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: 1 September 2021. **Time Allowed: 3 hours.**

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

QUESTION ONE

CLINKER CEMENT COMPANY (CCC)

Clinker Cement Company popularly referred to as CCC is a Kenyan based cement company specialising in the manufacturing and selling of cement and cement related products. Incorporated in Kenya in 1913 at Nairobi's Industrial Area, the company moved its headquarters to Nakuru Town, but expanded its operations in the whole of East Africa. The company is the first in the cement sector in the region to set up a fully fledged Research and Development Unit. This placed the company at a position of being a strategic leader in innovations.

Cement manufacturers in the region are wading through turbulent times, with profits falling and some going into loss making territory, as a result of stiff competition from cheap imports, high power costs and low demand in the housing and construction sectors. CCC once the region's leading cement producer is in trouble. In February 2021, the firm announced that the net loss for the six months to December 2020 had worsened nearly four times to Sh.96 million. The management attributed this drop to the economy and the effects of COVID-19. In the year 2019, CCC's cost of sales dropped by five per cent to Sh.2.92 billion. According to the management, cost of sales would have been even less were it not for a significant increase in price of coal and electricity. During the same period, revenue declined by 18 per cent due to slow market uptake of the company's products on account of prolonged political activities. These activities dampened investment decisions leading to slowed economic activities. This was further impacted by the knock-on effects of interest rates capping and prolonged drought on the general macro-economic environment.

In its financial reports for the year 2020, the company stated that it was heavily burdened by debt with finance cost for the year to December 2020 rising to Sh.80 million. The bulk of this being interest charged on overdrafts and short term loans. The total debts for year 2020 amounted to Sh.260 million with Sh.89 million being expected to be repaid before the end of December 2021. Out of the company's total loans, Sh.10 million was owed to an equity fund partner based in Japan. This loan was guaranteed by the Government of Kenya.

In March 2021, the company halted production of cement due to challenges of procuring raw materials from abroad. Most of the quarries where raw materials such as limestone were sourced from had shut down due to emergence and spread of COVID-19. This led to a near stock-out of cement in the market denying the company the much needed revenue.

During the company's Annual General Meeting which was held virtually, the CEO explained to the shareholders that although the company was facing production challenges, the future outlook of the company was bright. It was expected that the discovery of a COVID-19 vaccine would greatly contribute to economic recovery. The supply of raw materials would therefore normalise as a result of many people receiving the vaccine and quarries which had been closed re-opened. The cost of importation of coal was expected to drop once the production companies resumed full operations.

In the Kenyan market, CCC has been facing stiff competition majorly through price wars. The company's market share has gone down significantly. In December 2019, CCC retrenched 500 employees citing its inability to afford salaries for all its workers. Some of the employees who were retrenched claimed that they had been maliciously targeted. The affected employees went to court to contest the retrenchment decision. The company is yet to pay its former employees their terminal and severance dues. For the past 2 years, the company has also not been remitting pay-as-you-earn (PAYE) tax for its employees in Kenya to the Kenya Revenue Authority.

Despite all the challenges faced by CCC, the Board and Management remains optimistic. The government's push for affordable housing, major construction projects such as the Nairobi Expressway and the extension of the standard gauge railway (SGR) from Suswa to Malaba are some of the projects the company is banking on to shore up its revenues. The company also plans to enter the South Africa market once it returns to profitability.

Required:

(a) Discuss five foreign market strategies that Clinker Cement Company (CCC) could use to penetrate the South Africa market. (10 marks)

(b) With reference to environmental analysis for CCC, prepare:

(i) A SWOT analysis. (8 marks)

(ii) A PESTLE analysis. (6 marks)

(c) Non-remittance of pay-as-you-earn (PAYE) tax deductions to Kenya Revenue Authority is unethical behaviour.

Required:

With reference to the above statement, explain four roles of CCC's Board of Directors in promotion of ethical behaviour at CCC. (8 marks)

(d) Propose eight ways that the management of CCC could use to reduce staff resistance to strategic change. (8 marks)

(Total: 40 marks)

QUESTION TWO

(a) Using the balanced score card approach, explain five approaches a manufacturing entity could use to evaluate its internal business processes. (5 marks)

(b) Highlight four ways of improving the effectiveness of the PESTLE analysis process. (4 marks)

(c) Explain six reasons why institutional investors might attempt to intervene in the governance of a company. (6 marks)

(Total: 15 marks)

QUESTION THREE

(a) Discuss four areas of corporate performance which should be of interest to the Board of Directors. (8 marks)

(b) Justify the use of benchmarking as a tool for performance management in an organisation. (7 marks)

(Total: 15 marks)

QUESTION FOUR

(a) With reference to good corporate governance practices, explain six benefits of stakeholder involvement. (6 marks)

(b) (i) Distinguish between "executive directors" and "non-executive directors". (4 marks)

(ii) Describe five duties of a director with regard to conflict of interest. (5 marks)

(Total: 15 marks)

QUESTION FIVE

(a) With regards to sustainability reporting, explain the term "triple bottom line". (2 marks)

(b) Enumerate three differences between "management" and "administration". (3 marks)

(c) Discuss five roles of the Board of Directors in enterprise risk management. (5 marks)

(d) Explain five strategies that regulators of capital markets could use to minimise insider trading in capital markets. (5 marks)

(Total: 15 marks)

....