

# 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: 25 November 2015.

Time Allowed: 3 hours.

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

### QUESTION ONE

#### CLASSIC VENTURES LIMITED (CVL)

Classic Ventures Limited (CVL) is a company which deals in office furniture. In 2007, CVL began a journey with a long-term vision of increasing its revenue by 50% over a period of 10 years. Before officially launching its vision, CVL had formulated a strategic plan to serve as the road map for the achievement of its goals. During formulation of the strategic plan, CVL analysed both internal and external environmental factors affecting the company and also evaluated its strengths, weaknesses, opportunities and threats. After eight years of operations, CVL is at approximately 70% of achieving its 10 year goal.

According to the management, CVL's success could be attributed to the well structured board of directors, clear organisational structure, embracing good corporate governance practices through fair dealing with all stakeholders, and a system of widespread accountability and transparency.

The operating principles of CVL which are; to maximise shareholders' wealth, facilitate investment, promote customer satisfaction, reduce staff turnover and corporate social responsibility are fully observed. The latest corporate governance report of CVL as contained in its annual report shows the details of the planning and control systems applied within the company and the various committees of the board, namely; audit committee, remuneration committee, nomination committee and risk committee.

The performance of CVL is reviewed by the various committees of the board and then presented to the board of directors for further review and consideration. Management set targets and these are then monitored via the balanced score card. The executive directors' remuneration is linked to performance. The management has in place a profit sharing scheme for staff, in an effort to motivate staff towards achieving the organisational goals. The strategic planning system is based on the principles underlying balanced score card. This approach, according to the CVL head of finance, allows the business to operate with the intention of meeting the needs of all stakeholders.

CVL also has a clear policy dealing with investment in staff training and effective recruitment which ensures that there is low staff turnover. In addition, CVL has put in place a successful ethics programme whose success indicators comprise; consistency between words and actions, openness, just rewards, and value driven programme.

There is a customer service software that ensures customers' concerns that are not addressed by CVL officers within twenty four hours, are brought to the attention of their superiors. This enhances operations and helps to meet the customers' needs.

Due to the increase in demand for office furniture, CVL is considering alternatives for expanding its operations. A proposal by one of the executive directors is to purchase a franchise from a foreign company which had expressed interest in trading with CVL. The Chief Executive Officer (CEO) is in agreement with this strategic option and plans to incorporate the proposal on the agenda for the next board meeting.

#### Required:

- (a) Propose four external environmental factors that could have been considered by the management of Classic Ventures Limited (CVL) while formulating its strategic plan. (8 marks)
- (b) Citing four reasons, justify why the board of CVL should support the franchising option. (8 marks)

- (c) Describe four features of the good governance system adopted by CVL. (8 marks)
  - (d) Explain four perspectives of the balanced score card which were used by CVL in achieving its goals. (8 marks)
  - (e) In relation to the ethics programme embraced by CVL, analyse each of the four factors mentioned as success indicators for the programme. (8 marks)
- (Total: 40 marks)**

**QUESTION TWO**

- (a) Describe the process followed in strategic planning and management. (7 marks)
  - (b) Discuss the importance of management in an organisation. (8 marks)
- (Total: 15 marks)**

**QUESTION THREE**

- (a) Explain three strategies which an organisation could use to manage risk. (6 marks)
  - (b) Discuss the board of directors structure in relation to the following:
    - (i) The size of the board. (3 marks)
    - (ii) The skills mix. (3 marks)
    - (iii) Appointment of directors. (3 marks)
- (Total: 15 marks)**

**QUESTION FOUR**

- (a) (i) Explain the meaning of the term “whistleblower” as used in governance and ethics. (2 marks)
  - (ii) Examine three conditions that need to be fulfilled before whistle-blowing. (3 marks)
  - (b) Propose five ways of mitigating conflict of interest within an organisation. (5 marks)
  - (c) In a change management forum, one of the facilitators noted that “change in an organisation can be triggered by a number of external and internal factors”.  
 With reference to the above statement, summarise five internal factors that might trigger change in an organisation. (5 marks)
- (Total: 15 marks)**

**QUESTION FIVE**

- (a) Summarise three limitations of the scientific management school of thought. (3 marks)
  - (b) Analyse four different forms of organisation structure in your country. (8 marks)
  - (c) Highlight four reasons why employees performance appraisal are carried out in organisations. (4 marks)
- (Total: 15 marks)**