



CS PART III SECTION 5

GOVERNANCE AND ETHICS

FRIDAY: 27 November 2020.

Time Allowed: 3 hours.

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

QUESTION ONE

LAKESIDE FERRY LIMITED (LFL)

Lakeside Ferry Limited (LFL) is a public limited company that provides both vehicle and passenger ferry services on a border lake connecting two landlocked Countries in Central Africa. The company was established in Maloa, a landlocked country in 1946 during the colonial period to promote commerce and international relations between Maloa and its neighbours.

LFL has had a good corporate governance reputation and has received a number of governance awards over the years. In 2016, LFL was ranked fourth in a Corporate Governance Index administered by the Country's Corporate Secretarial Professional Body. The award assessed participating institutions; corporate governance, transparency, stakeholder relations, legal compliance and compliance with varied codes of corporate governance, structure of the board, directors compensation, integrated reporting and corporate social responsibility.

LFL believes in effective board and executive management, board composition, diversity and experience are key parameters in the appointment of board members. LFL believes that board diversity brings in new skills and perspectives to the board. Term limits also ensure board members are constantly changed to ensure an independent and diverse board. The board is led by a Chairman and other non-executive board members who hold directorships in other organisations and bring a wealth of board experience.

In 2016 LFL had a board of nine members, six executive and three non-executive and four board Committees. These were Audit Committee, Remuneration Committee, Finance Committee and Nomination Committee.

In the past couple of years LFL board has experienced significant changes in board and executive management. Four senior managers have left the Company. They held key positions such as Chief Finance Officer, Chief Maintenance Officer, Chief Operating Officer and Chief Manager Corporate Communications.

In the financial year 2017/2018 two non-executive directors resigned citing personal reasons and there was no reappointment leaving LFL with only seven directors. Despite being a public organisation, LFL had a good financial performance and safety track record. However, it had its own challenges the most pressing being overcrowding on the ferries. Other customer complaints have been on long queues, lateness and pick pockets on the ferries. In 2018, LFL announced a fare hike of 3% citing rising costs of fuel in international oil markets. The previous fare hike had been in 2010. Commuters grudgingly accepted the fare hike but on the other hand expected better services. The commuters felt that despite the hike, there was no improvement in service delivery leading to increased discontent among them.

On the morning of 17 November 2018, LFL services experienced a major disruption. Two ferries, one on the South-West service and another on the Middle Service stalled Mid-lake leaving passengers stranded on the ferries and onshore. Engineers were dispatched and were able to carry out repair after two hours, after which the ferry services resumed. Again on 8 December 2018 ferry services were disrupted on the East-North service when two ferries collided mid-lake. There were no fatalities but a number of passengers were injured and two vehicles were tossed overboard and sunk. The management reassigned one ferry from the Middle line to serve the East-North service as salvage and recovery activities went on. After three days of transport chaos and public outcry, LFL contracted one of the small private ferry to ease services. Commuters complained that this was too little too late. Also during the crisis, the company issued a number of contradictory statements and inaccurate information which it later corrected.

Due to these mishaps, State Department of Transport and Infrastructure appointed a 7 member taskforce to investigate the recent incidents. This led to the withdrawal of the affected ferries for inspection and repairs, causing major disruptions again. The task force reported that the ferries were not maintained and serviced according to the manufacturers' service schedules and by authorised service dealers, and that LFL was using unlicensed and inexperienced Coxswains. It also established that the Coxswains were overworked due to staff shortages. The taskforce established that the LFL response to the emergencies was slow, haphazard and unplanned. The task force further established that the budget allocated for maintenance and repairs was inadequate.

The incidents at LFL led to a public outcry with the demand that the CEO, should step down. He called a press conference and communicated that he was not ready to step down. However, due to mounting Public Pressure for accountability he resigned on 18 January 2019. This created a succession challenge to LFL due to the fact that there were no senior managers qualified to be appointed to the position on acting capacity until a substantive CEO was recruited. Following the CEO's resignation, the board resolved to appoint the remaining non-executive director to assume executive responsibility while the board recruited a new CEO.

Required:

- (a) Evaluate five duties of the directors of Lakeside Ferry Limited (LFL) in relation to stakeholder relationship management. (10 marks)
- (b) Analyse four weakness of the risk management and crisis management procedures at LFL. (8 marks)
- (c) Citing four reasons, justify whether the board of directors of LFL should be held responsible for the challenges before, during and after the ferry services disruptions. (8 marks)
- (d) "There was a number of resignations of senior management staff over a very short period of time prior to the ferry services disruptions threatening the sustainability of LFL business processes".

Advise the board of LFL on five steps that it should take in implementing oversight of corporate sustainability. (10 marks)

- (e) Propose four benefits of succession planning strategy to LFL. (4 marks)

(Total: 40 marks)

QUESTION TWO

- (a) Analyse five obligations of the shareholders towards the management of a company. (5 marks)
- (b) As a governance consultant, advise on six key issues to be covered during the training and development workshop of a new board of directors. (6 marks)
- (c) Summarise four objectives of conflict of interest register. (4 marks)

(Total: 15 marks)

QUESTION THREE

- (a) Citing five reasons, justify the need for investors education in promoting good corporate governance. (5 marks)
- (b) Describe the "policy board model" for non-profit organisations. (4 marks)
- (c) A board charter helps the board in directing the organisation to maximise long-term value of services provided to all stakeholders.

Citing six benefits of a board charter, support the above statement. (6 marks)

(Total: 15 marks)

QUESTION FOUR

- (a) With reference to the shift in corporate governance practices, describe the following terms.
 - (i) Outward accountability. (2 marks)
 - (ii) Collaborative governance. (2 marks)
 - (iii) e-governance. (2 marks)

- (b) Social audit is one of the ways through which companies manage risks. Argue four cases against social audit. (4 marks)
- (c) Examine five merits of the stakeholder theory of good corporate governance. (5 marks)

Total: 15 marks

QUESTION FIVE

- (a) Outline six components of an effective compliance programme. (6 marks)
- (b) Propose five strategies that could be employed to minimise insider trading. (5 marks)
- (c) Suggest four advantages of the virtual organisation model that is currently embraced by many organisations. (4 marks)

(Total: 15 marks)

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