SOLUTION CORPORATE STRATEGY AND GOVERNANCE MAY 2010

(a) Power of Buyers

The company should consider the needs of its customers in the production and distribution of the soap.

Power of suppliers

The management must be certain that there are available suppliers who can provide them with the materials and services needed.

Available of Substitutes

Since there are several brands of soaps, Happy Daze Ltd should ensure that it produces quality soup for its customers.

Entry barriers

The company will have to maintain its position in the industry, by introducing additional brands/products.

…….. in the Industry

The company can use its quality products and skilled labour to …… the competition.

(b) i. Horizontal Analysis

	Change GH¢'000	% Change
Net sales	8,693	26.9
Cost of sales	(4,466)	26.3
Distribution costs	(1,959)	24.9
Administrative costs	(845)	28.5
Finance costs	84	27.5
Other income	6	2.4
Profit before taxation	1,513	33.7
Income tax	(470)	39.8
Profit after taxation	1,043	31.5

ii. Ratios (Examples)

Ratios (Examples)	2007	2006
After tax profit percentage of net sales	$\frac{4,354}{41,068} \times 100$ = 10%	$\frac{3311}{32,355} \times 100$ = 10%
Distribution expenses for sales	$\frac{9,834}{41,068} \times 100$ = 23%	$\frac{7,875}{32,375} \times 100$ = 24%
Profit to total assets	$\frac{6,004}{23,707} \times 100$ = 25%	$\frac{4,491}{18,448} \times 100$ = 24%
Cost of sales to sales	$\frac{21,448}{41,068} \times 100$ = 52%	$\frac{16,982}{32,375} \times 100$ = 52%

(c) i. The directors should consider availability of financial, physical and human resources.

ii. They must consider the prevailing culture in the countries they intend to have a presence.

iii. They must pay attention to the company's organisational structure.

iv. They should consider regulatory factors

v. The mode of entry.

(d) i. The leadership style of the chairman

ii. The company's pledge to conduct its business in transparent, ……….. and environmentally responsible manner

iii. The involvement of employees in decision making

iv. Favourable brand image.

QUESTION 2

Corporate governance refers to a system of structuring, operating and controlling a company with a view to achieving long-term goals to satisfy the organisation's stakeholders.

Corporate governance is important for both the organisation and its stakeholders for many reasons.

1. It ensures business prosperity. The existence of rules and regulations and accountability ensures that directors, management, employees endured to use the skills and experience to work and enhance the performance of the organisation in an honest, accountable and dedicated manner that improves the performance of the organisation.

2. Corporate governance ensures that the interests of stakeholders are fully taken account of. The effective management of the organisation in accordance with the principles of corporate governance ensures that shareholders, customers, employees and all the other stakeholders are not taken for granted.

3. The disclosure of information about the operations, relations remuneration and governance arrangements ensure investor confidence.

4. Good governance can make a significant contribution to the prevention or reduction of malpractice and fraud.

5. Good corporate governance also ensures that the business environment is transparent and that companies can be held accountable for their actions.

Internal governance controls monitor activities and then take corrective action to accomplish organisational goals. Some of these include:

- Monitoring the board of directors
- Internal control procedures and the use of internal auditors
- Balance of power to avoid conflict of interest
- Remuneration based on individual performance.

<u>SECTION B</u>

QUESTION 3

(a)

i. It can reduce the likelihood that matters of right and wrong will be left to individual interpretation.

ii. It can establish the tone of the business environment and instill in employees a sense of how to behave even in the absence of specific guidelines.

iii. It serves business interests because unethical behaviours increase the likelihood of government or media scrutiny along with potential legal or reputation costs.

iv. A code of ethics also serves as a consensus-guidance tool that employees can look to for guidance when they believe improper demands are being made of them.

v. Code of ethics can be useful in conveying values and beliefs that are important to a company's management or owners.

(b)

i. Management support is critical to the successful creation of a code of ethics. Company employees must know that management is fully committed to establishing the code.

ii. A company should seek ideas and suggesting from employees at every level of the organisation. Including employees input serves to create greater consensus and to communicate the importance of the code and the employees' support of it.

iii. Legal and regulatory development should be considered to ensure that the code does not conflict with recently enacted requirements.

iv. The code should be written as simply as possible, avoiding excessive legal terminology.

v. Management should communicate the rationale for various provisions of the code whenever possible.

QUESTION 4

(a) Shareholders can influence corporate governance on certain fundamental issues such as:

i. The election of board members

ii. Changes in capital

iii. Amendments to the Regulation of the company

iv. Approval of extraordinary transactions

v. Approval or election of auditors

vi. Approval of the distribution of profits

(b) i. Reviewing and guiding corporate strategy, major plans of action, risk policy and annual budgets.

ii. Selecting, compensating, monitoring and when necessary, replacing key executive and overseeing succession planning.

iii. Reviewing key executive and board remuneration and ensuring a formal and transparent board nomination process.

iv. Monitoring and managing conflicts of interest that may arise amongst management, board members and shareholders.

v. Ensuring the integrity of the company's accounting and financial reporting systems.

vi. Ensuring compliance with relevant laws

vii. Ensuring the credibility of the independent audit and the existence of appropriate internal control systems.

QUESTION 5

(a) A stakeholder is any person or group that either affects or is affected by the actions and decisions of a company.

A stakeholder analysis is a way of identifying stakeholders and the social, legal, ethical and economic responsibilities to those stakeholders.

(b) i. Identify stakeholders. The first step is to identify the stakeholders, which might include employees, owners, suppliers, customers and the community.

ii. Next you analysis the nature of each of these stakeholders interest. For example, the company's employees wish to remain employed; suppliers will need to assess whether they can continue providing materials to the company and soon.

iii. The third step is to assess each stakeholder's power and influence. This is important because it helps the company to prioritize how it responds to the various stakeholders. For example, in the current situation, employees likely have little power. They may threaten to strike or bring the matter to the attention of local media, but the effective power of these actions is limited.

iv. The fourth step will involve the assessments of the social, legal, ethical and economic responsibilities to the stakeholders. This step is critical because the company must be careful to assess its responsibilities to all stakeholders. For example, what are the company's responsibilities to employees? If the employees belong to a labour union, the union may have a contract that stipulates how the company must treat them. If this is the case, then there are clear economic responsibilities that the company must address.

v. The last step in the analysis requires the company to develop strategies to address the demand of the stakeholders. For example, if the company decides that closing the plant is the best decision, then it may also decide to provide job-training benefits to employees who lose their jobs.

QUESTION 6

(a) i. Determining the magnitude and characteristics of funds necessary to conduct business operations.

ii. Allocating reasons in the most efficient manner.

iii. Serving as an interface with creditors and shareholders concerning the financial position/condition of the organisation.

iv. Providing financial data to management in determining the feasibility of various strategic alternatives.

(b) i. Budgeting is a process by which management specifies the resources it will

employ to obtain the organisation's objectives. It also provides the means of measuring the successful accomplishment of the stated objectives within a specified period, normally one year.

ii. (a) Senior/top management must have a strong commitment to the budgeting

process.

(b) Budgets must be based on the objectives of the business.

(c) Regular reviews of the operating results in comparison to the budget must be conducted.

(d) All levels of management must be required to explain budget variances.

QUESTION 7

(a) A competitive advantage exists when a firm is able to deliver the same benefits as competitors but at lower cost or deliver benefits that exceed those of competing products. Thus, a competitive advantage enables the firm to create superior value for its customer and superior profits for itself.

(b) A value claim is a set of interrelated activities through which a firm creates a competitive advantage.

A value chain is made up of two sets of activities – primary and support activities.

Primary activities are made up of

- Informal logistics including receiving, warehousing and inventory control of inputs.
- Operations – the value creating activities that transform inputs into the final output.
- Outbound logistics – the activities required to get the finished product to the customers.
- Marketing and sales – activities associated with getting buyers to purchase the product, including channel selection, advertising, pricing etc.
- Service – activities that maintain and enhance the product's value including customer support repair services, etc

These primary value chain activities are facilitated by support activities which include:

- Procurement – the function of purchasing raw materials and inputs used in the value-creating activities.
- Technology – research and development process automation, etc used to support the activities.
- Human resource management – activities associated with recruiting, development and compensation of employees.
- Firm infrastructure – activities such as finance, legal, quality management etc.

In order to add value or achieve an advantage, management must do the following:

(i) Breakdown and analyse all the activities of the organisation.

(ii) Implement cost – or differentiation – related strategy.

(iii) Identify internal and external linkages between activities eg operations and technology and exploit these linkages by optimising and coordinating these activities to minimize cost or add value.

The result of this is that products are produced at a lower cost than competition or they appear to have a greater value than those of competitors.