(**SOLUTION 1**

(a) i. RAABOAD LTD

FINANCIAL PLAN

	Current Year 2013 GHCm	Year 2014 GHCm	Year 2015 GHCm	Year 2016 GHCm	Year 2017 GHCm	Year 2018 GHCm
Sales	10.00	10.60	11.40	12.40	13.60	15.00
Net profit after tax	1.00	1.06	1.14	1.24	1.36	1.50
Dividends (50% of profit after tax)	0.50	0.53	0.57	0.62	0.68	0.75
Total assets less current Liabilities (125% of sales)	12.50	13.25	14.25	15.50	17.00	18.75
Equity (increased by retained earnings)	8.75	9.28	9.85	10.57	11.15	11.90
Maximum debt (30% of long-term fund)	3.75	3.98	4.22	4.49	4.78	5.10
Funds available	12.50	13.26	14.07	14.96	15.93	17.00
Shortfalls in funds, given maximum gearing of 30% and no new issue of shares = funds available minus total assets less current liabilities	0	0.01	(0.18)	(0.54)	(1.07)	(1.75)

These figures show that the financial objectives of the company are not compatible with each other, and adjustment will have to be made.

ii. 1. Given the assumptions about sales, profits, dividends and net assets required, there will be an increasing shortfall of funds from year 2 onwards, unless new shares are issued or the gearing level rises above 30%.

2. In years 2 and 3, the shortfall can be eliminated by retaining a greater percentage of profits, but this may have a serious adverse effect on the share price. In the year 4 and year 5, the shortfall in funds cannot be removed even if dividend payment are reduced to nothing.

3. Asset turnover appears to be low. The situation would be eased if investments were able to generate a higher volume of sales, so that fewer fixed assets and less working capital would be required to support the projected level of sales.

4. If asset turnover cannot be improved, it may be possible to increase the profit to sales ratio by reducing costs or increasing selling prices.

5. If a new issue of shares is proposed to make up the shortfall in funds, the amount of funds required must be considered very carefully. Total dividends would have to be increased in order to pay dividends on the new shares.

   The company seems unable to offer prospects of suitable dividend payments, and so raising new equity might be difficult.

6. It is conceivable that extra funds could be raised by issuing new debt capital, so that the level of gearing would be over 30%. It is uncertain whether investors would be prepared to lend money so as to increase gearing. If more funds were borrowed, profits after interest and tax would fall so that the share price might also be reduced.

(b) Reasons for outsourcing

(i) Saves cost as the organisation stops payment of certain staff costs.

(ii) More efficient and quality work is done by a specialised firm.

(iii) Enables organisation to concentrate on its core business.

(c) The organisation may pursue the following strategies:

(i) Marketing Penetration
This strategy seeks to increase market share for present/existing products or services in present markets. Raaboad Ltd can do this by increasing marketing efforts e.g. advertising sales promotion, publicity, etc.

(ii) Market Development
This involves introducing present products or services into new geographic areas. The company should explore new market segments in the country or go into exports.

(iii) Product Development
This is a strategy that seeks to increase sales by improving or modifying present products or services for existing customer groups. Raaboad Ltd should improve on the quality of its products or introduce new innovation. This will enable it to remain competitive.

(iv) Diversification
In this strategy, new products are produced for new markets. Raaboad Limited can therefore produce other concrete products or entirely different products for new customers segments.

SOLUTION 2

(a) **Purpose and Role of Remuneration Committee**

The purpose of the remuneration committee is to provide a mechanism for determining the remuneration packages of executive directors. The scope of the review should include not only salaries and bonuses, but also share options, pension rights and compensation for loss of office.

The committee's remit may also include issues such as director appointments and succession planning, as these are connected with remuneration levels.

Constitution of Remuneration Committee

Most Codes recommend that the remuneration committee should consist entirely of non-executive directors with no personal financial interest other than as shareholders in the matters to be decided. In addition, there should be no conflict of interests arising from remuneration committee members and executive directors holding directorships in common in other companies. Within Hammond, there is a requirement to first, appoint Non Executive Directors (NEDs) and then ensure that the remuneration committee is comprised of these individuals. The current system of the directors deciding on their own salary is clearly inappropriate; there is no independent check on whether the salary levels are appropriate for the level of experience of the directors or their salary compared to other similar companies.

Functioning of Remuneration Committee

Most Corporate Governance Code states that remuneration should be set having regard to market forces, and the package required to 'attract, retain and motivate' the desired caliber of directors. The committee should pay particular attention to the setting of performance-related elements of remuneration. Within Hammond, the vast majority of remuneration is based on salary; there is little element of performance-related pay. Governance guidelines indicate that remuneration should be balanced between basic salary and bonuses. Obviously, Hammond's remuneration committee needs to increase the bonus element of remuneration to focus directors more onto improving the performance of the company. Conditions for receipt of performance related remuneration however should be designed to pro mote the long-term success of the company. Consideration should also be given to the possibility of reclaiming variable components in exceptional circumstances of misstatement or misconduct.

Reporting of Remuneration Committee

In addition a report from the committee should form part of the annual accounts. The report should set out company policy on remuneration and give details of the packages for individual directors. The chairman of the committee should be available to answer question at the annual general meeting, and the committee should consider whether shareholders approval is required of the company's remuneration policy. The remuneration committee will then ensure that disclosure is correct.

Information Requirements

In order to assess executive directors' pay on a reasonable basis, the following information will be required

(i) **Remuneration packages given to similar organisations**
The problem with using this data is that it may lead to upward pressure on remuneration, as the remuneration committee may feel forced to pay what is paid elsewhere to avoid losing directors to competitors.

(ii) **Market levels of remuneration**
This will particularly apply for certain industries, and certain knowledge and skills. More generally the committee will need an awareness of what is considered a minimum competitive salary.

(iii) **Individual performance**
The committee's knowledge and experience of the company will be useful here.

(iv) **Organisation performance**
This may include information about the performance of the operations which the director controls, or more general company performance information such as earnings per share or share price.

(b) **Main Concerns of Board**

The board's principal concern is with controls that can be classified as organisation or management.

Organisation Controls

Organisation controls are designed to ensure everyone is aware of their responsibilities, and provide a framework within which lower level controls can operate. Key organisation controls include the following:

(i) **Structure**
The board should establish an appropriate structure for the organisation and delegate appropriate levels of authority to different grades.

(ii) **Internal Accounting System**
The board should ensure that the system is providing accurate and relevant information on a regular basis. Good quality information will enable the board to assess whether targets are being met or losses are possible.

(iii) **Communication**
Communication of organisation policies and values through manuals and other guidance to staff is essential. It is not clear from the scenario whether Hammond actually have any of these controls in place; however, from the relatively informal basis in which the company has been run, it is unlikely that detailed controls have been implemented.

Management Controls

Management controls are designed to ensure that the business can be effectively monitored. Key management controls include the following:

(i) **Monitoring of business risks on a regular basis**
This should include assessment of the potential financial impact of contingencies.

(ii) **Monitoring of financial information**
Management should also be alert for significant variations in results between branches or divisions or significant changes in results.

(iii) **Use of audit committee**
The committee should actively liaise with external and internal auditors, and report on any deficiencies discovered. The committee should also regularly review the overall structure of internal control, and investigate any serious deficiencies found.

Use of internal audit
(iv) Internal audit should be used as an independent check on the operation of detailed controls in the operating department. Internal audit's work can be biased as appropriate toward areas of the business where there is a risk of significant loss should controls fail. As there is no internal audit department at present, the board will need to establish one and define its remit.

The overall lack of controls is concerning, given the objective to obtain a listing. The directors will need to implement the recommendations of the Corporate Governance Code to ensure that a listing can be obtained.

SOLUTION 3

(a) Business ethics examines the ethical or moral principles that come up in a business environment. It spells out the code of behaviours that business follows or adheres to in its dealings with both internal and external stakeholders. Business ethics can refer to as low as how a business deals with a single customer. Whether a business survives or not depends on its moral principles or ethics.

(b) **David's Appointment**

As a listed company, Monibo Ltd should be applying the principles of good corporate governance set out in the Corporate Governance Code.

In particular, be fulfilling the roles of both chairman and chief executive, Davis Spio's appointment does not satisfy one of the code's provisions which states that the same individual should not be chairman and chief executive.

The auditors must investigate the reasoning behind David's appointment in the dual role. This might be a temporary measure to fill two vacancies. On the other hand, if permanent it may give David a disproportionate amount of authority to run and dominate the Board. Auditors must be on their guard against potentially over-dominant management.

This concern might be increased with David's shares being purchased "through the company". It is unclear whether David's purchase was funded through a director's loan or not and there is the intention to repay.

Benefits of Corporate Governance Code

(c) i. A benefit of corporate governance is that it provides sound norms that encourage them to be responsive to issues in their operating environment. It therefore provides the financers of the company a guarantee that they would get a fair return on their investments.

ii. Corporate governance also spells out the pillars for good governance in the company. The growth of corporate governance has therefore promoted the establishment of standards for transparency, accountability, probity and integrity in all aspects of the organisational life.

iii. The existence of corporate governance has provided a level ground on which various organisations have to conduct their businesses. The standards set by corporate governance become the yardstick against which the activities of businesses are judged. It therefore gives companies guidelines for the formulation of their policies.

iv. Another advantage or benefit of corporate governance is that it helps it to put in place measures to deal with corruption in the company. Corruption is a key issue in corporate governance as it existence increase the cost of production leading to negative impact on its profitability.

v. Stakeholders are partners of a business. They have expectations that need to be met. Corporate governance ensures that and upholds that their interest and expectations are met. If these expectations are not met it affects the organisations negatively. For example when expectations of employees are not met they put up negative behaviours that affect the organisations negatively.

vi. Corporate governance is the manner in which the way a corporation is governed. This covers a broad scope of activities which ensures that companies grow. A good corporate governance practice does this by paving the way to attract investors. The presence of corporate governance standards is potential partners will have more confidence in investing in a company.

SOLUTION 4

(a) The agency theory is the principle which recognises the separation of management of a company from its shareholders. The shareholders who are the principals provide the company with risk capital, but they delegate control over that capital to the management.

The challenges associated with the agency relationship are referred to as the agency problem or agency costs. It occurs when management does not act in the best interest of shareholders.

(b) Role of Audit Committee

(i) Reviews the scope and outcome of an audit and ensures that the objectivity of the auditors is maintained. These include review of the audit fees.

(ii) Provide a useful bridge between both internal and external auditors and the board.

(iii) The review arrangement for whistle blowers who wish confidentially to raise concerns about possible improper practices in the company.

(iv) Where there is no risk management committee, the audit committee should assess the system in place to identify and manage financial and non-financial risks in the company.

SOLUTION 5

(a) Globalisation refers to the growth of trade and investment accompanied by the growth and increase in international businesses, and the integration of economies around the world. The globalisation of business was led to the spread of various brands and services throughout the world.

i. A benefit of globalisation is that it can bring about lower cost of production. due to competitive advantages that some producers have they are able to come up with effective and efficient means of production. By means of globalisation another company can input this new technology and use.

ii. Another benefit of globalisation is that it opens up new market that local companies can take advantage off. This is important in situations where companies are able to produce more than its local market can consume. By operating in other markets such companies are able to achieve economies of scale.

iii. Globalisation creates employment for the local economy of companies that are able to expand production and export. The increase in employment has spillover effects as increase taxes for the local economy and an increase in demand for both local and international products.

iv. Globalisation also has advantage of providing a means for investors. Investors are always looking for opportunities to invest. Globalisation therefore provides a means for diversifying investment. Diversification involves buying several different investments alternatives in order to spread the risk of investing. By this they reduce the chance of losing everything they have invested.

v. The tread of globalisation has resulted in the integration of various natural economies with a rest of the world creating a global economy that hinged on free markets, trade and information. To survive in such economies business are required to be competitive. Competition among businesses therefore leads to specialisation, better quality of products at competitive prices.

(b) Four popular strategies that companies use are:

(1) Direct investment

(2) License agreement

(3) Joint ventures

(4) Importing/Exporting

Direct Investment

This is the use of the company's assets to secure additional operating assets. For example, companies need assets as machines, equipment etc to operate. When these are purchased they are classified as direct investment. From international perspective, a direct investment involves the purchase of existing or new assets in one company by another company in another country.

License Agreement

This is a right given to one company by another company to use its brand name or product specification among others in the sale of goods or services. The company that has obtained the right earns profits on the goods or product being sold while the owner of the brand obtains license fees. At the international level, the owner and the buyer of the license are found on different markets in different in different countries.

Joint Ventures

Another strategy used by companies is joint venture. This occurs when two companies form a partnership with the aim of pursuing a common mutually desirable business venture. At times a company in one country also pulls resources with another company or companies in a foreign country to produce, store, transport and market products and share the profits or losses.

Importing/Exporting

A common feature of modern trading or business is dealing with overseas customers and suppliers by transporting of both physical products and delivery of service as consultancy or legal across national boundaries. Thus a company can either send or sell goods to it's oversea customer that is exporting or any such products or services from it's suppliers oversea that is importing. By these strategies local companies are able to enter foreign markets.

SOLUTION 6

(a) **Meaning of Harvesting Strategy**

It is a deliberate decision to cut down expenditure of all kinds on a particular product. It is also known as asset reduction strategy, a means by which organisation sets to limit or decrease its investment in a business by extracting as much cash out of its operation as possible. When using this strategy all marketing expenditure is gradually eliminated and the product is allowed to sell on its goodwill until sales revenue fall below a cut-off point.

Types of harvesting Strategies

i. Turnaround is an example of harvesting strategy. This strategy is used when there is the need for a major effort to correct decline in sales and profits. This strategy is used to reverse the negative state of a business and put the business back on track to profitability. This is done by cutting cost or operating efficiently.

ii. Divestiture is another example of a defensive strategy. This involves selling off part of the existing business. It is used when turnaround strategy fail to achieve its aim. When the situation in a business has taken a down turn it may be important to sell off some part of its operations to raise funds to be injected into the existing business to put it on firm footing.

iii. Filling for bankruptcy is another example of a defensive strategy. When a business fill for bankruptcy to protect itself from creditors and from the enforcement of legally building contracts that are yet to be enforced. When this is done the business is able to buy time to organise itself and avoid insolvency.

iv. Liquidation is another example of defensive strategy. It involves process of either selling or dissolving the entire business. Such a decision may be made either by choice or force. Liquidation is not a popular strategy as it serves as a mark of failure on the part of management. It is the best strategy to use to minimizing shareholders losses. Liquidation of assets is usually a last – resort measure and generally is forced by the financial backers of the business.

v. The pruning strategy involves the reduction in the number of products served or produced by the business. It occurs when management comes to the conclusion that some segments of its markets are too small or costly to retain or continue to serve.

(b) (i) Forces for change - internal

- Forceful new CEO
- Poor operational performance
- High costs
- Low productivity

Forces for change - external

- High export demand
- Low domestic demand for cocoa

- Customer complaints

Forces resisting change – internal

- Long-serving managers' complacency
- The trade union's attitude

Force resisting change - external

- High import duties in some export markets

Recommendation for managing change

(ii) Lewin suggests that after the forces for and against change have been established, effort should be put not only into breaking down those opposing it (which is a natural management response), but also into building up the influence of those supporting it.

This process is the first or 'unfreeze' phase of the Lewin/Schein change model. The CEO will have to set up both a programme of education and support for the complacent managers and enter into forceful negotiations with the trade union. The basic aim is to frighten both parties with evidence of looming disaster. This is clear enough from the company's competitive situation.

The second phase of the Lewin/Schein change model requires action to change behaviour, laying down new patterns and reinforcing them. Residual resistance should be confronted with free circulation of information about plans for the future and why they are required. Individuals must be helped to change their attitudes and behaviours. An extensive programme of organizational development is probably required for the FSC Company. There should be proper application of positive and negative reinforcement in the shape of rewards and sanctions.

The final phase of the model is 'refreeze'. This prevents the staff from slipping back into their old ways and attitudes by a combination of exhortation, reward for good performance and sanctions against the backsliders.

External forces are less susceptible to this treatment than internal ones. In the case of th FSC Company, representations could be made to government about both the exchange rate and the unfair competition, perhaps through a trade association or other umbrella body. However, it is necessary to recognize that even if action is forthcoming, it is unlikely to be prompt.

SOLUTION 7

(a) <u>Meaning of Quality</u>

ISO 8402 – (1986) defines quality as the totality of features and characteristics of a product or service that bears its ability to satisfy stated or implied needs. In business operations it consists of a measure of excellence or a state of being free from defects, and deficiencies. This is brought about by the strict adherence to measureable and verifiable standards with the aim of satisfying the customer needs.

(b) In a nutshell, total Quality Management (TQM) is a management philosophy, aimed at continuous improvement in all areas of operation.

A TQM initiative aims to achieve continuous improvement in quality, productivity and effectiveness. It does this by establishing management responsibility for processes as well as output.

Principles of TQM

(i) Prevention
Organisation should take measures that prevent poor quality occurring.

(ii) Right first time
A culture should be developed that encourages workers to get their work right first time. This will save costly reworking.

(iii) Eliminate waste
The organisation should seek the most efficient and effective use of all its resources.

(iv) Continuous improvement
The Kaizan philosophy should be adopted. Organisations should seek to improve their processes continually.

(v) Everybody's concern
Everyone in the organisation is responsible for improving processes and systems under their control.

(vi) Participation
All workers should be encouraged to share their view and the organisation should value them.

(vii) Teamwork and empowerment
Workers across departments should form team bonds so that eventually the organisation becomes one. Quality circles are useful in this regard. Workers should be empowered to made decision as they are in the best position to decide how their work is done.

(c) **Aluminium foil** is obtained from a single supplier – a sourcing strategy termed 'single sourcing'. The advantages of this strategy include:

- Easy to develop and maintain a relationship with a single supplier – which is especially beneficial when the purchasing company relies on that supplier
- A supplier quality assurance program can be implemented easily to help guarantee the quality of products – again mainly because there is only one supplier.

Economies of scale may be obtained from volume discounts.

However, the disadvantages of this strategy are:

- Apple Pie is dependent on the supplier – providing significant supply power. Issues such as quality assurance may not be addressed quickly because the supplier is aware that there are few alternative sources of supply.
- Apple Pie is vulnerable to any disruption in supply.

Given that there are few suppliers in the industry this strategy may be appropriate. However, there is no guarantee that the current supplier will not go out of business so the directors of Apple Pie could look for alternative sources of supply to guard against this risk.

The pastry shell flour is obtained a number of suppliers – a strategy known as multi-sourcing. The advantages of this strategy include:

- Ability to switch suppliers should one fail to provide the flour. Having suppliers in different countries is potentially helpful in this respect as poor harvests in one country may not be reflected in another.
- Competition may help to decrease price.

Disadvantages include:

- It may be difficult to implement a quality assurance program due to time needed to establish it with different suppliers.
- Suppliers may display less commitment to Apple Pie depending on the amount of flour purchased making supply more difficult to guarantee.

Apple Pie appears to have covered the risk of supply well by having multiple sources of supply. The issue of quality remains and Apple Pie could implement some quality standards that suppliers must adhere to in order to keep on supplying flour.

A third party is given the responsibility for obtaining meat and vegetables – this is termed delegated sourcing. Advantages of this method include:

- Provides more time for Apple Pie to concentrate on pie manufacturing rather than obtaining inputs. Internal quality control may therefore be improved.

- The third party is responsible for quality control checks on input – again freeing up more time in Apple Pie. Where quality control issues arise, Apple Pie can again ask the third party to resolve these than spending time itself.

- Supply may be easier to guarantee and the specialist company will have contacts with many companies.

Disadvantages include:

- Quality control may be more difficult to maintain if the third party does not see this as a priority.

- There will be some loss of confidentiality regarding the products that apple Pie uses, although if there are no 'special ingredients' then this may not be an issue.

Given the diverse sources of supply, Apple Pie are probably correct using this strategy.
The plastic film is obtained from two different sources utilising two different supply systems. This is termed parallel sourcing. The advantages of this method include:

- Supply failure from one source will not necessarily halt pie production because the alternative source o supply should be available.

- There may be some price competition between suppliers.

Disadvantages include:

- Apple Pie must take time to administer and control two different systems.

- Quality may be difficult to maintain, and as with multiple sourcing, it will take time to establish supplier quality assurance programmes. Given that some stock is surplus to requirements from other sources, quality control programmes may not be possible anyway.

The weakness in the supply strategy appears to be obtaining film from the Internet site – in that quality control is difficult to monitor. Changing to single sourcing with a supplier quality assurance programme would be an alternative strategy to remove this risk.