TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF BUSINESS ADMINISTRATION
UNIVERSITY EXAMINATION FOR:
MASTER OF SCIENCE IN FINANCE

BMF 5107: CORPORATE GOVERNANCE & LEADERSHIP

SPECIAL/SUPPLEMENTARY EXAMINATION
SERIES: JULY 2025

TIME:2HOURS

DATE: Jul 2025

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 answer the questions below: (40 marks)

Companies should disclose directors' and senior executives' shareholdings and all insider dealings by directors and senior executives should be disclosed within 3 days of execution. Best Practice calls for shareholders with minimally significant ownership (3-10%) of outstanding shares to disclose their holdings. There should be independence between industry and government. Transparency of Ownership and Control Best Practice calls for significant ownership (20-50%, including cross-holdings) to be deemed as control. For buyout offers to minority shareholders, Best Practice calls for ownership exceeding 35% to be considered as triggering a buyout offer in which all shareholders are treated equally. There should be rules outlining acceptable employee and management conduct. This Institute of International Finance document is not the only comprehensive set of guidelines on corporate governance practices. Many of its propositions about executive compensation are made with a context of analyzing the firm's ability to generate profits and maximize productive output. (i)The size of the executive pay package reflects the firm's net profits. In a firm where the entrepreneur is the sole owner and functions as chief executive officer, the entrepreneur desires to achieve the highest returns on his investments and this will occur where the marginal cost of production is equal to the market price of the product. The marginal productivity theory is not a framework for determining the allocation of profits between an executive and others who invest their money. The Organization for Economic Cooperation and Development (OECD) (1999; 2002; 2003a&b) has several comprehensive documents as well. Private groups have also issued comprehensive guidance documents. Merely having rules and guidelines is not enough to ensure success, however. Culture, institutions, and organizational structure also play an important role. A major study of 1,723 firms in 22 countries in Central and Eastern Europe and the 10 Newly Independent States found that a firm's adoption of a new governance structure will be helped or hindered based on these factors.

a) Explain the potential pitfalls for minority shareholders in companies with a controlling shareholder(s), highlighting their contribution to corporate governance. (10 marks)

b) With the help of illustrations, explain the safeguards to avoid abuse of power against minority shareholders and how effective their actions are towards organizational performance (10 marks)

c) Describe how the appointment of executive directors can be improved, describing the significance of agency theory in corporate governance. (10 marks)

d) Analyze the importance of the independence of non-executive directors of a board. (10 marks)

Question TWO

a) Chapter 6 of the Constitution of Kenya focuses on Leadership and Integrity. Briefly discuss its significance to leadership. (10 marks)

b) It is essential to ensure board effectiveness and alignment with organizational goals. Hence, the need to evaluate the performance of individual board members as well as that of an entire board. Use illustrations to explain the means and strategies boards can use to enhance their effectiveness. (10 marks)

Question THREE

a) Social responsibility as a contractual obligation the firm owes to society. An integrated social contract theory is a way for managers make ethical decision making, which refers to macro-social and micro-social contracts. The former refers to the communities and the expectation from the business to provide support to the local community, and the latter refers to a specific form of involvement. Discuss social contract theory based on an organization of your choice highlighting its impact and drawbacks in organizations. (10 marks)

b) Explain why corporate governance is important to the shareholders of a firm highlighting their rights and key ownership functions. (10 marks)

Question FOUR

a) Discuss the key characteristics of situational leadership and describe how it has adapted to diverse challenges in global business environments. (10 marks)

b) Boards are experiencing immense pressure from shareholders, lawmakers, and regulators to become more forceful in their oversight role and thereby forestall inappropriate actions by top executives. In light of this statement, discuss how board members are classified, describing the significance to a firm. (10 marks)

Question FIVE

a) Leadership is evolving rapidly in response to global challenges and societal shifts. Discuss. (10 marks)

b) Executive compensation is a governance mechanism that seeks to align managers' and owners' interests; this has generated great interest in corporate governance today. Write short notes on this concept of good governance, describing its significance to firms today. (10 marks)