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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**

**THURSDAY: 26 November 2020.**

**Time Allowed: 3 hours.**

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

**QUESTION ONE**

**MAMBA GROUP LIMITED (MGL)**

Headquartered in Mombasa Kenya, Mamba Group Limited (MGL) has been one of the largest manufacturers and marketers of food, home and personal care brands, and baby products in Kenya for several decades.

Founded in 1957, the consumer goods company has applied expansion, acquisition and joint ventures to achieve a distribution network that now spans across more than eight African countries. Apart from its operations in Kenya, MGL also has interests in international food business in Tanzania, Malawi, South Sudan, Uganda and Rwanda. For the period between January 2018 and December 2018, MGL reported a 5% increase in operating profit from domestic business. The group's turnover increased by 6% to Sh.3 billion, but the operating profit declined by 3% to Sh.0.5 billion during the same period.

In an effort to conserve the environment, the use of micro plastics in all personal care products was phased out by the group in the year 2015. MGL's strategies today are more focused on sustainable and ethical values. In January 2019, MGL recruited a new chief sustainability officer (CSO). The firm's new CSO, Jack Safari has been questioning whether attempts to be socially responsible are contributing to the firm's declining bottom line. This is because their competitors are not keen on social responsibility.

In the last senior management meeting, Jack Safari recommended that this issue be seriously interrogated by the internal auditor and the external audit team too. In April 2019, the Competition Authority found MGL and its competitors Zura Foods and Bidii Foods, guilty of anti-competitive behaviour and conspiring to increase the price of product Zee. Zura Foods paid a penalty of Sh.2 million to the Competition Authority while Bidii Foods was granted immunity for co-operating with the Competition Authority. Despite co-operating with the Competition Authority, MGL had to pay a fine of Sh.1 million.

MGL's twenty member Board of Directors is concerned since they were unaware of these anti-competitive practices. They believed that the adverse action could stifle the program towards their firm's aim of being the continent's most admired brand for consumer packaged goods; and that of being a high performing fast moving consumer goods company. The Board is considering several key decisions including:

- Reviewing the firm's organisation structure from a functional one to a more flexible structure.
- Hiring a chief legal officer.
- Scaling up the implementation of an automated balanced score card performance management system.
- Public listing of the firm.

**Required:**

(a) With reference to MGL's organisational design:

- (i) Examine three elements of an organisational structure. (6 marks)
- (ii) With the aid of relevant diagrams, analyse three alternative structural modifications which could be made to MGL's functional organisation structure to make it more flexible. (9 marks)

- (b) Jack Safari has been against MGL's stance on environmental conservation.

In relation to the above statement, provide four reasons why MGL should be environmentally responsible. (8 marks)

- (c) The Board of Directors of MGL claimed that they were unaware of the anti-competitive practices which led to imposition of a penalty by the Competition Authority.

(i) Examine four duties expected of MGL's Board of Directors. (8 marks)

(ii) Citing three reasons, justify the need to reduce the size of MGL's Board of Directors. (3 marks)

- (d) Discuss three non-financial measures of performance that MGL could focus on as it rolls out the Balanced Scorecard system. (6 marks)

**(Total: 40 marks)**

#### QUESTION TWO

- (a) Discuss five typical contents of a corporate code of ethics. (10 marks)

- (b) Corporate values describe the core ethics or principles which the organisation has committed to abide by.

Assess the relevance of corporate values to an organisation. (5 marks)

**(Total: 15 marks)**

#### QUESTION THREE

- (a) Describe five characteristics of corporate level strategies. (5 marks)

- (b) Highlight five challenges that an organisation operating without a stated mission might face. (5 marks)

- (c) You have been appointed as the Chief Executive Officer of Mawe Ltd. The company has a toxic culture where some managers bully junior employees. The negative culture has led to increased employee turnover and decreased employees motivation.

With reference to the above statement, explain five measures you would put in place in order to transform the negative workplace culture to positive workplace culture. (5 marks)

**(Total: 15 marks)**

#### QUESTION FOUR

- (a) With reference to corporate governance, distinguish between "rules based approach" and "principles based approach". (4 marks)

- (b) Competitor analysis is an essential component of corporate strategy. Most organisations however, do not get it right while analysing their competitors.

Explain six errors that are likely to be made by organisations in analysing their competitors. (6 marks)

- (c) Establishment of internal controls in organisations is an international best practice.

Explain five benefits of strong internal control systems. (5 marks)

**(Total: 15 marks)**

#### QUESTION FIVE

- (a) Examine five building blocks of professional judgement for corporate leaders today. (10 marks)

- (b) Analyse five criticisms of Fredrick Taylor's Scientific Management Theory. (5 marks)

**(Total: 15 marks)**

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