

CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.1: STRATEGY AND LEADERSHIP

MONDAY: 8 JUNE 2015

INSTRUCTIONS:

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

SECTION (A)

Compulsory question

QUESTION ONE

Jingo, the Rwanda customer service director of Uganda owned insurance company UAP thinks that he has been a little easy with Georgina Maya sitting next to him in his office. Since the Rwanda group bought the company approximately three years ago, three million Rwanda francs were invested in a scheme that speeds up and reduces the cost of processing applications for new policies. Georgina was one of the architects of the new systems, and as a reward, Jingo appointed her to manage the customer services department.

The idea of developing a new computerized system was important to UAP and was a response to the turbulence facing the insurance industry across East Africa. The idea was that the installation of the systems would give UAP a complete edge in the market with a streamlined system which would not only give vital information to the directors but also aid in the development of good business planning and control. Good links with the Ugandan parent were also important as key strategic decisions were taken there.

The Rwanda Company previously consisted of a rigid hierarchy with four directors of Administration, Finance, Customer Services and Human Resource. The information flows were often directed along these restricted channels. Each director had two senior managers, below whom were the key operations staff and administrative assistants.

The results were disappointing, and the new owners are asking, not unreasonably, where the promised improvement in the productivity and customer service were to be found.

Jingo called a meeting to discuss these problems. Georgina came to the meeting hoping to persuade Jingo to allow a 10% increase in her clerical staff. In spite of the new system, her department faces four weeks backlog of work. She feels that she has tried everything. Her staff was already working as hard as they could. Georgina also mentioned that staff productivity was monitored quite vigorously and there were few staff that was not performing well.

In general, she felt that even by with these measures, performance had declined since the new system was installed. Staff were complaining that the queries were becoming difficult to resolve because of some of the complexities in the new system.

Jingo was not convinced. He had great difficulty understanding why customer's problems had suddenly become more complex. In addition to this, he felt that the communications within the department should be much better, given that new systems had been installed.

Jingo wondered whether the staff did not have sense of urgency and also whether Georgina was correct in her assessment of all the key issues.

REQUIRED:

- a) Carry out an environmental analysis for the above case **(25 Marks)**
- b) Undertake a SWOT analysis of the UAP. **(17 Marks)**
- c) Describe the key issues facing the company **(8 Marks)**

(Total 50 Marks)
Page 2 of 8

SECTION B

Attempt two questions from this section

QUESTION TWO

Kibuye is a touristic area with rare birds and medicinal trees. Since mining in that area ceased 150 years ago, its main industry has been agriculture, fishing and farming. However, today, many communities around Kibuye suffer high unemployment. Government initiatives for regeneration through tourism have met with a little success the area has poor road network, dirty beaches, lake with high quantity of methane gas, and low quality buildings. Digwell Explorations a listed public company with a reputation for maximizing shareholder returns has discovered golden reserve in that area. With new technology, mining could be profitable, provide jobs and boost the economy. A number of interest and pressure groups have, however, been vocal in opposing the scheme.

Digwell Explorations, after much lobbying, has just received government permission to undertake mining. It could face difficulties in proceeding because of the likely activity of a group called Kibuye protection Alliance. This group includes wildlife protection representatives, villagers worried about potential increased traffic congestion and noise, environmentalists and anti capitalism groups.

REQUIRED:

- (a) Discuss the ethical issues that should have been considered by the government when granting permission for mining to go ahead. **(10 Marks)**
- (b) Analyse and explain the interest and power of pressure of stakeholders groups in Digwell Explorations. Based on this analysis, identify the courses of action that the company might take in order to respond to these groups. **(15 Marks)**

(Total 25 Marks)

QUESTION THREE

Kigali Motors is a chain of motor dealers (importer of vehicles, supplier of vehicle components, tools and diagnostic equipment to the consumer) with a wide range of product lines. It has yet to incorporate e-business into its IT strategy, although it does have a website, it needs a better way to manage its interactions with customers.

Key issues for Kigali Motors include:

- increasing competition and increasing customer expectations;
- the need for better information about its extensive customer base;
- tracking each and every customer;
- the need to understand each customer and provide a quick and efficient response to their requirements;
- the inability of the sales team to perform effectively;
- using outdated and inefficient software to manage such a large customer base;

- difficulty in identifying the most profitable customers;
- inadequate sales pipeline management system (a system which helps sales people to more objectively evaluate and forecast future sales);
- need to achieve sales targets and avoid sales drop.

REQUIRED:

Discuss the e-business solution(s) which Kigali Motors should adopt to build stronger customer relationships, better manage sales processes, control costs and build competitive advantage. **(Total 25 Marks)**

QUESTION FOUR

MTN decision to invest in Nigeria was carefully thought through. MTN showed a real talent at being able to leverage their strengths and reducing the potentials risks inherent to an investment in Nigeria. MTN positions itself as an African group. Its mission statement claims that it wants to “become the leading provider of communication services on the African Continent, linking nations by providing an affordable, accessible and quality service that is a catalyst for economic development,... MTN’s aim is to facilitate change that will have long-term domestic benefits. Apart from the obvious economic development, local infrastructure and facilities are upgraded and the quality of life in communities is uplifted.”

This is a key factor to facilitate adoption in a country where the idea that foreign investors just want to make quick gains out of the local population is widespread.

This statement is supported by an important involvement in the local community and important sourcing of supporting activities from local suppliers.

On top of that, MTN shows respect and commitment for the markets it is entering by bringing in up to date technology, whereas Western operators have been known to use Africa as a dump for second hand equipment.

More so, before going into Nigeria, MTN had the opportunity to train in smaller markets with similar environments such as Cameroon and Rwanda. Most of the potential problems had then been already encountered and solved, the only question was then how to scale the remedies found in those places.

Finally, MTN has knowledge of the market that no other operator possesses. For instance, it took into account the importance of the informal sector in Nigeria when assessing the potential as it may represent over 40% of the actual economy of the country. From a more pragmatic perspective, their knowledge of the business environment allowed them to be more efficient in “greasing the wheels” when it was required. An example of this is their management of the “*area boys*” (small neighborhood chiefs in big cities) to avoid having them destroying valuable equipment installed in their area. (Other operators were paying protection companies to guard the sites, MTN went directly to the area boys, recognized their informal power and paid a “rental” fee directly, a solution that was substantially cheaper).

MTN could come with a lot more optimistic business case about its investment in Nigeria than most of its competitors.

It decided for instance to ignore the recommendations of international investment agencies to set a minimum cost of capital of 25%. Instead of this, it took its own cost of capital (15% in South Africa) and added a risk

premium of 5%. The reasoning behind it is that MTN African experience would lower a lot political risks.

Other ways of reducing the risks were embedded in the structure of the investment.

First, it obtained a tax holiday from the government for 5 years.

Second, it entered a risk sharing contract with the network infrastructure provider (Ericsson), promising in exchange supplier exclusivity. The terms were allowing MTN to differ its payments to Ericsson should they not get sufficient revenues in time, or have problems to exchange them for foreign currencies (this actually happened on one instance in 2013, but it was solved within a few months)

In 2013, it also brought in IFC, who put 100 M US\$ for the MTN expansion plan. These 100 million were divided into a 75 Million loan and 25 million of equity.

Finally, the ownership structure also contributed in lowering the risks. In addition to the IFC participation (3%), 22% of the equity was held by local partners. Those partners provided an extra safety net against expropriation risks and could smoothen relations with the local institutions.

There were 4 million mobile subscribers in 2014 (to be compared with the 400,000 fixed lines installed in the country in 2009) shared between 4 operators: the three initial ones (MTN, Econet, Nitel) and a new entrant at the end of 2013, Globalcomm.

The least that could be said is that the results of MTN have been impressive. MTN Nigeria had 1.96 Million subscribers (representing a total market share of 48%), and is the most recognized brand in the country (a survey indicated a 71% rate of brand awareness).

More surprising are the financial results. Not only MTN experienced an explosive growth of the number of subscribers, but those subscribers also proved to be heavy spenders. The average revenue per user (ARPU) was 51\$ / month, second only to Japan. As a result, MTN Nigeria posted a net profit of 364 M\$ for the financial year 2014, which represent a net margin of 34%.

Those spectacular results (joined with good performances in their other markets) led to MTN being the most profitable operator in the world in 2013 (Most European operators such as Vodafone and Orange were at the same time posting net losses). 2014 was indeed an exceptional year. There are some doubts whether MTN will be able to sustain such performances in the future.

First, the tax holidays given by the government will end in 2016. Corporate tax rate was 30%.

Second, as the number of subscriber expands, the ARPU decreases. This is a well-known phenomenon in mature markets. It is mainly due to the fact that new subscribers will come from lower classes of the population.

Third, there was a lot of pressure in 2013 from subscribers to lower the prices. So far, the operators managed to sustain a status quo and avoided entering a price war. But at the end of the year, the threat of legal action from consumer groups and some highly publicized symbolic events (such as no calls day, where subscribers were encouraged not to use their phones as a sign of protest) forced them to lower their prices. As the market approaches maturity, there will be more and more pressure to reduce further those prices.

On the other hand, the potential market for mobile telephony in Nigeria is supposed to be 10 million

subscribers by 2016. More, MTN will be allowed to reduce its costs as infrastructure is improving in the country. The cost of adding capacity to the network is then constantly decreasing.

So even if MTN may never experience margins such as the ones in 2013, the sheer size of the market should still allow them to continue to collect significant profits for the next years to come.

Information and Telecommunications Technology (ICT) are often seen as complementing each other to enable an increased level of social and economic development in emerging countries. Alcatel, for example, is running a lot of projects under the umbrella of “Bridging the Digital Divide”. It partners up with small local ICT companies to provide customized applications that will improve the standard of living of rural and urban communities. The underlying idea is that part of the reason why people are dragged down into poverty can be removed by ICT technology: distance to markets, illiteracy, poor health care facilities... If an initial investment in ICT can result in a sustainable infrastructure, people will be able to improve their living standards, thereby increasing the need for information and communication. An upward spiraling effect dragging people out of poverty and leading to profits in the ICT sector may be the result.

REQUIRED:

Considering the firm’s grand strategy describe overall direction for MTN in Nigeria.

(Total 25 Marks)

End of the question paper

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