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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: 19 May 2021.

Time Allowed: 3 hours.

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

#### QUESTION ONE

##### TABS GROUP LIMITED (TGL)

Tabs Group Limited (TGL) was established 50 years ago with the purpose of improving quality of life (human, animal and crops) across the African Region. Initially established as a family business, the group is now a public limited company with its head office in Kenya. TGL has operations in thirteen African Countries and a workforce of over 800 staff members. Currently, the group has four subsidiaries; Metapharma Ltd. which deals with human medicines, Thrift Ltd. which deals with veterinary products, Cheminex Ltd. which deals with detergents, fertilisers, school equipment and industrial chemicals and finally Dwellings Ltd., a company which deals with real estate and affordable housing.

Expansion and growth across the continent has mainly been achieved through a mix of both greenfield and brownfield investments. The latest investment by TGL is a state of the art manufacturing facility for vaccines in Gabon. The facility will be used to manufacture Covid-19 vaccines to curb the spread of Corona Virus in Africa. It is feared that many vaccines in the market may not be effective especially on the South African Covid-19 variant. The group has outperformed its peers and sustained a compounded annual growth rate of 6% over the last five years. However, the performance of the real estate venture has been on a declining trend and the board has proposed divestiture in the next two years. The staff and management of Dwellings Ltd. are anxious about this new development.

TGL has an elaborate corporate governance framework that has drawn international accolades, including gaining recognition by the UN Global Compact for its transparency in reporting. TGL's board comprises thirteen members, eight of whom are independent non-executive directors. The board has three committees: nominations, audit and remuneration. Similar structures are replicated by the subsidiary companies. Three directors of each subsidiary are executive directors recruited by the TGL leadership and with reporting responsibilities to the Group Chief Executive Officer (CEO) and the Chief Operations Officer (COO). In addition, TGL has a group executive committee (ExCo) which is the highest executive committee and advisory body to the Group CEO. The committee discusses matters that significantly impact on management, such as group management strategy and business executive policy. The ExCo holds a retreat annually to review group performance and formulate harmonised annual operational plans for each subsidiary. Most of TGL's executive directors have served cumulatively for over ten years and their terms continue to be renewed by shareholders owing to their great confidence in them. However, there have been concerns regarding high turnover of non-executive directors in two of its subsidiaries in the recent past.

The group appreciates the stifling role of corruption to the realisation of Africa's potential in terms of sustainable development, and the attendant spotlight on the private sector in the discourse on corruption. Particularly, the board of directors is concerned about the perception that public tenders are not awarded in a level playing field and fairly competed for in two of its countries of operations. As part of its corporate sustainability, TGL is committed to maintaining its strong internal systems and controls. The group has maintained practices of sharing internal policies, experiences and success stories with external stakeholders, in support of ongoing efforts by governments in the countries where it operates.

Additionally, the group has set up a foundation (TGL Sustainability Foundation) to coordinate its corporate social responsibility initiatives. The foundation whose board is chaired by the Group COO, has set its eyes on three priority areas: participating in ventures aimed at increasing transparency in the supply of medication to vulnerable populations, supporting medical camps and finally supporting ethical disposal of medical waste. Overall, TGL plans to double its spending on corporate social responsibility to 1.5% of its gross turnover.



One of TGL's subsidiaries, Metapharma Ltd. was recently embroiled in a public scandal regarding irregularities in procurement and supply of medical equipment for the Covid 19 response. Although the company directors were confident that Metapharma's actions were above board, the attention and cross national interest that this matter attracted as well as the emotive rants which exploded on social media platforms, have potential to damage the firm's reputation and image. The directors of TGL believe that they need to scale up their involvement in procurement matters so as to mitigate against such emerging risks.

Cognisant of the fact that TGL's current five year strategy implementation period comes to an end in six months, the board commissioned an end of strategy term review, including operational review of its subsidiaries. The scope of the comprehensive review, undertaken by a renowned OECD governance and balance score card (BSC) consultant includes review of performance against the strategic plan targets, evaluation of board performance and risk management. The findings of the review will inform the next strategy formulation of an Enterprise Risk Management Roadmap and reconstitution of boards for the four subsidiaries. With regards to addressing the risks associated with corruption, the board is confident that the consultant will share experiences from OECD countries in the recommendations.

**Required:**

- (a) Advise on four measures that TGL's management could adopt to manage the staff anxiety and concerns as it pursues divestiture of Dwellings Ltd. (8 marks)
  - (b) With regard to the Board of Directors of TGL and its subsidiaries:
    - (i) Explain four roles of the nominations committee. (4 marks)
    - (ii) Describe four ways in which TGL's nominations committee could approach the task of nominating and appointing new directors to mitigate the high turnover of directors of its subsidiary companies. (4 marks)
  - (c) Explain five benefits of an elaborate corporate governance framework to TGL. (5 marks)
  - (d) Discuss three roles of the board of directors with regard to procurement at TGL. (6 marks)
  - (e) In the context of strategies adopted by TGL in expanding its operations to foreign countries:
    - (i) Explain the concept of greenfield investment. (2 marks)
    - (ii) Analyse three benefits that might accrue to TGL by adopting greenfield investment approach. (3 marks)
  - (f) Suggest eight topical aspects/items that the consultant hired by TGL could incorporate in the evaluation of the effectiveness of the board of TGL and the boards of its subsidiaries. (8 marks)
- (Total: 40 marks)**

**QUESTION TWO**

- (a) Explain six reasons why companies establish and implement Codes of Conduct. (6 marks)
  - (b) Hiring children in your business could be viewed as ethically wrong.  
Assess the above statement from the following ethical perspectives:
    - (i) Teleological (consequentialist) ethical perspective. (2 marks)
    - (ii) Deontological (universal) ethical perspective. (2 marks)
  - (c) Analyse the five steps of an organisation's Enterprise Risk Management (ERM) process. (5 marks)
- (Total: 15 marks)**

**QUESTION THREE**

- (a) Evaluation of an organisation's strategy facilitates the assessment of efficiency and effectiveness of the chosen strategies.  
With reference to the above statement, discuss three aspects that might be used to evaluate an organisation's strategies before implementation. (6 marks)
  - (b) Evaluate three roles of an Audit Committee with regard to the internal control system and the internal audit function. (6 marks)
  - (c) Outline six steps that you might take when faced with an ethical dilemma. (3 marks)
- (Total: 15 marks)**



#### QUESTION FOUR

- (a) It has been argued that Non Executive Directors (NEDS) are ineffective in their role in an organisation.

**Required:**

Explain six possible causes of this ineffectiveness.

(6 marks)

- (b) Summarise four roles of management in strategy execution.

(4 marks)

- (c) An organisation has many actions and activities that demonstrate the existence and implementation of a Corporate Social Responsibility policy.

**Required:**

Analyse five such actions and activities.

(5 marks)

**(Total: 15 marks)**

#### QUESTION FIVE

- (a) With regard to contemporary theories of management, discuss three categories of Henry Mintzberg's roles of management.

(9 marks)

- (b) Highlight six ways in which a director of a company might vacate office.

(6 marks)

**(Total: 15 marks)**

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