

THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)



NOVEMBER 2011 EXAMINATIONS
(PROFESSIONAL)

PART 4

CORPORATE STRATEGY AND GOVERNANCE

(Paper 4.3)

Attempt any five (5) Questions

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:

BIG DREAMS CONTEMPLATES NEW STRATEGIC MOVES

Background

Big Dreams Limited was established in Ghana in October 2005 to process fresh fruits into soft drinks for sale in the domestic and foreign markets. To guarantee the supply of its main raw materials, the company has established a large processing plant in the Central Region close to a cluster of pineapple farms owned by individuals. The only product of the company is currently sold in 100 ml polythene sachets mainly to children in basic schools.

Objectives

Big Dreams has one long-term objective to export its products to Europe. This will enable it to earn foreign currency which could be used to import equipment and other components for expansion. Some of its short term objectives are: to increase market share and to make the highest possible profit.

Strategic Options and Choice

There are large tracts of arable land for farming and a number of farmers have offered to sell their farms because purchases are not guaranteed. Despite these alternatives, the company's management believes that it is cheaper and more convenient to buy pineapples from the farmers.

Strategy Implementation and Challenges

The company has outsourced the distribution of its products to another company – JCA Ltd. Despite the frequent breakdown of the trucks of JCA Ltd and increases in their charges, the Chief Executive Officer (CEO) of Big dreams is still convinced that the company is the best to do the distribution of the products. JCA Ltd is owned by the son of the CEO of Big Dreams Ltd.

The company has other challenges. The supplies from the farmers are unreliable and inadequate compared to the high demand for the product. The result is a frequent shortage of the raw materials and interruptions in the production process. Some members of management have suggested that Big dreams Ltd should establish its own plantation as a permanent solution to this problem. However, the Finance Manager who holds Higher National Diploma in Accountancy has warned that it would be wrong for the company to get directly involved in farming because this would be in conflict with its mission. He has proposed that instead, the company should focus on its core business – processing and distribution of the product. He argued that this explains his reason for purchasing packaging materials to last for 10 years and using some money to support the distribution company.

New Strategy

The company is considering introducing another brand of fruit drinks targeted at students in tertiary institutions. Based on feasibility studies the Financial Controller has provided data on two options.

Option 1

To spend GHS5,000 on an equipment that will produce excess of income over cash expenditure of GHS3,000 and GHS4,000 in the first and second year respectively.

Option 2

To spend GHS28,000 on an equipment which will earn GHS6,500 in the first year, GHS7,500 in the second, GHS8,500 in the third, GHS9,500 in the fourth and GHS10,500 in the fifth.

The company would not invest in any project unless it offers a return of 15% per annum.

- (a) You are required to evaluate the two options of introducing the new product and advise Big Dream Ltd. *(12 marks)*
- (b) Identify and explain **two (2)** weak corporate governance practices at Big Dreams Limited. *(4 marks)*
- (c) Discuss **two (2)** strategies that you would recommend for solving each of the following problems.
- (i) Irregular raw material supply
 - (ii) Poor distribution of products. *(8 marks)*
- (d) Explain **three (3)** factors that the management of Big Dreams should consider before going international. *(6 marks)*

(Total: 30 marks)

SECTION B:

Answer any two (2) questions from this section

QUESTION 2

The ethical code of a company spells out the standard of behavior that all employees are expected to meet.

- (a) Explain **three (3)** ethical behaviours expected of an employee of a company. *(9 marks)*

- (b) Discuss **two (2)** measures to deal with conflict of interest situations. *(6 marks)*

(Total: 15 marks)

QUESTION 3

In every economy the public is concerned about the actions of government especially when things go wrong. Thus, the government has to ensure that corporate governance activities continuously receive attention.

- (a) Explain **two (2)** roles government can play to ensure that corporate governance activities are sustained. *(6 marks)*

- (b) Discuss **three (3)** best practices in corporate governance. *(9 marks)*

(Total: 15 marks)

QUESTION 4

- (a) The main purpose of corporate governance is to maximize share value for shareholders of the company. Explain **three (3)** rights that shareholders have for protecting their interests. *(9 marks)*

- (b) Explain **three (3)** duties that directors of a company perform in order to promote shareholders' rights. *(6 marks)*

(Total: 15 marks)

SECTION C:

Answer any two (2) questions from this section

QUESTION 5

Every organisation has a responsibility to measure and report its performance to stakeholders.

- (a) Describe **three (3)** financial and **three (3)** non-financial measures that may be used to evaluate performance in an organisation.

(12 marks)

- (b) Explain **four (4)** reasons why financial measures alone are insufficient for evaluating the performance of an organisation.

(8 marks)

(Total: 20 marks)

QUESTION 6

You are the only officer in your organisation with a knowledge in corporate strategy. Management has requested that you give them a short lesson in International Business.

- (a) Identify and explain to them **five (5)** important reasons why organisations expand internationally.

(10 marks)

- (b) Discuss **five (5)** criteria that your organisation should consider when selecting an appropriate international market entry mode.

(10 marks)

(Total: 20 marks)

QUESTION 7

- (a) Managers work within a context that shapes what they have to do. Discuss **four (4)** ways that a manager may use to initiate change in an organisation.

(12 marks)

- (b) In assessing the internal environment of a business, an attempt should be made to explicitly identify its strengths. Explain **two (2)** reasons why strengths are of strategic significance to a business.

(8 marks)

(Total: 20 marks)