
CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATION

A1.1: STRATEGY AND LEADERSHIP

MONDAY: 6 JUNE 2016

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 your workings

SECTION A

Compulsory question

QUESTION ONE

CASE STUDY

Background

Mr. Nzeyimana James is the Chief Executive Officer (CEO) of Made in Rwanda Limited (MRL), a beverages manufacturing company with a portfolio of three products. James is the majority shareholder with 60% shareholding, while his wife Susan holds 25% and serves as the deputy CEO. The rest of the shares are distributed among their two sons; Joel and Joseph and a number of other extended family members. For the year ended December 2015, MRL reported a gross turnover of Frw 10 Billion generated by total assets of over Frw 8 Billion.

Change of ownership

James acquired MRL 15 years ago upon his return from exile where he had worked at a Norwegian bottling company. He bought off the Government's stake in MRL, following Government's sale of public enterprises. At the time of acquisition, the company used to manufacture one beverage, bottled as a soda, and sold under the brand "Pawpaw Juice". Supported by a strong farmers' cooperative movement, that guaranteed availability of raw materials (Pawpaws), this product enjoyed massive brand recognition and an impressive market share. In order to cement its relationship with the farmers, MRL would avail necessary inputs to the farmers at subsidized prices. This arrangement continued until the change of ownership at the company in the early 2000's.

Internal operations

In the years that followed, MRL continued to enjoy massive success which led the company into a false sense of security, with product and market innovation completely ignored. This failure to monitor and respond to the operating environment persisted even when the signs started emerging that new competitors were joining the industry. As the Government priorities shifted to a private sector-led growth model, several private investors were being encouraged to join the manufacturing sector. The beverages sector was not an exception as it also benefitted from the reduction in barriers to business registration and licensing. In a major initiative, Government decided that all investors would have their business and trade licences granted within 36 hours. This opened the door to additional investors in the economy.

Since acquisition of MRL by James, the relationship with suppliers (farmers) has continued to deteriorate with little attention paid to their demands. Management maintains that since there are many suppliers of Pawpaw's, there is no need to waste resources in additional support to the farmers.

For a long time at MRL, nearly all managers were part of the extended family, with some of them having little or no formal training in management. Joel and Joseph were in charge of the production and finance departments respectively while their mother continued to serve as deputy CEO. By 2013, the company was in a financial crisis. Losses had accumulated for three consecutive years, machinery was dilapidated, and the company was defaulting on its financial obligations.

Search for solutions

In an attempt to avert the crisis, management consultants were hired to conduct an organisational diagnosis. According to their findings, radical changes were needed at the company. For example, the number of factories located throughout the country was to be cut from four to one. This single factory located in Kigali would double as the head office and major distribution centre. Reducing the factories implied that the size of the workforce was also going to be reduced by 50%. The consultants also recommended the introduction of a matrix reporting structure, in order to optimise staff competencies. Given the plans launched earlier that year for the introduction of new products, the reduction in staff numbers was strongly objected to by most managers but James declared that the consultants' recommendations were final. However, James was unable to clearly comprehend what the consultants meant by the matrix structure, or how it would be implemented at MRL. Most employees who had worked at MRL for several years were devastated by the news of the layoff. Indeed it was not until after a costly strike and staff arrests, that employees realised there was no hope of keeping the company at its former size. A court case against the layoff is still ongoing in the High Court as of to date.

Product range

As part of the restructuring process, the range of products was expanded to three products which have since been in production, albeit with varying degrees of success.

Pawpaw Soda:

This has continued to be the flagship product of MRL. It is the real identity of the company as was the case even before the new owners took control. At the time of acquisition, it was agreed that this product must continue in existence for at least ten years after the takeover. This was aimed at protecting the farmers who continued to supply raw materials. Pawpaw soda enjoys a high market share and MRL has been slowly reducing the marketing expenditure for this product. There are competing products in the market, but Pawpaw soda enjoys significant brand recognition and superior quality. This has kept the product ahead of competitors despite their massive marketing campaigns and attempts at product cloning.

MRL water:

With the growth in Rwanda's economy, MRL decided to join the bottled water sector as an additional product to their soda. A few players had already set up shop in this area, with some Ugandan companies such as Rwenzori Beverages Ltd and Highland Beverages Ltd also selling their bottled water on the Rwandan market. It turned out that the product was introduced without any form of market research. Joel, the head of production had argued against the hurried introduction of new products, but was overruled since he only held a small proportion of the voting power. None of the other managers could dare challenge the CEO, even when he was clearly being irrational.

Pawpaw wine:

Given the wide availability of raw materials (Pawpaws), MRL introduced Pawpaw Wine, a product targeting the middle class in Rwanda. Given the existence of several other imported wines and spirits, a lot of money had to be committed to the marketing of this product so as to create awareness. In response, competitors intensified their marketing efforts as well. Details about the financial performance of the company are provided in Appendix 1.

The production department was re-organised into three divisions, with one for each product, and junior managers appointed for each product reporting to Joel, the production manager. However, this arrangement drew further debate as to how the planned matrix structure was going to be rolled out eventually. Concerns were also raised by Joel regarding the need to review the efficiency of the entire production process. Quoting from his recently completed CPA course, he argued;

“Changes in the organisation of the production department alone are not enough. We need to review the entire value creation process. We must examine all our activities and improve on them. This will increase our bargaining power, and ensure that the farmers are ‘locked in’, and also ensure that we have a guaranteed source of inputs. We also need to commit more resources to machinery, so as to be able to match the competitors in technology. I understand we are managing costs, but we must be mindful not to compromise on quality, all in the name of managing costs. Why should we continue to manage our raw materials and finished goods manually? This together with the proposed quality control unit will significantly improve on our competitiveness as a firm.”

At close to 75 years of age, James had severally talked about stepping down from the company and letting somebody else take over as CEO. He is an outspoken leader who enjoys being in control and a gentleman who always wants to do things himself, rarely delegating tasks. The deputy CEO who was considered the natural replacement has a lot of experience in manufacturing having worked at a garments industry during her time in exile. However, she has a laid back attitude and is therefore considered better at implementing decisions, rather than as a front line leader.

Joel, the production manager, is the most influential manager at the company after his father. He is a young, energetic, articulate, and confident young man with a wealth of ideas and innovations. However, he has not been very successful in getting support from the other managers, mainly owing to cost implications of his proposals. Joseph (finance manager) on the other hand has been a good resource to the company regarding measures to control costs. This notwithstanding, a lot needs to be done in his department as a number of internal control weaknesses are prevalent. He is a soft spoken guy, who is very popular in his department and well known for standing with his staff.

The year 2015 marked the second year of implementation of the consultants’ recommendations. Although the changes were successful in reducing the overall cost base of the company, and provided valuable funding from the sale of the surplus factory sites and machinery, they had little effect on the declining sales revenues. The emerging competitors were more technologically advanced, offered a higher level of after sales services, and were more visible in the marketplace, owing to their well-defined strategic directions.

Concerned by the absence of change in the bottom line, James tasked his sons, Joel and Joseph, to assess the present challenges being faced by the company. This, he thought, would support the recommendations by the consultant and therefore restore the company onto its growth track. He also boldly informed them that the presentations were to form part of their performance appraisal for the current year.

Joel spoke first; “I am convinced that our people only give their best when under some kind of pressure. They prefer to be directed and with one or two exceptions, do not want any responsibility. I would not describe any of our employees as lazy, but they must be led. We need to develop a cadre of hands-on managers at MRL who can give clear instructions, and then make sure that those instructions are carried out. Where do these

instructions come from? They must be based on a coherent high level strategic plan devised by management and broken down into a hierarchy of specific targets. Without clear specific and measurable targets – not just talk about performance, this company will never achieve its full potential. I am not against anyone, but the prerogative to make decisions has to be earned the hard way. When our best managers show they can consistently meet the demanding targets we set, then that is the time to delegate some authority and give them some freedom of operation. So, until true management capability is proved, we have to put in place a system of targets; from the top to the bottom and they should relate to every aspect of our business model.”

Joseph said; “I totally agree with my brother about the scale of difficulties facing the company. We are way below the level of operations required to sustain operations. However, my philosophy is about empowerment rather than top down control. We need to encourage innovation, flexibility and general staff motivation rather than target setting. Rather than setting meaningless targets, why don’t we empower them and reward their innovation? This leads to constant innovation and improvement. This, if supported with proper quality control regimes, can take MRL places. We cannot have the hands of our managers tied by slavish adherence to top down targets and a military style command and control mentality. This will lead to focussing on short-term targets, and missing the bigger picture. The future of this company rests squarely with its employees, and they will only give their best if they are given genuine responsibility. Our role as managers, therefore, is not fundamentally about supervision and meeting written targets, but to develop talents in all employees and release their full potential.” Citing what was happening at competitor firms, he added ... “We should not waste precious time emphasising targets when we are not even monitoring what is happening in the market. There is a reducing number of people that buy beverages owing to health concerns. Globally there is increased public awareness about the need for healthy diets. These are the realities which we are missing. In conclusion, therefore, staff must be empowered to freely look out there and bring innovative ideas which will enable us compete better”

Following the presentations, there was considerable debate within the management team, but as expected there was no agreement on the way forward.

Appendix 1: Financial performance of MRL overtime

Revenue (‘000’)	2015	2014	2013	2012
Pawpaw soda	5,463,521	7,163,757	12,406,489	14,336,921
MRL water	699,675	818,150	809,156	712,417
Pawpaw wine	3,896,278	3,246,898	-	-
Total	<u>10,059,474</u>	<u>11,228,805</u>	<u>13,215,645</u>	<u>15,049,338</u>

REQUIRED:

- (a) Advise MRL’s management on the following:
 - (i) The need for clarity of the company’s strategic direction. **(15 Marks)**
 - (ii) How a matrix structure can be implemented at the company. **(10 Marks)**
 - (iii) How the resistance to change might have been averted at MRL. **(15 Marks)**
- (b) Present an evaluation of the management styles prevalent at MRL **(10 Marks)**

(Total 50 Marks)

SECTION B

Attempt two questions from this section

QUESTION TWO

With the aid of the value chain analysis model, discuss the potential improvements

in the value creation process at MRL

(25 Marks)

QUESTION THREE

(a) Assess the performance of MRL's portfolio of products.

15 Marks)

(b) Evaluate the key considerations prior to introduction of new products.

(10 Marks)

(Total 25 Marks)

QUESTION FOUR

With the guidance of Porter's five forces model, conduct an assessment of the competition faced by MRL.

(Total 25 Marks)

End of question paper

