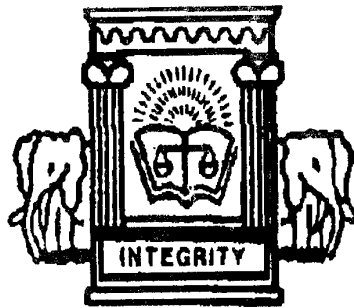


**THE INSTITUTE OF CHARTERED  
ACCOUNTANTS (GHANA)**



**MAY 2012 EXAMINATIONS  
(PROFESSIONAL)**

**PART 4**

**CORPORATE STRATEGY AND GOVERNANCE**

**(Paper 4.3)**

**Attempt Five (5) Questions in all.**

**Question 1 is compulsory**

**Answer 2 questions from Section B**

**Answer 2 questions from Section C**

**TIME ALLOWED:**

**Reading & Planning - 15 Minutes**

**Workings - 3 Hours**

## SECTION A: COMPULSORY CASE STUDY

### QUESTION 1

Read the following carefully and answer the questions which follow:

#### FINDING A SOLUTION TO ADUROPA'S POOR PERFORMANCE

Aduropa Limited, a pharmaceutical manufacturer established in 1985, has seen three changes to its Board of Directors during the last ten years. The new board was appointed in 2006 to find a lasting solution to the perennial problem of poor performance which has been with the company for more than five years. To the shareholders the solution is getting a 'good board'.

On assumption of office the new board had two main objectives – to change the downward trend in the company's performance and improve its corporate image. After a close scrutiny of the company's books, one of the directors remarked "it may take us about three years to pull the company out of the ground and another one year to lift it off the ground". The other directors agreed with him in principle but were not sure it would take that long.

A review of the company's financial records showed the following:

#### ADUROPA LIMITED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 2009

	2009 GHS'000	2008 GHS'000
Net sales	17,460	13,900
Cost of sales	(10,724)	(8,491)
Distribution costs	(4,917)	(3,937.5)
Administrative expenses	(1,907)	(1,484.5)
Finance cost	(110.50)	(152.5)
Other income	126.5	123.5
Net loss	(72)	(41)

#### Internal Operations

Aduropa has for a long time in its history, had a problem with its internal operations. The supply chain system is almost choked as poor sales are slowing down production and stock movements. Manufacturing and inventory costs are high and consequently reflecting in the high price of the products while demotivation resulting from the withdrawal of some incentives and irregular payment of salaries has led to a poor work culture.

The puzzle to solve is how to orchestrate a relationship among a large stock of high quality products, high costs and poor sales in order to break the quagmire at least in the short run and re-strategize. Most of the drugs will expire in one year's time.

### Customer Orientation

The only two products of the firm, Fastkick and Stopain, used to be very popular on the Ghanaian market and were the favourites of farmers, construction workers and many others. Today, they have lost their positions to others like Mr. Strong, Macho and Champion due to their prices, irregular supply and lack of advertising.

### Innovation and Learning

Year on year, management has discussed new product development as a means of increasing their product portfolio and total sales but this is never implemented. Very little is budgeted for research and development. Of equal concern to management are staff training and tooling but the organisation is constrained by lack of resources to implement these strategies.

At their last board meeting, the directors lamented the situation of the company and agreed that something drastic had to be done to save their image.

### The New Strategy

In consonance with the objectives of improving the company's performance and corporate image, some changes began to appear in the company's books. For the first time in five years the company declared a profit. Though very small, 5% was still encouraging.

Subsequently, in the following two years 20% and 30% respectively were declared as profits. The company's share price which had been the least among the listed companies on the Stock Exchange began to rise steadily, attracting many investors. A disagreement between the shareholders and the directors on the non-payment of dividends resulted in the appointment of a financial consultant to look into the books of Aduropa Limited. The true position of the company was worse than it was before the appointment of these directors. It had sunk deeper into the ground.

### ***Required:***

- (a) Using the common size statement evaluate the financial performance of Aduropa Limited. ***(9 marks)***
- (b) Evaluate the company using **three (3)** different non-financial performance measures. ***(6 marks)***
- (c) Outline any **two (2)** corporate governance issues involved in the case and suggest a solution to address each of them. ***(6 marks)***
- (d) Outline the qualities of a good Board of Directors. ***(4 marks)***
- (e) Suggest a solution to the puzzle in the internal operations of the company. ***(5 marks)***

**(Total: 30 marks)**

## SECTION B

Answer any two (2) questions from this section

### QUESTION 2

- (a) Explain the agency theory and the problem associated with it. *(6 marks)*
- (b) Discuss **three (3)** approaches that are often used to align management interests with those of shareholders. *(9 marks)*

**(Total: 15 marks)**

### QUESTION 3

The successful governance of a company, to a large extent, rests on the management of its finances. In view of this, the experience, skill and integrity of accountants and auditors are critical.

- (a) Discuss the role of accountants in corporate governance. *(6 marks)*
- (b) Outline **three (3)** problems that may occur in accounting in relation to corporate governance. *(3 marks)*
- (c) Describe the role of auditors in preventing or solving the problems you have identified in (b) above. *(6 marks)*

**(Total: 15 marks)**

### QUESTION 4

Corporate social responsibility is viewed as an integral part of corporate strategy.

Explain **five (5)** reasons to justify why strategists should be concerned about corporate social responsibility.

**15 marks**

## SECTION C

Answer any two (2) questions from this section

### QUESTION 5

The resource-based view (RBV) for internal analysis holds that some resources generate core competencies that are sources of sustained competitive advantage.

(a) Describe **four (4)** characteristics of valuable resources which enable organisations to gain competitive advantage.

*(16 marks)*

(b) Discuss the implications for internal analysis for strategy formulation.

*(4 marks)*

**(Total: 20 marks)**

### QUESTION 6

(a) Successful companies understand the impact of quality on the returns of their businesses. For this reason many companies continuously increase their quality standards. Identify and explain **three (3)** costs that companies have to deal with in order to produce quality products.

*(12 marks)*

(b) Explain **two (2)** ways in which quality differs in manufacturing and service organisations.

*(8 marks)*

## QUESTION 7

In Nagaria, the running of business courses at the tertiary level is limited to few institutions and there is fierce competition. The estimated market share and market growth for each of the courses in these institutions are shown below:

Courses	Market shares (%)				Market Growth (%)
	Akon University	Teron University	Dalon University	Others	
Marketing	15	35	30	20	10
Banking and Finance	40	20	30	10	40
Accounting	20	30	30	20	20
Human Resource	35	25	20	20	30
Other		50	35	15	15

- (a) Using an appropriate portfolio analysis model, evaluate the course portfolio of Akon University.

*(14 marks)*

- (b) Discuss **two (2)** alternative strategies that you would recommend for the course with the weakest performance in the portfolio.

*(6 marks)*

**(Total: 20 marks)**