

THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)



MAY 2010 EXAMINATIONS
(PROFESSIONAL)

PART 4

CORPORATE STRATEGY AND GOVERNANCE
(Paper 4.3)

Attempt any five (5) Questions

TIME ALLOWED:

Reading & Planning	-	15 Minutes
Working	-	3 Hours

SECTION A: COMPULSORY CASE STUDY

QUESTION 1

Read the following carefully and answer the questions which follow:

HAPPY DAZES LIMITED

Happy Dazes Company Limited was founded thirty years ago as a family business. It dealt in general merchandise. Fifteen years later, the founders converted the business into a private limited company and subsequently diversified its operations to include manufacturing as well as purchasing distribution and sale of soaps.

The company is located in the industrial area in Accra. It has a distinctive brand name which was created by its founder and chairman of the company. The brand is a household name in the southern sector of the country where the company has concentrated its marketing activities. It also exports its products to Mali and Burkina Faso.

Since its establishment, the company has been committed to conducting its business in a transparent, socially and environmentally responsible manner.

The management of the company adopted an open-door policy and allowed employees to participate in decision making. The chairman always stressed that the managers within the organisation must be prepared to listen both to the customers and the employees.

The Directors of the company have provided the following information to guide the management team for its impending strategic review meetings.

The operational results of the company for the last two years are as follows:

	2007	2006
	GH¢'000	GH¢'000
Net sales	41,068	32,375
Cost of sales	(21,448)	(16,982)
Distribution costs	(9,834)	(7,875)
Administrative expenses	(3,814)	(2,969)
Finance costs	(221)	(305)
Other income	253	247
Profit before taxation	6,004	4,491
Income tax	(1,650)	(1,180)
Profit after taxation	4,354	3,311

Other financial information include:

	2007	2006
	GH¢'000	GH¢'000
Total Assets	23,707	18,448
Stakeholders' fund	15,484	10,989

The company made capital investments of GH¢2 million during 2007. The investments included construction of new offices at the factory and purchase of distribution vans.

Happy Dazes Ltd has enjoyed considerable success in the domestic market and the two West African countries.

The Directors are worried about the macroeconomic environment. For example, during 2007, the volatility of crude oil prices brought the economy under some inflationary pressures. Year end inflation for 2007 was recorded as 12.7% with the average being 10.7%. During the period, there were two major increases in electricity tariffs.

There was also appreciable availability of foreign exchange throughout the year, but the Ghana cedi depreciated against the major currencies. Against the US dollar, the Ghana cedi depreciated by 5.0%, while against the Euro, the Ghana cedi depreciated by 17.5%. Bank interest rates remained at high levels during the year. Although base rates averaged 18.0% to 21.5% lending rates hovered between 19.9% and 28.0%. These were the relatively favourable conditions under which the company operated in 2007.

However, the Directors are optimistic of the growth and profitability of the company and hence are planning to develop new brands for the other West African countries and the domestic market. In order to improve the nationwide presence of the company, management will acquire additional haulage trucks and depots.

The competition in the domestic market is becoming more intense and Happy Dazes Ltd must strategize in order to maintain its market share.

Required:

- (a) Discuss the competitive forces which Happy Dazes Ltd will face in its efforts to expand its domestic and international operations. **(10 marks)**
- (b) Using horizontal analysis and ratios evaluate the performance of the company for the last two years. Recommend ways in which the company can improve. **(8 marks)**
- (c) Advise the directors on factors to consider when going into the other West African countries. **(6 marks)**
- (d) Explain the main factors which have contributed to the success of the company so far. **(6 marks)**

(Total: 30 marks)

SECTION B:

Answer any two (2) questions from this section

QUESTION 2

- a) Discuss **three (3)** ways in which corporate governance is important to an organisation and its stakeholders.
(9 marks)
- b) Outline the internal controls that are required to make corporate governance effective.
(6 marks)

(Total: 15 marks)

QUESTION 3

You have been engaged by an organisation as a consultant to prepare a code of ethics for its employees.

Required:

- a) Explain **three (3)** reasons for the use of code of ethics in a business organisation.
(9 marks)
- b) Discuss **four (4)** issues that should be considered when preparing a code of ethics.
(6 marks)

(Total: 15 marks)

QUESTION 4

- a) Outline **five (5)** ways by which shareholders can influence corporate governance.
(5 marks)
- b) Explain the **five (5)** roles of Board of directors in corporate governance.
(10 marks)

SECTION C

Answer any two (2) questions from this section

QUESTION 5

You have just learned that your company's board of directors is considering a change in the company's strategic direction that would result in a partial closure of one of the company's manufacturing plants. The company would open a new manufacturing facility in a neighbouring region. While the company would likely allow some of the most highly skilled employees to transfer to the new plant, you expect few, if any, of the employees would make such a move.

Required:

- a) Differentiate between stakeholders and stakeholder analysis. *(4 marks)*
- b) You have been asked by your company's managing director to assist him in performing stakeholder analysis. Describe the steps you will follow. *(16 marks)*

(Total: 20 marks)

QUESTION 6

- a) Explain **four (4)** activities involved in financial management that aid in the implementation of corporate strategy. *(8 marks)*
- a) (i) What role do budgets play in achieving organizational objectives? *(3 marks)*
- (ii) Explain **three (3)** conditions that must exist to ensure that the budgeting process helps in strategy implementation. *(9 marks)*

(Total: 20 marks)

QUESTION 7

- a) Explain the term "Competitive Advantage". *(5 marks)*
- b) Describe how the value chain may be used by an organisation to achieve competitive advantage. *(15 marks)*

(Total: 20 marks)