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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

WEDNESDAY: 28 November 2018. **Time Allowed: 3 hours.**

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

QUESTION ONE

METAL PROCESSING LIMITED (MPL)

Metal Processing Limited (MPL) was formed 10 years ago with the purpose of engaging in the business of buying scrap metal and reprocessing the same to produce a variety of metals. The demand of the company's products became instantly popular because they were designed to suit the needs of its different customers.

MPL is a wholly-owned subsidiary of Nepal Holdings Limited (NHL), a company established under a different legal framework from that in which MPL was established. The provisions relating to governance practices in many cases are not similar. For example, NHL operates under a highly regulated industry while MPL operates under minimal regulatory controls. This enables MPL to take certain business actions which for NHL would require prior approval from the regulator. The Board of Directors of NHL believes that it should exercise full control over the activities of MPL which has a separate Board of Directors.

Three of the sitting Board members of NHL are seconded to the Board of MPL but they are registered in their personal capacity as directors in MPL. The other four directors, making up the full board of seven members of MPL have been appointed from outside the Board of NHL. Therefore, NHL as a company does not sit in the Board of MPL.

In recent times, there have been frequent demands from the Board of NHL that certain operational actions by MPL be pre-approved by the Board of NHL before they are implemented. These include day to day business needs such as payments to suppliers. The Board of MPL feels constrained and limited in implementation of its business strategy, which is completely different from that of NHL. The nature of business of NHL is completely different from that of MPL.

One of the areas that has brought repeated misunderstanding between the Boards of NHL and MPL is the number of meetings held. The Board of NHL insists that good corporate governance practice requires not more than one meeting every three months. The Board of MPL has been holding two or more meetings quarterly in order to respond to the many demands of the business. In the process, a not so cordial relationship exists between the two Boards. Some Board members of NHL have been heard complaining openly that Board members of MPL end up earning more in terms of allowances than Board members of NHL, the parent company.

In order to address the information gap and misunderstanding between the two Boards, a three-day consultative session has been planned. Obviously, the three members seconded by the Board of NHL to sit in the Board of MPL feel confused.

A recent occupational safety and health (OSH) audit revealed that employees of MPL are highly exposed to fatal health hazards. This is an area of concern to the Board members of NHL and will be discussed in the consultative meeting. Potential flouting of basic consumer rights and employees rights by MPL could expose the company to legal suits. OSH administrators and consumer rights organisations in many countries are concerned by toxic metals such as arsenic, beryllium, lead and cadmium which build up in biological systems and become a health hazard. This often leads to loss of lives. NHL feels that MPL is not doing much especially on both consumer and employee safety and health education.

The Directors of NHL are convinced that for sustainability reasons and mitigation against legal suits, MPL should adopt the triple bottom line (TBL) accounting framework as a performance reporting tool. At the same time the company should act on the recommendations in the OSH audit report in order to avoid putting the lives of its employees at risk.

Required:

(a) Explain six reasons which could have led NHL to invest in MPL. (6 marks)

(b) As the Chairman of the Board of NHL, you feel that there has to be clear guidelines on how NHL, the holding company should control its subsidiaries.

With reference to the above statement, evaluate five broad guidelines your Board might formulate. (5 marks)

(c) Comment on the observations made by some directors of NHL that the directors of MPL, a subsidiary company are earning more in allowances than those of the parent company (NHL). (8 marks)

(d) Citing reasons, suggest four agenda items to be discussed at the planned three-day consultative session of the directors of both NHL and MPL which should lead to shared understanding between the two Boards. (8 marks)

(e) With reference to consumer protection and sustainability of the business of MPL, analyse:

(i) Three categories of triple bottom line measures which should constitute MPL's sustainability index. (6 marks)

(ii) Seven basic consumer rights that MPL should be aware of. (7 marks)

(Total: 40 marks)

QUESTION TWO

(a) A company operating in a declining industry might experience reduced profitability in addition to other shocks.

With reference to the above statement, discuss four strategies firms apply in order to survive in a declining industry. (8 marks)

(b) (i) Explain the term "internal benchmarking" as used in an organisation. (2 marks)

(ii) Describe five challenges which an organisation is likely to face while carrying out internal benchmarking. (5 marks)

(Total: 15 marks)

QUESTION THREE

(a) In the context of business environment and citing a relevant example, explain the term "distinctive competency". (1 mark)

(b) Strategic change could be classified by the extent of change required and speed with which the change is achieved.

With reference to the above statement:

(i) Discuss four types of change. (8 marks)

(ii) Analyse three ways of instituting strategic change in an organisation. (6 marks)

(Total: 15 marks)

QUESTION FOUR

(a) Analyse one application in each of the following motivational theories in modern organisations:

(i) Elton Mayo's Hawthorne effect. (2 marks)

(ii) Victor Vroom's Expectancy theory. (2 marks)

(iii) John Stacy Adam's Equity theory. (2 marks)

(iv) B. F. Skinner's Reinforcement theory. (2 marks)

(v) Herzberg's Two Factor Theory. (2 marks)

(b) According to a publication by African Development Bank in 2015 titled "Where are the women: Inclusive Boardrooms in Africa's top listed companies", women had 12.7% of Board directorship in listed companies based in Africa and 17.3% of Board directorship globally.

A report on corporate performance and women's representation on Boards, by Catalyst, a global non-profit making organisation established that Fortune 500 companies with the highest representation of women on the board of directors attained significantly higher financial performance than those with lowest representation of women on the board of directors.

Required:
With reference to the above statements, summarise five factors responsible for under representation of women in Boards of listed companies. (5 marks)

(Total: 15 marks)

QUESTION FIVE

(a) In the context of enterprise risk management, explain the following:

(i) Risk capacity. (2 marks)

(ii) Risk appetite. (2 marks)

(iii) Risk tolerance. (2 marks)

(b) Analyse six circumstances under which a director could be held personally liable for loss, damage or costs incurred by the company. (6 marks)

(c) Highlight three roles of a mission statement of a company. (3 marks)

(Total: 15 marks)

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