



IN THE COURT OF APPEAL

AT NAIROBI

CORAM: WAKI, KARANJA, & OUKO, J.J.A

CIVIL APPEAL NO. 28 OF 2004

BETWEEN

NAIROBI GOLF HOTELS LTD.....APPELLANT

AND

LINOTIC FLOOR COMPANY LTD.....RESPONDENT

(Appeal from the Order of the High Court of Kenya at Nairobi (Onyango-Otieno, J) dated 6th December, 2001 and decree dated 25th June, 2013 (Mwera, J)

in

H. C. MISC. CIVIL CASE NO. 889 OF 1997)

JUDGMENT OF THE COURT

This appeal has been pending before this Court for the last ten years. The same arises from the ruling of Onyango - Otieno, J. (as he then was) rendered on 6th December 2001 in an application dated 27th October, 1997, seeking to set aside the arbitral award dated 4th December, 1996 principally on the ground of alleged misconduct on the part of the sole arbitrator, Mr. Norman Mururu, Quantity Surveyor, F.C.I.

The application which was predicated on **Sections 24 and 37(a) of the Arbitration Act (Cap 49) (Repealed) Rule 4, 6, and 15 of the Arbitration Act (1983) and Section 3A of the Civil Procedure Act; and Section 42(2) of the Arbitration Act 1995** bore no grounds on its face, but was supported by the affidavit of Martin Michuki Njoroge sworn on 27th of October 1997.

The particulars or incidents of misconduct are narrated in at least five pages of the said affidavit. A keen look at these particulars indicates that all purported errors of judgment on the part of the arbitrator were construed by the appellant to amount to acts of misconduct. We shall advert to this point later.

A brief background of this matter is that **Nairobi Golf Hotels (K) Ltd (appellant)** entered into a building contract with **Linotic Floor Company Limited (Respondent)** on 15th June 1989. The contract was in the Standard Form of Building Contract based on the Agreement and Schedule of Conditions of Building Contract (with quantities) 1977 Edition revised in September 1988, for special finishes at the Windsor Golf & Country Club, Nairobi. The contract was one of the several contracts entered into between the

respondent and individual firms as direct contracts. According to the arbitrator this was a deviation from the usual practice where the main contractor would sub-contract to other firms instead of the employer dealing directly with such firms.

The contract works to be carried out were specified in some works and contracts drawings. The contract sum was Kshs. 4,685,770/=; the date of possession was 3rd July 1989 and the date for what was referred to as “practical completion” of the site was 18th February 1991. **Clause 23** of the contract provided for extension of time in case the progress of the work was delayed on several grounds enumerated under that clause which included acts of God, bad weather, civil commotion, strikes, non-availability of the necessary work materials including such imported goods or materials imported from outside the country which were essential for the proper carrying out of the works.

If any of the above happened, then the contractor (respondent) was enjoined to inform the appellant in writing and indicate how long the delay would take. There was a proviso to the effect that the contractor would “*always use his best endeavors to prevent delay*”. If that clause was invoked, then the parties would by consent extend the life of the contract.

Of equal importance was clause 11 of the agreement which provided as follows:-

“(1) The Architect may issue instructions requiring a variation and he may sanction in writing any variation made by the contractor otherwise than pursuant to an instruction of the Architect no variation required by the Architect or subsequently sanctioned by him shall vitiate this contract.”

The term variation was defined in clause (2) to mean;

“alteration or modification of the design, quality or

quantity of the works as shown upon the contract

drawings.... and includes the addition, omission or substitution of any work, the alteration of the kind or standard of any of the materials or goods to be used in the works.....”

It is instructive to note from the above clauses that such “variation” would not have the effect of vitiating the contract and so unless **clause 23** was brought into play, then the terms of contract as agreed upon by the parties would remain.

For some reason or other which we need not delve into for purposes of this appeal, there were delays in provision of the materials or imported goods that were meant to be used for the project in question. The general contractor was also said not to have done his part in order to enable the respondent to commence the finishes as agreed. The works for special finishes did not therefore commence as expected on 3rd July 1989.

In short, the deadline was not met and on 21st November 1990, the respondent wrote to the appellant determining its employment under the contract as provided for under **clause 26 (1) (c) (v) and (vi)** of the contract which provided as follows;

“Without prejudice to any other rights and remedies which the contractor may possess, if;

- c. The carrying out of the whole or substantially the whole of the uncompleted works (other than the execution of work required under clause 15 ...) is suspended for a continuous period of six months by reason of**
- v. The contractor not having received in due time necessary instructions, drawings, details or**

levels from the architect...”

vi. Delay on the part of artists, tradesmen or others engaged by the employer, in executing work not forming part of this contract”

The appellant disputed this termination of the contract with the result that a dispute arose. This is the dispute that was referred to Mr. Mururu for arbitration by consent of both parties. The hearing commenced after all the necessary preliminaries had been complied with. The parties were duly represented by counsel during the arbitral proceedings. They called witnesses and also agreed on the production of documentary evidence.

At the close of the hearing, the arbitrator asked the parties to file and serve final written submissions and time limitations were given. The respondent is said to have filed and served the submissions as ordered but the appellant failed to file its submissions within the prescribed time. The arbitrator therefore declared the proceedings closed on 14th October 1996 and adjourned the matter to await delivery of the award. The award was duly delivered on 4th December 1996. The arbitrator found in favour of the respondent and found termination of its employment under the contract lawful. The arbitrator specifically made a finding to the effect that the true start date for the contract was end of April 1990 as communicated in the revised program. He further observed that there was no mechanism in place in the contract terms allowing for the shifting of the commencement date. He concluded that more than six months delay had occurred before the respondent was provided with all the necessary material to enable it to commence its work under the contract. He further made a finding that it was possible for works to be “suspended” before it started and so even though the respondent had not commenced the work, the same could still be said to have been suspended for more than six months. The appellant was found in breach of the terms of the contract and ordered to pay the respondent Kshs. 426,155.60/= as damages with interest amounting to Kshs. 870,067.60/= in full and final settlement of “all claims and counterclaims”. The respondent was also awarded costs of the arbitration plus interest thereon if the amount was not settled within 30 days of the award.

Being aggrieved by the award, the appellant moved to the High Court under **Section 24** and **Section 37(a) of the Arbitration Act (Cap 49)** (repealed) by way of chamber summons dated 27th October, 1997 seeking the setting aside of the said award. That is the application which was heard and disallowed by Onyango – Otieno J. (as he then was) in his Ruling rendered on 6th December 2001.

The appellant thereafter filed a Notice of Motion in this Court, seeking orders of stay of execution and the Court by its Ruling dated 19th September 2003 ordered stay of execution on condition that the appellant deposits the decretal sum of Ksh 2,148,259.00 in an interest earning bank account in the joint names of the advocates on record for both parties, which was done.

The appellant then moved to this Court on appeal. The memorandum of appeal filed by Kamau Kuria & Kiraitu Advocates, has thirty one grounds of appeal but at the hearing of the appeal, Dr. Kamau Kuria, SC who prosecuted the appeal abandoned grounds one to seven which dealt with complaints against a Ruling by Mwera, J. (as he then was). He urged the other grounds together.

Ground eight faulted the learned Judge for holding that the application was defective for not setting out the grounds in its body. Learned counsel cited the case of **Castellino vs Rodrigues [1972] EA 223** in support of his argument.

We shall deal with this ground before we go to the other grounds all of which deal with the issue of misconduct on the part of the arbitrator.

On whether the chamber summons was defective or not, the learned Judge found that since the application was brought *inter alia* under **Section 3A of the Civil Procedure Act**, then the same ought to have complied with the then **Order 50 Rule 7** which provided that:-

“Every summons SHALL state in general terms the grounds of the application ... and where any summons is based on evidence by affidavit, a copy of the affidavit shall be served.”

The learned Judge found that the said provision is couched in mandatory terms and therefore calls for compliance. He also referred to Russell on Arbitration, 20th Edition where the author states as follows on the issue of form of the notice of motion;

“In the case of every application to remit or set aside, the notice of motion must state in general terms the grounds of the application; and where the motion is founded on evidence by affidavit a copy of every affidavit intended to be used must be served with that notice”

The Judge guided by the Civil Procedure Rules and the above text, arrived at the conclusion that the said motion was defective and therefore not properly before the Court. The appellant faults him for failing to consider the principle set out in the **Castellino vs Rodrigues** case (Supra) to the effect that the non-compliance is not fatal and is curable by amendment.

We note that there was no application to amend the chamber summons in this case. Be that as it may, we note that such a defect would be curable under **Section 1A,**

1B, of the Civil Procedure Act; Section 3A, 3B of the Appellate Jurisdiction Act and Article 159 2(d) of the Constitution, particularly because the grounds were incorporated in the affidavit in support of the application. We must observe however, that the learned Judge even after finding the chamber summons “*not properly before the court*” did not strike it out but proceeded to determine the merits of the case. The application was not dismissed for lack of form but purely on merit. The Judge cannot therefore be faulted at all on that issue. Nothing therefore turns on ground one of the memorandum of appeal.

On the rest of the grounds, learned senior counsel articulated two points in his written submissions and the oral highlighting before us. His first point was that the arbitrator;

“made a mistake in apprehending the construction contract”. According to learned senior counsel, that mistake and all other mistakes or misapprehensions on the part of the arbitrator amounted to misconduct. He cites other particulars of misconduct as follows;

- That the Arbitrator misconducted himself in arriving at various conclusions which were contrary to the evidence before him;
- That the Arbitrator mistook the facts and arrived at a wrong conclusion which tended to challenge the evidence tendered at the trial;
- That the Arbitrator misconducted himself in failing to give the respondent a chance to reply to the claimant’s written submissions.
- In failing to interpret the contract by constructing a meaning to the contract which was contrary to the express term of the agreement;
- That he erred in law in holding that there was a breach of the contract by the respondent which entitled the claimant to withdraw from the contract of employment;
- That he erred in holding that there was a six months delay which entitled the claimant to determine his employment;
- That he wrongly awarded damages and that he failed to determine all issues that had been put before him for determination and;
- That he erred in holding that the respondent’s counter-claim was not maintainable.

The second prong of his argument was that the learned Judge adopted a very narrow interpretation of “misconduct”. This entire appeal actually turns on the interpretation of the term “misconduct” in the context of arbitral proceedings and whether the learned Judge gave the said term its correct meaning and scope. This is very well captured in the appellant’s submissions at paragraph three as follows:-

“(b) the High Court acted on the wrong narrow notion of misconduct; it ignored three decisions of this Court supporting a broader notion which were binding on it; there is misconduct of an arbitrator if he declines to adjudicate upon the dispute before him or decides the matter on no evidence or fails to evaluate before him(sic) or lacks the ability to adjudicate on the issues before him; in the matter before the court, the appellant relied on all those forms of misconduct in the High Court.”

Dr. Kuria called in aid this Court’s decision in **Nyangau vs Nyakwara (1982 – 1988) 1 KAR 805** which defined the term misconduct within the context of arbitration under **Order XLV of the Civil Procedure Rules**. He also made reference to other decided cases where issues of misconduct had been dealt with.

We must however, be circumspect of the fact that, this appeal arises not from arbitration under the then **Order XLV of the Civil Procedure Rules** as was in the case of **Robert Njue Wangai vs Francis Muthike**; Civil Appeal No. 274 of 2000; or **Josephat Murage Miano & Another vs Samuel Mwangi Miano & Another**, Civil

Appeal No. 26 of 1996; which the appellant seeks to rely on but from arbitral proceedings conducted under the Arbitration Act (Cap 49) (repealed).

It is instructive also that although Dr. Kuria urged us to consider this appeal within the broader ambit of the repealed Cap 49 and not under the 1995 Arbitration Act which replaced it, and which as he rightly submitted is more restrictive, the application for setting aside giving rise to this appeal was premised *inter alia* on **Section 42(2) of the Arbitration Act 1995**. It would therefore be remiss of us not to consider the concept of misconduct under the current Act as the learned Judge must also have done so.

The reason for this is that the arbitral process under the repealed Arbitration Act (Cap 49) and the current Arbitration Act 1995 are founded on the doctrine of finality which this Court has had occasion to amplify and uphold in several of its decisions including the **Anne Mumbi Hinga vs Victoria Njoki Gathara, Civil Appeal No.8 of 2006** which the appellant has referred to in its submissions.

What then amounts to misconduct under the repealed Arbitration Act (Cap 49) and the Arbitration Act 1995 both of which the appellant predicated the chamber summons whose ruling is the subject of this appeal? That is the crux of this appeal. We shall juxtapose the answer to that question with the allegations of misconduct leveled against the arbitrator and the ruling of the Honourable Judge to determine if indeed misconduct was established against the arbitrator.

Dr. Kuria asked us to find that the learned Judge ought to have interpreted the term misconduct broadly. It was learned counsel’s submission that had the learned Judge done so, he would have allowed the chamber summons and set aside the arbitral award. He urged us to allow this appeal.

The appeal was opposed by the respondent through learned counsel Mr. Rajinder Billing. He maintained that there was no misconduct whatsoever on the part of the arbitrator. It was counsel’s submission that the parties fully participated in the arbitral proceedings and neither of them raised any complaint against the arbitrator. He urged further that there was no misconduct whatsoever on the part of the arbitrator for the following reasons:-

That the Arbitrator had the competence and requisite jurisdiction to deal with all issues submitted to him; both parties had legal representation throughout the arbitral proceedings; pleadings were exchanged and case documents were presented by each party; the arbitrator held hearings on diverse dates when evidence was received from Luigi Franscescon on behalf of the respondent and from Stuart Foale and David Grantham on behalf of appellant; at the close of the hearing, the parties were directed to file written submissions; the appellant served it’s submissions on time as directed but the respondent was unable to

file its submissions within the given timelines .

On the purported variation of the contract which the learned Judge is faulted for not acknowledging, it was counsel's submission that **clause 11** of the agreement dealt with variation of works and not variation of the entire contract. Counsel submitted that

Clause 11 on variations is very explicit and detailed on how the appellant's agents –the architect and/or project manager was to deal with any issue relating to variations as provided for in the said clause as follows:-

“Clause 11 (1):

The Architect may issue instructions requiring a variation and he may sanction in writing any variation made by the Contract or otherwise than pursuant to an instruction of the Architect.

Clause 11 (2):

The term ‘variation’ as used in these Conditions means the alteration or modification of the design, quality or quantity of the Works as shown upon the Contract Bills, and includes the addition, omission or substitution of any work, the alteration of the kind or standard of any materials or goods to be used in the Works and the removal from site of any work or materials.....”.

His argument was that the contract itself was not varied but what was varied was the works, and the respondent was therefore in order to give the notice of termination of the contract as he did, and further that the learned Judge was in order in finding that it was not the contract which had been varied. His take was that the arbitrator had not misapprehended the case before him, nor had he misapprehended the principles of construction of contracts and the application of the doctrine of variation of contracts by agreement of the parties as claimed by the appellant.

We shall now consider in more detail the alleged acts of misconduct leveled against the arbitrator as presented before the High Court in the application for setting aside the award. We shall then look at the term “misconduct” in the context of arbitral proceedings, and draw our conclusion as to whether the learned Judge erred in finding that no misconduct had been proved against the arbitrator. These can be summarized from the memorandum of appeal as follows;

- Ø That the arbitrator lacked the talent, experience, and diligence and was therefore incapable of conducting the reference in a manner which the parties expected;
- That the arbitrator misconducted himself in arriving at various conclusions which were contrary to the evidence before him;
 - That the arbitrator misapprehended the facts and misinterpreted the law and consequently arrived at the wrong conclusion;
 - That the arbitrator misconducted himself in failing to give the appellant a chance to reply to the claimant's written submissions which were never filed.
 - In failing to interpret the contract by constructing a meaning to the contract which was contrary to the express term of the agreement;
 - That he erred in law in holding that there was a breach of the contract by the respondent which entitled the claimant to withdraw from the contract of employment;
 - That he erred in holding that there was a six months delay which entitled the claimant to determine his employment;

- That he wrongly awarded damages and that he failed to determine all issues that had been put before him for determination and;
- That he erred in holding that the appellant's counter-claim was not maintainable.

From these grounds it is clear that according to the appellant, wrong exposition of the law would amount to misconduct. In other words, if the arbitrator's interpretation of the law was not in consonance with the appellant's interpretation, then that would be construed as misconduct. Is that then the true or proper meaning of the term misconduct as envisaged in the Arbitration Act cap 49 (repealed) and the current Arbitration Act 1995?

As acknowledged by Sir Michael J. Mustill and Stewart C. Boyd in their book **Commercial Arbitration 2nd Edition**. At pp 550 to 551 (cited by appellant's counsel), 'misconduct' is a complex concept which must nonetheless be given a pragmatic interpretation. They are in agreement however, that misconduct depends on the nature of the case in question. They nonetheless attempt to narrow it down to the following:-

1. ***Failure to conduct the reference in the manner expressly or impliedly prescribed by the submission will always amount to misconduct.***
2. ***It is misconduct to behave in a way regarded by the courts as contrary to public policy.***
3. ***Unless the submission expressly or impliedly permits, or unless the parties consent, it is misconduct to behave in a way which is or gives the appearance of being unfair.***
4. ***Fairness does not necessarily involve conducting the proceedings in the same way as an action in court; regard must be had to the identity of the parties and of the chosen arbitrator, and to the nature of the subject matter.***

Closer home, under **Sections 35(2) and 37 of the Arbitration Act 1995**, the following *inter alia* would entitle a party to have an award set aside:-

- ***If the arbitrator lacks capacity to arbitrate;***
- ***If the arbitration agreement is not valid;***
- ***If a party was not given an opportunity to present his case;***
- ***If the award deals with a dispute outside the terms of reference;***
- ***If an award is induced by fraud, bribery, undue influence or corruption;***
- ***If the award is against public policy.***

As stated earlier, these grounds may be more restrictive than the grounds for setting aside an arbitration award rendered pursuant to Order XLV of the Civil Procedure Act or the repealed Land Dispute Tribunal Act.

This Court in the **Anne Mumbi Hinga** case (supra) in dealing with an application to set aside an award predicated on the provisions of the Civil Procedure Act and Rules stated that the application was improper as **Rule II of the Arbitration Rules** does not override the provisions of the Arbitration Act. The court also held that a party cannot seek to set aside an award outside the grounds specified in **Section 35 of the Act**. This therefore means that this court cannot fall back on the Civil Procedure Rules for reliance on what amounts to misconduct.

From the foregoing, it is clear that failure by the arbitrator to arrive at a particular decision is not and

cannot be a ground for setting aside an award. Difference in interpretation of the law, or the facts cannot amount to misconduct under the above provisions either. Did the honourable Judge err in law in giving the term ‘misconduct’ what the appellant calls a narrow interpretation?

We do not think so.

It was learned counsel for the appellant’s submission that the court ought to have been guided by the repealed Arbitration Act which espoused a broader perspective of the term ‘misconduct’ and not the current Arbitration Act. It was his further submission that under the repealed Act, the learned Judge ought to have considered the following two broad issues:-

- i. *Whether or not the arbitrator understood the issues he had to adjudicate upon and the law applicable;*

and

- ii. *Whether the arbitrator carefully reviewed the evidence tendered before him.*

Did the honourable Judge address the above issues? We find that he did. After making reference to the **Encyclopedia of Arbitration Law** by Eric Lee, and **Russel on Arbitration**, The repealed Arbitration Act (Cap 49), and the case of **Moran vs. Lloyd [1983] ALLER 20**, *inter alia*, the learned Judge appreciated the definition of the term ‘misconduct’.

In respect to the first issue above, the Judge went back to the arbitral proceedings, considered the evidence and analysed the documents forming part of the evidence and the arbitrator’s observations and the findings, as is clearly evident at pp 10 to 13 of the impugned Ruling. He arrived at the conclusion that there was no misconduct established against the arbitrator. Hear the learned Judge;

“I have considered all the complaints on which the applicant/respondent relied for seeking setting aside of the award. I cannot with respect conclude that any of them amounts to a misconduct such as to enable me consider setting aside the award. I do find that if there were any mistakes at all in the entire award, such mistakes did not go to the root (sic) such that they caused a substantial miscarriage of justice to warrant my setting aside the award.”

On what constitutes misconduct, the learned Judge pronounced himself as follows:

“... where an arbitrator however approaches his work with honesty and decided a case without any bias even if he makes mistakes on points of law or of fact, then the fact that another person could have come to a different conclusion is no ground for setting aside the award or for remitting the award.”

On the second issue, the learned Judge, just like in the first issue, did refer to the proceedings and the award and satisfied himself that the arbitrator did review the facts placed before him; interpreted the law the way he understood it and applied it to the facts before arriving at his decision. This is also found in the same pp 10 to 13 of the ruling.

We note that the learned Judge considered in detail the issue of the commencement date, whether the contract itself had been varied; the delay involved and the reasons given for it and even re-evaluated the same himself, and arrived at the same conclusion as the arbitrator. His conclusion was that whereas there could have been minor mistakes in calculations, such mistakes could not amount to misconduct.

On the issue of calculations, we have looked at the calculations by the arbitrator and we note that he was actually correct because the date of commencement of the contract, which the arbitrator rightly found could not be amended, was 3rd July 1989 and the letter terminating the contract was done in November 1990.

The arbitrator even considered the other possible argument that the start date may have been shifted to

end of April 1990 or May and still found that there was a suspension of the works for six months and so the termination was still within the law. In fact the arbitrator clearly stated that the latter possibility was being considered “*just for the sake of argument*” and so his computation of time was done on the basis of the start date as indicated in the contract.

Ground 22 in the memorandum of appeal must therefore fail.

On the issue of the award having been written before the respondent’s submissions were filed, we note that the arbitrator was very categorical that he gave timelines within which the submissions were supposed to be filed. The claimant complied but the respondent did not. The arbitrator therefore closed the case and proceeded to prepare the award. The arbitrator addressed that issue in the award. Moreover we note that both parties were ably represented by counsel and they never complained or asked for a further extension of time to enable them file the submissions. That cannot amount to a breach of the rules of natural justice. Nor can it be translated as bias or partiality on the part of the arbitrator.

We hold the view that the learned Judge was right on this aspect. We have looked at the award ourselves and are satisfied that the arbitrator understood the facts as presented to him and applied the law as he understood it. He even went to great length to look up the meaning of the word “suspension” within the context of the contract and applied the same to the facts before arriving at his conclusion.

We do also appreciate that the arbitrator was also a lawyer and his appreciation of the law was not that of a layman. He was also a land economist, a quantity surveyor, a Fellow of the Chartered Institute of Arbitrators London (Kenya chapter) and therefore well versed in this area. His competence cannot be impeached. That kills ground 13 in the memorandum of appeal which states that he lacked the competence to deal with the matter before him. We wish to point out that the fact that another arbitrator would probably have arrived at a different conclusion given the same facts would not amount to misconduct.

We have considered the record and the proceedings before the arbitrator. We find no impropriety on his conduct of the arbitration. He gave both parties ample time to present their case; he considered the facts presented before him and applied them to the law applicable and in our view arrived at the proper decision.

On his part the learned Judge also considered the merits of the application before him, and all the issues raised therein. He considered the meaning and scope of misconduct both under the English law from whence our arbitration law originated, under section 24 of the repealed Cap 49 and also under the current Arbitration Act and found no misconduct at all on the part of the arbitrator.

We do not agree that the learned Judge erred in giving a narrow interpretation of *misconduct*. The interpretation he gave was the correct one even under the repealed Arbitration Act. We agree with the finding of the High Court of Tanzania in **DB Shapriya and Co Ltd v Bish International BV (2) (2003)2 EA 404**, (cited by learned counsel for the appellant) to the effect that;

“Courts cannot interfere with findings of fact by an arbitrator. A mistake of fact or law is not a ground for setting aside or remitting an award for further consideration on the grounds of misconduct.

The Court’s intervention is limited to errors of law which are apparent on the face of the award.”

We hold the view that there was no error apparent on the face of the award that could have compelled the learned Judge to interfere with the award in question.

Having considered the authorities cited by learned counsel for the appellant which he says the learned Judge failed to consider before arriving at his decision, we are persuaded that for the reasons we have given in this ruling, the same would not have impacted on his decision whatsoever. We find no basis for interfering with his findings.

Before we conclude, we find it apt to mention that the award herein was rendered almost 18 years ago. The application to set it aside was determined 13 years ago. This is clearly a travesty and mockery of the doctrines of expedition, efficacy and finality which are supposed to be the hallmarks of arbitration and which are meant to make arbitration a better option to litigation.

In conclusion, we find this appeal devoid of merit and dismiss it with costs to the Respondent.

Dated and delivered at Nairobi this 25th day of March, 2015.

P. N. WAKI

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JUDGE OF APPEAL

W. KARANJA

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JUDGE OF APPEAL

W. OUKO

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JUDGE OF APPEAL

I certify that this is a true copy of the original.

DEPUTY REGISTRAR