INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.1: STRATEGY AND LEADERSHIP

MONDAY: 27 NOVEMBER 2017

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 (3) questions to choose any two (2).
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.
7. All iCPAR Examination rules and regulations apply.

SECTION (A)

This is a compulsory question

QUESTION ONE

Elite Shoppers Limited

Elite Shoppers Limited (ESL) is a large supermarket specializing in a broad range of consumer products. The company's product range includes fast moving consumables, furniture, electronics and light duty construction materials. Most of the items are imported from South Africa, Europe and Asia, while a few items are bought from local manufacturers within Rwanda and the other East African States. ESL boasts of five mega stores located in Rwanda, with a major presence in each of the other countries within the Region.

Until recently, the supermarket focused on a particular niche in the market; the high class and the affluent shoppers. This fact was evident in the name, general branding, marketing strategy and in the pricing structure of the company. Prices were generally above what one could find in an average supermarket in Rwanda. This approach reflected the company's philosophy as clearly spelt out in the long running promotion tagline – "ESL, a place where class meets taste."

Whereas the company's performance was excellent for the six four years of operation, things started changing in 2015 when for the first time, the profit target for the year was missed, amidst uncertainty over restructuring and closure of some stores. At the same time, reports emerged about internal management wrangles and power struggles that were threatening to tear the company apart.

Earlier in June 2014, the supermarket had issued a profit warning, telling shareholders that earnings for the year ending December 2014 would be lower largely because of increased losses in its Gisenyi based subsidiary. Indeed, the poor performance was highlighted in its other subsidiaries, especially in Uganda and Burundi where the company had never posted a profit yet the stores were opened at the same time. Analysts believe that the closure of the ESL's Gisenyi outlet, could have been the catalyst into a financial meltdown that has since then refused to cease. The analysts add that ESL's operations started faulting through its persistent failure to institute proper reporting structures, both at group level and within the Rwanda subsidiary. It is understood that the company attempted to implement a matrix reporting structure, in which case the group head office based in Kigali and the regional subsidiaries would both get real time performance information. This initiative however failed as the function specialists within the company reportedly failed to work together under multi-disciplinary teams leading to slow down in information flow, especially from subsidiaries to the head office. It is argued that this subsequently affected the quality of supervision over the subsidiaries and branches/ outlets leading to delays in decision making.

Other issues faced by ESL include high operating costs and failure to pay suppliers in time, all of which have compounded the company's woes. This notwithstanding, the fact that many other businesses are struggling in a stagnant economy may give ESL some comfort. Rwanda has faced an increase in inflation from 3.5% reported in March 2015 to 6.5% in June 2017. This rise in inflation is reportedly a result of the persistent drought that has hit the country for the past two years. With drought ravaging the country side, this meant that there would be a reduction in food supply, leading to increase in prices. It is these factors that have subsequently pushed up inflation figures, and thereby translating into increased operating costs for businesses across the country. This aside, there has also been increased political activity over the past two years as the country warmed up to the general election conducted in August 2017. Prior to this was the referendum which equally attracted heated political discussions. As a result of these political activities, some consumers tended to slow down or revised their consumption patterns, pending more certainty on what lay ahead. These developments were bound to affect ESL, whose business is mainly in fast moving consumer products. Similar reports have been filed from other sectors, including transport and logistics, communication, construction and manufacturing. Analysts have partly attributed the economic slowdown to a high interest rate environment in which the National Bank of Rwanda's benchmark interest rate has averaged 14% for the two years ending December 2016. High interest rates impact on credit growth, which in turn slows down production activities in the economy.

Amidst the above challenges, is the absence of a clear strategic direction for the company? It is shocking to learn that ESL has operated without a strategic plan, since the expiry of the founding 2009 – 2015 plan. Under the circumstances, it remains unclear what the strategic focus for the firm is, neither are the general strategic aspirations. Similar concerns were raised by the former chief finance officer (CFO), prior to his sacking in December 2016. Officially, the CFO was terminated for "negligence and gross misconduct"; however, insider information indicates that he disagreed irreconcilably with the chief executive officer over the absence of clear reporting structures and failure to document plans of action. The CFO had passionately argued for the implementation of a geographical based organizational structure in which the regional outlets in the country would operate semi-independently. In his view, this would enable the management team to easily assess performance for each store and therefore ease accountability within ESL. The CEO on the other hand considered the proposal as a dubious attempt by the CFO to create avenues for swindling company funds through the semi-autonomous outlets.

After the departure of the CFO, the CEO recommended that an internal audit be conducted into the operations of the CFO, with the objective of obtaining evidence to support the CFO's criminal intentions behind the proposal for a geographical based organisation structure. The plan is to have the internal audit report ready by the date of the next board meeting, which is due in January 2018. The above aside, the management team remains divided, not only over the sacking of the CFO, but also on what the appropriate way forward is for ESL. Operating costs have risen due to inflation yet staff continue to complain about low salaries while on the other hand sales have continued to decline amidst increased competition from new entrants. One common fact that the management team agrees upon is that unless some drastic measures are taken, the company will continue to struggle and this could impact other subsidiaries within the region. According to the head of business development (HBD), management needs to appreciate the fact that the operating environment has changed, and therefore ESL needs to adapt to the changes.

He says, "Look at the population dynamics for example, the country's population comprises of 75% youth. Why then should ESL continue to focus on the affluent customers in society instead of tapping into this market segment? The demographic setup of the population dictates that we shift our target market to the middle class." He added that there was no need to continue spending a lot of money on high cost town based stores. ESL should instead move its stores to the upcoming residential suburbs where operating costs are slightly less, and the stores are closer to the shoppers. On the use of technology, the HBD argued that the company had lagged behind competitors in embracing technology. For example, ESL did not have an online shopping platform despite the high internet penetration rate within Rwanda estimated at 60%, and the emergence of the mobile phone as a near necessity within the country. "This is a development that we cannot ignore! People now prefer to shop at their convenience, say in the comfort of their homes or offices, on a 24 hour basis; but alas, ESL expects every customer to physically set foot in the store!" He lamented.

In addition, only cash was acceptable at the outlets yet competitors had rolled out electronic payment options such as debit and credit cards, mobile money payment solutions among other cashless payment options. These among others were cited by the HBD as the critical matters that needed to be addressed if ESL was to return to its past glory. With the closure of ESL's Gisenyi branch, an estimated 200 people are believed to have lost jobs. This includes direct staff who were working within the store, drivers, cleaners and suppliers, for whom there has been no clear position from ESL on whether there will be any terminal benefits. The former employees are already contemplating suing ESL for unfair termination. Asked about the fate of the staff, the CEO said, "We are making arrangements to pay all monies due to workers who were contracted to ESL, in accordance with their terms of employment" Some of the workers have however informed the media that they were never issued with employment contracts. Given that these former employees and suppliers have no grouping through which they can demand what is due to them, it remains to be seen how far they can push the matter. On its part, the government's Ministry of Labour has remained silent yet one would have expected them to intervene and mediate between the feuding parties. Asked for the official position of the government, the Ministry's spokesperson said that as a ministry, they can only intervene when they receive a formal complaint. Otherwise, they do not poke their noses into private commercial disputes.

Considering the current situation at ESL, management has approached you for guidance on the best way forward.

REQUIRED:

(a) Perform a critical assessment of ESL's Macro-environment. **(20 Marks)**

(b) Conduct an analysis of the Company's stakeholders. **(10 Marks)**

(c) Discuss the possible indicators of ESL's strategic aspirations. **(10 Marks)**

(d) Discuss the appropriateness of the proposed organization structures. **(10 Marks)**

(Total 50 Marks)

SECTION (B)

Attempt any two questions from this section

QUESTION TWO

Amahoro Beverages Limited

Amahoro Beverages Limited (ABL) is a medium-sized company that specialises in milk processing. The company also manufactures and packs milk related products such as ghee, cheese and milk chocolates. ABL has its head office in Kigali-Rwanda and its clientele covers the East African region. Following a proposal by ABL's production manager, the company recently won a World Bank innovation grant for the processing of a new product; a milk beverage known as Afrimilk. According to the company's managing director (MD), this award is testament to ABL's philosophy that fosters staff empowerment. Commenting on the news that ABL had emerged the winner, the MD noted as follows; "…We aim at enabling our staff generate business ideas and encourage them to see them bear fruit. This flexibility has led to innovation such as the one we are celebrating today. Our long held approach to staff development, which is enshrined in training and support to all employees is bearing fruit. We are proud of the production manager and all our staff for this wonderful achievement!"

Until 2014, ABL's operations were generally manual, with most of the production processes powered by the nearly 200 casual employees working in shifts. As expected, this meant that there were gaps in quality assurance, cost and process inefficiencies. In early 2015, the company benefited from the Rwanda government's "Buy Rwanda" initiatives, through which funds were dedicated to support small, micro and medium sized enterprises. Through this government initiative, ABL secured funding to automate its processes, a measure that subsequently led to certification by the International Standards Organisation. Citing benefits such as improved hygiene, cost and general business process efficiencies, ABL is now a local advocate for international certification. According to the firm, such certification enables an entity to conduct a candid self-assessment, which ultimately leads to better customer service delivery.

With automation of the core production process complete, ABL has now embarked on the roll out of an Enterprise Resource Planning (ERP) system, to support information flow within the company. Management is convinced that the benefits so far accrued from automation of production can be enhanced by employing information technology as a strategic enabler. With automation, the production time has been reduced from six hours to three hours, stock holding costs have gone down by 30%, while general operating costs reduced by 40%. This has subsequently resulted into better packaging and positive ratings from customers. Although prices have not been reduced, informal feedback from customers indicates that the market has appreciated the product improvements implemented by ABL. An initial project team has been set up to steer the ERP system project, but debate is still ongoing within the team on what the best approach should be. Consideration has been paid to use of McFarlan's grid as a guiding framework with the proponents of this tool arguing that ABL must first assess the current and future strategic impact of the proposed systems. Critics on the other hand argue that this would be wastage of time and company resources. They add that it is clearly evident that the ERP offers ABL significant competitive benefits.

REQUIRED:

(a) Using the balanced scorecard as a guiding tool, evaluate the business operations of African Beverages Ltd. **(15 Marks)**

(b) Write a report to management, justifying the decision to embrace Information Technology as a strategic enabler at African Beverages Ltd. (**10 Marks)**

(Total 25 Marks)

QUESTION THREE

Strategic Thinkers Initiative (STI)

In 2016, Strategic Thinkers Initiative (STI), a government funded organisation, prepared a project proposal to replace its outdated computer system for managing clients. The total budget requested was USD 2.3 million for replacement while at the same time implementing some improvements. Due to shortage of funds in the national treasury, government approved only USD 1.5 million. However, the organisation accepted to do the work at the approved amount.

Accordingly, the project was scoped and planned, with specific milestones for implementing the hardware and, subsequently the software, across 87 sites within its jurisdiction. A final completion date of 30 March, 2017 was projected. The original business case had loosely identified some risks to the project that were also included in the project plan. A project steering committee was established, with the executive director (ED) as the chairperson, and representation by influential managers with differing outcome needs to suit their particular work environment. The project commenced in July 2016. In view of the shortfall on its original budget request, the committee decided not to employ a project manager. Instead it assigned this responsibility to its finance manager, who would undertake the work along with his normal duties.

A Company, called Good Programs was contracted to supply the software and assist in the implementation. This company recognised the marketing opportunities of this project, as Strategic Thinkers Initiative was its biggest client in the region. As a result, they offered, free of charge, many more features that were not in the original scope, provided STI allowed them to be flexible. This would enable Good Programs to sell their products elsewhere around the world, while providing the Strategic Thinkers Initiative with additional functionality and benefits. Initially, the steering committee keenly monitored and evaluated the project, but as new versions of the system were being implemented, monitoring became less frequent. These new versions were developed after consultation with few individual managers to accommodate requested new features with little consultation amongst all managers.

Sometime after the original project was scoped and commenced, both the original ED and finance manager had been moved out of the company and new officers appointed. The new ED has been advised that about $185,000 more is needed for the project, which is not in his current budget. The original project had not been signed off, indeed, it is evident that it has not been completed. The new ED is not sure of the original scope of the project, what aspects had been implemented, nor what was spent and for which levels/parts. No reliable reports are available to show the original scope, scope changes, schedule or budget.
The ED is concerned that the project has become more of a career than a project. In addition, there are some past system problems that are still outstanding. Nevertheless, Good Programs have promised that problems will be fixed in future.

As a senior consultant with Amahoro Project Consult, a competent project management consulting company, you have been approached by the ED and the finance manager of STI for advice on the progress the project.

REQUIRED:

a) Appraise the project.

(5 Marks)

(b) Suggest the tools and techniques you would use to ensure successful implementation if management decided to re-implement a similar project under your leadership. **(10 Marks)**

(c) Advise the ED of STI on the relevance of project monitoring and evaluation. **(10 Marks)**

(Total 25 Marks)

QUESTION FOUR
Shema Electronics

Shema Electronics (SE) operates in a high labour cost environment in Kigali city and imports electronic products from China. The company re-brands and re-packages the electronic equipment as SE products and then sells them to domestic and industrial customers in the local market. SE's current source of supply is Guangzhou Electronics Limited (GEL), based in China. SE regularly places orders for electronics through the GEL web-site and pays by credit card. As soon as the payment is confirmed GEL automatically e-mails SE a confirmation of order, an order reference number and the likely shipping date. Following the dispatch of the order, GEL sends to SE a notice of dispatch and a container reference number. The products are sent in containers and then trans-shipped to PIL, the logistics company used by GEL to distribute its products. PIL then delivers the products to the SE factory for repackaging and re-branding. Upon arrival, they are quality inspected and products that pass the inspection are re-branded as SE products by adding appropriate logos and packaged in specially fabricated SE boxes. These products are then stored ready for sale. Products that fail the inspection test are returned to GEL as rejects. Whereas no refunds have been made by GEL, the returns are usually offset against payments for future orders.

Currently 60% of sales are made to domestic and 40% to industrial/commercial customers. Most domestic customers pick up their products from SE and set them up themselves. In contrast, most industrial customers ask SE to set up the electronic equipment at their offices, for which SE makes a small charge. SE currently advertises its products in local and regional newspapers as one of its marketing and promotional avenues. The company also has a web site on which product details are displayed. Potential customers can enquire about the specification and availability of products through an e-mail facility via the web site. SE customer inquiries' team then appropriately responds to the customers. Although a lot of the product information is available on the website, payment for products cannot currently be made via the web site.

The company employs specialist technicians who install equipment in homes and offices at no cost. They also maintain equipment under warranty and offer a helpline and a back to base facility for customers whose products are out of warranty. Feedback from existing customers shows that they value the installation and support offered by the company. Ronald Ngoga, the sole owner of SE, believes that the company must change its business model in order to achieve growth. This change will particularly require increase in the product range in an effort to build market share. It will also tackle problems associated with missing shipments that GEL has occasionally been reluctant or unable to help with. The trans-shipment to the logistics agent (PIL) has also been identified as the point where goods have been lost in the past. GEL does not appear to be able to reliably track the relationship between the container shipment and the air way bills used in the PIL system. The progress of orders, shipment and the delivery dates are poorly specified and monitored therefore leading to congestion problems in the delivery bay.

Ngoga recognizes that growth requires the company to expand its market and the technical installation team to be valued by local customers which may be difficult to maintain. Thus SE will continue to import only fully configured products because they do not wish to build assembly plants or commit itself to a long-term contract with one supplier.

REQUIRED:

(a) Using a value chain analysis framework for SE, evaluate the relevance of each of the primary activities. **(10 Marks)**

(b) Advise the management of SE on how to re-organise the upstream supply chain in order to achieve the required growth and tackle the problems identified at SE. **(9 Marks)**

(c) Assess the applicability of the value chain analysis as a tool to analyze organizational performance. **(6 Marks)**

(Total 25 Marks)

End of question paper