



CPA PART III SECTION 5

CICT PART III SECTION 5

CIFA PART III SECTION 5

CCP PART III SECTION 5

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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