CPA

PART III

SECTION 5

STRATEGY, GOVERNANCE AND ETHICS

STUDY TEXT

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TOPIC 1

OVERVIEW OF MANAGEMENT

Management can be defined as the process of ***planning, organizing, directi***ng and ***controlling*** the resources of an organization in order to achieve its goals efficiently. This definition highlights the following concepts:

a) A Process – Management is seen as a process consisting of four distinct but interrelated activities – planning, organizing, directing and controlling.
b) Resources – Human, financial, physical and information resources
c) Efficiency – Using resources wisely and in a cost effective manner.
d) Effectiveness – Making right decisions and implementing them.
e) The Manager – A person whose primary responsibility is to carry out the management process.
f) The Efficient manager does things right, and effective manager does the right things.

Other definitions of management are given below:

1. Management is the process of planning, organizing, actuating and controlling an organization's operations in order to achieve a coordination of the human and material resources essential in the effective and the efficient attainment of objectives (Miner, 1978).
2. Stoner (1978) defines management as the process of planning, organizing, leading and controlling the work of the members of an organization and of using all available organizational resources to reach stated organizational goals.
3. Griffin (1999), defines management as a set of activities (including planning and decision making, organizing, leading and controlling) directed at an organization's resources (human, financial and information) with the aim of achieving organizational goals in an efficient and effective manner.

IMPORTANCE OF MANAGEMENT

1. **It helps in Achieving Group Goals -** It arranges the factors of production, assembles and organizes the resources, integrates the resources in effective manner to achieve goals. It directs group efforts towards achievement of pre-determined

goals. By defining objective of organization clearly there would be no wastage of time, money and effort. Management converts disorganized resources of men, machines, money etc. into useful enterprise. These resources are coordinated, directed and controlled in such a manner that enterprise work towards attainment of goals.

2. **Optimum Utilization of Resources -** Management utilizes all the physical & human resources productively. This leads to efficacy in management. Management provides maximum utilization of scarce resources by selecting its best possible alternate use in industry from out of various uses. It makes use of experts, professional and these services leads to use of their skills, knowledge, and proper utilization and avoids wastage. If employees and machines are producing its maximum there is no under employment of any resources.

3. **Reduces Costs -** It gets maximum results through minimum input by proper planning and by using minimum input & getting maximum output. Management uses physical, human and financial resources in such a manner which results in best combination. This helps in cost reduction.

TOPIC 2

DEVELOPMENT OF MANAGEMENT THOUGHT

Evolution of Management Concept

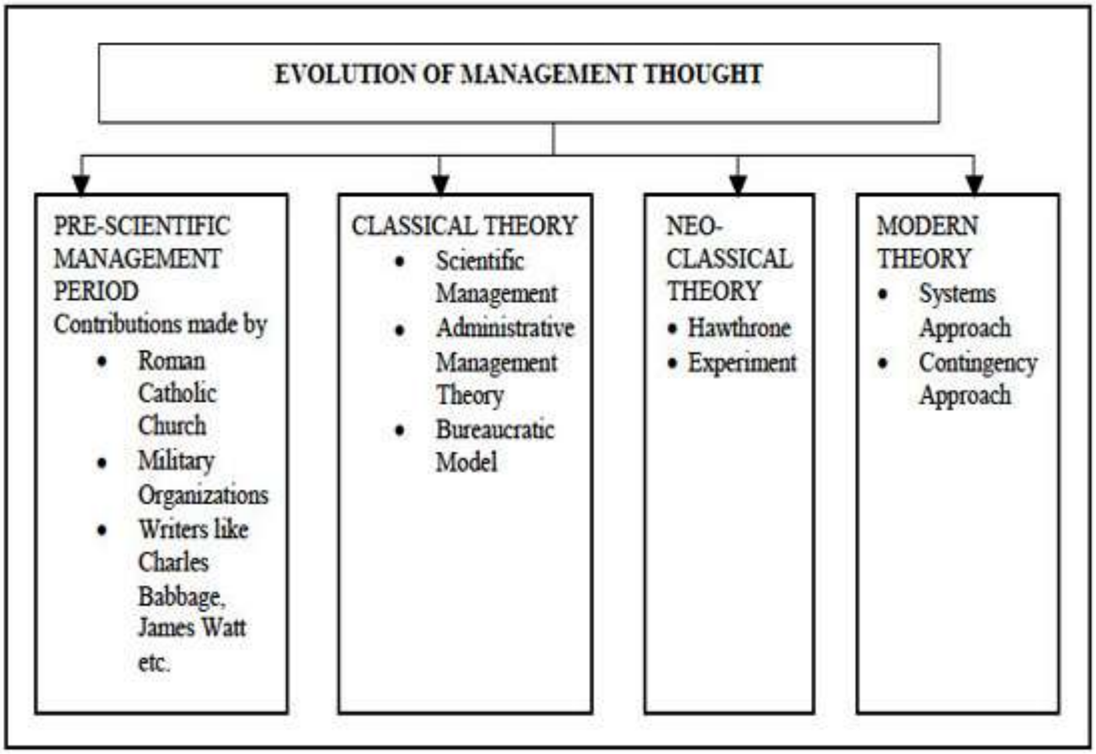
The origin of Evolution management can be traced back to the days when man started living in groups. History reveals that strong men organized the masses into groups according to their intelligence, physical and mental capabilities. Evidence of the use of the well recognized principles of management is to be found in the organization of public life in ancient Greece, the organization of the Roman Catholic Church and the organization of military forces. Thus management in some form or the other has been practiced in the various parts of the world since the dawn of civilization. With the on set of Industrial Revolution, however, the position underwent a radical change. The structure of industry became extremely complex. At this stage, the development of a formal theory of management became absolutely necessary. It was against this background that the pioneers of modern management thought laid the foundations of modern management theory and practice.

Explain the Evolution of Management Thought

Evolution of management thought may be divided into four stages

1. Pre-scientific management period.
2. Classical Theory
    a. Scientific Management of Taylor
    b. Administrative Management of Fayol
    c. Bureaucratic Model of Max Weber
3. Neo-classical Theory or Behaviour Approach
4. Modern Theory or Systems Approach

Evolution of Management Thought



PRE-SCIENTIFIC MANAGEMENT PERIOD

The advent of industrial revolution in the middle of the 18th century had its impact on management. Industrial revolution brought about a complete change in the methods of production, tools and equipment, organization of labour and methods of raising capital.

Employees went to their work instead of receiving it, and so, the factory system, as it is known today, become a dominant feature of the economy. Under this system, land and buildings, hired labour, and capital are made available to the entrepreneur, who strives to combine these factors in the efficient achievement of a particular goal. All these changes, in turn, brought about changes in the field of management. Traditional, conventional or customary ideas of management were slowly given up and management came to be based on scientific principles. In the words of L. F. Urwick- "Modern management has thrown open a new branch of human knowledge, a fresh universe of discourse". During the period following the industrial revolution, certain pioneers tried to challenge the traditional character of management by introducing new ideas and character of management by introducing new ideas and approaches. The notable contributors of this period are:

a. **Professor Charles Babbage (UK 1729 -1871):** He was a Professor of Mathematics at Cambridge University. Prof Babbage found that manufacturers made little use of science and mathematics, and that they (manufacturers) relied upon opinions instead of investigations and accurate knowledge. He felt that the methods of science and mathematics could be applied to the solution of methods in the place of guess work for the solution of business problems. He advocated the use of accurate observations, measurement and precise knowledge for taking business decisions. He urged the management of an enterprise, on the basis of accurate data obtained through rigid investigation, the desirability of finding out the number of times each operation is repeated each hour, the dividing of work into mental and physical efforts, the determining of the precise cost for every process and the paying of a bonus to the workers in proportion to his own efficiency and the success of enterprise.
b. **James Watt Junior (UK 1796 - 1848) and Mathew Robinson Boulton(1770 - 1842):** James Watt Junior and Mathew Robinson Boulton contributed to the development of management thought by following certain management techniques in their engineering factory at Soho in Birmingham. They are:-
c. **Robert Owens (UK 1771 - 1858):** Robert Owens, the promoter of co-operative and trade union movement in England, emphasized the recognition of human element in industry. He firmly believed that workers' performance in industry was influenced by the working conditions and treatment of workers. He introduced new ideas of human relations - shorter working hours, housing facilities, training of workers in hygiene, education of their children, provision of canteen etc. Robert Owen, managed a group of textile mills in Lanark, Scotland, where he used his ideas of human relations. Though his approach was paternalistic, he came to be regarded as the father of Personnel Management.
d. **Henry Robinson Towne (USA 1844 -1924):** H.R Towne was the president of the famous lock manufacturing company "Yale and Town". He urged the combination of engineers and economists as industrial managers. This combination of qualities, together with at least some skill as an accountant, is essential to the successful management of industrial workers. He favoured organized exchange of experience among managers and pleaded for an organized effort to pool the great fund of accumulated knowledge in the art of workshop management.
e. **Seebohm Rowntree (UK 1871- 1954):** Rowntree created a public opinion on the need of labour welfare scheme and improvement in industrial relations. The Industrial Welfare Society, The Management Research Groups and the Oxford Lecture Conferences in the U.K owed their origin and progress to the interest and zeal of Rowntree.

CLASSICAL THEORY

Prof. Charles Babbage, James Watt Junior and Mathew Robinson Boulton, Robert Owen, Henry Robinson Towne and Rowntree were, no doubt, pioneers of management thought. But, the impact of their contributions on the industry as a whole was meagre. The real beginning of the science of management did not occur until the last decade of the 19thcentury. During this period, stalwarts like F.W. Taylor, H.L. Gantt, Emerson, Frank and Lillian Gilberth etc., laid the foundation of management, which in due course, came to be known as scientific management. This epoch in the history of management will be remembered as an era in which traditional ways of managing were challenged, past management experience was scientifically systematized and principles of management were distilled and propagated.

TOPIC 3

OVERVIEW OF CORPORATE STRATEGY, GOVERNANCE AND ETHICS

MEANING OF STRATEGY, MANAGEMENT AND STRATEGIC MANAGEMENT

Strategy

The word “strategy” is derived from the Greek word “stratçgos”; stratus (meaning army) and “ago” (meaning leading/moving).

Strategy is an action that managers take to attain one or more of the organization’s goals. Strategy can also be defined as “A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process”.

A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives. While planning a strategy it is essential to consider that decisions are not taken in a vaccum and that any act taken by a firm is likely to be met by a reaction from those affected, competitors, customers, employees or suppliers.

Strategy can also be defined as knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behavior of others. Strategy is the blueprint of decisions in an organization that shows its objectives and goals, reduces the key policies, and plans for achieving these goals, and defines the business the company is to carry on, the type of economic and human organization it wants to be, and the contribution it plans to make to its shareholders, customers and society at large.

Features of Strategy

1. Strategy is Significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.
2. Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.

3. Strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with employees will predict the employee behavior.

Strategy is a well defined roadmap of an organization. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization's strengths and to minimize the strengths of the competitors.

Strategy, in short, bridges the gap between "where we are" and "where we want to be".

Strategic management can be defined as the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives.

SCOPE OF STRATEGIC MANAGEMENT

Strategic management involves the **formulation** and **implementation** of the major goals and initiatives taken by a company's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes.

Formulation

1. ***Analysis*** – Strategic analysis is a time-consuming process, involving comprehensive market research on the external and competitive environments as well as extensive internal assessments. The process involves conducting Porter's Five Forces, SWOT, PESTEL, and value chain analyses and gathering experts in each industry relating to the strategy.
2. ***Strategy Formation*** – Following the analysis phase, the organization selects a generic strategy (for example, low-cost, differentiation, etc.) based upon the value-chain implications for core competence and potential competitive advantage. Risk assessments and contingency plans are also developed based upon external forecasting. Brand positioning and image should be solidified.
3. ***Goal Setting*** – With the defined strategy in mind, management identifies and communicates goals and objectives that correlate to the predicted outcomes, strengths, and opportunities. These objectives include quantitative ways to measure the success or failure of the goals, along with corresponding organizational policy. Goal setting is the final phase before implementation begins.

Implementation

1. ***Structure*** – The implementation phase begins with the strategy in place, and the business solidifies its organizational structure and leadership (making changes if necessary). Leaders allocate resources to specific projects and enact any necessary strategic partnerships.
2. ***Feedback*** – During the final stage of strategy, all budgetary figures are submitted for evaluation. Financial ratios should be calculated and performance reviews delivered to relevant personnel and departments. This information will be used to restart the planning process, or reinforce the success of the previous strategy.

LEVELS OF STRATEGIC MANAGEMENT

Levels of Strategy

Strategy may operate at different levels of an organization -corporate level, business level, and functional level. The strategy changes based on the levels of strategy.

Corporate Level Strategy

Corporate level strategy occupies the highest level of strategic decision-making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance. Top management of the organization makes such decisions. The nature of strategic decisions tends to be value-oriented, conceptual and less concrete than decisions at the business or functional level.

Business-Level Strategy.

Business-level strategy is – applicable in those organizations, which have different businesses-and each business is treated as strategic business unit (SBU). The fundamental concept in SBU is to identify the discrete independent product/market segments served by an organization. Since each product/market segment has a distinct environment, a SBU is created for each such segment. For example, Reliance Industries Limited operates in textile fabrics, yarns, fibers, and a variety of petrochemical products. For each product group, the nature of market in terms of customers, competition, and marketing channel differs.

There-fore, it requires different strategies for its different product groups. Thus, where SBU concept is applied, each SBU sets its own strategies to make the best use of its resources (its strategic advantages) given the environment it faces. At such a level, strategy is a comprehensive plan providing objectives for SBUs, allocation of re-sources among functional areas and coordination between them for making optimal contribution to the achievement of corporate-level objectives. Such strategies operate within the overall strategies of the organization. The corporate strategy sets the long-term objectives of the firm and the broad constraints and policies within which a SBU operates. The corporate level will help the SBU define its scope of operations and also limit or enhance the SBUs operations by the resources the corporate level assigns to it. There is a difference between corporate-level and business-level strategies.

For example, Andrews says that in an organization of any size or diversity, corporate strategy usually applies to the whole enterprise, while business strategy, less comprehensive, defines the choice of product or service and market of individual business within the firm. In other words, business strategy relates to the 'how' and corporate strategy to the 'what'. Corporate strategy defines the business in which a company will compete preferably in a way that focuses resources to convert distinctive competence into competitive advantage.'

Corporate strategy is not the sum total of business strategies of the corporation but it deals with different subject matter. While the corporation is concerned with and has impact on business strategy, the former is concerned with the shape and balancing of growth and renewal rather than in market execution.

Functional-Level Strategy.

Functional strategy, as is suggested by the title, relates to a single functional operation and the activities involved therein. Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations. Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and co-ordination between them for optimal contribution to the achievement of the SBU and corporate-level objectives.

TOPIC 4

STRATEGY FORMULATION

Introduction

Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. This process is essential to an organization's success, because it provides a framework for the actions that will lead to the anticipated results.

A company that has not taken the time to develop a strategic plan will not be able to provide its employees with direction or focus. Rather than being proactive in the face of business conditions, an organization that does not have a set strategy will find that it is being reactive; the organization will be addressing unanticipated pressures as they arise; and the organization will be at a competitive disadvantage.

Steps in Strategy Formulation Process

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. **The process of strategy formulation basically involves six main steps**. Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

1. **Setting Organizations' objectives -** The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

   While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.

2. **Evaluating the Organizational Environment -** The next step is to evaluate the general economic and industrial environment in which the organization operates.

This includes a review of the organizations competitive position. It is essential to conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses.

After identifying its strengths and weaknesses, an organization must keep a track of competitors' moves and actions so as to discover probable opportunities of threats to its market or supply sources.

3. **Setting Quantitative Targets -** In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.
4. **Aiming in context with the divisional plans -** In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.
5. **Performance Analysis -** Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.
6. **Choice of Strategy -** This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities

TOPIC 5

STRATEGY IMPLEMENTATION

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance. Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality, and customer satisfaction-the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees.

An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups.

Following are the main differences between Strategy Formulation and Strategy Implementation-

Strategy Formulation	Strategy Implementation
Strategy Formulation includes planning and decision-making involved in developing organization's strategic goals and plans.	Strategy Implementation involves all those means related to executing the strategic plans.
In short, Strategy Formulation is **placing the Forces before the action**.	In short, Strategy Implementation is **managing forces during the action**.
Strategy Formulation is an **Entrepreneurial Activity** based on strategic decision-making.	Strategic Implementation is mainly an **Administrative Task** based on strategic and operational decisions.
Strategy Formulation emphasizes on **effectiveness**.	Strategy Implementation emphasizes on **efficiency**.
Strategy Formulation is a **rational process**.	Strategy Implementation is basically an **operational process**.
Strategy Formulation requires co-ordination among few individuals.	Strategy Implementation requires co-ordination among many individuals.
Strategy Formulation requires a great deal of	Strategy Implementation requires specific

initiative and logical skills.	**motivational and leadership traits**.
Strategic Formulation precedes Strategy Implementation.	Strategy Implementation follows Strategy Formulation.

ORGANIZATIONAL STRUCTURE

Organizational structure is the formal relationships among groups and individuals in the organization are called. Chandler offered the following definition of structure and hypothesized the relationship between structure and strategy.

Structure can be defined as the design of organization through the organization in which the enterprise administered. This design, whether formally or informally defined, has two aspects. It includes, first, the lines of authority and communication between the different administrative offices and officers and, second, the information and data that flow through these lines of communication and authority. Such lines and data are essential to assure the effective coordination, appraisal, and planning so necessary in carrying out the basic goals and policies and in knitting together the total resources of the enterprise.

TOPIC 6

STRATEGIC MONITORING AND EVALUATION

INTRODUCTION

Monitoring can be defined as a continuing function that aims primarily to provide the management and main stakeholders of an ongoing intervention with early indications of progress, or lack thereof, in the achievement of results. An ongoing intervention might be a project, program or other kind of support to an outcome. Monitoring helps organizations track achievements by a regular collection of information to assist timely decision making, ensure accountability, and provide the basis for evaluation and learning.

Evaluation is the systematic and objective assessment of a non-going or completed project, program, or policy, and its design, implementation and results. The aim is to determine the relevance and fulfillment of objectives, development efficiency, effectiveness, impact, and sustainability. An evaluation should provide information that is credible and useful, enabling the incorporation of lessons learned into the decision making process of both recipients and donors.

Strategic questions

In conducting monitoring and evaluation efforts, the specific areas to consider will depend on the actual intervention, and its stated outcomes. Areas and examples of questions include:

- **Relevance**: Do the objectives and goals match the problems or needs that are being addressed?
- **Efficiency**: Is the project delivered in a timely and cost-effective manner?
- **Effectiveness:** To what extent does the intervention achieve its objectives? What are the supportive factors and obstacles encountered during the implementation?
- **Impact**: What happened as a result of the project? This may include intended and unintended positive and negative effects.
- **Sustainability**: Are there lasting benefits after the intervention is completed?

PURPOSE AND ROLE OF STRATEGIC MONITORING AND EVALUATION

1. Encourage improvement

2. Provide evidence of the impact of their activities
3. Provide an informed basis for decision making and planning

PROCESS OF STRATEGIC MONITORING AND EVALUATION

Steps for designing a monitoring and evaluation system depend on what you are trying to monitor and evaluate. The following is an outline of some general steps you may take in thinking through at the time of planning your activities:

1. **Identify who will be involved in the design, implementation, and reporting**. Engaging stake holders helps ensure their perspectives are understood and feedback is incorporated.
2. **Clarify scope**, purpose, intended use, audience, and budget for evaluation.
3. **Develop the questions** to answer what you want to learn as a result of your work.
4. **Select indicators**. Indicators are meant to provide a clear means of measuring achievement, to help assess the performance, or to reflect changes. They can be either quantitative and/or qualitative. A process indicator is information that focuses on how a program is implemented.
5. **Determine the data collection methods**. Examples of methods are: document reviews, questionnaires, surveys, and interviews.
6. **Analyze and synthesize the information you obtain**. Review the information obtained to see if there are patterns or trends that emerge from the process.
7. **Interpret these findings, provide feedback, and make recommendations**. The process of analyzing data and understanding findings should provide you with recommendations about how to strengthen your work, as well as any mid-term adjustments you may need to make.
8. **Communicate your findings and insights to stakeholders and decide how to use the results to strengthen your organization's efforts**.

Monitoring and evaluation not only help organizations reflect and understand past performance, but serve as a guide for constructive changes during the period of implementation.

Good Design Has Five Components

Good monitoring and evaluation design during project preparation is a much broader exercise than just the development of indicators. Good design has five components:

1. Clear statements of measurable objectives for the project and its components, for which indicators can be defined.
2. A structured set of indicators, covering outputs of goods and services generated by the project and their impact on beneficiaries.
3. Provisions for collecting data and managing project records so that the data required for indicators are compatible with existing statistics, and are available at reasonable cost.
4. Institutional arrangements for gathering, analyzing, and reporting project data, and for investing in capacity building, to sustain the M&E service.
5. Proposals for the ways in which M&E findings will be fed back into decision making.

TOPIC 7

THE BOARD OF DIRECTORS

The Board of Directors is the body of appointed members who jointly oversee the activities of the organization. The Board is expected to provide strategic direction, exercise control and remain accountable through effective leadership, enterprise, integrity and good judgment. It should be diverse in its composition, independent but flexible, pragmatic, objective and focused on balanced and sustainable performance of the organization.

APPOINTMENT, COMPOSITION AND SIZE

1. Board appointments shall be made in line with Article 27 of the Constitution of Kenya.
2. The Board should be appointed through a transparent and formal process governed by the overriding principle of merit.
3. The Board membership of all SCs shall be between 7 and 9 members.
4. The Chief Executive Officer shall be a Board member with no voting rights.
5. Board appointments should take into consideration the mix of skills and competencies required for the achievement of the organization's long-term goals.
6. At least one Board member should be a financial expert, meaning that he or she has the necessary qualifications and expertise in financial management or accounting and is a *bona-fide* member of a professional body regulating the Accountancy profession, and in compliance with the requirements thereof.
7. At least one third of the Board members shall be independent upon appointment and maintain their independence during their term of service on the Board.
8. For purposes of 1.1 (7) above, and 3.4(2) below, a Board member shall be considered independent if he/she:
    a) Is not in the Service of the National Government or any of the County Governments or of any statutory body or anybody or institution owned or controlled by the National Government or any County Government and who is not connected or does not have any other relationship, whether pecuniary or otherwise, with the SC, its associated companies, subsidiaries, or any holding company;

b) Has not been employed by the SC in an executive capacity within the last five (5) years;
c) Is not associated to an advisor or consultant to the SC or a member of the SC's senior management or a significant customer or supplier of the SC;
d) Has no personal service contract(s) with the SC or a member of the SC's senior management;
e) Is not a member of the immediate family of any person described above.

9. The chairpersons of all SCs shall be appointed by the President and shall at a minimum possess the qualifications, skills and experience set out in Attachment I.
10. The Board members of SCs shall be appointed by the Cabinet Secretary of the parent ministry and shall at a minimum possess the qualifications, skills and experience set out in Attachment I.
11. Each Board member shall be formally appointed to the Board through a Gazette Notice and thereafter an appointment letter.
12. Board members shall be appointed by name, and shall sit on the Board in their individual capacity with no power to appoint alternates.
13. Each Board member shall signify their acceptance of the appointment in writing.
14. The appointing authority shall ensure that any person appointed to the Board of a SC satisfies the fit and proper requirements.
15. The Board may recommend the removal of a member based on non-performance, non- attendance of meetings, unethical conduct or as set out in any constitutive documents or applicable law.

TOPIC 8

ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL

FINANCIAL REPORTING

Business stakeholders are informed by financial reporting. Preparing such statements such as balance sheet, income statement, cost of sales, fund flow statement, and cash flow statements based on monetary commercial affairs of enterprises, is called financial reporting

Cash flow from investors and creditors is received based on the assurance provided by the financial reporting. Therefore, it is crucial that financial reporting provides robust, accurate, verifiable, and unbiased information

The Board should:

a. Ensure that the books of accounts are prepared on a timely basis.
b. State in the annual report its responsibility for preparing the report and accounts
c. Report in the annual financial statements and half- yearly Management Accounts that the organization is a going concern, with supporting assumptions or qualifications as necessary.
d. Ensure that the external audit of the financial statements is completed and submitted within timelines stipulated in any law and Government policies.
e. Ensure that an independent, competent and qualified external auditor conducts the annual audit of the organization in order to provide an objective assurance as to whether the financial statements fairly represent the financial position and performance of the organization.

INTEGRATED REPORTING

Definition:

- A concise communication of an organisation's strategy, governance and performance.

- Demonstrates the links between its financial performance and its wider social, environmental and economic context.
- Show how organisations create value over the short, medium and long term.

Its aim is to:

- Enable more effective decision making at board level.
- Improve the information available to investors.
- Encourage more integrated thinking and business practices.

Guiding principles

The following Guiding Principles underpin the preparation of an integrated report, informing the content of the report and how information is presented:

- **Strategic focus and future orientation**
  An integrated report should provide insight into the organisation's strategy, and how it relates to the organisation's ability to create value in the short, medium and long term, and to its use of and effects on the capitals
- **Connectivity of information**
  An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time

TOPIC 9

SUSTAINABILITY AND SOCIAL INVESTMENT

SUSTAINABILITY GOALS AND STRATEGY

Goals are a central part of business management. They provide a compass to managers who need clear, benchmarkable targets that can steer them in an agreed direction.

A corporate sustainability strategy without goals would be like a ship without a rudder. There clearly has to be a shared vision within any company as to where it intends to go. This increased focus on publishing specific objectives is surely good news for the credibility of sustainability reporting.

1. Reach for goals that will benefit the business and expand opportunities for the company. They should be motivating and aspirational, as opposed to just being perceived as just more issues that need to be managed. Each goal must make a meaningful impact on the company's environmental footprint and make business sense. From a business perspective, this is how a commitment to sustainability can be truly sustainable over the long term.
2. Senior management must be committed to the goals. This crucial element sets the tone for the entire organization and shows business partners, external stakeholders and employees that company leadership views sustainability as an important enabler of improving and growing the business. Ideally, it should be the CEO who is seen as the principle trailblazer of the company's sustainability objectives.
3. Sustainability goals must be integral to the business, and should not require separate work, because the right sustainability strategy will enhance the efficiency of the company's existing operation. A company's sustainability targets should touch on everything in the company, including product distribution, packaging, supply chain, office efficiency, manufacturing plant operations, human resources and R&D. Good sustainability goals will help enhance the way the company operates across its entire business.
4. Always make sure the targets are credible, which means striking a balance between what can be practically achieved while setting the bar at a level where real improvements will accrue. If the targets cannot be achieved, the company's sustainability track record will appear as weak. But targets that are too soft could be derided as meaningless, and could attract accusations of "greenwash" and the like.
5. Prioritize sustainability goals towards areas where you can make the most meaningful impact and generate the biggest results. Focus on parts of the business where improvements are needed, but can be achieved.

6. Publishing sustainability goals must be much more than an expression of hope and desire. No goals should be included without there being a clear roadmap as to how they can be achieved in reality.
7. Company employees can provide the richest source of ideas as to what sustainability goals should be set. The best opportunities for improving the environmental and social performance of an organization are most likely to come from the people who have to deliver. Often these employees are much closer to the day-to-day mechanics, and shortcomings, of existing procedures, and they are among the first to recognize opportunities.
8. Establish goals that have real traction with customers and consumers. A company's drive for sustainability must neither be seen purely as an internal management tool or as an external public relations opportunity. The goals should be easily translatable into tangible benefits that meet stakeholder expectations. While it is important to include measurable targets, it is not necessary for all of them to be empirically framed.
9. Meaningful goals cannot be set in isolation from the world at large. Collaboration with external organizations, NGOs and partners is necessary to advance a sustainability agenda. The best sustainability strategies involve working with a number of external stakeholders to identify needs and to create new opportunities and solutions for some of the world's toughest challenges. Companies need support from NGOs and other relevant third-party 'watchdogs' to advance sustainability causes and communicate with the public at large in a credible and authentic manner.
10. While sustainability goals must be designed to benefit the business, it is important that they include elements that position the company as a good corporate citizen. Innovation is key to driving new sustainable products which can also enable the solving of environmental or social sustainability issues. This should be factored into the thinking when developing the goals.

TOPIC 10

ETHICS AND CORPORATE DISCLOSURE

ETHICAL NORMS, MORALITY, VALUES AND ETHICAL CULTURE

Simple Meaning of Ethics-

1. Ethics is just a set of rules, all members of society agree upon. If they all agree to do it, it's good. If not, bad.
2. Set of standards By Society/Group
3. Ethics is defined as ***set of standard/rules/regulation/moral principles*** that guides human behavior and his actions.
4. The word ethics is derived from Greek word **ethos** meaning customs, traditions, habit etc

Norms, morals and ethics are all related to each other but have distinct definitions and meanings. This exercise will help make sense of these terms.

> **Norms** may be defined as standardized ways of conduct and behavior (e.g., treating everyone fairly) in a society, company, or other organization.
>
> Norms deal with standards of appropriate behavior. There is no value judgment by the individual as there is with morals. Instead society dictates what is acceptable.
>
> Morals involve value judgments and principles about right and wrong in behavior. They can be decided by individuals or society.
>
> Ethics are based upon rules of what is morally good or bad behavior. Since ethics are rules, they are generally determined by society. The terms are all similar in that they deal with right and wrong in behavior. They are different in that norms deal with societal standards, morals involve value judgments by individuals or society, and ethics are based upon rules (usually dictated by society).Morals are the basis for the definitions of ethics (rules based upon morally good or bad behavior) and norms (appropriate behavior is arguably, generally moral).

The **ethical culture** in an organization can be thought of as a slice of the overall organizational culture. So, if the organizational culture represents "how we do things around here," the ethical culture represents "how we do things around here *in relation to* *ethics and ethical behavior in the organization*.” The ethical culture represents the organization’s “ethics personality.”

From an ethical systems perspective, creating and sustaining a strong ethical culture is the key to creating an organization that supports people making good ethical decisions and behaving ethically every day. There are so many forces and factors that lead people to take ethical shortcuts. But when all relevant organizational systems are pushing people in the same ethical direction, ethical failure is much less likely.

According to Treviño and Nelson, ethical culture should be thought of in terms of a multi-system framework that includes formal and informal systems that must be aligned to support ethical judgment and action. Leadership is essential to driving the ethical culture from a formal and informal perspective. Formally, leaders provide the resources to implement structures and programs that support ethics. More informally, through their own behavior, leaders are role models whose actions speak louder than their words, conveying “how we do things around here.” Other formal systems include selection systems, policies and codes, orientation and training programs, performance management systems, authority structures, and formal decision processes. On the informal side are the organization’s role models and heroes, the norms of daily behavior, organizational rituals that support or do not support ethical conduct, the stories people tell about the organization and their implications for conduct, and the language people use (i.e., is it okay to talk about ethics? Or is ethical fading the norm?).

Four fundamental ethical principles

- **The Principle of Respect for autonomy**
  Autonomy is Latin for "self-rule" We have an obligation to respect the autonomy of other persons, which is to respect the decisions made by other people concerning their own lives. This is also called the principle of human dignity. It gives us a negative duty not to interfere with the decisions of competent adults, and a positive duty to empower others for whom we’re responsible.
  Corollary principles: honesty in our dealings with others & obligation to keep promises.

- **The Principle of Beneficence**
  We have an obligation to bring about good in all our actions.
  Corollary principle? We must take positive steps to prevent harm. However, adopting this corollary principle frequently places us in direct conflict with respecting the autonomy of other persons.

- **The Principle of nonmaleficence**
  (It is not "non-malfeasance," which is a technical legal term, & it is not "nonmalevolence," which means that one did not intend to harm.)
  We have an obligation not to harm others: "First, do no harm."
  Corollary principle: Where harm cannot be avoided, we are obligated to minimize the harm we do.
  Corollary principle: Don't increase the risk of harm to others.
  Corollary principle: It is wrong to waste resources that could be used for good.
  Combining beneficence and nonaleficence: Each action must produce more good than harm.

- **The Principle of justice**
  We have an obligation to provide others with whatever they are owed or deserve.
  In public life, we have an obligation to treat all people equally, fairly, and impartially.
  Corollary principle: Impose no unfair burdens.
  Combining beneficence and justice: We are obligated to work for the benefit of those who are unfairly treated.

TOPIC 11

CASE STUDIES IN STRATEGY, GOVERNANCE AND ETHICS

A case study is a scenario in a particular professional context which students are expected to analyse and respond to, guided by specific questions posed concerning the situation. In many cases, the scenario or case study involves a number of issues or problems that must be dealt with in a professional workplace.

Case study questions usually require students to identify problems and issues in a scenario, to demonstrate their developing knowledge of theories and professional policies and to make decisions and recommendations based on these to either prevent or solve some of the issues in that scenario.

There are several steps to writing an answer to a case study assignment:

STEP 1: Read case study and questions carefully

Read the case and associated questions carefully. Highlight the main points of the case and any issues that you can identify.

Read the questions closely and analyse what they are requiring you to do.

Read the case again, linking the information that is relevant to each question you have been asked.

STEP 2: Identify the issues in the case study

Case studies describe a situation which may arise in a particular profession or social context. They often involve a number of people in a complex situation.