

## SOLUTION CORPORATE GOVERNANCE STRATEGY NOV 2010

### SOLUTION 1

- (a) External analysis of a company is an analysis of its opportunities and threats.

#### **Opportunities**

The opportunity of the Gracious Real Estates Limited is that there is a demand for houses. Another opportunity is the contract it had signed to construct a multidollar modern community.

- New Technologies
- The potential to exploit gold deposits.

#### **Threats**

One of the threats that the company has to deal with is the increase in inflation which has made the prices of houses expensive.

Another threat is the appreciation of the dollar, making the cedi weak, which in turn leads to increase in prices.

Another threat is the entry into the market of an international real estate developer which is able to produce low cost houses.

- (b) Social responsibility is a form of self-regulating systems that organisations incorporate into their business activities. By this organisation ensures that it monitors and support standards. Thus the organisation takes responsibility for the impact of its activities on its stakeholders.

The company acts in a socially responsible manner in the following ways.

- i. The company is addressing the issue of depletion of the forest by investing in advertisements, workshop and campaign on making Ghana Green.
  - ii. To encourage the culture of tree planting staff are given time off to manage Green clubs they had established.
  - iii. Staffs who were engaged in various environmental friendly activities earned marks during their yearly appraisal.
  - iv. Establishment of afforestation programme.
  - v. Provide social amenities for the local communities.
  - vi. Organise entrepreneurial training for the retrenched staff.
- (c) Leadership style is the means that a leader uses to influence activities at his or her workplace.

The leadership style being used by the new CEO is democratic or participative leadership style.

A leader using this style involves others in determining what needs to be done and how it should be done. In the case - the CEO developed and implemented a 5 year plan together with other staff.

A leader using this style believes that employers have knowledge and skills that the firm needs. Therefore the leader allows his or her employees some freedom to carry out their activities. Such a leader believes in delegation.

The CEO has transferred a lot of power to her managers.

- (d) There are many implication of the decision to lay off staff for the management of Gracious Real Estate Limited.

One of the implications is that the management would need to source funds to pay the end of service benefits for those to be laid off. As the company is having difficult financial problems the lay off may add to the debts of the company.

Another implication that management has to deal with is how to replace some of the labour that would be laid off. A strategy may be to hire or retrain of staff. These process increases financial pressure of the company.

Employers can not just lay staff off at will. This is because there are labour or employment laws that limit the at-will doctrine to protect employees from wrongful dismissal. The management therefore has to be mindful of possible legal actions that may be brought against it.

- (e) Diversification occurs when a company moves into areas that are clearly differentiated from its current business. Such move brings some gains to the company.

One of such gain is that it gives the company an opportunity to add to its products. This enables the company to improve on its cash flow.

Another gain that the diversification will bring to the company is that is will enable it to be flexible as it moves into other industry that have better economic projects.

The company benefits from diversification as it would be able to use the profit from the mining company to cover some of the debt it had incurred in the real estates.

## **SOLUTION 2**

- (a) Authority of the Audit Committee  
The audit committee should

- i. Have the authority to investigate any matter under its terms of reference;
- ii. Be provided with the resources it needs to carry out such investigation;
- iii. Be given full access to necessary information.

(b) Functions of the audit Committee

The functions of the audit committee include

- i. Recommend for appointment of the external auditors
- ii. Liaise with the external auditors for the purposes of maintaining and ensuring audit quality, effectiveness, and risk assessment
- iii. Review with the auditors their report on the financial statements
- iv. Review the adequacy of systems of internal controls and the degree of compliance with material policies, laws and the code of ethics and business practices of the corporate body
- v. Provide a direct channel of communication between the board and the external and internal auditors of the corporate body, accountants and compliance officers (if any)
- vi. Report to the board on all issues of significant extraordinary financial transactions
- vii. Assist the board in developing policies that would enhance the controls and operating systems of the corporate body.

### SOLUTION 3

a) Some of the principles of good corporate governance are:

- (1) A principle of good corporate governance is that businesses have to **make ethical and responsible decision**, so as to avoid lawsuits. In view of this, businesses have to develop code of conduct for their employees.
- (2) A good corporate governance principle is that business **should clarify and make known publically the roles and responsibilities of their board and management**. The businesses should also implement procedures that would safeguard the integrity of the business financial reporting.
- (3) A principle of good corporate governance is that **businesses have to respect the rights of shareholders**. To achieve this, shareholders should be assisted to do this, by having information that is understandable and accessible and also encouraged to participate in general meeting.
- (4) For the effective management of a business, there is the need for the **Board to have a range of skills and expertise**. To achieve this it is necessary, to have sufficient and appropriate mix of both executive and non-executive directors.
- (5) Efficient use of resources. Resources are scarce and have to be used efficiently to achieve business goals. To do this, there is the need to **have both internal and**

**external controls.** A principle of good corporate governance is that appropriate control systems are put in place.

- b) The roles of the accountant in a business are
- (1) The accountant of every business is to generate information for use by managers of the business. For example – Management accounting information provide information that managers within the business use to make decisions on cost of production, marketing, budgets among others. These assist them in controlling and evaluation of performance.
  - (2) Every business has external stakeholders. These stakeholders need some financial information. An accountant in a business provides them with information about the financial status of the business. These financial reports summarize the business as a whole. Financial reports prepared annually are used by stakeholders as employees unions, creditors, government and the general public.
  - (3) Before records are used to prepare the financial statements of a business. They have to be reviewed and evaluated. Accountants in the business have to carry out this activity. They carry out these internal audits to ensure that proper accounting procedures and financial reporting standards are followed.
  - (4) Taxes are needed by governments to provide social services. The accountant of a business has to report on either the profit or loss of the business performance to Revenue Agencies. They also have to prepare tax returns and advise management on tax strategies to be used.

## **SOLUTION 4**

Report

To: The Chairman and Board Members, Adama Ltd  
From: A Consultant  
Date: November, 2010  
Subject: Role of Board of Directors in the Implementation of Good Corporate Governance

The implementation of good corporate governance depends on the competence and integrity of the board of Directors.

The Board of Directors can perform the following functions to ensure the implementation of good corporate governance.

- (a) Reviewing and guiding corporate strategy, major plans of action, annual budgets, setting performance objectives, monitoring implementation and corporate performance.
- (b) Selecting, compensating, monitoring and when necessary, replacing key executives and overseeing succession planning.

- (c) Monitoring and managing potential conflicts of interest that may arise amongst management, board members and shareholders.
- (d) Curtailing the misuse of corporate assets and abuse in related party transaction
- (e) Reviewing key executive and board remuneration, and ensuring a formal and transparent board nomination process.
- (f) Ensuring the integrity of the company's accounting and financial reporting systems.
- (g) Ensuring the credibility of the independent audit and the existence of appropriate internal control system.
- (h) Ensuring compliance with relevant laws.

## **SOLUTION 5**

- (a) Price is the amount of money a buyer pays to a seller in exchange for a product or service. To have an effective price, managers have to consider factors as costs, customers, channels of distribution and competition.

### Costs

The production of a product or service comes with cost. Every activity of production as, purchasing of raw materials, hiring of labour, promoting of a product among other involves cost. The price charged for a product or service should cover investments and provide enough income and profit to the business.

### Demand

The ability of customers to pay in a target market influences what price the business charges. A key determinant of demand is how customers react to changes in price while some customers will be willing to trade off price increases for more benefit others will not. Hence, the decision to either increase or decrease prices should be carefully considered.

### Channels of Distribution

Producers need wholesales and retailers to assist them to sell their products. By providing these services, the wholesalers and retailers have to be compensated. Prices to be charged must therefore be set so that they earn adequate returns on sales of the firm's product. Managers have to consider the margins that the members in the channels of distribution can make.

### Competition

On the market there are many producers and sellers of a product. Price decision of a business is influenced by the prices charged by competitors and the reactions of these competitors to price changes. In a competitive market pricing decisions should be aimed at maintaining sales into the future. In such markets where products are very similar, higher prices, will attract little or reduction in demand.

- (b) Selection is process of gathering information and decide on potential of staff who should be hired to assist in the achievement of organisational goals. Some of the activities that ensures effective selection of human resource are:
- (i) The initial activity is to receive complete application forms from potential employees. The forms assist the employer to obtain some information about the applicant. The forms provide some information as the applicants' educational background, work experience, career objectives and other qualification. These informations assist in making decision on the applicants.
  - (ii) Shortlisting – After studying the applications, those who meet the set criteria are shortlisted
  - (iii) Conduct Interviews – This is a face to face conversation between potential employer and employee. This activity offers the potential employer an opportunity to obtain first hand information about the potential employee and also to ascertain the validity of some of the information provided on the application form. This allows him to make informed decision.
  - (iv) An effective selection process calls the employer conducting a background check or investigation of the employee. These checks help an employer to identify which of the potential applicants are most likely to perform in a given position. These checks are important because it is too costly to hire, and train people only to lose them as they may not be able to perofrm.
  - (v) Medical Examination - For an employee to perform well he or she has to be physically and mentally healthy. In view of this, potential employees have to undergo medical test. Employment contract are signed upon receipt of positive medical test results.

## SOLUTION 6

- (a) Industry and competitive analysis help to identify and select his/her company's industry and **served markets**. This will help the company to position itself.
- (b) A thorough analysis of the industry and competitors can assist in identifying new trends and business opportunities the company can capitalize on.
- (c) A good industry and competitors analysis can shorten the company's response time to competitors' moves. For example, knowing where a competitor is in its product development cycle can help the company to revise its own research and development activities.
- (d) It promotes learning from competiton. Competitive analysis enhaces organisational learning by exposing managers to the ideas and actions of their rivals.
- (e) Competitive analysis provides invaluable insights into the industry, the company, and the company's strengths and weaknesses. Thus, it helps managers to identify appropriate strategic options, select the company's strategy and implement its chosen strategy.

- (f) Industry and competitive analysis produces a benchmark for evaluating the company relative to the competition. The information can assist managers in developing and acquiring the skills and capabilities necessary for success.

## SOLUTION 7

- (a) The Boston Consulting Group (BCG) developed a matrix that can be used to undertake corporate portfolio analysis. The model postulates that a company is made up of more than one business/product. These business/products are the portfolio of the company. The model added that each business/product should have a separate strategy. Analysing these businesses on two dimensions – relative market shares and market growth allows the manager to classify them as making cash cows, dogs, question marks or stars.
- (b) The general steps to be followed as one uses the Boston Consulting Group Model strategy evaluation and selection are:
- (1) The company should be divided into business units. Such business units are known as strategic business units/products.
  - (2) The company has to determine the relative size of the strategic business unit within the entire company. A means of doing this is by considering the percentage of total resources used on the unit.
  - (3) Another step is to determine the market growth rate of each business unit/product.
  - (4) Strategic business unit operates in a large market. A step in the strategy evaluation and selection is to determine the relative market share of each business unit.
- (c) There are many factors in a company that call for change. Some of the factors are:
- i. Economic Factors  
The fluctuations of both national and international economies can bring about change. A key component of economic factors is the ability to pay for goods and services. A fall in income may result in customers becoming sensitive to price and other factors such as interest rate, ..... can cause a change in business.
  - ii. Availability of new Technology  
Technology refers to the means chosen to do useful work. It results in inventions and improvement in methods that enhance efficiency. Such improvements may require that staff are trained and new equipment purchased.
  - iii. Management Style  
Management of a company are charged with the task of achieving organisational goals. This management have to influence the behaviour of employees. The way in which things are done in a company may change to meet the priorities of management.

iv. Government Laws and Policies

Governments are external stakeholders of a company. Governments are interested in what goes on in any company because they have to ensure that companies produce products that will promote the health of the citizenry. When adverse findings are made against companies, government put in place laws and policies which may call for a drastic change in the way of life of a company.

v. Change in Demographics

Society is made up of different groups of people. Companies produce goods and services to meet the needs and wants of the various groups in the market. Whenever there is a change in the demographics it calls to change in the activities of the company.