
CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.1: STRATEGY AND LEADERSHIP

MONDAY: 3 JUNE 2019

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

Kayonza General Dealers Limited (KGDL) was established in the year 2001 by Mr. Pious Gonza with the basic purpose of extending household products closer to the residents of Kayonza district. The company started as a small distributor of general household items such as oils and detergents as well as agricultural products like rice, groundnuts and sugar procured from nearby large stores and sold to the local residents. KGDL gained popularity for its commitment to supplying genuine products and soon received good reception from multitudes of clients. This propelled it to expand its line of supplies both in terms of variety and volumes as dictated by customer requests. Within the first five years of operation, KGDL had opened up six (6) small storage and distribution centres spread out within different locations in Kayonza district. The company also extended its presence to cover 80% of the Eastern province. The goal was to get services much closer to the clients as and when needed.

By December 2006, the company had a fleet of 34 distribution vehicles, a team of 126 employees and boasted of an annual profit growth rate of 44%. By the year 2011, KGDL's client base stretched as far as the neighbouring districts of Gatsibo, Rwamagana, Ngoma and Kirehe. In addition, its range of products had grown to include a variety of foodstuffs, and a wide range of construction materials. With the increasing market, KGDL sought to diversify its sources of materials and started importing cost effective materials from as far as Congo, Uganda and Kenya. Following the continued steady growth, in December 2012 the MD decided to re-clarify that the expanded purpose of KGDL had become 'extending logistics closer to the residents of the Eastern province in Rwanda'

From a human resource perspective, KGDL's operations during inception had been executed on a daily basis by a team of four employees comprising Mr. Gonza's three children and his wife. The team shared a lot in common particularly the enthusiasm to ensure that customers' orders are met as scheduled. They also entertained zero tolerance for delays in service delivery. The above strategy coupled with dedication to timely resolution of customer complaints increased repeat purchases and contributed to business growth.

As the scale of operations expanded, KGDL adopted the method of periodically recruiting and orienting new family members and giving them roles to serve in the business. In the recent past, the need to attract national and international contracts has made KGDL to kick start the sourcing of staff by running advertisements in the public media. It is a national requirement that a business that bids for national jobs must be an equal opportunities employer and thus should not only give jobs to relatives. As regards execution of strategic roles, the MD's major attention has majorly been generation of new ideas for fuelling business growth, new venture analysis, nurturing business networks, and building a culture of friendliness with customers, employees, government and other business partners. One of KGDL's big customer who has dealt with Mr Gonza for over a decade, has on many occasions praised him as an astute businessman who exudes a lot of humour and is always honest in his dealings with business partners.

In the minds of KGDL customers, it has remained clear that no other business supplies genuine quality products comparable to those of KGDL. In addition, the company's suppliers appreciate its high level of business honesty and ethics. Spot checks initiated by suppliers

have in the past indicated that KGDL does not adulterate any of its products. In the May 2019 quality assessors' report, it was reported as follows. "..... Among the companies that have consistently stood out in terms of quality is KGDL. The company's products are offered in their "virgin" form which is also referred to as "organic" form in some jurisdictions. In other cases, the company enhances product value through the extra frills that go with particular products such as repackaging in smaller quantities to the convenience of buyers."

In a related development, one of KGDL's suppliers of agricultural products, Rice Growers Limited, conducted an independent survey on all its distribution channels and reported that it is only KGDL that does not mix rice of differing qualities. Other dealers either mixed rice with stones before selling it out or would mix rice of higher quality with that of lower quality, and sell it as high quality rice, so as to make more returns.

By the year 2014, KGDL had yielded to the requests made by numerous clients who wished that KGDL ventures into supply of genuine construction materials. Having commenced construction services in 2006, KGDL is now a major player in the construction sector. Indeed, the company recently won a contract to manage the logistics for the construction of Shyaka Health Unit (SHU). SHU is still under construction in the Eastern province district of Gatsibo. The sole reason why KGDL won the contract is because it offers onsite deliveries of genuine materials, unlike some other eligible competitors. The SHU contract started behind schedule due to unforeseen circumstances. As a result operations were rushed including sourcing of KGDL staff that had to execute the movement of materials. The sourcing process entailed a rushed process of placing a short advert in the public media that ran for merely three days. Subsequently applicants were evaluated on the fourth day, trained for merely three days and thereafter deployed to undertake the transportation of materials and management of stores.

A recent report from Mr. Rukundo the project manager of SHU has raised an issue of late deliveries of logistics by the newly recruited staff. It is also reported that KGDL staff handling this project often deliver less than the requisitioned materials and are not friendly to clients. Subsequent investigations by the internal auditor of KGDL revealed more irregularities, including the fact that KGGL employees at times took materials like iron sheets, cement and nails from the stores and during transportation. This was largely occurring because there were no checks undertaken at delivery. The checks at delivery had been eliminated after KGDL received a grand recognition of quality from the national regulatory authority in the year 2017. Meanwhile, the staff who are being implicated have pleaded not guilty, arguing that the delays in delivery are due to the aging vehicles that need replacement. Vehicles are often driven for long distances to distant locations like Uganda and Kenya where some of the materials are procured.

On receiving the report from Mr. Rukondo, the MD of KGDL was upset by the findings in the report and was concerned that unless such concerns are addressed, they could affect the company's prospects of winning the impending logistics contract under the Ministry of Health. The ministry is considering outsourcing movement of its medical supplies to a local logistics company such that the role of the ministry is only supervisory. This way, the ministry hopes to be more effective in offering medical supplies to the citizens countrywide. In fact, the MD of KGDL has a scheduled appointment to meet the minister to discuss the prospects of awarding KGDL this juicy five year contract of distributing medical supplies to the whole of Rwanda.

The minister has learnt of the fact that over its 18 years of operation, KGDL has proven to be the leading indigenous company that upholds the value of integrity. The minister thus believes that the company can move medical supplies in the most trusted way possible. The minister is also eager to help KGDL to acquire a seven year bank loan so as to procure customised vehicles that KGDL will use to move the medical supplies. KGDL has also received information about the opportunity of extending logistical services to Gatsibo district in Kigali province which will be exploited with the acquisition of the new vehicles.

In another development, some of the major hotels in Gatsibo district have requested KGDL to consider handling their logistical services of foodstuffs. The deal would give KGDL the option of handling the logistics of making future home deliveries of meals to the hotels' clients within Kigali. This and the other opportunities mentioned above have created excitement at KGDL. The MD now wishes to use an external consultant to advise on the possible business development strategies for KGDL given its existing product portfolio and prevailing market opportunities.

REQUIRED:

- (a) Assess the contextual significance of clarifying upon KGDL's reason for existence in the Eastern province. **(12 Marks)**
 - (b) Evaluate the nature of strategic decisions that KGDL has to make so as to profit from the opportunity of distributing medical supplies. **(16 Marks)**
 - (c) Write a memo to the MD advising him on the possible business development strategies for KGDL given its existing product portfolio and prevailing market opportunities. **(10 Marks)**
 - (d) Discuss the role of the key enablers of business strategy for KGDL. **(12 Marks)**
- (Total 50 Marks)**

SECTION B

QUESTION TWO

XBT is a metal fabrication company based in Nyanza town, a business hub located in Southern province. The company was founded in 2010 by Gregory Ganza following his completion of a diploma in metal works at the Kigali University of Technology. Initially, XBT specialised in fabricating doors and windows for residential and commercial buildings. However, the demand for these products dwindled over the years 2012 – 2014 when the country experienced massive inflation which significantly reduced the purchasing power of the potential customers. XBT quickly diversified into construction services as a measure to sustain the business. Following this new initiative, and in an effort to serve customers better, new branches were opened up in Gitarama, Gikongoro and Kibeho.

As the case had been since inception, commemoration events were part of XBT whenever an achievement was registered. These events involved traditional ceremonies characterized by ritual prayers, recognition and rewarding of loyal employees. In 2016, XBT consultatively agreed to venture into supplies. However; the company was not successful due to market informalities. As a turnaround strategy, XBT appointed branch managers to supervise and coordinate work in the new outlets. But other functional units like finance, marketing and human resource were maintained at the head office in Nyanza. Work roles and group targets were shared on the company's email to all staff and managers had to monitor progress. With effective and inclusive communication processes XBT was able create regional presence across Rwanda. Customers had the option of making online orders or traditional discussions with sales personnel. In either option, customers received prompt feedback.

Monthly joint meetings were introduced, during which managers would discuss new strategies and emerging market opportunities identified. Innovation was a well-known work value in XBT, with staff encouraged to “think outside the box”. Ganza, the company CEO, ensured that all employees were consulted in matters that affect their work productivity and collective discussions were encouraged as part of the organisational culture. At XBT, weekly staff parties were trendy and employees would interact with their leaders freely. XBT had a practice of holding periodic trainings, workshops and continuous assessments. Through employee performance evaluation new skills gaps would emerge and workers reported any work challenges. Following the above interventions, the company sales doubled in 2017, with a profit margin of Frw 1.5 billion reported, rising to Frw 2.3 billion in 2018.

Around mid-2018, XBT partnered with a local microfinance company to construct cheap houses for the old at no charge, thereby increasing the company's public ratings. Gradually XBT became a model company in the metal fabrication and construction sub sectors. In the same year, XBT was awarded a certificate of recognition in the category of premium product quality at the annual business excellence awards for the Rwanda Manufacturers' Association. The award attracted demand for the company's products and services from all over East and Central Africa. Recently the CEO was nominated by the director of Rwanda Manufacturers' Association to share his business strategy with the top 100 CEOs in Kigali in the forthcoming workshop. He has approached you for guidance on how he could use certain management concepts to explain XBT's business excellence.

REQUIRED:

- (a) Account for the rise of XBT using the cultural web model. (12 Marks)
- (b) Discuss the contribution of 'management by objectives' in the growth of XBT. (13 Marks)
- (Total 25 Marks)**

QUESTION THREE

MET Group is a reputable company in Rwanda founded by Jolly Kayadanda who is one of the most celebrated entrepreneurs in the country. MET deals in a diversified range of products that include water, milk, juice and wine. The company has grown over time to become one of the largest private companies in Rwanda, employing over 500 people with a revenue base of Frw 200 billion.

According to observers, Kayadanda's entrepreneurial abilities were instrumental in the growth of the company. His status in the business fraternity generated publicity which enabled the company to create a highly recognisable brand image. The above aside, MET is known for creativity and a distinctive approach to management. For example, it is MET's practice to continuously explore opportunities for growth by blending its core competencies and synergies. MET is run on a product based organisational structure where each product line is considered a semi-autonomous entity financed on an independent budget. This enhances healthy internal competition while at the same time promoting accountability for results. This has significantly improved performance management and the related reward processes. MET practices specialised and standardised management systems with a decentralised reporting structure that minimises bureaucracy. Employees are required to follow stipulated procedures in relation to leave processing and career development among others. Information technology is integrated in all business processes while managers have significant autonomy in operational decisions. This has aided efficient information flow among employees and supported quick decision making. The company brand is premised on principles of customer value for money, product quality, esteemed customer service, inimitable innovations and positive emotions.

Over the years, MET's product performance has been impressive. For the period ended December 2018, MET juice controlled 40% of the total market share in the subsector, largely owing to the juice's popularity among school-going children. From a government perspective, however, processed juice is considered unhealthy and it attracts a high excise duty in form of tax.

MET water on the other hand posted unprecedented demand in Kicukiro putting the total market share at 52%. Elites believe that water is life thus everyone needs water to survive. Despite fierce competition from cheaper packed water brands, MET water has continued to benefit from its quality and strong marketing programs for market growth. The product has also benefitted from a government led initiative to support local investors through tax subsidies.

MET wine a new product in the market has picked momentum with impressive sales posted in the 2018 festive season. As at 31 December, 2018 the market share for MET wine stood at 20% with potential to rise even further as the wine gets accepted into new market segments.

MET milk on the other hand enjoyed a market boom and controlled 80% of the total market share. The milk market is mature and enjoys economies of scale though prolonged drought has dwindled supply in the industry. The product is also known for its high quality in comparison to other milk on the market.

The following table summarises the annual sales of MET across different market segments for the previous three years.

Product line	Sales Frw ‘billion’		
	2016	2017	2018
Milk	22.5	23.21	25.23
Water	16.25	16.85	16.8
Juice	8.85	8.52	8.34
Wine	-	13.5	13.75

Whereas MET continues to post impressive financial results, Kayadanda is convinced that since the business environment is dynamic, there must be regular review of MET’s operations so as to optimise performance on an ongoing basis. He has therefore requested you as a management consultant to advise on key business matters.

REQUIRED:

- (a) Discuss the structural interventions implemented by MET Ltd to achieve rapid market growth. **(12 Marks)**
 - (b) Using the General Electric (GE) matrix, evaluate the performance of MET’s strategic business units and recommend appropriate strategic interventions for the respective business units. **(13 Marks)**
- (Total 25 Marks)**

QUESTION FOUR

PTL Ltd is a China based solar company with over 1,000 outlets worldwide. The company has been in operation for 20 years and has registered notable success over this period. The company’s products include solar PVS, batteries, inverters, bulbs and general maintenance/customer support services. PTL boasts of well trained and experienced marketers who are supported by a dedicated customer service team. For the year ended 31 December, 2017 PTL reported a 30% revenue growth and a profit of US \$ 20 billion. In the same year, the company embarked on an aggressive marketing strategy with a plan to accelerate market growth and increase profitability of the company in all regional markets. The company also sought to emphasise product quality as a way of preserving its global reputation for reliable solar products.

PTL has a well-documented price policy and all product prices are set based on the policy provisions. The company has also ensured that its operations are aligned to the global efforts on sustainable use of the environment in line with the Sustainable Development Goals of the United Nations. Management takes pride in having business partnerships with several institutions and organisations that promote environmental conservation, such as Sustainable Development for All (SE4ALL). SE4ALL is a global movement that seeks to ensure access to clean energy for all. At the organisation’s 2018 annual summit, the president of SE4ALL

announced the institution's new policy in support of the energy sector. He therefore implored all governments to increase budget allocations for energy so as to benefit from SE4All's expertise. The declaration attracted many private investors into the sustainable energy initiatives, PTL inclusive.

In 2018, the company instituted a 30% price cut on solar PVS, thereby pushing the demand for solar PVS up by 50%. The growing demand motivated PTL to introduce new products like solar water heaters and fridges. It further entered partnerships with reputable telecom companies in an effort to improve customer service.

According to Wangsu Chei the marketing manager at PTL, the company is currently a market leader with a global market share of 45% and an 80% global market coverage. The marketing manager has proposed that given the changing competitive landscape, the pricing strategy should be revised to charge different prices in different market segments. He recommends a price increment of 40% for dominant markets like India, China and Brazil, 10% for upcoming markets like Kenya and Burkina Faso and no price increment for rural markets. At their last annual general meeting, the shareholders of PTL noted that the price policy of the company had earned them good returns. They therefore resolved to reinvest the profits in a new emerging market. The company's management team identified Rwanda as a potential market, though majority shareholders were not convinced. In trying to convince them, Chin Wendyi PTL's chief executive officer argued that...

"In January 2019, Rwandan political leaders held a retreat to evaluate progress on the country's efforts towards the sustainable development goals, with focus on renewable energy. The minister for Cultural Affairs was reported to have noted that many people in Rwanda continued to depend on paraffin for lighting and wood fuel for cooking, partly because of cost but also because some of them believe food is tasty when prepared on three-stone technology. Following the retreat, government decided to withdraw the paraffin subsidy and introduce 5% tax reduction on solar products with effect from the next financial year. Additionally, a directive was issued to all financial institutions to revise their lending rates for investors.

The above notwithstanding, it is quite ironical that in late 2018, a leading Chinese television reported that the government of China cautioned PTL for carbon emissions that had exceeded the legal limit. The same news channel reported that a section of employees, particularly those working in the production units were considering industrial action over low pay and poor safety conditions.

You have been approached as a consultant on the concerns raised in the above scenario

REQUIRED:

- (a) Evaluate the market conditions that influenced PTL's decision to adjust prices. (10 Marks)
 - (b) Assess PTL's business environment and justify the recommendation to invest in the Rwandan market. (15 Marks)
- (Total 25 Marks)**