

# 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)

- (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)**