Answers

1 (a) Definition of corporate governance

Corporate governance is the system by which organisations are configured, co-ordinated and controlled. This usually involves the characteristics of leadership, the structures, particularly at board level, to help facilitate desirable outcomes, and the behaviours of senior management in the pursuit of those outcomes.

Agency relationships underpin any governance situation, in which there is a separation of ownership and control of an organisation. Agency involves two parties: the principal and the agent. In most situations, the agency is the director responsibility for the performance of the organisation and this party reports to the principal in a fiduciary relationship. The principal is the shareholder in the case of a public company but this is less straightforward in public sector organisations, involving taxpayers and a hierarchy of public sector servants who intermediate on behalf of the state and the taxpayer.

Contrast public and private sector corporate governance

In private sector businesses, corporate governance is partly *about delivering acceptable long-term economic returns to investors*. In a public listed company, these shareholders are separated from the agents (directors) and so an agency issue may arise. In a private company, agency problems are less likely to exist.

In pursuit of these returns, corporate governance is also concerned with the *alignment of agency rewards with shareholder priorities*, the *enforcement of professional behaviour* to maximise investor confidence, and the *ethical behaviour* with those entrusted with the management of the company's assets. The value of the company is in part contingent upon the competence of its governance, and the market is capable of punishing behaviour or attitudes it finds unacceptable. This might include non-compliance with regulations or the pursuit of strategies considered sub-optimal or unacceptable to shareholders.

In the public sector, corporate governance is similarly concerned with the configuration and co-ordination of activities but it is usually less likely to be concerned with the delivery of long-term shareholder returns. Because public sector organisations usually deliver public services, the strategic focus of management is likely to be about *balancing the quality and effectiveness of service delivery with cost constraints*.

Because the success of Care Services Company's (CSC) bids for contracts is likely to be based on the commissioning bodies' perceptions of its service delivery quality and the general competence of the organisation, there is likely to be a continuing *concern for the experience of service users and the perceived robustness of its governance structures*. Accordingly, strategic management is primarily concerned not with maximising returns but rather with effective service delivery within the cost constraints imposed by the commissioning bodies. *Gaining and maintaining the full confidence of these bodies and the service users* is thus likely to be the focus of corporate governance in CSC. As the long-term goal for the shareholders of CSC is to sell the company to help fund their retirement, being successful in winning contracts will impact the value of the company. Thus, even with this relatively small, privately-owned company, the public sector governance drivers are key.

(b) Market rate

The market rate for a reward is the equilibrium point at which supply and demand curves intersect. This is the price which matches both the supply of suitable candidates for the position and the price which employers are willing to pay for the job. Because the shape and position of supply and demand curves differ between jobs (in other words, the supply of candidates and the willingness to pay varies so much), market rates vary a great deal for different types of jobs. This is why some senior positions attract a very high level of reward and others less so.

The market rate often expresses itself as the 'natural' rate for a given job. It is generally understood, for example, that the market rate for an office cleaner is lower than that for a qualified accountant or a medical doctor. This is because of the supply and demand characteristics, as well as the years of professional training, for those jobs.

Reward differences

It is likely that market rates for chief executives of smaller companies delivering public services will be lower than those for large listed companies for a number of reasons.

Private sector business organisations can generate income with many customers, resulting in large turnovers and variable pricing strategies. Public sector organisations and those, such as CSC, delivering public sector contracts are *constrained by government spending budgets*. Because public sector spending is often funded by taxation, there is a lot of political and economic pressure to get best value from this revenue and so budgets are often limited. Accordingly, senior salaries in the public sector tend to be substantially below those in large private sector public listed companies. Companies such as CSC, delivering public services on behalf of governments, are similarly constrained by public sector budgets and so there will be less money to pay Natasha Mbana a high salary, even if the board wanted to.

It is often the case that *smaller organisations are less able to pay high salaries compared to larger organisations*. CSC is relatively small (the case mentions 180 employees, making it a small or medium-sized enterprise) with revenues capped by the values of the government contracts undertaken. Large businesses with many activities arguably require more skilled management than smaller organisations based more around a 'role-based' culture and the market values reflect that. Higher degrees of risk awareness and risk taking require different skills than in a smaller business where the main skill is person management and the scheduling of care visits. Role management is a prominent skill in public sector organisations and, whilst important, requires a different set of skills than entrepreneurial private sector management.

It is likely that, because of the lower rewards on offer, *the supply of willing labour is likely to be lower*. This means that applicants for each senior position will be likely to accept lower levels of reward than their private sector counterparts. They are also likely to have different motivations in applying for public sector positions in line with what is sometimes referred to as the 'public sector ethos'. With lower salaries on offer and accepted, applicants for the positions will normally have different skills than those who possess the skills and experience of working in the private or corporate sector and whose reward expectations will inevitably be higher.

In some countries, there may be *government regulation and legislation which limits public sector incomes* with the same applying to those delivering public services such as CSC. With limited budgets and political pressure to get value for money on all public sector contracts, public sector employers are sensitive to what senior management is paid, perhaps fearing that the public may react negatively if they feel the amount to be too high. In some countries, public sector salaries are set by statute and this obviously places a limit on what can be earned by people in those positions.

All these factors combine to justify the salary which Natasha Mbana is paid, and the reasons it is lower than would be paid to the CEO of a large, listed company.

(c) Reputation

Reputation concerns the perceptions with which an organisation is viewed by a range of stakeholders. A *strong reputation, perhaps for service delivery and robust governance, can be a strategic asset*, whilst a weak reputation can be a strong disadvantage. Reputation is one of the important underlying principles in corporate governance. Because there is a separation of ownership and control in many organisations, the reputation which the management of an organisation enjoys with its principals is important in directors or trustees being given the licence to manage the organisation as they see fit, for the long-term strategic benefit of the principals. Reputation is *also important for the positioning of an organisation in its environment* in terms of society's trust in the organisation as a buyer, supplier, employer, etc.

To CSC, reputation is *important in being granted government contracts* for care service provision. The company needs to be trusted by those outsourcing the services in that they believe that CSC is competent and has the integrity to provide the services economically, effectively and efficiently. It *must also enjoy a strong reputation among service users* and their families. Service users often rely heavily upon CSC and so they must be able to trust in CSC staff to deliver the necessary quality of care, on time and with the requisite levels of punctuality and rigour.

Benefits of a code of ethics for CSC

There are several benefits to a corporate (as distinguished from a professional) code of ethics. Although not in itself implicated by the scandal and not cited by the health minister, CSC feels the need to maintain and cultivate its reputation, and Dr Tan believes that the publication of the code might assist with this. CSC's reputation is likely to be a strategic asset in its industry. To the government departments from whom it accepts contracts, CSC's reputation for competence and integrity underpins its credibility as an outsource company. Its reputation is also important for its service users who rely upon the professionalism and competence of its carers. In addition, society, which indirectly pays for the services, needs to have confidence in those delivering care to its most vulnerable members. Accordingly, the reputation of CSC is important in maintaining the confidence of several stakeholders in delivering its services.

A corporate code of ethics is capable of addressing the reputation problems of CSC in several ways.

First, the drafting of a code of ethics helps to *establish and promote the organisation's values* and provides an opportunity for considering and debating its ethical priorities. If these are contestable, the drafting of the code is a good opportunity for directors to debate their respective opinions and an agreed position to be taken. For care providers such as CSC, there may be a debate, for example, between the need to provide high quality care and the need to be profitable given the values of the contracts it receives from government departments and the regulatory regime it must work within. When there is a conflict between these two pressures, which should take priority?

A code of ethics also *promotes the company's responsibilities towards its stakeholders*. By recognising the various stakeholders who can affect and be affected by the achievement of CSC's objectives, the relative importance of each can be discussed and, within certain constraints, prioritised. This is likely to be relatively complicated with, for example, the company's responsibilities to its service users sometimes coming into conflict with its responsibilities to its caring staff. The insistence of a minimum duration of visit to each service user may, on occasions, inconvenience caring staff or make other service users wait for attention. Accordingly, a balance may need to be struck between these conflicting claims.

A code of ethics has the ability to *control and regulate individual behaviour* and guide the actions of employees. Whilst much of the work of a carer is underpinned by regulation, the company might propose voluntary measures to maximise its advantage among government departments outsourcing the care and this might also be of benefit to service users benefitting from the care provision. This might, for example, concern the behaviours and attitudes of carers.

Codes of ethics can sometimes form an important *part of the company's strategic positioning* with regard to ethical issues. A company's ethical reputation, formed in part by its corporate social responsibility activities, can be a significant part of the way a company such as CSC is strategically positioned in its environment. A company believed by many to be ethical and with a high degree of integrity is likely to have an advantage in some market situations over those with less of a reputation. In the care provision sector in which CSC competes, the cultivation of a strong ethical reputation is likely to be a strategic advantage in gaining and maintaining government care contracts. This, in turn, will enhance company value and provide increased security of employment for CSC's carers.

Codes of ethics can be an effective way to *communicate the company's values* to stakeholders. Many codes are published on websites or in annual reports and so are publicly visible. This means that those who want to know about the company's postures or policies on certain ethical issues (e.g. suppliers, employees, service users, etc) can do so and hold the company to account for those stated positions. For CSC, the publication of its codes of ethics would allow it to distinguish itself from competitors without the benefits of such a code. In a situation in which the performance of CSC carers is questioned, the company could point to the relevant section of its code of ethics and remind the public that all of its carers comply with its code. This may have the effect reducing the efficacy of criticisms made against practice.

The proposed corporate code of ethics may serve as a barrier of entry for companies who wish to enter a lucrative and growing market in many developed economies. If barriers of entry are sufficiently high, then a limited number of companies in the sector, such as CSC, might be able to improve their profit margins as they may be able to accrue the well-documented economic advantages of being oligopolies in any industry. With contracts being awarded to responsible companies, the ethical performance of a company and its ability to convey that through a code, may keep some potential competitors out and be a discriminator between companies within the industry.

(d)

Care Services Company
Address line 1
Address line 2
Address line 3

Date

The Ministry of Health
Address line 1
Address line 2
Address line 3

For the attention of the Minister of Health

Dear Minister,

I write on behalf of several companies in the care provision industry in response to your recent well-publicised criticisms of some care provision companies. On behalf of the companies delivering these important services, I have been asked to write to you to outline a number of issues which we hope will not only inform you of the importance we place on effective internal controls, but also to explain how we intend to respond to the recent public concerns over the delivery of these vital care services.

(i) As the non-executive chairman of Care Services Company (CSC), I can testify to the importance of internal controls within the company I help to lead. At the simplest level, *an effective internal control system is necessary to ensure that we can deliver our services on time and within budget*. My own company, CSC, has 165 carers providing important care services. There is a complicated scheduling system and effective internal controls are necessary to ensure that all service users are seen as and when necessary, and that the requisite care is provided during each visit.

In addition, the industry is heavily regulated and internal controls are *necessary to ensure compliance with regulation*. We need to ensure, for example, that all carers are adequately trained, checked for past criminal activity, etc. Compliance is not only necessary for the winning of contracts, but also for the cultivation of public trust in our service provision. You will be aware that care provision companies are subject to the same regulation as other public sector organisations and so internal controls help to ensure compliance with these regulations.

As you will no doubt realise, it is important that the government departments outsourcing these services have confidence in care providers. Our effective internal controls *help to provide a reasonable assurance that care provision companies can and do deliver a quality service* within the cost framework provided. The companies I represent are aware that they are entrusted by taxpayers to provide a high quality service, and our internal controls help to facilitate this.

We also serve our service users and it is vital that these people have full confidence in our reliability and professionalism. Effective internal controls will *enhance the reputation of care services* and increase the trust which commissioning bodies, employees and service users have in our business. Belief in the robustness of our internal controls will mean that service users can rely on our services and trust their carers to serve their needs.

(ii) I have also been asked, on behalf of the companies in the industry, to outline how we intend to deal with some of the criticisms which have been made against a minority of care providers. I should stress, for the record, that my own company, CSC, was not implicated in any of the scandalous service failures. I am, however, able to report on a range of measures which we believe will be effective in ensuring that problems such as those reported upon should not happen again.

Improved internal controls must be instituted wherever there is an ethical threat or a perceived internal control failure. In this case, the fact that serious allegations have been made against a minority of carers delivering public services means that the industry participants must provide measures to prevent the ethical threats from happening again. This is what I mean by an ethical safeguard.

When a serious internal control failure occurs, such as those service failures on which you commented, it is important that the corrective measures are effective. I have been authorised by the companies I represent and by CSC to give a number of assurances which we hope and believe will be effective against future service failures.

In the first instance, *carer reporting systems, based on real time recording*, will be instituted. These will be capable of capturing the amount of time a carer is actually at a service user's premises and with a compulsory completion of a 'care quality' index. Each carer will be required to sign a record of arrival and departure time, and state the care delivered during the visit. It will be a disciplinary offence to make fraudulent entries on this system and those found to be falsifying entries could be dismissed.

Second, we propose to include *formal feedback from service users* in the reward and promotion systems for each carer. Wherever possible, service users will be contacted, perhaps at random and perhaps on a regular basis, to provide feedback on their care experiences. A dedicated telephone helpline will be set up to enable dissatisfied users, or their families, to contact their provider at any time. In such a situation, it will be built into a named person's job description to take immediate action to confront the affected carer and ensure that remedial action is taken.

Perhaps the most effective safeguard to ensure the highest levels of care is to *create a culture of high care standards* such that it is seen as shameful to leave a service user without adequate care. I can also confirm that my own company, CSC, will be instituting a code of ethics which will apply to all areas of our operations. When the highest standards of care are made the norm and inadequate care is made to be unacceptable as part of the culture of an organisation, good practice is embedded. It is my belief that most carers are conscientious people with a strong sense of vocation but this attitude of best practice needs to be observed without exception. This cultural change is something we will attend to as a matter of urgency.

I very much hope that the issues covered in this letter meet with your approval and I look forward to working constructively with the government delivering care provision for many years to come.

Yours sincerely,

Dr Sam Tan

2 (a) Corporate citizenship is an approach which can be adopted by any business with the aim of shaping its core values so that they more closely align the decisions made each day by its directors, managers and employees with the needs of the society in which the business operates.

There are three principles which take into account successful corporate citizenship:

(i) Minimising any harm caused to society by the decisions and actions of a business, which could include avoiding harm to the natural environment as well as the social infrastructure. The very nature of Plantex's business operations means that it is promoting health and well-being among wider society through the development of life enhancing pharmaceuticals.

(ii) Maximising any benefit created for society as a consequence of normal business activity. Any successful business will stimulate local economic activity and increase employment, but a good corporate citizen will do this with greater sensitivity to its environmental and social impacts.

(iii) Remaining clearly accountable and responsive to a wide range of its stakeholders, thereby combining business self-interest with a greater sense of responsibility towards society at large.

By embracing the corporate citizenship agenda, Plantex is able to recognise its fundamental rights and acknowledge that it has responsibilities towards the wider community.

Rights
Plantex has the right to exist as a separate legal entity and carry out its lawful business within a society. By further extending these fundamental rights to a corporate citizen means that Plantex is able to enjoy the full protection of the law as long as it acts within the law. In effect, society grants Plantex the necessary protection under the law to enable it to develop, expand and succeed as a business.

Responsibilities
Responsibilities are the duties which are owed to society by the corporate citizen as a consequence of it belonging to that society, and thereby enjoying the rights and privileges afforded it. In order to enjoy this level of protection, Plantex must comply with all laws that affect it, and conduct its business in accordance with the society's behavioural norms.

Plantex's shareholders and management would normally determine the extent to which it is socially responsible for meeting their legal, ethical and economic responsibilities. However, corporate citizenship goes further by ensuring a better quality of life in the communities in which the business operates, while still preserving profitability and wealth creation for shareholders.

(b) Gray, Owen and Adams argue that there is always an ethical dimension to any business decision. Consequently, when different individuals in Plantex expressed different views on the relative merits of integrated reporting <IR>, these can be described and evaluated with reference to their social responsibility positions.

Rachel Tang
The finance director, Rachel Tang, presented a very strong argument in favour of <IR> from an *expedient* perspective. She suggests that by providing this additional information to shareholders and key stakeholders it will strengthen the firm's competitive position and possibly attract additional investment.

However, Rachel Tang's views could also be described as those of a *social ecologist* because she equally recognises that a benefit of <IR> is greater efficiency in allocating scarce natural resources. The adoption of <IR>, as proposed by Rachel, would mean that decision-makers in Plantex would become more aware of their corporate social responsibilities.

Stanley Broadway
The chief executive, Stanley Broadway, takes a fundamentally different position. He considers that the extra resources required to generate <IR> information would merely deplete shareholder funds and add no intrinsic value to the business. Consequently he opposes the initiative and considers it to be an ethically irresponsible waste of shareholders' funds.

He adopts a typical *pristine capitalist* approach focusing on maximising profits and seeking economic efficiency. He is unable to see any merit to Plantex of producing additional <IR> information, emphasising the view that the only purpose of the firm is to maximise shareholder wealth and there has been no request from shareholders for any additional voluntary information.

(c) (i) Through an understanding of the connections between a business's operations and the environments in which it operates, Plantex's management is able to take more environmentally and socially sustainable decisions and allocate its scarce non-renewable resources more effectively. Consequently the information contained within <IR> enables investors and other stakeholders to better understand how a firm is holistically performing.

The following are recognised advantages to Plantex of adopting <IR>:

Decision-making. The connections made through <IR> enable investors to better evaluate the combined impact of the diverse factors, or 'capitals', affecting the business. This in turn should result in better investment decisions by the shareholders, and more effective capital allocation by the firm.

Reputation. The greater transparency and disclosure of <IR> should result in a decrease in reputation risk, which in turn should result in a lower cost of, and easier access to, sources of finance.

Harmonisation. <IR> provides a platform for standard-setters and decision-makers to develop and harmonise business reporting. This in turn should reduce the need for costly bureaucracy imposed by central authorities.

<IR> also provides the following advantages to Plantex stakeholders:

Communications. The additional information would help to strengthen communication links between Plantex and its key stakeholders. This would enable the alignment of interests between the firm and its stakeholders to be assessed and improved as necessary.

Relationships. The information will lead to a higher level of trust from, and engagement with, a wide range of stakeholders. This emphasis on stakeholder engagement should lead to greater consultation with stakeholder groups and enable the company to handle their concerns more effectively.

Accountability. Due to the broader perspective required by <IR>, both in terms of the resources and relationships which it takes into account and the longer timeframe over which value creation is considered, it makes Plantex more accountable as stewards of society's common resources, in particular human, natural and social capital.

(ii) Capitals
<IR> simplifies accounting information, as it dispenses with unnecessary levels of detail and focuses attention on more critical information. <IR> aims to make visible the 'capitals', resources and relationships, on which Plantex depends. It also illustrates how Plantex utilises and impacts on those 'capitals' and effectively transforms them.

There are six 'capitals' described in the <IR> framework:

1. **Financial capital.** This comprises the pool of funds available to Plantex, which includes both debt and equity finance. This description of financial capital focuses on the source of funds, rather than its application which results in the acquisition of manufactured [revenue] or other forms of finance.
2. **Manufactured capital.** This is the human-created, production-oriented equipment and tools used in production or service provision, such as buildings, equipment and infrastructure. This would include the specialist equipment used by Plantex for the development of new drugs. Manufactured capital draws a distinction is between inventory (as a short-term asset) and plant and equipment (tangible capital).
3. **Intellectual capital.** This is a key element in an organisation's future earning potential, with a close link between investment in R&D, innovation, human resources and external relationships, as these can determine the organisation's competitive advantage. Plantex depends heavily on intellectual capital as it is key to its ongoing success, developed pharmaceuticals become patented products which ultimately derive value to the firm and its shareholders.
4. **Human capital.** Is understood to consist of the knowledge, skills and experience of the company's employees and managers, as they are relevant to improving operational performance. Pharmaceutical companies like Plantex are knowledge intense businesses which rely heavily on the innovation and creativity of the talented scientists who work within it.
5. **Natural capital.** This is any stock of natural resources or environmental assets which provide a flow of useful goods or services, now and in the future. Plantex will require access to refined, pure chemicals in order to create its pharmaceutical solutions.
6. **Social and relationships capital.** Comprises the relationships within an organisation, as well as those between an organisation and its external stakeholders, depending on where social boundaries are drawn. These relationships should enhance both social and collective well-being.

3 **(a)** The primary function of a risk committee is to recommend to the board a sound system of risk oversight, management and internal control.

Its roles include:

1. The recommendation to the board of a risk management strategy which identifies, assesses, manages and monitors all aspects of risk throughout the company.
2. Reviewing reports on key risks prepared by business operating units, management and the board, and then assessing the effectiveness of the company's internal control systems in dealing with them.
3. Advising the board on risk appetite and acceptable risk tolerances when setting the company's future strategic direction.
4. Advising the board on all high-level risk matters and monitoring overall exposure to risk and ensuring it remains within limits set by the board.
5. Informing shareholders, and other key stakeholders, of any significant changes to the company's risk profile.

Although not a prescribed requirement in corporate governance codes and legislation, a risk committee would ensure the robust oversight of the management of risk throughout the company. In its absence, its duties and responsibilities would be discharged by the mandatory audit committee.

The establishment of a risk committee could be advantageous to the governance of Branscombe Co in a number of ways:

1. Formalise business practices

Establishing a sub-committee at board level would ensure that risk is high on the company's agenda when devising strategy and making key business decisions. The recent successful Geeland tender may have been considered differently by the company if all of the inherent risks associated with the contract were identified and assessed from the outset.

A formal risk management process would have required Branscombe Co to evaluate its exposure to risk, including exchange rate risk, when considering any business opportunity so that only those opportunities within the company's risk tolerances would be progressed.

2. Focus attention

Risk is the likelihood that business activities may not go according to plan. Sometimes the outcomes may exceed expectations but there is also a downside to risk which exposes the company to potential losses and financial distress. The establishment of a separate risk committee helps the board to ensure that adequate risk management systems are in place to meet every eventuality. A risk committee would take the lead in promoting awareness and driving through the required changes.

By agreeing to set up a risk committee, Branscombe Co will be clearly raising the profile of risk throughout the company, and helping to inculcate a more risk aware culture amongst all staff. In turn, this should to lead to less dysfunctional decision-making and improve overall business performance.

3. Reduce control breaches

Through the establishment of a formal reporting system, the risk committee monitors internal control compliance and considers any breach of the company's agreed risk appetite. Any resultant action plans designed to address significant breaches of the company's principal risk policies should reduce the likelihood and frequency of control breaches.

At Branscombe Co, it is unclear if it currently has any structured risk management procedures and internal control systems. However, its ambitious expansion plans necessitate robust procedures and practices to manage the vast array of different risks it faces; this includes a hedging strategy to manage its exposures to volatile foreign exchange rates, as this could reduce its profitability from the Geeland venture and put a strain on its cash flows and working capital.

4. Improve communication

An effective risk management framework integrates all business planning and management activities across the company, which in turn correctly aligns power and authority with responsibility and accountability lines. A risk committee, established at the apex of this framework, will set a tone of risk awareness at the top which then permeates down through the whole organisational structure. This flow of communication ensures that everyone is adequately informed of their responsibilities and so they are more likely to discharge their duties correctly.

The risk committee is required to formally report to shareholders annually on the effectiveness of the company's risk management strategy, and report any material control breaches which may have occurred, together with resultant actions taken to avoid a recurrence. Such communication adequately informs shareholders, and other stakeholders, as to how well risk is being managed by the company.

(b) Risk appetite

Risk appetite can be explained as the nature and strength of risks which an organisation is prepared to accept or seek. It comprises two key elements:

(i) the level of risk which the company's directors consider desirable; and
(ii) the capacity of the company to actually bear the level of risk.

A company which opts for riskier ventures to attain higher returns is said to be risk seeking, whereas with a more cautious approach is risk averse.

At Branscombe Co, it is apparent that the company has adopted a risk seeking approach to making strategy. The board has decided that the best way for the company to achieve ambitious levels of growth, and satisfy the demands of its shareholders, is to adopt a higher risk appetite. In effect, this means that the risk tolerance boundaries have been set so that most business opportunities would be viewed as acceptable under these criteria.

The selection of Geeland as a suitable country for expansion was driven by the opportunities presented from the boom in its economic fortunes and generous indirect tax incentives offered by the Geeland government, rather than the risks associated with operating in an unstable political system in which corruption is evident. Clearly the board of Branscombe Co, when weighing up the pros and cons of this venture, determined that the potential benefits outweighed the identified risks and so submitted a successful tender for the hotel contract. However, the resultant supply contract has placed a significant burden of risk on Branscombe Co in terms of logistics and the transportation of equipment, payment terms and foreign exchange exposure. Provided that sound internal control systems have been set up to manage all aspects of risk associated with this contract, then the risk seeking policy adopted should deliver the expected return to the company.

(c) The Geeland supply contract presents a number of strategic and operational risks for Branscombe Co which could be controlled as follows:

Trading risk
International trade presents its own special risks due to the increased distances and times involved. The types of trading risk include:

1. Physical risk of goods being lost, stolen or damaged in transit, or the legal documents accompanying the goods going missing;
2. The customer refusing to accept the goods on their delivery; and
3. Cancellation of an order whilst in transit.

To overcome the trading risks described above, Branscombe Co could employ local agents in Geeland to liaise with the management and project team for the new hotel, and coordinate the shipment of goods to meet the precise requirements of the client. This means that only those items actually required will be despatched and they will be accepted on delivery. Additionally, it might be prudent to take out an insurance policy covering the value of goods which could be lost or damaged on the long journey to Geeland, as well as any liquidated damages which might be claimed by the customer for non-delivery.

Probity risk
There is a general risk of unethical behaviour by one or more persons involved in a business activity, and as Geeland has a bad reputation for corrupt business practices, the risk is high. It might be that corrupt officials require a 'facilitation payment' to be made to them to allow the goods to pass through import controls in Geeland. It would never be acceptable to make such a payment and indeed in many jurisdictions paying a bribe is illegal, so Branscombe Co must make this clear in its code of practice. To overcome this possible probity risk, the contract should be drafted to make it clear that the client should undertake the local administrative measures necessary for the importing of and acceptance of goods on their arrival at the island.

Political risk
The unstable legacy of political administrations in Geeland suggests a possible political risk. Should there be a change of government, the incentives which encouraged Branscombe Co to trade with Geeland could be withdrawn and the contract could become less attractive. It would be inappropriate to lobby, engage or ally the business with any foreign government or political party; by adopting a policy of political neutrality Branscombe Co would be less likely to be negatively affected by any change in the Geeland government.

Foreign currency risk
There is always the risk of a loss arising from exchange rate movements between the time of entering into an international trading transaction and the time of cash settlement. When Branscombe Co remits an invoice to its client in Geeland $, it will be exposed to foreign currency risk. Any further strengthening against the Effland $ will mean that the final amount receivable will be of less value than at the time of entering into the transaction.

If this risk is considered material, Branscombe Co may wish to hedge its exposure. There are a number of hedging methods designed to counter the effect of movements in exchange rate including forward contracts and money market hedges.

4 (a) (i) **Ethical relativism** is the broad acceptance that nothing is objectively right or wrong, but depends on the circumstances of the situation and the individuality of the person facing the situation or dilemma.

It suggests that an ethical position held by one person may be viewed as right for them, but may be wholly unacceptable to another person in the same situation. Relativism therefore insists that what is considered true by an individual replaces the search for an absolute truth by denying the existence of objective moral standards. Rather, according to ethical relativism, individuals must evaluate actions on the basis of what they feel is best for themselves.

Ethical relativism takes account of who is making the ethical decision and what their psychological, cultural and moral background is and accepts that different people will form different moral opinions of the most ethical approach to be taken in any given situation.

At MRA, the HR director appears to have taken an ethically relativist approach, because her pragmatic attitude about the need to secure jobs appears to ignore the fundamental wrong of paying a bribe.

Ethical absolutism is concerned with whether an action or conduct is right or wrong. Therefore, from the standpoint of ethical absolutes, some things are always right and some things are always wrong, no matter how one tries to rationalise them. Ethical absolutism requires that individuals always defer to a set of rules to guide them in the ethical decision-making process. It holds that whether an action is ethical does not depend on the view of the person facing the dilemma; instead it depends on whether the action conforms to the given set of ethical rules and standards.

Absolutism takes no account of who is making the ethical judgement, but defers to universal principles which should guide anyone's behaviour in the situation, regardless of their background. The finance director is a clear proponent of ethical absolutism, as he cannot agree to pay the bribe no matter what the circumstances or consequences are.

(ii) **Deontological ethics** focuses on actions and rules and lays down criteria by which these actions may be judged in advance. In this respect it is similar to ethical absolutism, but it is primarily concerned with the decision-making process itself rather than the broad principles underpinning it. It is also accepted that the outcome of the decision taken is not relevant to the decision itself.

Deontological ethics is based on the idea that facts themselves are neutral; they are what they are and should not suggest what action should be taken. The criteria by which a situation is judged should always be independent from the facts themselves.

Teleology does not focus on any action taken or how well the action adheres to a system of rules. Teleological ethics, often referred to as consequentialism, is more concerned with the end result. The essence of all forms of teleological ethics is best expressed using utilitarianism as 'the greatest good for the greatest number'. This approach differs from deontology in that there is no set of hard and fast rules in place; actions are viewed as ethical depending on individual circumstances and the consequential effects, so is more consistent with a relativist approach.

The ethical dilemma about whether or not to pay the bribe to secure a large defence contract for MRA has been considered fundamentally differently by Sarah Shue and Jake Neilson.

Sarah is very pragmatic in her approach acknowledging that if the business is to successfully compete, it must be flexible in how it acts in different situations. She considers the $1 million payment as an undesirable necessity in this situation, otherwise the $2 billion contract would be awarded to a competitor. The consequences of this would be that 500 employees would be made redundant, probably at a cost to MRA far in excess of $1 million, and the firm's shareholders would forego the gains arising from this lucrative 10-year deal. Sarah holds a very teleological position as her focus is purely based on the consequences of the decision.

Jake Neilson supports a pure deontological approach because he chooses to defer to the principles within his professional code of ethics. Governed by adherence to strict rules, he is unable to accept that any situation justifies the payment of a bribe. He ignores the consequential effects of not being awarded the contract because he feels that paying a bribe sets an unacceptable precedent which cannot be tolerated.

(b) **(i)** Corporate governance involves establishing trustworthy relationships between various parties in the management and operation of a commercial business. Key to successful governance arrangements is the recognition of fundamental principles upon which both decisions and disclosures should be based. However, bribery and corrupt activities undermine these principles and diminish the value of corporate governance in a number of ways:

1. **Integrity** requires that a firm conducts straightforward and honest dealings with all of it stakeholders. If MRA were to agree to pay the bribe, it would become complicit in a dishonest action purely designed to serve its own interests at the expense of others.
2. **Fairness** suggests that a business respects the rights and views of all stakeholders with legitimate interests. It is difficult to reconcile how by paying a bribe MRA would be serving the interests of all stakeholders in an even-handed way.
3. **Judgement** is concerned with making decisions using objective and reliable information which enhance the firm's prosperity. Although it is not explicitly stated, it could be reasonably be presumed that the directors of MRA would ultimately benefit personally from the award of the $2 billion contract, therefore they need to be very cautious when judging the situation on its merits.
4. **Independence** further develops the principle of judgement by requiring an action to be based on objective criteria which service the interests of the firm, its shareholders and other legitimate stakeholders. The arguments presented by both the CEO and HR director do appear to be considering the employees and shareholders, but are certainly not giving due regard to the wider public interest.
5. **Openness** suggests that actions, decisions and information should be conducted and presented in a transparent manner. The secrecy under which the MRA board meeting was conducted fundamentally contradicts this principle, and suggests a secret agenda is being pursued. Such secrecy does not inspire confidence and trust.
6. **Probity** requires that individuals act truthfully, and without misleading others. Should the board of MRA eventually decide to pay the bribe, it will have to be done covertly, and by default it will mislead other stakeholders.
7. **Responsibility** involves having an explicit and implied duty to deal with an issue. This means that individual directors at MRA cannot allow others to decide about paying the bribe and assume they are not responsible for the decision.

8. **Accountability** holds that decision-makers are answerable for the consequences of actions. This would in effect mean that the directors of MRA will be jointly and severally liable should they decide to pay the bribe, and this could result in criminal proceedings being taken against them.

9. **Reputation** is the perception or expectation that others hold about a firm, and there is little doubt that the reputation of MRA would be damaged if it paid the bribe and this knowledge were made public.

It is clear that the MRA board faces a challenging dilemma and needs clear guidance and support to ensure that they act both legally and correctly.

(ii) The following best practice measures could be employed to both reduce and combat bribery and corruption in MRA:

1. **Top-level commitment.** The board must foster a culture in which bribery is never acceptable and it is understood that the achievement of business objectives should never be at the expense of unethical and corrupt behaviour. Consequently it should not make the $1 million payment to the foreign official.

2. **Proportionate procedures.** Procedures should be implemented which are proportionate to the bribery risks faced by the firm and its activities. These should also be transparent, practical, accessible, effectively implemented and enforced by management.

3. **Risk assessment.** A formal and documented audit of both the internal and external risks of bribery and corruption should be periodically undertaken. This should be incorporated into the firm's generic risk management procedures and reported upon annually to shareholders.

4. **Due diligence procedures.** Bribery risks can be mitigated by exercising due diligence. Any personnel operating in sensitive areas require greater vigilance; this includes all board members and any personnel involved in procurement and contract work.

5. **Communication.** Internal and external communications ensure that bribery prevention policies and associated procedures are embedded into the firm's culture and understood by everyone. Employees at all levels should undertake regularly anti-bribery compliance training so that they remain constantly aware of the risks.

6. **Monitoring and review.** Internal audit, tasked by the audit committee, should monitor and review bribery prevention procedures and recommend improvements where necessary. This control loop can then gauge if actions taken have been effective in reducing bribery and corruption at MRA.

1 **(a)** 1 mark for explanation of corporate governance and 1 mark for agency.
Up to 3 marks for discussion of private sector as contrasted with public sector.
Up to 3 marks for discussion of public sector as contrasted with private sector.
(8 marks)

(b) 2 marks for explanation of 'market rate'.
2 marks for each explanation of reward difference to a maximum of 8 marks.
(10 marks)

(c) 2 marks for explanation, in context, of reputation.
1 mark for explanation of each advantage of a corporate code and 1 mark for context to a maximum of 10 marks.
(12 marks)

(d) **(i)** 2 marks for each relevant point made, in context, of the importance of internal controls in the care provision sector.
(8 marks)

(ii) 2 marks for definition of 'ethical safeguard'.
2 marks for each relevant point on suitable ethical safeguards.
(8 marks)

Professional marks.
(4 marks)

2 **(a)** Up to 2 marks for a description of the concept.
Up to 3 marks for an explanation of rights.
Up to 3 marks for an explanation of responsibilities.
(Maximum 7 marks)

(b) Up to 3 marks for description and evaluation of each person using Gray, Owen & Adams positions on CSR.
Only 1 mark if the position is only described.
(6 marks)

(c) **(i)** 1 mark for each <IR> advantage to Plantex described up to a maximum of 4 marks.
1 mark for each <IR> advantage to stakeholders to a maximum of 4 marks.
(6 marks)

(ii) Up to 6 marks for explaining the importance of the capitals used in <IR>.
½ mark for identifying the capitals only.
(6 marks)

3 **(a)** 4 marks for a description of the function and roles of a risk committee.
2 marks per advantage of a risk committee to Branscombe, up to a maximum of 6 marks.
(10 marks)

(b) Up to 3 marks for an explanation of risk appetite.
Up to 2 marks for each influence assessed, up to a maximum of 6 marks.
(7 marks)

(c) 2 marks per well explained point on relevant risks and how to manage them.
Only 1 mark if not applied to the scenario.
(8 marks)

4 **(a)** **(i)** Up to 3 marks for explanation of relativism.
Up to 3 marks for explanation of absolutism.
Maximum of 2 marks in total if no reference to the scenario.

(Maximum 5 marks)

(ii) Up to 2 marks for description of deontology.
Up to 2 marks for description of teleology.
Up to 2 marks for analysis of Sarah Shue's position.
Up to 2 marks for analysis of Jake Neilson's position.

(Maximum 6 marks)

(b) **(i)** 1 mark for each governance principle assessed at MRA.
½ mark if no reference made to confidence and/or trust at MRA.

(8 marks)

(ii) 1 mark per described best practice measure.

(6 marks)