



CPA PART III SECTION 5

CICT PART III SECTION 5

CIFA PART III SECTION 5

CCP PART III SECTION 5

STRATEGY, GOVERNANCE AND ETHICS

THURSDAY: 26 November 2020.

Time Allowed: 3 hours.

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

QUESTION ONE

MAMBA GROUP LIMITED (MGL)

Headquartered in Mombasa Kenya, Mamba Group Limited (MGL) has been one of the largest manufacturers and marketers of food, home and personal care brands, and baby products in Kenya for several decades.

Founded in 1957, the consumer goods company has applied expansion, acquisition and joint ventures to achieve a distribution network that now spans across more than eight African countries. Apart from its operations in Kenya, MGL also has interests in international food business in Tanzania, Malawi, South Sudan, Uganda and Rwanda. For the period between January 2018 and December 2018, MGL reported a 5% increase in operating profit from domestic business. The group's turnover increased by 6% to Sh.3 billion, but the operating profit declined by 3% to Sh.0.5 billion during the same period.

In an effort to conserve the environment, the use of micro plastics in all personal care products was phased out by the group in the year 2015. MGL's strategies today are more focused on sustainable and ethical values. In January 2019, MGL recruited a new chief sustainability officer (CSO). The firm's new CSO, Jack Safari has been questioning whether attempts to be socially responsible are contributing to the firm's declining bottom line. This is because their competitors are not keen on social responsibility.

In the last senior management meeting, Jack Safari recommended that this issue be seriously interrogated by the internal auditor and the external audit team too. In April 2019, the Competition Authority found MGL and its competitors Zura Foods and Bidii Foods, guilty of anti-competitive behaviour and conspiring to increase the price of product Zee. Zura Foods paid a penalty of Sh.2 million to the Competition Authority while Bidii Foods was granted immunity for co-operating with the Competition Authority. Despite co-operating with the Competition Authority, MGL had to pay a fine of Sh.1 million.

MGL's twenty member Board of Directors is concerned since they were unaware of these anti-competitive practices. They believed that the adverse action could stifle the program towards their firm's aim of being the continent's most admired brand for consumer packaged goods; and that of being a high performing fast moving consumer goods company. The Board is considering several key decisions including:

- Reviewing the firm's organisation structure from a functional one to a more flexible structure.
- Hiring a chief legal officer.
- Scaling up the implementation of an automated balanced score card performance management system.
- Public listing of the firm.

Required:

- (a) With reference to MGL's organisational design:
- (i) Examine three elements of an organisational structure. (6 marks)
- (ii) With the aid of relevant diagrams, analyse three alternative structural modifications which could be made to MGL's functional organisation structure to make it more flexible. (9 marks)

- (b) Jack Safari has been against MGL's stance on environmental conservation.

In relation to the above statement, provide four reasons why MGL should be environmentally responsible.

(8 marks)

- (c) The Board of Directors of MGL claimed that they were unaware of the anti-competitive practices which led to imposition of a penalty by the Competition Authority.

- (i) Examine four duties expected of MGL's Board of Directors.

(8 marks)

- (ii) Citing three reasons, justify the need to reduce the size of MGL's Board of Directors.

(3 marks)

- (d) Discuss three non-financial measures of performance that MGL could focus on as it rolls out the Balanced Scorecard system.

(6 marks)

(Total: 40 marks)

QUESTION TWO

- (a) Discuss five typical contents of a corporate code of ethics.

(10 marks)

- (b) Corporate values describe the core ethics or principles which the organisation has committed to abide by.

Assess the relevance of corporate values to an organisation.

(5 marks)

(Total: 15 marks)

QUESTION THREE

- (a) Describe five characteristics of corporate level strategies.

(5 marks)

- (b) Highlight five challenges that an organisation operating without a stated mission might face.

(5 marks)

- (c) You have been appointed as the Chief Executive Officer of Mawe Ltd. The company has a toxic culture where some managers bully junior employees. The negative culture has led to increased employee turnover and decreased employees motivation.

With reference to the above statement, explain five measures you would put in place in order to transform the negative workplace culture to positive workplace culture.

(5 marks)

(Total: 15 marks)

QUESTION FOUR

- (a) With reference to corporate governance, distinguish between "rules based approach" and "principles based approach".

(4 marks)

- (b) Competitor analysis is an essential component of corporate strategy. Most organisations however, do not get it right while analysing their competitors.

Explain six errors that are likely to be made by organisations in analysing their competitors.

(6 marks)

- (c) Establishment of internal controls in organisations is an international best practice.

Explain five benefits of strong internal control systems.

(5 marks)

(Total: 15 marks)

QUESTION FIVE

- (a) Examine five building blocks of professional judgement for corporate leaders today.

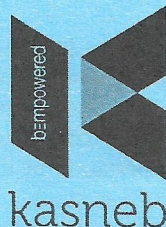
(10 marks)

- (b) Analyse five criticisms of Fredrick Taylor's Scientific Management Theory.

(5 marks)

(Total: 15 marks)

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STRATEGY, GOVERNANCE AND ETHICS

TUESDAY: 26 November 2019.

Time Allowed: 3 hours.

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

QUESTION ONE

KARATI PAPER MILLS KENYA (KPMK)

Nyondia Paper Mills Group (NPMG), a renowned international paper manufacturing conglomerate whose roots are in Norway opened a subsidiary in Kenya. The subsidiary, Karati Paper Mills Kenya (KPMK), which has been in existence for the past five years, has not produced a social and environmental report. The company has instead provided data which was included in the parent company's group report. There was some discussion within the top management about KPMK having an environmental and sustainability report of its own, but no resources were provided for its development, hence nothing ever materialised.

Mary Mambo, the environmental and sustainability manager at KPMK had the responsibility of monitoring and reporting on environmental emissions. It was her responsibility to monitor emissions and to key in data into the company's internal control systems on resource consumption (energy and water) and waste. It was a job she wholeheartedly enjoyed because it enabled her to express her personal concern for the environment through work. When she took over her role two years ago, she was informed by the then Chief Executive Officer (CEO), Kibala Kegeni, that the company had very ambitious voluntary emission control targets since the company had started the journey towards becoming environmentally responsible. The company had developed a very attractive environmental management and sustainability strategy which Mary Mambo was expected to implement. Mary Mambo found this exciting and it was on this basis that she accepted the appointment. Because of the sensitive nature of some of the data she managed, her employment terms and conditions included a confidentiality clause. The confidentiality clause required her to never publicly disclose the environmental targets or the company's performance against them.

When investment in new manufacturing equipment was delayed because of decreasing profits, Mary Mambo was informed that emission targets would be temporarily increased. This was because the ageing equipment would not be able to maintain the low level of emissions. Dismayed by this change, she complained to the company's CEO. The CEO informed her that the company was facing constraints and as a result the higher emissions would continue until the company could afford its new factory equipment. This could take several years. After a lot of soul searching, she decided that the effective way to deal with this change was to publicise it through the local newspapers and to the nearby residents association. The two parties had been longstanding critics of the factory's negative impact on the environment. The public reacted angrily to this disclosure as the company was already considered a pollutant. When the board of directors of the company discovered her actions, she was dismissed for breach of her terms and conditions of service including publicly disclosing confidential information.

At a recent international meeting of business leaders, KPMK was represented by Maneno Baya, the new CEO. A debate arose between KPMK CEO and other business leaders in the forum. The argument centred on Maneno Baya's perception about the futility of regulating corporate governance because of differences in national cultures. He drew particular attention to the Organisation for Economic Co-operation and Development (OECD) and International Corporate Governance Network (ICGN) codes, citing that they were, 'silly attempts to harmonise practice'. He added that according to him, in other countries for example, there were 'family reasons' for vesting the chairman's and CEO's roles to the same person. In other countries the separation of these roles seemed to work.

Alejandra Alliya, a delegate from Cuba held that the roles of CEO and chairman should always be separated because of 'accountability to shareholders'. One delegate from Bermuda, Isabella Elliot, was of the opinion that the right approach was to always allow each country to set up its own corporate governance provisions. She argued that it was suitable for some countries to produce and abide by their own 'very structured' corporate governance provisions, but in some other countries, the local culture was to allow "local interpretation of the rules". She added that some cultures valued highly structured governance systems while others did not care as much.

Required:

- (a) With reference to Kohlberg's stages of moral development:
- (i) Describe Mary Mambo's ethical approach level. (2 marks)
 - (ii) By giving two features in each case, analyse two stages of the ethical approach level identified in (a) (i) above. (8 marks)
- (b) Mary Mambo was tasked with the responsibility of monitoring emissions by the company and feeding the data in the company's internal control systems.
- (i) In the context of Karati Paper Mills Kenya (KPMK), explain the term "internal controls". (2 marks)
 - (ii) Examine five reasons why Mary Mambo might be concerned about the soundness of the internal control systems at KPMK. (10 marks)
- (c) At the international meeting of business leaders where KPMK was represented by Maneno Baya, leaders in the meeting seemed not to agree on whether there should be separation of roles between the Chief Executive Officer position and the Chairman of the Board position or whether the two positions should be held by one person.
- Argue four cases in support of Alejandra Alliya, the delegate from Cuba, on why the two positions should be held by two people. (8 marks)
- (d) Although the top management of KPMK was in agreement that the company was to develop an environmental and sustainability report of its own, no resources were allocated for this purpose.
- In view of the above statement, summarise four other roles of the top management of KPMK. (4 marks)
- (e) The implementation of KPMK's environmental management and sustainability strategy seems to have slowed down with the CEO admitting that the company was facing constraints and as a result the high levels of emissions could continue until the company was able to afford new factory investment.
- Identify six steps of implementing the theory of constraints which could have aided KPMK in implementing its environmental management and sustainability strategy. (6 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) Summarise five limitations of strategic management. (5 marks)
 - (b) Justify the use of SWOT analysis in strategic management. (5 marks)
 - (c) Assess five internal factors which might influence the design of an organisation's mission statement. (5 marks)
- (Total: 15 marks)**

QUESTION THREE

- (a) (i) In the context of strategic monitoring and evaluation, explain the term "KPI". (1 mark)
 - (ii) Highlight four attributes of a good KPI. (4 marks)
 - (b) Discuss five elements of good governance. (10 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) Describe five ways of managing strategic change in an organisation. (5 marks)
- (b) With the aid of a diagram, analyse how the BCG matrix model could contribute to an organisation's product strategy. (10 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) With respect to management of ethics in an organisation, describe the following:
- (i) Utilitarian approach. (2 marks)
- (ii) Moral rights approach. (2 marks)
- (iii) Social justice approach. (2 marks)
- (b) Identify five guidelines for ethical behaviour in an organisation. (5 marks)
- (c) Distinguish between "intentional" and "unintentional" types of amoral management. (4 marks)
- (Total: 15 marks)**
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STRATEGY, GOVERNANCE AND ETHICS

WEDNESDAY: 22 May 2019.

Time Allowed: 3 hours.

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

QUESTION ONE

MASESE MINING LIMITED

Masese Mining Limited (MML) is one of the most successful medium sized copper mining companies in the Republic of Congo and has its headquarters in Brazzaville, the country's capital city. The company was established in 1928 and employs over 4,000 people. The company recognises that to maintain the degree of success it has achieved over the years, it must adopt effective management strategies and good corporate governance practices, while at the same time create and maintain long term shareholder value.

In the late 1990s, MML suffered losses for several years that ultimately led to a high level of debt amid the global economic crisis. In the early years of 2000s, however, the world emerged into a period of greater stability. Convinced that the market pays for good corporate governance practices, MML chose to cancel its debt with the proceeds of an initial public offer (IPO) at the country's security exchange market in 2006. This IPO permitted the company to raise approximately Sh.11 billion. Prior to the IPO, the company took several critical steps towards improving its governance structure. These include:

- Restructuring the Board of Directors by incorporating independent directors and establishing Board Committees.
- Implementing a Code of Ethics and Governance Practice.
- Formation of a Corporate Governance and Compliance Committee.

In the course of reforms, MML implemented a comprehensive set of rules, strategies and regulations to ensure good corporate governance. The reforms were inspired by reference to recommendations in major International Codes of Best Practices such as the King's Code, the OECD Code and the Cadbury's Report. Minority shareholders were encouraged to participate in policy and decision making. To facilitate participation in its Annual General Meeting (AGM), the company sends a notice and agenda to its shareholders 28 days in advance. Shareholders also receive proxy forms.

The top management formulates broad policies which are submitted to the Board of MML for consideration and approval. MML's top management also oversees the business and is responsible for execution of the policy decisions of the Board of Directors. The chairman of the Board is elected by the Board members and the CEO is appointed by the Board. Other senior managers are selected by the nomination committee competitively. The Directors of the company are elected by the shareholders at the Annual General Meeting. Particulars of management remuneration are disclosed to shareholders and the public in the annual report as well as in the company's securities market filings. Board members receive a certain percentage of the annual net income of the company up to a maximum limit established by the AGM.

The company maintains that it is in its best interest to maintain high standards of social responsibility in order to ensure the long term success of its business. In particular, MML's social responsibility programme expenditure totalled Sh.500 million during the 2018 financial year. This included provision for water, education, health and roads. The company also reclaims its disused mines where it plants trees and other vegetation. Most of the MML's customers are industrial companies in the region, Asia and Europe. MML has developed a customer service charter that supports the relationship between MML and its customers.

MML's Board of Directors has 7 members, five of whom are independent. The company's commitment to the highest degree of disclosure to its shareholders has led to the appointment of a nominee of the Social Security Fund to sit on MML's Board and participate in committee activities.

There are four committees that support the Board's work namely; Audit, Compensation, Nominations and Corporate Governance and Compliance. Each committee includes a majority of independent directors with the audit committee composed solely of independent Board members. MML's Board chairman and the CEO's roles are separate. This ensures Board impartiality in providing oversight roles. MML conducts periodic evaluation of the Board.

The Board approved a code of ethics and governance practice that is available to all stakeholders and is a required reading for company employees and Board members. The ethics and compliance officer reports to the audit committee. Both the ethics and compliance officer and the audit committee chairman can receive reports under the company's "Whistle-Blower Programme" set to enable company stakeholders to report anonymously when they suspect or have information about possible code violations.

MML adheres to International Financial Reporting Standards and the financial reports are audited by an independent external auditor who is accountable to the MML Board. Additionally, the company discloses all business relationships and material provisions of contracts to shareholders. MML's Chief of Internal Audit directly reports to the Board.

For MML to achieve its strategic objectives, the company adopted the European Foundation for Quality Management (EFQM) business excellence model as a strategic monitoring and evaluation tool.

Required:

- (a) (i) Explain five roles of the independent directors at MML in enhancing good corporate governance practices. (5 marks)
- (ii) Suggest five other measures (with exception of the ones mentioned in the case study) which could be adopted by MML to improve its corporate governance. (5 marks)
- (b) MML has a "Whistle Blower Programme".
- Assess five quality disclosures that an employee of MML could use as a defence in case of unfair dismissal for whistle blowing. (10 marks)
- (c) With reference to strategic monitoring and evaluation, analyse six benefits that MML could derive from adoption of European Foundation for Quality Management (EFQM) business excellence model. (6 marks)
- (d) One of the roles of top management is to formulate broad policies which are submitted to the Board for consideration and approval.
- Examine six other possible roles of the top management of MML. (6 marks)
- (e) Discuss four types of corporate social responsibility that MML could engage in. (8 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) Examine six distinguishing characteristics between "strategic decisions" and "tactical decisions". (6 marks)
- (b) The Ansoff Matrix provides a way of generating directions for corporate strategy.
- With reference to the above statement, evaluate the limitations of each of the four strategies in the Ansoff Matrix. (4 marks)
- (c) Suggest five ways of improving the effectiveness of SWOT analysis. (5 marks)
- (Total: 15 marks)**

QUESTION THREE

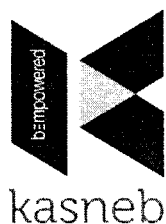
- (a) Companies must continually examine the value they create in order to retain their competitive advantage.
- With reference to the above statement, assess the roles of the five components of the primary activities in Michael Porter's value chain model. (5 marks)
- (b) In the context of strategy evaluation:
- (i) Explain why the balanced scorecard approach is more preferred than traditional approaches. (4 marks)
- (ii) Summarise four drawbacks of using the balanced scorecard. (4 marks)
- (c) Analyse two levels in an organisation at which strategic evaluation is done. (2 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) Evaluate five shortcomings of stewardship approach to corporate governance. (5 marks)
 - (b) In the context of enterprise risk management, examine six techniques used by organisations to identify risks. (6 marks)
 - (c) Describe four unethical issues commonly associated with collection of business intelligence information from competitors. (4 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) Discuss any five categories of the Baldrige criteria for performance excellence. (10 marks)
 - (b) Explain five benefits that might accrue to an organisation with a Board of Directors which is well diversified in terms of gender. (5 marks)
- (Total: 15 marks)**
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STRATEGY, GOVERNANCE AND ETHICS

WEDNESDAY: 28 November 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

METAL PROCESSING LIMITED (MPL)

Metal Processing Limited (MPL) was formed 10 years ago with the purpose of engaging in the business of buying scrap metal and reprocessing the same to produce a variety of metals. The demand of the company's products became instantly popular because they were designed to suit the needs of its different customers.

MPL is a wholly-owned subsidiary of Nepal Holdings Limited (NHL), a company established under a different legal framework from that in which MPL was established. The provisions relating to governance practices in many cases are not similar. For example, NHL operates under a highly regulated industry while MPL operates under minimal regulatory controls. This enables MPL to take certain business actions which for NHL would require prior approval from the regulator. The Board of Directors of NHL believes that it should exercise full control over the activities of MPL which has a separate Board of Directors.

Three of the sitting Board members of NHL are seconded to the Board of MPL but they are registered in their personal capacity as directors in MPL. The other four directors, making up the full board of seven members of MPL have been appointed from outside the Board of NHL. Therefore, NHL as a company does not sit in the Board of MPL.

In recent times, there have been frequent demands from the Board of NHL that certain operational actions by MPL be pre-approved by the Board of NHL before they are implemented. These include day to day business needs such as payments to suppliers. The Board of MPL feels constrained and limited in implementation of its business strategy, which is completely different from that of NHL. The nature of business of NHL is completely different from that of MPL.

One of the areas that has brought repeated misunderstanding between the Boards of NHL and MPL is the number of meetings held. The Board of NHL insists that good corporate governance practice requires not more than one meeting every three months. The Board of MPL has been holding two or more meetings quarterly in order to respond to the many demands of the business. In the process, a not so cordial relationship exists between the two Boards. Some Board members of NHL have been heard complaining openly that Board members of MPL end up earning more in terms of allowances than Board members of NHL, the parent company.

In order to address the information gap and misunderstanding between the two Boards, a three-day consultative session has been planned. Obviously, the three members seconded by the Board of NHL to sit in the Board of MPL feel confused.

A recent occupational safety and health (OSH) audit revealed that employees of MPL are highly exposed to fatal health hazards. This is an area of concern to the Board members of NHL and will be discussed in the consultative meeting. Potential flouting of basic consumer rights and employees rights by MPL could expose the company to legal suits. OSH administrators and consumer rights organisations in many countries are concerned by toxic metals such as arsenic, beryllium, lead and cadmium which build up in biological systems and become a health hazard. This often leads to loss of lives. NHL feels that MPL is not doing much especially on both consumer and employee safety and health education.

The Directors of NHL are convinced that for sustainability reasons and mitigation against legal suits, MPL should adopt the triple bottom line (TBL) accounting framework as a performance reporting tool. At the same time the company should act on the recommendations in the OSH audit report in order to avoid putting the lives of its employees at risk.

Required:

- (a) Explain six reasons which could have led NHL to invest in MPL. (6 marks)
- (b) As the Chairman of the Board of NHL, you feel that there has to be clear guidelines on how NHL, the holding company should control its subsidiaries.
- With reference to the above statement, evaluate five broad guidelines your Board might formulate. (5 marks)
- (c) Comment on the observations made by some directors of NHL that the directors of MPL, a subsidiary company are earning more in allowances than those of the parent company (NHL). (8 marks)
- (d) Citing reasons, suggest four agenda items to be discussed at the planned three-day consultative session of the directors of both NHL and MPL which should lead to shared understanding between the two Boards. (8 marks)
- (e) With reference to consumer protection and sustainability of the business of MPL, analyse:
- (i) Three categories of triple bottom line measures which should constitute MPL's sustainability index. (6 marks)
- (ii) Seven basic consumer rights that MPL should be aware of. (7 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) A company operating in a declining industry might experience reduced profitability in addition to other shocks.
- With reference to the above statement, discuss four strategies firms apply in order to survive in a declining industry. (8 marks)
- (b) (i) Explain the term "internal benchmarking" as used in an organisation. (2 marks)
- (ii) Describe five challenges which an organisation is likely to face while carrying out internal benchmarking. (5 marks)
- (Total: 15 marks)**

QUESTION THREE

- (a) In the context of business environment and citing a relevant example, explain the term "distinctive competency". (1 mark)
- (b) Strategic change could be classified by the extent of change required and speed with which the change is achieved.
- With reference to the above statement:
- (i) Discuss four types of change. (8 marks)
- (ii) Analyse three ways of instituting strategic change in an organisation. (6 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) Analyse one application in each of the following motivational theories in modern organisations:
- (i) Elton Mayo's Hawthorne effect. (2 marks)
- (ii) Victor Vroom's Expectancy theory. (2 marks)
- (iii) John Stacy Adam's Equity theory. (2 marks)
- (iv) B. F. Skinner's Reinforcement theory. (2 marks)
- (v) Herzberg's Two Factor Theory. (2 marks)

- (b) According to a publication by African Development Bank in 2015 titled “Where are the women: Inclusive Boardrooms in Africa’s top listed companies”, women had 12.7% of Board directorship in listed companies based in Africa and 17.3% of Board directorship globally.

A report on corporate performance and women’s representation on Boards, by Catalyst, a global non-profit making organisation established that Fortune 500 companies with the highest representation of women on the board of directors attained significantly higher financial performance than those with lowest representation of women on the board of directors.

Required:

With reference to the above statements, summarise five factors responsible for under representation of women in Boards of listed companies. (5 marks)

(Total: 15 marks)

QUESTION FIVE

- (a) In the context of enterprise risk management, explain the following:

(i) Risk capacity. (2 marks)

(ii) Risk appetite. (2 marks)

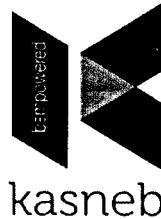
(iii) Risk tolerance. (2 marks)

- (b) Analyse six circumstances under which a director could be held personally liable for loss, damage or costs incurred by the company. (6 marks)

- (c) Highlight three roles of a mission statement of a company. (3 marks)

(Total: 15 marks)

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STRATEGY, GOVERNANCE AND ETHICS

WEDNESDAY: 23 May 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

BRIGZ LIMITED (BL)

Brigz Limited (BL) is a family owned business which was founded in the year 1980 by Pero Kero, one of the family patriarchs. The company's primary business at the time was manufacture of bicycles and sale of bicycle spare parts. BL faced little competition then. Consequently, the company expanded rapidly. In a period of 5 years, the company had become a household name for bicycles in the African region. To keep pace with the growing demand, BL purchased 65% of the components used in manufacture of bicycles rather than manufacturing them in-house.

Throughout the years in the 1990's, BL remained Africa's largest bicycle manufacturer with 44% market share and a 15% share of the overall three-wheeler cycles market. The company's success, however, did not go unnoticed. Indian and Chinese multinationals soon entered the African market. The new entrants had extensive financial and technological resources as well as a wealth of experience that gave them a dominant position over local players.

A decade later, BL's market share of bicycles had halved to 22% and the overall market share dipped to an abysmal 5% while its competitors' businesses grew tremendously. Stocks of components and unfinished items rose alarmingly at BL as competition increased. The situation was worsened by the fact that the company was not fully computerised. Consequently, the existing manual inventory control and production planning systems were overwhelmed. Although BL had a strong technical and production orientation, the company paid little attention to marketing which was left to agents and distributors. The company neither advertised nor directly promoted its products. This may have been one of the contributors to the wide deviations between forecasted sales and actual sales that were quickly becoming the norm.

Business analysts opined that BL had sealed its own fate by remaining rigid in a dynamic environment. The company seemed to have missed the pulse of the market, which was moving fast towards manufacture and sale of motorcycles, by remaining stuck with bicycles. The rigidity was reinforced by the family based hierarchical structure with Pero Kero at the helm of the company's leadership. Pero Kero's leadership style was contradictory and demanding. He was an autocrat who issued direct orders across the organisation without any regard to the chain of command and always expected military precision. Executives were reprimanded in the presence of their subordinates. Employees were fired for indiscretion.

BL had to address the challenges facing the company in order to survive. As a first step, it entered into a joint venture with Shotun Ltd., a Japanese motorcycles manufacturer, anxious to enter the African market. Under the agreement, each company would use the other's distribution network. BL was also to obtain technical, research and development support.

Though the family-based structure could not be overhauled overnight, BL was to commit itself to moving away from the type of organisation structure that focuses excessively on control in favour of one that encourages creative thinking and innovation.

Required:

- (a) Analyse four negative consequences to BL which could arise from outsourcing components used in manufacture of bicycles. (8 marks)
- (b) Evaluate six possible effects of Pero Kero's style of leadership to BL. (6 marks)

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- (c) Suggest six indicators as to why the control system at BL was largely ineffective. (6 marks)
- (d) Examine four merits of the joint venture strategy employed by Shotun Ltd. to enter into the African market. (8 marks)
- (e) Discuss family governance issues which could have been faced by BL during the following stages of its development cycle:
- (i) The founder(s) stage. (3 marks)
 - (ii) The sibling partnership stage. (3 marks)
 - (iii) The cousin confederation stage or family dynasty. (6 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) Describe six features of classical management theories which are still relevant today. (6 marks)
- (b) Analyse five strategies that an organisation should put in place to prevent fraud by its employees. (5 marks)
- (c) Corporate governance requires firms to make certain disclosures in their financial statements.
- In reference to the above statement, explain four roles played by the disclosures in financial statements. (4 marks)
- (Total: 15 marks)**

QUESTION THREE

- (a) Discuss six measures an organisation should consider while strengthening knowledge management. (6 marks)
- (b) In the context of corporate governance, evaluate four responsibilities of shareholders. (4 marks)
- (c) With reference to enterprises, describe the risk management process. (5 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) Evaluate four situations where board members are expected to disclose conflict of interest while conducting an organisation's business. (4 marks)
- (b) With reference to listed companies, analyse six roles of Capital Markets Authority in promotion of corporate governance in your country. (6 marks)
- (c) Examine five considerations which could be taken into account while developing a whistle blowing policy. (5 marks)
- (Total: 15 marks)**

QUESTION FIVE

With reference to professional ethics, discuss the following:

- (a) Two obligations imposed on employed professionals with regard to the principle of confidentiality. (4 marks)
- (b) Five threats which might hinder compliance with fundamental principles prescribed by professional bodies. (10 marks)
- (c) The meaning of "professional judgement". (1 mark)
- (Total: 15 marks)**
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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: 29 November 2017.

Time Allowed: 3 hours.

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). (10 marks)
- (b) Describe four potential risks that might befall VRS as a result of non-compliance with the statutory and legal framework. (4 marks)

- (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)**
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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

WEDNESDAY: 24 May 2017.

Time Allowed: 3 hours.

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 Olomide 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 Olomide 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 Samatundu, Brenda's daughter offers financial consultancy services to the company while Benard Longomba, the company's Chief Operating Officer is the brother-in law to Brian Batubenga. Biden 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 transits from being privately owned to being listed on the Securities Exchange. (6 marks)

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- (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 aspects 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.

Time Allowed: 3 hours.

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 floatation 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.

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- 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:

- Examine five corporate governance issues in the management of Kila Kitu Petroleum Limited (KKPL). (10 marks)
 - Assess the recourse available to shareholders of KKPL in the light of the fraud which was revealed through the forensic audit. (10 marks)
 - 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)
 - Assuming that you have been approached by KKPL to formulate a recovery plan for the company:
 - Discuss five schools of thought whose principles you could utilise during the strategy formulation. (5 marks)
 - Propose five steps that KKPL could follow if it decided to undertake a divestiture. (5 marks)
- (Total: 40 marks)**

QUESTION TWO

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

QUESTION THREE

- Explain five responsibilities of the chairman of an audit committee. (5 marks)
 - Discuss six steps that guide the strategic decision making process in an organisation. (6 marks)
 - Beeball 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

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

QUESTION FIVE

- Argue the case against corporate social responsibility. (6 marks)
 - 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)
 - 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 resulted 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.

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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. Mere lip 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)

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)
- (Total: 15 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

WEDNESDAY: 25 November 2015.

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. (8 marks)
- (b) Citing four reasons, justify why the board of CVL should support the franchising option. (8 marks)

- (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 employees performance appraisal are carried out in organisations. (4 marks)
- (Total: 15 marks)**
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KASNEB

CPA PART III SECTION 5

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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 2003, 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)

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- (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)**
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