
CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.1: STRATEGY AND LEADERSHIP

MONDAY: 30 NOVEMBER 2015

INSTRUCTIONS:

1. Time Allowed: 3 hours 45 minutes (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has two sections; A & B.
3. Section A has one Compulsory Question while section B has three optional questions to choose any two.
4. In summary attempt three questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings

SECTION A

Compulsory question

QUESTION ONE

Kigali Airways Limited (KAL) is a fast growing airline that flies to all capital cities in the East and Central African region. As of June 2015, the airline boasted of a fleet of fifteen aircraft including a recently acquired Airbus A330 and a Boeing 737 the payment for which has just been finalised.

At a recent cocktail party organised to celebrate the company's eighth anniversary, CPA. Samuel Munezero, the Chief Executive Officer, (CEO) announced KAL's plan to venture into the low-cost airline business as the cornerstone of its medium-term strategy. This strategy was to be rolled out beginning with the hiring of a senior manager to head the new unit. Low-cost services are expected to take off through a strategic partnership with Kagera Airlines, a hitherto domestic airline based in Kampala, Uganda and Kipolopolo Airlines another domestic flight services provider based in Lusaka, Zambia. It is hoped that with this strategic alliance, KAL will be able to tap into the fast growing domestic and regional airline markets, as well as the budget travelers. This will enable the company to make inroads into the regional domestic travel market. The number of cheap, short-distance flights across East and Central Africa keeps increasing in light of the increased regional integration. However, competition still exists from alternative transport means especially with regard to internal travel. In addition, some countries in the region have agreed to establish a regional railway line that is expected to link all the East African countries together with South Sudan and the Democratic Republic of Congo.

To succeed in the airline business, therefore, let alone the low-cost segment, an airline must manage costs, lure customers from rival airlines and give passengers value for their money. Low-cost airlines generally have lower fares, provide less comfort and are less luxurious. Even inflight services are basic with the cost of a meal or snack not included on ticket pricing.

However, analysts warn that KAL faces huge competition from already existing low-cost airlines. In Uganda for example, Eagle Air and Bukasa Air already enjoy a good market following, while in Kenya and Tanzania, Fast Jet and Precision air respectively are the preferred choices for budget travelers.

Analysts further warn of a possible increase in operating costs as KAL embarks on this initiative. The CEO has already noted that the company is recruiting additional staff. This may further increase the already high costs of operation.

For the airline customers, however, the developments are bound to further stimulate innovation and better customer service in the sector, given that competition is already heating up. Kenyan based Kenya Airways enjoyed a monopoly over the regional skies for a while, but the company has been put to the test by the increasing number of players in the regional market.

Outside the regional flights, even long distance routes are increasingly becoming competitive. The Middle East route for example, has traditionally been dominated by Emirates, a United Arab Emirates based airline. This route, however, has also seen competition set in with the entry of Etihad Airways and Fly Dubai. Air ticket discounts were almost unheard of in the past, but this has since changed as airlines hustle for customers. The increased number of players has also led to staff head hunting with several managers moving across the competitors after being offered better employment terms. It is understood that even for those who may not have crossed to competitors, the regional aviation bodies have made it a requirement for all airline employees

to join trade unions, and for them to be offered standardised employment contracts with a minimum duration of two years. A minimum wage for airlines employees is also said to be in the offing. This support from the regulators has given the employees a common voice with regard to bargaining for improved terms of service.

Another example is the recent industrial action by staff of a Kenyan based player in the aviation sector, which was supported by the Kenyan Aviation Regulator. Whether this regulatory stronghold on the market will last, only time will tell.

REQUIRED:

- (a) Using the five forces model, assess the extent of competition in the airline business. **(20 Marks)**
- (b) Explain how cost leadership might be implemented by Kigali Airways Limited under the proposed strategy. **(8 Marks)**
- (c) Suggest other strategies that can be employed by Kigali Airways Limited to improve its competitiveness in the air transport business. **(12 Marks)**
- (d) Discuss the key things that management should consider if the proposed strategic partnership is to succeed. **(10 Marks)**

(Total 50 Marks)

SECTION B

Attempt two questions from this section

QUESTION TWO

Invest In Rwanda Corporation (IIRC) is a state owned corporation established in 2000. The mission of the corporation is to attract foreign direct investments into Rwanda, particularly in the agro processing and mining sectors. Mr. Gatete Paul was recently appointed as the Chief Executive Officer (CEO) of IIRC. As part of the induction, he has been invited by the Ministry of Finance for a discussion on the current macro-environment in Rwanda and the implications on foreign direct investments. The Minister of Finance is reportedly concerned that some neighbouring countries such as Uganda and Tanzania are in advanced stages of exploiting oil and natural gas respectively, and this could hamper Rwanda's chances as the destination of choice for potential investors.

REQUIRED:

- (a) Using the PESTEL framework, assess the extent to which the macro environment in Rwanda influences Invest In Rwanda's ability to achieve its mission. **(18 Marks)**
- (b) To what extent could Porter's Diamond be used as an alternative model to assess Rwanda's macro- environment? **(7 Marks)**

(Total 25 Marks)

QUESTION THREE

Robert Karangwa is the Marketing Manager of Rwanda Plastics Limited (RPL). The company specializes in the production and importation of plastics such as chairs, cups, plates, jerry cans, basins among others. RPL

has a special arrangement under which all the imported products are branded with the company's logo and therefore sold as 'Made in Rwanda'.

Effective January 2014, the company has marketed its products as eco-friendly, citing the use of modern technology in its processes as well as sustainable harvest of rubber trees, which are one of the sources of raw materials for its suppliers. In addition, it also boasts about environmentally friendly use of oil raw materials used in the manufacturing process.

As a result of the above, the company has increasingly become competitive in the marketplace, with many customers opting for it as compared to other competitors who are considered oblivious of the public environmental concerns. Most of the company's sales are through agents and supermarkets/departmental stores where the products are displayed on the shelves. Whereas the strategy has served RPL quite well over the past two years, the Marketing Manager is concerned that over dependence on one distribution channel is a key weakness which could adversely affect the company, should there be a change in strategy by its distribution partners, particularly the supermarkets.

Sales data indicates that there are several customers who do not necessarily buy the RPL products from supermarkets, but from hardware shops, pharmacies and general retail shops. These customers are generally the less affluent in society but with a high level of brand loyalty. However, Robert Karangwa is not sure whether there may be any tangible results if RPL was to commit resources to this market segment.

You have been engaged as a marketing consultant to advise RPL on their approach to marketing.

REQUIRED:

- (a) Assess RPL's current position. **(18 Marks)**
- (b) Explain the benefits to RPL when it focuses on the proposed market segment. **(7 Marks)**

(Total 25 Marks)

QUESTION FOUR

The National Agricultural Services Agency is an agency under the Ministry of Agriculture with a mandate to promote the development of modern agricultural practices. This is done through the training of farmers, distribution and sale of hybrids. The Agency is managed by an Executive Director, assisted by three managers in charge of finance and administration, veterinary operations and crop management. Each of the managers has regional supervisors below them, and a number of field officers. The field officers distribute seedlings and animal breeds to farmers and farmer groups across the country at subsidized prices and also conduct training about modern farming practices.

At a recent workshop on performance management, the Executive Director was surprised to learn that staff performance appraisal was important not only for profit making entities but also in the not-for profit sector. His perception was that since there are no profits to talk about under government agencies and departments, there was no need for performance management. After all, he thought to himself, "the budgets are always inadequate, salaries are always approved by the ministry, and there are a lot more farmers' needs than we can meet."

Impressed by a presentation on the importance of managing performance at the workshop, he has now requested you as Finance and Administration Manager to take the lead in introducing performance management at the National Agricultural Services Agency.

REQUIRED:

Write a memo to the Executive Director:

(a) Justifying the need for staff performance appraisal at the National Agricultural Services Agency.

(15 Marks)

(b) Advising on how performance appraisal can be conducted at the National Agricultural Services Agency.

(10 Marks)

(Total 25 Marks)

End of question paper





