TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF BUSINESS ADMINISTRATION

UNIVERSITY EXAMINATION FOR:

MASTER OF SCIENCE IN FINANCE

BFI 5105: CORPORATE GOVERNANCE & LEADERSHIP

END OF SEMESTER EXAMINATION

SERIES: APRIL 2025

TIME:2HOURS

DATE:28Apr2025

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass, and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other THREE questions.

Do not write on the question paper.

Question ONE

Read the following case study and provide your opinion as guided: (40 marks)

Today, Metronic Ltd is one of Brazil's most successful conglomerates. Metronic Ltd's governance structure and processes seek to align the interests of executives and all shareholders. It is guided by the belief that an effective corporate governance system supports the confidence that underlies the proper functioning of a market economy. For example, the company equalized dividend treatment among common and preferred shareholders as part of its governance reform. The alignment principle also drove the firm to establish an executive compensation system linked to creation of shareholder value. The compensation of top-level managers generates great interest and strongly held opinions. One reason for this widespread interest can be traced to a natural curiosity about extremes and excesses. But furthermore, CEO pay is an indirect but tangible way to assess governance processes in large corporations.

Since 2002, executives' bonuses have been linked to the economic value added (EVA) performance of each business unit. In addition, to ensure that the new generation of key managers acts as partners in the firm as well, a long-term share compensation plan was introduced utilizing preferred shares held in the company's treasury.

The Board of Directors, chaired by the CEO, is a critical corporate governance mechanism at Metronic Ltd. It is composed of seven members, including four independent non-executive directors and two senior executives. There are 3 Board committees —Audit, Compensation, and Ethics. The Compensation Committee and the Ethics Committee report directly to the Board of Directors. In 2002, the company granted minority shareholders the right to elect Board members, a requirement that Brazilian companies were not required to comply with until 2006. The initiative is rare in Brazil and is a demonstration of the company's commitment to protecting non-controlling shareholders' interests.
Although there is no body or officer specifically responsible for governance policies and practices in the company, the Executive Board and the Board of Directors always keep corporate governance and best business practices on their radar screens and agendas. For example, a Code of Ethics was drawn up to be followed by all the company's structures and professionals. The Code aims to: reduce the level of subjectivity in the interpretation of ethical principles; formalize a guide for professional conduct, including resolution of conflicts of interest; and guarantee that concerns about efficiency, competitiveness, and profitability include due attention to ethical conduct by all company staff and units.

a) i) Explain the meaning and nature of executive compensation adopted by Metronic Ltd. (6 marks)

ii) Describe the merits of this move adopted by Metronic Ltd. (12 marks)

b) Describe how the ethical principles highlighted by Metronic Ltd contributed positively to their performance and challenges encountered in the course of pursuing this move. (12 marks)

c) In your opinion, what reforms did Medtronic Ltd implement in their effort to boost their performance? With reference to corporate governance, how did the reforms impact their performance? (10 marks)

Question TWO

a) Shareholders engage with companies to encourage good governance practices and alignment with company performance. Ultimately, the decision on executive compensation is that of the Board. These executive compensation plans are an important part of the company's budget and policy. Discuss. (10 marks)

b) Describe the elements of Chapter 6 of the Constitution, highlighting the elements it entails. (10 marks)

Question THREE

a) Key stakeholders are essential in good governance as it enables the stakeholders to understand the organization's objectives and strategies and helps them to work with an organization in achieving those objectives. Those companies which really need progress, have high ethical values and need to run long run business they abide and comply with laws of Securities Exchange. Discuss the stakeholder's theory in the context of an organization of your choice highlighting the key elements of this theoretical framework that ensures organizations align to their goals. (10 marks)

b) Agency problem cannot be avoided in corporate governance. Use illustrations to discuss the various areas of conflict that arise in corporate governance. (10 marks)

Question FOUR

a) How do you define leadership, and how has your perspective evolved? (10 marks)

b) To enhance corporate governance practices by maximizing shareholder value and engaging in operations that benefit society is the key principle of social responsibility. Justify this statement. (10 marks)

Question FIVE

a) Compare and contrast two leadership theories and explain their relevance to today's business environment. (10 marks)

b) Integrating governance principles in development provides support to organizations in a bid to help them achieve their goals. Elaborate on this statement, describing the principles highlighted by the United Nations Convention for Good Corporate Governance. (10 marks)