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MAIN EXAMINATION

JANUARY - APRIL 2015 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF MARKETING AND MANAGEMENT

EVENING PROGRAMME

CFI 610: STRATEGIC FINANCIAL MANAGEMENT

Date: APRIL 2015

Duration: 3 Hours

**INSTRUCTIONS: Answer
FOUR Questions**

- Q1. a) Often strategic analysis is directed at variables regarded as irrelevant in finance theory. Thus the divergence of finance theory and strategic planning theories.

Required:

- i Examine at least two examples of instances where strategic analysis is directed at variables considered irrelevant in finance theory.
(6 marks)
- ii Present examples of the symptoms of conflict between finance theory and strategic planning in the setting of discount rates.
(6 marks)
- iii Advise how managers can bridge the gap between finance theory and strategic planning.
(3 marks)
- b) Read the paper entitled "Follow the Money: Compensations, Risk and the Financial Crisis" paper and present a case for or against the view that executive compensation in the financial services industry contributed to

the 2008 financial crisis. (See Appendix 1 for the “Follow the Money; Compensation, Risk, and the Financial Crisis.

(10 marks)

- Q2. a) The Primary of the shareholders wealth maximization objective of the firm remains uncontested. However, companies are increasingly responsive to their non-stockholder stakeholders.

Required:

- i Analyze the legal support for a stakeholder perspective to corporate management. **(8 marks)**
- ii Provide an explanations of the legal view of a corporation’s fiduciary duties towards non-shareholder stakeholders.

(9 marks)

- b) Information asymmetry defines the choice of financing for multinational firms.

Required

Provide an explanation of how information asymmetries contribute to the choice of finance for multinational firms. **(8 marks)**

- Q3 a) The Board of Directors of the Kenya Electricity Generating Company Limited (Kengen), a state owned enterprise that dominates the electricity, generating sector in Kenya, has mandated management to enhance operational efficiency to world class standards. Improvements in operational efficiency will ensure that the Kenyan consumer does not subsidize the monopoly firm’s inefficiencies. The Board, with the help of an energy consultant, has selected SSE plc as the benchmark. SSE plc is one of the top 10 electricity generators worldwide.

Using the most recent financial statements for the financial year ended the 2014, calculate the following indicators of financial and operational performance.

Performance Domain	Performance indicator,
Operating cycle	Days of Receivables
Liquidity	Net working capital to sales ratio

Profitability Operating profit margin
Activity Total asset turnover
Financial leverage Total debt to assets ratio
Shareholder returns Dividend payout ratio

Using SSE plc as a benchmark, prepare a report assessing Kengen's performance. What value gaps do you see at Kengen? Go to Appendix 2 for Kengen's financial statements. Go to Appendix 3 for SSE plc's financial statements. Go to Appendix 4 for a list of relevant financial formulae.

(15 marks)

- b) In private equity financing transactions, private equity, firms dominate on account of their valuations of individual portfolio companies. Notwithstanding growth oriented entrepreneurial firms are willing issuers of private equity securities.

Required:

Examine the relationship between private equity firms and their portfolio companies stressing the attractions of the latter to the former.

(10 marks)

- Q4. Read the Netledger IPO case and explain the dutch auction IPO mechanisms. Further explain the arguments for and against its use. Go to Appendix 5 for the Netledger IPO case.

(25 marks)

- Q5. Read the Durr: Disintermediations in German Mid-cap Corporate Bond Market and explain the uncertainties revolving the Bondon market. Go to Appendix 6 for the Durr: Disintermedations in German Mid-cap Corporate Bond Markets case.

(25 marks)

END