INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT (CPA)

ADVANCED LEVEL 1 EXAMINATIONS

A1.1: STRATEGY AND LEADERSHIP

MONDAY: 4 JUNE 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

QUESTION ONE

Best Bakers Limited (BBL) is a confectionary business dealing in the production and sale of bread, cakes and cookies. The company commenced business ten years ago by operating canteens located at major universities and other higher institutions of learning in Rwanda. Over the years, BBL has expanded its operations by opening up seven new outlets in different busy locations in the capital Kigali. Plans are currently underway to expand even further and open outlets in Huye, Gicumbi, Ngoma and other major towns in the country. The expansion will however depend on the resources available. Currently, BBL remains the undisputed leader in the baking and sale of bread and cookies in Rwanda with a market share of approximately 65%.

Historically, BBL’s most profitable business line has been the sale of bread. This trend is, however, changing of late as the cakes business is taking over with profits nearing a half of what the company makes in totality. For the past two years cake sales have averaged 48% per annum. The growth in the demand for cakes is largely attributed to their longer shelf life, with no significant deterioration in quality. The other external driver for the high demand of the cakes, relates to the many flashy marriage ceremonies that demand uniquely made cakes.
BBL’s customers are always willing to pay exceptionally high prices for the uniquely designed cakes as this is perceived to add to the desired pomp on such occasions. Currently, there are no other products comparable in quality to BBL’s cakes product, hence the market preference.

The company also enhanced its competitiveness by entering a memorandum of understanding with the Foods and Beverages Regulatory Authority. Under the memorandum of understanding, no new rival firms are to be registered in the country within the next five years. The company also entered other contractual agreements with the providers of raw materials, provided that materials are to be supplied at fixed prices. The particular fixed prices are relatively lower than the average market rate and are meant to provide a ready market for products of suppliers while at the same time providing a ready supply of materials to BBL. The contracts made are also meant to help BBL to reliably budget for its costs and also maintain a lasting working relationship with its business associates.

Another strategy that BBL is using to enhance its external influence, is through encouraging formation of a collaborative forum for the competing firms in the confectionery business. BBL recently championed a drive to ensure that all companies in the confectionary business form an association through which they can voice their common concerns to the Government and other authorities. The talks are still ongoing amongst potential members who seem to have already bought into the idea.

Meanwhile, BBL has been approached by a business development consultant who has provided convincing evidence indicating that BBL stands to earn more abnormal profits, if at all it adds the production and sale of chocolate to its business portfolio. The top managers of BBL are very receptive to profitable business ideas and seem eager to put the ideas of the consultant to the test. The consultant has revealed that the biggest portion of Rwanda’s population is below 28 years and that majority are ladies who enjoy consuming more chocolate than bread. The consultant further notes that the good image built by BBL in the making of cakes and bread, is likely to play a big part in quickly growing the customer base for the new business line.

However, among the internal challenges that BBL has to first address, is the lack of specialized staff to manage the production and sale of chocolates. At the industry level, although the demand for chocolate is growing as suggested by the consultant, BBL's Chief Finance Officer is still skeptical about the company's ability to register success in the production and sale of chocolate. He cautioned his colleagues that in this market segment, Queen Chocolates Limited (QCL) held over 53% of the market share and the remaining 47% was shared amongst other four firms. He therefore expressed reservations about the new business proposal.

As part of the steps aimed at thoroughly analyzing the viability of starting the production and sale of chocolates, BBL management have decided to appoint a five-man team, with Mr. Gahigi Joel as the project manager, and tasked the team to critically look into the proposal of the consultant. The work of the project team has been extended to include the search for any opportunities besides that identified by the consultant. While being congratulated upon his new role as product development manager, Mr. Gahigi confessed to colleagues that he had limited experience in managing projects and therefore was not sure about the key roles he was expected to perform. In his first meeting with the consultant, Mr. Gahigi kept wondering how to add value to the proposal of the consultant since everything the consultant said, seemed to be the right thing to do.

Recent information that has been relayed to the managing director, Mr. Agatesi, shows that a section of BBL's, employees have raised allegations about the way the company is conducting its business. First, they have leaked to the media the fact that the longer shelf life of the companies' cakes is as a result of an additive that has the danger of causing cancer to humans if ingested in large quantities. Second, they allege that BBL is unfairly spying on its competitors through championing the formation of an umbrella association. Third, they allege that BBL is unfairly paying lower salaries to its staff than the going market rate. Fourth, they allege that BBL is using child labor as a way of reducing on costs of labor. The employed children are either paid little money or only provided meals as compensation.

It has also been discovered that Staff of BBL are not aware of the general strategic aspirations of the company, such as the vision and mission. They admit that the justification for why they work every day is simply in pursuit of a monthly salary. Workers also know that they don't have contracts and so can be dismissed any time. This seems to be a driving factor towards hard work on their part in order to save their jobs.

You have been approached as a management consultant on matters highlighted in the case above.

REQUIRED:

(a) Evaluate the relevance of an Organizational Mission to BBL.

(9 Marks)

(b) Assess the operating environment for BBL using the five forces model.

(15 Marks)

(c) Examine the steps that the project team should follow so as to appropriately analyse the market opportunities for the chocolate business.

(10 Marks)

(d) Assess the role that the project manager of the anticipated new product line is expected to play.

(10 Marks)

(e) Discuss the ethical issues that BBL management has to consider

(6 Marks)

(Total 50 Marks)

SECTION B

QUESTION TWO:

Quality Constructors Rwanda Limited (QCRL) was incorporated in March 2008 with the objective of providing quality construction services to clients. During its first six years in operation, QCRL won small to medium size contracts with the highest of them being valued at USD 70,000. Over the years the size and number of contracts that QCRL has won, have had a linear correlation with its survival potential and growth rate. The highest ever growth rate of QCRL happened in the financial year ending February 2017. This growth rate was largely attributed to the enhanced volumes and size of contracts that QCRL attracted in 2017. It seems that QCRL growth is still on the ascending lane as they recently won another construction contract worth USD 850,000.

According to the managing director (MD) of QCRL, the solutions that have fueled quick growth at QCRL over the years include the following:

First, the company embraces collaborations with other sister firms that have complementary competences. This has helped the company to gain international experience as a result of jointly implementing large scale international projects. The MD adds that this would not have been possible if collaborations had not been embraced.

The second solution has been the practice of regularly sponsoring all staff for regular refresher trainings. These trainings ensure that staff are equipped with updated skills of a multidimensional nature.

The third solution is the company's dedication to performing valuable work for our clients without any comprise in quality; while

The fourth solution is the continued establishment of new products for the market. These products are introduced after careful study of the market demands.

The MD is excited about the exponential growth being registered and is seeking further advice on how to sustain and enhance the current growth trend. He understands that the corporate level management plays a pivotal role in the success of businesses and would like to ensure effectiveness at this level in QCRL. He would also like to understand the probable stage QCRL is at in the business development cycle with the hope to proactively prepare for the next phase of development.

The MD has thus approached you, as a senior consultant in the field of strategy and management, for advice.

REQUIRED:

Evaluate the:

(a) role of the corporate center at QCRL.

(13 Marks)

(b) stages of the business development process that QCRL has undergone.

(12 Marks)

(Total 25 Marks)

QUESTION THREE:

Hakizimana Group of Hotels Limited (HGHL) is a growing chain of hotel business that was incorporated with the ambition of amassing wealth for its three proprietors. Within its first four years of existence, HGHL had opened up in Nyanza and Gicumbi towns so as to grow its revenues through a widened customer base. These two branches were in addition to the maiden hotel that is located in the capital Kigali. Although profits have declined over the past 18 months, HGHL has remained profitable since inception and it intends to expand further by opening up at least one new branch every two years. Currently, the occupancy rate at the Kigali branch is at an average of 90%, Gicumbi town is at 40% while Nyanza town stands at 60%.

Following the slight drop in profits, the proprietors hired a consultant and tasked him to find the causes and solutions to the declining performance in HGHL. Following a series of meetings held, the consultant's working papers provide an indication of the events under HGHL. One finding is that the proprietors no longer share a common dream. While two of them are interested in making more wealth, the third one is more interested in finding employment for his friends and family.

The above partly explains why recruitment of employees at branches other than the Kigali branch, are highly subjective. The senior accountant of the branch at Nyanza town for example, has no qualification in accounting. It is only the manager at the Kigali branch who observes objective procedures on recruitment and does not listen to informal influence from individual shareholders. He for example recently recruited a professional chef to deal with the preparation of special meals for guests from China.

The consultants' notes also show that HGHL lacks a clear reporting structure at the strategic level. There are no formal reports to the directors since no formal meetings are held. At lower levels however, the managers have a small team and enjoy talking to their staff face to face. Available information reveals that there is salary disparity between employees performing similar jobs at various branches. While these disparities could be due to different conditions of operation at the different branches and therefore justifiable, the employees have not been informed of the drivers for the amount of salary paid. It is generally a question of how well one negotiates at the time of being hired.

REQUIRED:

(a) Using the six structural dimension model, assess the structural challenges faced by HGHL.

(13 Marks)

(b) Assess the relevance of people in enabling successful strategy implementation at HGHL.

(12 Marks)

(Total 25 Marks)

QUESTION FOUR:

Nyarugenge Technical Institute Rwanda (NTIR) has been in existence for over 20 years and is currently one of the most sought after technical institutions in the whole of East and Central Africa. This is partly because of the good performance of the Institute's graduates at the Job market. NTIR has distinguished itself from other institutions in a number of ways; it has lecturers from all over the world which gives students a global experience, it sponsors regular staff training and takes part in relevant industry symposia.

NTIR also has distinguished brands on all its assets such as vehicles and stationery used at the Institute. This branding approach has continued to give NTIR visibility in the market. The Institute also has a unique induction program, which involves presentations to staff about the company's positive past history and the even brighter future. In pursuit of further growth, NTIR has suggested some changes to its operations:

NTIR wishes to automate the way students' results are processed as this will help it to enhance its reputation immediately. The current processes have become inefficient and allow examination questions to leak to students.

Secondly, it wishes to automate the fees payment system as most international students prefer using these technologically improved payment platforms. This will enable NTIR to champion electronic payments ahead of the other institutions and will generate stakeholder interest.

Management believes that this will improve the institution's competitiveness since in the long run, government plans to make it mandatory for all institutions to receive and make payments through electronic platforms rather than transacting using physical cash.

While the students have for long been asking the institution to allow for other payment options like use of mobile banking, the technical employees in the accounting section are reluctant to embrace this technology fearing that it may make them lose jobs. They have always convinced the top management that embracing new technology will expose NTIR to risks of cyber fraud and financial losses.

The third IT advancement planned by NTIR entails designing a new technology that will support online teaching of programs that will be introduced in the coming two years. Despite all the possible risks involved, the Principal is determined to transform NTIR into a technology led institution. He envisions that though costly to setup, online teaching eventually improves control systems and staff efficiency. Those opposed to technology advancement at NTIR have called for the resignation of the principal arguing that he intends to waste a lot of money on IT instead of using the money to increase the staff salaries.

REQUIRED:

(a) Based on the McFarlan Grid, assess the role of Information Technology at NTIR.

(9 Marks)

(b) Examine the building blocks for the cultural web of NTIR clearly showing how each of them impacts the institutions' competitiveness.

(8 Marks)

(c) Assess the possible approaches to managing resistance to change at NTIR.

(8 Marks)

(Total 25 Marks)

End of Question Paper

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