CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.1: STRATEGY AND LEADERSHIP

MONDAY: 3 DECEMBER 2018

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 ONE

University Hotel was established in 2005 as a family business. The hotel that is located 200 metres from the University of Kigali in Gasabo district is a popular hangout for university students.

At the beginning of the hotel's operations, Mr Ssitenda (the proprietor) also doubled as the manager while his two wives served as assistant managers in charge of housekeeping and foods/ beverages respectively. When he died in 2011 the board of directors was established with one of the wives becoming the board chairperson and the other managing director. A few years later the management of the hotel was outsourced to JESE consultants. The new management team was given a target to up-grade the hotel facilities to be the best in Gasabo. Indeed, the new management expanded the hotel from 8 to 43 rooms, all operating under the micros key card system which replaced the traditional metallic key system. The computerized doors and billing systems were installed to counter theft in guest rooms and to ease the tracking of room occupancy.

The 40-seater conference hall was also upgraded to an 80-seater with new furniture and fittings as well as modern conference facilities. The hotel was repainted and all staff were given new uniforms to match the rebranding. The Teachers bar and Campusers' restaurant were established to increase on the product range and further tap into the student community who were considered a key client segment. These innovations among others made the hotel become 'the place to be' when in Gasabo. However, the sound proofing suggestion earlier made by guests was not implemented. Guests have often complained about the bypassing vehicles that make noise therefore inconveniencing guests. This is especially noted on the northern side of the hotel, which is adjacent to the busy Gasabo main street road. The rebranding initiatives by the management team involved training of all staff in customer service skills, teamwork, and time management. It also involved engagement of a marketing expert as team leader, four leading media houses, and experienced event service providers.

The above aside, the renovations and innovations were financed by a loan of USD 1.5 million from KCB Bank Rwanda and USD 200,000 from the hotel's account. This followed a long debate among the board members on whether the timing was right for the hotel to assume such a big debt. Some of the board members argued that the hotel should instead have tried to lobby for government support under the ongoing initiatives to promote Rwanda as a mega conference destination. As announced by the minister in charge of tourism, the government is determined to help hoteliers in improving their product and service offerings. In this regard, the ministry is receiving applications for tax holidays and waiver of excise duty and value added tax on equipment purchased specifically for hotel business.

The boardroom disagreements later caused the exit of JESE consultants. After 5 years, JESE consultants did not renew their management contract with the hotel because of a conflict between the board and their aggressive business approach.

Following the exit of JESE consultants, the board appointed Mr Gitau a hotel management graduate from the prestigious Utali College with 4 years working experience. His appointment boosted the performance of the hotel. Between September 2015 and October 2016, the hotel was enjoying competitive room occupancy of about 75% on average per month, well above the industry average of 70%. For example accommodation sales were Rwf 22,744,500, Rwf 27,299,000 Rwf 20,827,000 for the months of October, November and December 2015 respectively. This was mainly due to Mr Gitau's competence of bringing in accommodation business from Kenyan guests especially those in need of pocket friendly and reliable sleeping accommodation. He had also introduced a product line pricing strategy in which accommodation or meal discounts would be offered to conference guests who signed up for more than one service. For example, if a guest attended a conference and chose to stay at the hotel, he would get a price discount on either the meals or accommodation fees. Unfortunately, Mr. Gitau resigned his post on 28 October, 2017 after his request for a salary rise was rejected by the Board of Directors. He had cited the improvement in turnover as justification for the salary increment but the Board adamantly refused to accept the request, noting that he had only served two years of his four-year contract. Mr. Gitau now works as the General Manager of a rival hotel located within a radius of 400 metres from University Hotel.

Since Mr. Gitau's exit, business at University Hotel has generally been very low compared to other market participants. As a result, salaries started to delay, suppliers are not paid on time and supplies are sometimes inadequate. Ironically, staff believe that it is a deliberate move by management to delay salaries. There has also been a notable decline in events hosted at the hotel. This said however, due to the commitment of some conference service staff, the hotel has managed to retain some five loyal conferences organizers who at least bring in 2 workshops or parties per month. However, they usually pay by postdated cheque and demand for discounts. The finance team estimates that the cost of collecting the debts amounts to approximately, Rwf 1,000,000 per month.

It also recently emerged that one of staff also outsmarted the front office accounting system and embezzled Rwf 4 million from accommodation/ conference sales for five consecutive months. In February, 2018 the staff was sacked and was replaced by another person recruited from Top Tower Hotel. It has also emerged that the waiters/ waitresses have been walking away with at least Rwf 8,000 each per day. When a customer for example, orders for a platter of 'grilled goat' from the restaurant menu where it is priced at Rwf 5,000 per portion, they serve goat's muchomo' from Jacob's grill which is just next door and costs Rwf 3,000. It is also reported that when couples are checked-into guest rooms for less than 1 hour, the receptionists, in collusion with the respective cashiers do not report such room sales. The said officers instead take the money. Staff motivation is very low and staff are suggesting through grapevine that Mr. Gitau should be reappointed or a seasoned hospitality marketer be appointed to revitalize the business. Meanwhile the National University of Rwanda is producing excellent hotel/ hospitality managers but the board has not considered them as an option.

During the board meeting, one board member suggested that the function/ events catering business including the provision of the local buffet be outsourced to a competent caterer who should offer the services on behalf of the hotel. Following a lengthy debate, the board adopted the proposal on condition that 20% of the sales would be paid to the hotel as commission. Douglas Catering Services won this deal. Less than six months into this new arrangement, guests started complaining about the quality of catering services at the hotel leading to a serious drop in the restaurant sales especially during lunch and dinner because they prefer the local buffet to restaurant food which is usually fried. Noting the developments, the Board turned around once more and decided to buy-out Douglas Catering Services. University Hotel is now back in control of the catering services including deliveries to most offices around Gasabo. In fact, sales from this business unit have increased the restaurant's market share in terms of food sales. Furthermore, the hotel now boasts of at least 6 non-residential workshops per month. It has also signed up 12 companies for delivery of meals to staff and is in advanced stages of signing contracts with another 8 companies. If these deals materialize, University Hotel will deliver its food to about 4,000 employees.

At the recent board meeting, one of the members argued that it was wrong for the board to make hunch decisions that are not backed up by detailed formal plans. He stressed that the board needed to sit down and craft a clear path that University Hotel should follow to regain its former glory. However, his arguments were dismissed as practically inept. The other members, however, agreed to his second proposal for the conduct of a diagnostic study of the hotel's business.

Meanwhile, in response to the increased power tariffs, the hotel has installed power saving technologies from Japanese R&D center located near the hotel. It is hoped that whereas the technology is expensive, it will enable the hotel to save costs in the long-run. This and other cost saving initiatives are, however, already yielding fruits, as the hotel seems to be regaining market share. For products where prices have not been reduced, University Hotel has been able to improve the margins thereby committing funds to other ventures. University Hotel, which used to be a market leader, and later a market follower after Mr Gitau's departure, is now regaining its stature by becoming a market challenger to the bigger competitors. In order to attract more clients, the Board decided to reduce the average room rates from Rwf 50,000 to Rwf 45,000 for bed and breakfast. However, these bigger rivals are not resting. They are quietly spying on University Hotel and monitoring its continuous innovations.

You have been appointed as a management consultant to advise the Board of Directors at University Hotel on the challenges being faced.

REQUIRED:

(a) Assess University Hotel's strategic problem. **(6 Marks)**
(b) Evaluate any two of the hotel's previous strategic choices, clearly showing the tactics that they tried to use. **(6 Marks)**
(c) Assess the operating environment of University Hotel. **(15 Marks)**
(d) Based on the analysis of the operating environment, suggest the most competitive strategies that management should consider in order to restore the hotel to its glory. **(15 Marks)**
(e) Advice management on the key success factors that they need to put into consideration if they are to attain the desired competitiveness. **(8 Marks)**

(TOTAL 50 Marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

Shema always had a big heart for children. Shortly after completing her studies in Maryland University in the United States of America, Shema got a job as programme director with an international relief organisation based in Geneva. After six years of formal employment, Shema resigned her Job to pursue her dream of supporting vulnerable children back home. Using the salary savings from the former job, Shema established an orphanage called Kigali Charity House (KCH). To help her out with administrative work, Shema hired an old friend Akimana who dropped out of school in senior three. As the number of orphans grew, Shema felt the need to buy farmland to cut food costs. Based on this, Akimana wrote proposals to seek funding despite her low level of education. One day she was lucky to secure a grant of $5,000 from a Swedish donor, which they used to buy land for farming.

With the orphans coming of age, both Shema and Akimana realised the need to educate them. They decided to start a primary school, but due to limited funds, they hardly found a qualified teacher. Through their networks, they managed to hire secondary school dropouts to run the school. Among them was Mukamutara who turned out to be such a hard working teacher that Shema subsequently made him a head teacher. Around the same time, many orphans Shema brought in were malnourished and sickly so she started a nursing unit within the orphanage and hired Sister Immaculate an old woman who used to work with Remera Hospital as a drug dispenser. Though not a qualified nurse, Sister Immaculate knew how to care for the sick children.

What had started as a small orphanage outfit grew into a sizable organisation taking care of nearly 500 orphans with a 10-acre farm and a health center. However, as the orphanage grew in size, so did the financial needs. The financial pressure was so high that the operations of KCH came under threat. One day Shema received an advert from the European Union offering grants of up to $50,000 to community-based organisations. However, the eligibility criteria required her to have registered the organisation with the NGO Board and to have audited accounts for at least two years. The donors also required the organisation to have a board of directors in place and a list of staff and their qualifications. KCH hardly met any of the requirements. Shema then decided to hire Mr. Mugabo John, a qualified certified public accountant, as a manager whose primary task was to streamline the organisation and formalise operations.

Upon joining KCH, Mugabo the newly recruited manager noticed that staff had no job descriptions and majority lacked relevant qualifications. Mugabo therefore proposed that, there was urgent need for change in the organisation. Shema warmly received the proposal and agreed to the recommendation that the position of head teacher and nurse be advertised. However, the proposal was not well received by the staff. Once the advertisement had run, Akimana, Mukamutara and Sister Immaculate stormed Shema's office protesting the proposal. "*Do you want to throw us out because of this new kid on the bloc? Is this how you want to payback our loyalty to you*?" they yelled. "But we need to start running the organisation in a professional way". Shema pleaded with her old team. Shema has met the old team several times since the outburst but they are not willing to listen and they are threatening to destroy the organisation.

Shema has now approached you as an expert in strategy and leadership, seeking advice on how to bring matters at KCH under control.

REQUIRED:

Prepare a report to Shema:

(a) Explaining why the old team could be protesting the new proposal.

(10 Marks)

(b) Advising on the possible actions to take in order to create buy-in for the new proposal.

(10 Marks)

(c) Proposing a change message to all staff that could be used in managing the change process at KCH.

(5 Marks)

(Total 25 Marks)

QUESTION THREE

Hanga Umurimo (HU) is a local Non-Governmental Organisation that operates in the districts of Karongi and Rusizi in the western province of Rwanda. The organisation is running a youth livelihood programme intended to increase self-employment opportunities and income levels among the youth living in slum areas. HU launched a financial inclusion strategy for a period of five years from 2013 to 2018 as a mechanism to achieve their goal of youth empowerment. At the same time, the organisation's strategy coincided with a government programme to support organisations implementing national entrepreneurship initiatives. As a result, HU received a grant amounting to Rwf 35 billion for a five-year period running from 2013-2018.

HU's operations in Karongi and Rusizi have run for approximately five years ending June 2018, the main beneficiaries being youth aged 18-30 years comprising of school dropouts, youth living in impoverished communities, single youth parents, disabled youth, and youth living with HIV Aids. All beneficiaries first received training in entrepreneurship skills before receiving interest free start-up capital of Rwf 10 million in groups of 10 people. Given that the strategy implementation period has ended, the organisation is looking for an expert to conduct an evaluation exercise.

REQUIRED:

Assuming that you have been hired as an expert on strategy; discuss the strategy evaluation process for HU and the tools you would use to complete the assignment.

(25 Marks)

QUESTION FOUR

HBT Investments manufactures and distributes 20 different ice-cream products from its sub-urban base in Kimihurura. The company's own fleet of refrigerated trucks distribute the ice cream to six major wholesale points from which retailers are served. Annual sales are currently around Rwf 450 million spread among the wholesalers. HBT Investments is operating in a market with a growth rate estimated at 30%. The company controls about 70% of its urban market, but this shrinks to less than 50% in outlying areas where there are many small competitors. The six wholesale customers and their annual sale contributions include; Kacyiru 25%, Rusororo 12%, Rutunga 18%, Gatsata 5 %, Gisozi 30% and Ndera, 10%.

Although HBT recognizes the importance of a client-focused approach to marketing and distribution, the satisfaction of customer needs is beginning to cost big money. Last month HBT decided to profile its wholesale customers with their varying requirements as depicted below:

Rutunga employs standard packaging and barcode reading systems. The company insists on only low discounts for volume and maintain large regular orders. Consequently, their delivery requests and inventory holding requirements are highly predictable. The whole seller is located in a market with a growth rate estimated at 50% per annum.

Ndera requires unique packaging despite its remote location. They also insist on free deliveries and require large discounts for high volume orders. The customer base is low.

Kacyiru has the reputation of always paying on time and requiring low discounts and commissions. The company's inventory holding procedures are perhaps the best in the industry and they have a Just in time scheduling system entirely compatible with HBT's own. Kacyiru's market base is steadily growing and at times, the demand exceeds the supply.

Despite Gisozi's big contribution to sales, the sales have stagnated for a period of one year. The company always pays late but demands all available discounts, even when they are not applicable. They insist on daily deliveries, with the requirement of additional deliveries should demand merit it.

Rusororo on the other hand relies on small orders, which are delivered on an infrequent basis. They require minimal volume discounts, rare visits from HBT's personnel, and gather sales credits and make monthly claims. The market in Rusororo has a growth potential given their strategic location though they have not been able to tap the opportunity to grow sales.

Lastly, Gatsata just like Ndera are reporting low sales continuously. HBT has to call them frequently to make payments, which increases operational expenses of the company. The company initiates separate sales credits for each product returned thereby generating complex orders, followed by multiple queries almost for every transaction.

HBT has now decided to hire you as a consultant to evaluate their customers based on the current performance for better management.

REQUIRED:

(a) Using the growth share matrix, assess HBT's customer portfolio. **(13 Marks)**

(b) With justification, recommend the most suitable strategy to pursue for each customer segment. **(12 Marks)**

(Total 25 Marks)