



**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 1 EXAMINATIONS
A1.1: STRATEGY AND LEADERSHIP**

DATE: MONDAY, 28 APRIL 2022

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE: University of Mutingito Manufacturing (UoM)

Marking guide

	Description	Marks	Total Marks
a	Strategic and financial objectives: The objectives must be related to a university and must be smart. Since they are meant to be assumed, figures and other information can be different from what have been provided in the model answer. Objectives which do not fulfil all smart criteria should be awarded 0.5 marks		
	Financial Objectives (1 mark for 1 each smart objective = 2 marks maximum)	2	
	Strategic Objectives (1 mark for 1 each smart objective = 2 marks maximum)	2	4
	b Strategy formulation: The examination should include a short discussion of what each strategy formulation option means and a discussion of how UoM could apply them Deliberate strategy development (1 mark is awarded to a correct description of this option, 1 mark to a mention of any one form of deliberate strategy (i.e by a strategic leader, by strategic planning, or external imposition of strategy formulated elsewhere) and 1 mark to how UoM could apply this option	3	
Emergent strategy development (1 mark is awarded to a correct description of this option, 1 mark to a mention of any one form of deliberate strategy (i.e logical incrementalism, political processes, or organisational structure and systems) and 1 mark to how UoM could apply this option	3		
	Advice on the preferred option: award 1 mark for any correctly explained advice. It could be emergent, deliberate, or a combination of both if it is explained	1	7
c	UoM's value-chain analysis: The analysis must be linked to UoM A short and correct introduction to the value-chain analysis model		
	For each activity, 1 mark is awarded to a correct description of the activity and 1 mark to how it is linked to UoM	1	
	Inbound logistics (1 mark is awarded to a correct description of the Inbound logistics and 1 mark to a correct example)	2	

	Description	Marks	Total Marks
	Operations (1 mark is awarded to a correct description of the operations and 1 mark to a correct example)	2	
	Outbound logistics (1 mark is awarded to a correct description of the Outbound logistics and 1 mark to a correct example)	2	
	Marketing and sales (1 mark is awarded to a correct description of the Marketing and sales and 1 mark to a correct example)	2	
	Service (1 mark is awarded to a correct description of the service and 1 mark to a correct example)	2	
	Procurement (1 mark is awarded to a correct description of Procurement and 1 mark to a correct example)	2	
	Technology Development (1 mark is awarded to a correct description of Technology Development and 1 mark to a correct example)	2	
	Procurement (1 mark is awarded to a correct description of Procurement and 1 mark to a correct example)	2	
	Human resource management (1 mark is awarded to a correct description of Human resource management and 1 mark to a correct example)	2	
	General administration (1 mark is awarded to a correct description of General administration and 1 mark to a correct example)	2	
	A valid diagram/illustration of the Michael Porter's value-chain model. No additional marks for a diagram with UoM's data inside the diagram but no penalty as well	1	
	A relevant assessment of how UoM could apply the value-chain model to achieve competitive advantage	2	24
d (i)	Linking UoM's proposed project and mission: Correctly identifying UoM's mission	1	
	Linking the two into a coherent manner	1	
(ii)	Project manager's role: These should be simply stated but linked to the UoM project. Unlinked roles are awarded 0.5 marks 1 mark * 3 = 3 marks maximum	3	5
e	Evaluate the attractiveness of Rwanda's education system using the Porter's Diamond: Must be explained well and linked to the case A short and correct introduction to the Porter's Diamond	1	
	Factor conditions (1 mark awarded for a correct description of this determinant and 1 mark for a correct example from the case)	2	
	Demand conditions (1 mark awarded for a correct description of this determinant and 1 mark for a correct example from the case)	2	

Description	Marks	Total Marks
Related and supporting industries (1 mark awarded for a correct description of this determinant and 1 mark for a correct example from the case)	2	
Firm strategy, structure, and rivalry (1 mark awarded for a correct description of this determinant and 1 mark for a correct example from the case)	2	
A valid diagram/illustration of the Michael Porter's Diamond. No additional marks for a diagram with UoM's data inside the diagram but no penalty as well	1	10
Total Marks		<u>50</u>

Model answers

a) Making reasonable assumptions, **propose both strategic and financial objectives that would suit the UoM.**

Organisational objectives are short-term and medium-term goals that an organization seeks to accomplish. Objectives may be categorised as objectives stating the organisation's purpose and those that state its strategic aims. Objectives must be Specific, Measurable, Attainable, Realistic, Realistic, and Time Bound (SMART).

Since this is a university, the following are proposed strategic and financial objectives.

Financial Objectives:

These are outcomes that improve the firm's financial performance. UoM could have the following financial objectives:

- Increase revenue growth 6 percent to 8 percent in each of the next 5 years,
- Reduce expenditure by 4 percent in each of the next 4 years,
- Double revenues from online courses by the end of 2 years,
- Cut fees paid by students on blended courses by 30 percent by year 3.

Strategic Objectives:

These are outcomes that strengthen a firm's competitiveness and long-term market position. UoM could have the following financial objectives:

- Increase offered online courses by 50 percent over a 3-year period,
- Provide scholarships to at least 50 vulnerable students each year for the next 10 years,
- To become the best online courses provider in the region by 2025.

b) Examine the two strategy formulation options debated by the university board and advise the board on which option to adopt.

Strategy formulation is the analysis of both the internal strengths and weaknesses of an organisation and the external opportunities and threats as well as identifying the strategic options that can be taken by the organisation.

UoM board is debating two strategy formulation options namely: deliberate and emergent strategy development methods. They are examined below.

Deliberate strategy development:

Deliberate strategy involves intentional formulation or planning. Such intentionality may take different forms. It could be the intentionality of a strategic leader, for example a CEO or the founder of a firm. It could be through a process of strategic planning involving many managers. Or it might be experienced as the external imposition of strategy formulated elsewhere.

UoM could apply this option by carefully engaging departments and different stakeholders to come up with a strategy for the university to be implemented over time. This is a preferred strategy development option for many universities.

This strategy development option has advantages of predictability and if managed well could optimize the use of available resources. However, for a variety of reasons, the deliberate strategy rarely survives in its original form. Unforeseen environmental developments, unanticipated resource constraints, or changes in managerial preferences may result in at least some parts of the strategy remaining unrealised.

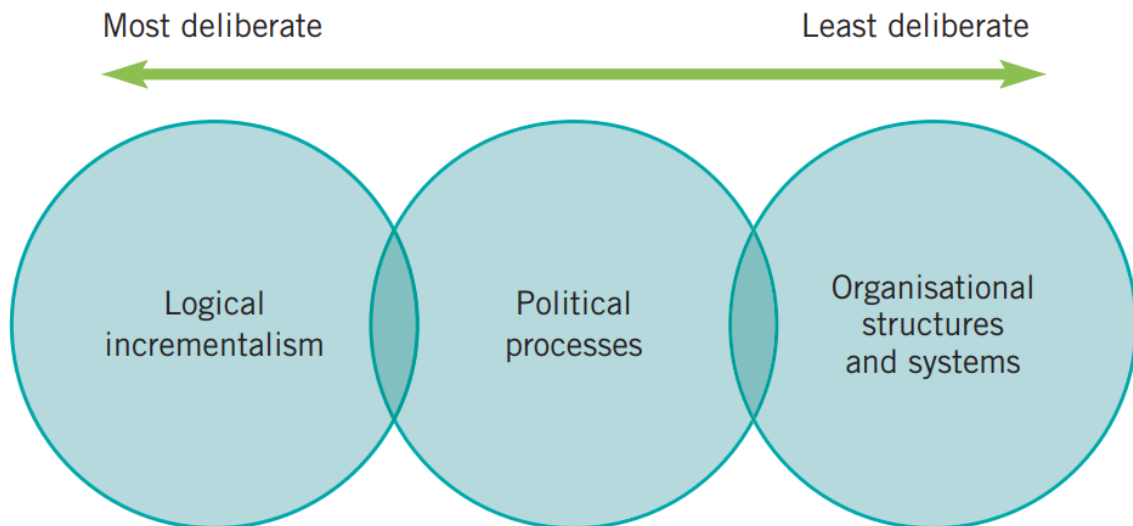
Emergent strategy development:

Henry Mintzberg suggests that good ideas never come from the boardroom, that in fact the excellent companies allow strategy to emerge from its employees. A suggestion box is an example of this at a basic level. The problem with this strategy is how to manage the process so the good ideas emerge.

Although strategy development is often described as though it is the deliberate intention of top management, an alternative explanation is that of **emergent strategy**: that strategies emerge on the basis of a series of decisions, which forms a pattern that becomes clear over time. This explains an organisation's strategy, not as a 'grand plan', but as a developing 'pattern in a stream of decisions' where top managers draw together emerging themes of strategy from various decisions and directions, rather than formulating it directly from the top. The pattern that emerges may then subsequently be more formally described, for example in annual reports and strategic plans, and be seen as the deliberate strategy of the organisation. It will not, however, have been the plan that developed the strategy; it will be the emerging strategy that informed the plan. Emergent strategy may, then, be seen as a basis for learning what works in search for a viable pattern or consistent strategy. There are different views of emergent strategy which are: logical

incrementalism, strategy as the outcome of political processes and, as the outcome of organisational structure and systems. All three emphasise that strategy development is not necessarily the province of top management alone but may be more devolved within organisations. Figure 1.1 shows how the different views can be thought of in terms of a continuum according to how deliberately managed the processes are.

Figure 1.1: A continuum of emergent strategy development processes



Because of the unpredictability, UoM may find this option challenging to adopt. However, this does not mean that it cannot be used by the university.

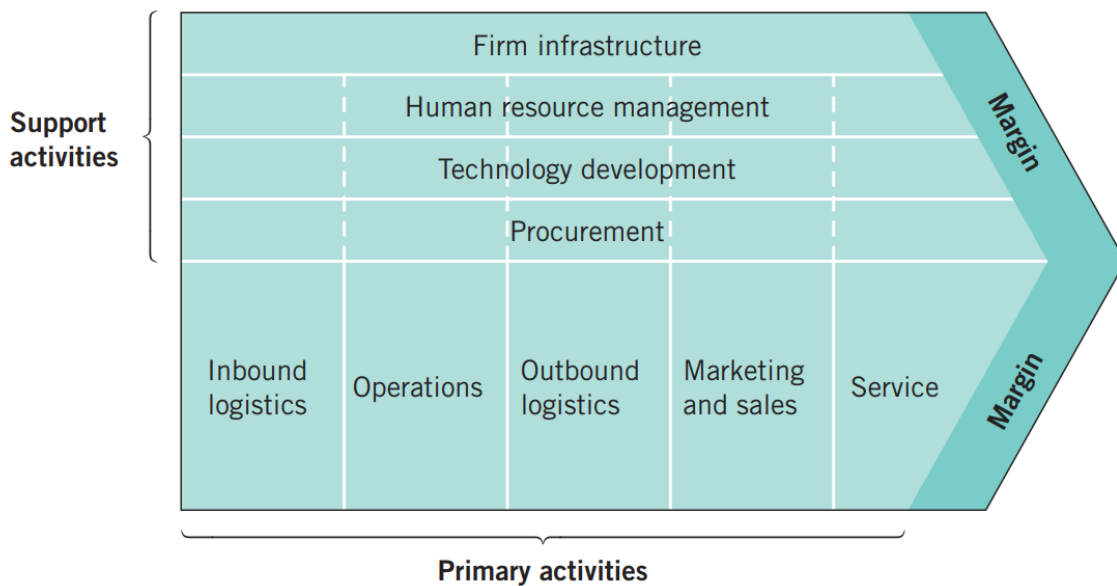
In practice, though, the final realised strategy of any firm or institution is a combination of deliberate and emergent strategies. Therefore, UoM should consider certain elements of both options and embed them in its strategy formulation plans.

c) Discuss UoM's revamped value-creating activities using the value-chain analysis and advise how UoM could achieve competitive advantage using the revamped activities.

Value-chain analysis is a strategic analysis of an organization that uses value-creating activities. Value-chain analysis views the organization as a sequential process of value-creating activities. The approach is useful for understanding the building blocks of competitive advantage and was described in Michael Porter's seminal book *Competitive Advantage*. Value is the amount that buyers are willing to pay for what a firm provides them and is measured by total revenue, a reflection of the price a firm's product commands and the quantity it can sell. A firm is profitable when the value it receives exceeds the total costs involved in creating its product or service. Creating value for buyers that exceeds the costs of production (i.e margin) is a key concept used in analysing a firm's competitive position.

Porter described two different categories of activities. First, five **primary activities**—inbound logistics, operations, outbound logistics, marketing and sales, and service—contribute to the physical creation of the product or service, its sale and transfer to the buyer, and its service after the sale. Second, **support activities**—procurement, technology development, human resource management, and general administration—either add value by themselves or add value through important relationships with both primary activities and other support activities. Figure 1.2 below illustrates Porter’s value chain.

Figure 1.2: The value chain within an organisation



Below is a discussion of the activities illustrated in figure 1.2 and a demonstration of how UoM could add value using this model.

Primary Activities

Primary activities are sequential activities of the value chain that refer to the physical creation of the product or service, its sale and transfer to the buyer, and its service after sale, including inbound logistics, operations, outbound logistics, marketing and sales, and service. For UoM, this is essentially the activities involved in the delivery of courses to students such as recruitment of lecturers, training, and lecturing among others.

Five generic categories of primary activities are involved in competing in any industry, as shown in figure 1.2. Each category is divisible into several distinct activities that depend on the particular industry and the firm’s strategy.

- **Inbound Logistics:** **Inbound logistics** is primarily associated with receiving, storing, and distributing inputs to the product/service. It includes material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers. Just-in-time (JIT) inventory systems, for

example, were designed to achieve efficient inbound logistics. Although this is mostly applicable to a manufacturing context, the inputs at UoM are the students who want to be educated. These include students from top performing high schools and as well as employees wanting to improve their knowledge.

- **Operations:** **Operations** include all activities associated with transforming inputs into the final product form, such as machining, packaging, assembly, testing, printing, and facility operations. UoM has decided to adopt largely computer-based and interactive learning approaches where lecturers will mostly act as facilitators to students for finding answers by their own capabilities. Online courses are to be the back bone of UoM's teaching program. This is how UoM intends to transform incoming students into graduates that would be useful to the business environment. Research is another important operation to UoM.

- **Outbound Logistics:** **Outbound logistics** is associated with collecting, storing, and distributing the product or service to buyers. These activities include finished goods, warehousing, material handling, delivery vehicle operation, order processing, and scheduling. Again, this sounds more applicable to a manufacturing environment but for UoM, outputs will be graduates who will be prepared for the workforce market, researchers who may continue with doctoral studies or enrol in research institutions, and lecturers who will be able to spread the knowledge around the community and all over the world.

- **Marketing and Sales:** **Marketing and sales** activities are associated with purchases of products and services by end users and the inducements used to get them to make purchases. They include advertising, promotion, sales force, quoting, channel selection, channel relations, and pricing. For UoM, dialogue between students, lecturers, and the business community to enhance a mutually beneficial system to all stakeholders will help in the spread of new ideas and best practices. Further, because online courses will be widely accessed in the academic and business environment, this will market the university worldwide.

- **Service:** The **service** primary activity includes all actions associated with providing service to enhance or maintain the value of the product, such as installation, repair, training, parts supply, and product adjustment. The new system introduced by UoM puts post-education services at the center of the university's purpose. Even if UoM is a knowledge provider, it believes that its visibility in the business environment is a key factor for attracting future students, teachers, and researchers. This coupled with the research and development (R&D) activity may bring products or services for the global environment and potentially attract new fees from new students.

Support Activities

Support activities are activities of the value chain that either add value by themselves or add value through important relationships with both primary activities and other support activities, including procurement, technology development, human resource management, and general administration.

Support activities in the value chain can be divided into four generic categories, as shown in the illustration. Each category of the support activity is divisible into a number of distinct value activities that are specific to a particular industry. For example, technology development's discrete activities may include component design, feature design, field testing, process engineering, and technology selection. Similarly, procurement may include activities such as qualifying new suppliers, purchasing different groups of inputs, and monitoring supplier performance.

- **Procurement:** **Procurement** refers to the function of purchasing inputs used in the firm's value chain, not to the purchased inputs themselves. Purchased inputs for UoM may include teaching materials such as books, supplies, and other consumable items as well as assets such as machinery, laboratory equipment, office equipment, and buildings.
- **Technology Development:** Every value activity embodies technology. The array of technologies employed in most firms is very broad, ranging from technologies used to prepare documents and transport goods to those embodied in processes and equipment or the product itself. Technology development related to the product and its features supports the entire value chain, while other technology development is associated with particular primary or support activities. For UoM, technology is at the centre of everything it intends to do from online courses to R&D.
- **Human Resource Management:** **Human resource management** consists of activities involved in the recruiting, hiring, training, development, and compensation of all types of personnel. It supports both individual primary and support activities (e.g., hiring of lecturers and other support staff) and the entire value chain (e.g., negotiations with labour unions).
- **General Administration:** **General administration** consists of a number of activities, including general management, planning, finance, accounting, legal and government affairs, quality management, and information systems. Administration (unlike the other support activities) typically supports the entire value chain and not individual activities.

To achieve a competitive advantage, the UoM must perform one or more value creating activities in a way that creates more overall value than do competitors/other universities. Superior value is created through lower costs of delivering its education services or superior benefits to the students by providing quality courses and using different approaches preferred by both students and the business community (differentiation).

d) Refer to UoM's tendered project and:

i. **Discuss how the proposed project enhances UoM's mission.**

The UoM intends to move towards online teaching. The proposed project of welcoming proposals from faculty for a wide range of online course projects with the potential to enhance teaching and learning for a diverse student population at the university feeds well into the UoM's overall mission of becoming a leading online teaching provider in the region. Provision of Massive Open

Online Courses (MOOCs) will place the university at the peak of its ambitions and set it up for success.

ii.State the project manager’s responsibilities for the project.

The project manager has the responsibility and authority to lead the project to its final deliverable (goal) within a given framework. The project manager’s responsibilities for this project will be to ensure:

- Drawing up and continuously updating the plan for the introduction of online courses.
- The day to day running of online courses.
- That the correct resources and workload requirements are scheduled among different staff members.
- The online learning activities are properly prioritised and that the critical tasks are defined.
- That there is a continuous review of the project and revision of the plan as required to meet the final deliverable (goal) of the university.
- That key milestones will be clearly defined to ensure the project remains in control.
- That all project documentation is updated and maintained.
- That the chosen work model and methods are applied.
- That the project is tracked, controlled, and reported.
- Those stakeholders, internally and externally, are kept informed. These will include students, staff, parents and sponsors among others.
- That the interim and final results are handed over.

e) With reference to the recently published education sector study, evaluate the attractiveness of Rwanda’s education system using the Porter’s Diamond.

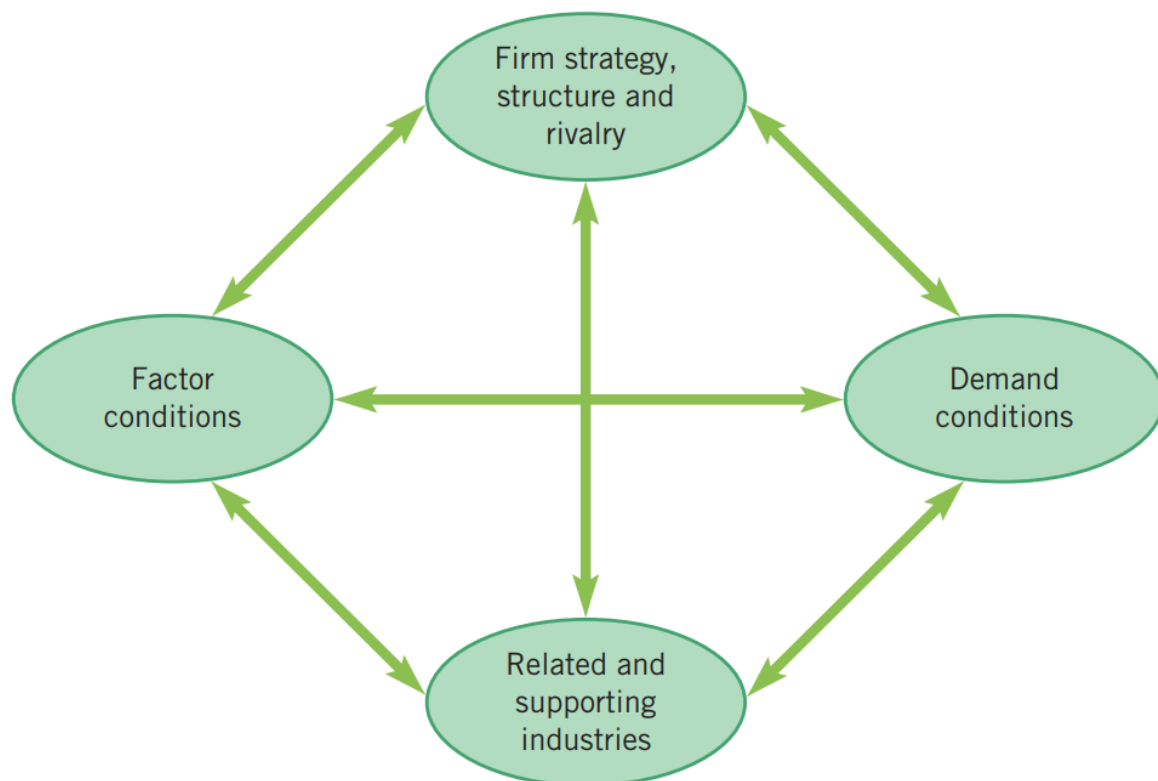
According to Michael Porter, a nation attains a competitive advantage if its firms are competitive. Firms become competitive through innovation. Innovation can include technical improvements to the product or to the production process.

Countries and regions within them, and organisations originating in those, often benefit from competitive advantages grounded in specific local conditions. They become associated with specific types of enduring competitive advantage. Michael Porter has proposed a four-pointed ‘diamond’ to explain why some locations tend to produce firms with competitive advantages in some industries more than others (see Figure 1.3). Specifically, Porter’s Diamond suggests that locational advantages may stem from local factor conditions; local demand conditions; local

related and supporting industries; and from local firm strategy structure and rivalry. These four interacting determinants of locational advantage work as follows:

1. Factor conditions (i.e. the nation's position in factors of production, such as skilled labour, raw materials and infrastructure),
2. Demand conditions (i.e. sophisticated customers in home market).
3. Related and supporting industries.
4. Firm strategy, structure and rivalry (i.e. conditions for organisation of companies, and the nature of domestic rivalry).

Figure 1.3: Porter's Diamond – the determinants of national advantages



1. Factor Conditions

Factor conditions refers to inputs used as factors of production - such as labour, land, natural resources, capital and infrastructure. This sounds similar to standard economic theory, but Porter argues that the “key” factors of production (or specialised factors) are created, not inherited. Specialised factors of production are skilled labour, capital, and infrastructure. Porter argues that a lack of resources often actually helps countries to become competitive (call it selected factor disadvantage). Abundance generates waste and scarcity generates an innovative mind-set. Such countries are forced to innovate to overcome their problem of scarce resources. It has been indicated that there is a lack of sufficient capital, land, and labour. This seems to have worked to the advantage of Rwanda's education sector. Limited availability of education focused grants and

other sources of funds which forces universities in Rwanda to think outside the box regarding improving their infrastructure and funding their activities including research. Because Rwanda is relatively geographically small, universities are faced with limited land to develop many state-of-the-art buildings to serve various purposes compared with other universities around the world. This could be the reason universities are pushing for online learning and research.

2. Demand Conditions

Porter argues that a sophisticated domestic market is an important element to producing competitiveness. Firms that face a sophisticated domestic market are likely to sell superior products because the market demands high quality and a close proximity to such consumers enables the firm to better understand the needs and desires of the customers. If the nation's discriminating values spread to other countries, then the local firms will be competitive in the global market. There is evidence from the case that Rwanda's domestic market is supplicated. Rwanda's competitiveness as indicated by various ranks, high level of school enrolment, a growing sophisticated business ecosystem boosted by KIFC. Further, businesses seem to need the skills produced by universities in Rwanda. This will push universities to become competitive and innovate to produce graduates needed on the market.

3. Related and Supporting Industries

Porter also argues that a set of strong related and supporting industries is important to the competitiveness of firms. This includes suppliers and related industries. This usually occurs at a regional level as opposed to a national level. Examples include Silicon Valley in the U.S., Detroit (for the auto industry) and Italy (leather-shoes-other leather goods industry).

The phenomenon of competitors (and upstream and/or downstream industries) locating in the same area is known as clustering or agglomeration. Some advantages to locating close to your rivals may be potential technology knowledge spill-overs, an association of a region on the part of consumers with a product and high quality and therefore some market power, or an association of a region on the part of applicable labour force.

A combination of businesses that are ready and willing to absorb graduates from the universities and Kigali International Financial Centre (KIFC) seem to be working to the advantage of Rwanda's education system. In addition, government's focus on scientific research is a boost and seems to be supporting the sector.

4. Firm Strategy, Structure and Rivalry Strategy

The characteristic strategies, industry structures and rivalries in different countries can also be bases of advantage. A competitive local industry structure is also helpful: if too dominant in their home territory, local organisations can become complacent and lose advantage overseas. Some domestic rivalry can actually be an advantage, therefore.

Rwanda's education system has many highly competitive universities. The study suggests that there is strong rivalry amongst lots of universities amongst themselves and between them and vocational training centers and other training institutions. There is no clear dominant university which creates intense competition. This is an advantage to the industry.

Overall, the education sector seems to be more competitive even though it is facing a few challenges. For it to sustain its competitiveness, government policy and the philosophy of domestic universities towards innovation will play a key role.

SECTION B

QUESTION TWO: Rwema Ventures Ltd (RVL)

Marking guide

Qn	Description	Marks	Total Marks
a (i)	Role played by RVL: A correctly identified role (i.e portfolio manager)	2	
	Reasons for the identified role (1 mark for each reason from the case * 2 maximum reasons = 2 marks maximum)	2	4
a (ii)	RVL's value adding and destroying activities: Each activity should be explained in details to qualify for 2 marks. A poorly or insufficiently explained activity is awarded 1 mark Value-adding activities (2 marks for each correctly explained activity * 2 activities = 4 marks maximum)	4	
	Value-destroying activities (2 marks for each correctly explained activity * 2 activities = 8 marks maximum)	4	8
b	GE-McKinsey Matrix for RVL: A short introduction/description of what the GE-McKinsey Matrix is	1	
	A correct mention of the two parameters used in measuring the performance of business units in the discussion i.e market attractiveness and SBU strength (1 mark for each = 2 marks)	2	
	A modest discussion on how RVL can apply the matrix to assess its business units	2	
	A correct future direction for Ramba Ltd i.e divestment and accompanying reasons	2	
	A correct diagram. Alternative valid diagrams are acceptable	1	8
c	Behavioural market segmentation: A short introduction/description of what the behavioural market segmentation is	1	
	A correct discussion how Rwivanga Ltd can segment its market using user and usage-related variables. The discussion must be relevant to the hospitality sector (1 mark for any correctly stated variable * 4 variables = 4 marks maximum)	4	5
Total Marks			<u>25</u>

Model answers

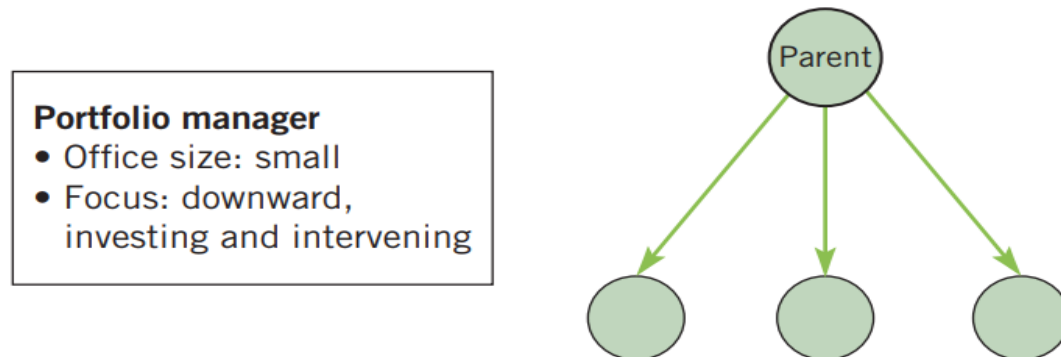
a) Referring to RVL's corporate centre's philosophy:

i. With specific reasons, identify which role is played RVL to its business units.

It is evident from the information shared in the case that RVL plays a portfolio manager role. This is based on the fact that RVL Mrs Kamanda does not believe in the idea of large offices with many 'unnecessary' staff and believes that there is no need for RVL to get closely involved in the routine management of the businesses, only acting over short periods of time to improve performance by target setting, intervention, and the provision (or withdrawal) of investment. Further, it has been indicated that Mrs Kamanda's philosophy is that RVL should only act as an agent on behalf of financial markets and shareholders with a view to extracting more value from the various businesses than they could achieve themselves. This means that RVL's main business is to identify and acquire under-valued assets or businesses and improve them. They may not be much concerned about relatedness typically adopting a conglomerate strategy. RVL small corporate staff and few central services, leaving the business units alone so that their chief executives have a high degree of autonomy.

All the above are characteristics of a portfolio manager role. Figure 2.1 demonstrates portfolio manager and some of its features:

Figure 2.1: Portfolio Manager



ii. Advise Mrs Kamanda and her team on what activities RVL as a corporate parent can do that will potentially add and destroy value to its constituent business units.

There are opposing views as to whether corporate parents add value to their business units. Corporate parents need to demonstrate that they create more value than they cost. Sometimes corporate parents do not add value to their constituent businesses. Where there is no added value, or where there may be a better parent, it is usually best to divest the relevant businesses from the corporate portfolio.

The following are value-adding activities by which RVL can potentially add value:

- **Envisioning.** RVL can provide a clear overall vision or strategic intent for its business units. This should guide and motivate business unit managers to maximise corporation-wide performance through commitment to a common purpose. Envisioning should also provide stakeholders with a clear external image about what the organization as a whole is about: to reassure shareholders about the rationale for having a diversified strategy in the first place. Finally, a clear vision provides a discipline on RVL to stop its wandering into inappropriate activities or taking on unnecessary costs.
- **Facilitating synergies.** RVL can facilitate cooperation and sharing across business units, so improving synergies from being within the same corporate organisation. This can be achieved through incentives, rewards, and remuneration schemes.
- **Coaching.** RVL can help business unit managers develop capabilities, by coaching them to improve their skills and confidence. Corporate-wide management courses are one effective means of achieving these objectives, as bringing managers across the business to learn strategy skills also allows them to build relationships between each other and perceive opportunities for cooperation.
- **Providing central services and resources.** RVL can provide capital for investment as well as central services such as treasury, tax, and human resource advice. If these are centralised, they may have sufficient scale to be efficient and can build up relevant expertise. Centralised services often have greater leverage: for example, combining many business unit purchases increases bargaining power for shared inputs such as energy. This leverage can be helpful in brokering with external bodies, such as government regulators, or other companies in negotiating alliances. Finally, RVL can have an important role in managing expertise within the corporate whole, for instance by transferring managers across the business units or by creating shared knowledge management systems via an RVL intranet.
- **Intervening.** Finally, RVL can also intervene within its business units to ensure appropriate performance. The corporate parent should be able to closely monitor business unit performance and improve performance either by replacing weak managers or by assisting them in turning around their businesses. RVL can also challenge and develop the strategic ambitions of business units, so good businesses are encouraged to perform even better.

However, there are three ways in which RVL can inadvertently destroy value:

- **Adding management costs.** Most simply, corporate staff and facilities are expensive. Corporate staff are typically the best-paid managers with the most luxurious offices. It is the actual businesses

that must generate the revenues that pay for them and if corporate centre costs are greater than the value they create, then corporate staff are net value-destroying.

- **Adding bureaucratic complexity.** As well as these direct financial costs, there is the ‘bureaucratic fog’ created by an additional layer of management and the need to coordinate with sister businesses. These typically slow down managers’ responses to issues and lead to compromises between the interests of individual businesses.

- **Obscuring financial performance.** One danger in a large, diversified company is that the underperformance of weak businesses can be obscured. Weak businesses might be cross subsidised by stronger ones. Internally, the possibility of hiding weak performance diminishes the incentives for business unit managers to strive as hard as they can for their businesses: they have a parental safety net. Externally, shareholders and financial analysts cannot easily judge the performance of individual units within the corporate whole. Diversified companies’ share prices are often marked down because shareholders prefer the ‘pure plays’ of standalone units, where weak performance cannot be hidden.

b) Using the GE-McKinsey Matrix, discuss how RVL potentially assesses the performance of its business units and advise Ramba Ltd on the best future direction to pursue with its bus conductor service.

The GE-McKinsey Matrix (Directional Policy Matrix) is a model used in evaluating business portfolios. It categorises business units into those with good prospects and those with less good prospects. The matrix was originally developed by McKinsey & Co. consultants in order to help the American conglomerate General Electric manage its portfolio of business units. Specifically, the directional policy matrix positions business units according to (i) how attractive the relevant market is in which they are operating, and (ii) the competitive strength of the strategic business units (SBU) in that market. RVL can identify attractiveness using the PESTEL analysis or Porter’s five forces analyses. RVL potentially defines each business unit strength by conducting competitor analysis (for instance, the strategy canvas). RVL could also choose to show graphically how large the market is for a given business unit’s activity, and even the market share of that business unit as some analysts do, as shown in figure 2.2.

For example, if RVL managers had a portfolio shown in figure 2.2, they will be concerned that they have relatively low shares in the largest and most attractive market, whereas their greatest strength is in a market with only medium attractiveness and smaller markets with little long-term attractiveness.

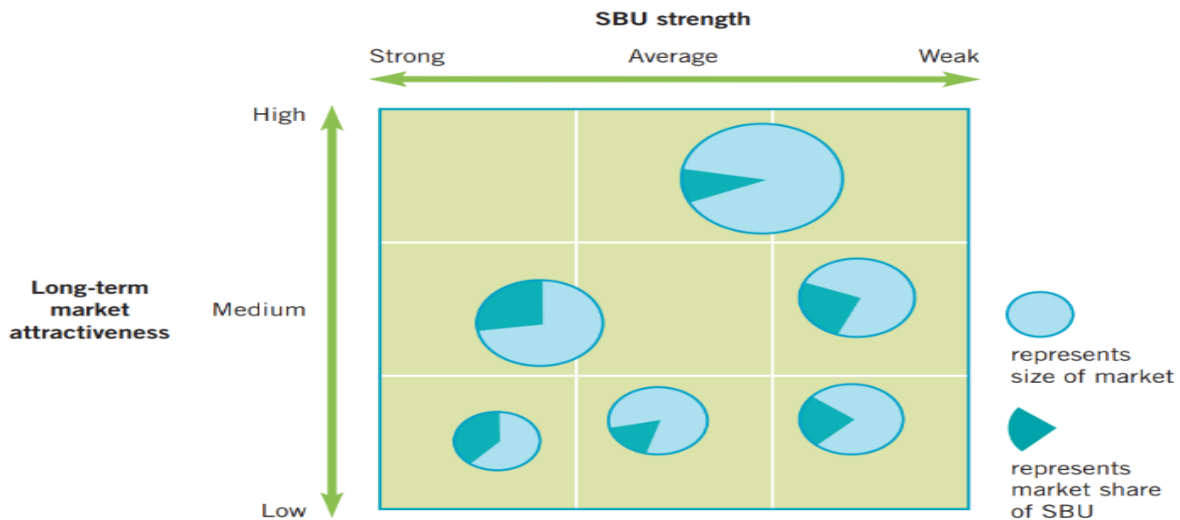
The matrix also offers strategy guidelines given the positioning of the business units. It suggests that the businesses with the highest growth potential and the greatest strength are those in which

to invest for growth. Those that are the weakest and in the least attractive markets should be divested or ‘harvested’ (i.e. used to yield as much cash as possible before divesting). RVL potentially determines the strength of each unit and its attractiveness to decide on investing in it.

Figure 2.2: Directional policy (GE-McKinsey) matrix



or



Because the bus conductor service has become obsolete due to the introduction of the ‘tap and go’ technology, it appears the best strategy for Ramba Ltd to pursue is to divest the service. The market is unattractive and there is no sustainable competitive advantage from Ramba Ltd. Since this service is not cashing in, there would nothing to harvest.

c) Making relevant assumptions, **conduct Rwivanga Ltd’s behavioural market segmentation of its customers in its hotels and restaurants business.** *Note: Please use user and usage-related variables.*

Market segmentation is defined as ‘The process of dividing a market into the homogenous segments that collectively constitute the market that is being segmented.’ In behavioural segmentation, marketers divide buyers into groups based on their knowledge of, attitude toward, use of, or response to a product. This is important in understanding how people behave after purchasing goods.

Many marketers believe variables related to users or their usage—occasions, user status, usage rate, buyer-readiness stage, and loyalty status—are good starting points for constructing market segments.

Since Rwivanga Ltd deals in the hospitality sector, the following is a typical behavioural market segmentation of its customers in its hotels and restaurants business:

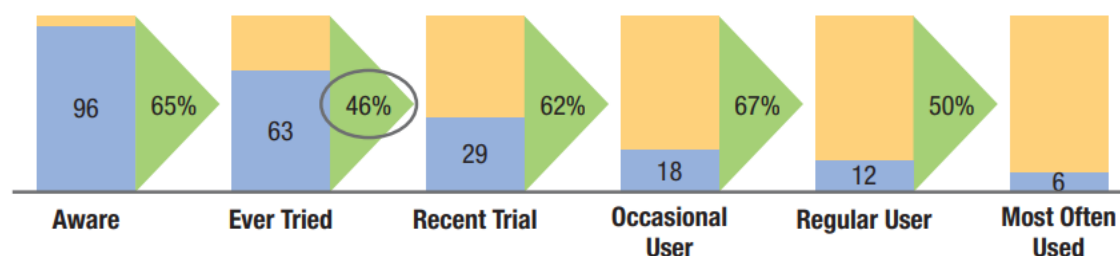
Occasions: Occasions mark a time of day, week, month, year, or other well-defined temporal aspects of a consumer’s life. Rwivanga Ltd can distinguish customers to its hotels and restaurants according to the occasions when they develop a need, purchase a product, or use a service. For example, travel is triggered by occasions related to business, vacation, or family. Occasion segmentation can help Rwivanga Ltd expand services usage.

User Status: Every product has its nonusers, ex-users, potential users, first-time users, and regular users. Rwivanga Ltd cannot rely only on regular visitors to its facilities for accommodation and/or meals; it must also attract new first-time visitors and contact ex-visitors, each with a different marketing strategy. The key to attracting potential users, or even possibly nonusers, is understanding the reasons they are not visiting the facilities anymore. Do they have deeply held attitudes, beliefs, or behaviours or just lack knowledge of the hotels and restaurants benefits? Included in the potential-user group are consumers who will become users in connection with some life stage or event. Youngsters from middle class families enjoy travels and eating out in groups fueled partly by social media. Rwivanga Ltd could target them with juicy packages such as discounts for a certain number of group visitors/customers.

Usage Rate: Rwivanga Ltd can segment markets into light, medium, and heavy product users. Heavy users are often a small slice but account for a high percentage of total consumption. Marketers would rather attract one heavy user than several light users. A potential problem, however, is that heavy users are often either extremely loyal to one brand or never loyal to any brand and always looking for the lowest price. They also may have less room to expand their purchase and consumption. Light users may be more responsive to new marketing appeals.

Buyer-Readiness Stage: Some people are unaware of Rwivanga Ltd’s services, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. To help characterize how many people are at different stages and how well they have converted people from one stage to another, Rwivanga Ltd can employ a marketing funnel to break the market into buyer-readiness stages. Figure 2.3 illustrates an example of marketing funnel.

Figure 2.3: An example of a marketing funnel



Loyalty Status: Rwivanga Ltd should consider four groups based on brand loyalty status:

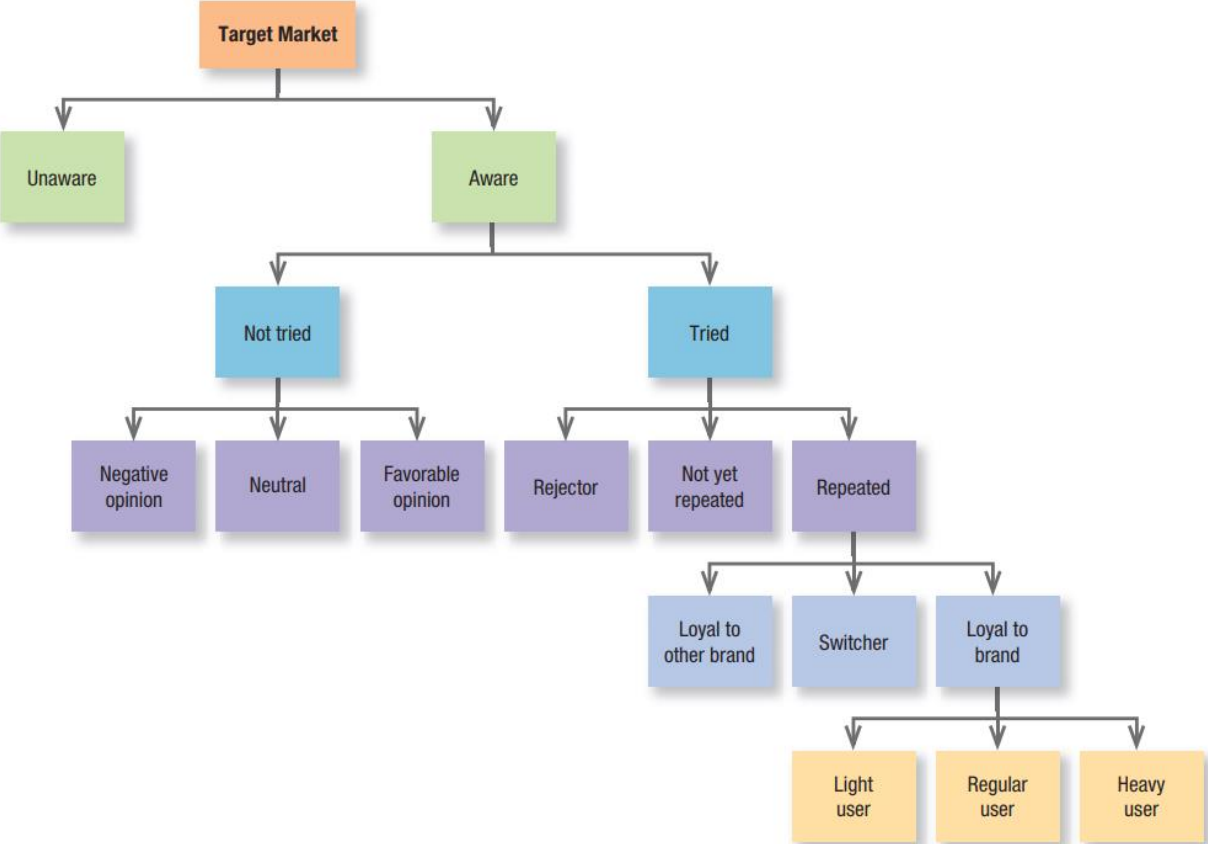
1. **Hard-core loyals**—Consumers who buy only one brand all the time
2. **Split loyals**—Consumers who are loyal to two or three brands
3. **Shifting loyals**—Consumers who shift loyalty from one brand to another
4. **Switchers**—Consumers who show no loyalty to any brand

Rwivanga Ltd can learn a great deal by analysing degrees of brand loyalty: Hard-core loyals can help identify the products’ strengths; split loyals can show the firm which brands are most competitive with its own; and by looking at customers dropping its brand, the company can learn about its marketing weaknesses and attempt to correct them. One caution: What appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the unavailability of other brands.

Attitude: Five consumer attitudes about products are enthusiastic, positive, indifferent, negative, and hostile. Rwivanga Ltd needs to assess the attitudes of different customers to determine how to approach category.

Multiple Bases: Combining different behavioural bases can provide a more comprehensive and cohesive view of a market and its segments for Rwivanga Ltd. Figure 2.4 depicts one possible way to break down a target market by various behavioural segmentation bases.

Figure 2.4: Behavioural Segmentation Breakdown



QUESTION THREE: Vuga Rwanda Limited (VR Ltd) and Tangaza Rwanda Limited (TR Ltd)

Marking guide

Qn	Description	Marks	Total Marks
a	Prisoner's dilemma game in between VR Ltd and TR LTDtd: A good answer should explain the Prisoner's dilemma works and apply it to discuss how actions taken by each company is likely to play out in terms of collaboration and/or competition. Each of the consequences must be explained in the context in the case.		
	A short introduction/description of how the Prisoner's dilemma works	1	
	A discussion of the consequence of both companies holding prices i.e FRW570m profit for both	1	
	A discussion of the consequence of if one competitor pursues the significant price cuts on its own while the other does not i.e FRW720m profit for the cutter and FRW140m for the loser	1	
	A discussion of the consequence of the likely price wars i.e FRW330m for both	1	
	A discussion of the consequence of both companies holding prices i.e FRW570m profit	1	
	A discussion of why collaboration will likely benefit both rather than competition	1	
	A valid matrix/illustration of the Prisoner's dilemma for the 2 companies.	2	8
b	Stages of entrepreneurial growth for SpeedNet: A good answer should discuss each stage from all angles clearly indicating challenges to be considered by VR Ltd Ventures Ltd		
	A short introduction to the four stages	1	
	Stage 1: Start-up (must be explained in detail clearly indicating challenges VR Ltd Ventures Ltd is likely to face). Award 1 mark if it is not appropriately explained	2	

	Stage 2: Growth (must be explained in detail clearly indicating challenges VR Ltd Ventures Ltd is likely to face). Award 1 mark if it is not appropriately explained	2	
	Stage 3: Maturity (must be explained in detail clearly indicating challenges VR Ltd Ventures Ltd is likely to face). Award 1 mark if it is not appropriately explained	2	
	Stage 4: Exit (must be explained in detail clearly indicating challenges VR Ltd Ventures Ltd is likely to face). Award 1 mark if it is not appropriately explained	2	
	A valid diagram/illustration of the stages. Alternative diagrams should be considered	1	10
c	Advantages to relying on organic development: A good answer should discuss each advantage in detail and indicate how VR Ltd Ventures Ltd stands to benefit		
	A short introduction/description of organic development	1	
	Advantages of relying on organic development: Must properly discussed		
	3 advantages * 2 marks = 6 marks maximum		
	Poorly explained advantages are awarded 1 mark	6	7
	Total Marks		<u>25</u>

Model answers

a) Using an appropriate illustration, **discuss if VR Ltd and TR Ltd are likely to benefit from collaboration or competition.** *Hint: Apply the Prisoner's Dilemma.*

A prisoner's dilemma is a situation where individual decision-makers always have an incentive to choose in a way that creates a less than optimal outcome for the individuals as a group. Game theorists identify many situations where organisations' strategic decisions are similar to the dilemma of two prisoners accused of serial crimes together and being interrogated in separate prison cells without the possibility of communicating with each other. The outcome of each prisoner's decision is highly dependent on the decision of the other prisoner.

The situation between VR Ltd and TR Ltd does seem to mirror the prisoner's dilemma in many facets. They are two major players competing head-to-head against each other in a situation of tight interdependence. Since they cannot communicate, they must get into each other's minds, think forwards and reason backwards.

The kind of situation VR Ltd and TR Ltd could get into is represented in the prisoner's dilemma matrix of Figure 3.1.

Figure 3.1: Prisoner's dilemma game in between VR Ltd and TR Ltd

	TR Ltd		
VR Ltd		Hold prices	Cut prices
	Hold prices	570 million	720 million
		570 million	140 million
	Cut prices	140 million	330 million
		720 million	330 million

It has been indicated in the case that both VR Ltd and TR Ltd are under pricing pressure, because of falling demand. They each have to decide whether to announce significant price cuts or to hold their prices up. If both choose to hold their prices, neither gets an advantage over the other and they both earn profits of FRW570m. However, if one competitor pursues the significant price cuts on its own while the other does not, the significant price-cutter attracts a significantly larger share of customers and earns FRW720m profits through spreading fixed costs over greater sales, while the market-share-losing competitor earns only FRW140m (as represented in the top-right and bottom-left quadrants). This situation might tempt one of the competitors to choose significant price cuts for two reasons: first, there is the prospect of higher profits; but, second, there is the risk of the other competitor cutting prices while leaving it behind. The problem is that if each reason in the same way, the two competitors will both cut prices at once. They will thus set off a price war in which neither gain share and they both end up with the unsatisfactory return of just FRW330m (the bottom right quadrant).

The dilemma in Figure 3.1 is awkward because cooperation is simultaneously attractive and difficult to achieve. The most attractive strategy for VR Ltd and TR Ltd jointly is for them both to hold their prices, yet in practice they are likely to cut prices because they must expect the other to do so anyway. A distinctive feature of game theory is that it frequently highlights the value of a more cooperative approach to competitor interaction, rather than aggressive competition.

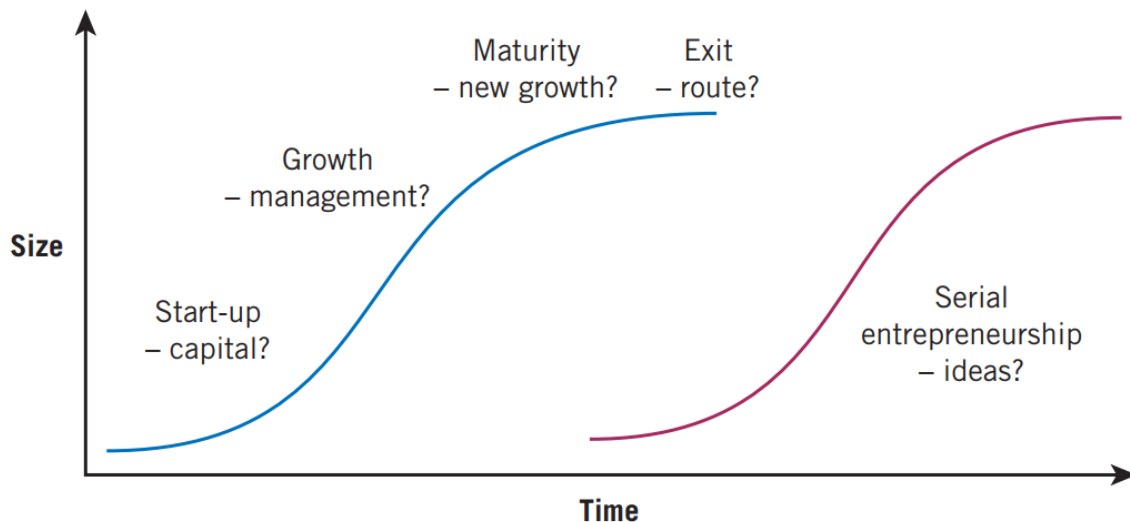
Since VR Ltd and TR Ltd are operating in an industry where they are the only two competitors with homogenous services and high entry barriers, collaboration between them will be preferred. Tacit collusion, where companies agree on a certain strategy without any explicit communication between them, is not uncommon in similar situations elsewhere; for example, agreeing to avoid price competition. In short, while VR Ltd and TR Ltd need to avoid illegal collusion which could attract punishment by Rwanda Telecommunication Regulatory Authority (RTRA), business strategy includes cooperative options as well as competitive ones. Game theory thus encourages managers to consider how a ‘game’ can be transformed from lose–lose competition to win–win

cooperation. In this case, VR Ltd and TR Ltd stand to both benefit from collaboration than competition.

b) Examine the stages of entrepreneurial growth VR Ventures Ltd is likely to go through to develop SpeedNet.

Entrepreneurial ventures are often seen as going through four stages of a life cycle (see Figure 3.2). The entrepreneurial life cycle progresses through start-up, growth, maturity, and exit. Of course, most ventures do not make it through all the stages – the estimated failure rate of new businesses in their first year is more than one-fifth, with two-thirds going out of business within six years. However, each of these four stages raises key questions for entrepreneurs and VR Ventures Ltd must consider each of them carefully in its journey to develop SpeedNet and potentially other new ideas:

Figure 3.2: Stages of entrepreneurial growth



• **Start-up.** There are many challenges at this stage that VR Ventures Ltd must consider, but one key question with implications for both survival and growth is sources of capital. Loans from family and friends are common sources of funds, but these are typically limited and, given the new-business failure rate, likely to lead to embarrassment. Bank loans and credit cards can provide funding too, and there is often government funding especially for new technologies or economically disadvantaged social groups or geographical areas. Venture capitalists are specialised investors in new ventures and usually insist on a seat on the venture’s board of directors and may install their preferred managers. Venture capitalist backing has been shown to significantly increase the chances of a venture’s success, but they typically accept only about one

in 400 propositions put to them. Perhaps, VR Ventures Ltd could consider funding from its parent company.

- **Growth.** A key challenge for growth is management. VR Ventures Ltd has to be ready to move from ‘doing’ to ‘managing’. Typically, this transition occurs as the venture grows beyond about 20 employees. Many entrepreneurs make poor managers: if they had wanted to be managers, they would probably be working in a large corporation in the first place. The choice entrepreneurs have to make is whether to rely on their own managerial skills or to bring in professional managers. VR Ventures Ltd has to consider if to hire new entrepreneurial bosses or use those professionals from its parent company.

- **Maturity.** The challenge for VR Ventures Ltd at this stage is retaining their enthusiasm and commitment and generating new growth. This is a period when entrepreneurship can change to intrapreneurship, the generation of new ventures from inside the organization. An important option is usually diversification into new business areas. It is critical to recall the odds on success at this stage as research suggests that many small high-tech firms fail to manage the transition to a second generation of technology, and that it is often better at this point simply to look for exit.

- **Exit.** Exit refers to departure from the venture, either by the founding entrepreneurs, or by the original investors, or both. At the point of exit, entrepreneurs and venture capitalists will seek to release capital as a reward for their input and risk-taking. VR Ventures Ltd may consider three prime routes to exit. A simple trade sale of the venture to another company is a common route. Another exit route for highly successful enterprises is an initial public offering (IPO), the sale of shares to the public. IPOs usually involve just a portion of the total shares available and may thus allow entrepreneurs to continue in the business and provide funds for further growth. It is often said that good entrepreneurs plan for their exit right from start-up, and certainly venture capitalists will insist on this.

Entrepreneurs who have successfully exited a first venture often become serial entrepreneurs. They are people who set up a succession of enterprises, investing the capital raised on exit from earlier ventures into new growing ventures.

c) Discuss advantages VR Ventures Ltd is likely reap from relying on organic strategy development.

The default method for pursuing a strategy is to ‘do it yourself’, relying on internal capabilities. Thus, organic development is where a strategy is pursued by building on, and developing, an organisation’s own capabilities.

There are five principal advantages to relying on organic development:

- **Knowledge and learning.** Using the VR Ventures Ltd's existing capabilities to pursue a new strategy can enhance organisational knowledge and learning. Direct involvement in a new market or technology is likely to promote the acquisition and internalisation of deeper knowledge than a hands-off strategic alliance, for example.
- **Spreading investment over time.** Acquisitions typically require an immediate upfront payment for the target company. Organic development will typically allow VR Ventures Ltd the spreading of investment over the whole-time span of the strategy's development. This reduction of upfront commitment may make it easier to reverse or adjust a strategy if conditions change.
- **No availability constraints.** Organic development has the advantage of not being dependent on the availability of suitable acquisition targets or potential alliance partners. VR Ventures Ltd also does not have to wait until the perfectly matched acquisition target comes onto the market.
- **Strategic independence.** The independence provided by organic development means that an VR Ventures Ltd does not need to make the same compromises as might be necessary if it made an alliance with a partner organization, TR Ltd for instance. For example, partnership with a foreign collaborator is likely to involve constraints on marketing activity in external markets and may limit future strategic choices.
- **Culture management.** Organic development allows new activities to be created in the existing cultural environment, which reduces the risk of culture clash that could occur with external growth options.

The reliance of organic development on internal capabilities can be slow, expensive, and risky. It is not easy to use existing capabilities as the platform for major leaps in terms of innovation, diversification, or internationalisation, for example. However, organic development can be very successful and be sufficiently radical to merit the term 'corporate entrepreneurship'. The concept of corporate entrepreneurship is valuable because it encourages a creative attitude inside the firm. Often, however, organisations have to go beyond their own internal capabilities and look externally for methods to pursue their strategies.

QUESTION FOUR: Rutoma Academy High School (RAHS)

Marking guide

Qn	Description	Marks	Total Marks
a	Blake and Mouton's Leadership Grid for RAHS: A good answer should first introduce the Blake and Mouton's Leadership Grid followed by the application of the model to the case		
	A short introduction/description of the Blake and Mouton's Leadership Grid	1	
	A correct identification of the style used by management i.e Impoverished Management	2	
	A valid discussion of reasons demonstrating why it is the Impoverished Management that is applied by management from the case. At least 2 examples from the case should be discussed (1 mark * 2 examples/reasons = 2 marks maximum)	2	
	A valid diagram/illustration of the Blake and Mouton's Leadership Grid	1	6
b	RAHS's organisational structure: A good answer should introduce what an organisational structure is followed by identification of the structure applied by RAHS and advantages and disadvantages of such a structure		
	A short introduction/description of organisational structure	1	
	A correct identification of the structure used by RAHS i.e functional structure	2	
	Advantages (1 mark * 2 advantages = 2 marks maximum)	2	
	Disadvantages (1 mark * 2 Disadvantages = 2 marks maximum)	2	
c	A valid diagram/illustration RAHS's organisational structure	1	8
	Accounting for the need for a whistle-blower at RAHS: A good answer is a short essay explaining why RAHS needs a whistle-blower based on its advantages, how to create a safe environment for them and challenges they are likely to face.		
d	A short introduction/description of what whistleblowing is	1	
	A discussion of why whistleblowing is advantageous to an institution such as RAHS	2	
	A discussion of how RAHS can create a safe environment for whistleblowing i.e training staff	2	
	A discussion of why whistleblowing may be dangerous to those who do it i.e challenges/consequences	1	6
d	Resistance to change at RAHS: A good answer is one with an introduction to change followed by a short account to why RAHS is resistant to change according to Kotter and Schlesinger.		
	A short introduction/description resistance to change	1	

Reasons that certain people are resistant to change according to according to Kotter and Schlesinger. Reasons must be briefly stated. No additional marks for detailed answers (1 mark * 4 reasons = 4 marks maximum)

4

5

Total Marks

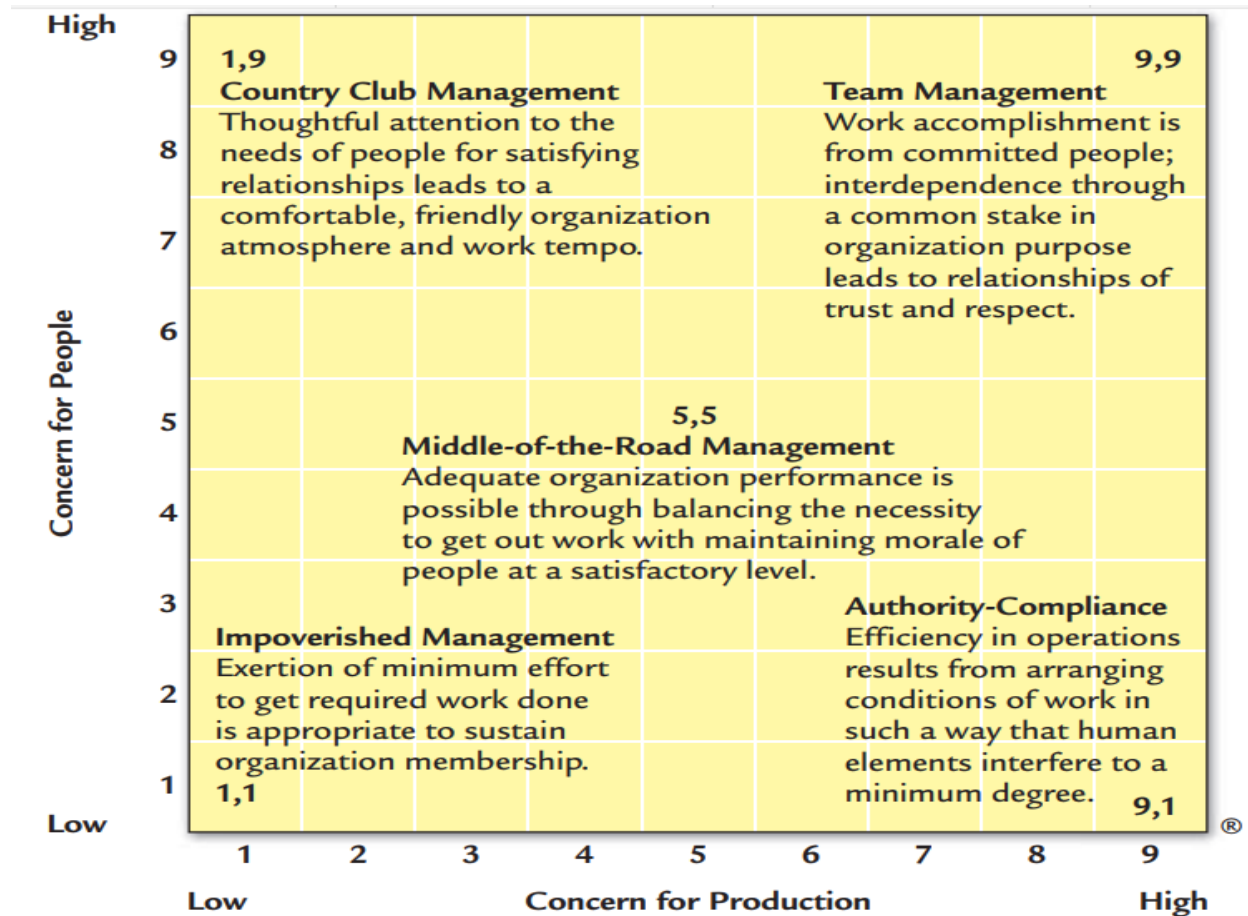
25

Model answers

a) Using Blake and Mouton's Leadership Grid, explain the leadership style displayed by RAHS management to the teaching staff.

Building on the work of the Ohio State and Michigan studies, Robert R. Blake and Jane S. Mouton of the University of Texas proposed a two-dimensional theory called the Managerial Grid[®], which was later restated by Robert R. Blake and Anne Adams McCauley as the Leadership Grid[®]. The model and five of its major management styles are depicted in Figure 4.1. Each axis on the grid is a nine-point scale, with 1 meaning low concern and 9 meaning high concern.

Figure 4.1: The Leadership Grid



Team management (9, 9) often is considered the most effective style and is recommended for leaders because organization members work together to accomplish tasks. **Country club management** (1, 9) occurs when the primary emphasis is given to people rather than to work outputs. **Authority-compliance management** (9, 1) occurs when efficiency in operations is the dominant orientation. **Middle-of-the-road management** (5, 5) reflects a moderate amount of concern for both people and production. **Impoverished management** (1, 1) means the absence of a management philosophy; managers exert little effort toward interpersonal relationships or work accomplishment.

Using Blake and Mounton’s Leadership Grid, the leadership style displayed by RAHS management to the teaching staff is **Impoverished Management**, wherein the manager is indifferent to the employees’ concerns. They have very little concern for the physical, financial, and mental health of the teaching staff evidenced by the fact that staff have approached management on several occasions with no success. A teacher describing the head teacher as ‘indifferent, noncommittal, resigned, and apathetic’ is also evidence that an impoverished

management style is in play as management exert little effort toward interpersonal relationships or work accomplishment.

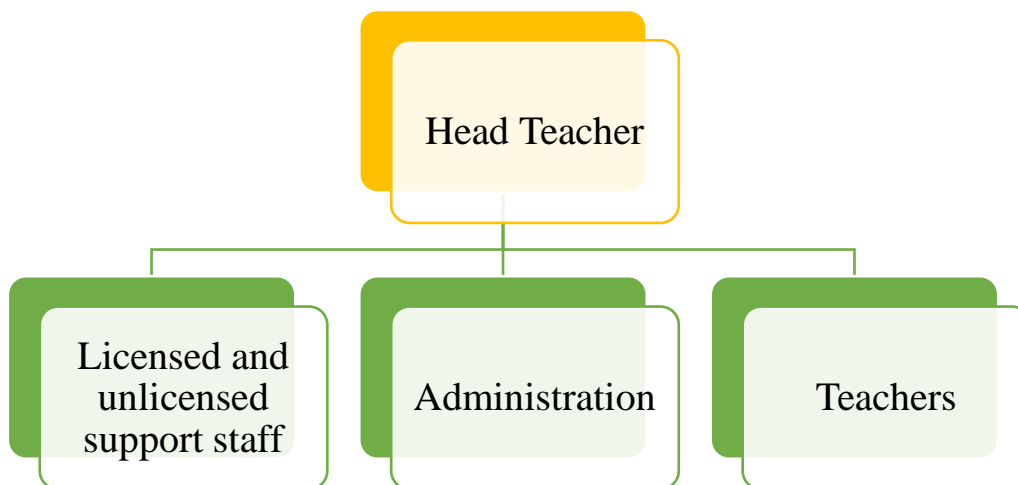
b) Identify and evaluate RAHS’s organisational structure.

An organizational structure provides the framework for the activities of the organisation and must harmonise with its goals and objectives. The nature of the organisation and its strategy will indicate the most appropriate organisational levels for different functions and activities and the formal relationships between them.

RAHS’s organisational structure is a functional structure. The functional structure divides responsibilities according to the organisation’s primary specialist roles such as those in RAHS i.e administration, licensed and unlicensed support staff, and teachers. It is particularly effective for specialised organisations with undiversified strategies. Figure 4.2 represents a simplified organisation chart for RAHS. This kind of structure is particularly relevant to small or start-up organisations, or larger organisations that have retained narrow, rather than diverse, product ranges. Functional structures may also be used within a multidivisional structure, where the divisions themselves may split themselves up according to functional departments (as in Figure 4.2).

This organizational structure is advantageous because it attracts direct top management involvement, each department has clear roles and tasks, and there is concentration of expertise. However, it can also have disadvantages which include: being poor at handling diversity and scale and having a narrow focus on functional responsibilities.

Figure 4.2: RAHS’s organizational structure



c) Account for the need for a whistle-blower at RAHS and briefly indicate challenges they are likely to face.

Whistleblowing occurs where an employee informs the public of inappropriate activities going on in the organisation. The whistle-blower may be motivated by a feeling of inequity in treatment, or the behaviour of the organisation may play on their conscience.

RAHS cannot rely exclusively on a code of conduct and ethical structures to prevent all unethical behaviour. Holding organizations accountable depends to some degree on individuals who are willing to speak up if they detect illegal, dangerous, or unethical activities. Whistle-blowers often report wrongdoing to outsiders, such as regulatory agencies, senators, or newspaper reporters as done by RAHS's whistle-blower. Some firms have instituted innovative programs and confidential hotlines to encourage and support internal whistleblowing. For this practice to be an effective ethical safeguard, however, companies must view whistle-blowing as a benefit to the company and make dedicated efforts to encourage and protect whistle-blowers. Therefore, RAHS stands to benefit overall from creating a safe environment for whistle-blowers.

Most whistle-blowers realize they may suffer financially and emotionally, but they act courageously to do what they think is right.

Unfortunately, many managers still look on whistle-blowers as disgruntled employees who aren't good team players. RAHS's whistle-blowers are likely to face the consequences of whistleblowing which are often extreme: loss of job, ostracism by peers and the effects of stress. Yet to maintain high ethical standards, organizations need people who are willing to point out wrongdoing. RAHS managers can be trained to view whistleblowing as a benefit rather than a threat, and systems can be set up to protect employees who report illegal or unethical activities.

d) Using the Kotter and Schlesinger's change theory, State why RAHS has been resistant to change despite complaints from staff.

Organisations facing change will inevitably encounter a degree of resistance even with sufficient planning; however, some resistance to change is natural. Resistance to change can take the form of strikes, reductions in productivity or even sabotage. More covert examples of resistance to change include increased absenteeism, loss of employee motivation and a high rate of accidents and errors.

According to Kotter and Schlesinger (1979), there are four reasons that certain people are resistant to change:

1. **Parochial self-interest** – RAHS management may be concerned with the implication of the change for themselves and how it may affect their own interests, rather than considering the effects for the success of the school in general,
2. **Misunderstanding** - RAHS management could be having communication problems and/or inadequate information amongst themselves and/or with staff,
3. **Low tolerance to change** – As it is often case, RAHS management could be very keen on security and stability at the school hence resisting anything change that shakes things up,
4. **Different assessments of the situation** - some employees at RAHS may disagree on the reasons for the change and on the advantages and disadvantages of the change process.

END OF MARKING GUIDE AND MODEL ANSWERS