

(b) You are now reviewing the transcript of the interview you held with Java Peraya, the CEO of DCS Company and you identify some key weaknesses relating to the governance of DCS Company which you want to include in the consultancy report.

Required:

Explain the key weaknesses of the current governance structure of DCS Company since it became a public limited company, recommending how they should be addressed. (12 marks)

Professional Skills marks are available for demonstrating scepticism skills in identifying key weaknesses from the information given. (2 marks)

Exhibit 2

Transcript from interview held between you and Java Peraya, the CEO of DCS Company.

You: Thank you very much Mr Peraya for showing me around the offices and factory. I found your staff and their comments very interesting.

First of all, could I ask you to tell me how you would describe how your company is structured and managed?

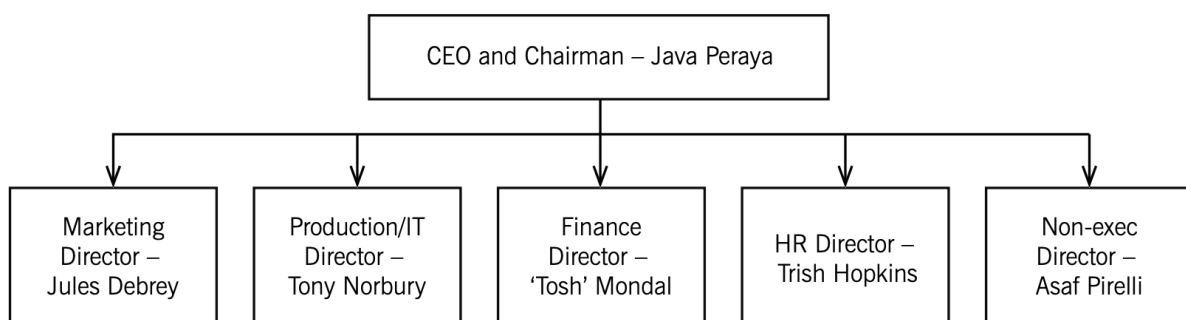
Java: I would describe DCS as fairly highly centralised. I suppose in 'management speak' we would describe the DCS management structure as a 'functional bureaucracy'. We prefer not to allow too much managerial or departmental autonomy, for their own good of course, to ensure that they act in the best interest of DCS and to avoid irresponsible risk taking, which unfortunately has happened occasionally in the past.

We expect middle managers to respect and respond positively to senior management requests or directives and not to question these unless they are very sure of their facts. This is probably a legacy from the pre-flotation era, where much of the strategic direction was always decided by me and my closest senior directors, most of whom were my family and trusted friends.

You: Would you mind explaining how your company is directed by describing your corporate governance arrangements to me please?

Java: Yes I can – please look at this chart.

Java hands you an extract of the organisational chart represented below:



Java: Since 2006 DCS has been governed by a board of directors with me acting as CEO and chairman, giving me sufficient control to effectively direct the company and take strong leadership over the board, encouraging debate and driving the agenda. The board comprises a marketing director, Jules. He was my original sales manager employed by the company, who I have known a long time now. We also have a production and IT director, Tony, who has been with the company for over 10 years. He has a strong background in data communications hardware components. Tosh is our finance director. He joined the company just before the company was listed on the national stock exchange. Trish Hopkins is our female HR director and we also benefit from an independent non-executive member of the board. We were very fortunate to appoint Asaf because he is a very talented businessman and also an executive director of one of our two largest suppliers. This means that he has a really good knowledge of our business and of the data communications industry.

You: That is really useful background Mr Peraya. So what about standing governance committees which presumably report to the board?

Java: We have an audit committee constituted of three experienced network engineers who focus on and investigate internal control and quality failures when they arise. To promote more independence, we have also appointed a non-executive director as chairman on this committee who is a former compliance officer at an airport, whose background is in air traffic control and aviation regulation, but she is also a telecommunications expert.

You: What about a risk committee and do you have nominations or remunerations committees?

Java: DCS has no separate board appointed risk, remuneration or nominations committees. All strategic and long-term planning initiatives are initiated and decided upon by the main board led by myself and, of course, our management structure and culture is such that we embed risk management through having that close control over staff that I mentioned to you previously. As for salary, we strongly believe that all board members should be on a fixed salary to encourage them to take a longer term perspective rather than rewarding them with short-term performance bonuses.

As far as recruitment, remuneration and succession planning is concerned, I personally approve and manage all middle to senior staff recruitment and staff promotions, so there is no need for formal induction processes for our directors or senior management.

You: Now that you are a listed company, how do you report to and engage with your shareholders, particularly institutional shareholders?

Java: DCS does not have special governance or reporting structures to engage with shareholders, including institutional shareholders, but of course we do meet our minimum company law obligations in relation to statutory reporting to shareholders, shareholder democracy, voting and other constitutional rights.

You: That was all very useful Mr Peraya, but what I would like now is more data on the overall performance of DCS and a copy of the October board report, which I know was considering the strategic options facing DCS.

Java: Certainly, I will ask Tosh Mondal to send you our summarised integrated reporting data attached on a spreadsheet.

I will also ask the marketing director to send you the board report for October.

You: Thank you very much Mr Peraya.

1 (b) Scepticism skills in identifying the main CG deficiencies and how to remedy	The candidate has failed to demonstrate any scepticism of the CEO's answers given in the interview and has therefore failed to make any meaningful recommendations for CG improvement.	The candidate has demonstrated some limited scepticism in analysing the CEO's responses in the interview by identifying some CG failures, but has only made a few recommendations for CG improvement.	The candidate has demonstrated scepticism of the CEO's responses in the interview by identifying several of the key CG failures. The candidate has also made some sensible recommendations for CG improvement.	The candidate has demonstrated deep scepticism of most of the CEO's responses in the interview by identifying many of the key CG failures. The candidate has also made all of the obvious recommendations for CG improvement.
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