
Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

VERA RELIEF SERVICES (VRS)

Vera Relief Services (VRS) is a company limited by guarantee with no share capital. It was incorporated in Finland in 1948 and subsequently established a place of business in Rwanda. In 1999, the company was issued with a certificate of compliance.

The promoter of VRS is one of the largest religious groups in Finland by the name Worldwide Relief. The persons listed as directors of the company are mainly religious leaders with three other persons of different professional backgrounds. The Board of the company has a total of 11 members. In Rwanda, two local representatives have been registered, a businessman and a lawyer in practice. The day to day activities of the company are managed by an expatriate seconded from the head office in Finland.

One of the key areas of the company’s investment is sponsorship of private schools. Currently, the company owns and runs seven primary schools and two secondary schools. The managers of various schools appear to have been allowed very limited powers in determining and incurring expenditure of day to day running of schools. They have to coordinate with the expatriate head in Rwanda, who sometimes purports to call a board meeting made up of himself and the two local representatives to make decisions.

The head office in Finland gets quarterly updates from their local expatriate representative. Once in a year, two or three of the directors visit Rwanda for not more than a week. The school managers are rarely given the opportunity to discuss their issues with the directors when they visit. The process is guided fully by the seconded expatriate, who lacks emotional intelligence and the two local representatives. The directors do not therefore obtain a correct picture of the situation on the ground. The school managers’ frustrations continue to pile up. The school managers are of the view that the company should adopt the Caux Round Table principles for responsible businesses.

In all dealings with the company, stakeholders and other service providers have continued to treat the three as company directors, that is, the seconded expatriate and the two local representatives. Indeed, their business cards have the title “Director”. The company has received a letter from the Registrar of Companies requesting the directors to file appropriate returns, or if they have already done so, furnish such copies to the Registrar. The company has responded by enclosing all applicable returns which school managers have filed with the Ministry of Education in Rwanda.

Required:
(a) With respect to the decision making process, comment on the governance structure of Vera Relief Services (VRS). 

(b) Describe four potential risks that might befall VRS as a result of non-compliance with the statutory and legal framework.
(c) Evaluate three psychological attributes of emotional intelligence which the seconded expatriate should possess so as to be an effective strategic leader. (6 marks)

(d) As a governance expert hired by VRS:
   (i) Advise on four strategic shortcomings which should be reviewed. (4 marks)
   (ii) Analyse three recommendations you would make on both governance practices and compliance issues at VRS. (6 marks)

(e) Assess five Caux Round Table (CRT) principles for responsible businesses which might be adopted by VRS to strengthen governance and ethics in the company. (10 marks)

(Total: 40 marks)

QUESTION TWO
(a) Explain in practical terms how the classical theory of management differs from the contemporary theory of management. (2 marks)

(b) With reference to monitoring of implementation of an organisation's strategic plan, discuss an “implementation matrix”. (3 marks)

(c) (i) “Sometimes in the workplace, what the policy states and what people are doing are two different things.”

     In relation to the above statement, explain how adherence to a code of ethics at the workplace could help to address the mismatch in the two behavioural observations. (5 marks)

     (ii) Comment on the assertion that once a potential conflict of interest has been disclosed, it ceases to exist. (5 marks)

(Total: 15 marks)

QUESTION THREE
(a) Analyse six functions of an audit committee. (6 marks)

(b) Explain five benefits of an appropriate competence mix in a Board of Directors. (5 marks)

(c) Describe four components of a good mission statement. (4 marks)

(Total: 15 marks)

QUESTION FOUR
(a) (i) In the context of quality management, explain the term “lean six sigma”. (2 marks)

     (ii) Discuss six benefits of implementing lean six sigma. (6 marks)

(b) Assess seven strategies that the management could adopt to encourage ethical behaviour at the workplace. (7 marks)

(Total: 15 marks)

QUESTION FIVE
(a) Key military conflicts and events have shaped the understanding of strategic management.

   With reference to the above statement, evaluate seven aspects of corporate strategy which could be traced to military practice. (7 marks)

(b) The decline stage in the life cycle of a product occurs when industry sales and profits begin to fall.

   With reference to the above statement, assess four strategies available to companies during the decline stage. (8 marks)

(Total: 15 marks)
KASNEB

CPA PART III SECTION 5
CICT PART III SECTION 5
CIFA PART III SECTION 5
CCP PART III SECTION 5

STRATEGY, GOVERNANCE AND ETHICS


Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

BRICO LIMITED (BL)

Brico Limited (BL) produces charcoal briquettes in the Democratic Republic of Congo. The company was founded by four cousins: Brian Batubenga, Richard Ilunga, Ignatius Katongo and Clement Olimide in 1969. All the four cousins together with Zack Milambo comprise the Board of Directors. Brian Batubenga, the major shareholder is the Chairman as well as the Chief Executive Officer (CEO), Richard Ilunga is the Operations Director, Ignatius Katongo is the Finance Director while Clement Olimide is the Human Resource and Administration Director. Zack Milambo, the only non-executive director is a nominee of a venture capital company which provided Brico Limited with funding in exchange for 10% equity shareholding.

Zack Milambo has been facing fierce opposition from the other directors since he joined the Board two years ago due to his opposing views especially on related party transactions and the company's reliance on family, friends and employees for supply of raw materials, machinery and other goods and services. Zack Milambo has also been advocating for establishment of strong internal controls and risk management mechanisms supported by annual external audits and risk assessments by external independent and competent professionals.

There has been a lot of wastages at BL largely due to over reliance on family members who most of the times have been supplying sub-standard goods. BL is yet to adopt contemporary techniques such as lean management which could go a long way towards assisting the company eliminate wastages.

The company has outsourced its corporate secretarial services to a firm owned by Brenda Tshishimbi, the wife to the chairman of the Board. Benedict Samutundu, Brenda’s daughter offers financial consultancy services to the company while Bernard Longomba, the company’s Chief Operating Officer is the brother-in-law to Brian Batubenga. Bidsen Langalanga, the Finance Manager is Brian’s son.

Board meetings mostly focus on family matters which are not related to the company's business. On the other hand, the official Board agenda seems to be determined elsewhere as resolutions are recorded without providing adequate opportunities for discussions by the directors. The Chairman dominates all discussions in Board meetings and some members of the management team view him as micro-managing the company.

The management is working towards securing finances for expansion into foreign markets and development of new products. While Zack Milambo has been pushing for listing on the Securities Exchange through initial public offer (IPO), the other directors have been reluctant due to the impact of listing requirements on corporate structure and their continued control of the business. In one of the board meetings, a director argued, "no benefits will accrue to the company from embracing good corporate governance since it will mean relinquishing control to uncaring outsiders who will mismanage the company".

Zack Milambo has been agitating for an employees code of conduct and a new strategic plan for the company. He believes that if proper policies were to be formulated and implemented, the revenues would increase tremendously.

Required:
(a) With reference to Brico Limited, argue the case for long-term unsustainability of family owned businesses. (8 marks)
(b) (i) Citing one example from Brico Limited, demonstrate your understanding of the term “related party transactions”. (2 marks)
(ii) Propose six governance areas that Brico Limited should explore as it transists from being privately owned to being listed on the Securities Exchange. (6 marks)
(c) During a Board meeting, one of the founder directors of Brico Limited stated: “no benefits will accrue to the company for embracing good corporate governance since it will mean relinquishing control to uncaring outsiders who will mismanage the company”.

Do you agree with the above statement? Justify your answer. (6 marks)

(d) Assume that the Chairman of Brico Limited has invited you in your capacity as a strategy, governance and ethics consultant together with Board members for a one-day retreat to review the company’s business model and define a strategy for expanding its business in the thick of stiff global competition. Among the agendas for the retreat include: new products development, managing competition in key markets, an initial public offer (IPO) and corporate risk management framework.

(i) Examine BL Board’s role in setting strategic direction. (4 marks)

(ii) You have advised the Board to use Strengths, Opportunities, Aspirations and Results (SOAR) model as a tool for analysis. With the use of a diagram, explain the SOAR model. (7 marks)

(iii) List four tools that BL Board might use for strategic monitoring and evaluation. (4 marks)

(iv) Examine three benefits of risk management to Brico Limited. (3 marks)

(Total: 40 marks)

QUESTION TWO
(a) Explain the term “shadow director”. (2 marks)

(b) Discuss the four hierarchical levels of strategy. (8 marks)

(c) Any significant transformation within an organisation brings about “people issues”.

With reference to the above statement, evaluate five people issues which might result from organisational change. (5 marks)

(Total: 15 marks)

QUESTION THREE
(a) Explain the following terms as used in strategic management:

(i) Blue ocean strategy. (2 marks)

(ii) Core competences. (2 marks)

(iii) Harvesting strategy. (2 marks)

(b) Describe six characteristics of a suitable vision statement of an organisation. (6 marks)

(c) Analyse the purpose of conflict of interest register. (3 marks)

(Total: 15 marks)

QUESTION FOUR
(a) Corporate governance holds that as a good practice, directors should be adequately remunerated.

With reference to the above statement, explain five reports covered in the board remuneration framework. (5 marks)

(b) Argue two cases against an external auditor’s involvement in preparing books of accounts which the auditor is to audit. (4 marks)

(c) Discuss the assertion that “ethics is foreign to business”. (6 marks)

(Total: 15 marks)

QUESTION FIVE
(a) With reference to provisions of corporate governance practice, explain the term “comply or explain”. (2 marks)

(b) Assess how the Board of Directors could effectively exercise the responsibility of monitoring and evaluation of corporate strategic plan. (5 marks)

(c) Describe four limitations of the six sigma approach to quality control. (4 marks)

(d) The Board of Directors of EMCO Ltd. is considering instituting a vertical integration strategy so as to increase profitability.

Advise the Board of Directors of EMCO Ltd. on four drawbacks of the vertical integration strategy. (4 marks)

(Total: 15 marks)
Kasneb
CPA PART III SECTION 5
CICT PART III SECTION 5
CIFA PART III SECTION 5
CCP PART III SECTION 5
STRATEGY, GOVERNANCE AND ETHICS

Wednesday: 23 November 2016.

Answer all questions. Marks allocated to each question are shown at the end of the question.

Question One

Kila Kitu Petroleum Limited (KKPL)

Kila Kitu Petroleum Limited (KKPL) was a major petroleum retailer which had earlier collapsed due to poor strategy implementation that led to extreme financial distress. The company was formed in 1965 as a state owned entity and was privatised in 1972 through flotation of shares at the securities exchange. The company operated petrol stations all over Africa. KKPL commanded market leadership between 1974 and 1982 before it started implementing a grand expansion strategy that increased its petrol stations in Africa and an ambitious automation programme using short term sources of funds.

A combination of poor economic performance, high interest rates, adverse exchange rates and internal governance problems led to the gradual demise of the giant petroleum company. In 1985, KKPL closed down 15 perennial loss making petrol stations in the region. The company also raised Sh.3 billion through a rights issue the same year. During this time, the directors sold many of the shares they held at KKPL through the open market. The rights issue and open market sale enabled the directors to reduce their shareholding in the company from 20% to less than 7%. Soon after the rights issue, the board of directors declared the company insolvent.

It took the intervention of the government to come to the rescue of creditors and shareholders. The government intervened through a bailout which enabled the company to pay the suppliers their dues. The government also directed the management of KKPL to develop a turnaround plan. In the plan, the company pledged to live up to its core values of integrity, transparency, accountability, commitment and professionalism. Culpable officers who had brought the company to its death bed were to be punished. A number of directors were taken to court and a new management team was appointed to lead the company out of the challenges it was facing.

Josephine Mulwa, a distinguished professional accountant who had turned around several companies which had previously faced similar problems as those faced by KKPL was appointed as the new Chief Executive Officer (CEO). Her appointment was to take effect from 15 September 2013 and she was to serve for a renewable term of six years.

In the year 2014, the company recorded its first profits after many years of making losses. The company however, did not declare dividends. Shareholders of KKPL expressed their disappointment during the company's annual general meeting (AGM) as they had invested heavily in the company with the hope of reaping high returns in future. One enraged shareholder was quoted as having said "How long shall it take before we get dividends when we still have all these debts to pay and expansion plans to undertake? We are so disappointed. Do not make us feel worse with more disappointments". From the annual financial statements, it was evident that the company was highly geared.

Josephine Mulwa did not last long as the CEO of KKPL as the company was yet again declared insolvent on 12 July 2016. She was ousted by the board of directors over what the board termed as gross misconduct and negligence in her performance of duties. Several other directors were also sacked and replaced. The board engaged the services of Vkinsim Associates to carry out forensic investigations on the company.

The forensic audit revealed that:

- A cartel of senior managers had formed companies that supplied KKPL with goods that it sold at higher prices than the market rates.
- The goods supplied by the cartels were of low quality. This drove away customers leaving KKPL with goods that it could not sell, yet it had paid for them.
- The company borrowed more money from financial institutions to pay suppliers who were ironically its staff members.

CAt1, CAt1, CF51 & CP51 Page 1
Out of 2
• The money raised through the rights issue could not be fully accounted for.
• The top management manipulated the books of account to reflect profits yet the company was making losses.
• The company was operating under a highly competitive environment where key competitors were more aggressive and responsive to the changes in the market.
• Due to high inflation rates and the weakening local currency against international currencies, the company was forced to review prices of its products upwards yet the demand for the products was declining.

It was evident that for KKPL to survive and post significant returns to its shareholders, business process re-engineering was inevitable and KKPL had to rethink its business model.

**Required:**
(a) Examine five corporate governance issues in the management of Kila Kitu Petroleum Limited (KKPL). (10 marks)
(b) Assess the recourse available to shareholders of KKPL in the light of the fraud which was revealed through the forensic audit. (10 marks)
(c) Analyse the conduct of the top management of KKPL which could lead to the immediate former CEO, Josephine Mulwa being disciplined by the Institute of Public Accountants where she is a member. (10 marks)
(d) Assuming that you have been approached by KKPL to formulate a recovery plan for the company:
   (i) Discuss five schools of thought whose principles you could utilise during the strategy formulation. (5 marks)
   (ii) Propose five steps that KKPL could follow if it decided to undertake a divestiture. (5 marks)
   (Total: 40 marks)

**QUESTION TWO**
(a) Assess the relevance of Henri Fayol’s principles of management to the practice of management in organisations today. (7 marks)
(b) Analyse eight roles of an organisational mission statement to a business. (8 marks)
   (Total: 15 marks)

**QUESTION THREE**
(a) Explain five responsibilities of the chairman of an audit committee. (5 marks)
(b) Discuss six steps that guide the strategic decision making process in an organisation. (6 marks)
(c) Beehall Limited and Amrol Limited recently signed a strategic partnership alliance to undertake joint construction of a road project.

With reference to the above statement, evaluate the challenges both firms are likely to experience from the strategic partnership alliance. (4 marks)
   (Total: 15 marks)

**QUESTION FOUR**
(a) Examine five components of a strategic plan. (5 marks)
(b) Discuss six roles of a conflict of interest policy in an organisation. (6 marks)
(c) Suggest four possible reasons for the current rise in unethical practices in the corporate world. (4 marks)
   (Total: 15 marks)

**QUESTION FIVE**
(a) Argue the case against corporate social responsibility. (6 marks)
(b) As the Chief Executive Officer (CEO) of a newly established company, suggest five measures that you would take to stimulate innovation in the company. (5 marks)
(c) With reference to responsibilities on risk management, explain four contents of an enterprise risk management policy. (4 marks)
   (Total: 15 marks)
KASNEB

CPA PART III SECTION 5
CICT PART III SECTION 5
CIFA PART III SECTION 5
CCP PART III SECTION 5

STRATEGY, GOVERNANCE AND ETHICS

WEDNESDAY: 25 May 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

SHUGA COMPANY LIMITED (SCL)

Shuga Company Limited (SCL) is one of the oldest sugar manufacturing companies in the Great Lakes region of Africa. The company manufactures sugar from sugarcane which is mainly sourced from over 60,000 registered outgrowers. The company operates a nucleus estate where it has planted sugarcane on more than 50,000 hectares of land. SCL is 100% owned by the government. Most of the sugar manufacturing companies in the country where SCL operates are owned by the government. The farmers' voice is low since they have limited control of activities in SCL which is largely controlled by the government.

The directors of SCL are appointed by the government. The current board comprises 27 directors most of whom are appointed through local politicians. A recent governance audit revealed that 6 directors were secondary school dropouts.

The audit also revealed that:

- No board member had adequate financial management qualifications.
- Some board members were employees of the company and had voting rights.
- Two board members had no appointment letters.
- The chairman of the board was running most of the day-to-day activities of the company.
- The term limits for the board members were not clear and some members had served the Board for more than 20 years.
- The chief executive officer and other senior managers were political appointees.
- SCL had no policy on risk management, procurement and information communication technology.

SCL and its contracted farmers are yet to embrace modern methods of farming. The outgrowers greatly rely on rain to grow their sugarcane. Rain fed sugarcane takes 3 times more time to mature than sugarcane grown using irrigation. Lack of sufficient cane has resulted to SCL shutting down the manufacturing plant most of the times during the year. A number of employees are usually laid off during the shut downs. Some shut downs are however scheduled to allow for maintenance of the machines and boilers. These shut downs can last for several months leading to a huge shortage of sugar in the market.

The company has a capacity of producing 300,000 metric tonnes of sugar in a year. However, it only produces 100,000 metric tonnes. SCL is highly inefficient, poorly governed and has lost goodwill from farmers and employees. Due to the low pay per metric tonne of sugarcane delivered to the company, its contracted farmers have resorted to selling their sugarcane to its competitors. This adds to SCL’s woes since farmers are financed by the company to acquire farm inputs such as fertilizers and seedlings with the hope that the company would recover its money after the delivery of sugarcane and before making payments for the sugarcane delivered.

The competitors of SCL use the latest technology to manufacture sugar. SCL, a company which used to control 79% of the market share uses an archaic technology. For SCL to return to profitability, the company has no choice but to acquire an integrated enterprise resource management software. With trade liberalisation, competition has gone a notch higher.

CAS1, CT51, CF51 & CP51 Page 1
Out of 3
More private sugar factories are being established which pay employees better and farmers on time. Business people are importing cheaper sugar which they sell at a price below the cost of production at SCL. The company has on various occasions imported sugar which it packaged and sold to the local market instead of manufacturing sugarcane from local farmers. In some instances, earnings from imported sugar ended up in private accounts of the senior managers.

Early in the year 2015, the company suspended a number of employees implicated in irregular termination of contracts with farmers. The company lost 400 million shillings mostly through legal suits. More money was lost as the company ignored guidelines on pricing. SCL’s procurement systems did not conform to the government’s procurement and disposal regulations.

Other malpractices in the company include:
- A large amount of sugar that is manufactured by SCL leaves the stores of the company undocumented. This is done with the knowledge of senior management and security officials at the factory.
- Collusion between sugar distributors and senior officials of SCL to give undocumented credit advances to selected distributors.
- Laxity in collecting sales proceeds from buyers in order to earn interest and kickbacks for sales officials.
- Not harvesting contracted farmers’ cane on time. A farmer has to bribe SCL’s employees for sugarcane to be harvested.

SCL is an important company to the economy since many livelihoods depend on the company for survival. The government in the past came up with interventions which seem not to work. Some of these interventions are:
- The setting up of importation quotas and punitive customs duty on imported sugar.
- Writing off loans to millers such as SCL and farmers.
- Assisting SCL to settle debts to farmers.
- Improving infrastructure such as roads in the sugar belts.
- Reduction in tariffs on raw materials and capital inputs.

It is evident that for SCL to be saved from collapse, more strategies need to be developed. Merely service will not help turnaround a company which was once a gem in the sugar belt.

Required:
(a) With the use of suitable examples, illustrate how the code of governance for state corporations in your country has been flouted by SCL. (12 marks)

(b) Explain five measures that SCL should put in place to ensure that the company is competitive in the market. (5 marks)

(c) Suggest six remedies available to SCL where directors are found culpable of breaching fiduciary duties. (6 marks)

(d) Assuming that you are a corporate strategy consultant and SCL has approached you for advice on modernisation of the company’s operations, suggest six modules that should be included in the integrated enterprise resource management software for the company. (12 marks)

(e) Assess five unethical practices propagated by various agents of SCL. (5 marks)

TOTAL: 40 marks

QUESTION TWO
(a) Distinguish between the following types of conflict of interest:

(i) “Actual” and “potential” conflict of interest. (2 marks)

(ii) “Personal” and “impersonal” conflict of interest. (2 marks)

(b) With the use of a well labelled diagram, describe John Kotter’s 8-step process for leading change. (11 marks)

TOTAL: 15 marks

CAS1, CT51, CF51 & CP51 Page 2
Out of 3
QUESTION THREE
(a) Explain the term "social audit" in relation to an organisation's performance. (2 marks)

(b) Despite the existence of both legal and regulatory frameworks governing the operations of companies, many companies continue to collapse due to fraud and mismanagement.

With reference to the above statement, discuss four challenges facing company regulators in your country. (8 marks)

(c) Management is a science.

Justify the above statement. (5 marks)

(Total: 15 marks)

QUESTION FOUR
(a) Explain five roles of the Board in enterprise risk management (ERM). (5 marks)

(b) Corruption has become endemic in many countries.

In relation to the above statement, assess ways in which the utilitarian theory could be applied to address corruption in your country. (5 marks)

(c) Describe five guidelines to be followed while developing a control system in an organisation. (5 marks)

(Total: 15 marks)

QUESTION FIVE
(a) Business excellence involves developing and strengthening the management systems and processes of an organisation to improve performance and create value addition to stakeholders.

With reference to the above statement, illustrate the Baldrige Criteria for performance excellence model. (10 marks)

(b) Analyse the steps followed while formulating a corporate strategy. (5 marks)

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KASNEB  
CPA PART III SECTION 5  
CICT PART III SECTION 5  
CIFA PART III SECTION 5  
CCP PART III SECTION 5  
STRATEGY, GOVERNANCE AND ETHICS  


Time Allowed: 3 hours.  

Answer ALL questions. Marks allocated to each question are shown at the end of the question.  

QUESTION ONE  

CLASSIC VENTURES LIMITED (CVL)  

Classic Ventures Limited (CVL) is a company which deals in office furniture. In 2007, CVL began a journey with a long-term vision of increasing its revenue by 50% over a period of 10 years. Before officially launching its vision, CVL had formulated a strategic plan to serve as the road map for the achievement of its goals. During formulation of the strategic plan, CVL analysed both internal and external environmental factors affecting the company and also evaluated its strengths, weaknesses, opportunities and threats. After eight years of operations, CVL is at approximately 70% of achieving its 10 year goal.  

According to the management, CVL’s success could be attributed to the well structured board of directors, clear organisational structure, embracing good corporate governance practices through fair dealing with all stakeholders, and a system of widespread accountability and transparency.  

The operating principles of CVL which are; to maximise shareholders’ wealth, facilitate investment, promote customer satisfaction, reduce staff turnover and corporate social responsibility are fully observed. The latest corporate governance report of CVL as contained in its annual report shows the details of the planning and control systems applied within the company and the various committees of the board, namely; audit committee, remuneration committee, nomination committee and risk committee.  

The performance of CVL is reviewed by the various committees of the board and then presented to the board of directors for further review and consideration. Management set targets and these are then monitored via the balanced score card. The executive directors’ remuneration is linked to performance. The management has in place a profit sharing scheme for staff, in an effort to motivate staff towards achieving the organisational goals. The strategic planning system is based on the principles underlying balanced score card. This approach, according to the CVL head of finance, allows the business to operate with the intention of meeting the needs of all stakeholders.  

CVL also has a clear policy dealing with investment in staff training and effective recruitment which ensures that there is low staff turnover. In addition, CVL has put in place a successful ethics programme whose success indicators comprise; consistency between words and actions, openness, just rewards, and value driven programme.  

There is a customer service software that ensures customers’ concerns that are not addressed by CVL officers within twenty four hours, are brought to the attention of their superiors. This enhances operations and helps to meet the customers’ needs.  

Due to the increase in demand for office furniture, CVL is considering alternatives for expanding its operations. A proposal by one of the executive directors is to purchase a franchise from a foreign company which had expressed interest in trading with CVL. The Chief Executive Officer (CEO) is in agreement with this strategic option and plans to incorporate the proposal on the agenda for the next board meeting.  

Required:  
(a) Propose four external environmental factors that could have been considered by the management of Classic Ventures Limited (CVL) while formulating its strategic plan.  
(b) Citing four reasons, justify why the board of CVL should support the franchising option.  

CA51, CT51, CF51 & CP51 Page 1  
Out of 2
(c) Describe four features of the good governance system adopted by CVL. (8 marks)

(d) Explain four perspectives of the balanced score card which were used by CVL in achieving its goals. (8 marks)

(e) In relation to the ethics programme embraced by CVL, analyse each of the four factors mentioned as success indicators for the programme. (8 marks)

(Total: 40 marks)

QUESTION TWO
(a) Describe the process followed in strategic planning and management. (7 marks)

(b) Discuss the importance of management in an organisation. (8 marks)

(Total: 15 marks)

QUESTION THREE
(a) Explain three strategies which an organisation could use to manage risk. (6 marks)

(b) Discuss the board of directors structure in relation to the following:
   (i) The size of the board. (3 marks)
   (ii) The skills mix. (3 marks)
   (iii) Appointment of directors. (3 marks)

(Total: 15 marks)

QUESTION FOUR
(a) (i) Explain the meaning of the term "whistleblower" as used in governance and ethics. (2 marks)
   (ii) Examine three conditions that need to be fulfilled before whistle-blowing. (3 marks)

(b) Propose five ways of mitigating conflict of interest within an organisation. (5 marks)

(c) In a change management forum, one of the facilitators noted that "change in an organisation can be triggered by a number of external and internal factors". With reference to the above statement, summarise five internal factors that might trigger change in an organisation. (5 marks)

(Total: 15 marks)

QUESTION FIVE
(a) Summarise three limitations of the scientific management school of thought. (3 marks)

(b) Analyse four different forms of organisation structure in your country. (8 marks)

(c) Highlight four reasons why employee performance appraisal are carried out in organisations. (4 marks)

(Total: 15 marks)
KASNEB
CPA PART III SECTION 5
CICT PART III SECTION 5
CIFA PART III SECTION 5
CCP PART III SECTION 5
STRATEGY, GOVERNANCE AND ETHICS
PILOT PAPER

September 2015.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

SGK LTD.

SGK Ltd. was founded by P. L. Shah in 1987. The company is in the business of departmental stores, retailing and general merchandising. Since year 2001, the company has been operating at its flagship building SGK plaza. SGK Ltd. has been characterised by the presence of a major controlling shareholder. For example, in July 2005, the then Chief Executive Officer (CEO) and chairman, A. K. Singh Shah, the second son of the founder, owned 67.75 percent of the company’s shares.

In 1998, SGK Ltd. was listed on the National Stock Exchange. However, since year 2003, the Shah family has been trying to delist and privatise the company. After two failed attempts, the Shah family finally succeeded and the company was delisted on 24 September 2008.

In year 2010, P. L. Shah made an offer to about 500 minority shareholders who had held onto their shares in the delisted company. This offer represented an 18% premium over its market value and well above the price offered to other shareholders for the delisting in year 2010. However, some of these minority shareholders were still unwilling to take up the share buyback offer, and were holding out for a better offer.

Board of Directors

During the third and successful privatisation attempt, the board of SGK Ltd. was chaired by Arnold Baraka, a former partner at Success Solutions, an international audit firm. Apart from Arnold Baraka, there were three other directors with experience in accounting, business management and the retail industry. Among the four directors, three were serving as non-executive independent directors.

Throughout the previous years, there was at least one Shah family member on the board. However in year 2009, A. K. Shah, the CEO and the majority shareholder of the company since 1998, stepped down from the board, after he was alleged to have been involved in an illegal drug trading scandal. With this development, for the first time in the company’s history, there was no Shah family member on the board.

According to SGK Ltd.’s Corporate Governance Report in 2010, the board would be responsible for enhancing long-term shareholder value and the overall management of the Group. This includes reviewing the Group’s performance, approval of corporate strategies and promoting high standards of corporate governance. The board delegated some of its functions to the board committees, namely the audit committee, nominating committee and the remuneration committee.

Required:

(a) State the legal definition of a majority shareholder. 

(2 marks)

(b) With reference to the above case:

(i) Discuss four challenges that could face a company as a result of having a major controlling shareholder. 

(8 marks)
(ii) Explain why the interest of controlling and minority shareholders may diverge in cases where companies have controlling shareholders. (8 marks)

(iii) Explain what a non-executive independent director is. (2 marks)

(iv) Evaluate why independent directors should be primarily concerned with the interests of the minority shareholders. (10 marks)

(v) With regards to the privatisation attempts by SGK Ltd., suggest improvements that would help protect minority shareholders in the future. (10 marks)

(Total: 40 marks)

QUESTION TWO
(a) Explain the universality of the management concept. (5 marks)

(b) Define the term "strategy" and differentiate between business and corporate strategies. (5 marks)

(c) Illustrate how a SWOT analysis can be useful for both internal and external organisational analysis. (5 marks)

(Total: 15 marks)

QUESTION THREE
(a) Discuss how downsizing can be used by organisations today to sustain a competitive advantage. (6 marks)

(b) Explain the four major steps involved in the strategy formulation process. (9 marks)

(Total: 15 marks)

QUESTION FOUR
(a) Define "corporate governance" and explain why it is used to monitor and control managers' strategic decisions. (5 marks)

(b) You have recently been appointed as a member of the Board of Directors of ABC Training Institute. Describe three roles that you are required to play. (6 marks)

(c) State any four pillars of good governance. (4 marks)

(Total: 15 marks)

QUESTION FIVE
(a) Justify with a relevant example the use of avoidance as a risk response. (5 marks)

(b) Corporate social responsibility has been viewed by some people as good forum for stakeholder interactions. Suggest four reasons for this stance. (4 marks)

(c) Differentiate between legal and illegal insider trading. (6 marks)

(Total: 15 marks)