long consistent records exist, but it is vulnerable to simultaneous interventions; matched comparison designs require defendable exchangeability assumptions; qualitative process tracing may clarify whether reports actually influenced decisions without estimating population-level effect sizes.

For smaller entities where sophisticated identification is infeasible, process verification can still support a limited claim: that dual authorizations occurred, bank reconciliations were independently reviewed, complaints were investigated, or unauthorized overrides were recorded. Such findings establish implementation, not the causal effect on profitability or fraud prevalence. The board should specify the strongest conclusion each evidence source warrants and be explicit about unresolved counterfactuals. This inferential discipline protects governance scholarship from overstating the apparent success of attractive reforms (Adams et al., 2010; Daily et al., 2003).

**Figure 8.2. Governance learning loop from detection to independent verification**




Note. Original conceptual diagram. Arrows represent normative governance relationships, not measured causal effects.

## 8.13 INTEGRATIVE DISCUSSION: AN ACCOUNTABILITY–CAPABILITY FRAMEWORK

The preceding analysis supports a conditional synthesis: governance quality is better conceived as the relationship among authorized power, decision-relevant knowledge, independent challenge, feasible corrective capacity, and justification to affected parties than as possession of any single structural feature. Each element is necessary for a different reason. Decision rights without information invite uninformed authority; information without challenge invites selective interpretation; challenge without enforceable response becomes ceremonial

consultation; corrective capacity without stakeholder justification permits efficient exploitation. These are analytical dependencies, not validated coefficients in a new causal model.

The proposed accountability–capability framework draws on the actor–forum conception of accountability (Bovens, 2007), the separation of decision management and control (Fama & Jensen, 1983), and the evidence on board process rather than board form (Adams et al., 2010; Farrell et al., 2026). It treats five mechanisms as mutually conditioning. Mandate specifies the purpose, rights, and constraints of decision makers. Information specifies how observations and exceptions reach authorized forums. Contestability concerns whether alternative explanations and affected voices can be considered without retaliation. Remediation concerns the resources, authority, and time needed to correct failure. Verification determines whether an independent reviewer can inspect what was done and with what limits. The model predicts that an enterprise with sophisticated policies but weak information escalation will continue to experience undetected exceptions, while an enterprise with candid reporting but no corrective authority will accumulate unresolved risk. These propositions should be tested against firms differing in scale, ownership, formalization, and regulatory exposure.

There are several important competing explanations. Some governance outcomes may reflect industry selection, financing conditions, or sector regulation rather than board conduct. Trust-based cooperation may reduce the need for intrusive monitoring, while excessive compliance routines may discourage timely innovation. Political and market institutions can constrain the feasible independence of boards even when internal actors understand the problem. Accordingly, this framework is best used to generate explicit diagnoses and rival hypotheses, not to rank all organizations on an unvalidated universal governance index (Davis et al., 1997; Adams et al., 2010; Nkomo, 2011).

## 8.14 CONCLUSION AND CHAPTER SYNTHESIS

Leadership mobilizes organized effort; governance defines the legitimate boundaries of power; and accountability connects decisions to evidence, explanation, correction, and consequences. Their relationship is most visible when outcomes are uncertain and organizational interests conflict. The important question is not whether an enterprise declares integrity, appoints an independent director, or uses modern dashboards. It is whether consequential decisions can be reconstructed, challenged, verified, and remedied without depending wholly on the preference of the person exercising power. This standard applies across listed corporations, family firms, farmer cooperatives, nonprofits, public institutions, and digitally mediated enterprises, although the forms required differ considerably.

Seven propositions summarize the chapter. Leadership theories explain different mechanisms and none establishes a universal superior style. Board independence is meaningful only where competence, time, information, and challenge coincide. Agency and stewardship perspectives are complementary under explicit conditions; neither justifies blanket suspicion nor blind trust. Stakeholder governance requires reasons for contested distributions rather than the assertion that everyone benefits. Ethical reporting and whistleblowing must protect both the reporter and procedural fairness for the person accused. Digital and sustainability governance require informed board responsibility rather than vendor or reporting formalism. Finally, performance measurement must distinguish implementation evidence from unproven causal claims. The Wells Fargo chronology and the hypothetical Rwanda cooperative scenario illustrate different scales of the same underlying problem: unchecked incentives, information concentration, and weak response can defeat impressive formal systems.

The chapter completes Part II of the book by connecting strategic purpose (Chapter 6), organization design (Chapter 7), and management processes (Chapter 5) to the institutional question of who may authorize and scrutinize enterprise conduct. It prepares Part III's attention to employment relationships and workplace behaviour, while the chapters on finance, technology, risk, sustainability, and ethics will deepen the specialized domains that governing bodies must integrate. The enterprise-system perspective remains the organizing

principle: responsible performance emerges from the coordination of functions under legitimate, evidence-based and revisable authority, not from the isolated excellence of any single leader or department.

## 8.15 KEY TERMINOLOGY

**Accountability** denotes an actor's obligation to explain and justify conduct to a forum empowered to question, evaluate, and require consequences. **Agency cost** comprises monitoring expenditure, bonding costs, and residual loss generated by divergent interests in delegated arrangements. **Board independence** is the absence of relationships that materially compromise objective judgment; **substantive independence** additionally concerns the practical capacity and willingness to challenge influential actors on evidence.

**Corporate governance** is the system through which an enterprise is directed, overseen, and made answerable. A **fiduciary duty** is a legally specified responsibility attached to entrusted authority, whose exact content varies by jurisdiction and organizational form. A **conflict of interest** exists when personal or competing interests can improperly affect entrusted judgment, whether or not an improper decision has already occurred. **Risk appetite** refers to the amount and types of risk an organization is prepared to accept within its authorized purposes and legal constraints.

**Internal control** consists of processes intended to give reasonable, not absolute, assurance concerning operations, reporting, and compliance. The **Three Lines Model** differentiates roles in the management of risk, specialist risk and compliance support, and independent internal audit, under governance oversight. **Whistleblowing** concerns reporting suspected wrongdoing through internal or legally authorized external routes, with attention to confidentiality, procedural fairness, and protection from retaliation.

**Servant leadership** interprets leadership as service to the legitimate development and interests of those affected. **Stewardship theory** explains how identification with collective purpose, professional commitment, and intrinsic motivation can support responsible delegated action under suitable conditions. A **stakeholder** is a person or group capable of affecting, or being affected by, enterprise activity. **Epistemic injustice** arises when a person is wronged in their capacity as a knower; in governance analysis the concept is relevant to unequal credibility, suppressed testimony, and obstacles to interpreting and communicating harm (Fricker, 2007).

## 8.16 QUESTIONS, CASE EXERCISES, AND EDUCATOR GUIDANCE

### 8.16.1 Foundational and conceptual questions

**Question 1 (LO1, LO3).** Explain how a founding owner can hold executive and board powers simultaneously while remaining accountable to creditors, workers, customers, and applicable law. Identify at least two transactions that require safeguards beyond personal trust, and justify the proposed controls according to exposure and decision rights.

**Question 2 (LO2).** Compare trait, contingency, transformational, and servant leadership in terms of their proposed causal mechanisms, relevant outcome measures, most serious evidentiary limitations, and a situation in which uncritical use of each approach could mislead a governing body.

**Question 3 (LO3, LO4).** Distinguish formal independence from substantive independence and explain why adding nominally independent directors might fail to improve board judgment when source information, agenda control, or protected reporting remains inadequate.

**Question 4 (LO4).** Evaluate the proposition that agency and stewardship theories are mutually exclusive explanations and an enterprise must choose one universal governance philosophy. Develop a counterexample involving both justified trust and an independently reviewed transaction.

### 8.16.2 Analytical and comparative assignments

**Exercise 5 (LO5, LO8).** Construct a board risk–oversight matrix for an enterprise exposed to supplier unreliability, concentrated founder approvals, digital customer information, and delayed complaints. Specify which decisions are reserved, what evidence must reach the board, how escalation operates, and how an independent reviewer can verify corrective action.

**Exercise 6 (LO3, LO6).** Starting with *Regulations No. 002/CMA/2026 of 02/10/2026*, identify the rules on scope (art. 3), board composition (art. 6), chair–CEO separation (art. 17), committees (arts. 21–25), and disclosure (arts. 38–49). Compare their legal character and jurisdictional reach with the nonbinding comparative principles of OECD (2023), NIST AI guidance (Tabassi, 2023), and IFRS S1/S2. Explain why the status of a national enactment cannot be inferred from the publication date of an international standard and why the scope of the Rwandan Regulations should not be guessed for a particular small business.

**Exercise 7 (LO7).** Reconstruct the Wells Fargo chronology from the CFPB's 2016 account-opening action to the Federal Reserve's 2018 growth restriction, its partial lifting in 2025, and termination in 2026. Distinguish each regulator's established conclusion from a plausible causal hypothesis about the role of incentives, reporting, and director scrutiny. Identify the evidence and rival mechanism required to strengthen the causal explanation.

### 8.16.3 Capstone board memorandum

**Case assignment (LO3–LO8).** Acting as an independent board adviser to the hypothetical Rwanda farmer cooperative in Section 8.11, prepare a 1,500–2,000-word decision memorandum. Recommend an authority and assurance redesign; calculate and critically interpret the expected-loss investment in Section 8.12; assess whether it remains justified if the residual event probability is 3%; define a member-accessible complaint pathway; and explain how the proposed framework would change under a cooperative law provision that restricts a proposed delegation. The submission must include a one-page risk/owner/oversight table, named assumptions, rejected alternatives, stakeholder consequences, information gaps, implementation milestones, and a review trigger. No student may invent interviews with cooperative members or present the constructed scenario as empirical evidence.

### 8.16.4 Educator notes and assessment rubric

Assessment should reward defensible reasoning rather than the reproduction of prescribed governance slogans. A suggested 100-point rubric assigns 20 points to correct conceptual distinctions and theory critique, 20 to legally and institutionally defensible allocation of authority, 20 to the evidence and risk analysis with accurate arithmetic, 20 to consideration of stakeholder justice and procedural safeguards, and 20 to coherent implementation, monitoring, and transparent limitations. The numerical control investment yields a baseline annual expected loss of RWF 5 million, post-control expected loss of RWF 1 million, net annual expected benefit of RWF 2.8 million, and approximate three-year NPV of RWF 4.725 million; the proposed probability of 3% produces an NPV slightly below zero under unchanged assumptions. Students should earn credit for identifying model uncertainty and nonfinancial rights constraints rather than treating positive NPV as unconditional authorization.

For advanced instruction, divide participants into executive, audit committee, cooperative member, and external-assurance teams, each receiving the same records but different decision responsibilities. Require teams to disclose informational limitations before negotiation. Facilitate a second round in which an unexpected related-party transaction is discovered and participants must decide how to preserve records, manage recusal, protect reporting, and keep lawful operations running. The exercise tests whether students can connect organizational behaviour with governance architecture without collapsing leadership into personality judgment or treating committee creation as a universal remedy.

## 8.17 RESEARCH OPPORTUNITIES AND FURTHER READING

Three questions deserve empirical investigation. First, does accessible member-level reporting in Rwandan cooperatives improve the early detection and correction of payment disputes relative to similar enterprises with centralized records, after accounting for size and managerial capability? Second, under what conditions does board information quality mediate the relationship between formal independence and consequential oversight action, especially in owner-managed African enterprises? Third, do AI-use-case inventories and independent challenge protocols reduce harmful automated decisions, and can those effects be distinguished from improvements in underlying data quality? Each question requires operational definitions, appropriate comparisons, explicit measurement of confounders, and ethical treatment of records and people; the existence of a governance intervention does not itself establish causality.

Further reading is best organized by purpose. For the economics of delegated authority, begin with Jensen and Meckling (1976), Davis et al. (1997), and Adams et al. (2010). For the empirical strengths and limitations of leadership models, consult Judge and Piccolo (2004), Avolio et al. (2009), and Eva et al. (2019). For legally current Rwandan oversight, read the CMA (2026) Regulations alongside the entity-specific governing law; for international professional comparison, examine OECD (2023, 2024), the IIA (2024), Tabassi (2023), and NIST (2024). For critical African interpretation, read Bolden and Kirk (2009), Nkomo (2011), and the relevant NISR (2026) enterprise survey. These sources are starting points for further examination, not substitutes for checking applicable laws and institutional records.

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