



CS PART III SECTION 5

GOVERNANCE AND ETHICS

WEDNESDAY: 27 November 2019.

Time Allowed: 3 hours.

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

QUESTION ONE

STETHO HEALTHCARE LIMITED (SHL)

Stetho Healthcare Limited (SHL) is one of the leading medical insurers in this region. Established 35 years ago in Kenya, the company has steadily grown to have a presence in over seven countries in East and Southern Africa. Over the years the company has experienced very minimal changes in the top management. John Mooley, the current Executive Chairman has decided to retire having served in the combined role for over ten years out of the full 35 year career at SHL. Succession planning at SHL has not been considered an issue since Don Smith had been operating as the Chief Operating Officer (COO) for a number of years and everyone has opined that he is the next in line as he is progressing very well, very promising and he enjoys board support.

Don Smith has trebled the size of the company through an aggressive acquisition strategy, taking the company into lucrative markets around the region where he bought, restructured and turned around struggling small medical insurers. The Board of Directors is quite pleased with their Chief Executive Officer (CEO) and COO's performance. The board has eleven members with seven being company executives and the other four being prominent personalities sourced from the regional markets where SHL operates in. The four non-executive directors were sourced by the Executive Chairman due to their key expertise in SHL's regional markets. None have regular contact with shareholders and fellow board members. The board meets irregularly and mainly meets to review current financial performance. Don Smith, as the COO has complete freedom to act and this is widely seen as the reason for the company's positive trading position in a highly competitive medical insurance industry.

Shareholders of SHL are also pleased with performance. However, apprehension and reservations are being felt and expressed by some shareholders due to the impending retirement of the Executive Chairman who was seen as the moderating influence on the COO's ambitions. Some institutional investors have expressed their concerns about the sustainability of the corporate governance structures and corporate strategy, especially whether adequate financial resources exist within SHL to support it in case of any risk, and whether risks associated with unknown markets make the company overexposed and vulnerable. The Corporate Secretary has also advised the Board of Directors (BOD) on the inadequacies of the current board structure, remuneration of directors which appears haphazard and determined solely by the Executive Chairman and the need for board members reappointments to be performed based as determined through formal board evaluation. The board has only one committee, that is the Executive Committee composed of the Executive Chairman, COO and other executive directors which only meets to discuss those issues the board feels need to be allocated more time than what is available during its infrequent board meetings.

While the company has recognised the need to have foreign directors who have influence in their own countries, the Corporate Secretary has pointed out that the board needs to be directly accountable to the shareholders of SHL. He has recommended the establishment of a two-tier board structure, the main board and an advisory board and creation of a remuneration committee.

Required:

- (a) Discuss five changes to the governance structure that you would recommend for Stetho Healthcare Limited (SHL). (10 marks)
- (b) Assuming SHL creates an advisory board as advised by the Corporate Secretary, explain five roles it could execute in its governance structure. (5 marks)
- (c) Propose five ways through which the board of SHL could address the sustainability and corporate strategy issues raised by the institutional investors. (5 marks)

- (d) Advise the board of SHL on five oversight roles that it was expected to discharge to enhance good governance in operations of the company. (10 marks)
- (e) Citing five reasons, justify to the board of SHL the need for conducting board evaluation. (5 marks)
- (f) Summarise the responsibilities of a remuneration committee that the SHL corporate secretary advised the board to constitute. (5 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) Your organisation has adopted a performance measurement system based on the concept of tripple bottom line. Explain how this approach might benefit the organisation. (3 marks)
- (b) The general position in matters of ethics could lie around the challenges in legislating it. Yet, ethical conduct is a desirable characteristic in people's conduct in business. Discuss two aspects giving rise to the challenge in legislating ethics. (4 marks)
- (c) In a corporate governance seminar, one of the facilitators noted that "It appears that organisations are strangled with too many accountability overseers that comprise; the board audit committee, the internal audit function, the external audit function and in some cases the regulator and finally the shareholders".

Required:

Justify whether there is need of the above listed oversight functions in the context of value to the organisation. (8 marks)

(Total: 15 marks)

QUESTION THREE

- (a) Analyse how the resource dependency theory could aid decision makers in promoting good corporate governance. (5 marks)
- (b) Explain the importance of stakeholder management in corporate governance. (5 marks)
- (c) A major risk facing organisations currently is non-compliance with laws and regulations. Evaluate five roles of the board in ensuring compliance. (5 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) Summarise two disadvantages of a patron board model. (2 marks)
- (b) Examine five aspects of integrated reporting. (5 marks)
- (c) Discuss four major impediments that stand in the way of corporate governance convergence among different countries. (8 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) Describe five duties of directors in relation to conflict of interest and disclosure. (5 marks)
- (b) In a professional practice environment one may be able to identify three major barriers to error disclosure, probably with clear consequences to the professional practitioner. With reference to the above statement, analyse the impact of the following barriers to error disclosure from a professional perspective:
- (i) Legal action. (2 marks)
- (ii) Loss of trust. (2 marks)
- (iii) Loss of professional reputation. (2 marks)
- (c) Organisations which are committed to an active corporate social responsibility (CSR) have adopted the provision of CSR services through registered foundations. Assess how this practice could help to promote greater value to the recipients. (4 marks)
- (Total: 15 marks)**