Overview
This discovery pack has been created to give you an in-depth understanding of what is involved in studying for the Foundation Programme.

The pack is divided into six sections:
- Introduction
- The short syllabus
- Study text sample chapter
- Sample exam paper
- Tuition options
- How to register

Introduction
The introduction tells you, at a glance, what the programme involves. It provides key details such as entry requirements, study mode, content and benefits of the programme.

The short syllabus
The short syllabus provides more details about the programme: key features and qualification structure.

Study text sample chapter
We have included a chapter from the study text to give you a taster of the subject matter and format of the material that we provide to support your learning.

Sample exam paper
An exam paper adapted from the November 2018 session is included in this pack. This will give you an accurate example of what could be asked in the exam and how it is structured.

Tuition options
We recommend our students take tuition and we have a number of partners who are registered to provide tuition in person and through distance learning. We provide a list of our partners.

How to register
The final section of this pack explains how you can register for the Foundation Programme.
Foundation Programme
The first step in your journey towards GradICSBA

Experience/qualifications: No previous experience required
Study mode: Self-study, though tuition from one of our registered providers is highly recommended
Support: We provide textbooks and support resources such as examiner’s reports and past papers. Students are also very welcome at ICSA events
Web: icsa.org.uk/discoverfoundation

The ICSA Foundation Programme provides a broad introduction to businesses, how they are governed, maintained and financially managed, and the laws to which they must adhere.

Students without a background in law, finance or governance start with the Foundation Programme at Level 4 (equivalent to first year undergraduate level) to learn the key concepts that underpin the rest of the programme. It is supported by a study text and digital learning materials.

Content
The qualification takes 150 - 200 hours’ study time over six to nine months and consists of four modules. Assessment is by a single exam which is offered twice a year in June and November. The content underpins the knowledge required for the ICSA qualifying programme and paves your way to becoming chartered. The four modules are:

- Introducing the Business Environment
- Introduction to Corporate and Business Law
- Principals of Company Compliance and Administration
- Introduction to Finance and Accounting

Benefits
You will gain a better understanding of:

- how businesses are organised and run and how the external environment affects business activities;
- the fundamentals of corporate and business (commercial) law and the legal framework within which businesses operate;
- legal, ownership and management structures for companies, how companies are incorporated and routine company compliance and governance obligations; and
- the basics of bookkeeping and how to understand the components of financial documentation as well as the principles of financial decision making.
Key features

The ICSA Foundation Programme:
- is aimed at individuals wishing to achieve Chartered professional status with ICSA or those wishing to pursue roles/careers in company secretarial, governance, risk and compliance-related fields
- is a Level 4 programme – set at first-year undergraduate level contains four compulsory modules
- is an open-entry programme, with no prior qualifications required, and is suitable for individuals who do not meet the eligibility criteria for Part One entry on to the ICSA qualifying programme (see the ICSA website for further information on entry requirements – www.icsa.org.uk)
- is externally assessed – ICSA will set and mark the assessment
- is assessed twice a year – in June and November
- is graded at Pass (P), Merit (M) and Distinction (D) – students whose level of achievement is below Pass will be classified as Fail A, Fail B, Fail C or Fail D, depending on the number of marks achieved.

Prior knowledge, skills and understanding
You do not need to achieve any other qualifications before registering for the ICSA Foundation Programme. No prior knowledge, skills or understanding are necessary. There are no formal entry requirements and the qualifications are suitable for non-degree holders, although it is recommended to be working in a relevant occupation.

Assessment
The programme is externally assessed via one closed-book examination that will cover content from all the modules in this syllabus. The examination is set and marked by ICSA and the pass mark is 50%.

The examination provides independent assessed evidence of learning. It also enables you to demonstrate the range of transferable skills you have developed throughout your programme of study by requiring you to apply your knowledge in unfamiliar contexts.
The ICSA qualifying programme

Becoming a member of the ICSA
The path to becoming Chartered begins with the ICSA Foundation Programme. It is the first step on the path to a career as a governance professional or company secretary.

The programme provides a broad introduction to businesses, how they are governed, maintained and financially managed, and the laws to which they must adhere. The knowledge and skills gained through this programme help to prepare you to meet the demands of Part One and Part Two of the ICSA qualifying programme – the next stages in the path to becoming Chartered.

The diagram below demonstrates the path to Chartered status with ICSA.
Qualification structure

ICSQA Foundation Programme

This qualification comprises four modules and is assessed via one 3-hour (with 15 minutes’ reading time) closed-book examination which is set and marked by ICSA. Students must pass this examination to be awarded the qualification. The pass mark is 50%.

<table>
<thead>
<tr>
<th>Module number</th>
<th>Module title</th>
<th>Total hours study time</th>
<th>Description</th>
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| F1            | Introducing the Business Environment              | 20                     | This module provides an overview of how organisations are structured and managed, and how the external environment affects business activities and influences decision making.  

The module will explore how organisations are categorised according to the economic sector they operate in and the size and scope of the organisation. It will then look at some of the different types of legal ownership structures available to organisations, the objectives that might be pursued, and how organisations structure and manage the workforce to help them achieve their objectives.

The module will then examine the wider issues organisations need to consider when trying to achieve their objectives. This includes the influence of stakeholders who have an interest in the activities of the organisations and how to analyse the potential impact of external factors that may affect efforts to achieve organisational objectives. |
| F2            | Introduction to Law                               | 70                     | This module introduces business law, including its purposes, administration and sources. Understanding the law is vital but, in order to fully understand the law, it is important to understand where laws come from, the different types of laws that exist (and how they interrelate), and how the law is administered and applied. It is also important to be able to identify which areas of the law are most applicable to businesses. |
| F3            | Principles of Compliance and Company Administration | 50                     | The aim of this module is to understand the historical origins of modern company law and introduce the legal process that has to be followed to create a corporate entity or company (known as incorporation). It also covers the administration side of incorporation and the obligation for companies to be transparent when providing information about their activities and financial status.  

The module examines different types of trading structures available for businesses and, in particular, the different types of company available to be incorporated under the Companies Act 2006. |
It then covers the organisational structure of companies, including the separation of ownership and management and the interaction of the authority, rights, duties, responsibilities and liabilities attached to share ownership or appointment as a company director.

Finally, the module explores the routine compliance obligations placed on companies, directors and shareholders, many of which are delegated to the company secretary or governance professional.

<table>
<thead>
<tr>
<th>F4</th>
<th>Introduction to Finance and Accounting</th>
<th>60</th>
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<td></td>
<td>This module introduces the components of financial documentation and the principles of financial decision making. It provides an overview of basic accounting terms and concepts and examines the importance of financial reporting. The module then covers how financial statements and reports can be analysed to help inform the decision-making activities of both internal and external stakeholders, such as management and investors.</td>
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| Total hours | 200 |
Chapter one

Introducing organisations

CONTENTS
1. Introduction
2. Sectors of business activity
3. Organisational size and scope
4. Legal ownership structures
5. Organisational objectives
6. Vision, mission and values
7. Organisational structures
8. Managing an organisation – the board of directors

1 Introduction
An organisation is a complex machine, with no two the same, and whilst we can draw many similarities from different organisations and categorise them, each have their own unique set of needs and objectives. The purpose of this chapter is to understand the economic sectors in which organisations operate and their ‘shape’ in terms of size, scope and legal ownership. We will then look at the objectives that organisations might pursue and how they can structure and manage the organisation, including its workforce, to achieve those objectives.

2 Sectors of business activity
The economic activity of a nation can be divided into three sectors: primary, secondary and tertiary. It is within one of these three sectors that all organisations within that economy operates and each sector represents the type of economic activity organisations are engaged in. The sectors form a continuum that represents increasing distance of raw materials from the earth. It starts with sourcing raw materials (primary) through manufacture (secondary) to providing finished goods and services (tertiary).
Examples of activity within each sector include:

◆ Primary – extraction and harvesting of natural products from the earth (e.g. farming, fishing, mining and forestry).
◆ Secondary – manufacturing goods from raw materials, such as making plastics from oil and building/constructing and assembling products such as houses and roads.
◆ Tertiary – organisations that provide services (e.g. banks and other financial institutions, retail and sales businesses, transport and distribution, restaurants, leisure and tourism).

Although most economic models divide the economy into only three sectors, some models divide it into four or five sectors. The quaternary and quinary sectors represent activities that are closely linked to the activities of the tertiary sector, as follows.

◆ Quaternary – also known as ‘the knowledge economy’, representing organisations involved in intellectual services linked to technological innovation (e.g. scientific research and information technology).
◆ Quinary – representing the highest-level decision makers in an economy or society (e.g. the top executives/officials in government, universities, not-for-profit organisations, media, police and fire services). Some economists also classify domestic activities such as childcare and housekeeping as quinary sector activities as they contribute to the economy by providing a service for free that would have otherwise had to have been paid for.

3 Organisational size and scope

Different countries have different criteria for categorising organisations in terms of size, but number of staff and turnover are often used as the main defining criteria. Micro, small, medium and large enterprises are the four main categories used to describe organisational size and whilst there is no generally accepted formula that is used by everyone, a rough guide to categorising according to number of employees is as follows:

◆ Micro – 0–9 employees
◆ Small – 10–49 employees
◆ Medium – 50–249 employees
◆ Large – 250+ employees

Categorising organisations according to size helps to inform government policy, such as tax rates for businesses and eligibility criteria for subsidies. It is also a useful measure when analysing the impact of different types of business on the economy. In the UK and European Union (EU), micro, small- and medium-sized enterprises (SMEs) make up around 99% of all businesses, so they are an important part of the economy.

However, defining organisations according to size can be problematic as a general measure, as the criteria for categorising size varies so widely. Depending on which definition is followed, an SME can have between 0 and 500
employees and turnover of between £6.5 million and £50 million. Different departments of the UK Government define organisation size according to different parameters and for different purposes, so it is good to be mindful of this fact when looking at published information relating to organisation size.

Stop and Think 1.1

How many employees does your organisation have? Look up some different definitions of organisation size – does this affect the category your organisation is placed into?

4 Legal ownership structures

Different organisations are set up to do different things for different sectors of business. Most fall under one of the three main sectors of the economy – public, private and the voluntary sector.

This section looks at the purpose of these different types of organisation, how they are controlled, financed and what they produce and provide.

4.1 Private sector organisations

The private sector consists of organisations that are owned and run by private individuals. These are not under direct government control and are run with the intention of generating a profit for the owners of the business. Examples of private sector organisations include:

◆ Sole traders (also known as sole proprietors)
◆ Partnerships
◆ Limited companies
◆ Parent and subsidiary
◆ Unincorporated association
◆ Cooperatives.

Sole traders

This is a business that is owned by one, self-employed, individual who may or may not employ other staff on a full- or part-time basis. Often financed using the owner's personal funds (and sometimes topped up with borrowed funds, e.g. a bank loan), any profits made accrue to the owner. The owner will often reinvest a significant proportion of these profits back into the business, which can help to ease any debts that the business may have accumulated (e.g. paying off a previous bank loan). Whilst being eligible to receive all the profits is definitely an advantage for the owner, one significant disadvantage is that if the business makes any losses, the sole trader is personally responsible for them. Since this type of business does not have a separate legal personality, the owner has unlimited personal liability for its debts and liabilities. This means that the owner's personal assets can be seized to pay off any debts.

Separate legal personality

The company is set up as a legal 'person' to delineate the actions of company from that of its owners.

Unlimited personal liability

The owner of the business is personally responsible for any debts and liabilities accrued by the business.
if they do not have funds from the business available to settle them. Despite being personally liable, there are more sole traders in the UK than any other business type because of the ease with which the business can legally be established. They are attractive as they have fewer document filing requirements as compared to other, larger, businesses and afford privacy for the individual as the accounts for the business are not publicly available.

**Partnerships**
A partnership is established when two or more individuals combine money, resources and skills to operate and manage a business and share in the profits and losses of that business. A partnership is defined by the Partnership Act 1890 as ‘the relation which subsists between persons carrying on a business with a view to profit’. The benefits of partnerships is that they are easy to establish and combine the skills and resources of the partners involved. There are various partnership arrangements to choose from; we will cover general, limited liability and limited partnerships, below.

In a general partnership the owners have unlimited personal liability jointly and severally for any losses and liabilities incurred by the business. This means that each individual owner is personally liable for the whole debt and can have their personal assets seized to settle it. Other partnership arrangements involve having a written, legal arrangement in place which limits the liability of partners in the business. This may involve agreeing to share liabilities and losses or one or more partners having limited liability for losses. Similar to a sole trader, general partnerships benefit from non-public disclosure of the accounts of the business, affording privacy for the partners.

A **limited liability partnership (LLP)** is popular with businesses that carry out a trade or profession and is often the preferred legal structure of professional firms such as accountancy, law and architecture firms. In the event of one partner being sued for misconduct or negligence (e.g. malpractice) the assets of the other partners are not put at risk.

A limited partnership (LP) combines the principles of a general partnership and a limited liability partnership. It involves having a least one general partner who has unlimited personal liability for the debts of the business and one or more partners with limited liability who are only liable for what they have invested in the business. In this arrangement, the general partner is involved in the day-to-day management of the business while the limited partners (also known as silent partners) are not. The limited partners can only have the privilege of limited liability if they are not involved in the day-to-day management of the business.

The law surrounding partnership arrangements varies between different jurisdictions, so individuals wishing to set up a partnership should seek legal advice before entering into such an agreement.

**Limited companies**
According to law, a company is a corporate association with its own legal identity that is separate from that of its owners. In essence, the company is set
up as a ‘legal person’ in its own right. This means that company property and assets belong to the company and not its members (the shareholders), but the personal assets of the members do not usually belong to the company. Having a separate legal identity means that if the company goes into insolvency, the company is liable for its debts and each member is only liable for the amount they originally invested in the business. The shareholders delegate the responsibility of the day-to-day running of the company to the board of directors, who act on the shareholders’ behalf in this capacity.

These companies have undergone the process of incorporation – the process by which a new or existing business registers as a limited company. They are limited by shares or guarantee.

A **company limited by shares** involves the shareholders having a right to share in the profits a business makes through dividends and also having the right to vote. The amount they receive depends on how much they have invested, meaning the more they have invested, the larger the dividend they receive. In a public limited company (plc), shares can be offered to the general public and traded on the stock exchange, whereas in a private limited company, they cannot.

In a **company limited by guarantee** there are no shares and the company is owned by the members (known as guarantors) instead of shareholders. Guarantors often appoint themselves as directors and must guarantee to contribute a fixed sum of money in the event of the **winding up** of the company. These private companies limited by guarantee are usually non-profit businesses and charitable organisations and surplus income is commonly used to further the non-profit or charitable aims of the business, rather than being distributed to the owners as personal income in dividends.

**Parent and subsidiary**

A subsidiary company is a company owned or controlled by another company, referred to as the ‘parent’ or ‘holding’ company. Generally, the parent will own 50% or more of the subsidiary but remains a legally separate entity. Companies might form or purchase subsidiaries for expanding business operations or to spread the risk of liability when engaging in new lines of business.

**Unincorporated association**

An unincorporated association is an organisation set up through an agreement between a group of people who come together for a reason other than to make a profit (e.g. a voluntary group or a sports club). This type of association does not need to be registered with Companies House (hence the term unincorporated) and it doesn’t cost anything to set one up, however individual members are personally responsible for any debts and contractual obligations.

**Co-operatives**

A co-operative is an organisation owned and run by its members, which can be, for example, the employees, the customers, local residents or suppliers. They are not run for the benefit of the shareholders and operate in the interests of the members, who have an equal say in how the business is run and decide how

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**insolvency**
The situation in which a company or individual can no longer pay back the money owed to outside lenders (e.g. a loan from a bank or other financial institution).

**company limited by shares**
Shareholders usually receive a share of any profits the business makes (dividends). Shares can be kept private or, if a public limited company, offered to the general public and traded on the stock exchange.

**company limited by guarantee**
A company owned by the members (known as guarantors) instead of shareholders.

**winding up**
The process of liquidating the assets of a limited company. The company will stop doing business and employing people and assets are used to pay off its debts with any money left going to shareholders. The company won’t exist once it has been dissolved (either ‘struck off’ or ‘liquidated’) and removed from the companies register at Companies House.
its profits are used. Co-operative organisations range from multi-billion pound businesses to small community enterprises and offer a wide range of products and services, including healthcare, housing, renewable energy, retail products, sports and social care.

4.2 Public sector organisations

The public sector is the part of the economy that is controlled by the government. Organisations in this sector are mostly financed by using the taxes people pay to the government. The government uses this money to provide essential public services for citizens.

Central and local government

To provide essential services, the public sector is split into two distinct parts – central government and local government. Central government (e.g. Parliament in London) provides nationwide services such as police, defence, healthcare, prisons, roads and social security. Local government (e.g. local borough councils), provides services for their local community such as social services, council housing, refuse and recycling collections, primary and secondary education and parks and recreational services. Some services are free (e.g. schools) and some are provided with a charge (e.g. fees to use leisure facilities such as a public swimming pool).

In contrast to the private sector, these organisations are run without the intention of generating a profit. However, some public sector organisations – public corporations and municipal enterprises – more closely resemble private sector organisations.

Public corporations

Companies owned by central government are known as public corporations. A chairperson and board of directors are appointed by a government minister to run the company on behalf of the government. An example of this is the BBC in the UK, whose board and chairperson are appointed by the Secretary of State. The organisation is financed through grants from the government and from raising finance through charging the general public a fee for a TV licence.

Municipal enterprises

These are businesses owned and operated by local government for the purposes of generating revenue. Examples include running the car park of a local hospital where visitors are required to pay to park or running a local community theatre and charging visitors for its services, such as ticket fees for events and use of theatre facilities such as the theatre bar/café or for hiring the venue.

Significant advantages of this type of enterprise is that it creates jobs and provides services for local communities without having to rely on funds generated from taxes to run the enterprise. They can offer lower rates for services than a private sector equivalent might as they are run for the benefit of shareholders. However, the idea of local government running a business that is usually regarded as a private sector enterprise is controversial. Critics have argued that money generated from taxes should not be used to provide the
capital to start these enterprises and cast doubt over whether local governments possess the skills to run them effectively and economically.

### 4.3 Voluntary organisations

The purpose of voluntary organisations is to help a particular cause and benefit and enrich society. They are often set up without profit as a motive and instead of returning any profits made to its owners, any money raised or earned is usually invested back into the community or the organisation itself. Unlike public sector organisations, voluntary organisations are independent of government and are often referred to as non-governmental organisations (NGOs).

These organisations can have a mix of paid and volunteer staff (e.g. most charities) or be composed entirely of volunteers (e.g. a community group). Their defining characteristic is their voluntary nature, whether in governance through a trustee board, in finance through donations and grants or in resources through the help of volunteers.

Examples of voluntary sector organisations include:

- **Charities**: Red Cross, RSPCA, Samaritans
- **Foundations**: David Suzuki Foundation, Bill and Melinda Gates Foundation
- **Advocacy groups**: Privacy International, World Wildlife Fund
- **Faith-based organisations**: churches, mosques, temples
- **Community groups**: Neighbourhood Watch
- **Recreational sports**: running clubs, tennis clubs.

These organisations are not owned by any individual people, but someone (e.g. an individual or a board of trustees) is responsible for ensuring that the organisation sets targets and budgets and does what it is set up to do. In order to survive they normally must at least **break even** (i.e. spending no more than they are taking in through fundraising, grants and donations). Legal forms of voluntary organisations can include charitable companies, Charitable Incorporated Organisations (CIOs) and Community Interest Companies (CICs).

### 5 Organisational objectives

All business organisations pursue different objectives for different reasons; these can change over time as the organisation changes and evolves. The objectives an organisation pursues is also dependent on a number of factors, including the business sector the organisation operates in, its legal structure and the goals of the stakeholders involved.

#### 5.1 Sector differences

Organisational objectives vary between business sectors. In the private sector, for example, a new sole trader may be focused on **breaking even** and establishing its place in the market to survive and keep the business going. However, a larger, more established, private sector organisation may be interested in generating large profits for shareholders or pursuing growth to
dominate the market. In contrast, a voluntary sector organisation such as a charity is motivated to generate revenue to fund projects that meet its charitable purposes. For example, by providing facilities for the local community to play tennis, netball and football, a local sports charity might be fulfilling its charitable purpose to advance amateur sport for the public benefit.

5.2 Influence of legal structure

The legal structure of an organisation also has an influence over the types of objectives it can pursue as some objectives may be incompatible with its legal structure.

For example, a co-operative business is set up as its members wish to create a business that embeds social goals such as job creation, co-operation and democracy into its day-to-day activities. If the organisation pursued an objective of maximising profits, this would be in direct conflict with its legal structure; to maximise profits, it needs to minimise costs and one way to cut costs is by creating job losses.

5.3 Influence of stakeholder goals

Objectives are also influenced by the goals of different stakeholders in organisations. For example, in a public limited company where ownership is separated from control, the goals of the owners (shareholders) may differ from those of the directors responsible for the operational management of the business. Shareholders may have the goal of maximising profits to get the best return on their investment, whereas the directors may be pursuing their own individual goals such as increased personal rewards or enhancing their career status. This conflict between the goals of directors and shareholders could result in differences of opinion over priorities and objectives for the organisation, adversely affecting the success of the company if the conflict is poorly managed. Stakeholders will be covered in more detail in Chapter 2.

6 Vision, mission and values

Being able to communicate to your wider stakeholders why the organisation is doing what it's doing (its mission), where it's trying to go (its vision), and how it's going to go about it (its values) is an important step in strategically planning how the organisation is going to achieve its objectives.

Developing and communicating statements to tell stakeholders what the business is about and what it hopes to achieve serve a variety of purposes, some of which are explored below.

6.1 Mission statement

A mission statement is designed to communicate how an organisation plans on achieving its objectives. It is very much focused on the present – what the organisation is doing, how it's going to do it and why it's doing it.
Large organisations often spend a lot of money and effort creating an effective mission statement, which can involve hiring external consultants to help managers develop just the right statement to describe the mission of the business.

### 6.2 Vision statement

A vision statement is designed to communicate where an organisation wants or aspires to be in the future. An effective vision statement does not focus on the current state of the organisation but articulates a realistic vision of the organisation’s mid- to long-term goals. The language used in vision statements is often inspirational in nature and may set out an organisation’s plans for the future in terms of blocks of time (e.g. where it wants to be in three, five and ten years’ time).

### 6.3 Potential uses of vision and mission statements

Mission and vision statements can be used for different purposes, both inside and outside of an organisation.

**Inside of the organisation by:**
- assisting senior management in the development of strategic plans
- developing performance measures, also known as Key Performance Indicators (KPIs)
- motivating and focusing employees by providing common goals
- assisting the development of an ethical framework.

**Outside the organisation by:**
- encouraging support from third parties (e.g. generating funding and endorsements)
- creating closer links to, and better communication with, customers, suppliers and other external stakeholders
- serving as an effective public relations tool.

### Test Yourself 1.1

**What is the difference between mission and vision statements?**

### 6.4 Core values statement

A companion statement to accompany vision and mission is a core values statement. This statement declares how the organisation will behave during the process of realising its mission and vision. It articulates the principles and values the leaders will follow when carrying out the activities of the organisation.
7 Organisational structures

Understanding what the organisation wants to achieve is only part of the puzzle. It also needs to be structured in a way that will best enable it to achieve those objectives.

In its simplest definition, an organisational structure should set out the hierarchy within an organisation, define each job role and how each role fits into the work of the whole organisation. It outlines how roles in the organisation are delegated, controlled and coordinated. The internal structure of an organisation can be represented visually through an organisational chart or diagram which also illustrates how information and work flows through the business. Understanding the shape of an organisation can help management to make more effective decisions on how to change or adapt the organisation to achieve its objectives and business goals.

7.1 Structuring the workforce

The best structure for an organisation is very much dependent on the type of business and how complex its operations are. Each of the common types of organisational structure has its advantages and disadvantages and, as we shall examine, the choice of structure has wide-ranging implications for the success of the business, from efficiency of operations to culture and future growth.

The first things to examine when looking at organisational structure are the layers of management required and where the authority for key decision making is concentrated within the organisation.

7.2 Layers of management – tall versus flat hierarchies

Organisations are divided horizontally and vertically. Vertical divisions are the layers of management and horizontal divisions manifest as departments. How those divisions are structured themselves will differ according to the business needs of the organisation.

There are many layers of management in the hierarchy of a tall structure, usually with a chief executive officer (CEO) at the top making decisions and then delegating authority to lower-level managers. Tasks are easily designated in this structure as employees and departments have well-defined responsibilities. However, an efficient tall structure depends on strong leadership at the top. If leadership at the top is weak, poor decision making can ripple down through the organisation, which can lead to low staff morale, poor productivity and inefficiency.

In contrast, a flat structure has fewer layers of management and day-to-day operational decisions may be delegated to higher-level managers who interact with employees directly. Higher-level managers have more control over their area of operations, are given more authority over decisions and are more empowered to make decisions than their counterparts in tall structure organisations.
Flat structures often have higher employee morale than tall structures as employees are more in control over everyday decisions. There are also fewer layers of management to go through to get to the ultimate decision maker, resulting in a faster response to issues, which can be ideal for customer-facing organisations such as shops and hotels.

Flat structures also cost less to run than tall structures as there are fewer management salaries to pay for, but there are limited opportunities for promotion as there are fewer levels available to climb in the organisation. Flat structures are more transparent, as information can get more muddled the more layers it has to get through, but employee roles and responsibilities may also be less well-defined, which can make it difficult to delegate tasks. It can also be a difficult structure to maintain if an organisation grows and needs more centralised control over its operations.

7.3 Authority for decision making

In a **centralised structure**, authority for key decisions rests with the senior management at the centre of the business who then delegates authority to implement these decisions to middle- and lower-level managers in the **chain of command**. In a **decentralised structure**, however, power is distributed away from the centre of the business. Authority for key decision making is delegated across a larger group, including managers, lower down the chain of command as well as individual business units or trading locations.
Organisations such as the military or large, multi-national businesses with global brands such as McDonald’s and Burger King operate with a centralised structure and well-defined chain of command. Key decisions are mostly made by senior management at the top of the hierarchy and disseminated to the rest of the organisation. This structure is useful for large organisations which need to retain control and maintain consistency across areas such as operations, customer experience and quality as standard policies and practices can be decided at the top and implemented throughout the rest of the organisation. It is easier to show strong leadership in this type of structure. Decision-making is able to happen quickly (particularly in times of crisis) as the authority rests in one place – with the senior management team. Communication and reporting is easier as all the information is stored in one place and it is easier to coordinate and control aspects of the business if they are kept centralised (e.g. budgets and financial decision-making). Maintaining control is particularly important in businesses run by a single individual/owner as this individual is able to control everything that is going on within the business.

However, having a centralised structure can be more bureaucratic, less flexible when responding to local customer needs (as decisions are made centrally rather than locally) and demotivating for managers lower down in the hierarchy who have less control over decisions that affect their teams and projects. While there would inevitably be a certain amount of minor, decentralised decision-making in organisations operating in different locations, the amount of control and flexibility managers have over these decisions would be minimal when compared to the powers of managers in a decentralised structure.

Hotel chains and large supermarket chains (e.g. Sainsbury’s or Tesco) often operate with a decentralised structure. Each individual trading unit has a hotel/store manager who has the authority to make decisions about areas that directly affect the business, such as staffing and sales promotions. Decisions can be made with the local market in mind. This promotes good customer service as the manager has the power to make quick decisions to resolve customer problems and complaints without having to contact a central team for a decision. Being given the authority to make such decisions is more empowering for managers lower down in the organisational hierarchy. It is also more motivating for staff as there are more opportunities for development and decisions can be made that are directly relevant to their location rather than disseminated down from a ‘faceless’ central hub that may not fully understand the needs of that location or its customers.

Having more autonomous business units in a decentralised structure reduces bureaucracy as individual units are more self-sufficient, but costs can be increased as some functions are duplicated throughout the different locations. Decision-making may benefit the local market, but the thinking behind the decisions made by individual managers may not be strategic, with less attention paid to the overall impact the decision may have on the wider organisation. As standardised policies and procedures are less likely to be implemented in a decentralised structure, quality across different locations may vary. This may prove detrimental in businesses that rely on customer service (e.g. hotels) as

**function**
The main departments of a business (e.g. finance, human resources, sales, operations).
customers may prefer consistency between different trading locations. It is also harder for senior management to retain a tight control over the business as decisions are being made away from the centre. This can mean areas such as financial control can be harder to maintain and could result in issues such as spiralling costs.

7.4 Creating a structure to meet business needs

Deciding on how many layers of management and where the authority for decision making lies in the organisation is just the beginning when it comes to strategically planning to achieve objectives. Organisations also need to ensure that they are structured in the best way to help meet their business needs. Below we examine three ways organisations can do this, through organising themselves by their functions, divisions or by combining the two into a matrix structure.

Functional structure

A functional structure involves dividing an organisation into smaller groups or departments based on the specialised function they perform (e.g. IT, finance, marketing and human resources (see Figure 1.2)). Each functional unit has its own priorities and objects and reports directly, usually via the departmental head, to senior management. It is then the responsibility of senior management to coordinate the activities of each functional area to ensure the organisation works as a cohesive whole to achieve its overall business purposes.

This type of structure works for small companies and start-ups and in larger companies which concentrate on a single product or service. It is ideal in situations where the external business environment is stable and not prone to rapid changes that would involve the organisation responding with a change in business strategy. A functional structure promotes efficiency and cost-effectiveness as all employees with similar, specialised knowledge are grouped together in one place.

However, this type of structure can be more bureaucratic with complicated communication and decision-making processes, leading to less flexibility and innovation. While a functional area may have efficient and expedient internal operational and decision-making processes, these are usually slower and less efficient between functional areas, resulting in difficulties when co-ordinating cross-departmental projects as each area is not accountable to other functional areas, just itself and senior management. A functional structure can therefore result in **silos**, with departments unwilling to share information, duplicating work and working to different priorities. A lack of transparency between departments and lack of collaboration and challenge on projects can lead to poor decision making and a tendency towards **groupthink**. Constructive challenge is an important part of good governance in an organisation; groupthink can therefore be a barrier to good governance practices.
Divisional structure
Organisations with a divisional structure are usually large and dynamic, operating over a wide geographical area and often with more than one product line or service. They typically consist of smaller organisations (divisions) under an umbrella or ‘parent’ group (see Figure 1.3). Each division is a discrete...
operating unit with its own complete set of departmental functions – IT, HR, finance, marketing, etc. For example, Virgin Holidays and Virgin Mobile are all subdivisions of the Virgin Group and all subdivisions operate as separate businesses. Each division is usually led by a general manager or division chief who has autonomy for the division and is responsible for its day-to-day activities. The general manager/division chief reports directly to the top management of the umbrella group and is accountable for the performance of their division. This structure is ideal for rapidly responding to local business needs and is more flexible for a changing external business environment. Staff can concentrate on the product line or service provided by their division with a management structure that supports their organisational objectives. However, a divisional structure can be costly as resources (IT, HR, marketing, etc.) are duplicated.

Effective senior leadership is crucial in a divisional structure. Senior management needs to fully understand what each division is doing and provide effective guidance to general managers/division chiefs on how to implement new strategies and partner across divisions. Senior leaders also need to make strategic decisions on allocating resources across divisions to prevent office politics being the basis of decisions, resulting in one division undermining another.

Matrix structure
In a matrix structure, products are managed horizontally and functions are managed vertically, with each product line having its own functions (e.g. finance, sales, marketing). Therefore, employees usually report to both the project/product manager and head of their function (see Figure 1.4).

This type of structure helps to minimise the likelihood of a silo effect developing across teams, as often seen in organisations with a functional structure. It is more dynamic than a functional organisational structure, with fewer barriers to communication between teams. Employees also have more opportunities to

<table>
<thead>
<tr>
<th></th>
<th>Marketing</th>
<th>Operations</th>
<th>Finance</th>
<th>HRM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Marketing</td>
<td>Operations</td>
<td>Finance</td>
<td>HRM</td>
</tr>
<tr>
<td></td>
<td>Manager</td>
<td>Manager</td>
<td>Manager</td>
<td>Manager</td>
</tr>
<tr>
<td>Project A</td>
<td>Marketing Team (A)</td>
<td>Operations Team (A)</td>
<td>Finance Team (A)</td>
<td>HR Team (A)</td>
</tr>
<tr>
<td>(Team Leader)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project B</td>
<td>Marketing Team (B)</td>
<td>Operations Team (B)</td>
<td>Finance Team (B)</td>
<td>HR Team (B)</td>
</tr>
<tr>
<td>(Team Leader)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project C</td>
<td>Marketing Team (C)</td>
<td>Operations Team (C)</td>
<td>Finance Team (C)</td>
<td>HR Team (C)</td>
</tr>
<tr>
<td>(Team Leader)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project D</td>
<td>Marketing Team (D)</td>
<td>Operations Team (D)</td>
<td>Finance Team (D)</td>
<td>HR Team (D)</td>
</tr>
<tr>
<td>(Team Leader)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 1.4 Matrix organisational structure
increase their specialised knowledge working on different projects across the matrix and the organisation can maximise efficiency of delivery of projects by selecting the most capable employees to work on them. Duplicating functions in every geographical location the organisation is based offers more flexibility in terms of meeting local customer needs, meaning the organisation can reach a wider audience and operate on a global level.

A major disadvantage of a matrix structure is its complexity in terms of chain of command. The manager-to-employee ratio is usually higher in a matrix structure and having more than one manager to report to can result in a conflict of employee loyalties and difficulties in deciding how to prioritise work. Having blurred lines of authority can also mean that decision making can be slower, particularly where managers in different parts of the matrix disagree, resulting in a deadlock and difficulties when it comes to conflict resolution.

The complexity of the matrix structure benefits large organisations with a complex operational structure (e.g. an organisation offering multiple products or taking on different projects across different geographical locations that requires a lot of cross-department communication and interaction). It is also a very costly structure to implement due to duplicated functions across the structure. Smaller companies with a simpler operational structure would not benefit from implementing a matrix structure due to its complexity and cost. Senior management also need to have a good understanding of the organisation’s structure to allocate resources efficiently across the matrix. Poor resource allocation can lead to slowing down of processes and difficulties in delivering projects to time and on budget.

Stop and Think 1.2
How is your organisation structured? Draw a chart that visually represents how your organisation is structured. From this diagram, can you identify:

◆ If it is a tall or flat structure?
◆ If decision-making is centralised or decentralised?
◆ If it is divided by functions, divisions?

8 Managing an organisation – the board of directors

Many organisations are managed by a board of directors, often appointed or elected by the shareholders to run the business on their behalf. Organisational success depends on effective decision making and responsibility for high-level decision making in organisations rests with the board of directors. The size and composition of a board will vary between different types and sizes of organisation and approaches to how a board should be structured or function
differs between countries. This means that there is no single agreed approach to how a board should be formed and who should serve on it.

To prevent the risk of power and information being concentrated in one or a few individuals, boards need to have a balance of different members. This is to ensure that matters and issues are discussed and examined from a variety of perspectives leading to more effective decision making that will benefit the organisation and its stakeholders.

For the purpose of this section, we will focus on examining the most common boardroom roles and their function.

8.1 Board roles

In a large public company in the UK, the board typically consists of:

- a chairperson
- possibly a deputy chairperson
- a chief executive officer (CEO)
- executive directors
- non-executive directors (NEDs)
- a senior independent director (SID) (who often acts as deputy chairperson).

Other types of organisation will have a mixture of these roles depending on their size and decision-making needs. We will examine the function of each of these roles below.

8.2 The chair

The chair leads the board and is responsible for ensuring its effectiveness as a decision-making group. The chair sets the agenda for board meetings and acts as a liaison between the shareholders and the board, ensuring that shareholders are kept informed of board decisions and that the board are aware of shareholder concerns. The role can be fulfilled by a non-executive or executive director.

8.3 The chief executive officer

The CEO is ultimately responsible for the day-to-day running of the organisation. The CEO leads the development and execution of the organisation’s long-term strategy and is responsible for implementing short- and long-term plans created to help fulfil that strategy. The CEO acts as a liaison between the board and management team and communicates on behalf of the company to shareholders, staff, other stakeholders and the general public.

8.4 The importance of separating the role of chair and chief executive

It is good practice to have different individuals fulfilling the roles of chair and CEO on the board. If one individual occupies both roles, it increases the chances of this one individual dominating the board. This can diminish the objectivity
of board discussions and make it more difficult for other board members to provide constructive challenge during discussions, leading to poor and ineffective decision making that may negatively impact the organisation and its stakeholders.

### 8.5 Executive directors

Executive directors are full-time employees and usually work for the organisation in a senior capacity, often being responsible for functional areas of the business such as finance or marketing (e.g. the chief financial officer (CFO) or head of marketing) or for areas of strategic importance, such as the director of policy. They are often the highest earners in the organisation. Other executive directors may be representatives of, for example, an institutional investor or a union. Many executive directors also choose to pursue non-executive director roles on boards in other organisations.

### 8.6 Non-executive directors

Non-executive directors (NEDs) act as independent advisors to board. They are not part of the executive management team and are not employed by the organisation (they may however, be paid a flat fee for their services similar to a consultant) or involved in its day-to-day activities. To remain objective, they should not be affiliated with the organisation in any way or have a financial stake in its success or failure. They are usually chosen on the basis of their independence, impartiality, wide experience, specialist knowledge and the personal qualities they can bring to the mix of board members. NEDs are appointed to provide a balancing influence and help to minimise conflicts of interest.

A NED’s primary function is to improve the effectiveness of the board by providing objective challenge and criticism in board meetings. A board filled with directors who have a direct personal stake in the organisation would not always be objective, leading to bias in their decision making, so it is important to have objective viewpoints to help the board understand matters and issues from a variety of perspectives. They should not get involved in the day-to-day running of the organisation and should focus solely on board matters, as well as acting as mentor to the chairperson and CEO, providing advice and guidance when issues arise. NEDs also serve on the board's committees (e.g. helping to make decisions on directors’ pay and benefits packages on the remuneration committee).

While there are differing opinions over the number of NEDs a board should have, it is generally accepted that one-third to one-half of a board's directors should be a non-executive.

### 8.7 The senior independent director

In larger, publicly listed organisations, the board often appoints a senior independent director (SID) from among their independent non-executives.
The role of the SID is to:

- provide support for the chairperson, acting as a sounding board where appropriate
- act as an intermediary for other directors if and where necessary
- be an alternative point of contact for investors who feel that their concerns have not been adequately addressed via the chairperson, CEO or finance director
- meet at least annually with other non-executives (without the chairperson) to appraise the chairperson’s performance
- meet with major shareholders regularly to gain an understanding of their issues and concerns
- intervene and act as a mediator between the chairperson and CEO if a serious disagreement or dispute occurs.

8.8 Board size and composition

It is important to balance the board, having the right mix of skills and abilities, plus an appropriate level of objective challenge. Unfortunately, there isn’t a magic formula for defining board-size and composition, although company law in some jurisdictions specifies a minimum and/or maximum number of directors for different types of organisation. In the UK, for instance, the Financial Reporting Council (FRC) advises that the board ‘should be of sufficient size that the requirements of the business can be met’ and there should be a 50% split of executive and non-executive directors to ensure that one group does not dominate board discussions and decisions. In general, large organisations (such as Tesco plc or Swire Pacific Ltd) have more than ten board members and smaller organisations less than ten (typically six to eight).

Stop and Think 1.3

How many board members do you think it takes to make decision making effective in an organisation? Does having larger numbers of board members necessarily mean board decisions are faster and more effective?

Have a look at some studies on board effectiveness to see how the size of a board can affect discussions and decision-making.

8.9 Board structures

In an organisation with a one-tier or unitary board, day-to-day business is delegated by the board to the CEO and senior management team who run the business on behalf of the owners (usually the shareholders). The board itself comprises both executive and non-executive members and the board makes decisions as one unitary group. This model is popular in the UK, USA, Australia and South Africa.
In other countries, a two-tier, or dual board system is preferred. This system separates those responsible for supervision from those responsible for operations (the executive board). The supervisory board (usually consisting of NEDs representing the shareholders) oversees the executive board. This board structure can be seen in many countries in continental Europe.

**Case example 1.1 – Volkswagen emissions scandal**

German carmaker Volkswagen became engulfed in its worst scandal since the organisation began more than 80 years ago. In the pursuit of an objective to grow to become the largest car manufacturer in the world, it admitted to manipulating emissions test data on its diesel vehicles in the US and Europe. The vehicles were marketed as more environmentally friendly than they actually were when it was revealed that the cars were emitting as much nitrous oxide as an articulated lorry. The emissions resulted in the deaths of nearly 50 people in the US.

The board of directors followed a two-tier structure with major shareholders represented on its supervisory board who were paid for their input, meaning they were not independent. As Hans-Christoph Hirt, a director of Hermes Equity Ownership Services and adviser to pension fund investors in companies including VW commented, ‘VW’s supervisory board is short of people with relevant experience and skills and – significantly – independence’. Also, the appointment of a long-standing executive to the role of chairman created, as Mr Hirt commented, a ‘serious conflict of interest’.

Worth €80 billion before the scandal, VW suffered a loss of €25 billion to its share stock overnight. Whilst €16 billion has since been recovered (as of July 2017), the company is still worth €13 billion less than in its pre-scandal days.

A two-tier board structure with plenty of subject expertise, but a lack of independence, created a culture where challenge of ideas was less likely to happen. This led to a strategy that resulted in loss of life, as well as massive losses to the company and its reputation. Whilst unitary and two-tier boards each have their advantages and disadvantages, it’s the composition and balance of the types of members on the board(s) and the creation of a culture of constructive challenge that are key elements to creating effective strategies that achieve organisational objectives.

Sources: www.ft.com/content/e816cf86-6815-11e5-a57f-21b88f7d973f and ICSA Annual Conference session ‘VW Case Study: A Moral Failure’ by John Armour, Hogan Lovells Professor of Law and Finance, Oxford University (July 2017)
Test Yourself 1.2

1. Why is it important that the chairperson and chief executive roles are fulfilled by separate individuals?

2. What are the benefits of having non-executive directors on the board?

3. What is the difference between a unitary and a two-tier board structure?

Chapter summary

◆ Economic activity in a nation is categorised in a continuum that represents increasing distance of raw materials from the earth. The main sectors are called the primary (extractive industries), secondary (manufacturing goods from raw materials) and tertiary (providing services) sectors.

◆ Organisations are categorised in terms of size according to the number of staff employed and often according to their turnover. The criteria differs between countries, but as a general rule, these are categorised into <10 employees (micro), <50 employees (small) and <250 employees (medium) and >250 (large).

◆ Private sector organisations are owned and run by private individuals with any profit made accruing to the owner(s). The financial liability of individual owners differs according to the legal structure chosen for the organisation.

◆ Public sector organisations are controlled by the government and are mostly funded by money collected from taxes to provide essential services such as roads, schools, hospitals and waste disposal services.

◆ Voluntary organisations are set up to help a particular cause, are independent of government and are often set up without profit as a motive.

◆ The objectives an organisation pursues are dependent on a number of factors including business sector, legal structure and influence of stakeholder goals.

◆ Organisations need to understand what they are doing (their mission), where they are trying to go (their vision) and how they are going about it (their values).

◆ While there is no one best way to structure the workforce, there are a variety of different structures organisations can implement to help them achieve their objectives and meet their business needs. This can mean dividing the organisation by its functions, divisions or a combination of the two (matrix structure).

◆ Organisations are managed by a board of directors, often appointed or elected by the shareholders to run the business on their behalf. To be effective, boards need to have a balance of different members and can be structured in more than one way, with a one-tier or two-tier approach being the most common.
Foundation Programme

Adapted from the November 2018 exam paper

Time allowed: 3 hours (plus 15 minutes reading time)
Section A

Answer all the questions in this section.
Continue your answers on the continuation sheets at the back of the booklet, if necessary.

1. An organisation may use a SWOT analysis to understand the interconnection between its internal and external environment.

Is this true or false?

(Tick one box only)

☐ True

☐ False

(1 mark)

2. What is a UK Act of Parliament?

(1 mark)

3. A company's Certificate of Incorporation states its registered company name and registered company number.

Name one other item of information about the company that appears on the Certificate.

(1 mark)

4. List two potential uses of vision and mission statements inside an organisation.

(2 marks)

5. State two situations in a court when a jury is not used.

(2 marks)

6. What is profit?

(1 mark)

7. List three significant areas of company law that are EU-derived or exist in their current form in order to comply with EU law.

(3 marks)

8. Information can be filed at Companies House using paper, electronic or web filings methods. Electronic and web filing are quicker and cheaper than posting paper forms.

Give two further reasons why a company might prefer electronic or web filing over paper filing.

(2 marks)

9. List three assumptions under which cost-volume-profit analysis is carried out.

(3 marks)

10. State the minimum notice periods for a general meeting of a private company and an annual general meeting of a public company.

(2 marks)

11. List two ways law provides flexibility to businesses.

(2 marks)

12. State the definition of a primary stakeholder in a business.

(1 mark)
13. What is statute law?  

14. State four of the items that must be recorded on a people with significant control (PSC) register if a Relevant Legal Entity is identified.  

15. List four cost accounting methods.  

16. Explain the phrase 'Statutory Interpretation'.  

TOTAL FOR SECTION A = 34 MARKS
Section B

Answer all the questions in this section.
Continue your answers on the continuation sheets at the back of the booklet, if necessary.

17. In the context of EU legislation, explain what a directive is.  

(6 marks)

18. Below is a company’s summarised income statement.

<table>
<thead>
<tr>
<th>£</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1,250,865</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(881,734)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>369,131</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(98,868)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>270,263</td>
</tr>
<tr>
<td>Financing costs</td>
<td>(69,500)</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>200,763</td>
</tr>
</tbody>
</table>

Showing your workings, calculate the following to one decimal place:

- Gross profit margin %
- Operating profit margin %
- Net profit margin %

(6 marks)

19. Explain the purpose of having non-executive directors (NEDs) on a board.  

(6 marks)

20. Referring to advice from the National Cyber Security Centre, explain how a business can try to protect itself from cyber-crime.  

(6 marks)

21. Explain how to make formal directors’ meetings effective.  

(6 marks)

22. Complete the missing entries in the following trial balance extract.

<table>
<thead>
<tr>
<th>£</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>67,850</td>
</tr>
<tr>
<td>Total expenses</td>
<td>43,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>11,150</td>
</tr>
<tr>
<td>Cash</td>
<td>15,500</td>
</tr>
<tr>
<td>Drawings</td>
<td>39,750</td>
</tr>
<tr>
<td>Opening capital</td>
<td></td>
</tr>
<tr>
<td>TOTALS</td>
<td>121,500</td>
</tr>
</tbody>
</table>

(6 marks)

TOTAL FOR SECTION B = 36 MARKS
Section C

Answer all the questions in this section.
Continue your answers on the continuation sheets at the back of the booklet, if necessary.

23. Courts are an integral component in the administration of criminal law. Compare and contrast courts with a first instance jurisdiction and courts with an appellate jurisdiction.

24. Krios plc (‘Krios’) is looking to raise finance for a large capital expenditure purchase, and seeks to fund this through a mixture of debt and equity. The company proposes to issue £500,000 of bonds with a 6% coupon rate, plus equity of £1,500,000 with a 4% dividend yield.

One of the key performance indicators the company’s management has set for any proposed financing arrangements is a weighted average cost of capital (WACC) of between 3.5% and 4.5% to make the proposition financially attractive to investors. The WACC for this financing arrangement is 4.5%, calculated as follows:

\[
\text{WACC} = \frac{\text{(total debt} \times \text{cost of debt)} + (\text{total equity} \times \text{cost of equity})}{\text{(total debt} + \text{total equity})}
\]

\[
= \frac{(\text{£500,000} \times 6\%) + (\text{£1,500,000} \times 4\%)}{(\text{£500,000} + \text{£1,500,000})}
\]

\[
= \frac{30,000 + 60,000}{2,000,000} = \frac{90,000}{2,000,000} = 4.5\%
\]

Krios is considered to be a highly geared company, with a gearing of 50% as indicated by its current statement of financial position using information provided from the company’s management accounts:

<table>
<thead>
<tr>
<th></th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Investments</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,000,000</strong></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>700,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>800,000</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>400,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,900,000</strong></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>(600,000)</td>
</tr>
<tr>
<td>Other creditors</td>
<td>(550,000)</td>
</tr>
<tr>
<td>Current bank loan (due &lt;1yr)</td>
<td>(250,000)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(1,400,000)</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Long-term bank loan (due &gt;1yr)</td>
<td>(2,000,000)</td>
</tr>
<tr>
<td>Bonds and other debt finance</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(2,000,000)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td><strong>4,500,000</strong></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Ordinary share capital</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Share premium account</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>Shareholders’ funds</strong></td>
<td><strong>4,500,000</strong></td>
</tr>
</tbody>
</table>
The gearing of 50% was calculated by dividing the company’s total bank loans of £2,250,000 by the total equity of £4,500,000.

If the financing arrangement is taken up in full, the company’s gearing will be 45.8%, calculated as follows:

\[
\text{Gearing } \% = \left( \frac{\text{debt}}{\text{equity}} \right) \times 100 \\
= \frac{2,250,000 + 500,000}{4,500,000 + 1,500,000} \\
= \frac{2,750,000}{6,000,000} = 45.8\%
\]

Discuss how attractive the financing arrangement proposed by Krios might be to investors based on the information above.

25. Nina is a senior manager in Kestrels Ltd (‘Kestrels’), a large private company that manufactures and sells components for the motor industry. Over the years of her employment she has built up a large shareholding in the company through employee share schemes. Her sister also works for the company.

Nina has been approached by one of Kestrels’ customers, Swallows Ltd (‘Swallows’), with an invitation to join their board as an executive director. Nina has used the Companies Act 2006 to find out what her duties would be as a director and has some concerns. The contract that Kestrels has with Swallows is a major source of revenue for the company. Because of this, and her current links to Kestrels, Nina is unsure on whether she should accept the job offer and leave Kestrels.

Discuss how the key duties that Nina would have as a director of Swallows might impact her decision on whether to accept the job offer.

(10 marks)
TUITION OPTIONS
Tuition providers for the Foundation Programme

The ICSA Foundation Programme can be studied independently, but we recommend that you take up tuition to help you to achieve your qualification.

We have a number of partners who deliver tuition for our qualifications in person and through distance learning. Our long-term partners are recognised by the denotation ‘Registered tuition provider’.

Further details and links to these providers at icsa.org.uk/discover-rtps.

<table>
<thead>
<tr>
<th>Registered tuition providers</th>
<th>Tuition partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global distance learning partners</td>
<td></td>
</tr>
<tr>
<td>BPP Professional Education, Jersey</td>
<td></td>
</tr>
<tr>
<td>Campbell’s College</td>
<td></td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td></td>
</tr>
<tr>
<td>Campbell’s College</td>
<td></td>
</tr>
<tr>
<td><strong>British Virgin Islands</strong></td>
<td></td>
</tr>
<tr>
<td>Financial Services Institute at H Lavity Stoutt</td>
<td></td>
</tr>
<tr>
<td>Community College</td>
<td></td>
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<td><strong>Cayman Islands</strong></td>
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How to Register
Applying for the Foundation Programme

To register for the Foundation Programme, simply visit icsa.org.uk/discoverfoundation and register online.

Throughout the process, you will be asked to provide your personal details, employment history, your qualifications and when you plan to sit your first exam. You will need to attach scanned copies of any relevant qualification certificates as part of your application.

On becoming an ICSA student, you will be asked for your commitment to abide by our Student Rules and Regulations and follow our Code of Professional Ethics and Conduct. These undertakings help to ensure that you are observing high professional standards from the very start of your career in governance.
We hope this discovery pack has given you a good understanding of what studying the Foundation Programme involves.

If you would like more information, or want to talk to someone about your options, contact our Student Services Team on studentsupport@icsa.org.uk or +44 (0)20 7580 4741.