NOVEMBER 2024 PROFESSIONAL EXAMINATIONS
STRATEGIC CASE STUDY (PAPER 3.4)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

November 2024 examination was the first to be conducted under the new syllabus, which seemed to heighten the general anxiety among candidates. The number of candidates who wrote the paper dropped by approximately 40% compared to previous sittings, as many students adopted a "wait-and-see" approach to observe the nature of the first set of questions. This heightened anxiety appeared to have somewhat impacted the candidates' performance in the paper. As a result, many candidates failed to achieve the pass mark, despite the questions being clear, unambiguous, and meeting the required standard.

STANDARD OF THE PAPER

Generally, the paper was highly standard with all the questions focusing on analysis or evaluation and provision of advice to the board and management on how to improve upon the business or the impact of management choices on the business.

Marks were allocated based on the syllabus weightings with further distribution of the marks to the various sub-questions. Questions had two or three sub-questions depending on the syllabus coverage. Questions demanding more input from candidates in terms of analysis, evaluation and application were allocated more marks. For instance, questions 1 (a), 2 (a), 3 (a) and (b), 4 (c) and 5 (a) were allocated at least 8 marks and above.

In terms of clarity, all the questions avoided ambiguities and the examiner ensured that there were specific clue(s) that provided leads for candidates who have fair understanding of the subject area being tested to spot it. For instance, question 2 (b) tested candidates on ***Integration/Responsiveness (IR) Matrix*** which required candidates to advise Dr. Ayimadu Baffour on the two most suitable international strategies that have **a low requirement for local responsiveness** but which can effectively support his cost reduction objectives**.** The unambiguous clue in that question is "**a low requirement for local responsiveness"** which points directly to two strategies – International Strategy and Global Strategy in that matrix. This pattern was consistent across all the questions, ensuring that none of them contained any ambiguities.

PERFORMANCE OF CANDIDATES

Although all the questions were based on the syllabus and the recommended study guide for Strategic Case Study, unfortunately, the general performance of candidates in almost all the questions was extremely poor. Over 60% of the candidates scored below 40 marks and in fact with majority scoring from 0 to 20 of the total available marks. This performance is indeed abysmal given that the requirements of all the questions were direct. Perhaps, majority of candidates simply did not prepare adequately for the examination or their understanding of the areas tested was woefully inadequate.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

Generally, candidates demonstrate strengths and weaknesses as follows:

Strengths

- A good number of candidates demonstrated appreciation of the four basic approaches to business risk management, namely risk avoidance, transfer of risk using insurance, risk reduction and risk acceptance. The candidates sketched the risk matrix to guide them using a combination of risk probability/likelihood and risk impact dimensions.
- The second area of strength was the understanding of Greiner's Growth Model examined in question 3. The candidates were tested on the first three phases of the model and the crisis that

occurs at each of the three phases. Most of the candidates had it right because it appears that the model was expected, hence candidates did prepare adequately for it.

- Finally, overwhelming number of candidates performed creditably well in the question testing their knowledge of corporate governance. This was the preferred question for most candidates because it was answered first and was well answered. The candidates were tested on how BOGML could improve its corporate governance structure using the five pillars of the National Corporate Governance Code for Ghana 2022. The five pillars were well known and appreciated by the candidates and this was reflected in their performance. Further, candidates were tested on how ***independence*** and ***responsibility and accountability***, two of the concepts of good corporate governance, were compromised by the board composition and structure of BOGML. Performance here was simply good.

Weaknesses

- To put it bluntly, majority of the candidates either did not prepare at all or were poorly prepared for the examination. The evidence from the scripts supports lack of, or poor preparation by candidates. These were the major source of weakness in November 2024 examination.
- Some candidates failed to understand the requirements of the questions resulting in wrong answers being provided. Clearly, these candidates had fair knowledge of the area being tested but because the question requirements were not read carefully, candidates ended up providing answers that did not meet the requirements. For instance, question 4 (a) required candidates to outline the five key elements of capital budgeting/investment appraisal framework, majority of the candidates stated capital budgeting techniques (i.e. NPV, IRR, ARR, Payback period, etc.). Unfortunately, the question was not about capital budget methods which are just one of the five elements.
- Rote learning without deep understanding clearly was on display in answering questions involving models. Because in the study guide a particular sequence of the elements of a model is followed, once that order is alternated or varied, most students were in trouble. This accounted for extremely poor performance in question 1(a) where over 80% of candidates scored very low marks.
- Candidates failed to earn pass mark because they did not apply the principles, concepts and theory acquired from strategic analysis, strategic choices and strategy into action to the business issues arising from the given scenario. What most candidates did was to regurgitate the concepts and principles without going further to apply to the problem. Yet the value of the principles and concepts is found in the application of the same to solve business and practical problems that confront management and directors. Application of theory to practical issues identified in the given scenario was seriously lacking. Candidates are advised to always go beyond theory and use the concepts and principles to proffer solutions to business problems.
- Another area of weakness demonstrated by the candidates is the failure to provide an analysis or an evaluation or some advice as required by most of the questions. To analyse means to break down a concept, situation, or problem based on the business scenario whiles to evaluate means to assess the value, significance, or impact of something based on criteria or standards. Candidates did not analyse or evaluate or provide advice to the management of BOGML, rather they only repeated the elements of theories or models. For instance, in Question 1(a), candidates were required to discuss the impact of each of Charles Handy's cultural types on the company, unfortunately, majority of the candidates never discussed the impact as demanded by the question.
- Poor appreciation of the models tested. Many candidates were either clueless about the models or have partial knowledge of the models. The models that many students demonstrated paucity of knowledge include Charles Handy's cultural types, Integration/Responsiveness (IR) Matrix and Ashridge Portfolio Display Matrix. Candidates are advised to pay particular attention to all the models in Strategic Case Study since there are many models and frameworks in the course.

BLUE OIL & GAS MARKETING LIMITED (BOGML)

The Birth Story of BOGML

Although BOGML has business interests in other sectors of the Ghanaian economy, its primary area of operation is in the petroleum industry, with a specific focus on the downstream (distribution and retailing of petroleum products) segment of that industry. Close observers and participants in Ghana's (downstream) petroleum industry can attest to the fact that it is a highly challenging sector to operate in. There is a cocktail of underhand dealings, manipulations and opacity of transactions in this sector. Perhaps, this is not peculiar to Ghana but a common denominator running through Africa, and perhaps the global petroleum industry. This assertion is buttressed by Aliko Dangote, one of Africa's foremost industrialists. During a panel discussion at the 31st Afreximbank Annual Meetings held in Bahamas, Aliko Dangote, the owner of Dangote Oil Refinery, Africa's biggest oil refinery, shared the key lessons he learnt during the process of building the refinery. This was reported by GhanaWeb, Accra based online news portal, as follows:

"According to Dangote, one of the main lessons during his journey was finding out that there was a cartel that runs the oil industry in Africa. He mentioned that this cartel, which has long existed in the oil industry for decades, has blocked Africa's efforts at developing its own refinery for oil production. Dangote said, ***"I knew there would be a fight, but I didn't know that the mafia in the oil industry was stronger than the mafia in the drugs industry****"*. The link to the story: *'The mafia in the oil industry is stronger than the mafia in the drugs industry' - Aliko Dangote (ghanaweb.com)*.

Therefore, securing the necessary approvals and scaling regulatory hurdles to commence operations as an oil marketing company (OMC) and a Liquefied Petroleum Gas (LPG) Marketing Company (LMC) can be a daunting task if not a Gordian knot. It is within this context that the current sole shareholder of BOGML, Dr. Ayimadu Baffour (referred to as the shareholder), and also the Managing Director (MD), embarked on the mission to operate in the downstream petroleum sector.

From the outset, the shareholder sought to obtain fresh OMC and LMC licences but was unsuccessful after two years of trying. Sooner than later, the shareholder came to the realisation and from reliable sources within the sector that the faster route to obtaining the licences was for him to acquire already issued licences which are readily available for sale. Following background checks and searches, the shareholder finally managed to acquire an existing licence for BOGML for USD400,000 (both OMC and LMC) in January 2017. The officially approved fees for new licences for OMC and LMC are GH¢200,000 and GH¢12,000 respectively.

After acquiring the necessary licenses, the shareholder, became a 100% owner of BOGML and began operations. The company has maintained its indigenous identity and has been leveraging its resources, competencies, and strategic capabilities to achieve steady growth, despite facing headwinds from domestic and international economic factors. The shareholder, now in his mid-forties, holds a Bachelor of Science degree in Business Administration (Accounting Option) from Kwame Nkrumah University of Science and Technology (KNUST) and has been a member of the Institute of Chartered Accountants, Ghana, for over ten (10) years.

After completing his first degree, the shareholder began his career in a reputable foreign bank in Ghana, initially joining through national service and later securing a permanent position in the Internal Audit Department. After ten (10) years, he transitioned to an indigenous bank as Head of Internal Audit. However, ethical concerns surrounding sensitive financial and operational matters led him to resign after two years. Following this, he took up the role of Head of Finance at an indigenous OMC, where he witnessed significant regulatory and ethical violations which led to loan defaults and the sale of the company's collateralised assets. He felt as though he had gone from the frying pan into the fire, moving from ethical challenges at the bank to an even worse situation at the OMC.

His experience in the sector sparked a desire to start his own business in the petroleum industry. He realised that many locally-owned OMCs, especially small to medium sized ones, were failing due to poor management practices, despite the fact that the industry is generally profitable, driven by the inelastic demand for petroleum products. In January 2015, with the vision of transforming the narrative around local OMCs and building a multinational downstream petroleum company, he resigned with the intention to start his own business. His long-term goal is to develop a successful indigenous oil and gas marketing and distribution company that can compete with multinationals like TotalEnergies, Vivo Energy, and Puma Energy. Despite the challenges facing local OMCs, some, such as Goil Plc, Star Oil, Allied Oil, and Yass Petroleum, are performing well, offering hope for the success of locally-owned firms in the sector.

THE PETROLEUM INDUSTRY OF GHANA

Contribution of the sector to economic development of Ghana

The petroleum industry in Ghana is the backbone of the nation's economy, encompassing a broad spectrum of activities from exploration and production (upstream) to transportation and refining (midstream), and finally to distribution and marketing (downstream). Since the discovery of oil in commercial quantities in June 2007 and commencement of commercial production in December 2010, the industry has contributed significantly to Ghana's Gross Domestic Product as well as tax revenue. The 2024 Budget Statement of Ghana estimated a total contribution of oil and gas taxes to tax revenue from 2016 to 2024 to be GH¢166.08 billion and GH¢89.64 billion in nominal and real (i.e. measured at constant 2013 prices) terms respectively. The contribution of the petroleum sector to direct and indirect employment opportunities in the country cannot be discounted. In the absence of a reliable data on the number of jobs created, at a minimum, it is generally estimated that over 100,000 Ghanaians are employed in the entire value chain of the petroleum industry, directly or indirectly.

Regulation and liberalisation of the petroleum sector

In the 1980s and 1990s, Ghana's downstream sector was heavily regulated, with state-owned companies dominating the market. However, economic reforms in the 1990s, led by the government's Economic Recovery Programme (ERP), led to the liberalisation of the petroleum sector, allowing private companies to participate in the distribution and marketing of petroleum products.

Since the 1990s, the downstream petroleum sector has undergone significant transformation, evolving from a state-controlled system to a more liberalised market. In 2005, the petroleum pricing structure was deregulated, intended to allow market forces to determine prices. However, this policy was never fully implemented. The National Petroleum Authority (NPA) was established in 2005 to oversee the deregulation process. It was not until 6 June 2015 when Government finally and fully implemented petroleum price deregulation by allowing the Bulk Import Distribution and Export Companies (BIDECs) and the OMCs to price their own products. With the deregulation, private companies entered the market, driving competition in distribution and retailing of petroleum products. Further, with the deregulation, OMCs have the opportunity to expand their retail networks, especially in underserved rural areas. The downstream sector can explore synergies with renewable energy sources, particularly in distribution and retail, to meet Ghana's energy transition goals.

There is no gainsaying the fact that the petroleum sector as a whole, because of the sensitive role it plays in national development, can present a national security threat if it is not properly managed. Hence, it is one of the sectors in the country that is heavily regulated to protect its integrity, safety and prevent any systemic threat that may arise should anything go awry. Consequently, a number of the state agencies coalesce to regulate the petroleum sector. The agencies include National Petroleum

Authority (NPA), Ghana Standards Authority (GSA), Energy Commission, Environmental Protection Agency (EPA) and Ministry of Energy.

Ghanaian downstream petroleum industry report

In the 2023 annual report of a leading multinational competitor in Ghana's downstream petroleum sector, dated May 30, 2024, the board chairman of the competitor, addressed key sector developments. His statement highlighted notable changes and trends within the industry. Portions of the said statement are reproduced below:

> **Ghanaian Petroleum Industry**
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> The downstream petroleum industry continues to be the cornerstone of the country's economic development. In 2023, the industry was positively impacted by the Government of Ghana's Gold-For Oil (G4O) Program which helped to curb the rising ex-pump prices in the market for the benefit of the motoring public with a rippling positive effect on the general economy. It further addressed the forex challenge hitherto faced by players in the industry, and thereby enhanced fuel supply in the country. The Government's plan to scale up fuel supply under the G4O Program from 30% in 2023 to 50% of national consumption will potentially enhance product supply further and promote competitive pricing in the market. Also, the introduction of Sentuo Oil Refinery, the first private oil refinery in the country, is a major boost to ensuring a consistent supply of fuel in the market. This will not only reduce dependence on imported refined products, but also reduce the industry's susceptibility to the impact of international market trends. Competition remains keen in the downstream petroleum industry and continues to drive innovation and efficiency.
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> In pursuit of energy sustainability, the Ghanaian downstream petroleum industry is gradually transitioning towards diversified and cleaner energy sources. This includes embracing renewable energies such as solar, wind, and hydroelectric power generation to mitigate the environmental impact of fossil fuels. In line with this, the President of the Republic of Ghana launched the Electronic Vehicles (EV) Policy Framework in November 2023 to guide the country's transition into the use of EVs. This paradigm shift will potentially shape the direction of the industry in the medium to long term as players adapt their operating strategies to the changing needs of the market.

Opportunities, Prospects and Challenges in the Downstream Petroleum Industry

Following price deregulation in the downstream petroleum sector in 2015, there has been an intense price-based competition among OMCs where each company tries to undercut the price to attract consumers. This situation has been described as "price war" amongst the OMCs. Information on prices is readily available to customers for comparison. While price wars can benefit consumers in the short term by providing lower prices, they can also have negative consequences on OMCs particularly and industry as a whole in the long-run. In some cases, OMCs may resort to unsustainable pricing strategies that can lead to financial losses and even business failures. Additionally, price wars can disrupt the market and make it difficult for companies to invest in infrastructure and improve their services. Although the industry is said to be profitable, the margins are generally low. High sales volumes are key to profitability, so OMCs compete aggressively for customers to drive volumes, leading to intense market rivalry.

There are many operators in downstream petroleum sector. These include BIDECs, OMCs, Storage Companies and LPG Marketing Companies. Based on NPA statistics, there are 53 BIDECs, 208 OMCs and 24 Storage Companies.

According to statistics from the NPA and the Energy Commission of Ghana, the total demand for petroleum products in the country has risen significantly, increasing from 1,846 kilotonnes (1,846,000 metric tonnes) in 2000 to 4,931 kilotonnes (4,931,000 metric tonnes) in 2023. The petroleum products making up the demand include Gasoline (i.e. Petrol), Gas Oil (i.e. Diesel), Aviation Turbine Kerosene

(ATK), LPG, Kerosene, Dual Purpose Kerosene (DPK), and Residual Fuel Oil (RFO). Ghana's growing population and expanding transportation and industrial sectors will continue to drive demand for petroleum products. The forecast predicts that the demand for petroleum products will keep growing for the foreseeable future.

The demand for finished petroleum products is satisfied by a mixture of locally produced and imported products. Over the years, local production of petroleum products significantly declined while imports increased drastically due to non-functioning of Tema Oil Refinery (TOR). In December 2023, Sentuo Oil Refinery Limited (SORL) established a privately owned oil refinery at Tema and began local production of finished products. As a result, the decline in local production is expected to end and rather start increasing in the near future. According to the NPA Petroleum Downstream Statistical Bulletins for Q4 2023, Q1 2024, and Q2 2024, an estimated 149,594, 169,786, and 142,348 metric tonnes of petroleum products were refined domestically in each respective quarter. This development, in the long run, should reduce the country's import bill and the demand for foreign currency for imports. However, this is likely to negatively impact BIDECs whose core business involves importation of finished petroleum products. The understanding by the industry watchers is that some BIDECs are already struggling due to increased domestic production.

Table 1 below highlights the growth in the demand for petroleum products.

Table 1: Demand for petroleum products 2000 - 2023 (in kilotonnes - (kt))			
Combined Imports and Local Production	**2000-2009 (10 years)**	**2010 – 2019 (10 years)**	**2020 – 2023 (4 years)**
Total (kt)	21,142.00	36,970.00	18,247.00

Another development is the proposed plan by Petroleum Hub Development Corporation (PHDC) to build about three oil refineries in Ghana between 2030 to 2035 with a total capacity of 900,000 bpsd (barrel per stream day) and expandable to 1.5 million bpsd. These refineries will be located in the Western Region of Ghana. OMCs will have access to more products at a cheaper cost and demand by consumers is expected to increase as well.

Ghana's location makes it a strategic hub for the export of refined petroleum products to neighboring countries, especially the land-locked countries in West Africa. OMCs can take advantage of this to participate in the export business.

There is an increasing demand for LPG as a cleaner alternative to biomass for cooking, creating new opportunities for distribution companies. Indeed, there remain a large number of households in peri-urban and rural communities who still depend on charcoal and firewood as their main sources of energy for cooking and heating. As Ghana's oil production continues, there is potential for developing petrochemical industries that use refined petroleum by-products.

Fluctuations in crude oil prices on the global market directly affect the cost of petroleum imports, which can lead to price instability. The depreciation of the Ghanaian cedi increases the cost of importing petroleum products, impacting pricing and profitability. Illegal importation and sale of petroleum products undermine the formal market and lead to revenue losses. Changes in government policy, taxes, and levies in the petroleum sector have negatively affected business operations and profitability.

Globally, OMCs model of doing business is to operate 24/7 throughout the week. Unfortunately, due to several instances of armed robberies, especially at night and sometimes broad daylight robberies at the filling/service stations, most OMCs in Ghana are not operating 24/7 round the clock. OMCs have lost millions of Ghana Cedis as well as precious lives. Companies that have continued to operate 24/7 have made huge investment in in-house and outsourced private security to provide protection for its workers. In some cases, huge sums of monies are paid by OMCs to the Ghana Police Service to provide their workers with security and protection. It is estimated that millions of Ghana Cedis in revenue is lost annually by the companies that are unable to afford security to operate at night. These OMCs operate from 5am to 9pm. Insecurity remains one of the major challenges for OMCs and the State is yet to find a permanent solution to the menace.

Another challenge that has and continues to plague downstream petroleum sector, and which, particularly, affects the indigenous small to medium sized (SME) OMCs is the issue of adulteration of fuel sold at the stations. Unsuspecting and innocent motoring public have suffered consequences of damaging their car engines after buying fuels from some of these local OMCs. This has contributed significantly to affecting customer confidence in indigenous SME OMCs. This has clearly affected the demand for petroleum products from indigenous OMCs even for the genuine ones. This is a major challenge confronting the indigenous SME OMCs which, unfortunately, the regulators have not been able to successfully nib in the bud.

Cylinder Recirculation Model (CRM) Policy

The Government of Ghana through NPA has introduced LPG Cylinder Recirculation Model policy to replace the current model where consumers take their cylinders to LPG stations for refilling. The government is pushing the LPG Cylinder Recirculation Model to enhance safety standards and increase LPG penetration rate in the country. The Government is concerned with the safety of most of the existing LPG stations due to past fire explosions in the communities. It is estimated that about 89 persons died or got injured from reported cases involving LPG explosions between 2007 and 2017. In 2016, there were LPG explosions at Trade Fair, Accra, and Tinga in the Bole District of the Northern Region of Ghana. The year 2017 also recorded the Atomic Junction gas explosion that wrecked major havoc in the catchment communities. Under the CRM policy, consumers are not required to own cylinders. Filled cylinders would be made available at some identifiable exchange points for customers to pay for the gas and pick up the filled cylinders. This is expected to eliminate LPG Stations located within major communities and permanently avoid gas explosions that have occurred in the past as well as increase LPG usage rate in the country.

The CRM programme was rolled out in September, 2023 in Accra and Kumasi and would gradually spread across the country. The CRM is expected to run side by side with the current distribution model until it is phased out completely at a future date yet to be determined by NPA. NPA has stated that the implementation of the CRM was to ensure that at least 50 per cent of Ghanaians have access to safe, clean and environmentally friendly LPG by 2030. The statement concerning CRM policy is contained on the website of NPA and same is accessible via this link - https://npa.gov.gh/npa-to-commence-cylinder-recirculation-model-in-september/.

The LPG Marketers Association of Ghana (LMAG) are vehemently opposed to CRM policy on the bases that millions of dollars of investment made in their LPG stations would go down the drain and that, thousands of Ghanaians being employed would be made redundant. The LMAG has stated that the LPG sector is a critical provider of employment for over 10,000 Ghanaians, including 8,000 direct and 2,000 indirect jobs. In a press statement, LMAG underscored the fact that their members have invested over $400 million in the industry, with around 60% financed through bank loans. Should the policy be implemented, most of the loans will become bad and this will have dire implications for the survival of the affected banks. The non-performing loans of the banks will increase significantly and this may create systemic problems in the banking sector. Credit to the private sector may be cut back by the banks thereby denying businesses critical funding for growth and employment.

THE GLOBAL PETROLEUM INDUSTRY

The global petroleum industry is constantly in the state of flux as new technologies are emerging with disruptive potential and the recently heighten fear of all-out war in the Middle East between Isreal and Iran, one of the major members of Organisation of Petroleum Exporting Countries (OPEC). Since mid-November 2023, Houthi rebels in the Middle Eastern country of Yemen have been attacking shipping in the Red Sea, firing drones and missiles and, in some cases, boarding and seizing vessels. The Houthis, who are backed by Iran, say the attacks are in solidarity with their Palestinian allies in Hamas. The attacks on the Red Sea route have forced shipping companies to use longer alternative routes for transporting goods across the world. These alternative routes will add thousands of miles and days of travel time to their journey, costing companies millions of dollars in extra fuel and other costs. This situation is seriously affecting the prices of imported refined petroleum products in many countries that depend on imports to satisfy domestic demand.

Emerging markets, particularly in Asia and Africa, provide growth potential for downstream operators. With rising populations and urbanisation, the demand for transportation fuels and other refined products is expected to remain robust, allowing companies to expand their refining and distribution capacities in these regions. The global energy transition towards renewable energy sources poses a major threat to the downstream petroleum industry. This may affect the OMCs that are unresponsive to the movement towards cleaner energy sources. As countries increasingly prioritise the reduction of carbon emissions, stricter environmental regulations are being imposed on refining operations, thereby increasing operational costs. The push for electric vehicles (EVs) also threatens long-term demand for gasoline and diesel, particularly in developed markets, as EV adoption accelerates. This will soon be the situation in the developing countries as well.

THE COMPANY - BLUE OIL & GAS MARKETING LIMITED (BOGML)

The Company - Humble beginnings

Since the company launched unto downstream petroleum sector scene in 2017, it has made modest gains albeit below the expectations of the shareholder who also doubles as the Managing Director (MD). Despite the challenging business climate and tough terrain in the downstream petroleum sector, the dedication, commitment and passion of the MD have ensured that the company has survived the business journey so far. Again, the combined experiences in the banking and downstream petroleum sectors have proven extremely useful in maneuvering through the labyrinth of the oil business. At the start of the company, the shareholder was mindful to set the tone and practices that will endure and put the company on a sound path to success. Therefore, he did not compromise on certain values and principles which he believes would shape the success or failure of the company in the future. These values include strict adherence to and respect for time, strict respect for deadlines, working exceptionally hard and for long hours, and enforcement of strict discipline by adhering to directives. He believes in the military mantra – “obey before you complain”. Perhaps, this may be traced to the fact that Dr. Ayimadu Baffour is the son of a retired senior military officer of the Ghana Armed Forces and he was raised in Burma Camp under military values.

The shareholder began business with 4 pioneering workers recruited on full-time basis, and the staff strength gradually increased to a little over 100. Of the 4 workers who began the company, 3 have resigned. The pioneering team of workers began addressing the shareholder as “Commander in Chief”, not because he has had any career in the army but because of his zero tolerance for indiscipline and deviation from acceptable standards. That title has become famous about the MD as new workers of the company are told about the militaristic approach adopted by the shareholder to work. He usually reports to work latest by 6am (even sometimes 5:30am) and closes normally after 8:00pm, even though the normal working period is from 8:00am to 5:00pm. In the early years of the company (especially the first 4 years), he usually went to the front desk where the attendance book is kept to ensure that employees who reported to work after 8:00am recorded the right time. Employees who reported late to work were required to provide on the spot explanation. If the explanation given does not satisfy the shareholder, he imposes a penalty in the form of a deduction from the salary of the affected worker at the end of the month. He prevented workers from leaving at 5:00pm by assigning additional tasks or scheduling meetings after that time, often extending the workday until 8:00pm. His intent was to ensure that no one finished their workday before 7:00pm. Those who managed to sneak out and their absence noticed by the shareholder after 5:00pm were reprimanded the following day. Although this approach helped the company to grow, it caused high labour turnover as workers who resigned cited long hours of work as one major reason for their exit. High labour turnover was even worse among married female workers who were not happy staying away from home for long hours.

The shareholder clearly felt a strong personal attachment to the company as it grew and achieved modest successes. He made employees to believe that without him, BOGML would not survive, implying that the company's future depended entirely on him, with workers merely there to support his efforts. This attitude upset many employees, as they felt their contributions and roles were not recognised. As a result, staff motivation declined, and a sense of despondency spread within the company.

The company initially located its head office at Tema, but in January 2024, moved its operations to Accra. The company used the first year, 2017, to acquire various licences from NPA and local assemblies to enable it start operation. One major obstacle that the company faced was acquisition of land within the Greater Accra, Western, Volta and Eastern Regions for citing its filling/service stations. There were issues of land litigations, astronomically expensive land at vantage or prime locations and, due to limited financial resources, the company could not afford to acquire and construct its own stations. The company, therefore, decided to rent already existing filling/service stations which appear to be reasonable and affordable. However, this model is fraught with uncertainties for the company. The practice is that new entrants into the OMC space would usually approach the owners of these existing stations to offer higher amount. Once this happens, the owners do not renew the tenancy agreement or sometimes terminate it. The company is forced to cease operations of the affected stations. In its almost 8 years of existence, the company has suffered this fate with some of its stations. The benefits of the investment in the rented stations are not fully recovered and sales affected until a new station is found.

Company's products and services

The main petroleum products sold by the company are **Gasoline (also known as Petrol), Gas Oil (also called Diesel), LPG and Kerosene**. These products have posted varied degrees of performance over the years. The other services on offer at the various filling/service stations are **Mini-marts, Lube Services for servicing of cars and Washing Bays**. These services are assessed separately or are considered as strategic business units.

The company has also diversified into other businesses in other sectors. The company provides **commercial transport services** (it has about fifteen (15) mini-buses popularly known as *trotro* in the local parlance) and **real estate construction business** where it constructs apartments for both renting and outright sale to potential home owners. There are separate senior managers in charge of each of these businesses.

The strategy and operations

Fully aware of the intense competition in the downstream petroleum sector and the challenges of penetrating the market, the shareholder adopted a simple strategy by offering its products at prices slightly lower than those of the market leaders, particularly GOIL and Star Oil. Furthermore, to address the perception among consumers that indigenous small and medium sized OMCs adulterate their products and thereby compromising the quality, the MD ensured that quality was adhered to. He issued stern warning to the workers at the various stations not to contemplate adulterating the products on his blind side. In this regard, he had a trusted team of inspectors who regularly pay unannounced visits to various stations to collect fuel sample for testing for any trace of adulteration. In fact, he also sent mystery customers (or shoppers) to various stations to buy fuel and provide feedback on a sign of adulteration. The company has also invested in a monitoring software that monitors the activities of the workers/fuel attendants at the various filling/service stations. One challenge with this system is the unreliable internet connectivity that results in frequent downtime thereby impacting on the data gathered by the system. It is also believed that workers are unhappy with the monitoring system and sometimes attempt to tamper with it to prevent it from working as intended. Indeed, the shareholder has indicated that as a result of the measures and controls put in place, there has not been a single customer complaint either to the company or to the regulator. The MD believes that the strategy is gradually yielding result as sales from various existing stations continue to see an average annual growth of not less than 10%.

As a result of penetration pricing strategy adopted, the company is contending with reduced margins and in response, it is extremely strict on cost control. The shareholder keeps close tap on the administrative, station and staff costs. The company has maintained low salaries and wages for the permanent and contract workers respectively despite agitation by workers for salaries to be increased. The company ensures that it recruits from within the localities where the stations are located and tend to select people who are living closer to the filling/service stations. This is to avoid paying huge transportation allowance. Over 70% of the attendants at the filling/service stations are hired on contract basis, usually 6-months renewable contracts. The packages offered to contract workers are 40% cheaper compared to that of permanent workers. After all, the company has a large pool of curricula vitae from which it is able to fill any vacancy that arises quickly. The shareholder admits that unemployment rate in the country is high. The downside of this arrangement is that the company has observed a trend of high rate of stealing among the contract workers. On the part of the permanent employees, both at the head office and at the stations, the shareholder says that he can feel a visible sense of low staff morale. However, he indicates that under the circumstances of low margins and for the company to survive, the company cannot afford any significant increase in the salaries of the workers. The shareholder adds that he needs money for further investment and cannot afford to start dishing out money to workers when he has not received dividend so far. The labour turnover is roughly 30% and 60% among permanent and contract workers respectively.

Since 2018, the company has successfully operationalised 12 outlets across four regions, Greater Accra, Eastern, Volta and Western Regions. The three main constraints restricting the opening of more stations have been limited financial resources, finding suitable existing stations in terms of locations, and slow pace with which regulators grant licences and approvals. The ultimate objective of the company is to be able to acquire litigation free lands through long-term leases and construct its own stations. The company also has 4 LPG stations located across the same regions. Again, the company runs Mini-marts, lube services (servicing of cars) and washing bays attached to some of the stations depending on their locations and the demand by customers. Mini-marts, lube services and washing bays are staffed with contract workers under the direct supervision of the stations managers. All the stations are leased under various contracts ranging between 3 to 10 years. As stated earlier, the company has previously lost 3 stations to its rivals. Since location is very important for the distribution and retailing of fuel, the company has always been very meticulous and patient in selecting filling/service stations to lease or rent. Invariably, the company believes that given the sales performance of each of the stations, the locations have contributed significantly to its modest success, especially in the face of stiff competition. It is not surprising that the new entrants are always trying to lure the landlords into terminating existing agreement in favour of the rivals.

Each of the stations is manned by a Station Manager, who is always a permanent staff. Initially the company adopted 24/7 round the clock operations not being oblivious to the danger of armed robbery. The company was eager to maximise its revenue as much as possible. Unfortunately, the company recorded two incidents of robbery in 2022 involving an amount in excess of GH¢200,000 which was recovered under insurance. Consequently, the company decided to change its operating hours to between 5:00am – 10:00pm. LPG stations operate from 7:00am – 7:00pm.

Depending on the size of the filling/service station, the number of workers typically ranges from 5 to 10. This staffing level compares favorably with that of direct rivals, reflecting the company's focus on maintaining low costs. Workers directly attached to the filling/service stations and Mini-marts run shifts by working 24 hours and going off every other day. All the contract workers are provided the company prescribed uniforms with their names inscribed in them. This policy also applies to permanent station workers below certain grade. On the contrary, permanent workers at the stations above certain grade are free to use dresses of their choice. This segregation has been questioned by the affected workers who visibly appear not to be happy, especially permanent workers, but so far nothing has been done about it by the company.

Despite limited financial resources, the company successfully acquired two petrol tankers and one LPG tanker using finance lease in 2021. This solved the problem of depending on unreliable outsourced tankers for transporting products to various filling/service stations. Most peer companies continue to depend on third party tanker services. The company generates some additional income by transporting products for other OMCs when the tankers are not engaged by the company. Because the tankers are new, their performance has been excellent and they have also contributed to reducing the transportation cost by 30%. The tankers are equipped with the state of the art tracking system and devices to prevent any possible diversion by drivers, as it is usually the practice in the industry. The industry is the seat of many unscrupulous individuals who are eager to take advantage of any lapses in the system. Diversions attract severe sanctions and penalties from the regulator, NPA.

A Financial Analyst who has followed the investment portfolio of the Shareholder, has openly expressed his unhappiness about the MD’s consistent failure to conduct detailed financial feasibility studies in making investments in the stations. Analyses such as payback period, accounting rate of return, net present value and internal rate of return were not carried out to determine whether the investments will maximise the shareholder value. The analyst concludes that this practice is not appropriate.

Due to the regulated nature of OMCs operations, the company has meticulous standard and well defined work processes at all the filling/service and gas stations. Every worker is required to follow the standard operating procedures dogmatically without question. These procedures are largely sanctioned by the regulator and are also intended to secure maximum safety at all times because of the high risk of fire and explosions at any least mistake. Any deviation from the standard procedure attracts sanctions including dismissal since such violations are considered as gross misconduct.

Finally, the company holds regular operations meetings every Monday to review the previous week’s activities, and every Friday to plan for the coming week. These meetings have proven useful to the success of the company. After Friday meetings, the MD personally organises pork party for the members of operations to wind down the week.

Financial performance of the company
Despite the passion and effort put in the business by the shareholder, the company is yet to break into the top 20 companies with leading market share. The company’s overall market share as an OMC is just below 1% as compared to the market leader with 11.68% as at the end of 2nd quarter of 2024.

Financially, the company has seen a cocktail of good, average and bad performances in the areas of profitability, liquidity, efficiency and gearing. The company made net loss after tax in the first two years of its operations (2017 – 2018). Subsequently, it made marginal net profit of GH¢400,000 in

2019 and GH¢700,000 in 2020. The 2020 profit performed below the expectation because of Covid-19 negative impact on demand as a result of restrictions on the movement of people and goods. In 2021, the company earned GH¢2 million net profit after tax. The improved performance was due to new stations and recovery from Covid-19 negative effects. The best of the company's performance came in 2022 when it posted a record net profit after tax of GH¢3.5 million due to four stations that came on board at the beginning of 2022 and other cost cutting measures adopted during the year.

The biggest financial setback for the company came in 2023 when it recorded a loss after tax of GH¢3.2 million. The loss came about because of impairment of an asset of GH₵6.5 million owed to the company by the previous owner. This debt was discovered following National Security investigations into OMCs that have failed to pay taxes and margins owed to the State. NPA wrote to the company in 2020 about the debt. Subsequently, the company recognised the debt in its books as a Receivable and Regulatory liability respectively. During 2020, 2021 and 2022 audits, the auditors propose to make impairment allowance for the Receivable but the company persuaded the auditors that the previous owner of BOGML was willing to pay the debt but he has failed to do so. In 2023, auditors proposed an impairment allowance of GH¢6.5 million but the MD disagreed. Auditors then issued a draft qualified opinion. To avoid a qualified opinion, the MD, who was very reluctant to accept the auditor's view, subsequently allowed the impairment allowance to be passed in the Statement of Comprehensive Income resulting in the stated net loss after tax. The MD is furious about this whole situation and believes that the auditors do not appreciate his hard work. He has decided not to renew the auditors' appointment. He states that "you do me I do you" as it is said in local parlance, to wit, "tit for tat". He knows the auditors will be losing an audit fees of GH¢80,000.

Meanwhile, in 2020 the company entered into payment agreement with NPA to clear the GH¢6.5 million owed the State by the end of 2022. The company has so far paid GH¢2 million. NPA is threatening to revoke the trading licence of the company yet auditors said nothing about this either in their management letter or in their opinion.

The shareholder is confident that the company will bounce back with a big bang in 2024 regarding its financial performance and position. A summary of key financial ratios is provided in the table below:

BOGML Key Financial Ratios					
Ratio	**2023**	**2022**	**2021**	**2020**	**2019**
Gross margin	22%	16%	10%	4%	2.50%
Net profit margin	-10.%	8.60%	4%	1.5%	0.50%
Return on Capital Employed	-7.50%	11%	6%	2.50%	1.70%
Current ratio	2.2:1	4.5:1	5:1	6.5:1	8:1
Quick ratio	0.4:1	0.9:1	2:1	2.9:1	4:1
Asset turnover	3.5x	5x	6.5x	6.8x	7.2x
Debt/Equity Ratio	90%	30%	50%	n/a	n/a

Note: Despite the net loss after tax in 2023, the shareholder's funds remained positive.

The Corporate Purpose – vision, mission, values, critical success factors and KPIs

In developing the purpose of the company in terms of its vision, mission, values and strategic objectives, the shareholder was mindful of the critical success factors that underpin competitive advantage in the downstream petroleum sector globally. He had a management consultant who assisted the company in developing its corporate purpose. The details of the corporate vision, mission and values as well as the critical success factors (CSFs) and Key Performance Indicators are outlined below:

Vision Statement: To be the leading energy solutions provider, delivering safe, sustainable, and innovative oil and gas products while contributing to a cleaner, greener future for generations to come.	**Mission Statement**: We are committed to delivering high-quality petroleum products safely and sustainably, focusing on reducing environmental impact, improving energy efficiency, and enhancing customer satisfaction through operational excellence and innovation.

Corporate Values

• ***Safety First***: We prioritize the safety of our employees, customers, and communities. Every decision and action we take is grounded in our commitment to health, safety, and environmental protection. • ***Integrity and Accountability***: We conduct our business with transparency, honesty, and respect for all stakeholders. We are accountable for our actions and committed to upholding the highest ethical standards. • ***Innovation and Continuous Improvement***: We embrace innovation and continuous improvement to remain at the forefront of the industry. We are adaptable, leveraging technology and new ideas to drive efficiency and growth.	• ***Customer-Centric Approach***: Our customers are at the heart of everything we do. We listen, understand their needs, and consistently deliver high-quality products and services that exceed their expectations. • ***Sustainability and Environmental Stewardship***: We are dedicated to sustainable practices, reducing our environmental impact, and protecting the planet for future generations. Innovation in clean energy and responsible resource management is central to our operations.

These values serve as guiding principles that shape the company's culture, operations, and engagement with stakeholders, ensuring alignment with its vision and mission.

Critical Success Factors (CSFs)	Key Performance Indicators (KPIs)
• Health, Safety, and Environmental (HSE) Compliance • Operational Efficiency • Customer Satisfaction and Loyalty • Sustainability and Environmental Stewardship • Innovation and Adaptability • Employee Satisfaction	• Intensity of customers satisfaction • Sanctions by regulators per year • Severity of injuries to employees and property • Seriousness of the risks facing the company • Carbon emission reduction rate • Happiness level of employees

Please note that the KPIs were developed solely by the shareholder.

Management and Organisational Structure

At the inception of the company, all workers reported directly to the shareholder. He personally allocated roles and responsibilities to workers and directly supervised their work. The pioneering workers were not given any designated official titles and they were not provided with any job descriptions. In fact, they were interviewed and employed by word of mouth. They were not provided employment contracts but were told their monthly salary. The shareholder's approach was more focused on getting work accomplished through teamwork. It does not matter who does the work so long as the work gets performed is his philosophy. He was the only boss in the company, all other workers were coequals. Some workers were unhappy because they felt that the MD only cared about the work and not their well-being. They believed they could have contributed more if the MD had provided them with a bit more motivation and attention.

The MD took exclusive control and responsibility for all matters relating to the company's finances, including preparation of monthly management accounts and year-end financial statements. He maintains and manages the general ledger using Microsoft excel. However, over the years, excel has become inadequate due to increasing volumes of transactions but because of cost control, he does not want to invest in an automated general ledger system. In fact, external auditors flagged this issue in the management letter that due to the manual nature of excel, there were numerous errors in the financial statements for which audit adjustments were raised.

Since 2017, the number of employees has grown to over 100. It is evident that the shareholder is finding it difficult to provide effective direction, leadership and control for both the head office staff and those spread across various filling/service and gas stations throughout the country. Reluctantly, in 2022 the MD decided to introduce some modifications to the organisation structure while ensuring that he retained, as much as possible, control and power for decision making consistent with the approach adopted since the inception of the company. He created the positions for **Head of Operations**, **Head of Human Resources** and **Head of Finance**. He promoted the only remaining pioneering staff to Head of Operations and gave him direct responsibility of all the stations. The stations managers' report directly to Head of Operations. He also promoted one of the long serving employees who has been assisting him with HR issues to the position of Head of HR. However, in keeping with his long held view, he appointed himself as Head of Finance while promoting a lady to the position of Deputy Head of Finance whose responsibilities, among others, include posting transactions, preparing bank reconciliation statements and other routine financial transactions. He continues to be responsible for all approvals of all payments, preparing financial statements and management accounts. Overall, as MD, the shareholder ensures that all major decisions in the company are made exclusively by him and where necessary, seek expert advice. He believes the downstream petroleum sector is fluid and dynamic and, therefore, decisions need to be made quickly for results to be achieved.

Recently, the Head of Operations complained of too much workload which is causing some operational lapses. This issue has reached the board, which was put in place recently. In this regard, the board is proposing appointment of managers for each of the regions where the company operates – Regional Managers. These managers would be assigned the sales performance targets and they should report to the head office through Head of Operations. The board believes that this will create higher sense of ownership, responsibility and clear accountability among the managers. Head office functional units would provide support for all regional managers. The MD is currently not enthused about this proposal by the board as he fears losing control over the operations of the company. He is the "Commander in Chief" of BOGLM and it must remain so.

Finally, the company does not have an internal audit unit and a risk unit due to the cost cutting strategy. The functions of internal audit and risk units are currently being performed jointly by Operations and Finance. The MD believes that his audit and finance background will allow him to manage some of the audit and risk functions.

The Board and Corporate Governance Matters

The board, recently appointed by the shareholder, consists of six (6) members of which there are 5 non-executive directors (NEDs) and one executive director, the sole shareholder who also serves as the MD. All the NEDs were appointed by Dr. Ayimadu Baffour, the Board Chairman. All the NEDs, except one, are his close associates both in and outside the petroleum industry of Ghana. That NED, Dr. Halimatu Sadia, who happens not to have any prior relationship or association with the shareholder, is a director appointed based on advice he received from Ghana Institute of Directors after he approached that body for assistance in that direction. Dr. Halimatu Sadia is an acclaimed and an astute

Petrochemical Economist who has contributed immensely to the success of leading indigenous OMCs in Ghana.

Another Board Member, Mr. Stanley Amenuveve, is a lawyer by profession who has specialised in energy and petroleum law in Ghana. He has served as advisor to several clients over the years. He has 10 years' experience in his area of specialisation. The remaining three NEDs are bankers occupying middle level managerial roles in Finance and Accounting, Corporate Banking and Internal Audit respectively.

Board decisions are typically unanimous, though on the rare occasions where there have been dissenting opinions, they have consistently come from Dr. Halimatu Sadia. For instance, recently the MD tabled a proposal to expand the company's operations to Arusha, Tanzania and Cape Town, South Africa in 2026. All the directors supported the decision except Dr. Halimatu Sadia. The reason for her dissension was recorded in the board minutes as follows:
"*I am of a strong opinion that the proposed expansion should be put on hold because of current financial constraints, unfavourable global economic conditions as well as the fact that the MD did not support the proposal with financial analysis, such as net present value analysis (NPV), to determine the viability of the expansion*".

The board has two sub-committees, namely: Audit Committee and Risk Committee. Their membership and functions are shown below.

Committee	**Membership**	**Functions**
Audit Committee	1. Mr. Stanley Amenuveve (Chairman) 2. Dr. Ayimadu Baffour (member) 3. Dr. Halimatu Sadia (member) 4. Mrs. Mavis Nana Ama Clinton (member)	The audit committee is responsible for overseeing the integrity of the accounting and financial reporting system and reporting to the Board on these matters.
Risk Committee	1. Dr. Ayimadu Baffour (Chairman) 2. Mr. Owula Bleoobi (member) 3. Mrs. Ama Dede (member) 4. Dr. Halimatu Sadia (member)	The risk committee shall review the risks facing the company, assess the importance of each area of risk to the company's strategy and objectives; assess the extent to which risks shall be accepted, be subject to mitigation or removed; consider the effectiveness of risk mitigation measures; and make recommendations to the Board on its risk management strategy

The Board met at least 6 times during the year of their appointment (2023) and the committees meet at least 4 times in that year. Board members receive GH¢20,000 and GH¢10,000 per plenary and per committee meeting respectively.

Following completion of the 2023 statutory audit, the auditors issued a management letter to the management and those charged with corporate governance. The following are the key issues arising from the said letter:

1. The following directors – Mr. Owula Bleoobi, Mrs. Ama Dede and Mrs. Mavis Nana Ama Clinton attended and received board allowances for 2023 but their names were not officially registered with the Office of Registrar of Companies and two other directors officially registered did not attend the board meetings in 2023. Recommendation is for the company to take steps to update the official records.

2. The company has not appointed a secretary to the board and the evidence shows that the MD, Dr. Ayimadu Baffour was the person who took minutes of the board meetings for 2023. Recommendation was for the board to immediately appoint a secretary to the board.
3. Payment of board allowance without appropriate tax being withheld and paid to Ghana Revenue Authority. Recommendation is for the company to withhold and pay appropriate taxes to GRA.
4. The company has significant corporate income taxes outstanding which is attracting interest and penalties that may pose significant business risks to the company. Auditors recommend that the company take steps to pay all the outstanding liabilities.

Environmental and Social Considerations

In line with the global trend towards transition to cleaner energy sources, the company has a medium term plan to diversify its business away from fossil fuels (i.e. petroleum products). The company plans to enter solar energy market by providing the service to domestic and commercial consumers. The company also intends to build electric vehicles (EVs) charging stations in readiness for expected increase in demand for EVs. These proposed businesses are capital intensive and would require huge commitment of funds to achieve the dream. The company plans to use a mixture of debt and equity to finance these new business lines. The company plans to diversify its business into cleaner energy sources and take advantage of the government's tax policy. This policy includes a five-year tax holiday and an exemption from Value Added Tax on imported materials and equipment for cleaner energy projects.

The company has been giving back to the society some of its profit by offering scholarships to very brilliant but needy children in its catchment areas. The company also donates cylinders to households who cannot afford to buy as part of its contribution in reducing the use of charcoal and firewood which will reduce the rate of deforestation and promote sustainability agenda in Ghana.

International expansion of the company

As part of fulfilling his ambition of building a multinational OMC, the shareholder has decided to expand to Arusha, Tanzania and Cape Town, South Africa by 2026. The shareholder has chosen the two cities because he loves their cold weather. The board, by majority decision, approved this expansion plan. The shareholder has stated that he is working on raising necessary funds and obtaining regulatory approvals in those countries. He intends to start with two stations each in the two countries.

ADDITIONAL INFORMATION

The Risk Register

The Risk Committee of the board of directors working with the management has identified a number of risks facing the company. The board identified six (6) risks which are explained below:

- **Risk A** – is assessed as having low chance of occurring but when it does occur, the company suffers huge revenue losses and profit drops significantly. One example of this risk identified by the board is the Covid-19 pandemic which caused the company major revenue losses and negative impact on the revenue. Other risk of this nature include natural disasters like flood, earth quake and so on.

- **Risk B** – this risk has been assessed as not posing high financial impact on the company but the likelihood of it happening has been determined by the board to be relatively high. The board identified labour turnover and downtime of software system for monitoring stations due to internet instability.

- **Risk C** – is assessed as having the chance of happening frequently when the company fails to adhere strictly to preventive measures and when it does occur the outcome in terms of cost to the company can be devastating. Examples of risk identified here include risk of regulatory non-compliance, price volatility and fire or explosions.

- **Risk D** – This risk in terms of impact on the company's operations and chance of it happening have been assessed to be low. The risk of pumping wrong fuel into a customers' vehicle (i.e. pumping petrol into diesel engine car).

- **Risks E and F** – **Risk E** is assessed as highly unlikely to occur but with high potential of unmitigated cost to the company whilst **Risk F** is assessed as highly likely to occur and which can result in major legal cost and payment of high compensation and damages.

Strategic business units' performance evaluation

The business units' performance evaluation is as follows:

- **Gasoline (Petrol) and Gas Oil (Diesel)** – operating in the main industry of BOGML and the two products are seen as operating at their optimal level in terms of operational and financial efficiency and hence opportunity for the head office to add further value is low. The head office has very little opportunity to improve on these two products.

- **LPG and Kerosene** – Operating in the same industry (i.e. petroleum downstream sector) as the head office but the SBU lacks the competencies it needs for success and the head office has the relevant skills to assist the product/SBU overcome its weaknesses, hence the opportunity to add value by the head office is high.

- **Mini-marts and Washing Bays** - These SBUs operates outside the industry of the company and the head office has no knowledge of the factors that would be needed to make this business successful. The potential business already has the competences it needs for success. It does not need the assistance of the parent.

- **Commercial transport services** - This service operates outside the industry of the BOGML and the company does not understand the factors required to make this business successful. The transport business is being managed well without issues and the business is already successful. No assistance is required from BOGML. This implies opportunity to add value is low.

- **Real estate construction business** – This service operates outside the downstream petroleum industry and currently the service is operating at suboptimal level with many operational and financial challenges resulting in low profitability. The opportunity for BOGML head office to add value is high and the company does have the competences and resources that the SBU needs to succeed.

Using Forward Rate Agreement (FRA) to manage interest rate risk on short-term borrowings
Dr. Ayimadu Baffour has indicated that due to temporary liquidity challenges, company intends to borrow GH¢15 million in three months' time for a period of six months. The borrowings would be used to support working capital and deal with other pressing financial needs of the company in the short-term.

The only consternation staring in the face of the company is how to manage its interest rate risk, especially given how the rates have been fluctuating in the last two years. The company has decided to hedge its exposure to the risk of a rise in the six-month interest rate by buying an appropriate FRA based on the information contained herein for a notional principal amount of GH¢15 million. The FRA dealing bank quotes the rates for the appropriate FRA as 32.40 – 32.16. The benchmark rate of interest, or 'reference rate', will be the six-month Ghana Reference Rate (GRR).

Supposed at the end of month 3, when the FRA becomes effective, six-month GRR is as follows:
a. 37.50% or
b. 28.50%
Dr. Ayimadu Baffour is seeking to know the implications of the above GRR rates for the company in terms of its interest cost for the 6-month period.

QUESTION ONE

a) **Charles Handy** identified four distinct categories of corporate culture (cultural stereotypes) that can exist within an organisation. Since its formation, BOGML has exhibited all four categories of corporate culture during different phases of its growth.

Required:
Identify and explain the specific and appropriate category of corporate culture applicable, and discuss its impact on the company for each of the following phases of growth when Dr. Ayimadu Baffour:

i) created the functional departments;
ii) stated that BOGML is built around him and without him the company will not exist;
iii) insisted on retaining all authority for decision making; and
iv) emphasised on getting work done through teamwork.

(**12 marks**)

b) BOGML is admittedly contending with intense competition in the industry but since there are many competitors, Dr. Ayimadu Baffour is thinking of focusing on rivals within the company's **strategic group**.

Required:
Advise Dr. Ayimadu Baffour on the **FIVE** steps he can follow to analyse the strategic group BOGML belongs to. (**8 marks**)

(Total: 20 marks)

QUESTION TWO

a) The Risk Committee has outlined the key risks that must be managed carefully for the company to operate successfully. Meanwhile, the management letter presented by the external auditors and BOGML's proposed energy transition plan presents potential risks and opportunities.

Required:
Using the four basic approaches to the management of business risks, advise the board of directors on the appropriate strategy/approach/action to adopt to manage each of the identified risks by the risk committee and the external auditors. (**15 marks**)

b) The Board of BOGML has approved the Managing Director's proposal to expand operations into Tanzania and South Africa by 2026. A key strategic focus of the company has been cost reduction, due to the narrow profit margins prevalent in the industry.

Required:
Using the **Integration/Responsiveness (IR) Matrix**, advise Dr. Ayimadu Baffour on the **two most suitable international strategies/choices** that have a low requirement for local responsiveness but can effectively support his cost reduction objectives. Clearly identify and explain the two strategies within the IR Matrix that prioritise cost reduction. (**5 marks**)

(Total: 20 marks)

QUESTION THREE

a) The company has presented information on the various products and services (i.e. the strategic business units (SBUs)) within the company's portfolio.

Required:
Using **Ashridge Portfolio Display Matrix** and based on the performance of each SBU, clearly classify and explain the products and services under appropriate categories identified by the matrix. Support your answer with **Ashridge Portfolio Display Matrix**. (**10 marks**)

b) Since its inception, BOGML has grown organically and has gone through different stages of development in response to the challenges of growth and changes in both its internal and external environments. The company is currently under pressure to continue evolving.

Required:

i) Identify and describe the first two phases of growth applicable to BOGML based on **Greiner's Growth Model**. In your explanation, include the type of **crisis** the company faced at each phase. (**6 marks**)

ii) The board has proposed appointing Regional Managers who will be responsible for the sales performance of the company's filling and gas stations in their regions. If this proposal is implemented, it will move the company to the next phase in **Greiner's Growth Model**. Identify and explain what this next phase is, and describe the **potential crisis** that may arise at this stage. (**4 marks**)

(Total: 20 marks)

QUESTION FOUR

a) One of the Board members, Dr. Halimatu Sadia, has expressed concerns regarding Dr. Ayimadu Baffour's consistent failure to conduct investment appraisals and capital budgeting when making long-term investment decisions.

Required:
Advise Dr. Ayimadu Bafour on the capital budgeting and strategic planning framework used for conducting investment appraisals by briefly **outlining the FIVE key elements of the framework**. (**5 marks**)

b) The company is planning to expand its operations to Tanzania and South Africa in 2026. As a result, transactions between the head office in Ghana and the prospective foreign subsidiaries will likely take place, leading to potential international tax implications.

Required:
Briefly identify and explain **TWO** key issues to consider for the company to minimise total tax payable on the group profits. (**5 marks**)

c) The company has decided to use **Forward Rate Agreement (FRA)** to manage its interest rate risk likely to rise from the short-term loan of GH¢15 million it intends to borrow in three months' time for a period of six months.

Required:
In connection with the proposed FRA:

i) What is the purpose for a company to enter into an FRA arrangement? (**2 marks**)

ii) Calculate the amount of money that will be paid to settle the FRA at the beginning of FRA period if at the end of month 3, when the FRA becomes effective, six-month Ghana Reference Rate (i.e. benchmark rate) is as follows **(a) 37.50%** and **(b) 28.50%**. **In each case clearly state the party (i.e. FRA buyer or FRA seller) to make the payment**. (**8 marks**)

(Total: 20 marks)

QUESTION FIVE

a) It is evident that all is not well with the current corporate governance at BOGML. However, for the company to achieve sustainable growth and remain competitive, it must adhere to sound corporate governance principles.

Required:
Using the **FIVE** governance pillars identified in the **National Corporate Governance Code for Ghana 2022 (the National Code)**, issued in November 2022 by the Institute of Directors-Ghana, advise the company how to improve upon its current governance structure. (**10 marks**)

b) The external auditors of the company highlighted some corporate governance weaknesses in their management letter addressed to those charged with corporate governance.

Required:
Briefly explain **FOUR** roles and duties the external auditors can play in improving the corporate governance structure of BOGML. (**5 marks**)

c) There are a number of concepts of good corporate governance that every entity, including BOGML, must strive to adhere to.

Required:
Provide an evaluation of how the existing corporate governance structure at BOGML may undermine or compromise the following key **concepts of good corporate governance**, with particular reference to the current composition and organisation of the board.

i) Independence

ii) Responsibility and accountability (**5 marks**)

(Total: 20 marks)

SOLUTION

QUESTION ONE

a) Charles Handy Cultural Types

i) Charles Hendy's Cultural type applicable when Dr. Ayimadu Baffour "**created the functional departments"** is **Role Culture**. A role culture exists in a bureaucracy, where the responsibilities of each individual are defined by the job that they have, and its position in the organisational structure. The source of power in this culture is derived from the official position the person occupies or the role the person plays in an organisation. Employees are expected to do the job that they have been given. Dr. Baffour's creation of the positions of Head of Operations, Head of Human Resources, and Head of Finance reflects a role culture at BOGML, as each position clearly defines the specific roles and responsibilities of its occupant. Further, the joint handling of Internal Audit and Risk Unit functions by the Operations and Finance departments further demonstrates a role culture.

Impact of the adoption of role culture on BOGML

- As Dr. Baffour found it challenging to provide effective direction, leadership, and control with a growing staff, adopting a role culture enables functional heads to lead and supervise their teams effectively. This reduces Dr. Baffour's burden, allowing him to focus on strategic matters and function more effectively with his official roles.
- Finance and Operations jointly performing the functions of the Internal Audit and Risk Units can create conflict of interest and result in self-review. This situation weakens checks and balances and segregation of duties as an important control in the company.
- The Head of Operations reported an excessive workload, leading to operational lapses. This suggests that, as the company continues to grow, the role culture may be becoming less suitable.
- Dr. Baffour's ability to maintain full control of the company for quick decision-making may also be compromised or lost.

ii) **Person or Existential Culture** is the applicable Handy's cultural type when Dr. Baffour **stated that BOGML is built around him and without him the company will not exist**. In a person or existential culture, the entire organisation structure is built around one individual (in the case of BOGML, that individual is Dr. Baffour) or a group of individuals. The rest of the organisation exists to serve the needs of the central individual, Dr. Baffour. The culture is based on the view that the organisation exists to serve the talented individual or individuals. Dr. Ayimadu Baffour exhibited a **person/existential culture** when he felt a strong personal attachment to the company and made employees to believe that without him, BOGML would not survive, implying that the company's future depended entirely on him, with workers merely there to support his efforts.

Impact of the adoption of a person/existential culture on BOGML

- This culture upset many employees, as they felt their contributions and roles were not recognized.
- As a result, staff motivation declined, and a sense of despondency spread within the company.
- This likely had a negative impact on worker productivity and may have contributed to staff turnover.

iii) The cultural type exhibited is a **power culture**, when Dr. Baffour **insisted on retaining all authority for decision making**. This culture is dominated by a central figure, usually owner/shareholder-manager (for instance, Dr. Baffour in BOGML) who takes all decisions in the company. The source of power in this culture is derived from the personality of the person because of that person's influence in an organisation. Power, authority and influence spread out from this central point/person but control remains at the central point. In this culture, roles of the workers are not clearly defined, and organisation is generally informal. In BOGML power culture was reflected at the inception of the company when Dr. Baffour exercised total control over the company. All workers report to him directly, he made all the decisions and indeed workers described him as “Commander in Chief”. He made workers to work for long hours and when they failed to do so, they were reprimanded.

Impact of the adoption of a power culture on BOGML

- As BOGML grew in terms of the number of workers and stations, Dr. Baffour could no longer provide effective leadership for the company.
- There was high labour turnover, especially among married female employees because of long hours of work insisted on by Dr. Baffour.
- With power culture, Dr. Baffour was able to make quick decisions because he was completely in charge.
- Additionally, he keeps tight control over the company’s operating costs through his personal involvement in the approval process.

iv) **Task culture** is the appropriate cultural type exhibited when Dr. Baffour **emphasised on getting work done through teamwork**. A task culture is driven by teamwork that achieve results. This teamwork and result oriented culture. It does not matter who does the work so long as the expected results are achieved. Typically, the structure of this organisation is one that is flat. In a task culture, the focus is on tasks and getting tasks completed in the most efficient and effective way, and the main aim is the successful solution of problems. In a task culture, organisation is flexible. Dr. Ayimadu Baffour’s approach was more focused on getting work accomplished through teamwork. He indicated that it does not matter who does the work so long as the work gets performed is his philosophy. He was the only boss in the company, all other workers were coequals.

Impact of the adoption of a task culture on BOGML

- Some employees were dissatisfied, feeling that the Managing Director focused solely on the work and not on their well-being. They believed they could have been more productive if Dr. Ayimadu Baffour had offered them more motivation and support.
- The productivity of the workers could have been higher had Dr. Baffour recognised their effort by increasing the salaries of the workers.
- This could have also resulted in high labour turnover.

(4 points each @ 3 marks = 12 marks)

b) Strategic Group analysis

The following are the recommended steps that Dr. Baffour could follow to analyse the strategic group BOGML belongs to:

1) **Creating a list of companies (OMCs) in the strategic group**: Dr. Baffour should identify and list OMCs that share similar characteristics with BOGML. These would include direct competitors, particularly those with a market share of around 1%.
2) Dr. Baffour should **make distinctions between them by identifying their differing characteristics**. These may include how companies differ in terms of size, the prices they charge, the features of their products, the number of products sold, their geographical reach, number of workers employed, etc.

3) Further, Dr. Baffour should **identify the defining characteristics of each company in the strategic group, such as their position in the market**. Are these companies ahead or trailing BOGML?
4) **Identification of the strongest competitors** within the strategic group by Dr Baffour. What gives them strength? What are their strategies? Dr. Baffour should make a list of the factors providing strengths for the leading rivals as well as the identification of any strategies being pursued by those leading rivals.
5) Finally, Dr. Baffour should evaluate the company's own position against those of the strongest competitors, and use the results of the evaluation to develop strategies for the future to exploit opportunities and deal with external threats.

(5 points each @ 1.6 marks = 8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Many candidates performed very poorly in this question scoring either zero (over 60% of those who attempted it) or scoring very low marks. Some candidates too did not attempt it at all. In fact, it is the worst attempted question.

Regarding Question 1(a), a good number of candidates who attempted it were not familiar with Charles Handy four organisational cultural types. This resulted in many candidates performing very poorly or failing to attempt the question. A few candidates who understood the model did extremely well. The question required candidates to identify, explain and provide the impact of each cultural type applicable to the stated fact from the scenario.

One trend stood out, candidates identified and explained the appropriate cultural type but failed to address the issue of the impact on the organisation leading to candidates losing the marks allocated to the impact.

Overwhelming number of candidates who attempted Question 1(b) had it wrong because they were obviously clueless of what a strategic group model was all about. In fact, most candidates applied Porter's Five Forces model in answering the question, perhaps, because that is a popular model among students. This is the case of putting aside the model provided specifically in the question and candidates setting their own question and answering it.

QUESTION TWO

a) **Approaches to risk management in BOGML – Advice to the board of directors**

The following are the risk management approaches that the board of BOGML can adopt to manage the following risks identified in the company:

Risk A

- **Description**: Low probability but high impact, e.g., pandemics, natural disasters.
- **Approach**: **Risk Transfer or Risk Sharing**
- Since this risk has a low likelihood of occurring but can result in severe financial losses, the company should consider **transferring** this risk or **sharing risk**. This can be done through the company taking full or partial (i.e. sharing of risk) insurance policies specifically designed for catastrophic events, such as business interruption insurance, pandemic insurance, or property insurance that covers natural disasters. Since the impact will be high when the risk occurs, the company can take insurance to pass on the high impact on the company to the insurance company which has to compensate BOGML in the event that the risk does occur.
- The risk could also be shared through BOGML forming partnerships and collaborating with other OMCs to undertake investment in their oil stations.
- The company should also develop a disaster recovery and business continuity plan to manage potential impacts effectively.

Risk B

- **Description**: High likelihood but low financial impact, e.g., labor turnover and software downtime due to internet instability.
- **Approach**: **Risk Reduction**
- For risks with a relatively high chance of occurrence but limited financial impact, **risk reduction** is the most effective approach. To reduce the risk of labor turnover, the company could enhance employee retention strategies, such as improving workplace culture, offering competitive benefits, and providing growth opportunities. For software downtime, the company could ensure a reliable internet connection, use redundancy measures (like backup systems), and implement regular maintenance to prevent extended downtime.
- Again, the instability of the internet, which is affecting the monitoring system functionality, the company can find alternative system not based on the internet but which can record and store data which can be reviewed in case of any issue. The company can also have more monitoring teams that can pay frequent surprise visits to the stations.

Risk C

- **Description**: High likelihood of occurrence when preventive measures are not followed, with potentially devastating costs, e.g., regulatory non-compliance, price volatility, and fire/explosions.
- **Approach**: **Risk Avoidance or risk diversification**
- Since this risk can frequently occur and have significant financial consequences, **risk avoidance** is appropriate. The company should adopt strict adherence to regulatory and operational standards to **avoid** compliance-related risks and price volatility. Implementing strong health and safety protocols, training programs, and monitoring systems can reduce the risk of fire or explosions.
- An alternative strategy for this risk is for the company to take immediate action to diversify its activities into other sectors or businesses that do not carry this high risk. For example, the company can fast track its proposal to expand into solar energy and electric cars charging stations which are less likely to cause fire since they are less inflammable.

Risk D

- **Description**: Low probability and low impact, e.g., accidental fueling of the wrong engine type.
- **Approach**: **Risk Acceptance**
- Given the low chance and low impact of this risk, **risk acceptance** is a practical approach. While the risk is minor, the company could implement minor procedural checks, like staff training and customer confirmation protocols, to ensure this mistake remains rare.
- Further, the risk should be reviewed periodically by the board to ensure that it remains a low priority risk in terms of the impact and likelihood of the risk occurring. Periodical review is important because business environment of BOGML is not static by dynamic, hence it is important for the company to continue to monitor the situation closely.

Risk E

- **Description**: Low likelihood but high potential cost if unmitigated.
- **Approach**: **Risk Transfer and risk sharing**
- For risks that are unlikely but could result in significant losses, **risk transfer** through insurance coverage, especially liability or business interruption insurance, is advised. Additionally, **risk sharing** measures, such taking partial insurance or forming joint partnership or collaborate with other OMCs to make joint investments.

Risk F

- **Description**: Highly likely with the potential for high legal costs and compensation, e.g., legal issues and liabilities.
- **Approach**: **Risk Avoidance or Risk diversification**
- The approach to managing this risk is risk avoidance. The company may decide to diversify away from the activities or business giving rise to this risk or may completely avoid circumstances that may trigger this risk because it is assessed as highly likely to occur and which can result major legal cost and payment of high compensation and damages.
- The company should proactively **avoid** this risk by implementing strict legal compliance policies, regular legal reviews, and employee training on legal practices.

Summary of Recommended Strategies:

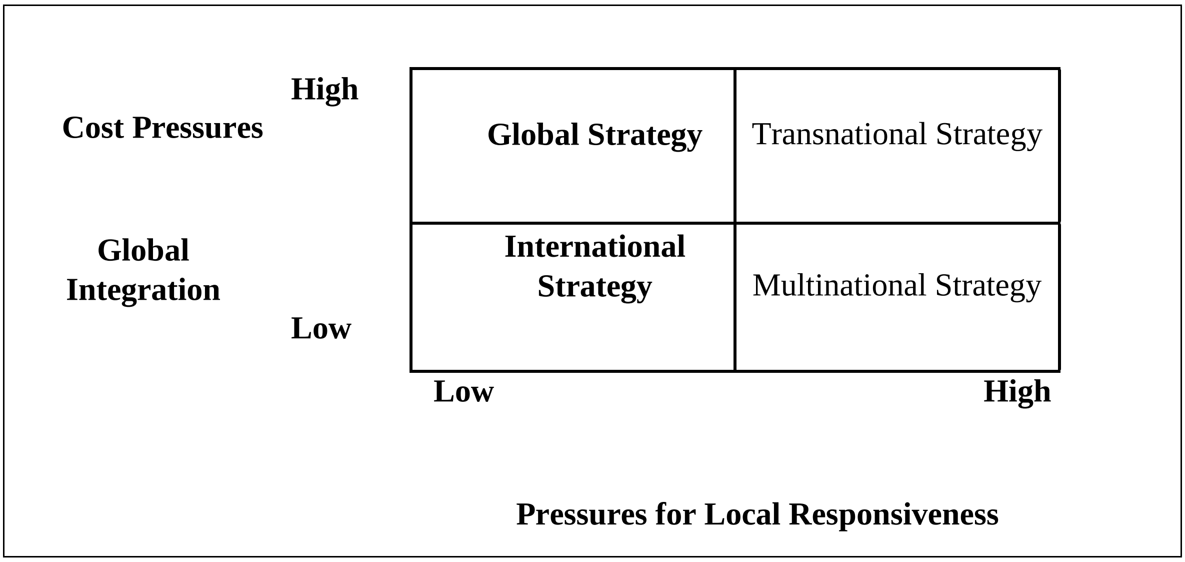
Risk	Description	Approach	Action
A	Low likelihood, high impact	Transfer	Obtain catastrophe insurance; develop a business continuity plan.
B	High likelihood, low impact	Reduction	Enhance employee retention and ensure backup internet and maintenance for software reliability.
C	High likelihood, potentially high impact	Avoidance or risk diversification	Enforce regulatory compliance, improve safety measures, and training for explosion prevention.
D	Low likelihood, low impact	Acceptance	Accept risk with minor staff checks to confirm correct fueling procedures.
E	Low likelihood,	Transfer	Obtain insurance; implement audits to

Risk	Description	Approach	Action
	high cost if unmitigated		manage compliance and reduce vulnerability.
F	High likelihood, high legal cost and liability	Avoidance or risk diversification	Diversification into other business activities.

(6 points each @ 2.5 marks = 15 marks)

b) **Integration/Responsiveness (IR) Matrix**

The two most suitable international strategies/choices that have a low requirement for local responsiveness but can effectively support the company's cost reduction objectives are the following **International Strategy and Global Strategy**.



- **International Strategy** – This strategy is adopted when an organisation operates in an environment in which there is low pressure for local responsiveness and low pressure for global integration. There are close similarities between the different national markets and there is little to be gained from global integration. A company is likely to adopt an international strategy when it decides to expand into foreign market for the first time. An international strategy is essentially a strategy in which a company sells the same products or services in both domestic and foreign markets. It enables a company operating internationally to leverage their home-based core competencies in foreign markets. **The company achieves economies of scale, cost reduction, because it offers the same products and services to both home and foreign markets**.

  This strategy will help BOGML to reduce cost because it does not have to differentiate its services and products for the new markets, Tanzania and South Africa. Both home market and foreign markets would be served with the same products and services. This will help the company to achieve economies of scale, hence cost reduction.

- **Global Strategy** – This strategy is adopted when an organisation operates under conditions where the need for local responsiveness is low but cost pressures/global integration pressures are high. Global strategy seeks to maximise global integration. There may be significant economies (cost reductions) by producing on a global basis because the needs/demands of customers are similar in every country, so pressures for local responsiveness are low.
  In this strategy the world is seen as one marketplace with standardised products and services that fully exploits integration and efficiency in operations. The focus is on capturing scale economies and exploiting location economies worldwide with geographically dispersed value chain activities being coordinated and controlled centrally from headquarters. A global strategy is most beneficial when there are substantial cost or quality efficiency benefits from standardisation and when customer needs are relatively homogeneous across countries.

  BOGML can achieve its objective of cost reduction using this strategy because of high economies of scale that can be achieved through this strategy.

  Note
  The other two strategies, multinational strategy and transactional strategy, involve duplication and differentiation for different countries because of high local responsiveness and can therefore not achieve cost reduction objectives of BOGML. Any student who select those strategies should be scored zero.

(2 points each @ 2.5 marks = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Most candidates attempted this question with the general performance slightly above average. It appeared candidates had a fair idea about the topics tested but lack of attention to the fine requirements of the two sub-questions resulted in inappropriate answers that failed to fetch high marks out of the available marks.
Question 2(a) simply required candidates to use the four basic approaches to risk management (avoid/terminate, transfer, reduce/treat and accept/tolerate) to advise the board on how to manage each risk identified in additional information (Risks A – F). After candidates mentioned the four approaches to risk management, surprisingly, some of them then proceed to apply the approaches to their own risks they identified including credit risk, liquidity risk, reputation risk, market risk, environmental risk, etc. Many candidates simply mentioned the approaches without explaining or advising the board on some mechanisms or means that can be used to achieve the approach. For instance, when a candidate mentions "transfer" of risk, it is expected that at least he/she talks about transferring risk using insurance. Finally, although some students are aware of the four approaches to managing risks, they were unable to identify the appropriate approach applicable to each risk based on its likelihood of occurring and the impact if it occurred. These reasons are collectively accountable for marginally above average performance.
Many students were completely unfamiliar with Integration/Responsiveness (IR) Matrix model which was the subject of Question 2(b). Hence, candidates did not answer it or those who attempted it perform poorly by scoring very low marks. The question provided candidates with a major clue when it stated that candidates should advise Dr. Baffour on the two most suitable international strategies/choices that have a "low requirement for local responsiveness" but can effectively support his cost reduction objectives. Anybody who understands IR Matrix would know immediately that the two strategies in question are **international strategy and global strategy**. Some candidates who drew the matrix had it correctly and scored the maximum marks available.

QUESTION THREE

a) Ashridge Portfolio Display matrix

The products and services (i.e. SBUs) are classified below using the Ashridge Portfolio Display Matrix:

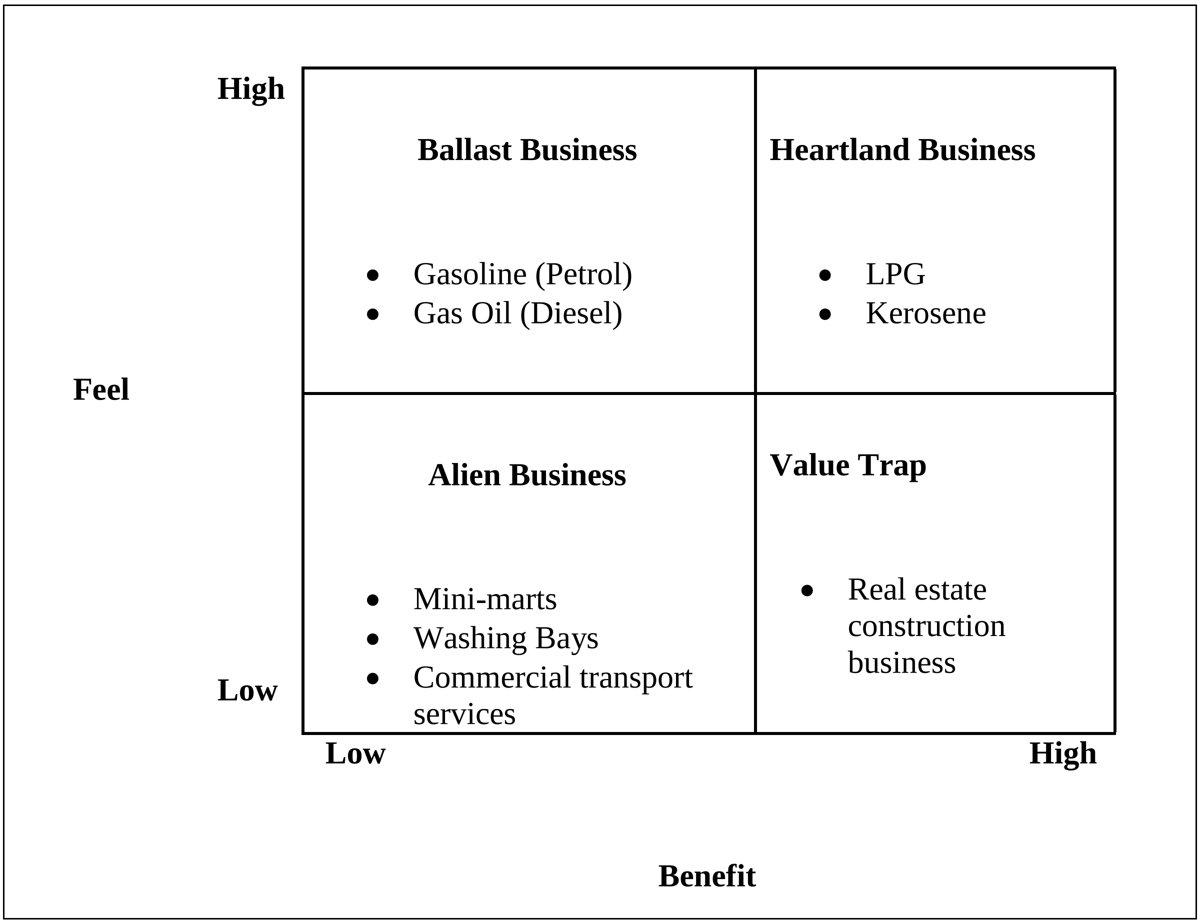
- **Gasoline (Petrol) and Gas Oil (Diesel) –** these products are ballast products using Ashridge Portfolio Display Matrix. A ballast business according to the matrix is a product that has high feel because it operates in the same industry as the head office/parent company but has low benefit because opportunities for the head office/parent to add value is low since the product is already successful. It is said that the two products are operating in the main industry of BOGML and the two products are seen as operating at their optimal level in terms of operational and financial efficiency and hence opportunity for the head office to add further value is low. The head office has very little opportunity to improve on these two products.

- **LPG and Kerosene – This product is a heartland business using the Matrix classification.** This is because the feel is high since the product is in the same industry as the head office/parent and the benefit is also high because of opportunity for the head office to improve on the value of the product. This product is said to be operating in the same industry (i.e. petroleum downstream sector) as the head office but the SBU lacks the competencies it needs for success and the head office has the relevant skills to assist the product/SBU overcome its weaknesses, hence the opportunity to add value by the head office is high.

- **Mini-marts and Washing Bays** – These services are **Alien Business** according to the Matrix. This is because the feel is low since they are outside the head office's industry and the benefit is also low because the businesses are already doing well. These SBUs operate outside the industry of the company and the head office has no knowledge of the factors that would be needed to make this business successful. Thus, these businesses already have the competences they need for success. They do not need the assistance of the parent to be successful.

- **Commercial transport services** – This service is also an **Alien Business** based on the Matrix because it has low feel since it operates outside the parent company's industry, petroleum industry, and the benefit is low because it is already successful business that does not need help of the parent company to increase its value. The transport business is being managed well without issues and the business is already successful. No assistance is required from BOGML. This implies opportunity to add value is low.

- **Real estate construction business** – This is a **value trap business** based on the Matrix. The feel is low because it operates outside of the head office/parent's industry but the benefit is high because it has operational challenges which can be corrected by the head office to improve the business value. This service operates outside the downstream petroleum industry and currently the service is operating at suboptimal level with many operational and financial challenges resulting in low profitability. The opportunity for BOGML head office to add value high and the company does have the competences and resources that the SBU needs to succeed.



(2.5 marks for drawing the diagram and 5 points each @ 1.5 marks = 10 marks)

b)

i) The first two phases of Greiner's Growth Model

Phase 1: Period of growth through creativity. This is the first phase that BOGML went through at the inception of the company. The early years of a successful business entity are a period of creativity and innovation. The entity is probably managed in an entrepreneurial way like BOGML did in its inception. Over time, production becomes more organised. As the entity grows, **the entrepreneurial method** of management and the existing organisation structure both become inefficient. The organisation needs organisation and planning and control systems. This stage ends with a leadership crisis, where the owner-manager is no longer able to provide effective supervision and direction to employees, as was the case with BOGML.

Dr. Ayimadu Baffour's management of BOGML at its inception until he introduced the functional departments indicates that during the early years of the company it was in Phase 1, Growth through creativity. Dr. Ayimadu Baffour had absolute direct control over every worker. All the workers were directly supervised by him. He was the "Commander in Chief" since he made all decisions in the company. However, as the company grow and workers increased, it became difficult for him to provide all the workers with effective leadership resulting in a **crisis of leadership** which then compelled him to create the functional departments. Crisis of leadership arises when the owner/shareholder-manager is unable to provide all the workers with effective leadership in terms of supervision of their work.

Phase 2: Period of growth through direction. This is the second phase experienced by BOGML but it appears that this phase appears not to be suitable for the company given its size. At this phase, the company is now more structured, with a 'traditional' management hierarchy. This stage involves the appointment of management team members with responsibilities for the various functional areas of the company. Formal systems are introduced, such as planning and control systems (budgeting and budgetary control), accounting systems, inventory control, production scheduling, communication and IT systems, etcetera. However, as the entity grows, the hierarchical management structure becomes inefficient. The control systems and reporting systems are designed for close control from the top by senior management. However, management control from the top is not as effective as it used to be. Top management are far away from actual operations, and 'local' managers know much more about how the business functions in their area of operations. This phase ends with a crisis of autonomy, where local managers call for more delegation of decision-making powers.

This is the stage that BOGML can be said to be operating currently with the creation of functional departments (Operations, Finance and HR). These functions clearly define the roles and grouped workers under those functions and being accountable to their heads. This phase would appear to be inadequate or not suitable for the company given its size and with increasing work load on the Head of Operations. Again, the board is proposing the appointment of regional managers who will be given sales performance targets to deliver. This means that managers will need to be given more power to make decision, hence the need for more delegation of power. This will result in **crisis of autonomy** – the need for more power to be granted the regional managers to make decision on how best to increase their sales. Therefore, crisis of autonomy will terminate the second phase of Greiner's model.

(2 points each @ 3 marks = 6 marks)

ii) The next phase (i.e. the third phase) of Greiner's Growth Model

Phase 3: Period of growth through delegation. The board's proposal to appoint Regional Managers who will be responsible for the sales performance of the company's filling and gas stations in their regions, if implemented will take BOGML to Phase 3. This could create regional divisions based on the existing four regions. In order to survive, the entity is reorganised, with much more authority delegated to 'local'/regional managers. The entity is organised into divisions, which might be profit centres. Central management receives reports from the divisions, but divisional managers take most of the decisions about how the division should be run. This phase ends with a **crisis of control** which involves the head office losing control over the local managers.

This stage is where BOGML ought to be based on the recommendation of the board for the appointment of regional managers who are to be given sales targets. There are also senior managers in charge of the commercial transport services and real estate business units which could effectively be divisions in the company. For clear and effective accountability, these managers need to be delegated sufficient authority to perform and can subsequently be held accountable for their performance. This phase in future will end with **crisis of control** – because when power and authority is delegated, as BOGML is seeking to do, the head office is likely to lose control over the regional managers.

(1 point @ 4 marks each = 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question tested candidates on two models, Ashridge Portfolio Display Matrix and Greiner's Growth Model. The general performance was fairly good with most candidates attempting the sub-questions, particularly sub-question (b). Candidates who attempted the question scored more than half of the allocated marks.

Question 3(a) was attempted by many students and general performance was just above average. This question was based on using Ashridge Portfolio Display to classify the products and services in BOGML portfolio. One notable issue was the failure of many candidates to indicate the products and services in an appropriate cell/quadrant of the matrix as the question required. Some candidates struggled with the classification of the products and services using the matrix.

Unlike Question 3(a), many candidates performed very well, scoring all the maximum marks available in Question 3(b). Perhaps, because the requirement was for candidates to explain the first three phases of Greiner's Growth Model exactly as they are stated in the recommended study guide, rote learning came in aid to a large extent, hence the good performance. However, a point ought to be made that application of the model to BOGML business was problematic for some candidates.

QUESTION FOUR

a) The capital budgeting and strategic planning framework
Investment appraisal takes place within the framework of a capital budget and strategic planning. It involves:

1) Dr. Baffour should be **generating capital investment proposals in line with the company's strategic objectives**. This will ensure that the investments are made in accordance with BOGML's strategic goals that reflect company's vision and mission.
2) **Forecasting relevant cash flows relating to the project**. Dr. Baffour needs to project relevant cash flows for a project, usually over the life of the investment. If the investment life goes beyond 5 years, then usually 5 years' projection of cash flows is made and based on that, a terminal value would be projected.
3) **Evaluating the projects** using the various investment appraisal methods including net present value, internal rate of return, profitability index, discounted payback period, payback period, etc.
4) Dr. Baffour should proceed **to implement projects which satisfy the company's criteria for deciding whether the project will earn a satisfactory return on investment**.
5) Dr. Baffour should **monitor the performance of investment projects to ensure that they are performing in line with expectations**.

(5 points each @ 1 mark = 5 marks)

b) How the company can minimise total tax payable on the group profits.

Transfer prices between a company and a foreign subsidiary have implications for taxation, and the aim of a group of companies should be to minimise total tax payable on the group profits. Issues to consider are:

1) **Tax rates**. The rate of taxation on profits will vary between the two countries and two companies concerned. As a general principle, the aim of a group should be to set a transfer price that shares the profits in a way that reduces the profits of the company in the higher-tax country. Therefore, for BOGML based on the tax rates in Ghana, Tanzania and South Africa, the company can set transfer prices to maximise the group profit by shifting profits to low tax countries and shift more cost to high tax countries.
2) **Double taxation agreement**. There should usually be a double taxation agreement between the two countries. From the point of view of the parent company, this means that:
   - **If the rate of tax on profits is higher in the country of the foreign subsidiary than in the parent company's country, the subsidiary pays tax in its own country on its profits at the rate applicable in that country**. No further tax is payable in the parent company's country on the profits of the foreign subsidiary.
   - If the rate of tax on profits is lower in the country of the foreign subsidiary than in the parent company's country, the subsidiary pays tax in its own country on its profits at the rate applicable in that country. However, tax is also payable by the parent company in its own country. The tax payable is the difference between tax on profits at the rate in the parent company and the tax payable by the subsidiary in its own country.
   There is double taxation agreement between Ghana and South Africa, but there is none between Ghana and Tanzania. BOGML can therefore take advantage of lower withholding tax rates in the Ghana and South Africa double taxation agreement to reduce the group's total tax and increase its profits.
3) **Withholding tax**. Withholding tax is additional tax that is 'withheld' when a company pays interest or dividends to a foreign investor. It affects international groups where foreign subsidiaries

are located in a country where withholding tax is charged. Payments of interest or dividends by a subsidiary to the parent company will be subject to the withholding tax. BOGML should consider the withholding taxes on interest and dividends to decide whether to rely more on debt capital or equity financing as it seeks to invest in Tanzania and South Africa.

4) **Tax rules on transfer prices**. The tax rules in a country are likely to make it difficult for an international group to charge inter-company transfer prices that are significantly different from market prices (where these exist). This is because the tax authorities recognise that transfer prices might be set artificially so as to minimise the total tax burden for the group. BOGML must get advice on the transfer pricing rules in Tanzania and South Africa for compliance and for tax avoidance and tax planning opportunities to minimise the group tax and maximise group profit.

(Any 2 points each @ 2.5 marks = 5 marks)

c) Forward Rate Agreement (FRA)

i) The main purpose of FRA is to hedge against interest rate risk on expected or anticipated borrowing or lending by a company. If a company expects to borrow or lend a certain amount of money at a future date but is concerned about potential interest rate changes, an FRA helps lock in an agreed-upon interest rate. This reduces uncertainty and stabilizes financial planning. The company buys FRA which effectively allows it to exchange its floating/variable interest rate for fixed interest rate from FRA seller or dealer. The company gets compensated when the actual floating rate on a loan goes above the agreed fixed rate in the FRA and on the other hand when the actual floating rate reduces below the agreed fixed rate the company pays over the interest cost savings to the FRA seller. FRA operates like an insurance; the company does not gain nor lose. FRA offers protection against fluctuations in the interest rates.

(1 point @ 2 marks = 2 marks)

ii) The amount of money that will be paid to settle the FRA at the beginning of FRA period
a)

If the Ghana Reference Rate (Benchmark rate) is 37.50%	
	GH¢
Interest payable on the loan at GRR of 37.50% (GH¢15*37.5%*6/12)	2,812,500.00
Less Interest payable on the loan at agreed rate of 32.40% (GH¢15*32.40%*6/12)	2,430,000.00
Additional interest payable because of increase in GRR	**382,500.00**
Amount to be paid at the beginning of FRA period is PV of Additional Interest. (382,500/[1+(37.50%*6/12)]	**322,105.26**

Party to pay: FRA seller will pay BOGML GH¢322,105.26 at the beginning of FRA.

Alternative Solution

If the Ghana Reference Rate (Benchmark rate) is 37.50%	
Difference in the interest rate between GRR and Agreed rate (i.e. FRA rate) (37.50% - 32.40%)	5.10%
Notional Loan	15,000,000
6 months Interest to be paid by a party to FRAs **(GH¢15m *5.10%*6/12)**	**382,500.00**
Present Value of Interest to pay at the beginning of FRA **GH¢382,500/[1+(37.50%*6/12)]**	**322,105.26**

Party to pay: FRA seller will pay BOGML GH¢322,105.26 at the beginning of FRA.

b)

If the Ghana Reference Rate (Benchmark rate) is 28.50%	
	GH¢
Interest payable on the loan at GRR of 28.50% (GH¢15*28.50%*6/12)	2,137,500.00
Less Interest payable on the loan at agreed rate of 32.40% (GH¢15*32.40%*6/12)	2,430,000.00
Additional interest payable because of increase in GRR	**(292,500.00)**
Amount to be paid at the beginning of FRA period is PV of Additional Interest. **(-292,500/[1+(28.50%*6/12)]**	**(256,017.51)**

Party to pay: BOGML will pay FRA seller GH¢256,017.51 at the beginning of FRA.

Alternative Solution

If the Ghana Reference Rate (Benchmark rate) is 28.50%	
Difference in the interest rate between GRR and Agreed rate (i.e. FRA rate) (28.50% - 32.40%)	-3.90%
Notional Loan	15,000,000
6 months Interest to be paid by a party to FRAs **(GH¢15m *5.10%*6/12)**	**(292,500.00)**
Present Value of Interest to pay at the beginning of FRA **-292,500/[1+(28.50%*6/12)]**	**(256,017.51)**

Party to pay: BOGML will pay FRA seller GH¢256,017.51 at the beginning of FRA.

(10 ticks @ 0.8 mark = 8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Similar to Question 1, the general performance by candidates in Question 4 too was extremely poor. This was the question dealing with financial objectives and strategies. In fact, many candidates avoided this question particularly 4(a), which was on key elements of capital budgeting, and 4(b), a test of Forward Rate Agreement.

The candidates were required to outline the five key elements of capital budgeting in Question 4(a). Many candidates who attempted it scored low marks because the answers provided focused on investment appraisal methods which was not the requirement. It is difficult to figure out why candidates performance was bad, perhaps one can trace it to poor preparation.

Question 4(b) which examined students on two key issues that BOGML may consider as it plans to go international to minimise total tax payable on the group profits was well answered. Most candidates stated double taxation agreements, tax rules on transfer pricing, tax rates, among others.

Question 4(c) was the only question involving calculations focusing on finding the amount to be paid and by which party in settling Forward Rate Agreement (FRA). More than 90% of candidates simply ignored this question, yet it was a very simple question. Few candidates who understood and attempted it had all the marks allocated.

QUESTION FIVE

a) **FIVE** governance pillars identified in the **National Corporate Governance Code for Ghana 2022 (the National Code)**

The five pillars consist of:

1) **Purpose (P)**
   - The organisation should have a clearly defined purpose which shapes its values, culture, strategy, and practices. The organisational purpose should encompass financial and environmental sustainability (by embracing the concept of 'double/dual materiality', as reflected in global priorities, such as the UN SDGs, Global Reporting Initiative, Integrated Reporting, Triple Bottom Line Reporting, and International Sustainability Standards Board's Standards). The organisational purpose should also promote the creation of long-term value for the benefit of its owners, other stakeholders, and the wider Ghanaian society.
   - Dr. Baffour, with assistance of a management consultant has clearly defined the company's purpose as is reflected in its vision and mission. The vision and mission of BOGML reflects sustainability issues which are part of the company's future growth strategy by proposing to diversify into solar business and charging stations for electric vehicles. Furthermore, the company has developed its values based on the vision and mission of the company.
2) **Leadership (L)**
   - The organisation should have a governing body that operates with integrity and selflessly works to achieve the organisational purpose, as well as champions organisational survival and long-term growth. The governing body should provide effective and ethical leadership, as well as promote accountability and fairness. Accountable organisations have adequate checks and balances in their governance structures to prevent concentration of power in few hands.
   - BOGML can improve its current governance structure by Dr. Baffour resigning from the role of the board chairman and allowing an independent NED to replace him. This will ensure accountability and checks and balances within the board. Again, the functions of Internal Audit and Risk Units being performed jointly by Operations and Finance needs to change because it does not promote checks and balances and accountability as well as segregation of duties.

3) **Controls (C)**
   - The organisation should have comprehensive and robust systems to manage risks, operate sound internal controls, safeguard assets and other resources from fraud and irregular use; and promote effectiveness and ensure compliance to laws, regulations, and policies, as well as make it easy for non-compliance to be detected.
   - The company must immediately create or set up Internal Audit and Risk Units independent of all other functional departments in the company. These units functions involve reviewing the work of other departments for value for money and for risk management. This will improve on enforcement of internal controls and risk management systems in the company.

4) **Genuine disclosures (G)**
   - The organisation should, as far as practicable, operate in a transparent and open manner and implement a 'genuine disclosure' framework, which will enable outside parties (e.g., investors) to hold the executive accountable and answerable for their actions and decisions. Information should not be withheld from stakeholders unless there are clear and lawful reasons for doing so. A 'genuine disclosure' framework of an organisation should identify stakeholders and their interests, ensure that the leadership provides sufficient and reliable information to enable these relevant stakeholders to hold them to account. A 'genuine disclosure' framework of an

organisation should also ensure that the information is complete, reliable, and understandable, with due regards to the costs of providing such information.

- With the MD as the board chairman of BOGML, Dr. Baffour as head of executive may not provide the board with full information that will allow the board to hold him answerable and accountable for their actions and decisions. For instance, Dr Sadia, one of the board members has complained about failure of Dr. Baffour to support the proposal for expansion to Tanzania and South Africa with financial analysis, such as net present value analysis (NPV), to determine the viability of the expansion". This does not create transparency in the decision making process of the board.

5) **Humane engagements (H)**
- The organisation should 'humanely engage' with its stakeholders (including investors, employees, customers, suppliers, and the communities) in a manner that inspires trust, care, and mutual respect and underpinned by the idea of shared prosperity and wealth by embracing the concept of 'double/dual materiality', as captured by global ideals, such as the UN SDGs, Global Reporting Initiative, Integrated Thinking and Reporting, Triple Bottom Line Reporting, and International Sustainability Standards Board's Standards.
- The governing body should ensure that the organisation is not exclusively 'owner-profit-oriented', but adopts a win-win approach, which considers the means through which the organisation actively engages with its key stakeholders, and incorporate their views, concerns, and interests, as much as possible into the organisation's long-term strategy, and in alignment with the company's purpose and goals.
- Through the 'humane engagement' process, organisations can avoid or at least minimise the harm or damages they cause to people (employees, customers, suppliers, investors) and the environment.
- Dr. Baffour needs to become more humane regarding the workers, especially on the issue of salary increases. Although profit margins may be narrow yet the company has been making profit since 2019 except for 2023 due to impairment loss. The company cannot use the need for further investment to deny workers share of the company's prosperity. Further, the company must also pay its outstanding tax liabilities as part of being a good corporate citizen. Yes, the company is doing well be giving back to the society through scholarships and cylinder donations in the catchment communities.

(5 points each @ 2 marks = 10 marks)

b) The following are some of the roles and duties of external auditors in connection fostering good corporate governance in BOGML:

- The external auditors should be the prime source of an objective, independent and effective opinion about the financial statements of the company. To do this, the auditors must be diligent, objective and independent in carrying out this role. From 2020 to 2022, BOGML's auditors did not act with full objectivity and independence, as they did not insist on an impairment allowance, nor did they issue a qualified audit opinion, despite the company receiving no payment from BOGML's previous owner. This issue was corrected in 2023 when auditors threatened to qualify the accounts unless the board accepted the impairment allowance. This delay in action resulted in incorrect audit opinions from 2020 to 2022, postponing the impairment allowance by three years.
- The auditor must carry out the external audit in accordance with the generally accepted auditing standards. The auditors' failure to require an impairment allowance or, alternatively, to qualify the accounts indicates non-compliance with generally accepted auditing standards for the years in question.

- The external auditor should state in the audit report if the financial statements have been prepared in accordance with IFRS or other relevant accounting standards. Auditors failed to state in their audit reports for 2020 – 2022 that the company did not comply with IFRS because no impairment allowance was made for impaired asset/receivable.
- The auditor's report should specify any departure from the accounting standards, and specify whether or not the auditor "acquiesces" with (goes along with) this departure and the reasons for the departure. BOGML failed to do this from 2020 to 2022 audit reports.
- The auditor should also specify in the auditor's report whether there has been any departure from the auditing standards, and if so the reasons for the departure. BOGML auditors should have drawn attention in their opinion to going concern issues regarding the failure of the company to comply with the NPA agreement for the payment of the debt and the treat to revoke the company's licence. This clearly raises going concern issue and auditors ought to have raised that in their report but the failed to do so.
- To ensure continued effectiveness of the audit, there should be regular rotation of audit personnel, including the audit partner.
- If the audit firm is removed, resigns or refuses to stand fore-appointment, the company should explain the reasons in a circular to shareholders. With Dr. Baffour's decision not to reappoint the auditors, a circular should be issued to explain that auditors have been removed because of their insistence on the company making impairment allowance.

(Any 4 points each @ 1.25 marks = 5 marks)

c) Concepts of good corporate governance that every entity

i) **Independence.** Independence means freedom from the influence of someone else. A principle of good corporate governance is that a substantial number of the directors of a company should be independent, which means that they are able to make judgements and give opinions that are in the best interests of the company, without bias or pre-conceived ideas.

Although there are five non-executive directors, four have close ties to the Managing Director (MD) and therefore lack independence, leaving only one truly independent director, Dr. Sadia. According to case details, Board decisions are typically unanimous; however, when dissenting opinions arise, they consistently come from Dr. Halimatu Sadia. For example, when the MD recently proposed expanding operations to Arusha, Tanzania, and Cape Town, South Africa, for 2026, all directors supported the proposal except Dr. Sadia. This clearly indicates that most board members are not independent. Additionally, Dr. Baffour serves as both the board chairman and MD, meaning he lacks independence in evaluating his own performance, as he would be leading and directing the board's review process.

ii) **Responsibility and accountability**. The directors of a company are given most of the powers for running the company. Many of these powers are delegated to executive managers, but the directors remain responsible for the way in which those powers are used. With responsibility, there should also be accountability. In a company, the board of directors should be accountable to the shareholders. Shareholders should be able to consider reports from the directors about what they have done, and how the company has performed under their stewardship, and give their approval or show their disapproval.

The current structure of BOGML's board, in which the sole shareholder also serves as both the Managing Director (MD) and board chairman, poses challenges for accountability. With the board's authority delegated to the MD, and given his close relationships with some non-executive directors, he may not be held fully accountable. Furthermore, as both shareholder and board chairman, he effectively leads a board that must report back to him, making it difficult to hold himself or other directors accountable if responsibilities are not met. Therefore, in BOGML's current board structure, the principles of responsibility and accountability—key to good corporate governance—may not be effectively upheld.

(2 points each @ 2.5 marks = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question focused on corporate governance and was the candidates favourite question. It was the first question answered by overwhelming number of candidates. The overall performance was extremely good as most candidates scored over 70% of the marks allocated.

Question 5(a) examined candidates on how BOGML could improve on its corporate governance using the five pillars of the National Corporate Governance Code for Ghana 2022. Most candidates knew the five pillars and delivered them. The only minus once again, was the lack of proper application of the pillars to advise the company on how to improve on its corporate governance.

Question 5(b) and (c) were on the role of external auditors in corporate governance and effect of BOGML board composition on independence and responsibility and accountability as concepts of good governance respectively. Both questions were well answered by majority of the candidates who attempted the sub-questions.

CONCLUSION

It is greatly distressing and disheartening to see many candidates perform abysmally given that the questions were standard and covered the five broad segments of the Paper. Clearly, the available evidence for the poor performance points to lack of preparations, poor preparations in the case of candidates who prepared, partial knowledge of concepts and principles, rote learning and poor application of the principles. It is expected that preceding commentary on the performance of the candidates will aid those who will participate in future examinations to better prepare and improve their chances of passing.