

AUGUST 2022 PROFESSIONAL EXAMINATIONS
STRATEGIC CASE STUDY (PAPER 3.4)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME

EXAMINER'S GENERAL COMMENTS AND STANDARD OF THE PAPER

The paper described **Bazar Stores Company Ltd (Bazar)**, a retailing store company that started as a family business and has since spread to most regional and district capitals in Ghana with ongoing acquisition plan of Little Bee although not listed on stock market with challenging finance data, incomplete. Among the market leaders in Ghana, Bazar business model is not clear however there are number of challenges including Chairman dictatorship, high employees' turnover, low remuneration and weak Human Resources and Organisation culture. As a result of the challenges, the management attempted to introduce various measures but with limited impact on the bottom-line profit. Corporate governance structure is not clear but made up of the executive management and the Chairman. No clear coordination between Regional Managers and District Management, resulting in mistrust due to unannounced visit to shop flows. Supply chain management system is fragmented with manufactures and small farmer who are segregated and treated differently resulting in tension amount the key stakeholders due to the practices of discrimination.

The pre-seen was detailed and well-prepared candidates should have been able to provide good answers in the context of the retail stores industry. The unseen scenarios were interesting and presented some realistic questions on the industry.

The standard of the paper was extremely good, and the questions were clear with preambles to assist candidates. The coverage was broad and in line with the syllabus. The paper was heavy on the strategic application. All the questions were based on the recommended syllabus and study material of the Institute. Marks allocation followed the weightings in the syllabus and was fairly distributed to each question.

PERFORMANCE OF CANDIDATES

The overall performance of candidates was below expectation given how familiar or relatable the industry is and the depth of information provided especially the pre-seen. Many appeared to be ill-prepared for this examination and did not demonstrate the required level of technical knowledge and application of knowledge to the case study. Overall, candidates performed very well, especially question number Four and Six. There were a number of concerns relating to candidates performance in several other areas, this applies to most of questions especially question one, five and seven. In many cases candidates described wrong strategic models despite the fact that the questions required specific models. Model application to the case study remains a challenge to candidates resulting in loss of valuable marks to achieve a pass. All answers must be applied to the case study and should bring in aspects of the pre-seen information as well as the unseen (additional) information material. Answers which are purely rote learning were quite common in some requirements and this approach is awarded very low marks. There were also a number of candidates who gave very theoretical answers and did not apply them to the case study. Many candidate

answers lacked depth of development and therefore, although demonstrating a basic understanding and application of knowledge, they failed to accumulate sufficient marks due to not developing their answers sufficiently. Some answers were just shallow. Few candidates set their own question and answer which is very strange but evidence of lack of preparation.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

Strengths

The candidates did well in the Porter's strategic value chain question requiring identification of the chain activities and applied it to Bazar store operations as presented in the case study. Most of the candidates answered the question on and scored above 70% of the 10 marks allocated to the question. Application of Lewin's model transformational change was also well answered with majority of candidates scoring well above 80% of the 10 marks allocation to the question. Majority of student start questions on new page which is a good practice and commendable.

Weaknesses

Poor preparation by the candidates. The compelling evidence from the scripts points to poor preparation on the part of the candidates. The candidates scored very low marks because the answers provided were very shallow in terms of meeting the exact requirements. A good number of the students failed to answer all questions because they were not prepared with over 50% of candidates not attempting all questions, evidence of poor time management and application of exams techniques.

Despite the fact that formulae were provided to worked out Financial and Operating Gearing ratios candidates failed to apply them to the relevant questions and rather resorted to using other rations resulting in waste of exams precious time. About 55% of the candidates who attempted question Five scored below 15% of the total allocated 20 marks while a significant number did not answer them at all. Key to question five is the application of previous management account knowledge of variable cost. Ignored that when sales increases variable cost will also increase proportionately.

Poor or limited understanding of questions. The scripts revealed that candidates deviated in answering some of the questions. This problem was common with questions that demand application of some basic concepts, standards or frameworks. The questions that suffered most in this regard were question seven and eight which essentially required students to explain to Ghana's Code of Best Practices, ISO 31000 and OECD Principles of Corporate Governance. Most students who attempted it deviated.

Poor use of language. The examination scripts were characterised by poor English language construction and avoidable spelling mistakes. This affects the quality of the answers provided by some candidates not forgetting challenging handwriting. The problem of poor use of English language has featured in the previous Chief Examiners' reports. The candidates are encouraged to use language appropriately and practice questions to improve on their handwriting in terms of eligibility of writing.

INTRODUCTION

Bazar Stores Company Ltd (Bazar) is one of the largest food retailers in Ghana, employing over 2,500 staff in over 75 locations across the country. Bazar started its business operations over 64 years ago just after Ghana gained her independence, and has always had a reputation for high-quality goods, clean and efficient stores and a very professional approach to its business. It has a good track record of its dealings with the public with limited “bad press” and has remained ethical and loyal to the communities that it serves.

Bazar has expanded to most regional capitals and districts from its humble beginning in Accra and now has about 10 stores in the Northern part of Ghana especially border towns in the North, East and West. Bazar’s market share continued to grow during the last decade. The industry as a whole is becoming increasingly segmented between the big four Supermarkets (all of which place emphasis on good standards of customer services). High-quality goods, pleasant shopping atmosphere with visible security make shoppers feel secure. Bazar sells a wide range of products and some of the shops tend to be ‘discount’ stores. Like most retail outlets, the company is highly centralised, not only in terms of employee relation decisions but also in most aspects of management policy, such as buying decisions, store layout, pricing, financial controls and preferred management style.

There is tremendous rivalry between the market leaders both at national level (Regional Capitals) and locally (District capitals), with new stores opening having immediate effect upon sales in those areas. Close attention is paid to the activities of the competitors in terms of price, product range and store-design that are purported to be of high tech to facilitate services to shoppers. There has been a rush to open new stores in attractive locations, increasingly out of town to cater for the one-stop shop shoppers. Indeed, over the last few years, each of the major multiples has moved further up market, aiming to target more quality-conscious consumers, and this has increased the competition yet more. Customer demand also varies considerably, but usually in a fairly predictable manner, throughout the course of the day, week and year. For example, sales tend to increase during the week, with peaks on Saturdays and Sunday afternoons and trough on Wednesday mornings. This has implications for the number of staff employed at any one time, and it provides a rationale for the high proportion of part-time staff in the stores. The majority of sales staff on the sales floor are part-timers, and overall, about 65 percent of employees are part time. A large proportion of the staff are young (in their mid-20s), although those employed on the checkouts are just as likely to be in their mid-30s and early 40s due to the demand of the roles and responsibilities in the shop floors. As is the practice in the banking sector, employees provide the numerical flexibility management at ‘peak-time’ and this is deemed to be appropriate.

In a similar vein, the type of products sold also varies over the course of the year for obvious reasons, although sudden change in the weather and emerging harsh economic conditions are some of the causative factors. Product availability is another challenge and this is due to COVID-19 disrupting global supply chain systems. Worse is the recent war between Ukraine and Russia affecting supply. As with all supermarkets, the company relationship with its customers is vital.

Bazar’s relationship with supply chain stakeholders has historically been positive although perceived to be abusive especially when it favours Bazar. This is usually done with impunity as confirmed by some suppliers. Major manufacturers have been encouraged to discuss their requirements with senior personnel to develop trade for mutual benefit. The larger manufacturers often receive preferential arrangements for product facings and positioning

within stores. Relationship with smaller suppliers however have been the source of disquiet. Bazar has spent a considerable amount of time trying to build up relationship with those suppliers, to promote closer links between retailers and manufacturers. Code of Best Practices and Quality Assurance measures have been instituted for all suppliers. Representatives from Bazar regularly visit the suppliers to ensure compliance and to discuss product development, sales and joint promotional arrangements. Bazar refused to participate in research and development activities to assist manufacturers with healthy product development. However, Bazar is keen to promote a view of suppliers that puts them in the Bazar 'family' working together for mutual benefit. However, some suppliers have complained that Bazar is treating its family members with little loyalty, changing suppliers when alternative arrangements are more beneficial.

ORGANISATIONAL STRUCTURE

The organisational structure of Bazar is 'family centric management' while not interested in changing the structure any time soon. At the Head Office, there are some ranges of functions including Human Resources and Organisational Development and Finance and Operations which is also directly providing oversight to Procurement and Supply Chain Management-whose role is to implement the core policies and other advice to the stores. At the intermediate level, there are skeleton staff employed in several regions and again this includes finance and other officers. The Regional Managers are the main point of contact between the centre and the individual stores, visiting each store every two weeks on the average. Given the sustained growth rate of Bazar during the last decade, the Regional Management Teams have assumed responsibility for a growing number of stores and have been confronted with a number of requests for assistance at the store level. Although some managers might have little need for intermediate tier in the structure in the past, this viewpoint has less credence now that the number of stores has increased. Each store is run by a Store Manager who has a number of deputies with him or her, and below this there are a series of departmental heads covering such areas as grocery, warehouse, bakery and customer services. Finally, there are a number of junior managers, often supervising not more than a handful of people for sections such as fresh foods, delicacies or staff restaurant. The departmental and sectional managers spend a large proportion of their time with same duties as the staff they supervise.

MANAGEMENT STYLE

Traditionally, Bazar operated with a somehow authoritarian style of management described by some managers as almost autocratic and militaristic. In recent years, this has softened and there has been a drive to create a more 'open' style that encourage managers and supervisors to seek ideas from staff and to operate in an informal manner. To some extent this shift in approach has been stimulated by the fact that managers are highly dependent upon staff's consistent high-quality service to customers. The importance of quality and customer care is continually stressed to employees, partly because the company is exposed to high levels of competition, but also because of the need for Bazar to differentiate itself from other food retailers. The idea that staff should help to ensure that 'shopping is a pleasant experience' is made apparent during the induction period and subsequently re-informed through training programmes and messages on the noticeboards and in the company newspapers. One of the company objectives states that "Bazar aims to offer our staff outstanding opportunities in terms of personal career development and remuneration relative to other companies in the same market, showing concern for the welfare of every individual including payment of continuous professional development fees to core staff to hone in their skill".

The unitarist philosophy is evident in much of the audio-visual material produced by the company, with regular references to being ‘vital members of the team’ and to the ethos of all working together for the good of the company as a whole. For example, one of the company’s induction videos encourages staff to buy into the benefits offered by the company. If staff work hard, look smart and maintain strict hygiene and high service standards, it is suggested that Bazar will be able to ensure that customers receive quality products and treatment, as well as value for money. This will then result in secure employment of staff, profit sharing, good promotion prospects and job satisfaction. In addition, the fact that staff can see relatively opportunities of promotion, at least to the level of junior management serves to reinforce the feeling that working together can present a way forward for the staff and the company alike.

On the other hand, this benign image of “team-working” and co-operation makes the right controls that are averted within the company, especially in the management hierarchy. There are strict formulae for the amount of labour that can be employed in any one period, although store managers are allowed some flexibility between full and part-time employees according to local needs. Regional managers make spot visits to each of the stores on a regular but unscheduled basis, principally to check on store layouts, queue lengths and general performance. These visits can be a cause of some consternation of managers, as their aim is to “keep them on their toe”, always aware of the need for high-quality service. Disciplinary standards are precisely laid down by the company rule book, and there are specific instructions about standards of cleanliness and dressing. Indeed, the desire to project a high-quality image is central to much of the activity at the store. Finally, video cameras have been fixed in the sales areas in an effort to deter pilferage by customers and to ensure that there is a record of events if the need arises for prosecution at the same time. Although this is not the purpose, the video cameras also act as an instrument of surveillance over staff who are aware that these recording could be used against them as well as customers.

EMPLOYEE AGREEMENT

Bazar has separate but identical agreements with two trade unions that allows for individuals to be represented at the workplace. The agreement came into effect in 1992 at the beginning of Ghana 4th republic, and it appears that the reason for recognising two union (as opposed to one, which many of the competitors do) owed much to the existing packets of union membership in different parts of the country. Collective bargaining is not catered for in the agreements. Workplace union organisation is weak, with little more than 11 percent of all the eligible employees actually in the unions. The unions generally face difficulty in persuading sufficient people to become representatives, and those who do often lack experience of unionism.

Although there is no provision for collective bargaining with employees, it was agreed in 2019 that a GWC (General Welfare Committee) structure could be set up between Bazar and the appropriate union(s) at area level if union membership exceeds a certain threshold. Management was keen to initiate the GWC structure because a number of similar problems kept on recurring in various branches at the same time, and it was felt that these were better resolved at areas rather than national level. The GWC structure provides union officials with the opportunity to meet with the Senior Personnel Manager from headquarters as well as several line managers within the region. The Committee meet up to three times per annum at a neutral venue, usually a hotel and is preceded by a meeting between the full-time officials and representatives from the branches in the area. The issues that are typically dealt with at the GWC include health and safety, terms and conditions of employment, union reactions to company pay reviews, policies on time-off for trade-union affairs and various general items (such as security in stores or information about new opening), model on central government

employees to ensure that Bazar is in line with Ghana Labour Laws. However, management approach leans more towards welfare than legal enforcement under court of competence jurisdiction, hence not legally binding.

Pay at Bazar is determined by management rather than being the subject of collective bargaining and the system has recently been reorganised through the introduction of new job-evaluation scheme. The previous system was felt to be too subjective and open to abuse by managers favouring specific individuals, a situation compounded by the growth of the company since the previous system had been introduced. Changes in technology had also rendered some of the previous gradings (for example, in warehouse) inappropriate. Moreover, senior management was concerned that the existing system was potentially discriminatory, because those manual jobs (such as those typically undertaken by men in the warehouse) attracted higher rates of pay than those that involved contact with customers (such as those typically done by women on the checkouts). The new system has five grades: the top grade includes crafts skills (such as senior butchers/bakers) and the bottom grade covers cleaners and trolley assistants /packers. Checkout staff (the largest group in the store) are in the fourth grade. Pay levels are good for the industry.

LABOUR TURNOVER

Labour turnover at Bazar is high at 70 percent per annum and in some stores 150 percent or more. In stores located in areas of higher unemployment, labour turnover rate tend to be much lower and at two stores that formed the basis for a research conducted, it was 15 percent. The lowest turnover rate tended to be among the middle-aged women part-timers with childcare commitments, whereas higher rate was found for the younger women. These figures are much higher than in manufacturing, but they are not untypical for the retail industry as a whole. These “crude” figures also mask the fact that some of the turnover is as a result of seasonal and temporary employment, as well as the fact that many of the leavers go within the first month of arriving.

Nevertheless, Bazar has made a number of efforts to reduce this high labour-turnover figure, and so reduce the costs associated with recurrent recruitment exercises. Much greater effort has been put into the whole selection and induction processes, and in some stores where it is difficult to retain staff, special attempts have been made to attract older people (so-called “grey” workers in their 50s and 60s) to apply for jobs. Getting sufficient applicants has not been a problem in the coastal stores, although ensuring that these people are satisfactory has been more difficult. Store Managers and their deputies complete a short informal interview with potential applicants before the selection process is started in the hope that this will screen out weaker candidates. The selection process still relies heavily on interviews. However, they are considering the use of psychometric test and this “attitudinal” tests are likely to be introduced for all staff in the near future.

Once recruited, all staff go through a formal induction programme undertaken within the store by a team of trainers. All new recruits receive policy documents on health and safety matters, the company history, rules and regulations and detail of service-related benefits. This is contained in a handbook that outlines all the key points of the employment package, as well as providing answers to the more typical questions asked by the new employees. New starters also receive written information about the customer service campaign, and series of brochures detailing the required standard of dress and hygiene. This is then supplemented by the set of videos presented by the trainers, and new staff are given the opportunity to ask further questions

about working in Bazar. All these messages are constantly reinforced throughout the individual's employment with the company.

CORPORATE GOVERNANCE

Mr. Sushil Sheriff, the current Board Chairman and son of the founder Agrawal Sheriff of Indian descent but naturalised in Ghana has little appreciation and/or respect for corporate governance best practice system of organisational management. He, at the age of 77, plays an active role in running of the organisation. He depends heavily on the companies' culture and management orientation of the past. Why should Bazar be investing in governance just to increase cost and reduce the 'bottom line', he reasons. The only non-family Senior Management member, the Director of Finance and Operations, Mrs. Emma Owusu-Kwakye strongly disagrees with this assertion by the Board Chairman. The Board Chairman likes to share the humble beginnings of the business and prefer to use the word 'grocer' rather than supermarket. He explains his philosophy as a 'no-nonsense approach to retailing, shunning hype and gimmicks in favour of plain selling'

Despite Mr. Sushil Sheriff, the Board Chairman's misconception, standards of corporate governance are high thanks to the strong conviction of the Director of Finance and Operations Mrs. Emma Owusu-Kwakye.

Bazar recognises that creating sustainable shareholder value depends on the full understanding of the impact on society and the responsible management of the business in a manner consistent with the organisation values and principles. Bazar understand how the behaviour of the organisation can impact on the wider society hence management is working hard to earn the trust of all stakeholders as a company that tries to live up to its responsibilities.

At the pinnacle of governance in its formal sense is the board of directors with its terms of reference, regular meetings and adherence to the Combined Code. Reporting to the board are several committees with particular responsibilities relating to governance and control, as well as the management of the company operations. A head office business assurance regulates the process of internal controls throughout the company.

Strategies have been developed to motivate Bazar on the way to approach its relationship with customers and shareholders, both existing and potential. Another strategy point is the way Bazar relates to government and public institutions in the jurisdictions in which it operates.

CUSTOMER DIVERSITY

Bazar, operates in an increasingly diverse community, not just in terms of staffing, but of customers and suppliers. Bazar prides itself on the highest standards of customer service across the difference stores using the location advantage as it competitive advantage. At the heart of Bazar's service ethic is a commitment to treat all its customers both fairly and equally, regardless of their race, gender, age, religion, disability, marital status, sexuality background or beliefs.

However, treating people equally isn't about treating people the same. It is about understanding that different people have different needs and responding to these needs. Recognising and valuing customer diversity will help Bazar to deliver truly world class services that are accessible to everyone, which in turn, will ensure that Bazar retain their customers in the future. It is about fairness and equality, but it also makes good business sense, said the Director of Finance and Operations, especially corporate social responsibility and enforced ethical standards.

The Persons with Disability Act, 2006 (Act 715) as passed by 4th Parliament of the Republic of Ghana sets out a number of requirements for companies which Bazar support and are working to the spirit of the legislation. Bazar is currently building on its existing strengths in looking to meet the needs of all its customers which include access to stores. Among other things, the Act provides for rights such as unrestricted access to public places and buildings, free health care, employment, education and transportation. Bazar is constantly reviewing the services it delivers and to invite comments and suggestions from customers but these are hardly discussed at senior management meetings with no system in place for analysing the feedback collected. "It is a process of satisfying legislation", said the Director of Human Resources and Organisational Culture, Mrs. Raju Asha. This was said during private conversation and recorded by an employee. The employee is currently seeking legal advice.

ORGANISATION COMMUNICATION SYSTEM

In recent years, Bazar has also attempted to increase employee involvement within the company, mostly through improved communication both of a written and verbal nature. Unlike many other large organisations, Bazar has chosen not to introduce a formal communication policy, such as team briefing, preferring to rely on informal channels and face-to-face contact between managers and their staff on an ad hoc basis. This is justified by some senior management because of the nature of the market environment, that is, continuous pressure from customers that require immediate attention, allied to employment policy that maintains strict controls on the total number of hours worked in any one store. Accordingly, Bazar management is unwilling to provide extra payments for the purpose of communicating information to staff in addition to their working hours. At the same time some of their competitors have chosen to implement more formal systems for cascading information to staff, so it could be argued that the environment is not totally deterministic.

Although many of the managers who were interviewed in the research felt the informal system worked well and that staff were adequately informed about company and store developments, a significant proportion of employees felt they were not always kept in the picture. Indeed, at one of the stores where the general manager was more elusive, a majority regarded the grapevine as a more effective source of information. At another store, the open approach adopted by the general manager helped to create a climate in which managers did keep staff better informed.

As with any informal system, however, much depends upon the character of the individual managers as well as the ethos of the department and the store. This potential communication breakdown is now beginning to concern some senior managers at the regional level and within the corporate personnel department.

Although there is no formal machinery for regular face-to-face information passing between managers and staff, Bazar is well renowned for the quality and comprehensiveness of its written communications. At each store, there is a system of information board that assumes a key place within the framework of employees relations. Not only are these placed prominently within the stores, but they are also regularly updated as well as managed unlike most noticeboard. All employees walk past the board several times each day, on their way to and from staff restaurant and new items are highlighted either on the board itself or on the door into the restaurant. A questionnaire survey of staff undertaken in two units indicated that the noticeboard was the most valued sources of information in the store.

Like the rest of its competitors, Bazar has developed a range of mechanisms to encourage staff to maintain high-level customer services, most of which are centered around video campaigns

and training sessions. For the most part, the videos are shown by a staff trainer not a line manager and staff are drawn from different parts of the store as appropriate. There is no attempt to use these sessions as a vehicle for team building and it is rare for line managers to attend these meetings. The messages conveyed in these sessions tend to be single and straightforward varying in degree to which they take a prescriptive line about the “one best way” to serve customers. The image of the customer as all-powerful is central to all the programme and once again the phraseology employed reflects unitarist assumptions. Examples are:

- *Customer care is the number one skill all Bazar employees must have; our future success will depend upon how well you apply this skill.*
- *Remember it is not what you are doing that is the most important thing, it is what the customer perceives you are doing.*
- *Make sure that you always say good morning etc., please, thank you, use the customer’s name if known, always apologise if something is wrong or there is a delay to take customers to a display, always show concern.*

Some of the more experienced employees in the stores found these customer-care videos extremely simplistic and actually became annoyed by them. They resented the way in which the message was put across as well as the patronising and condescending tone of the whole presentation. As one of the long serving staff commented, “*we have always practiced customer care, although we didn’t call it that, we don’t need management to tell us how to do it*”. In addition, the image conveyed by the stores in which the films were made also caused some ill-feeling not to say incredulity in these, the actors who were playing staff worked at a very leisurely pace and had time to laugh and laugh and joke with the actors who were playing customers. *Wouldn’t mind a job there!* was a common response. Some of the staff interpreted these initiatives as simply new forms of control many look to days when ‘they had a job to do and do it’.

INFORMATION PROCESSING

To monitor and track inventory sales activities in the stores which forms on the average 70% of Bazar cost of sales, an integrated advance Point of Sale (POS) inventory and management system is employed. The system automatically polls each store every 24 hours to gather pertinent data regarding the stores’ inventory levels. Information provided on a daily report include total of sales by household and individuals and further breakdown of sales by category. This allows management to evaluate performance on daily basis and implement controls and strategies as and when needed but the analysis is not fully being optimized due to the use of ‘big data’ hence the need for a data mining facility to process it into management information to support decision making.

This system is updated continually to add additional functionality to aid management with stores operations. For example, personnel-scheduling and time-keeping functions have been added to take care of the large number of part-time work in the stores. In addition, a new function is being planned that will better identify and track consumer demographic and store security with hidden cameras.

FUTURE DEVELOPMENT

The company remains very successful not only in terms of market share and profitability but also with respect to its employee relationships, policies and practices. Bazar has done much to change from its traditional image of the autocratic management style to a vision that encourages a more open approach to people management. All the staff who were interviewed during the

research project noted that management had become more approachable and participative in its attitudes over the last few years.

Nevertheless, there are many tensions perceived between new initiatives and old practices. There remains a strong degree of centralised control and precise instructions but also a growing emphasis on the staff showing 'initiative'. This is coupled with the threat of constant surveillance and disciplinary action for those who transgress the rules. Perhaps the tensions and contradictions are best illustrated by the concept of the customer-care programme, which specifies conformance to precise working patterns but includes slogan such as 'We trust you; The customer trusts you'.

There are other practices that could be reformed, for example, there are doubts about the effectiveness of communications between managers and their staff, and some considerations is being given to implementing a formal structured programme of team-briefing. Moreover, given the way in which training is undertaken within the stores, there is little or no opportunity for the managers to engage in any explicit team-building exercises while at work.

While the ethos of customer care is strongly expressed by managers, the actual management of customer relationships is to some degree vague. One might argue that the company's traditional 'plan selling' approach is somewhat at odds with the increasingly sophisticated techniques of its major competitors. It is therefore, making some tentative efforts to catch up. For instance, in the light of other retailers' development loyalty care system, Bazar has invested in an independently owned loyalty card. This card allows users to receive loyalty bonuses from other non-grocery retailers, petrol retailers and restaurants. Non-specific purchases behaviour information is shared between the organisations involved. Each organisation receives precise information on the behaviour of the use of the card in their outlets. Bazar has invested heavily in the development of this card, they are hoping that this advanced loyalty card can be transformed into a smart card system, perhaps combined with credit card in the future providing even more information on the customer's behaviour when the Ghana government digitization programme is completed. Customer feedback on the use of the loyalty has been favorable.

The regular unit rewards offered by the card compared poorly with other sole retailer loyalty card, however most users build up unit rewards and then wait for the regular special promotions that the organisations involved contribute. So for instance, a shopper at Bazar can enjoy a 'buy one get one free' meal at the restaurant that is also party to the card. At the moment however, the company's use of data generated by the card is rather limited.

One advantage that Bazar loyalty card has over those of their rivals is its link with national charities. For every ten unit rewards accrued, Bazars donate 2 pesewas to a national charity. The charity collects their accumulated donation in the form of a cheque at the annual award ceremony. This ceremony attended by a Senior Manager of the participating companies and the Press, is a huge celebration held at the prestigious Accra Hotel and it is at this ceremony that the national charity for the following year is announced.

Finally, and most significantly, the company is considering its operation by purchasing 20 stores located along the middle Savanna Region of Ghana currently owned by Little Bee, a struggling regional supermarket. This represents a move out of Bazar traditional heartland and it represents an ambitious and risky move. In an assessment to the board, the Director of Finance and Operations advised that the acquisition of those 20 stores should be thought of like an investment and should be appraised using appropriate methods when data is available before discussion with the governing board. She also emphasised that the high-risk nature of the

strategy should be reflected in any appraisal of the investment with a clear consultant term of reference highlighting the specific deliverables and expectations including timelines.

While the stores would be re-branded, the board's decision will be influenced by the current financial position of the 20 stores and so it has contracted a consultant to support the board with necessary acquisition research information. AB Consult & Associate has been contracted and are expected to report to the board on 5 August 2022. Below is an incomplete records prepared by the Finance Manager:

Bazar Statement of Financial Performance for the year ended 31 December, 2021

	2021	2020
	GH¢'000	GH¢'000
Turnover	670,400	666,198
Cost of Sales	<u>(469,280)</u>	<u>(466,339)</u>
Operating Profit	201,120	199,859
Operating Expenses	<u>(103,560)</u>	<u>(95,930)</u>
Operating Profit/Loss	97,560	103,929
Interest Payable (20%)	<u>(14,160)</u>	<u>(11,360)</u>
Profit before taxation	83,400	92,569
Taxation	<u>(20,850)</u>	<u>(27,771)</u>
Profit after taxation	62,550	64,798
Dividends	<u>(12,000)</u>	<u>(18,500)</u>
Retained profit for the year	50,550	46,298
Retained profit brought forward	<u>83,472</u>	<u>37,174</u>
Retained profit carried forward	<u>134,022</u>	<u>83,472</u>

Bazar Statement of Financial Position as at 31 December, 2021

	2021	2021	2020	2020
	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Non-Current Assets				
Intangible assets	1,550		-	
Tangible assets	<u>112,800</u>	114,350	<u>94,800</u>	<u>94,800</u>
Current Assets				
Inventory	43,699		41,447	
Trade debtors	10,300		8,890	
Other debtors	9,400		6,100	
Cash	<u>400</u>		<u>280</u>	
	63,799		56,717	
Creditors amounts Due within one year				
Trade Creditors	4,610		3,450	
Other Creditors	2,390		1,750	
Taxation	20,850		27,771	
Dividends	12,000		18,500	
Overdraft	<u>9,440</u>		<u>-</u>	
	49,290		51,471	
Net current assets		14,509		5,246
Total Assets		128,859		100,046
Creditor amount (falling due after more than a year)				
Bank loan repayable 2026		(70,800)		(56,800)
		58,059		43,246

ADDITIONAL INFORMATION

AB Consult & Associate appraisal report (Extract)

Today is 4 August 2022 and in line with our deliverables in the terms of reference and timelines agreed, I present to you, Mrs. Emma Owusu-Kwakye, the Director of Finance and Operations, the appraisal report. This report is in relation to Little Bee's 20 stores consolidated annual budgeted statement of financial performance for the year 2022. This should be discussed ahead of the board meeting on 5th of August 2022 with the governing board. It was agreed in line with the terms of reference that we shall discuss and agree on the next steps ahead of the meeting with the governing board of Bazar which is due tomorrow.

Little Bee has GH¢20,000,000 of long-term capital, consisting of 8,000,000 shares worth GH¢8,000,000 and GH¢12,000,000 of 10% debt capital. The company has forecasted annual sales of GH¢8,000,000. The Earning Per Share (EPS) forecasted and computed from the information below which is used by Little Bee management as its Key Performance Indicator (KPI) to appraise and reward management using a share bonus scheme instituted since 2015 are as follows:

	GH¢'000
Sales	8,000
Variable costs	(2,000)
Fixed costs	<u>(4,000)</u>
Profit before interest and tax	2,000
Interest (GH¢12,000,000 x 10%)	<u>(1,200)</u>
Profit before tax	800
Tax at 25%	<u>(200)</u>
Profit after tax	<u>600</u>
Earning	<u>600</u>
EPS (Earnings/number of shares)	0.075

The above information was the original statement of financial performance forecasted for 2022. However, AB Consult and Associate highlighted to Mrs. Emma Owusu-Kwakye that in line with the contractual terms of reference with Little Bee management, the forecasted sales figure is now revised to GH¢10,000,000, an increase of 25%. The 20 Stores were valued at GH¢10,000,000.

QUESTION ONE

The organisational structure of Bazar is '*family centric management*' while not interested in changing the structure any time soon. It is important to recognise that the most suitable organisation structure depends partly on circumstances and partly on management preference. An organisation structure can therefore be changed.

Required:

- a) Using the *Mintzberg's five building blocks* for organisational configurations, explain and illustrate with diagram to the management of Bazar, why management need to review its current organisation structure in order to coordinate its business activities and work processes effectively. **(10 marks)**
- b) Mintzberg identified *six different organisational configurations*. Explain to Bazar management **FOUR (4)** of these organisational configurations suitable to support the change management process highlighting the differences. **(10 marks)**

QUESTION TWO

In discussing the report presented by AB Consult & Associate, the Director of Finance and Operations made a strong point for acquisition and mergers as a growth strategy instead of internal development. She gave her full support to the decision to acquire the 20 stores.

Required:

Write a report detailing the advantages of an acquisition and mergers method of growth instead of an internal development. Conclude your report by explaining why the financial position and financial performance of Bazaar will support or not support the decision to acquire the 20 stores. **(10 marks)**

QUESTION THREE

"Whistleblowing" means reporting suspicions of illegal or improper behaviour to a person in authority.

Required:

In relation to the comments above, explain to the Director of Human Resources and Organisational Culture, Mrs. Raju Asha, the consequences of comments recorded by an employee. Additionally, advise the employee on what he/she should consider before deciding on *"blowing the whistle"* and the potential difficulties that the staff might encounter. **(10 marks)**

QUESTION FOUR

Within an entity there is *primary value chain* and there are support activities (also called *secondary value chain*). Porter identified five primary value chain activities which can be applied to a retailing company such as Bazar.

Required:

Using the concept of the value chain, explain using a diagram the **FIVE (5) primary value chain** as explained by Porter to the management of Bazar highlighting their relevance. **(10 marks)**

QUESTION FIVE

Using the additional information presented by AB Consult & Associate to the Director of Finance and Operations, Mrs. Emma Owusu-Kwakye, on 4 August, prepare the following:

- i) Little Bee new forecasted Statement of financial performance after the changes that will be discuss at the board meeting on the 5 August 2022. **(4 marks)**
- ii) Calculate the *operating gearing*, measured as the ratio of the percentage increase in profit before interest and tax divided by the percentage increase in sales. **(2 marks)**
- iii) Calculate the *financial gearing*, measured as the ratio of the percentage change in total earnings (or EPS) to the percentage increase in profit before interest and tax. **(2 marks)**
- iv) Calculate the *Combined gearing*, measured as the ratio of the percentage change in total earnings (or EPS) to the percentage increase in sales. **(2 marks)**
- v) Explain the significance of *operating gearing* and *financial gearing* to the management of Bazar. **(10 marks)**

QUESTION SIX

The management style of Bazar is in transition from a somehow authoritarian style described by some managers as almost autocratic and militaristic to a more 'open' style that encourage managers and supervisors to seek ideas from staff and to operate in an informal manner.

Required:

Using Lewin Models for Managing Change, (unfreeze, change, re-freeze) suggest an approach to introducing planned transformational change in the management style of Bazar. **(10 marks)**

QUESTION SEVEN

Remuneration packages should attract individuals to a company and persuade them to work for the company. Ghana's Code of Best Practices makes three statements about remuneration policy. The Code adds that the remuneration level for individual directors should reflect their experiences and the level of responsibilities they undertake.

Required:

- i) Explain the *three statements* about remuneration as stated in the *Ghana's Code of Best Practices policy* to support Bazar management engagement with the General Welfare Committee (GWC). **(6 marks)**
- ii) Explain to the management of Bazar why executive remuneration is a governance issue. **(4 marks)**

QUESTION EIGHT

The Director of Finance and Operation, Mrs. Emma Owusu-Kwakye, is concerned about the lack of "*standardised risk management system*" and "*good corporate governance*" in Bazar. Following Continuous Professional Development (CPD) training organised recently by the Institute of Chartered Accountants, Ghana (ICAG) on this subject and attended by you as a member of the Finance Team dully paid for from Bazar training budget.

Required:

You have been asked by Management to brief your Finance Team members on the following:

- i) The International Standardisation for Organisation (ISO 31000) framework for risk management using the *three (3) main elements*. **(5 marks)**
- ii) **TWO (2)** out of the Six OECD principles of Corporate Governance. **(5 marks)**

(Total: 100 marks)

SOLUTION TO QUESTIONS

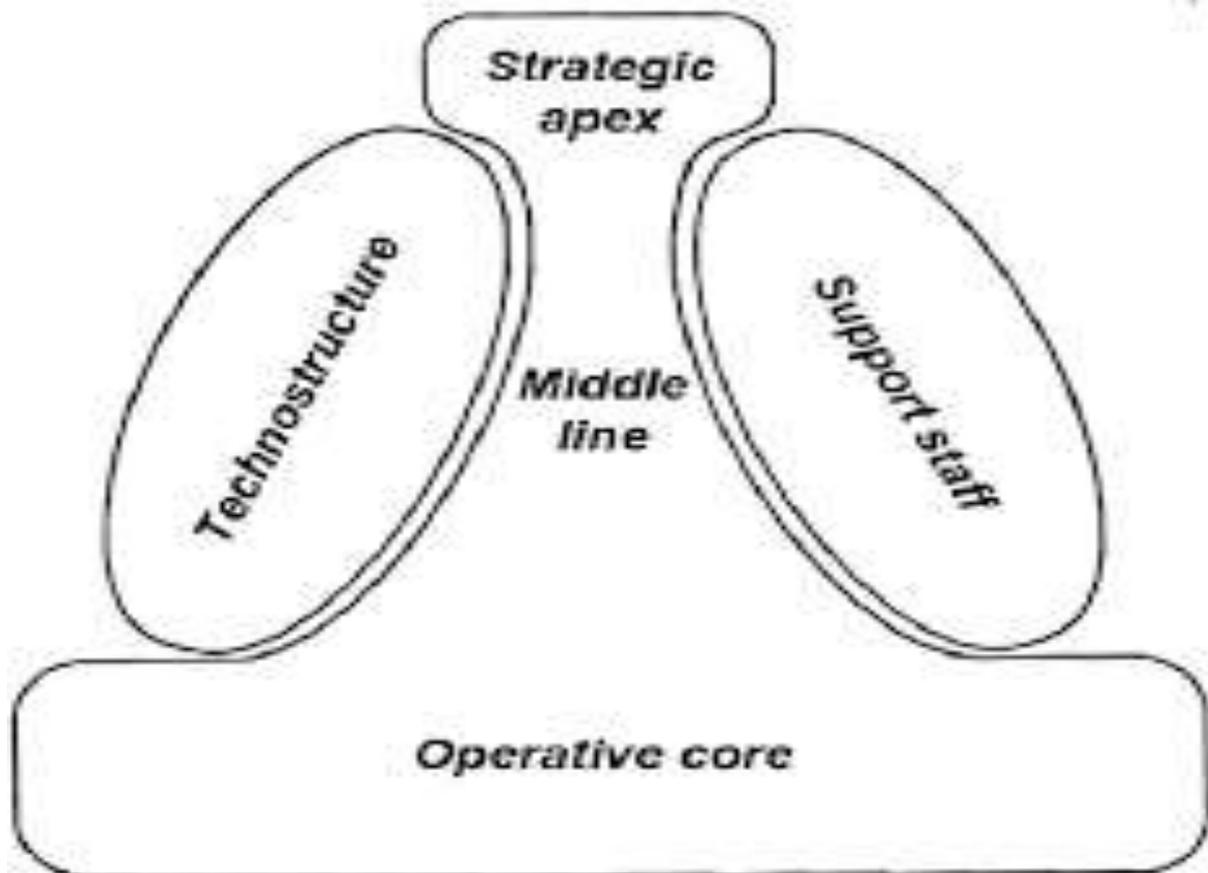
QUESTION ONE

- a) Mintzberg argues that an organisation structure exists to co-ordinate the activities of different individuals and work processes, and to implement plans into action. The nature of the organisation structure varies with differences in processes and internal and external relationships. He suggested that there are five elements or 'building blocks' in an organisation. The way in which any entity such as Bazar is organized most effectively depends on which of these elements is dominant.

These five building blocks elements explain below

- **Strategic apex:** This is the top management in the organisation such as the Chairman, HROD and Finance and Operations who are management/governance leads in Bazar management.
- **Operating core:** This represents the basic work of the organisation, and the individuals who carry out this work such as the work
- **Middle line:** These are line managers and the management structure between the strategic apex and the operating core
- **Support staff:** These are the staff who provide support for the operating core, such as secretariat staff, cleaning staff, repair and maintenance staff, Information Technology staff etc.
- **Technostructure:** These are staff without direct line management responsibilities, but who seek to standardize the way the organisation works. They produce procedures and system manuals that others are expected to follow.

The five elements are shown in the diagram below



Mintzberg argued that the group that has the greatest influence determines the way in which the entity such as Bazar is organized, and the way that its processes and its relationships operates.

When the strategic apex is powerful, the organisation is entrepreneurial. The leaders give the organisation the sense of direction and take most of the decisions. When the technostructure is dominant, the organisation often has the characteristics of a bureaucracy, with organizing, planning and controlling prominent activities. The organisation continually seeks greater efficiency.

When the organisation is divisionalised and local managers are given extensive authority to run their own division in the way that they consider best, the middle line dominant. Some organisations are dominated by their operating core, where the basic "workers" are highly skilled and seek to achieve proficiency in the work that they do. Example might be the store checkout point of sales since their interface with customers can have an exceptionally strong influence.

(5 points @ 2 marks each = 10 marks)

- b) The six different organisational configurations identified by Mintzberg each having a mix of the five building blocks. He suggested that the most suitable would

depend on the type and complexity of the work done by the entity. The six configurations are:

- Simple structure
- Machine bureaucracy
- Divisionalised form
- Adhocracy

Note:

Professional bureaucracy and Missionary organisations excluded since Bazar does not fit such structures.

Simple structure

This is found in entrepreneurial company. The strategic apex exercise direct control over the operating core, and there is no middle line. There is also little or no support staff or technostructure. The strategic apex might be an owner-director of the company. This type of structure is very flexible, and can react quickly to changes in the environment, because the strategic apex controls the operating core directly.

Machine bureaucracy

In the machine bureaucracy, the technostructure is the dominant element in the organisation. The entity is controlled and regulated by the bureaucracy and the emphasis is on control through regulations. It is difficult for an entity with this type of organisation to react quickly to environmental changes. This structure is therefore more suitable for entities that operates in a stable business environment.

Divisionalised form

This type of structure, the middle line is the dominant element. There is a large group of powerful executives' managers, and the organisation structure is a divisionalised structure, each led by a divisional manager. In some divisionalised structures, divisional managers are very powerful, and are able to restrict the influence of the strategic apex on decision-making.

Adhocracy

Mintzberg identified a type of organisation that he called an 'adhocracy'. This is an organisation with a complex and disordered structure, making extensive use of teamwork and project-based work. This type of organisation will be found in a complex and dynamic business environment, where innovation is essential for success. These organisations might establish working relationships with external consultancies and experts. The 'support staff' element can therefore be very important.

The differences between the four organisational configurations are summarised below to support ongoing Bazar discussion and decision-making.

	Business Environment	Internal Features	Key organisational element	Main co-ordination factors
Simple Structure	Simple and dynamic	Small entity Simple task	Strategic apex	Direct control by strategic apex
Machine bureaucracy	Simple and stable	Large and well-established Regulated processes and systems	Technostructure	Standardised procedures
Divisionalised form	Fairly static Diverse activities	Large and well-established Divided activities	Middle line	Standardization of output
Adhocracy	Complex and dynamic	Complex tasks Young entity	Support staff or Operating core	Flexibility and adaptation

(4 points @ 2.5 marks each = 10 marks)

EXAMINER'S COMMENT

Sub-question a) required candidates' application of Mintzberg's five building blocks to Bazar's organisation configuration. Candidates struggled due to lack of knowledge of the model hence poor performance and/or deviations which is very disappointing. Most of the candidates who answered this question could not identify the five building blocks and rather spent time to draw interesting and strange diagrams. The requirement was specific, hence general answer was not adequate to earn a pass mark for this question. One cannot implement a strategy without referring to a business model hence candidates should adequately cover the syllabus prescribed by the institute.

The b) part of the question required candidates to identify four out of the six organisation configurations identified by Mintzberg. Application to the question was very weak with number of candidates writing on "*professional bureaucracy and Missionary organisation*" which cannot be applied to Bazar. Application of models to relevant scenarios are critical if a candidate should pass. Candidates performance was well below average with over 40% scoring less than 50% of the marks allocated.

QUESTION TWO

From: Student

To: Board and Management of Bazar

Through: Director of Finance and Operations (Mrs. Emmah Owusu-Kwakye)

Date: 5th August 2022

Internal Report: *In Support of Acquisitions & Mergers" of Little Bee, as a method of growth of Bazar rather than using the process of "Internal Development"*

An entity can grow quickly by means of mergers and acquisitions as has been review using the limited data provided by AB Consult and Associate in relation to 2021/2020 incomplete financial statement of Bazar.

Both mergers and acquisition involve the creations of a single entity from two separate entities. With a merger the two entities that come together are approximately the same size while an acquisition, one entity is usually larger than the other and acquires ownership and control by purchasing a majority of the equity of the shares. This appears to be the case under consideration, Bazar acquiring the ownership and control of Little Bee Bazar is far bigger in size and operations as compared with Little Bee, 75 stores, sales volume, profile margins etc as compared with Little Bee 20 store with limited geographical footprint of operations in Ghana. Acquisitions are therefore more common than mergers.

Acquisitions and mergers have several advantages as a strategy of growth, compared with a strategy of internal development including the following:

- Growth by acquisitions or merger is much faster than growth through internal development hence advantages to Bazar considering the current stagnant growth approximately 1% in turnover of Bazar between the financial year 2020 and 2021 by approximately 1%.
- An acquisition can give the buyer immediate ownership of new market, new customers and new suppliers, that would be difficult to obtain through internal development especially geographical footprint in the country Ghana.
- An acquisition enables an entity to enter new market where the barriers to entry are high such as land acquisition, construction of new stores recruiting and training of new staff to manage the stores, so that it would be very difficult to set up a new business in competition.
- An acquisition prevents a competitor from making the acquisition instead.
- Acquisition might result in cost savings and higher profits (synergy) such as possible operational changes from information acquired through the acquisition.

The above are just some of the benefits of acquisitions however, from the Bazar incomplete financial performance information summary financial data analysed below other factors need to be consider.

A successful strategy of growth through acquisition requires financial strength. A company such as Bazar need one or more of the following to support the ongoing discussion. A large amount of cash that is available for long term investment. Bazar therefore need possible "war chest" of cash that they use to buy target companies.

Access to additional funding, in the form of new equity (from new share issues) or borrowing (bonds issues or loans). This approach of financing the acquisition might be a challenge since the organisation is a “family centric” and might not want to dilute its ownership through issuing of new shares while there is also high loan already in the books and that of Little Bee.

Many acquisitions are negotiated as a share-for-share exchange, with shareholders in the target company agreeing to accept shares in the acquiring company as payment for their shares. Bazar can only succeed with acquisition of Little Bee through financing using share-for-share exchange.

Although the acquisition of Little Bee is feasible might depend on the available cash either through loan or if shareholders of Bazar are ready to dilute its share ownership. Considering the current performance with the stagnant growth acquisition is possible but would depend on acceptable share ownership and financing option. Much would therefore depend on the appetite of governing board of Bazar and its chairman Mr. Sushil Sheriff.

Conclusion

Considering the information available in the case and the additional information provided by AB Consult & Associate, I would advise management to further consider the following before to support with their final decision. Management and governing board should, look at the rationale behind the acquisition, study what they are acquiring, have a third party as a mediator, manage expectations well, get to know the team management of Little Bee, have a proper integration plan, focus on human capital and finally impact on Bazar financials.

Note: Some student might use some of the data below which should be considered appropriately:

Bazar	Performance 2021/2020 (Growth/Decline)
Profit and loss account	
Turnover	1%
Cost of sales	1%
Operating profit	1%
Operating expenses	8%
Operating profit	(6%)
Interest payment	25%
Profit after tax	(3%)
Dividend payment	(35%)
Retained Profit	61%
Balance Sheet	
Fixed assets	21%
Current assets	12%
Current liabilities	(4%)

Net current assets	177%
Long-term liabilities	25%
Increase in Shareholders Fund (Equity)	34%

(10 marks)

EXAMINER'S COMMENT

This question required candidates to write a report. Marks are therefore allocated to cover format, advantages of acquisition and merger, financial analysis and conclusion. Most candidates attempted this question which is very encouraging. However over 70% of candidates never applied the pre-seen or addition information to answer the question. Number of candidates wasted time without consideration the marks allocated resulting in not attempting all questions. Quite a number of candidates besides listing advantages of acquisition ignored the strategic part of the question using the financial data which was evidence that Bazar is having cash flow challenges hence the need to explore other options including shares option. Further candidates could have explored and line their answers to the challenge of whether share options might be accepted by Bazar as a family centric organisation with long family management history.

QUESTION THREE

In a normal situation, employees report to their superior or managers. If an employee has concerns about unethical behaviour. If the employee thinks that there is a need for a plan of action as that might be the reason the comment was recorded so that it might be used as evidence against the HROD. Company's code of ethical conduct should normally report the concerns to the supervisor or manager.

The consequences of breaching a company's code of ethics such as Bazar where there are already labour tensions and agitations can be very damaging. Breaching a company's code of ethical conduct would be a disciplinary offence including dismissal when investigated and found to be true. It can also have reputational damaging implication on the organisation as it is a family centric organisation including bad publicity, if management don't take the issue report seriously. The staff might have limited option than to take legal action if not dealt with internally satisfactory.

An employee considering 'blowing the whistle' should consider the following before deciding to blow the whistle:

- Are all the facts, correct? Could they have misinterpreted something or mistakenly drawn the wrong conclusion. Analysis might be necessary to ensure that the record voice is indeed Mrs. Raju Asha although this can be easily substantiated
- Is there sufficient evidence to justify blowing the whistle? In this case the recorded table voice can be used as the primary evidence.
- The employee should double check if he/she has thought about the situation objectively and with neutral emotion, rather than say at the time of anger.
- Consider discussing events in confidence with an independent confidential third-party for example a professional helpline or legal advisor.
- Think about the impact that blowing the whistle may have on the whistleblower's career. Is the risk of being victimised and bullied outweighed by the benefits of proceeding with blowing the whistle?
- Double-check company policy and whistleblowing procedures including secret recording in the staff handbook. In the case of Bazar induction and training materials should be critically reviewed and considered.
- Establish whether there is scope to discuss events confidentially with the human resources department. In the case of Bazar, the option might be limited since it was the head of the department that was involved.
- Is there an internal audit department who could be made aware of relevant events and take ownership of reporting the issue?
- Consider if there is a legal obligation to report, for example in many countries there might be a legal obligation to report the discovery of money laundering or terrorism activities. In the case of Bazar that is not the case.

Problem with whistleblowing:

There are several problems of whistleblowing.

- Experiences in many organisations has shown that when an individual reports concerns about illegal or unethical conduct, the individual is often victimised, by colleagues and management. If the allegations by the individual are rejected, the individual might find that he or she does not receive the same salary increases as colleagues and is overlooked for promotion. At work, colleagues and managers might treat the individual with hostility, making it difficult for the individual to continue in the job. This is likely to happen in the case of Bazar since it is a 'family centric' organisation while the person involved in the Head of Human Resources and Organisational Development.
- On the other hand, some individuals make allegations about colleagues or managers that are unfounded. The allegations might be made for reasons of malice or dislike, or because there has been an argument at work. Malicious allegations about colleagues should not be tolerated. As a result, a company with such higher staff number should have a section in its Human Resource Policy on whistleblowing within its code of conduct. For example, a corporate code of ethics should be included "such as doing the right thing and in good faith.

(10 marks)

EXAMINER'S COMMENT

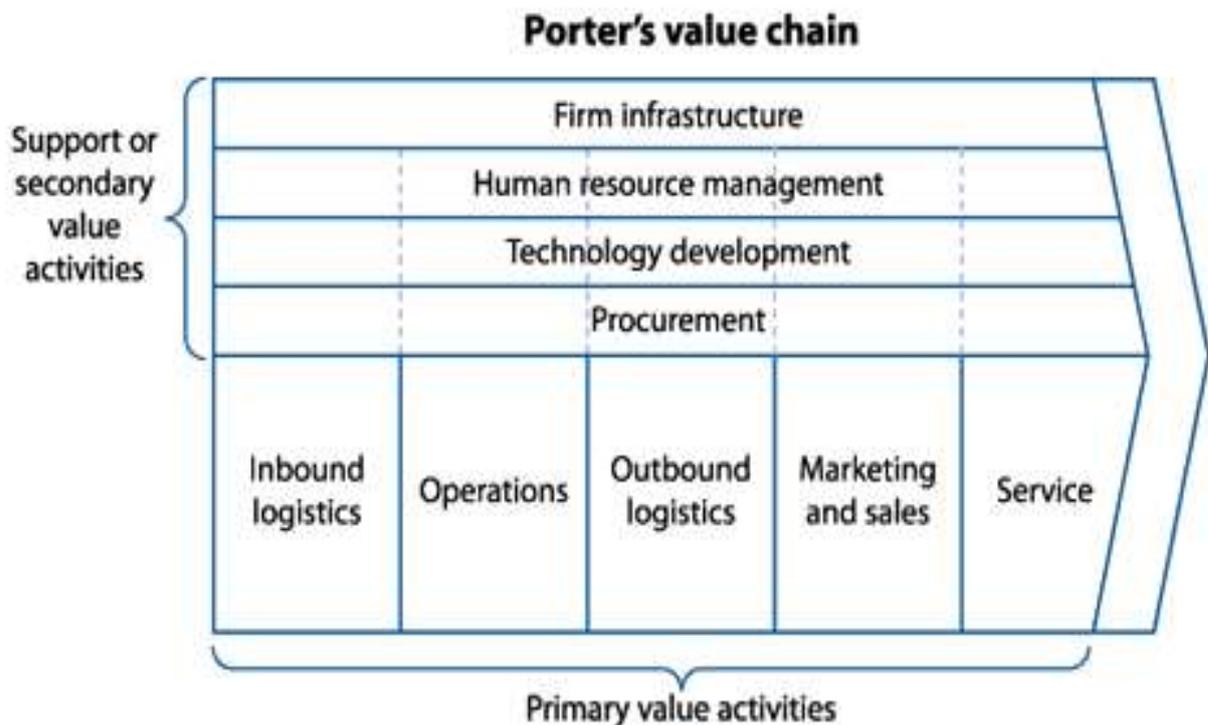
This question required candidates to demonstrate their understanding with focus on the application of "Whistleblowing". It was a popular question. The candidates were able to explain the consequences of comments recorded by an employee and what an employee should consider before deciding on 'blowing the whistle' and the potential difficulties that staff might encounter.

On the average, the candidates did well in this question especially the aspect dealing with what an employee should consider before blowing the whistle.

QUESTION FOUR

Strategic success depends on the way that an entity such as Bazar as a whole performs, but competitive advantage, which is a key to strategic success, comes from each of the individual and specific activities that make up the value chain. Within an entity there is primary value chain and support activities which is also known as secondary value chain activities.

Porter identified the chain of activities in the primary value chain as follows diagrammatically.



The value chain applies to manufacturing and retailing companies such as Bazar but can also be adapted for companies that sell services rather than products. Most value is usually created in the primary value chain. The primary value chain are as follows. *Inbound logistic, Operations, Outbound logistics, Marketing and Sales and Services*

Inbound logistics

These are the activities concerned with receiving and handing purchased materials and components and sorting them until needed. In the case of Bazar might include receiving products into central warehouse from manufactured and farm gate of groceries. Inbound logistics therefore include activities such as handling of goods, transportation from suppliers and inventory management and inventory control.

Operations

These are activities concerned with converting the purchase materials into items that customers can buy. In the case of Bazar operations might include braking bulk

and ensure items are refrigerated, store designed layout and access by customers on shelves with right prices at the right locations with the store.

Outbound logistics

These are activities concerned with the storage of finished goods before sales, and distribution and delivery of goods to the final customers. Such activities of Bazar might include distribution of goods to regional and district stores from central warehouses.

Marketing and sales

These are the activities that inform customers about project or service and persuade them to make a purchase. Marketing and sales include activities such as advertising and promotion. In the case of Bazar this would include activities printing of advert material video projections at store directing and publicity events to inform customers when new stores are open highlighting issues of convenience and security.

Services

These are all the activities that occur after the point of sales, such as installation, warranties, loyalty care management, repairs and maintenance, providing training to the employees of customers and after-sales services

The nature of the activities in the value chain varies from one industry to the other. Much of the value is created by the quality of staff and system of operation hence Bazar should be concern of the level of staff turnover. Management should also ensure that standardizations are maintained across the 75 store to attract customers to continue to sustain the bottom line 'profit'.

(5 points @ 2 marks each = 10 marks)

EXAMINER'S COMMENT

This question required candidates to use the concept of value chain to explain and illustrate with a diagram following a brief preamble to ensure that answers are applied to Bazar management.

Over 80% of candidates scored well above 70% of the marks allocated with over 10% who attempted were award full marks allocated to the question. Few candidates were not above to relate their answers to the case evidence route learning. This question was attempted by majority of the candidates over 90% but spent significant time especially wasted time on the diagram and also answered the support or secondary value activities sadly without earning any marks. Few also deviated as they seem not to appreciate the preamble before attempting the question. In fact, there was a lead to the question since value chain concept applies to manufacturing and retailing companies such as Bazar. Most candidates rather focus their answers on manufacturing industry instead of a retailing company.

QUESTION FIVE

a) **Little Bee** statements of profit or loss before and after the change are as follows:

	Before	After	Change
	GHS'000	GHS'000	%
Sales	8,000	10,000	25%
Variable cost	(2,000)	(2,500)	
Fixed costs	(4,000)	(4,000)	
Total cost	(6,000)	(6,500)	
Profit before interest and tax	2,000	3,500	75%
Interest (GHS12,000,000 x 10%)	(1,200)	(1,200)	
Profit before tax	800	2,300	
Tax at 25%	(200)	(575)	
Earnings	600	1,725	187.5%
EPS (Earnings/ number of shares)	0.075	0.1725	

(4 marks)

b) Operating gearing; $\frac{75\%}{25\%} = 3$

(2 marks)

c) Financial gearing $\frac{187.5\%}{75\%} = 2.5$

(2 marks)

d) Combined gearing $\frac{187.5\%}{25\%} = 7.5$

Confirmation: Operating gearing x Financial gearing = Combined gearing

$$3.0 \times 2.5 = 7.5$$

(2 marks)

e) Operation and Financial gearing

Operating gearing is higher when fixed cost are higher in relation to variable costs. When operating gearing is higher, a given percentage change in sales will result in a much greater change in profits before interest and tax (operating profits) than when gearing is low. The greater the operating gearing, the greater the variability in profits as a result of a change in the sales and so the greater the variability in the returns to the shareholders and in all probability, the greater the variability in the share price as calculated above.

Financial gearing. With higher financial gearing, a percentage change in profits before interest and tax result in a greater percentage change in earning per share. If a company has a higher operating gearing and higher financial gearing, its earning per share will therefore change by much greater percentage amount for any given percentage change in annual sales. A company with volatile annual earnings is a higher risk company, and its annual earnings per share could

fluctuate sharply from one year to the other or from one forecast to another as calculated above using Little Bee budget and forecast information provided by AB Consult & Associate.

(10 marks)

EXAMINER'S COMMENT

This question required candidates to prepare summary "Statement of Financial Performance for the year ended 31st December 2022 using the additional information provided. Candidates failed to appreciate previous knowledge of Financial Management and Management Accounting principles. Most candidates challenge was ignoring the variable costs of sales with the forecast increase in Sales. The question provided formulae for the calculation of Finance and Operating Gearing but most candidate ignored the information resulting in losing 50% of the marks allocated to (a-d).

The (e) required candidates to explain the significance of Operating and Financial Gearing to the management of Bazar. Although candidates could have earned some marks but did not attempt the question or could not explain the importance of the two ratios from financial management point of view to support the acquisition decision. A number of candidates did not appreciate Little Bee additional information. As a result, majority of the candidates earned less than 10% of the allocated marks while majority did not attempt the question sadly.

QUESTION SIX

Lewin model suggested an approach to introducing planned transformational change, which is sometimes called “prescriptive planned change theory”. He suggested that a planned process for change should begin with identifying the causes of the problems and the reasons which changes is needed. In the case of Bazar, the challenge of high staff turnover, unsatisfactory remuneration system. The next step is identifying the opportunities of making improvements through transformational change.

The change process then needs to go through three stages of unfreeze, movement (change) and re-freeze.

Unfreezing

The process of “unfreezing” is persuading employees that change is necessary. Individuals will not want to change anything if they think that the current situation is acceptable. The challenge would be how to consider management and the governing board of Bazar as they think the current system is satisfactory, but it would be easy for the employees since that are already yawning for the change. Employees should therefore be encouraged especially the management to recognise what is wrong with the currently system or current situation such as high staff turnover and cost of training new staff as dissatisfaction.

However, this is not enough. It is also necessary to offer employees an alternative for the future that can be reached by changing the currently situation which might include benefit of plan visit by senior managers to district stores or even share ownership schemes after working for agreed number of years. Management must therefore have a clear vision about the changes they want to make, and they should encourage employees to want to these changes to happen. Management of Bazar must therefore discuss the problems with the employees affected such as shop floor employees low earning compared to warehouse employees and communicate their ideas.

Unfreezing is therefore the process not only making employees dissatisfied with the current situation, but also persuading them to about the future of the changes that should be made.

Movement (change)

To introduce change successfully, the support for the change must be strong, in the case of Bazar should be the senior management to overcome the opposition using the Lewin’s force field analysis. Management should be given sufficient resources to implement the changes since that can be the driving force for the change. The change managers should try to involve the employees affected and get them on board to participate in making the changes. Bazar therefor need to change from the currently ways of working to a new way of working i.e. from autocratic and militaristic to achieve the open style of management to encourage management to seek ideas.

Re-freeze

Lewin argue that even if change is implemented, there is a risk that before long, employees would go back to their old ways of doing things and the benefits of the change might be eroded. It is therefore essential that once change has happened, employees should be encouraged to carry on with the new way of doing things. One way of doing this might be to reward for performance based on the desired behaviour and result. As part of transformational change Bazar might need to also review the system of performance management and employers' benefits. The process of getting employees to carry on with the new system of called re-freezing.

(10 marks)

EXAMINER'S COMMENT

This question required candidates to use Lewin's Model of Managing Change in Bazar from the current authoritarian described by some managers in the case study. The question provided candidates with preamble as a context in relation to the case study. Most candidates answered this question. However, number of candidates challenge was relating their answers to the case study. Candidate's challenge was the application of the model to introduce planned transformational change in the style of Bazar. Most candidates answered the question well and earned the full allocated marks while other only explained the meaning of unfreeze, change/movement and freeze partially without relating it to the case study or even the question scenario provided as a preamble. Application of concepts, models, theories and frameworks are at the heart of the 3.4 paper syllabus which candidates must appreciate and focus their studies on.

QUESTION SEVEN

- i) Ghana's Code of Best Practices makes three statements about remuneration:
- **Competitive:** Level of remuneration should be competitive, taking into accounts industry practices. Bazar therefore need to review its remuneration
 - **Performance-oriented:** There should be a system of short-term and long-term remuneration "to provide performance-oriented incentives to management". Short-term incentives might be bonus arrangements and long-term incentives might involve the award of shares or shares options.
 - **Stock options scheme:** Stock options, employee share ownership schemes or other equity-oriented schemes should be considered as a way of linking the interests of managers to those of the shareholders.

The code added that the remuneration level for individual directors should reflect their experience and the level of responsibilities they undertake. One purpose of a remuneration package is to provide incentives for the directors. Directors should be rewarded with incentives, so that they are motivated to achieve performance targets.

(3 points @ 2 marks each = 6 marks)

- ii) The remuneration of executive directors and other senior executives can be a serious governance issue for good corporate governance, especially when individual executives can influence or decide what their remuneration should be. When individuals can decide their own remuneration, there is a clearly a temptation to make the remuneration as large as possible.

Similarly, when executive directors can decide the general level of remuneration for executive managers, there is a strong possibility that they will decide collectively to set remuneration at a high level. Effective senior executives should be well paid. However, the risk is that executives might receive large remuneration packages for mediocre performance, and this would be against the interests of the company's shareholders.

(4 marks)

EXAMINER'S COMMENT

This question was of two parts. The part a) required candidates to explain the three statements about remuneration as stated in the Ghana's Code of Best Practice policy to support Bazar management to engage with the General Workers Committee (GWC). Although a standard theory question with limited application, majority of candidates did not attempt. Few candidates were able to explain the three elements of Ghana's Code of Best Practice policy.

The part b), a straightforward question, required candidates to explain to the management of Bazar why executive remuneration is a governance issue. Most candidates' answers related to Board roles and management of organisation, focus on Board Committees such as Risk and Audit, Assurance and Compliance and Finance

and Audit Committees etc. Less than 30% of candidates scored 50% of the 4 marks allocated and spent time writing on route knowledge of Board sub-committees wasting the precious allocated time hence did not attempt all question.

QUESTION EIGHT

- i) ISO 3100, puts forward a framework for risk management that has three main elements:

Risk architecture

This consists of the roles and responsibilities for risk management within the organisation and the risk reporting structure. For example, it consists of the respective roles and responsibilities of the board, the audit committee, the group risk management committee, the risk disclosures committee, the CEO, business unit managers, individual employees, risk managers, specialist risk management function and internal auditors. Bazar, therefore, need to review its risk management system to ensure that it meets the minimum standard proposed by ISO 3100 architecture.

Risk strategy

The risk strategy of the organisation should be specified, including the risk appetite of the board. There should be a risk management action plan and resources to support risk management activities. Bazar, need to ensure that the risk management strategy that is embedded into the operation system of the organisation which links head office to district level stores.

Risk protocols

There are the rules and procedures for implementation risk management and risk management methodologies that should be applied. For example, there should be rules, procedures and methodologies for risk assessments, risk responses and incident reporting. A business continuity plan, and arrangements for auditing the efficiency and effectiveness of controls.

(5 marks)

- ii) The principles focus on publicly traded companies, both financial and non-financial. To the extent they are deemed applicable, they might also be a useful tool to improve corporate governance in companies whose shares are not publicly traded. While some of the principles may be more appropriate for larger than for smaller companies, policymakers may wish to raise awareness of good corporate governance for all companies, including smaller and unlisted companies such as Bazar.

Ensuring the basis for an effective corporate governance framework

The corporate governance framework should promote transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement.

Effective corporate governance requires a sound legal, regulatory and institutional framework that market participants can rely on when they establish their private contractual relations. This corporate governance framework typically comprises elements of legislation, regulation, self-regulatory arrangements, voluntary commitments and business practices that are the result of a country's specific

circumstances, history and tradition. The desirable mix between legislation, regulation, self-regulation, voluntary standards, etc., will therefore vary from country to country. The legislative and regulatory elements of the corporate governance framework can usefully be complemented by soft law elements based on the “comply or explain” principle such as corporate governance codes in order to allow for flexibility and address specificities of individual companies. What works well in one company, for one investor or a particular stakeholder may not necessarily be generally applicable to corporations, investors and stakeholders that operate in another context and under different circumstances. As new experiences accrue and business circumstances change, the different provisions of the corporate governance framework should be reviewed and, when necessary, adjusted

The rights and equitable treatment of shareholders and key ownership functions

The corporate governance framework should protect and facilitate the exercise of shareholders’ rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

Equity investors have certain property rights. For example, an equity share in a publicly traded company can be bought, sold, or transferred. An equity share also entitles the investor to participate in the profits of the corporation, with liability limited to the amount of the investment. In addition, ownership of an equity share provides a right to information about the corporation and a right to influence the corporation, primarily by participation in general shareholder meetings and by voting.

As a practical matter, however, the corporation cannot be managed by shareholder referendum. The shareholding body is made up of individuals and institutions whose interests, goals, investment horizons and capabilities vary. Moreover, the corporation’s management must be able to take business decisions rapidly. In light of these realities and the complexity of managing the corporation’s affairs in fast moving and ever-changing markets, shareholders are not expected to assume responsibility for managing corporate activities. The responsibility for corporate strategy and operations is typically placed in the hands of the board and a management team that is selected, motivated and, when necessary, replaced by the board.

Shareholders’ rights to influence the corporation centre on certain fundamental issues, such as the election of board members, or other means of influencing the composition of the board, amendments to the company’s organic documents, approval of extraordinary transactions, and other basic issues as specified in company law and internal company statutes. This Section can be seen as a statement of the most basic rights of shareholders, which are recognized by law in most countries including Ghana. Additional rights such as the approval or election of auditors, direct nomination of board members, the ability to pledge shares, the approval of distributions of profits, shareholder ability to vote on board member

and/or key executive compensation, approval of material related party transactions and others have also been established in various jurisdictions.

Institutional investors, stock markets, and other intermediaries

The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.

In order to be effective, the legal and regulatory framework for corporate governance must be developed with a view to the economic reality in which it is to be implemented. In many jurisdictions, the real world of corporate governance and ownership is no longer characterised by a straight and uncompromised relationship between the performance of the company and the income of the ultimate beneficiaries of shareholdings. In reality, the investment chain is often long and complex, with numerous intermediaries that stand between the ultimate beneficiary and the company. The presence of intermediaries acting as independent decision makers influences the incentives and the ability to engage in corporate governance. The share of equity investments held by institutional investors such as mutual funds, pension funds, insurance companies and hedge funds has increased significantly, and many of their assets are managed by specialized asset managers. The ability and interest of institutional investors and asset managers to engage in corporate governance varies widely. For some, engagement in corporate governance, including the exercise of voting rights, is a natural part of their business model. Others may offer their beneficiaries and clients a business model and investment strategy that does not include or motivate spending resources on active shareholder engagement. If shareholder engagement is not part of the institution's business model and investment strategy, mandatory requirements to engage, for example through voting, may be ineffective and lead to a box-ticking approach.

The role of stakeholders in corporate governance

The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

A key aspect of corporate governance is concerned with ensuring the flow of external capital to companies both in the form of equity and credit. Corporate governance is also concerned with finding ways to encourage the various stakeholders in the firm to undertake economically optimal levels of investment in firm-specific human and physical capital. The competitiveness and ultimate success of a corporation is the result of teamwork that embodies contributions from a range of different resource providers including investors, employees, creditors, customers and suppliers, and other stakeholders. Corporations should recognise that the contributions of stakeholders constitute a valuable resource for building competitive and profitable companies. It is, therefore, in the long-term interest of corporations to foster wealth-creating co-operation among stakeholders.

The governance framework should recognise the interests of stakeholders and their contribution to the long-term success of the corporation.

Disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

In most countries a large amount of information, both mandatory and voluntary, is compiled on publicly traded and large unlisted enterprises, and subsequently disseminated to a broad range of users. Public disclosure is typically required, at a minimum, on an annual basis though some countries require periodic disclosure on a semi-annual or quarterly basis, or even more frequently in the case of material developments affecting the company. Companies often make voluntary disclosure that goes beyond minimum disclosure requirements in response to market demand.

The principles support timely disclosure of all material developments that arise between regular reports. They also support simultaneous reporting of material or required information to all shareholders in order to ensure their equitable treatment. In maintaining close relations with investors and market participants, companies must be careful not to violate this fundamental principle of equitable treatment.

The responsibilities of the board

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

Board structures and procedures vary both within and among countries. Some countries have two-tier boards that separate the supervisory function and the management function into different bodies. Such systems typically have a "supervisory board" composed of non-executive board members and a "management board" composed entirely of executives which seems to be the case of Bazar. Other countries have "unitary" boards, which bring together executive and non-executive board members. In some countries there is also an additional statutory body for audit purposes. The principles are intended to apply to whatever board structure is charged with the functions of governing the enterprise and monitoring management.

Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation. In order for boards to effectively fulfil their responsibilities they must be able to exercise objective and independent judgement. Another important board responsibility is to oversee the risk management system and systems designed to ensure that the corporation obeys applicable laws, including tax, competition, labour, environmental, equal opportunity, health and safety laws. In some countries, companies have found it

useful to explicitly articulate the responsibilities that the board assumes and those for which management is accountable.

(Any 2 points @ 2.5 marks = 5 marks)

(Total: 100 marks)

EXAMINER'S COMMENT

The a) part of the question required candidates to brief colleagues (Finance Team members) on "*Standardised risk management system using ISO 31000*". Most candidates lack understanding of the question and deviated. Instead of candidates writing on the process of risk management, they rather wrote extensively on the type of risk, and/or how to manage risk using frameworks such as TARA framework. Over 30 % of candidates either deviated or scored well below average of the marks. Few candidates were able to explain the three elements in line with ISO 31000 standard put forward and relates it to the Bazar case study.

The part b) was the least answered question although there were few well prepared candidates who scored high marks since out of the Six OECD principles of Corporate Governance, two were required for 5 marks. Less than 20% of candidates passed this question. Most candidates did not attempt the question at all.

CONCLUSION

Candidates should read the pre-seen material carefully and come into the examination understanding and mind map of the industry and the company which will be the focus of the exam and practice question in the student manual. This will help candidates formulate good answers that relate to the tasks they are given. Candidates must manage their time well and make sure they do not run out of time on questions they know well at the expense of others. Candidates must answer what is being examined, read the questions very carefully, plan and answer what has been asked. Answers which are not applied to the case will not score high marks.