

**MARCH 2024 PROFESSIONAL EXAMINATIONS
STRATEGIC CASE STUDY (PAPER 3.4)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME**

EXAMINER'S GENERAL COMMENTS

This examination was based on a pre-seen scenario which described Prestige Designers Ltd referred to as Prestige which is a group of companies, operating in a real estate industry. The scenario was made available in advance of the exam. This is a very interesting industry, and candidates are expected to be familiar as part of preparation toward the examination. The pre-seen was detailed and well-prepared candidates should have been able to provide good answers in the context of the real estate industry. The unseen scenarios were interesting and presented some realistic questions on the industry.

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

PERFORMANCE OF CANDIDATES

Performance trend is well below average with few candidates marginally performing well. Many appeared to be ill-prepared for this examination and did not demonstrate the required level of technical knowledge and application of knowledge to the case study. Overall, candidates performed very well, especially question number One, Two and Six. There were concerns relating to candidates' performance in several other areas, especially questions Four and Five. In many cases candidates described wrong strategic models even though the questions required specific models. Model application to the case study remains a challenge to candidates resulting in losing valuable marks to achieve a pass. All answers must be applied to the case study and should bring in aspects of the pre-seen information as well as the unseen additional information material. Answers which are purely rote learning were quite common in some requirements and this approach is awarded very low marks. There were also a few candidates who gave very theoretical answers and did not apply them to the case study. Many candidates' answers lacked depth of development and therefore, although demonstrating a basic understanding and application of knowledge, they failed to accumulate sufficient marks due to not developing their answers sufficiently. Some answers were just short and incomplete. Few candidates set their own question and answer especially question Four which is very strange but evidence of lack of preparation. One observation was that a few of the candidates scored below 30% which indicate the lack of preparation for the examination.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

Strengths

The candidates did well in the “three level of strategy being pursued by Prestige Designers Ltd and issues facing the Building and Construction industry in Ghana as well as West Africa country using PESTLE”. Most of the candidates answered the question and scored above 50% of the 20 marks allocated to the question. Question Six was also well answered with majority of candidates scoring well above 60% of the 20 marks allocation to the question. Majority of candidates started questions on new pages which is a good practice and commendable. Most of the candidates attempted all the six questions. A few of the candidates presented their answers in a well organised manner.

Weaknesses

Poor preparation by the candidates. Most candidates scored very low marks because the answers provided for both financial ratios calculations and explanations were very shallow in terms of meeting the exact requirements. A good number of the candidates failed to answer all questions because they were not prepared. Over 20% of candidates did not attempt all questions, evidence of poor time management and application of exams techniques.

Worse is calculation of the simple financial ratios, candidates failed to apply them to the relevant questions and rather resorted to using other ratios resulting in wasting of precious time. About 55% of the candidates who attempted question Five scored below 30% of the total allocated 20 marks while a significant number did not answer them at all. Key to question five is the application of previous Financial Management knowledge.

Poor or limited understanding of questions. The scripts revealed that candidates deviated in answering some of the questions. This problem was common with questions that demand application of some basic concepts, standards or frameworks. The questions that suffered most in this regard were question Four and Two. Most candidates who attempted it deviated.

Most candidates ignored the allocation of marks to questions which resulted in poor time management especially question 1 b).

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

INDUSTRY INFORMATION – REAL ESTATE

Background

Houses primarily are built on land. Land for building houses for domestic use is generally in short supply because it has other uses, namely; agriculture, industrial production, shopping centres, airports, roads, national parks, etc. It is also the case that in many countries the best lands have already been used to build existing towns and cities.

One of the most crucial basic needs in every community is housing or shelter. Improved housing, according to certain schools of thought, will have a number of positive externalities in addition to direct consumer advantages. For instance, the building of additional homes might increase aggregate output through a production multiplier, and a larger housing supply would make it easier for workers to identify available homes and relocate to regions of the nation with better earnings and increasing productivity. Similar macroeconomic consequences will result from new commercial construction, which will also increase the nation's economic output.

Different factors have an impact on the socioeconomic development process. Housing production and consumption is certainly one vital factor. It encourages economic growth by boosting the building sector, and it helps fight poverty by increasing the need for low-skilled labour. As a result, creating housing solutions has proven to be among the most economical ways to increase the asset base of low-income households and promote equity and growth. However, the majority of emerging markets have consistently fallen short of offering their citizens appropriate shelter, making it impossible for them to fully benefit from the financial advantages of a healthy housing market. It is widely acknowledged that improving the performance of the housing industry is an important public policy that will have a significant social and economic impact.

In general, the construction of housing units is a significant part of household wealth, particularly for low-income households. It is clear from the spike in demand for house ownership that most Ghanaians place an increasing value on home wealth. Homeownership is regarded as a long-term source of wealth and protection against inflation. Many households regard this as the most significant form of investment. Investors switch from money markets to the property market as an inflation hedge in situations with relatively high inflation rates. Homes can be used as collateral for loans taken out by homeowners, which can be used to finance other investments for wealth growth. Housing then functions as a "cultivator" and "protector" of wealth.

Characteristics of the Building and Construction Industry in Ghana

In most countries, the state, via systems of local government, controls the use of land and this means that house-building firms and individuals have to seek planning permission to build on a particular piece of land and, depending on zoning regulations imposed by the state, may or may not be allowed to build.

It is a well acknowledged fact that the building and construction sector is crucial to a nation's socioeconomic progress. This includes the development objectives of making accessible the required infrastructure, offering job opportunities, and also providing housing for people. Urban infrastructure, highways, schools, hospitals, houses, roadways, railways, airports, seaports, electricity systems, agriculture systems, telecommunications, and others are among these socio-economic development objectives. The building and construction industry contributes up to 10% of the nation's GDP and employs roughly 10% of the working population,

making up a significant percentage of the economy. The production, maintenance, rehabilitation, or extension of engineering-related buildings, sometimes known as the nation's fixed assets, is the domain of the construction sector. The construction industry also accounts for around half of an economy's total fixed capital formation, demonstrating how important it is to the national economy. The majority of investments in the construction sector are made by the government, therefore the level of spending can be controlled to bring about some anticipated changes in the economy since the sector is regarded as a potential economic regulator. Although there are intricate connections between the construction industry and a number of other national industries, these connections can act as catalysts for those industries' activities. This is because the construction industry depends on inputs from these industries to operate, and these sectors in turn depend on infrastructure to operate. This demonstrates that the linkages are a two-way mechanism that, if properly utilized, will aid in boosting the nation's economy. The construction industry is one of the fastest-growing sectors, averaging 7-8% growth annually, thanks to its enormous potential to foster project export, expansion, and employment creation.

A feature of house-building is its variety, both in terms of building materials and styles. House styles also vary enormously and have been influenced by history and culture over the centuries ranging from the rows of linked town houses to the castle in the mountains. That said, the advent of global television coverage has led to some convergence in tastes and western-style houses can increasingly be found in the affluent suburbs of towns and cities throughout the world.

One of the most important socioeconomic issues Ghana is still dealing with is the housing shortage. According to current projections, nearly 1.2 million housing units will be required to close the deficit by the end of this decade. Some experts and the Government of Ghana's own estimate have proposed that if the crisis is to be averted, a delivery stock of 150,000 housing units should be maintained annually. Contrarily, it is claimed that close to 37,000 housing units are delivered annually, which seems incongruous to those in the industry. For instance, just 5,000 dwellings were started by the Government of Ghana (GoG) over the course of the past six years. Amazingly, the gathering and processing of resources for these dwelling units took over five years. Finally, physical construction started in 2018, but sadly, no buildings have been occupied. Therefore, it's possible that Ghana is not now producing 37,000 housing units annually as is commonly believed. Indeed, forecasts for "self-build houses," which in reality can take several years to complete and occupy through the "locked-up" capital process, are included in the estimated 37,000 alleged yearly deliveries. In conjunction with building owners' resource flow, locked-up capital refers to the sporadic and piecemeal acquisition and exploitation of housing inputs such as plots of land, sand, and various building materials in the housing construction process. In fact, over 90% of Ghana's housing stock has been realized through this approach, which can be effectively compared to a gradual lock of housing capital over the course of a 5 to 15-year delivery term. In Ghana, this is the culture of housing realisation.

The government, which owns most of the priciest homes and tertiary structures, is the main user and consumer of the construction sector. Ghana's Ministry of Works and Housing oversees the construction sector's operations.

Although the government is in charge of the building and construction industry's operations, the building industry's growth is being driven by the private sector, which comprises members of civil society and non-governmental organizations, as well as residents, unregistered business

owners, individual homeowners, and business groups. Users and consumers within the industry fall under this category.

For the Ghanaian construction industry, planning and building laws that are modeled after the Western system have been devised. Environmental laws were created by the Environmental Protection Agency (EPA) through Environmental Impact Assessments (EIAs), and the agency is in charge of implementing these rules in the building sector. By establishing rules for the submission and approval of plans, district assemblies and metropolitan officials are in charge of controlling growth.

Opportunities and Initiatives of the Industry

The Ghanaian building sector is expanding, and with recent improvements in industry operations, a variety of opportunities are arising from the initiatives being implemented in the sector. The impact of globalization, which will materialize through the creation of job possibilities with the entry of capital into Ghana, is one of the opportunities in the Ghanaian building sector. Even though this will put local consulting and contracting firms in competition with their foreign rivals, who may have more experience, it will also give people the chance to benefit from the expertise of foreign experts and take advantage of opportunities provided by groups like the Economic Community of West African States. Public-private partnerships, will become more crucial to the nation's infrastructure development. This would present another chance for the sector to prosper. This cooperation will allow both parties to invest in, run, and own building-related infrastructure, which will have an impact on how the construction industry is managed, regulated and developed. The professionals in the building business must have the necessary abilities that will strengthen the cooperation in order to do this.

Land Tenure Challenges

The nature of this obstacle varies depending on each locality and culture, but it is a problem that most African nations face, not just Ghana. In Ghana, traditional land ownership is familial-based, meaning that each family's norms govern how the land is used. Most of the time, these decisions are not recorded in writing, which makes it challenging to find the supporting evidence for the usage rights. Therefore, in most instances, this leads to ownership confusion.

Financial Constraints

The industry's excessive reliance on government funding and financial institutions' inadequate lending facilities to the necessary participants (private sector) have a negative impact on the industry's ability to grow. The industry's performance suffers from the lack of suitable funding for projects. This makes it difficult to mobilize personnel and equipment for major building projects. Other issues with the Ghanaian construction sector that have been identified include, but are not limited to, the following: insufficient engineering skills; subpar workmanship; insufficient management skills; low productivity; insufficient operating cashflow; insufficient maintenance culture; insufficient revenue base for funding construction projects; ineffective reporting and information management system; low capacity of local contracting and consulting; serious management gap; lack of training opportunities; long gestation period for loans; and low scale of professional fees.

Mortgage or Build

In some countries, houses are built primarily for rent by either private contractors or private individuals; whilst in others, houses are built by private firms and sold at a profit to home buyers. In some other countries, there are combinations of these systems.

Another feature of house-building is that houses tend to be durable and can provide a home for different occupants over hundreds of years. A knock-on effect of this is that newly built houses have their market price determined to a considerable extent by the prevailing market price of the existing stock of houses.

Three options are frequently presented to the ordinary Ghanaian household when choosing a place to live. These are for mortgaging, renting, or building a house. The mortgage sector has established itself as the most capable and superior financier of the populace's housing demands in highly industrialized nations. Ghana's housing sector is underdeveloped, and many households' main goal is to acquire a home. The path taken to reach this investment goal resembles the "Life Cycle Hypothesis" idea. Many households rent flats in the early years of their careers. Investment opportunities in the housing sector become top priorities for many households when wages rise above the threshold for basic consumption demands. Particularly, households must decide between building a home and mortgaging one. However, these decisions are influenced by income and access to land. In Ghana, a significant barrier to "own-building" is the absence of a safe, open access to land title.

Another characteristic is the exorbitant cost of houses. In many cases families need to take out a loan or mortgage to purchase their home and spend decades repaying the loan. The high cost of house-building to individuals and society in general has been made forcibly clear in recent years by the global financial crisis. In 2007 a significant number of house buyers who had borrowed in the years of high economic growth were unable to meet their mortgage payments and defaulted on their loans. For the housing market, this is a particularly bad time because the banks, nervous about lending to house buyers with a poor credit record and or doubtful employment prospects, are reluctant to lend to these people and so demand for new houses tends to be confined to the financially better-off.

Local Housing Markets

Because the demand for houses exists locally, it follows that house builders seek to ensure they are very well informed about what the local market demands. Most new houses are built without having a specific customer in mind but building firms rely on their own general understanding of the local market. Because of their acquired local knowledge, building firms are able to assess accurately how to obtain the best value from the development of a particular site. This specialised local information gives existing companies a competitive edge over less well-informed new entrants. Most local housing markets are dominated by sales of existing built homes. In business terms, this means that the price of new houses is largely determined by the prevailing price for existing houses. House builders therefore need to understand what the local housing market demands at the prevailing price levels.

Because of the housing market's influence on output swings and inflation, policymakers now view it as crucial and strategically vital. The quantity and composition of household wealth, loan availability, labour productivity, employment, and other macroeconomic factors are all examples of how operations in the housing industry may impact a population's well-being. When home prices increase, the market develops the expectation that they will rise even further. This expectation raises housing demand, which in turn increases new building and aggregate demand.

Additionally, higher residential housing prices have a tendency to increase the wealth of the households that operate these facilities, thereby boosting consumer spending, a factor in aggregate demand. As a result, housing prices affect aggregate demand and resource use.

Because the central bank's job is to control overall demand in the economy to achieve desired outcomes for inflation and employment, monetary policy must thus react to changes in housing prices. The argument over the best course of action to take in the face of asset price bubbles that could be harmful to the economy has therefore focused a lot of attention on the problem of housing prices and their impact on the economy, particularly among central bankers.

Ghana's housing industry is still in its infancy when compared to developed nations. A rapidly expanding middle class, high property costs, and unmanageable urbanisation—particularly in metropolitan centres like Accra, Tema, Kumasi, and Takoradi—have made the housing industry one of the most pressing developmental concerns facing policymakers. The cost and funding sources necessary to meet Ghana's enormous housing demand, which is estimated to reach 1.2 million units over the next ten years, are crucial to policy formulation.

Other Constraints

A further perceived constraint is the high and growing regulatory burden. This includes a range of issues, from planning requirements through to building regulations, health and safety legislation and sustainability policies.

Sustainability policies have been developed in response to the fear of exhaustion of natural resources and of the probable impact of climate change. Indeed, climate change has established itself as a major issue which requires an urgent and coordinated global response. These have led to calls by environmentalists for building construction to be subjected to strict regulations.

The processes of acquisition, applying for planning permission and preparation of land on which to build houses consume a great deal of a house builder's limited resources. House builders seek to build up a stock of land which they aim to convert to short term land complete with planning permission granted for current house-building use. Large house builders commonly have stocks of land which will provide them with a supply sufficient to meet anticipated demand for 5 or 6 years. Smaller builders will have smaller land banks because potential building land is very costly and ties up capital in the business that cannot immediately be converted into revenue to build houses.

The recent economic situation has compounded the problems of the industry making it difficult for house builders to borrow money and for would-be house purchasers to raise mortgage finance.

Finally, there is widespread concern in the country about the recent contraction of the industry and the reduction in supply chain capacity that has occurred as a result of the economic downturn.

Standardisation of House-Building and Subcontracting

House builders have improved the efficiency of house-building over the years. Perhaps the greatest improvement in efficiency has come from the standardisation process. By virtue of trial and error and learning from fellow builders they have hit upon a house design that can have a variety of standardised elevations and features but allows the builder on large sites to build with less cost and in less time than when houses are tailor-made for individuals.

Standardisation has many advantages including the use of standard drawings and specifications that reduce the design costs as compared with customised buildings. This helps facilitate the efficient sequencing of trades and allows subcontractors to make use of relatively low cost

semi-skilled labour as in the classic scientific management approach; materials can also be purchased in bulk on long term supply contracts at a discount and standardising the internal design of buildings makes it possible to obtain effective use of space.

Differentiation is achieved by the selective use of standardised features which are often just attached to standard design houses such as porticos, black and white wall planks and bay windows.

A limited but increasing amount of pre-fabrication occurs, but the bulk of construction from the foundation levels upward is carried out on-site by subcontracted bricklayers, joiners, roofers, plasterers, plumbers, electricians, glaziers, painters and so on and each major stage is inspected by local authority building inspection officers to ensure that the construction is in line with agreed plans and meets basic quality and health and safety standards.

The common system of labour subcontracting in Ghana has some advantages; it enables a building construction firm to hire local tradesmen near the site where the building is to take place and saves the cost of maintaining a large labour force. The draw-back to the system is the uneven quality of the labour employed and quality on site has to be closely monitored and enforced by a site manager or foreman.

Modern Methods of Construction (MMC)

MMC involves the manufacture of house parts off-site in a specially designed factory. The two main products are panels and modules.

Panels include ready-made walls, floors and roofs. These are transported to the site and assembled quickly, often within a day. Some panels have wiring and plumbing already embedded, making construction even faster.

Modules are ready-made rooms, which can be pieced together to make a whole house or flat but are used most frequently for bathrooms or kitchens. All the fittings are added in the factory. These modules are also known as 'pods'.

MMC can also include innovative site-based methods, such as the use of concrete moulds. A range of materials is used for MMC, the most common being wood, steel and concrete, although many houses built in modern cities using MMC have a brick outer layer and so look like traditional houses.

Those who state their support for MMC houses claim they have fewer defects, can be built more quickly, are more energy efficient, involve less transportation of materials, produce less waste, involve fewer accidents and have less impact on local residents during construction.

Those less keen on MMC claim that they involve higher immediate costs, poor public acceptability, and inflexibility of factories in responding to fluctuating demand.

Business Models

The business model adopted by most Ghanaian companies is known as the 'current trader model' (also known as the 'classical house builder model') which consists in essence of a cycle of land acquisition, development and outright sale. Profit is the margin between sale price and acquisition and development costs; the developer retains no long-term interest in the property.

Other models exist such as the ‘investor model’ in which the builder retains a long-term interest in the developed site, such as housing for rent or the retained portion of shared ownership sales; and the self-build model in which the individual owner contracts with others to do the building for him to his own specification.

PRESTIGE DESIGNERS LTD

History

Prestige Designers Ltd (referred to hereafter as Prestige), one of Ghana’s top ten private companies in the building construction industry, was established by Henry Mensah in 1989. It is a group of companies whose head office is located in the Greater Accra Region of Ghana.

In January 2010, Prestige completed the acquisition of Sub-Prime Ltd, another private company in the building construction industry. Previous major acquisitions include Etiquette Ltd in July 2005 and Vintage Ltd in April 2008.

Prestige has steadily grown to become a nationwide house builder with operating businesses spread across the length and breadth of Ghana.

The Prestige house-building operation is the core business of the Group and builds houses using traditional designs comparable with its major competitors in almost all aspects of quality and service, but does lag behind in its use of MMC. The wide range of property types includes three, four and five-bedroom detached properties, two and three-bedroom town houses and semi-detached houses, bungalows and apartments for the domestic market.

Brands

The Sub-Prime business provides a range of premium homes, in both modern and traditional styles. Sub-Prime has a solid reputation for the design and quality of the homes it builds. The Etiquette business builds good quality affordable homes for a wide range of customers and is concerned with the revival of local communities and the regeneration of older neighbourhoods. The Vintage business focuses on low-cost housing; this part of the business aims to get young buyers onto the house property market.

Board of Directors

There are nine members on Prestige’s Board of Directors. They include the Chairman, Chief Executive, three executive directors and four non-executive directors (NEDs). The executive directors have extensive experience in the house-building industry and provide a direct line of control between the Company and its operating businesses. The NEDs provide a balance to the Board and bring a wide breadth of experience and skills to its working.

The Board routinely meets seven times a year and has a formal annual schedule of matters reserved for its consideration and decision. This agreed schedule includes the approval of the Group’s strategy, major investments, annual and half yearly results, interim management statements and trading updates, review of performance, dividend policy, risk monitoring and ensuring that adequate financial resources are available. The schedule is reviewed on an annual basis.

Organisational Structure

The organisational structure of Prestige has evolved largely as a result of a series of mergers and acquisitions over the years since its formation. The Company started in the Greater Accra

Region, grew organically in the early years, but since then has expanded by a series of mergers and acquisitions into a national company with three regional divisions: Greater Accra, Ashanti and Eastern.

When businesses were acquired in other parts of the country they were allowed to operate with a degree of autonomy. This was often a matter of convenience as senior management lacked the commitment to rationalise the differing practices and systems of the newly acquired and existing businesses into a coherent centralised system.

When five years ago the present regional divisional structure of Greater Accra, Ashanti and Eastern was formalised, an attempt was made to ensure that common systems and ways of working were adopted across each of the three regions but again, because of the pressures on the Company at the time, this was never carried out as intended.

One outcome of this is that each regional division uses some working practices and systems inherited from when Sub-Prime, Etiquette and Vintage were acquired. One of the most evident of these is the existence of different IT systems in each of the three regional divisions. This has limited impact within the regions themselves but makes for some difficulties when coordinated action is required across the Company.

Another problem created by the semi-autonomous regional divisional structure arises when close cooperation is required on joint-projects at the boundary of each division. The degree of autonomy allowed to regional divisional managers often results in rivalry and conflict over how things should be managed between them.

Prestige operates with the main board responsible for overall strategic and policy decisions of the group. These strategic and policy decisions are then enacted through the regional structure and it is in turn the responsibility of the appropriate company to market, build and sell individual properties.

The separate companies within the group are responsible for carrying out these activities via their various departmental and administrative systems. All three companies, Sub-Prime, Etiquette and Vintage, within each region have marketing, sales, operations and procurement functions. Some rationalisation and cost savings have recently been achieved with Sub-Prime in each region also taking on responsibility for the finance, human resources and information technology functions for all companies within their region.

Management Structure

The Group is ultimately governed by its Board of Directors. Each of the three regional divisions is controlled by a Divisional Board, headed by a General Manager. Each Division has three regional operating businesses, (trading as the original three companies Sub-Prime, Etiquette and Vintage). These three companies are headed within each region by a managing director and a management team with local knowledge and experience. The executive management teams each have wide experience.

Corporate Governance

Prestige's Board acknowledges that by adopting and implementing the highest standards of corporate governance, this sets the standards and values for the entire Company. The Company seeks to comply with best practice in all areas of corporate governance and continues to review the Company's procedures to maintain proper control and accountability. Prestige also claims

to seek integration of sustainability policies and procedures into its normal business activities to ensure that when building new houses, it takes into account the impact on the environment. Like most of the larger house builders, Prestige is developing detailed policies to cover all contingencies.

The House-Building Process in Prestige

The process of house-building adopted by Prestige conforms to what is known in the industry as the ‘classical house builder’ model. Firms using this model acquire land, seek planning permission and undertake all the development and building tasks such as the initial evaluation of the project, land preparation, construction of the houses or apartments and marketing and sales through to the final house-purchaser.

Many of the houses built by Prestige are built ahead of contracts for sale with planning forecasts based on recent sales data. This has sometimes been referred to as ‘speculative building’ but Prestige, like many Ghanaian real estate firms, has many years of experience in the business and knows its local markets extremely well.

Prestige, through its regional operating businesses Sub-Prime, Etiquette and Vintage, manages construction work itself and directly purchases most of the materials but it contracts out much actual building work to sub-contractors. Specialist tasks such as initial design are also often carried out by independent agencies working under contract. Standard house designs are generally built, although the actual designs will vary from site to site.

Prestige has a core staff in its regional operating companies that decides on and controls all the activities required for building, but it contracts out development functions to planning specialists and architects.

Prestige sometimes uses specialist sub-contractors to undertake on-site building tasks under the control of the firm’s own site managers and senior management teams.

The Strategy of Prestige

Prestige’s primary objective is to remain one of the leading real estate house builders, building homes ranging from low-cost starter homes to large premium family homes. Its strategy to achieve this objective is to build on existing skills and competences, while maintaining firm cost control and continuing to produce quality homes that customers want to buy.

Company Performance

The Board considered that Prestige delivered a good performance for the year ended 31 December 2022, despite challenging conditions. The results for 2022 reflect the implementation of a strategy of firm cost control, maximisation of sales revenues and pursuit of strong cash generation. During 2022, Prestige increased the number of housing units it completed. Prestige therefore increased its revenue, margins and profit as compared with 2021. However, the Company decided not to declare dividend, given the present economic climate.

Operations and Constraints

As a very traditional company, Prestige has stayed clear of the use of MMC, preferring instead to retain the tried and tested house-building methods. That said, the current recession together with Government’s decision to promote sustainable business practices has encouraged some of Prestige’s competitors to adopt some modern methods of construction and in this respect Prestige is in danger of being left behind.

Prestige has threshold competences in most areas of its value chain activities and enjoys distinctive core competences in its knowledge of local markets. There are, however, reasons for concern in that some of its activities will need to be reviewed if Prestige is to remain a major player in the real estate sector.

The Company has always had a good working relationship with its bankers and financial institutions. It is therefore anticipated that funding will be available for future projects where these are justified.

In the boom years, the business performed well but since the Ghanaian housing market went into decline following the banking and financial crisis of 2018, Prestige's business has not performed as well as its key competitors. The existing board members have been in place for many years and the Chairman and Chief Executive have not seen any reason to change the way Prestige does its business. From the perspective of most members of the board, the current downturn is just part of another business cycle and the strategy employed by Prestige has been to continue with business as usual until the worst is over.

Mr. Mintah, one of the NEDs is of a different opinion. He thinks that sticking to the existing way of doing things is a recipe for disaster. He argues that the recent performance of the real estate industry leader, increased competition by new entrants, the Government's sustainability practices agenda and the threat posed by the effects of climate change, all require a much more proactive response by Prestige. He also feels that in many areas of the business, such as the application of IT, the adoption of MMC, the training of staff, and the sourcing of supplies, Prestige is falling behind the best in the business. In brief, its operational methods need urgent attention if the Company is to emerge from the recession to compete effectively. Given that the last review of the Company's strategic position was before the decline in the real estate sector, he feels that another review is now essential.

Overseas Investment

Prestige's Board is well aware that some of its competitors have overseas operations but Prestige has put off seeking expansion abroad to date because of the risks involved. It is also aware that some of the country's leading real estate firms have pulled out of the West African market following its dramatic decline in the last few years. It also appreciates the large amount of preliminary work involved in any thorough assessment of an overseas market and the analysis of the competition and changing business environment that needs to be carried out before opportunities and threats in any overseas market can be ascertained.

Despite these reservations, the current and likely future economic situation and other problems associated with real estate in the country is making some Board members reconsider their stance. According to the International Monetary Fund (IMF), the global economy is now in what it calls a 'two speed recovery process'. Advanced economies are either growing slowly or are stagnating, with unsustainable debt levels and persistently high unemployment. Developing economies are also experiencing slow growth, as they continue to invest in their own infrastructure, grow overall exports, and start to see increased levels of consumption from their own countries' residents. It is within the context of these changing global conditions that some members of Prestige's Board have shifted from their long-standing reluctance to seriously consider the possibility of expansion overseas.

The Real Estate Industry in West Africa

Prestige's Board has considered moving into a neighbouring country within the West Africa sub-region. There are a number of reasons for this. First, the Sales Director of Prestige already has some familiarity with and contacts in the real estate industry in that country by virtue of frequent visits to family and friends. Indeed, by a stroke of good fortune, one of his relatives happens to own a small building company in that country.

Secondly, the development of the building industry in that country has been quite rapid in recent decades as the economy has moved from that founded on an agricultural base to one based increasingly on manufacturing and services. Like many other countries in West Africa, the process of industrialisation has been accompanied by urbanisation as people have moved to better-paid employment in towns and cities which have grown in size. This migration from the countryside to the towns has created a massive demand for housing, and building firms have taken advantage of the opportunities presented to grow and expand their operations. The outcome has been the development of a dynamic building industry with a mix of firms of all sizes.

The last decade in particular has been one of rapid economic progress and the neighbouring West African country's economy has grown by about 7% per annum over the period. This has produced a growing middle class with an income level that allows citizens to enjoy a life-style only dreamt of by their parents. One of the most evident signs of this life-style is that families can now have a family home that provides spacious accommodation with all the facilities that have come to be associated with a modern society. Housing styles vary considerably from apartments within large housing developments to detached, semi-detached and terraced houses that are being built in the suburbs of the towns and cities of that country. Over time the traditional timber homes that once constituted the bulk of housing in that country have been replaced by housing built with the more durable materials of concrete, steel, brick and tiles. Many of these new houses and apartments are modelled on western-style buildings that derive from the presence of European and American people during the past colonial era. In the neighbouring West African country the influence of Ghanaian housing styles on its own housing styles is particularly evident, especially in the growing suburbs where detached and semi-detached houses of brick construction have become the preferred choice of many affluent families.

It is this demand for traditional brick-built houses that has caught the attention of the Sales Director of Prestige. On his regular visits to family and friends in that neighbouring country, he has become aware of both the demand for Ghanaian style brick housing and of the demand for skills and expertise in this type of house-building.

Whilst opportunities exist, overseas investment always carries an element of risk and the Sales Director is very much aware that the political stability of that country is of recent origin and that the multi-ethnic mix of the population has been the source of armed conflict in the past and that this has toppled some previous governments in that country. Some of these groups are comprised of militant members who still harbour simmering resentment for the injustices they see as perpetrated by the government. There is therefore a risk that this feature of that country has the potential to upset the stability and workings of its Government.

The Sales Director is also mindful of some of the differences that exist between that country and Ghana in the area of corporate governance and corporate social responsibility requirements and the potential difficulties for any Ghanaian company considering a merger or joint-venture

with a building company in that country. A feature of business in some West African countries is that control of companies by large family groups is common. One of the features of this ownership structure is that it provides power to insiders to pursue their own interests at the expense of minority shareholders, creditors and other stakeholders. Though that country has adequate corporate governance codes in place, the weak rule of law and the existence of possible corruption at different levels within the country makes it difficult to ensure enforcement of governance principles.

There are also additional specific concerns confronting the building industry in that country that have little comparison to Ghana. The first of these has to do with the fact that the West African country is located in an area that is subject to relatively frequent earthquake activity. The country is also in a typhoon belt, which seasonally produces very strong winds, so builders have to allow for these natural hazards when considering house design.

Present Divisional Structure

The organisational structure of Prestige grew through a series of acquisitions and mergers over a period of many years. During this period of growth, newly acquired businesses were allowed to operate semi-autonomously with the result that each division acquired its own Marketing and Sales, Operations and Finance functions, each with its own systems and favoured practices. The new CEO is under pressure to increase profitability and has asked the Finance Director (FD) to provide him with the implications for Prestige if the structure were to be rationalized.

The FD has asked the Management Accountant (MA) to do some preliminary work on the savings that might be made in 2024 and 2025 if each of these functions were centralised at Prestige's headquarters. Relevant to any such plan is that in the organisational structure, the Board level accounts for 10% of operating expenses, the divisional level 40% and the operating companies 50%. It is estimated that 40% of the operating expenses can be saved by centralising the functions above and through updating the IT systems. Preliminary estimates based on outline quotes for new IT systems and potential staff redundancy and displacement costs indicate that this will cost GH¢75 million and take two years to be fully effective.

Competition from “Sustainable Homes” Development

One of Prestige's major competitors, Best Builders Ltd, has just completed the first full scale development of 'Sustainable Homes' that almost meets the Government's target for building houses which are environmentally friendly. Despite the current difficulty of obtaining finance to buy houses, demand is high for these houses as energy costs have increased significantly. Best Builders Ltd is therefore planning to build thousands of these homes over the coming years. The competitive threat this poses to Prestige was further underlined recently, when Best Builders Ltd was awarded the prestigious “House Builder of the Year Award” for the outstanding quality of its homes for the second year running, while simultaneously becoming Ghana's leading house builder.

The FD estimates that if Prestige does not consider the construction of sustainable homes within its product portfolio, then 6% of its sales will be lost to competition in 2024 and that this loss of volume will continue and very possibly increase each year after that.

The required once-only investment by Prestige for the production of the sustainable houses is expected to be GH¢21 million. It involves new building techniques, new materials, solar systems and recyclable water management systems rarely used in traditional house-building. The investment is considered worthwhile by Prestige in terms of construction cost savings and

in lower energy and maintenance costs to the new “sustainable” home owners. A deal has recently been struck between a competitor and a big solar energy supplier and is expected to result in significant savings compared with electricity bills for houses in general that rely heavily on air conditioners.

Dodowa Development

The recent changes to the urbanization redevelopment policy of the Ghana Government have encouraged some property developers to pursue land acquisition to build houses on land in Dodowa and beyond. One such case is an initiative taken by Prestige to build 7,500 houses on vast expanse of land in the Greater Accra Region. The land in question surrounds three small villages and the application has provoked a strong reaction, not only from the villagers, but also from a wide range of interest groups concerned with the protection of the countryside. The development would encircle the three villages to produce a whole ‘new city’ complete with a range of services such as a supermarket, a leisure centre and a medical centre. Some land would also be available for the development of a small industrial estate.

People living within the three villages have formed an action group to prevent the development from going ahead because they think that it would damage the rural character of the area forever. The formation of this action group has been much facilitated by the use of social media. The action group has already enlisted the support of the local Member of Parliament as well as a range of environmental protection groups. The District Assembly, which is the planning authority in the area and which has a majority of assemblymen who support the national government, is committed to the new development because its members believe that it will provide much needed local housing, new services and a boost to local employment which the district it represents badly needs. The national media have been drawn to this story because it represents the kind of battle that is being fought about real estate development across the country.

Prestige, together with other building firms and suppliers to the building industry, regard the possibility of the development and others like it as a golden opportunity. They have already had their agents carry out preliminary surveys so that if permit for building is granted they will be in a position to put forward their respective bids.

Arising from its deliberations on local planning issues, the Presiding Member of the District Assembly has indicated strongly that he is almost sure that this real estate development will proceed. In light of this, the FD has been asked to make a provisional assessment of the financial implications of bidding for a substantial slice of the building land that might become available. The FD has delegated much of this work to the MA as he is currently committed to a range of other projects. He has also asked the MA to consider what the likely stakeholder implications are for Prestige if it progresses with this development.

It is anticipated that the building land, if granted the requisite permits, will be divided into sites and that the price will be GH¢60 million per site of 1,500 plots (GH¢40,000 per plot). It is the intention of Prestige to only submit a tender for one of these sites of 1,500 plots. It is anticipated that build time from start to finish, with all plots sold, will be 2 years and that Prestige will have to pay GH¢50 million for building materials and associated costs from the start. The remainder of the building costs will be funded from operating cash flows. The average selling price per completion is expected to be GH¢163,000, slightly higher than the average for the region, reflecting the perceived value of the development. It is anticipated that the gross margin of 22%, after all costs are recovered, will be maintained. The FD is satisfied the proposal will

provide a positive NPV and whilst the MA is not required to provide such a calculation, he has asked the MA to provide a residual income calculation for the project so as to illustrate the undiscounted cash surplus to the Board. The FD is confident of obtaining finance at 10% interest per year to obtain the plots and to finance the building materials and associated costs. It can be assumed that income generated from the sale of the houses will all occur at the end of 2 years. It can also be assumed that the houses in each plot will be built evenly over the two-year period.

Newspaper Allegations in the West African Country

Whilst considering the formation of a joint-venture with a new partner in the neighbouring West African country, Prestige was pleased to hear that Zebra Ltd (Zebra), one of its prospective joint-venture partners, had won a contract to build a medium sized development of some 50 houses on a favourable site in the suburbs of a major city in that country.

Prestige has subsequently discovered that the contract won by Zebra had been achieved through a series of secret payments to Marigold Consulting Firm, the contract-awarding organisation.

A meeting of Prestige's senior staff has been called at its headquarters. Before he goes along to the meeting, the FD has asked the MA to prepare an assessment within her report on the implications that this revelation might have for the proposed joint-venture. Prestige is also considering entering into a joint-venture with FitforPurpose Ltd (FfP)

Health and Safety

During the process of considering which of the two companies Prestige should partner in a joint-venture, news has filtered through that one of them, FfP, has been associated with two incidents resulting in tragic loss of lives. Prior to these incidents taking place, the Managing Director of FfP had previously stated very clearly to Prestige's CEO, his view that a joint-venture with Prestige would be invaluable to FfP. It would, he believes, improve FfP's health and safety processes and procedures, bringing FfP up to the highest international industry standards.

One of the incidents involved the death of three building workers who were killed when the open lift in which they were descending from a building came away from its temporary moorings and caused 14 workers to be thrown to rocky ground. The other eleven workers sustained a variety of injuries but fortunately for them, none of them were serious. It was evident that the lift in question was seriously overloaded. The other incident involved the partial collapse of an apartment block that FfP had designed and built some years ago. The northern corner of the building collapsed during a recent typhoon and a young man was killed when he was crushed by a falling steel girder that had worked loose from its concrete surround during the typhoon. Investigations are continuing into the incident and a report is due from the legal body concerned with the enforcement of health and safety in that country.

The families of the individuals who suffered fatal accidents are asking for a full enquiry and are talking to compensation lawyers about claims they intend to make against FfP.

The FD has asked that the MA look into the possible implications of these developments to assist senior management in its response to this situation.

ADDITIONAL INFORMATION

Professor Joseph Laing, a business consultant, was hired by Prestige to conduct a diagnostic study into the plan to extend the business operations to other countries in the sub-region. Professor Joseph Laing presented his report to the board and the following are extracts:

OPTION ONE – USING PRESTIGE’S RESOURCES

It is projected that the new company could achieve the following results:

At the beginning of the fifth year, share capital of GH¢1 each would be GH¢2,000,000, share premium, GH¢1,000,000, accumulated profits, GH¢5,000,000 and bank loans, GH¢2,000,000.

At the end of the fifth year, share capital of GH¢1 each would be GH¢2,000,000, share premium, GH¢1,000,000, accumulated profits, GH¢6,000,000, bank loans GH¢5,000,000, profit before taxation, GH¢2,100,000, taxation, GH¢750,000, profit after taxation, GH¢1,350,000, Interest charges on bank loans, GH¢300,000 and dividend payments to shareholders, GH¢450,000. Sales during the year could be GH¢58,000,000.

At the beginning of the fifth year, the projected market value of the company’s shares could be GH¢8.40 per share. During the fifth year, dividends of GH¢4.50 per share could be paid and at end of the fifth year, the share price could increase to GH¢9.00.

OPTION TWO - BORROWING

It is also projected that in the first year of operation, there could be cash shortage. Prestige would need to borrow an equivalent of GH¢2,000,000 for three months in two months’ time in the new country in the sub-region.

A bank in that country quotes the following rates for Forward Rate Agreements (FRAs):

2 v 3 3.61 – 3.59

2 v 5 3.67 – 3.63

3 v 5 3.68 – 3.65

Prestige could borrow at LIBOR + 50 basis points.

There are however, other sources of short term and long-term finance that Prestige could explore in order to achieve its objective of expanding to other countries in the sub-region. The Consultant recommends that Prestige go for a convertible bond.

OPTION 3 – NO FOREIGN INVESTMENT

Private international companies invest in other countries because they hope to make a good financial return from their investment. However, for developing countries such private companies might be met with competition from China and Indian companies and that would make foreign investment unattractive. There might also be considerable barriers to entry or restrictions for several reasons. Due to the challenges detailed in the report, the Consultant recommends that any plans to invest in the neighbouring country be suspended.

QUESTION ONE

- a) **Johnson, Scholes and Whittington** identified three levels of strategy, namely, corporate strategy, business strategy, and functional strategy. These strategies should be consistent with each other.

Required:

In the light of the statements above, analyse the three levels of strategy being pursued by Prestige Designers Ltd. **(10 marks)**

- b) Prestige Designers Ltd like other house-builders is facing difficult times. There has been a sharp decline in number of homes over the past 6-8 years, and independent reports suggest that the numbers will fall even further in 2023.

Required:

Using the **PESTLE** analysis, identify the key issues facing the Building and Construction industry in Ghana as well as that of the West African country. **(10 marks)**

QUESTION TWO

A strategic clock can be used to consider different business strategies for gaining competitive advantage, based on providing a combination of price and perceived benefits. Porter has suggested three strategies for sustaining competitive advantage over rival firms and their products or services. They are a cost leadership strategy, a differentiation strategy and a focus strategy.

Required:

Apply and appraise how effective the suggested three strategies for sustaining competitive advantage over rival firms would be useful to Prestige. **(10 marks)**

QUESTION THREE

When five years ago the present regional divisional structure of Greater Accra, Ashanti and Eastern was formalised, an attempt was made to ensure that common systems and ways of working were adopted across each of the three regions but again, because of the pressures on the Company at the time, this was never carried out as intended.

Required:

Explain the potential benefits of **resource sharing** (Configuring an organisation's computing system in such a way that the information and resources within it can be accessed, and remotely accessed, across multiple administrative domains) to Prestige if they adopt common IT systems. **(10 marks)**

QUESTION FOUR

- a) Prestige's Board have shifted from their long-standing reluctance to venture into foreign markets to seriously consider the possibility of expansion overseas. An important implication of this decision is that as the size of the market increases, competition becomes international. The main rivals are no longer local suppliers to a domestic market.

Required:

Using the Four broad stages of development to a full e-business model, explain how Prestige could leverage on ICT to be in competition. **(8 marks)**

- b) Each company acquired and or merged by Prestige, was allowed to maintain its human resource structure.

Required:

Analyse and advise on an appropriate HR strategy Prestige should adopt to harmonise the organisational structure for effective delivery of the company's objectives. **(12 marks)**

QUESTION FIVE

- a) With reference to the information in the option one available to Prestige as presented by Professor Joseph Laing, a business consultant, calculate the following:

- i) Return on Capital Employed (ROCE) **(1 mark)**
- ii) Earnings Per Share (EPS) **(1 mark)**
- iii) Dividend Per Share (DPS) **(2 marks)**
- iv) Total Shareholders Return (TSR) **(2 marks)**
- v) Explain the difference between *ROCE* and *Accounting Rate of Return*, their essential features and relationship. **(4 marks)**

- b) With reference to option two,

- i) What would be its effective rate of borrowing for the three months if US dollar LIBOR is 4.50% at the start of the notional interest period for the FRA? **(2 marks)**
- ii) What are advantages of Convertible Bonds. **(3 marks)**

- c) With reference to option 3, evaluate the factors that restrict foreign investment despite the perceived potential good returns. **(5 marks)**

QUESTION SIX

Prestige's Board acknowledges that by adopting and implementing the highest standards of corporate governance, this sets the standards and values for the entire Company. The Company seeks to comply with best practice in all areas of corporate governance and continues to review the Company's procedures to maintain proper control and accountability.

Required:

- a) Describe and explain 5 key issues in corporate governance, which would establish how well or badly Prestige is governed. **(8 marks)**

- b) Describe and explain how Principles V and VI of the OECD *Principles of Corporate Governance* – 2015 Edition, could be applied at Prestige to ensure good corporate governance practices. **(5 marks)**

- c) There are nine members on Prestige's Board of Directors. They include the Chairman, Chief Executive, three executive directors and four non-executive directors (NEDs). Describe and explain Four broad roles for NEDs identified in the document published in the UK in 2003, known as the Higgs Guidance. **(7 marks)**

(Total: 100 marks)

SUGGESTED SOLUTION

QUESTION ONE

a) Three levels of strategy being pursued by Prestige Designers Ltd.

Marking Guide:

<p>Corporate Strategy</p> <p>2 points made at 2 marks each (4marks)</p>	<p>Why is Prestige in existence? What is its mission and what is it trying to achieve?</p> <ol style="list-style-type: none"> 1. House-building operation is the core business of the Group 2. Builds houses using traditional designs comparable with its major competitors in almost all aspects of quality and service. 3. Build on existing skills and competences, while maintaining firm cost control and continuing to produce quality homes that customers want to buy
	<p>Is the chosen business consistent with conditions in its environment and resources available?</p> <ol style="list-style-type: none"> 4. According to current projections, nearly 1.2 million housing units will be required to close the deficit by the end of this decade. 5. Some experts and the Government of Ghana's own estimate have proposed that if the crisis is to be averted, a delivery stock of 150,000 housing units should be maintained annually. 6. Just 5,092 dwellings were started by the Government of Ghana (GoG) over the course of the past six years. <p>Matching the purpose and activities of Prestige to the expectations of its owners and other stakeholders</p>
<p>Business Strategy/Competitive Strategy</p> <p>(3 marks for any 2 points made)</p>	<p>How is Prestige competing successfully in the real estate industry and how is its business strategy contributing to achieving its corporate strategy.</p> <ol style="list-style-type: none"> 1. Prestige's primary objective is to remain one of the leading real estate house builders, building homes ranging from low-cost starter homes to large premium family homes. Its strategy to achieve this objective is to build on existing skills and competences, while maintaining firm cost control and continuing to produce quality homes that customers want to buy. 2. The adoption of MMC has put Prestige's business in danger 3. The current and likely future economic situation and other problems associated with real estate in the country is

	<p>making the decision not to move to other neighboring countries an unwise one</p> <p>4. building sustainable homes</p> <p>5. urbanization redevelopment</p>
<p>Functional Strategy</p> <p>3 marks for any 2 points made</p>	<p>Functions within Prestige, such as marketing and selling, research and development, finance, IT and so on that support the business strategies and corporate strategy of Prestige.</p> <p>1. The organisational structure of Prestige grew through a series of acquisitions and mergers over a period of many years. During this period of growth, newly acquired businesses were allowed to operate semi-autonomously with the result that each division acquired its own Marketing and Sales, Operations and Finance functions, each with its own systems and favoured practices.</p> <p>2 This would have implications for Prestige if the structure were to be rationalized.</p> <p>3. Centralising the functions above and through updating the IT systems could lead to potential staff redundancy and displacement costs indicate that this will cost GH¢75 million and take two years to be fully effective.</p>
	<p>ANY OTHER RELEVANT POINT IN THE CASE IS ACCEPTABLE</p>

(10 marks)

- b) Issues facing the Building and Construction industry in Ghana as well as that of the West African country using the PESTLE analysis.

PEST Analysis of the Building Construction Industry in Ghana

Political	<p>Economic policy: debt reduction & economic growth</p> <p>Urbanisation: Restructuring of urban development to favour business development and release land for house building</p> <p>Sustainable development agenda</p>
Economic	<p>Low economic growth</p> <p>Investment and mortgage finance constrained</p> <p>Housing market depressed</p> <p>High unemployment especially amongst the youth</p> <p>Rising energy prices</p> <p>Weak global economy</p>
Social	<p>Falling living standards</p> <p>Older generation relatively well-off</p> <p>Younger people hard pressed</p> <p>Home ownership demand still strong</p> <p>Environmental concerns</p>
Technological	<p>Developments in modern methods of construction</p> <p>Prototype sustainable homes</p>

Legal & Environment	Environmental Laws Activities of Environmentalists
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PEST Analysis of the Building Construction Industry in the West African Country

Political	Currently stable democracy but past history of instability Reforming Corporate Governance Policy of tackling culture of corruption
Economic	High Economic growth Exchange rate stable Buoyant Housing market
Social	Growing middle class Urban growth as people migrate to towns for work Growing aspirations for better housing Western influence on housing design
Technological	Internet, mobile, radio, TV communications well developed Improvement in building techniques and materials
Legal	Weak rule of law and possible corruption

(12 points at 0.83 each balance between Ghana and West Africa = 10 marks)

EXAMINER'S COMMENT

The question (a) required candidates' application of Johnson, Scholes and Whittington with a preamble. The preamble as part of the question background provided to guide candidates. Even though the strategic levels were given as part of the preamble, candidates struggled due to lack of knowledge of how to apply that case hence poor performance and/or deviations which is very disappointing. The requirement is specific, hence general answer was not adequate to earn pass marks for this question.

Part (b) requested candidates to identify and analyse key issues facing the Building and Construction industry in Ghana and West Africa using the PESTLE model. Application to the question was very weak with a number of candidates writing on "theory of the PESTLE model" which cannot be applied to Prestige Designers Ltd. Application of models to relevant scenarios are critical if a candidate should pass. Candidates' performance was average with over 45% scoring more than 50% of the marks allocated. Most candidates did not consider the marks allocation thereby wasting time due to poor exams time management.

QUESTION TWO

Three strategies for sustaining competitive advantage over rival firms.

<p>Cost Leadership Strategy</p> <p>(2 points for 4 marks)</p>	<ol style="list-style-type: none"> 1. With increasing competition, Prestige compete effectively on price, by offering its housing stock at a lower price than rival products. 2. Prestige must have excellent systems of cost control and should continually plan for further cost reductions (in order to remain the cost leader in the market). 3. Large companies can benefit from economies of scale. Prestige being a large company could become a cost leader more than smaller companies. 4. In order for Prestige to make a reasonable profit it must sell large quantities of the product. Total profits usually come from selling large volumes at a low profit margin per unit.
<p>Differentiation Strategy</p> <p>(2 points for 3 marks)</p>	<ol style="list-style-type: none"> 1. Prestige's product must be different from rival products in a way that customers can recognise. The Vintage business that focuses on low-cost housing for young buyers could be built into a unique sell. 2. Customers might be willing to pay a higher price for the product, because they value its different features. Investment into innovation should be explored by Prestige. They could incorporate MMC and sustainability related methods of building. 3. Prestige should be prepared to spend more to give more benefits to the customer, even if this means having to spend more to deliver the product.
<p>Focus Strategy</p> <p>(2 points for 3 marks)</p>	<ol style="list-style-type: none"> 1. In a segmented consumer market, Prestige could select one or more particular segments as target markets for their product. For example, in Ghana alone or other west African countries 2. Concentrating on selling the buildings to a particular type of customer. For example, young ones.

(10 marks)

EXAMINER'S COMMENT

This question required candidates to apply and appraise how effective suggested three strategies for sustaining competitive advantage over rival firms would be useful to prestige. Candidate's option is to use cost factor or differentiation. Marks are therefore allocated to cover identification of the factors and explanation that apply to the Prestige case study. Most candidates attempted this question which is very encouraging. However, over 40% of candidates never applied the pre-seen or additional information to answer the question. A number of candidates wasted time without consideration of the marks allocated resulting in not attempting all questions.

QUESTION THREE

Potential benefits of resource sharing to Prestige if they adopt common IT systems

Resource sharing through the development of intranets could be used by Prestige to manage its information and various information systems across divisions. Virtual Private Networks (VPNs) take this further by extending the private network securely over a public network to allow remote access to the organisation's network and intranet.

Benefits of resource sharing are:

- **Ease of access:** The systems, software, files etc can be accessed from any location with an internet connection thus supporting collaborative working.
 - **Accuracy:** There will be a single source of data, rather than multiple similar versions scattered around the organisation. This makes the information accessed and used by the individuals around the organisation more reliable as it will be based on accurate information
 - **Cost saving:** Avoids the duplication of work. Divisions generating similar data for similar purposes is not an effective use of time, and as such is expensive. Allows data to be produced only once and used by divisions or individuals for their own needs. This reduces inefficiencies and therefore represents overall cost savings for the organisation
 - **Facilitates remote working:** This increases flexibility as work can be completed from any location, and at any time of the day, which has benefits for the employee in terms of motivation. It also allows for working from home with the potential to create significant savings for Prestige.
 - **Transparency:** Resource sharing increases transparency within the organisation
- (5 points @ 2 marks each = 10 marks)**

EXAMINER'S COMMENT

The question requires candidates to explain the potential benefits of "resources sharing" through configuring the organisation's computing system in such a way that the information and resources within can be accessed remotely across the multiple administrative domains. This question is application of technology when common IT integrated platform is adopted. A good number of the candidates were able to provide good answers with few deviations. Some candidates only answered by listing the benefits and ignored the other parts which are more of application and real-life scenarios.

QUESTION FOUR

- a) How Prestige could leverage on ICT to be in competition using the Four broad stages of development to a full e-business model.

Stage	How to leverage on the model (2 marks for each point made)
Web Presence	Prestige could set up a website to display its products. This could be used to provide more information about the buildings for sale
E-Commerce	Prestige could use its website to sell its building stock. It might also buy through the internet from some suppliers to add to its stock and resell when the price is right
Integrated E-commerce	Prestige could use the internet to obtain more information about its customers and their buying preferences, improve communications with customers, for example by trying to establish two-way communication ('dialogue'). Selling on the internet is therefore linked to the analysis of customer information, Prestige could use the information to identify ways in which value might be added to its products.
E-business	E-business could be used to drive the business strategy, and determine the strategic direction in which the business should be taken. E-business is no longer an additional way of doing business: it is fundamental to the company's way of operating.

(4 points @ 2 marks each = 8 marks)

- b) Appropriate HR strategy Prestige should adopt to harmonise the organisational structure for effective delivery of the company's objectives.
- The organisational structure of Prestige has organically evolved largely as a result of a series of mergers and acquisitions over the years since its formation.
 - They operate with a degree of autonomy
 - Prestige operates with the main board responsible for overall strategic and policy decisions of the group. These strategic and policy decisions are then enacted through the regional structure and it is in turn the responsibility of the appropriate company to market, build and sell individual properties.

(2 points @ 1 mark each = 2 marks)

STRATEGY

Plan the HR needs of Prestige in view of the nature of merger and acquisition. The strategy should be consistent with the corporate and divisional strategies. The required numbers and skills of human resources should be estimated taking into consideration the need for innovation or labour saving equipment.

- i) An assessment should be made of the current human resources and likely attrition rate.
- ii) Preparing policies and plans to fill the gap between the required numbers and forecasts of future human resources.

Advice:

These plans will include plans for:

- recruitment of new staff
- training and development to improve skills

- performance appraisal to monitor and control the development of skills
- promotion
- redundancies where some employees will be surplus to requirements or retraining.
- Labour relationships
- Compensation
- Health and safety

Factors to consider:

The plans should be realistic, and should therefore take into consideration environmental factors such as:

- changes in population trends and the total size of the work force in each country where Prestige has its operations
- changes in government policy, such as changes in the retirement age of workers
- changes in the educational system and the numbers of candidates going from school into further education
- the availability of individuals who are trained in a particular skill or vocation
- changing patterns of employment, possibly with increasing numbers of part time workers or home workers
- competition for human resources from competitors and other businesses
- trends in sub-contracting and outsourcing
- trends in IT and other technological changes that might affect labour requirements

(Any 5 points @ 2 mark each = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was in two parts. In the first part candidates were required to explain how to leverage on ICT as a competition using the "Four broad stages of development" to a full e-business model. This question is of two parts. The question used a preamble to guide candidates. Four broad stages of development of a full e-business were not much of problem for candidates to identify however the challenge was the application to the Prestige case study. On the average most candidates performed poorly in answering this part of the question especially the application. However, few (about 10%) of candidates did well to relate their answer to the case study.

The second part required candidates to analyse and advise on an appropriate Human Resources strategy that Prestige should adopt to harmonies the organisation structure for the effective delivery of the company's objectives. The objective of the human resources strategy is to ensure that the human resources are available, as required. Human resources plan consists of a forecast of the human resources that will be required at a given time in the future, and plans for ensuring that the required numbers and skills will be available. A plan will typically look forward about two to five years.

The performance was generally poor as candidates could not demonstrated familiarity and understanding on the areas examined.

QUESTION FIVE

a) Computation of ratios

	Beginning of 5th Year	End of 5th Year				
	GHC	GHC				
Share capital of GHC1	2,000,000	2,000,000				
Share premium	1,000,000	1,000,000				
Accumulated profits	5,000,000	6,000,000				
Bank loans	2,000,000	5,000,000				
Profit before taxation	2,100,000					
Taxation	750,000					
Profit after taxation	1,350,000					
Interest on Bank Loans	300,000					
Dividend paid to Shareholders	450,000					
Sales during the year	58,000,000					
i) ROCE	PBIT/CE	$((2,100,000+300,000)/(10,000,000+14,000,000)/2)\%$				
	= 20%					
ii) EPS	PAT/SHARES	1,350,000/2,000,000				
	=67.50P					
iii) DPS	DP/SHARES	450,000/2,000,000				
	=22.50P					
iv) TSR	INCREASE IN SHARE PRICE/DIVIDEND PER SHARE PAID					
	$=((9.00-8.40)+4.50)/8.40$					
	=60.71%					

(6 marks)

- v) **ARR** is the accounting profit from an investment project, usually before interest and tax, as a percentage of the capital invested. It is similar to **return on capital employed (ROCE)**, except that whereas ROCE is a measure of financial return for a company or business as a whole, ARR measures the financial return from specific capital project.

(4 marks)

b) **Option two**

- i) Prestige needs a 2v5 FRA. It needs to borrow; therefore, the bank will quote the higher rate, 3.67.

In three months' time on the fixing data, if US dollar LIBOR is 4.50% the bank will pay the equivalent of $(4.50\% - 3.67\%) = 0.83\%$.

Three-month borrowing rate (4.50% + 50 basis points	5.00
Less: settlement received in FRA agreement	(0.83)
Effective borrowing rate	4.17

The effective borrowing rate is the same as the FRA rate of 3.67% plus the 50 basis points borrowing margin that the company is required to pay on the money it borrows: $3.67\% + 0.50\% = 4.17\%$.

(2 marks)

ii) **Advantages of convertible bonds**

- The company can issue bonds now, and receive tax relief on the interest charges.
- The interest rate on convertibles is lower than the interest rate on similar straight bonds.
- Occasionally, there is strong demand from investors for convertibles, and companies can respond to investors' demand by issuing convertibles in order to raise new capital.
- Investors receive a minimum annual income up to the conversion date, in the form of fixed interest.
- In addition, investors in convertibles will be able to benefit from a rise in the company's share price, and hope to make an immediate capital gain on conversion.
- Convertibles therefore combine some fixed annual income and the opportunity to benefit from a rising share price.

(Any 3 points @ 1 mark each = 3 marks)

- c) The new country might not have an infrastructure of transport and communication systems to support commerce and trade.

- The general standard of education of the local population might be low. They might need employees of some skills and knowledge
- This refers to the possibility the government of the country will take measures which will adversely affect investors. (Political risk)
- This refers to the possibility that the economy of a developing country will not develop as well as expected. It might be difficult for a foreign company to make a good return on an investment in a country (economic risk)
- the exchange rate risk and similar cash flow restrictions
- taxation on remittances to the parent company's country.

(5 points @ 1 mark each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

This question is of three parts and it related to financial ratios calculation with requirement to briefly explain the differences between Accounting Rate of Return (ARR) and Return on Capital Employed (ROCE), effective rate of borrowing option with further question on convertible bonds. The last part was to evaluate the factors that restrict foreign investment despite the perceived potential good returns.

Most candidates could not calculate the ratios due to inability to prepare basic financial analysis to support with the calculation of the ratios. Candidates struggled to explain the differences between ARR and ROCE resulting in losing vital marks. Only few candidates were able to calculate the correct agreement effective borrowing rate while explanation of convertible bonds evidence candidates' weakness in Financial Management knowledge. Most candidates ignored the marks allocation, hence spent unnecessary time at the expense of other questions. Again, the general poor trend afflicted this question as well. Most candidates simply did not have the requisite basic Financial Management knowledge to answer the question which reflected in the nature of the answers provided.

QUESTION SIX

a) Key issues in corporate governance

- **The role and responsibilities of the board of directors.** The board of directors should have a clear understanding of its responsibilities and it should fulfil these responsibilities and provide suitable leadership to the company.
- **The composition and balance of the board of directors.** Prestige's board of directors should act with integrity and independence of thought and judgment. No one should dominate board deliberations. The board should have a suitable balance, and consist of individuals with a range of backgrounds and experience. Prestige largely has a good composition of the board of directors.
- **Financial reporting, narrative reporting and auditing.** Prestige's board should be properly accountable to its shareholders, and should be open and transparent with investors generally. High standards of financial reporting (and narrative reporting) and external auditing must be upheld.
- **Directors' remuneration.** Directors work for a reward. To encourage their commitment to achieving the objectives of their company, they should be given suitable incentives.
- **Risk management and internal control.** The directors should ensure that Prestige operates within acceptable levels of risk, and should ensure through a system of internal control that the resources of the company are properly used and its assets are protected.
- **Shareholders' rights.** Encouraging the involvement of shareholders in Prestige's investment decisions and more dialogue with management.
- **Disclosure.** Keeping shareholders and other stakeholders informed about their operations.
- **Corporate social responsibility**
- **Good ethical behaviour**

(Any 5 points at 1.6 marks each = 8 marks)

b) **Principle V: Disclosure and transparency:** A company should prepare regular monthly, quarterly and annual management report. Yearly statutory financial statements should be audited and presented to shareholders. The annual report should incorporate their environmental stewardship, social impact and financial viability. (Sustainability Reporting). The reporting must be timely and accurate. This disclosure of information to shareholders and investors is a critically important aspect of corporate governance.

Principle VI: The responsibilities of the board: This relates to the functions of a board. "The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board and the board's accountability to the company and the shareholders." It includes the requirement that "board members should act on a fully informed basis, in good faith with due diligence and care, and in the best interests of the company and the shareholders." The board should also apply high ethical standards and take into account the interests of the company.

(2.5 marks each = 5 marks)

c) Roles of NED's

- **Strategy:** NEDs should challenge constructively and help to develop proposals on strategy.
- **Performance:** NEDs should monitor the performance of executive management in meeting their agreed targets and goals.
- **Risk:** NEDs should satisfy themselves about the integrity of the financial information produced by the company, and should also satisfy themselves that the company's systems of risk management and internal control are robust.
- **People:** NEDs should be responsible for deciding the remuneration of executive directors and other senior managers, and should have a major role in the appointment of new directors.

(4 points at 1.75 marks each = 7 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

In the first part candidates were required to explain five (5) key issues in corporate governance, which will establish how good or bad Prestige Designer Ltd is governed. Candidates performed fairly well with the (a) part of the question although the answers were well below the standard expected due to the theoretical nature of the question.

The second part required candidates to describe and explain how Principles V and VI of the OECD Principle of Corporate Governance-2015 could be applied at Prestige to ensure good corporate governance practices. Some candidates could not explain and apply to Prestige Designer Ltd resulting in scoring very low marks with few deviating due to lack of knowledge of the principles.

The final part required candidates to describe and explain four (4) broad roles for NEDs identified in the document published in the UK in 2003, known as the Higgs Guidance. Again, due to lack of basic knowledge of the syllabus most candidates failed to attain the pass mark.

The performance was generally very poor as candidates could not demonstrate familiarity and understanding on the areas examined. They performed poorly in this question.

FUTURE EXAMINATIONS-LOOKING AHEAD

Before the exam:

1. It is important to understand the subject matter in the syllabus. Clearly, it is necessary to read and re-read study materials. Make sure that you understand the materials and how the ideas that they contain might be applied in practice. Recalling content might be helpful, but it is vital that you can take it one step further and apply it to solving problems.
2. Read and re-read the pre-seen carefully. It will be available to you throughout the exam and so you can refer to it as and when you require, but it will save time if you can remember the broad issues raised. Tasks set in the SCS will not require detailed recall of the pre-seen, but it can be helpful to refer to particular facts about Prestige Designers Ltd in your answers in support of your arguments.
3. Review the free resources available on the ICAG website. These include past exams question and Chief Examiner's report and many more support articles.
4. Make sure that you can write credible answers to case study exams. There is no substitute for attempting past papers and preparing detailed answers. The more papers you attempt, the better you will become at interpreting and answering questions. You can review your answers by asking yourself whether you would feel comfortable in submitting your response to an issue to a director or senior manager.

During the exam:

5. Allocate your time effectively. Make use of the fact that the elements of each task have a percentage that enables you to reflect the number of marks that are available. If a requirement is worth 20 marks, then you should spend 36 minutes ($20 \times 180/100$) on it before moving to the next question.
6. Answer the question. That might seem obvious, but feedback from examiners always highlights that as a problem for many candidates. In the SCS, the questions generally ask for responses that relate to the entity under consideration. If a question asks about a problem facing Prestige Designers Ltd, then it will be necessary to reflect the information at your disposal from the pre-seen and from the unseen material in your answer. It is unlikely that you could pass the exam without properly revising the syllabus material, but you must apply that to the specific case.
7. If you are asked for some advice, give one and justify it. You would expect to be challenged in the real world if your advice consisted of every possible response, with no indication of which was the preferred solution. Your advice may differ from the examiner's suggestion, but you will still gain credit for your justification if it is relevant and credible.
8. Inclusion of real-world examples. You may be able to identify real companies that face similar challenges and might require you to evaluate an investment decision with option as the question Five (c) which involved foreign exchange complication that management need to understand Prestige Designers Ltd business to grow stakeholders value. Reading about such businesses could inform answers to some requirements in your variant. Unfortunately, candidates often include irrelevant

examples, which earns no credit and so wastes time that could have been better spent on developing the answer.

CONCLUSION

Overall, performance worsened with no improvement in the candidates' performance over that of the November 2023 examination diet.