CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATIONS

A2.2: STRATEGIC PERFORMANCE MANAGEMENT

DATE: THURSDAY 30, MAY 2024

MARKING GUDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

MARKING GUIDE

	Marking scheme	Points	
Q1a	Accurate calculation of after tax cash flows for each scenario separately or the average for both years , including terminal value.@ 0.5 max of 5 marks	5.5	
	Accurate calculation of tax benefit from depreciation/capital allowances	2.5	
	Accurate NPV calculation (based on expected cash flows, 15% rate or 20.75%	4	
	Correct consideration of a 30% tax rate and calculation of after-tax NPV	3	
	Correct decision in relation to outcome	2	
	Sunk cost 1 mark each. Maximum 3	3	
	Total	20	20
Q1b	Estimation of IRR		
	Real rate below 15%		
	Nominal rate 20.75%	3	3
Q1c	Any 3 methods, 1 mark each	3	3
Q1d	Any 1 advantage and 1 disadvantage @ 1 mark each	2	2
Q1e	calculation of expected risk each up to 3 marks in total	6	
	calculation of expected return of each up to 3 arks total	6	
	Relevant conclusion	3	15
Q1f	Any 2 merits and 2 demerits of CAPM, 1 mark each	4	4
Q1	Description of any 3 process in portfolio management, 1 mark each	3	3
	Total		50

MODEL ANSWER

QUESTION ONE

A.
(i)

Return On Investment (ROI)	**2022**	**2023**
Year	**FRW. Millions**	**FRW Millions**
Net profit	1,195	2,024
Add back uncontrollable cost	1,442	914
Controllable profit	2,637	2,938
Average Subsidiary Assets		
Opening Controllable assets	14,000	8,000
Closing Controllable assets	8,000	25,000
Average of Controllable assets	11,000	16,500
ROI	24%	18%
Year 2022 (2,637/11,000) x 100%		
Year 2023 (2,938/16,500) x 100%		
Residual Income (RI)	FRW, Millions	FRW Millions
Controllable profits	2,637	2,938
Imputed cost of investment	1,705	2,574
Year 2022 (11,000x 15.50%)		
Year 2023(21,500x 15.50%)		
RI	932	364

A comment

Comment
Year 2023 as has a lower Return on Investment (ROI) than what is required by the management of Amahoro, This reduction may be explained by major injection of additional of investments, assets have increase by three fold compared to previous year. Depending on when these assets were acquired during the year, especially if acquired towards the year end, then these may not have been fully employed in the business to realize full utilization, hence a reduction in ROI. Better returns could be expected in the coming years

For both years, the company have a positive Residual Income (RI). This means that these investments are adding value to the shareholders

(ii) Changes in ROI will have a dysfunctional effects especially when new investments or projects being evaluated are going to result in reduction in the current ROI being achieved by the manager or division, this is not the case with RI as long as it is positive, it means that the investments are value adding

(iii) Advantages of RI

The advantage of RI is that it will encourage managers to make investments as long as the RI figure is positive where as a reduction in ROI will lead to a dysfunctional effect as noted above, a good investment project may be rejected if it reduces the current ROI

Managers will be keen on cost control as they are made aware that RI takes into accounts cost of capital investments they make

Where a division is seen to be more risky, the imputed cost of capital can be adjusted to reflect the risk

Draw backs of RI

RI does not facilitate comparisons between divisions since the RI is driven by the size of divisions and their investments.

RI is also based on accounting measures of profit and capital employed which may be subject to manipulation so as, for example, to obtain a bonus payment. In this way it suffers from the same problems as ROI.

B. Answer to question 1B

(i) Aims of Transfer Pricing (TP)

Def. Prices that division, branches or subsidiaries charge each other for products or service or goods transferred amongst themselves

The aim of transfer price is to

1. Ensure there is divisional autonomy, meaning that managers must be given opportunities to make decision, this develops their managerial capabilities
2. Maximization of profitability for the group, transfer pricing should ensure that there is overall benefit to the group, i.e., maximization of the profits to the group
3. Ensures fair divisional performance measurement, since TP may be at dismal prices and will reflect poorly during performance appraisal, transfer prices should be at prices which will be fair to both supplying and the receiving division or subsidiaries
4. Motivate divisional managers to work in te best interest of te organization
5. Optimum resource allocation so that the group benefits from value adding investments made

(ii) Range of transfer prices to be charged

1. The minimum transfer price should cover at least the cost of production (marginal or variable cost) of the transferee. This amounts to FRW125,000. This may be used if the Northern subsidiary has spare capacity and there is no external market for the product
2. Eastern subsidiary has been supplying to the northern subsidiary at a special price of FRW 150,000 which covers its variable cost and part of fixed overheads (cost plus), Northern subsidiary would be happy paying this price as it is cheaper than external market price of FRW170,000. Eastern subsidiary is working at full capacity with unquenched external export market, Eastern subsidiary will not accept to supply at this price and the price not in best interest of the company of profit maximization
3. Eastern subsidiary is working at full capacity with unsatisfied external market demand, the least price they may transfer should be the external market as this covers both variable cost and any opportunity cost of not selling, this will be a price external market price of FRW225,000 and, Eastern subsidiary has to pay a fine should it be unable to supply under the contract terms. The least price the eastern region can supply to northern subsidiary is therefore FRW 245,000 (export market price plus any fines to be paid)

Item	FRW
Variable cost	125,000
Opportunity cost	100,000 (225,000 – 255,000)
Fines	20,000
Total cost	**245,000**

Northern subsidiary should therefore purchase the fresh produce at a local market for FRW 170,000

C. Answer to question 1C

In Just in Time (JIT) environment, an organization will only procure inventory when it is needed for production or use thereby reducing the need for holding inventory and its associated costs. Major benefit of JIT is therefore its impact of the reduction of inventory that is held

Not all areas are candidate for JIT deployment, some industries will always require inventory to be kept and in large quantities, for example a hospital will always have in stores large volumes of drugs and treatment accessories. In case of the Northern subsidiary, it may employ JIT in management of fresh supplies as these ought to be delivered fresh.

1. For JIT to work, it requires a seamless flow of information between customers (Northern subsidiary) and its fresh produce suppliers, there is need for close interaction which may include incorporation into its information system (extranet) a few selected fresh produce suppliers
2. It will need to identify a number of reliable suppliers which can be trusted to deliver whenever there is demand

3. Northern subsidiary should accurately forecast quantities required and communicate these to suppliers
4. There's need for efficient logistics systems including good road network and freight services for moving supplies to the required locations.
5. To ensure quality, Northern subsidiary will require that its suppliers of fresh produce meet minimum certification criteria, such as obtaining ISO certification 9001XXX in farming
6. Handling and storage activities will also be important in ensuring quality of produce during transportation to the premises of Northern subsidiary

D. Question 1 D: Variance calculation

	Frw		
Initial Budgeted price per unit	1,100		
Revised price per unit	950		
Actual sales revenue	5,480,000		
Budgeted Volume	5,700		
Actual Volume	5,200		
Contribution per unit			
Sales		1,100	
Material WW (3.5K x Frw180)	630		
Material KK (2.1K x Frw140)	294		
labour (0.2 rs x Frw 650)	130	1,054	
Contribution		46	
Sales price planning variance			
(Revised price - original budgeted price) x actual quantity			
(1100 - 950) x 5200		- 780,000	Adverse
Sales price operational variance			
(Revised price - actual price) x actual quantity			
(950 x 5200) - 5,480,000		540,000	
Sales Volume planning variance			
Original Volume	5,700		
Revised Volume	5,130		
Difference	570		
At standard contribution (see working above)	26,220	A	
Sales Volume Operational variance			
Revised	5,130		
Actual volume	5,200		
Difference	70		
At standard contribution (see working above)	3,220	F	

Material mix variances							
	Actual quantity in std mix	Actual quantity mix	Difference	Standard prices			
Material KK	1,183	1,320	- 138	180	- 24,750	A	
Material MW	710	572	138	140	19,250	F	
	1,892	1,892			- 5,500	A	3 marks
Material Yield = product takes	STD Mix	Actual in STD Mix	Diff	std price			
Material KK	1,820	1,183	638	180	114,750	F	
Material MW	1,092	710	383	140	53,550	F	
Total	2,912	1,892	1,020		168,300	F	
Std Qty (520units x 5.6 kgs)	0			320			

Or		
Input of 1892 sould yield (1,892/5.6) =	338	
Actual yield	520	
Diffrence	182	Favourable
At standard cost per unit unit (KK 3.5 x Frw180 + MW 2.1 x Rfw140)	924	
	168,300	Favourable
Labor Variances		
Labour rate planning variance	Actual ours	
Original standard rate x actual (14,200 x 650)	9,230,000	
Revised rate x actual hours (14,200 x 1,050)	14,910,000	
Variance	- 5,680,000	A
Labour rate operational		
Revised rate x actual hours (14,200 x1,050)	14,910,000	
Actual rate/cost (given)	16,200,000	
Variance	- 1,290,000	A
Labour Efficiency		
(Standard hours - actual hours) x standard rate		
(52,000 x 0.2) - 14,200) x 650	- 2,470,000	A
(52000 x0.2) - 14200) x 1,050	- 3,990,000	A
(students may use the Initial budeted rate or the revised rate)		

Answer to question 1D

(iii) Usefulness of Mix and yield variances

Yield variance is related to overall output of the product, therefore calculating yield variance for individual materials does not make sense and may not be appropriate

Mix variances are interrelated, changing a mix will mean increase in one material product and a decrease in the other material

(iv) Advantages and disadvantages of using time series as a forecasting technique

A time series forecasting is the forecasting process, whereby a series of figures or values recorded over time are used to predict future variables.

Time series has the following components:

1. Trend
2. Seasonal variations or fluctuations
3. Cycles, or cyclical variations
4. Non-recurring, random variations

The following are the advantages of forecasting using time series

1. Time Series Analysis helps you identify patterns, which helps in planning and other models development like, sales-advertisement models, etc
2. Time series involves predicting future pattern using previous periods' data which can be reliable
3. Time Series Forecasting can predict the future: Time series usually help the company to predict future patterns

The following are the disadvantages of forecasting using time series

1. All forecasts are subject to error, but the likely errors vary from case to case,
2. The further into the future the forecast is for, the more unreliable it is likely to be,
3. The less data available on which to base the forecast, the less reliable the forecast,
4. The historic pattern of trend and seasonal variations may not continue into the future, hence the unreliablity of future forecasts,
5. Random variations may upset the pattern of trend and seasonal variation,
6. Extrapolation of the trend line is done by judgment and can introduce errors,
7. There are a number of changes that also may make it difficult to forecast future events.
8. Forecasting using time series does not consider the environmental changes, technological advances, legal changes, social changes which may occur between the periods.

E. Question 1E(i) BSC table

Operator	overall satisfaction	availability of learning materials	punctuality in addressing student issues	Number of hours per paper
Kona	129.0	92	88	70
Manu	120.8	80	90	65
Muck	130.1	89	80	80
For Kona overall satisfaction				
Availability = 92 x 50%.	46.0			
Punctuality = 88 x 45%	36.6			
ours per paper = 70 x 62%	43.4			
Total	129.0			

Comment: Muck is number one in customer satisfaction perspective

Question 1E (ii) Other aspects of BSC

1. Financial perspective, measures how the company has created wealth for its shareholders, traditional measures such as ROCE, operating profit margin. Specifically they can measures profit per course offered to identify loss making or less profitable courses could be used as an indicators of success.
2. Internal perspective measure what Kona must excel at to remain competitive, common factor that attract professional students to a particular college is the pass rate, which is directly linked to quality of service provided by the teaching stuff, a measure such as how many qualified and experienced lectures Kona has in relevant subjects/units, this could create confidence in students in terms of delivery, presentation and understanding the concepts.
3. Learning and innovation has more to do the future of the organization, is the firm able to compete. A measure such as new courses Kona has come up with in the last one year and how many do they expect or plan to introduce, are they only depending on accounting course or other consultancy services as well. What is their market share?, (opening new satellite colleges), use of technology to delivery tutorial now that many students are home based

Marking guide

QUESTION TWO

Marking Guide

Question	Description	Allocated marks	Total marks
a(i)	Objective variable	2	
	Material A	1	
	Material B	1	
	Labour	1	
	Demand	1	
	Non negativity	1	
a(ii)	H - high rise	0.5	
	S - sub urban	0.5	
	E - exotic	0.5	
	A - material A	0.5	
	B - material B	0.5	
	S - skilled labour	0.5	
	D - demand	0.5	
b(i)	Each correct mark 1	5	
(ii)	Culture - any correct point, 1 mark each	5	
	Management information system - any five correct point 1 mark each	5	
	Total Marks		25.5

Question 2 A

(i) Formulate a linear programming model.

Maximise contribution (Frw'm): 7H + 4S + 9E	
Subject to constraints:	
Material A	$20H + 10S + 30E \leq 4$
Material B	$6.7H + 6.7S + 8.3E \leq 3$
Skilled labour	$30H + 10S + 20E \leq 6$
Demand for E	$E \leq 10$
Non-negativity	$H, S, E \geq 0$

(ii) Formulate an initial simplex table.

Row No	Solution variables	Buildings			Slack Variables				Solution Quantity
		H	S	E	A	B	S	D	
1	A	20	10	30	1	0	0	0	4
2	B	7	7	8	0	1	0	0	3
3	S	30	10	20	0	0	1	0	6
4	D	0	0	1	0	0	0	1	10
5	Z	7	4	9	0	0	0	0	0

B

(i) Analyze the financial impact of the pilot business process re-engineering (BPR) project in the warehousing operations of SC (6 Marks)

Annual cost benefit of the new system

	FRW
Benefits of new system (cost savings)	
Warehouse staff 10 × 2,500,000 × 50%	12,500,000
Purchasing staff 3,200,000 × 8.5/5	5,440,000
Annual costs of new system	
Depreciation - hardware 22,000,000 / 8 years	(2,750,000)
Depreciation - software 27,500,000 / 8 years	(3,437,500)
On-going servicing cost	(2,250,000)
Net benefit	**9,502,500**

ii) Discuss the Impact of BPR on the culture and management information systems at SC.

(10 Marks)

(b) The term "business process re-engineering" (BPR) refers to the radical redesign and fundamental rethinking of business processes in order to achieve significant gains in important modern performance metrics including speed, quality, cost, and service. It crosses conventional departmental boundaries to provide the finished product in a more effective manner. This may be seen at SC in the impact the BPR initiative has had on the purchasing and warehousing departments.

It will be necessary to shift from functional departments to process teams in order to adopt a process perspective. Retraining will be required of employees in order for them to acquire new abilities. The workers will have more decision-making authority and the organizational hierarchy will become more horizontal. The implementation of a single corporate database accessible via an ERP system frequently helps with this. These will be significant adjustments at SC, which seems to have established its own set of procedures. As a result, senior management will need to exercise strong leadership and communication during the transition.

This means that performance measures for accounting at SC need to be redesigned with processes rather than departments in mind. Finding areas where value is added and cutting out areas where resources are used without producing worthwhile results are the goals. As part of the BPR restructure, the business processes might be modeled using an activity-based approach, and the accounting systems could follow suit. The more precise way of allocating overheads to provide a more exact product cost and, consequently, a more accurate notion of the profit each product generates is known as the ABC system of costing.

Compared to conventional overhead absorption techniques, it requires more time and money to set up, but it will work effectively given the anticipated process modifications at SC brought about by BPR. Financial reports will need to be updated with process teams in mind, and any budgetary deviations made in the context of the activity-based approach may need to be reevaluate

QUESTION THREE

MARKING GUIDE

Question number	Criteria of awarding marks	Maximum Marks	Total Marks
Q3 a)	Any 5 Financial ratios/ measures well explained- 2 marks each Any 2 Non-financial measures explained – 2 marks each	**10 marks** **4 marks**	**14 marks**
Q3 b)	Three well explained strategies @ 2marks each	**6 marks**	**6 marks**
Q3 c)	Any correct point@ 1 mark each	**5 marks**	**5 marks**
	Total		**25marks**

MODEL ANSWERS

a) Using the information provided, discuss Amani Best Comfort services' financial and non-financial performance for the year ended 31 December 2023 (14 marks)

Gross room income: Based on standard room rates, ABCS's "gross" room revenue grew by 6.6% in 2023. This rise is attributable to both higher occupancy rates (74% vs. 72%) and higher standard room rates (FRW 40,000 vs. FRW 35,000 per night). On the other hand, this presents a rather false picture of the hotels' performance up to 2023.
Income following reductions When discounts and rate reductions are taken into account, revenue from room sales has really only increased by 1.8%. This is mostly due to the notable 45% increase in discounts or rate reductions granted.

	2023 FRW'000	2022 FRW'000	% change
Standard revenue	111,890	104,976	6·6%
Discounts/reductions	16,783	11,540	45·4%
Room revenue net of discounts	95,107	93,436	1·8%

Managers may have chosen to cut hotel prices in an effort to retain as many of their current business clients as feasible or to draw in more leisure guests in light of the diminishing number of business customers and the ensuing possibility of lower occupancy rates.

Revenue, net of discounts, grew by only 1.8% even though occupancy rates increased by 2.8% (from 72% to 74%, which currently surpasses the anticipated amount). This indicates that even though the standard rate was higher in 2023 (FRW 40,000 vs. FRW 35,000), income per room per night after discounts was lower in 2023 than in 2022.
The plan to raise the standard room fee for 2023 seems quite optimistic given the challenging market conditions.

The hotel administrators have only been able to exceed their budget for occupancy rates by lowering room rates, despite still managing to do so.
Increased revenue - Even if visitors are paying less per room per night, one advantage of higher occupancy rates could be the rise in revenue from sales of food and beverages. The fact that additional revenues have increased by about 5% suggests that this is the case.
Total amount earned Revenue (net of discounts) increased by 2.4% overall in 2023 compared to 2022. Given the fiercely competitive landscape, ABCS might see any revenue growth favorably. Furthermore, if the amount received from the sale of the accommodation exceeds the variable cost of providing it, then raising the occupancy rate

Operating profit:

However, because of a significant rise in operating costs, operating profits decreased by FRW300,000 (1.3%) between 2023 and 2022 despite the increase in revenue.
The breakdown of ABCS's operating expenses, such as the proportion of fixed and variable expenditures, is not provided. Cost control, however, is probably going to be crucial in a market that is becoming more and more competitive. Therefore, there may be reason for concern regarding the Rwf3 million (3.3%) increase in operating costs between 2022 and 2023, and further research should be done to determine the cause of the increase.
But, it will be crucial to cut expenses without sacrificing consumer pleasure. Spending reductions in areas that will negatively affect ABCS must be avoided.

	2023	2022
	FRW'000	FRW'000
Total revenue	119,377	116,621
Discounts offered	16,783	11,430
Gross revenue	136,160	128,051
Operating profit	23,915	24,242
Operating profit margin	***17·6%***	***18·9%***

ROCE: The company's return on capital employed (ROCE) has decreased somewhat from 62% (FRW24.2m/FRW39.1m) to 60.5% (FRW23.9m/FRW39.5m) as a result of this decreased profitability. This may indicate a decline in the value ABCS is getting from its assets. The drop in ROCE may be especially concerning considering the recent relative dearth of capital investment in the hotels. ABCS's non-current assets will become more expensive due to capital investment, which will lower ROCE at any given profit level.

Non-Financial Measures

Scores for customer satisfaction
While ABCS should be concerned about the decline in profitability, there may be more reason to be concerned about the decline in customer satisfaction ratings. According to the scores, ABCS dropped from being in the top 10% of hotels to barely being in the top 25% in the course of a single year. This is a substantial drop in just one year, and ABCS cannot afford to let it go on. The degree of care and comfort that ABCS provides its visitors with are two things that it takes great pride in. People are probably going to think carefully about both of these aspects when deciding whether or not to remain in ABCS. Consequently, declining customer satisfaction scores may be seen as a sign

b) Describe three alternative competitive business strategies that ABCS can apply to achieve a sustainable competitive advantage. (6 Marks)

ABCS may have a choice of three generic strategies so as to achieve sustainable competitive advantage. These are:

1) Cost leadership strategy: in this strategy ABCS will aim to be the lowest cost producer of services within the industry thus enabling it to compete on the basis of lower selling prices rather than unique products or services. The source of competitive advantage may arise from factors such as economies of scale, access of favorable raw material prices and superior technology.
2) Differentiation: ABCS may apply this strategy by seeking to offer services that are considered by the customers to be superior and unique relative to its competitors. Examples may include quality or dependability or reliability, wide availability of services and flexibility.
3) Focus: this strategy involves seeking advantage by focusing on a narrow segment of the market that has special needs and that are poorly served by other competitors in the industry. Competitive advantage is based on either cost leadership or product differentiation.

c) Advice the CEO of ABCS on five potential benefits of implementing an incentive system that he could put in his proposal to board to convince them. (5 Marks)

The potential benefits of implementing an incentive system may include:

(i) Increased Motivation: Incentive systems provide employees with tangible rewards for achieving specific goals or targets, which can significantly boost motivation. When employees see the potential for rewards, they are more likely to put in extra effort to meet or exceed expectations.

(ii) Improved Performance: By aligning incentives with desired outcomes, such as productivity, sales targets, or quality standards, organizations can drive improved performance across various departments and functions. Employees are incentivized to work more efficiently and effectively to earn rewards.

(iii) **Enhanced Employee Engagement**: Incentive systems can foster a sense of ownership and engagement among employees, as they feel directly rewarded for their contributions to the organization's success. Engaged employees are more committed to their work and are likely to stay with the organization longer.

(iv) **Attraction and Retention of Talent**: Offering competitive incentive packages can help attract top talent to the organization and retain existing employees. In today's competitive job market, employees are often drawn to companies that offer attractive incentives, such as performance bonuses, profit-sharing, or stock options.

(v) **Alignment with Organizational Goals**: Incentive systems can be designed to align individual and team goals with broader organizational objectives. By tying incentives to key performance indicators (KPIs) and strategic initiatives, organizations can ensure that employees' efforts are directed towards achieving overarching business goals.

QUESTION FOUR

MARKING GUIDE

Qn 4	Description	Marks	Total
a(i)	Establishing b	1.5	
	Establishing a	1.5	
	Max price	2	
	Variable cost	1.5	
	Max quantity at best price	2	
	Price	1.5	
a(ii)	Price Skimming (identification 1 mark and explanation 2 marks)	3	
	Penetration pricing(identification 1 mark and explanation 2 marks)	3	
			16
b	(i) Each process or step well explained 1.5 marks each	6	6
	(ii) Each point well explained points each 1 mark	3	3
	Total		25

MODEL ANSWER

(a)

(i) Price that maximizes profitability is FRW1,210. Contribution at that price, FRW380,250,000

1. Establish the demand function	
Calculate b = change in price/ change in demand	
b = 400/1,000,000	0.0004
Calculate maximum quantity that can be demanded Q = 4,000,000	
So P = 0 when Q is 4,000,000	
Substitute and find 'a' in the demand function	
P = a - bQ	
0 = a - 0.0004 x 4,000,000 =	1,600
The demand function is therefore	P = 1,600 - 0.0004Q
2. Establis marginal cost	
In tjis case will be = variable cost = Marginal cost	
Material = (given)	280
other variable costs (given)	90
Labour (480 x 0.75)	360
Opportunity cost (120 x 0.75)	90
Total variable cost (MC)	**820**
3. Establish the marginal revenue function	
Insert 'a' and 'b' from step 1	
MR = a - 2bQ	= 1,600 - 0.0008Q
4. Solve for Quantity in tje MR function	
Profit is maximised wen MR = MC	
MC = 820	
MR = a - 2bQ = 1600 - 0.0008Q	
MR = MC = (820 = 1600 - 0.0008Q)	
Solve for Q = (1600-820)/0.0008	975,000

5. Calculate selling price tat maximize profits usin quantity above

P - a-bQ = P = (1,600 -0 .0004 x 975,000)	**1,210**
Contribution =(Sellin price -Variable cost) x Q = (1,210-820 x 975,000)	**380,250,000**

(ii) Discuss the two pricing options floated above (6 marks)

a) Market penetration pricing with penetration pricing

A low initial price would be charged for the miracle drug under market penetration pricing. The reasoning behind this is that by lowering the price, a greater number of consumers will be able to purchase the goods, and as a result, the lower pricing will be offset by strong sales. The miracle drug would quickly enter the market and be recognized as the only medication that is worthwhile purchasing.

A penetration pricing strategy would be advantageous in the following situations: - Highly elastic demand for the drug, meaning that demand is positively correlated with price.

If Umwamaliya Plc could attain considerable economies of scale, larger sales volumes would result in appreciable cost reductions.

If the business intended to shorten the drug's initial life cycle in order to swiftly reach the growth and maturity stages; - If the business was actively working to deter new entries into the market

ii) Market skimming pricing

When a business chooses to engage in market skimming, it first sets high rather than low pricing for the miracle drug. By doing this, Uwamaliya Plc would be able to benefit from the product's distinctiveness. High prices in the early stages of a product's life cycle are expected to generate high initial cash flows, which will help Uwamaliya Plc recover the high development costs it has incurred. These are the most favorable conditions for this strategy: - The product has a short life cycle and high development costs that need to be recovered. hours every day

(i) Explain the steps that Uwamaliya Plc can apply in management process in implementing VBM approach. **(6 Marks)**

Uwamaliya Plc has a number of procedures are involved in putting Value Based Management (VBM) into practice in order to match an organization's operations to its long-term goals for creating value. Below is a general process outline:
1. Uwamaliya plc has to establish definite objectives: Clearly state the long-term aims and

objectives of the organization. These ought to be in line with generating long-term value for stakeholders and shareholders.
2. Create KPIs, or key performance indicators: Uwamaliya Plc must determine and set up performance measures that accurately reflect the values that drive the organization. These could be non-financial measures like customer happiness, staff engagement, and environmental effect, or they could be financial measurements like Economic Value Added (EVA) and Return on Investment (ROI).

3. Align Incentives: Make sure that reward and pay schemes, as well as incentive structures, are in line with the Uwamaliya Plc objectives for creating value. This might entail linking executive pay to indicators for long-term value development as opposed to only short-term financial results.
4. Put Performance Measurement Systems into Place: Create mechanisms for tracking and evaluating performance in relation to the predetermined KPIs. To offer real-time visibility into important metrics, this can entail putting enterprise performance management (EPM) software or other tracking systems into place.

5. Encourage responsibility: The Uwamaliya Plc Encourage an organizational culture of responsibility by making teams and people answerable for their role in value generation. This could entail holding frequent feedback sessions and performance reviews.
6. Decision-Making and Strategic Planning: Incorporate VBM concepts into the organization's decision-making and strategic planning procedures. This could entail assessing strategic initiatives, investment possibilities, and resource allocation choices in light of their potential to generate long-term value.
7. Uwamaliya Plc should educate and Communicate: To guarantee general comprehension and buy-in, explain the tenets and advantages of VBM throughout the company. This could entail leadership communication on a regular basis as well as workshops and training sessions.

8. Continuous Improvement: To adjust to shifting stakeholder expectations, company dynamics, and market conditions, the VBM framework should be reviewed and improved on a regular basis. This could entail making changes to incentive schemes, changing performance measurements, or reevaluating strategic priorities.
9. Keep an Eye on External Factors: Keep track of external factors that could affect the organization's capacity to generate value, such as market trends, legislative changes, and competitive dynamics. Modify the VBM strategy as necessary to reduce risks and take advantage of opportunities.
10. Assess and Modify: Assess the VBM implementation's efficacy on a regular basis in relation to the predetermined goals and objectives. Make any necessary modifications and enhancements based on this input to promote continuous value generation.
These guidelines can help firms apply value-based management successfully and coordinate their efforts to create

(ii) Explain why it is preferable to distinguish between managerial and economic performance (3 Marks)

i) Both economic and managerial performance are interconnected and contribute to the overall success of an organization.

ii) Strong managerial performance can lead to improved economic performance, while robust economic performance provides resources and stability that support effective management practices.

iii) Monitoring and assessing both aspects are essential for driving sustainable growth and competitiveness.