



**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: 22 May 2019.**

**Time Allowed: 3 hours.**

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

**QUESTION ONE**

**MASESE MINING LIMITED**

Masese Mining Limited (MML) is one of the most successful medium sized copper mining companies in the Republic of Congo and has its headquarters in Brazzaville, the country's capital city. The company was established in 1928 and employs over 4,000 people. The company recognises that to maintain the degree of success it has achieved over the years, it must adopt effective management strategies and good corporate governance practices, while at the same time create and maintain long term shareholder value.

In the late 1990s, MML suffered losses for several years that ultimately led to a high level of debt amid the global economic crisis. In the early years of 2000s, however, the world emerged into a period of greater stability. Convinced that the market pays for good corporate governance practices, MML chose to cancel its debt with the proceeds of an initial public offer (IPO) at the country's security exchange market in 2006. This IPO permitted the company to raise approximately Sh.11 billion. Prior to the IPO, the company took several critical steps towards improving its governance structure. These include:

- Restructuring the Board of Directors by incorporating independent directors and establishing Board Committees.
- Implementing a Code of Ethics and Governance Practice.
- Formation of a Corporate Governance and Compliance Committee.

In the course of reforms, MML implemented a comprehensive set of rules, strategies and regulations to ensure good corporate governance. The reforms were inspired by reference to recommendations in major International Codes of Best Practices such as the King's Code, the OECD Code and the Cadbury's Report. Minority shareholders were encouraged to participate in policy and decision making. To facilitate participation in its Annual General Meeting (AGM), the company sends a notice and agenda to its shareholders 28 days in advance. Shareholders also receive proxy forms.

The top management formulates broad policies which are submitted to the Board of MML for consideration and approval. MML's top management also oversees the business and is responsible for execution of the policy decisions of the Board of Directors. The chairman of the Board is elected by the Board members and the CEO is appointed by the Board. Other senior managers are selected by the nomination committee competitively. The Directors of the company are elected by the shareholders at the Annual General Meeting. Particulars of management remuneration are disclosed to shareholders and the public in the annual report as well as in the company's securities market filings. Board members receive a certain percentage of the annual net income of the company up to a maximum limit established by the AGM.

The company maintains that it is in its best interest to maintain high standards of social responsibility in order to ensure the long term success of its business. In particular, MML's social responsibility programme expenditure totalled Sh.500 million during the 2018 financial year. This included provision for water, education, health and roads. The company also reclaims its disused mines where it plants trees and other vegetation. Most of the MML's customers are industrial companies in the region, Asia and Europe. MML has developed a customer service charter that supports the relationship between MML and its customers.

MML's Board of Directors has 7 members, five of whom are independent. The company's commitment to the highest degree of disclosure to its shareholders has led to the appointment of a nominee of the Social Security Fund to sit on MML's Board and participate in committee activities.

There are four committees that support the Board's work namely; Audit, Compensation, Nominations and Corporate Governance and Compliance. Each committee includes a majority of independent directors with the audit committee composed solely of independent Board members. MML's Board chairman and the CEO's roles are separate. This ensures Board impartiality in providing oversight roles. MML conducts periodic evaluation of the Board.

The Board approved a code of ethics and governance practice that is available to all stakeholders and is a required reading for company employees and Board members. The ethics and compliance officer reports to the audit committee. Both the ethics and compliance officer and the audit committee chairman can receive reports under the company's "Whistle-Blower Programme" set to enable company stakeholders to report anonymously when they suspect or have information about possible code violations.

MML adheres to International Financial Reporting Standards and the financial reports are audited by an independent external auditor who is accountable to the MML Board. Additionally, the company discloses all business relationships and material provisions of contracts to shareholders. MML's Chief of Internal Audit directly reports to the Board.

For MML to achieve its strategic objectives, the company adopted the European Foundation for Quality Management (EFQM) business excellence model as a strategic monitoring and evaluation tool.

**Required:**

- (a) (i) Explain five roles of the independent directors at MML in enhancing good corporate governance practices. (5 marks)
- (ii) Suggest five other measures (with exception of the ones mentioned in the case study) which could be adopted by MML to improve its corporate governance. (5 marks)
- (b) MML has a "Whistle Blower Programme".
- Assess five quality disclosures that an employee of MML could use as a defence in case of unfair dismissal for whistle blowing. (10 marks)
- (c) With reference to strategic monitoring and evaluation, analyse six benefits that MML could derive from adoption of European Foundation for Quality Management (EFQM) business excellence model. (6 marks)
- (d) One of the roles of top management is to formulate broad policies which are submitted to the Board for consideration and approval.
- Examine six other possible roles of the top management of MML. (6 marks)
- (e) Discuss four types of corporate social responsibility that MML could engage in. (8 marks)
- (Total: 40 marks)**

**QUESTION TWO**

- (a) Examine six distinguishing characteristics between "strategic decisions" and "tactical decisions". (6 marks)
- (b) The Ansoff Matrix provides a way of generating directions for corporate strategy.
- With reference to the above statement, evaluate the limitations of each of the four strategies in the Ansoff Matrix. (4 marks)
- (c) Suggest five ways of improving the effectiveness of SWOT analysis. (5 marks)
- (Total: 15 marks)**

**QUESTION THREE**

- (a) Companies must continually examine the value they create in order to retain their competitive advantage.
- With reference to the above statement, assess the roles of the five components of the primary activities in Michael Porter's value chain model. (5 marks)
- (b) In the context of strategy evaluation:
- (i) Explain why the balanced scorecard approach is more preferred than traditional approaches. (4 marks)
- (ii) Summarise four drawbacks of using the balanced scorecard. (4 marks)
- (c) Analyse two levels in an organisation at which strategic evaluation is done. (2 marks)
- (Total: 15 marks)**

**QUESTION FOUR**

- (a) Evaluate five shortcomings of stewardship approach to corporate governance. (5 marks)
  - (b) In the context of enterprise risk management, examine six techniques used by organisations to identify risks. (6 marks)
  - (c) Describe four unethical issues commonly associated with collection of business intelligence information from competitors. (4 marks)
- (Total: 15 marks)**

**QUESTION FIVE**

- (a) Discuss any five categories of the Baldrige criteria for performance excellence. (10 marks)
  - (b) Explain five benefits that might accrue to an organisation with a Board of Directors which is well diversified in terms of gender. (5 marks)
- (Total: 15 marks)**
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