



CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATIONS

F1.4: BUSINESS MANAGEMENT, ETHICS

AND ENTREPREURSHIP

DATE: MONDAY, 29 DECEMBER 2021

MODEL ANSWERS AND MARKING GUIDE

QUESTION ONE

Marking Guide

Qn	Description	Marks	Total Marks
a	SWOT analysis of for DUTERIMBERETERIMBERE: Each of teh answers in SWOT should be outlined and no need for elaborate explanations At least 4 elements should be outlined for each component of teh SWOT analysis 16 elements * 1 mark = 16 maximum marks Strengths (maximum of 4 correct answers) Weaknesses (maximum of 4 correct answers) Opportunities (maximum of 4 correct answers) Threats (maximum of 4 correct answers)	4 4 4 4	16
b	How the management of the organization can use strengths identified in (a) above to exploit the opportunities identified: Each of the 4 factors must be briefly explained in a manner that links a strength with a valid opportunity 4 answers * 1 marks = 4 maximum marks Undescribed factors earn 0.5 marks Consider other possibly equally correct answers		4
Total			<u>20</u>

Detailed answer

a) SWOT analysis for TERIMBERE

A SWOT analysis is an analysis of the strengths, weaknesses, opportunities, and threats a company is facing. It helps managers determine the strategic fit between an organization's internal, capabilities, and external possibilities relative to the business and economic environments. Below is a SWOT analysis for TERIMBERE Cooperative:

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. Favourable business location 2. 300 active members with sufficient experience 3. Cooperative has 20 years of experience in farming and selling maize and beans 4. Owns 200 hectares of land 5. It has a warehouse with capacity to store at least 1,000 tons of cereal 6. Transport facilities: has a vehicle which facilitates the cooperative to reach customers very easily 7. Strong relationships with RAB, MINAGRI, suppliers, customers, and financial institutions. 	<ol style="list-style-type: none"> 1. Limited financial abilities 2. Insufficient materials and equipment 3. Limited produce and high post-harvest losses 4. Limited cooperative ability to satisfy market demand 5. Limited skills required to run a business professionally and be competitive on the market 6. Poor management and governance of the cooperative
Opportunities	Threats
<ol style="list-style-type: none"> 1. Favourable weather conditions for agriculture in Rwanda 2. Available strong demand in local markets and regional markets 3. Political will to support cooperative movement in Rwanda 4. Strong national frameworks to support cooperative movement in Rwanda 5. Support from development partners and other stakeholders 6. Easy access to finance 7. Partners are investing in capacity building 8. Government is investing more in agriculture 	<ol style="list-style-type: none"> 1. Climatic variability and climate change shocks 2. Lack of basic infrastructure 3. High regional competition 4. Shortage of required skills in the labour market 5. Insufficient quality seeds and when available late delivery of those seeds 6. Exorbitant agricultural inputs compared to the purchasing power of the farmers.

b) How the management of the organization can use strengths identified in (a) above to exploit the opportunities identified:

Below is an account of how the management of the organization can use strengths identified in (a) above to exploit the opportunities identified:

1. TERIMBERE should use strong relationships with RAB, MINAGRI, suppliers, customers, and financial institutions to easily access finance and potentially negotiate subsidies;
2. The 300 active members with sufficient experience should benefit from development partners' investment in capacity building;
3. The cooperative can potentially use 200 hectares of land, storage facilities, transport facilities to exploit available large local and regional markets;
4. The cooperative can potentially use the available 200 hectares of land and/or 300 active members with sufficient experience to exploit favourable weather conditions for agriculture Rwanda and multiply the production of agricultural produce;
5. TERIMBERE should use strong relationship with RAB, MINAGRI, suppliers, customers, and financial institution to exploit form alliances or other strategic relationships that would enable it to expand it to regional markets.

QUESTION TWO

Marking guide

Qn	Description	Marks	Total Marks
a	Violations of ethical and professional principles: Each point should be briefly explained. Each valid example should be awarded 2 marks. Poorly or unexplained answers are awarded 1 mark.		
	Conflict of interest (Each example from the case is awarded 2 marks. A maximum of 2 examples should be marked)	4	
	Stock market manipulation (Each example from the case is awarded 2 marks. A maximum of 2 examples should be marked)	4	
	Insider dealing (Each example from the case is awarded 2 marks. A maximum of 2 examples should be marked)	4	12
b	Possible safeguards to violations in (a) above: Each safeguard should be linked to a violation and briefly explained. Consider other possible safeguards not in the model answer. If a candidate presents a and b in a tabular form, they should be awarded full marks if their answers are valid.		
	Conflict of interest (1 mark for any 2 safeguards - 2 marks in total - for company staff and 1 mark for any 2 safeguards for auditors - 2 marks in total)	4	
	Stock market manipulation (Each valid safeguard is awarded 1 mark. A maximum of 2 safeguards should be marked)	2	
	Insider dealing (Each valid safeguard is awarded 2 marks. A maximum of 2 safeguards should be marked)	2	8
	Total		<u>20</u>

Detailed answer

- a) Using specific examples from the case identify and explain the violations of ethical and professional principles in the case. (12marks)**

The following are violations of ethical and professional principles:

1. Conflict of interest

- The accountant of a company divulges important information about the acquisition of his company to a friend who owns a substantial shareholding in the company. The friend acts upon the information and sells all his shares before the information is made public

- Key company employees including internal auditors, have started a company that provides similar products to similar clients and use business resources to market their business.
- The team leader of auditors is the husband of the CEO of new created company, and some of audit team members were employees of UDP Company who have resigned

2. Market manipulation

- **Pump and Dump:** The company traders created amazing fake information to be disseminated through mass e-mails, in order to promote business stock and to drive the price up.
- **Painting the tape:** Also the company traders hired a team of people to buy and sell securities many times or by buying and selling them among themselves to increase the volume of trades and let people think that the stock has a lot of activity.

3. Insider dealing

- The accountant of the company divulges important information about the acquisition of his company to a friend who owns a substantial shareholding in the company. The friend acts upon the information and sells all his shares before the information is made public.
- Directors made a decision that corporate insiders are allowed to buy and sell shares based on information that is available to everybody but not available to the public.

b) Indicate how the violations identified in (a) above can be mitigated.

The following are possible safeguards for the violations:

Possible Safeguards for conflict of interest

To prevent conflict of interest, the company should ensure that it develops, establishes, and implements a code of conduct that prevents staff from creating companies that are in direct competition with the services/products of UDP.

There should also be a mechanism of disclosing other businesses being pursued by staff to avoid conflict of interest.

For auditors, there should be pre-acceptance procedures conducted by the firm to ensure that it is ethically and professionally qualified to provide audit services to UDP. For instance, care should be taken not to use audit team members who were employees of UDP to avoid self-review threat.

Other safeguards such as rotation of the audit team, continuous assessment of whether the firm meets ethical standards, appropriate quality control measures, and others should be put in place by the audit firm.

Possible Safeguards for Market manipulation

To prevent stock manipulation, UDP should ensure it has risk assessment processes perhaps by establishing a risk department, if it does not have it yet. The risk assessment process should be able identify any unusual and suspicious activities around the company stock and advising management to take appropriate action.

There should also be perhaps regulations regarding the advertisement, sale, and purchase of shares to guard the company against these illegal practices.

Possible Safeguards for Insider dealing

Although insider trading can sometimes be legal, it is mostly considered illegal which means that the company should have regulations against it.

The company should promote fair stock trading practices.

The company should also put in place mechanisms to limit access to nonpublic material information.

QUESTION THREE

Marking guide

Qn	Description	Total Marks
a	<p>FOUR types of innovation:</p> <p>Should be briefly stated</p> <p>4 types *1 marks = 4 maximum marks</p> <p>Undescribed types earn 0.5 marks</p>	4
b	<p>Importance of innovation:</p> <p>Each importance should be explained clearly</p> <p>4 importance * 2 marks = 8 maximum marks</p> <p>Unexplained importance earn 1 mark</p> <p>Note: Other logical importance are acceptable</p>	8
c	<p>FOUR levels of social responsibility:</p> <p>Should be clearly discussed</p> <p>4 levels * 2 marks = 8 maximum marks</p> <p>Outlined answers earn 1 mark</p>	8
Total		<u>20</u>

Detailed answer

a) State explain FOUR types of innovation that RYOHERWA can pursue

RYOHERWA can pursue any of the following four types of innovation:

Invention: Invention is introducing something new into the world that has never been seen before; example is invention of televisions, computer, and many others.

Extension: Extension kind of innovation is where the idea used before is expanded or modified.

Duplication: Duplication simply refers to replication of an existing idea in an innovative and a creative way.

Synthesis: Synthesis is where the existing and new ideas are combined to come up with a new product.

b) Explain the importance of innovation for RYOHERWA.

ROHERWA may benefit from innovation in the following ways:

Solving problems

Most ideas are derived from attempts to solve existing problems. As such, when you encourage innovation, you are opening doors for solutions to problems both within and outside your company. If your business provides services, you might realize that your customer do not have an avenue to share their opinions, complaints, and compliments. The only avenue available could be the physical office. So, to solve the problem, you could decide to operate a virtual office where customers' needs can be attended to within a short time. The customers will be happy and as a result, your sales will go higher.

Adapting to change

This is especially evident in the technological world where there are rapid changes defining the business. Change is inevitable and innovation is the method to not only keep your business afloat,

but also ensure that it remains relevant and profitable. With the rise in mobile phones, traditional telephone had to find ways to remain relevant. Same case with your business, when you develop an innovation culture, you remain relevant at all times.

Maximizing on globalization

With markets all over the world becoming more interlinked, greater opportunities are emerging in these new markets and with that, new needs and challenges. For instance, China and India are estimated to be the leading markets, and Africa is predicted to be the next “hot spot”. Therefore, if your company hopes to tap into this market share, innovation is a must to enable you to capitalize on the opportunities opening up.

Customers’ changing tastes and preferences

The current customer has a great variety of products and services available to him and is well informed of his choices than before. The company must therefore keep itself abreast with these evolving tastes and also forge new ways of satisfying the customer.

Innovation Helps Companies Grow

If you want to grow your business to become more successful and profitable, there are a few ways that you can go about achieving that goal. Though it will be a slow path forward, you might choose to plod along your current path, growing incrementally as you perfect your existing products and business models. Instead, you might choose to grow your business by merging or acquiring others, which is faster, but also typically a much more expensive avenue for growth. Or you might choose to evolve by rethinking your product or business model—or both—from the ground up, which is a process that can lead to rapid expansion and allow you to scale your business very quickly.

Innovation Keeps Organizations Relevant

The world around us is constantly changing, and for your business to remain relevant and profitable, it will eventually need to adapt in order to meet these new realities.

Innovation Helps Organizations Differentiate Themselves

At the core, innovation is about doing something differently from everyone else operating in your space. If your organization is using innovation on its products, for example, then the goal is to

develop or update the products until there is nothing else on the market like it. If your organization is using innovation on its processes, it is because doing so will save you time, money, or other resources, and give you a competitive advantage over other companies stuck in their systems. In either scenario, your organization is taking the time to try something new because sticking to the status quo simply is not working.

c) Discuss FOUR levels of social responsibility that RYOHERWA needs to consider if it is serious about fulfilling its duty to society.

Ideally, companies should look at four main areas of social responsibility and act ethically in all four areas:

Philanthropic responsibility

This is the expectation that companies should give back to society in the form of charitable donations of time, money, and goods. In addition to acting as ethically and environmentally friendly as possible, organizations driven by philanthropic responsibility often dedicate a portion of their earnings. While many firms donate to charities and nonprofits that align with their guiding missions, others donate to worthy causes that don't directly relate to their business. Others go so far as to create their own charitable trust or organization to give back.

Ethical Responsibility

Acting ethically means going above and beyond the legal requirements and meeting the expectations of society. Organizations that embrace ethical responsibility aim to achieve fair treatment of all stakeholders, including leadership, investors, employees, suppliers, and customers. Firms can embrace ethical responsibility in different ways. For example, a business might set its own, higher minimum wage if the one mandated by the government doesn't constitute a "livable wage." Likewise, a business might require that products, ingredients, materials, or components be sourced according to free trade standards. In this regard, many firms have processes to ensure they're not purchasing products resulting from slavery or child labor.

Legal/Environmental Responsibility

A company must follow the law and have a legal obligation to do so. For example, car companies are required to meet a certain level of emissions standards in car production.

Companies that seek to embrace environmental responsibility can do so in several ways:

- Reducing pollution, greenhouse gas emissions, the use of single-use plastics, water consumption, and general waste
- Increasing reliance on renewable energy, sustainable resources, and recycled or partially recycled materials
- Offsetting negative environmental impact; for example, by planting trees, funding research, and donating to related causes

Economic responsibility

RYOHERWA needs to maintain strong economic interests so it can stay in business. Being profitable and providing value to shareholders is part of a company being socially responsible. Economic responsibility is the practice of a firm backing all its financial decisions in its commitment to do good in the areas listed above. The end goal is not to simply maximize profits, but positively impact the environment, people, and society.

QUESTION FOUR

Marking Guide

Qn	Description	Total Marks
a	The importance of a business plan: Only an understandable list is sufficient. Detailed explanations are not required but not punishable 6 advantages * 1 mark = 6 maximum marks Poor and not understandable importance earn 0.5 marks Note: Other logical advantages should be considered	6
b	FOUR subcomponents of a financial plan: Each of the 4 subcomponents should be clearly explained 4 subcomponents * 2 marks = 8 maximum marks Unexplained subcomponents earn 1 mark Note: Other logical subcomponents such as cash flow projection should be considered	8
c	SIX environmental challenges: Should be briefly stated 6 challenges * 1 mark = 6 maximum marks Outlined answers earn 0.5 marks Note: Other logical challenges should be considered	6
Total		<u>20</u>

Detailed answer

a) List the importance of a business plan to Ms UMUTESI.

A business would be beneficial to Ms UMUTESI in the following ways:

- It sets targets for each phase of the development of the business,
- It clearly outlines the financial requirements of the business,
- It details the marketing strategy to be adopted.

- It used to convert pipe dreams into realities by forcing you to carefully think about the specifics of your business.
- It sells out your business to stake holders.
- It enables thinking through policies, procedures and strategies that enable the business achieve its objectives.
- It shows that the venture is financially viable
- It shows that there is a market for the product or service
- It shows if the entrepreneur is able to manage the business

(b) Briefly describe FOUR subcomponents of a financial plan section of a business plan.

A financial plan section of a business plan contains the following components:

Investment Plan: This is a section which indicates how the company intends to invest its resources. Planning is the key to successful investing. Creating a plan will help your company find investments that fit its investing time frame and risk tolerance, to help reach its financial goals sooner.

Financing plan – debt vs equity: This section will indicate how the business will be financed. Whether the company will finance its operations using equity or debt or a combination of both and what percentage of each component.

Projected Profit and loss statement/The Income Statement: The income statement shows your revenues, expenses, and profit for a particular period—a snapshot of your business that shows whether or not your business is profitable. Subtract expenses from your revenue to determine your profit or loss.

Balance sheet: The balance sheet reports your business's net worth at a particular point in time. It summarizes all the financial data about your business in three categories:

- **Assets:** Tangible objects of financial value that are owned by the company.
- **Liabilities:** Debt owed to a creditor of the company.
- **Equity:** The net difference when the total liabilities are subtracted from the total assets.

The relationship between these elements of financial data is expressed with the equation: $\text{Assets} = \text{Liabilities} + \text{Equity}$.

c) Briefly describe SIX environmental challenges Ms UMUTESI's company is likely to face.

Ms UMUTESI's company is likely to face the following challenges:

Rapid change: Many organizations face a volatile environment in which change is nearly constant. If they are to survive and prosper, they need to adapt to change quickly and effectively. Human resources are almost always at the heart of an effective response system. Workforce diversity: Similarities and differences among employees in terms of age, cultural background, physical abilities and disabilities, race, religion, sex, and sexual orientation is called workforce diversity.

Technological changes: The world has never seen such rapid technological changes as are presently occurring in the computer and telecommunications industries. One estimate is that technological change is occurring so rapidly that individuals may have to change their entire skills three or four times in their career. The advances being made, affect every area of a business including human resource management.

Legislation: The main function of the HR department is to ensure the organization is fully aware of any relevant legislation. 'All policies and procedures should be in line with current legislation. Legislation is continually being updated which makes this an ongoing task for every organization.

Skill Shortage: Insufficient supply of appropriately qualified workers available or willing to work under existing market conditions is known as skill shortage. Causes of Skill Shortage should be Globalization, Credentialism Responses to skill shortage, Business responses, and Government responses.

Globalization: Globalization is an influential modern topic that highlights the growing interdependence between different countries worldwide, necessitating managers to appropriately incorporate this trend within their strategies. The speed of modern globalization is often attributed

to technological developments in communication and transportation, tasking managers with appropriately leveraging these technologies internally.

Family Role: More and more companies are introducing “family-friendly” programs that give them a competitive advantage in the labour market. Major talent is being wasted as many women drop out after lengthy training because they have decided that the demanding 10- to 12-year partner track requires a total sacrifice of family life. These firms have started to change their policies and are already seeing gains as a result. Different companies have recently begun offering child-care and eldercare referral services as well to facilitate women workers as well as are introducing alternative scheduling to allow employees some flexibility in their work hours.

Changing Demands of Employees: The demand for new employees is different from that of their predecessors. Contemporary employees are not only happy with the money; they demand more freedom and autonomy in the workplace. They are more concerned about intrinsic motivational factors such as challenging job, recognition, and appreciation. They want more time for leisure, recreation, and self-development. They would like to balance work life and family life.

Outsourcing: It is the practice of hiring another firm to complete work that is important and must be done efficiently. Outsourcing refers to companies giving work to independent contractors outside the company rather than to in-house employees. Outsourcing is a major part of HRM’s role in a company, as many companies choose to hire freelance workers to complete additional tasks rather than taking on salaried employees in-house.

QUESTION FIVE

Marking guide

Qn	Description	Marks	Total Marks
a	<p>The impact of COVID 19 on the marketing mix:</p> <p>The discussion should be clear, relevant, and not an outline.</p> <p>It should be about the 4Ps only (i.e product, price, place, promotion). 1 mark is awarded to a clearly mentioned P and 1 mark for at least 1 impact.</p> <p>4 Ps * 2 marks = 8 maximum marks</p> <p>Undiscussed impacts earn 0.5 marks</p> <p>Note: Consider other logical impacts not mentioned in the proposed solutions</p> <p>Product (1 mark for mentioning the correct P and 1 mark for a correctly discussed impact)</p> <p>Price (1 mark for mentioning the correct P and 1 mark for a correctly discussed impact)</p> <p>Place (1 mark for mentioning the correct P and 1 mark for a correctly discussed impact)</p> <p>Promotion (1 mark for mentioning the correct P and 1 mark for a correctly discussed impact)</p>	<p>2</p> <p>2</p> <p>2</p> <p>2</p>	8
b	<p>FIVE main risks that face businesses:</p> <p>Each of the 5 risks should be concisely stated and no detailed explanation is necessary</p> <p>5 risks * 1 mark = 5 maximum marks</p> <p>Merely listed risks score 0.5 marks</p> <p>Please consider different possible nomenclature by candidates</p>		5

c Porter's generic strategies:

The model should be briefly discussed and each of the 3 strategies should be sufficiently discussed

3 techniques * 2 marks = 6 maximum marks

Undiscussed strategies earn 1 mark

Note: If a candidate discusses the Focus strategies separately (cost focus and differentiation focus), consider them as well

Description of Porter's generic strategies	1
The Cost Leadership Strategy	2
The Differentiation Strategy	2
The Focus Strategy (cost focus earns 1 mark and differentiation focus earns 1 mark)	2
	7

Total	<u>20</u>
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a) Discuss the impact of COVID 19 on the marketing mix.

The following are the impacts of COVID-19 on the marketing mix:

Product/service:

Although existing products will not change much, the pandemic has certainly spurred scientists and pharmacists into developing detergents, cleansers, and other materials to reduce the likelihood of people contracting Covid-19. A plethora of germ, bacteria and virus killers that negate the threat of dangerous bacteria and germs have flooded the market. Covid-19 has also brought about rethinking around producing goods with long sales cycles. Producing and carrying too much stock increases carrying costs, reducing profits over the medium to long term. It has delivered an opportunity to evaluate the size (breadth and depth) of their ranges in order to cull slow-moving stock, thus increasing profits and decreasing dead stock. From a service point of view, much has emerged. Organisations have sprung up overnight to provide a range of services from personal food delivery, the delivery of prescription and other drugs to patients at home, at home hairstylists and beauticians ... an endless list of innovations.

Price

Price is the only revenue-generating element in the marketing mix. Sadly, it has been badly prostituted as shortages have appeared through frenzied buying, insufficient or inefficient logistics and a drop in production. Many product prices shoot up partly because of speculation that there would be shortages soon and uncertainties about what will happen. Consumers had to pay a premium for their usual necessities hence affecting increasing their cost of living. For instance, the shortage of toilet paper impacted on family budgets in some parts of the world. The lockdowns adverse impact of the prices of vitals is a consequence of irregular fluctuations in supply and demand.

Place

There is no doubt that the pandemic's greatest influence is on distribution. Covid-19 drove people from shopping at supermarkets and shops. This led to a demand for home delivery services and even Vuba Vuba and other new e-commerce businesses flourished as a result of being used to transport food, groceries, personal hygiene products and medication. Some pharmacies and retailers saw the opportunity for differentiation and either purchased or hired vehicles to provide home delivery or outsourced such delivery to service providers. Shopping patterns have shifted to online buying and as a result, online stores are experiencing enormous increases in turnover. Consumers who were not previously familiar with online shopping are converting and it is expected that this shift will be permanent. Encouragingly, there has been a move towards buying more locally produced food and locally made products probably due to supply chain challenges associated with importing many products in Rwanda.

Promotion

The pandemic forced businesses and brands to re-evaluate current and future advertising and marketing campaigns. While brands need to strike the right tone, changes in the market and increased competition call for creative and aggressive marketing practices. Only the highest traffic and trusted media platforms will weather the pandemic storm. Digital channels reflect increases in usage and offer mobile, social media, and video opportunities, leading to a modification in the media mix. In terms of messaging, consumers want brands to focus on value, transparency,

authenticity, honesty, and social awareness. Communicating a sense of purpose can tap into nostalgia and should generate greater loyalty over time. Regardless of the industry or level of digital knowhow, the impact on consumer behavior is clear and much of the change will be permanent. Organisations must ensure that their products, services, messaging, and marketing plans are tuned into these changes and remain dynamic.

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b) State FIVE main risks that face businesses.

Businesses are likely to face the following risks:

Social & Ethics Risk: Social risk comes from activities that affect the communities around the business. Things like labour issues, human rights issues, public health issues, and political uncertainty qualify as social risk. Ethical Risk refers to unexpected negative consequences of unethical actions.

Financial Risk: Financial risk is the possibility of losing money on an investment or business venture. Some more common and distinct financial risks include credit risk, liquidity risk, and operational risk. Financial risk is a type of danger that can result in the loss of capital to interested parties.

Operational Risk: Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, controls, systems or from external events.

Information Technology (IT) Risk: IT risk is basically any threat to your business data, critical systems, and business processes. It is the risk associated with the use, ownership, operation, involvement, influence, and adoption of IT within an organisation.

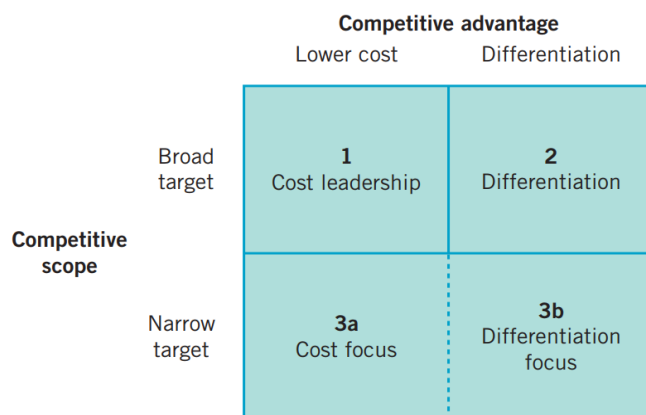
Compliance to Laws and Regulations Risk: Compliance risk captures the legal and financial penalties for failing to act under internal and external regulations and legislature

c) Describe the Porter's generic strategies and discuss different generic strategies proposed by Michael Porter.

Porter's generic strategies describe how a company pursues competitive advantage across its chosen market scope. There are three/four generic strategies, either lower cost, differentiated, or focus. A company chooses to pursue one of two types of competitive advantage, either via lower costs than its competition or by differentiating itself along dimensions valued by customers to command a higher price. A company also chooses one of two types of scope, either focus (offering its products to selected segments of the market) or industry-wide, offering its product across many market segments. The generic strategy reflects the choices made regarding both the type of competitive advantage and the scope. The concept was described by Michael Porter in 1980.

The strategies are explained below and further illustrated in figure 1:

Figure 1: Porter's generic strategies



The Cost Leadership Strategy

Porter's generic strategies are ways of gaining competitive advantage – in other words, developing the "edge" that gets you the sale and takes it away from your competitors. There are two main ways of achieving this within a Cost Leadership strategy:

- Increasing profits by reducing costs, while charging industry-average prices.
- Increasing market share by charging lower prices, while still making a reasonable profit on each sale because you've reduced costs.

The Cost Leadership strategy is exactly that – it involves being the leader in terms of cost in your industry or market. Simply being amongst the lowest-cost producers is not good enough, as you

leave yourself wide open to attack by other low-cost producers who may undercut your prices and therefore block your attempts to increase market share. .

The Differentiation Strategy

Differentiation involves making your products or services different from and more attractive than those of your competitors. How you do this depends on the exact nature of your industry and of the products and services themselves, but will typically involve features, functionality, durability, support, and also brand image that your customers value.

To make a success of a Differentiation strategy, organizations need:

- Good research, development, and innovation.
- The ability to deliver high-quality products or services.
- Effective sales and marketing, so that the market understands the benefits offered by the differentiated offerings.

Large organizations pursuing a differentiation strategy need to stay agile with their new product development processes. Otherwise, they risk attack on several fronts by competitors pursuing Focus Differentiation strategies in different market segments.

The Focus Strategy

Companies that use Focus strategies concentrate on niche markets and, by understanding the dynamics of that market and the unique needs of customers within it, develop uniquely low-cost or well-specified products for the market. Because they serve customers in their market uniquely well, they tend to build strong brand loyalty amongst their customers. This makes their particular market segment less attractive to competitors.

As with broad market strategies, it is still essential to decide whether you will pursue Cost Leadership or Differentiation once you have selected a Focus strategy as your main approach: Focus is not normally enough on its own.

But whether you use Cost Focus or Differentiation Focus, the key to making a success of a generic Focus strategy is to ensure that you are adding something extra as a result of serving only that

market niche. It's simply not enough to focus on only one market segment because your organization is too small to serve a broader market (if you do, you risk competing against better-resourced broad market companies' offerings).

The "something extra" that you add can contribute to reducing costs (perhaps through your knowledge of specialist suppliers) or to increasing differentiation (though your deep understanding of customers' needs).

QUESTION SIX

Marking guide

Qn	Description	Marks	Total Marks
a	Internal strategies for managing growth and expansion: Should be explained in detail 4 strategies * 2 marks = 8 maximum marks Simply outlined strategies score 1 marks Note: Other logical strategies should be considered		8
b	External growth strategies: Each of the 3 strategies should be explained in detail Strategic alliances (A poor explanation scores 1 mark. Consider an alternative logical explanation proposed by candidates) Licensing (A poor explanation scores 1 mark. Consider an alternative logical explanation proposed by candidates) Acquisitions (Each of the 3 types (i.e vertical integration, horizontal, and 'unrelated' integrations) scores 1 mark. Consider alternative logical explanations proposed by candidates)	2 2 3	7

c	Growth stage of a business life cycle: Should be described clearly. Consider an alternative correct description. 2 marks for the description + (3 marks for 3 challenges) = 5 maximum marks Consider other logical challenges proposed by candidates	5
Total		<u>20</u>

Detailed answer

a) Explain the internal strategies for managing growth and expansion that can be used by UBUMWE.

Internal growth strategies involve efforts taken within the firm itself. The distinctive attribute of internally generated growth is that a business relies on its own resources, competencies, and employees. Internally generated growth is often called ‘organic’ growth because it does not rely on outside intervention. UBUMWE can choose from the following strategies to grow and expand:

Increasing market share

When they first begin, most new ventures capture only a small portion of the market they enter. A useful growth strategy, therefore, involves increasing this share through greater marketing efforts of increased production capacity and efficiency. An increase in a product’s market share is typically accomplished by increasing advertising expenditures, offering sales promotions, lowering the price or increasing the size of the sales force. Increased market penetration can also occur through increased capacity or efficiency, which permits a firm to have greater volume of product or service to sell. In a manufacturing context, an increase in product capacity can occur by expanding plant and equipment, or by outsourcing a portion of the production process to another company. For example, a firm that previously manufactured and packaged its products may outsource the packaging function to another company, and as a result free up factory space to increase production of the basic product.

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New product development

New product development involves designing, producing, and selling new products or services as a means of increasing firm revenues and profitability. In many fast-paced industries, new product development is a competitive necessity. New products must be developed to replace existing ones and to keep ahead of competitors as the customers' expectations develop. Whatever the nature of the product, its complexity and the resources involved in its launch, the key is to remember that a product is not a thing but rather a means to an end. The value of a product lies in the benefits it can bring to its users.

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Improving existing products or services

In order to attain high growth, it's not always essential to have completely new products or services; significant improvements in the existing ones may be as, or even more, effective. Improving an item means increasing its value and price potential from the customer's perspective. There are different ways to improve a product or service, such as enhancing quality, making it larger or smaller, making it more convenient to use, improving its durability or making it more up to date.

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International expansion

In its early stages, a business tends to serve a local geographic area. Many entrepreneurial businesses grow simply by expanding from original location to additional geographic sites. Ultimately, this might include expansion into the international arena through exporting, alliances or even setting up subsidiaries overseas. In fact, few businesses can achieve any real size without taking on the international option. Several factors have facilitated the development of international trade over the past decades. For example, tariffs and trade barriers have significantly decreased at the global level because of successive rounds of negotiations that led to the World Trade Organization (WTO).

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b) Discuss the following external growth strategies.

i. Strategic alliances

A strategic alliance is a partnership between two or more firms that is developed to achieve a specific goal. Various studies show that participation in alliances can boost a firm's rate of patenting, product innovation and foreign sales. Technological alliances and marketing alliances are two of the most common forms of alliances. Technological alliances feature cooperation in research and development, engineering, and manufacturing. Research and development alliances often bring together entrepreneurial firms with specific technical skills and larger, more mature firms with experience in development and marketing. By pooling their complementary assets, these firms can typically produce a product and bring it to market faster and cheaper than either firm could alone. Marketing alliances, on the other hand, typically match a company that has a distribution system with a company that has a product to sell, in order to increase sales of product or service.

ii. Licensing

Licensing is the granting of permission by one company to another company to use a specific form of its intellectual property under clearly defined conditions. Virtually any intellectual property a company owns that is protected by a patent, trademark, or copyright can be licensed to a third party. Licensing can be a very effective way of earning income, particularly for intellectual property-rich firms, such as software and biotech companies. The terms of a license are spelled out through a licensing agreement, which is a formal contract between a licensor, the company that owns the intellectual property and the licensee the company purchasing the right to use it. Several types of licensing exist, but two that are increasingly important are technology licensing, and merchandise and character licensing. Technology licensing involves granting the right to use knowledge contained in a utility patent (a patent for a specific kind of product) to the purchaser. In contrast, merchandise and character licensing involves licensing a recognised trademark or brand that the licensor controls.

iii. Acquisitions

Another way to grow externally is to acquire other businesses in their entirety and ‘add’ them onto the existing business venture. There are three sorts of acquisition, and these differ in the way in which the integrated firm sits in relation to the venture in the value chain. The first type of acquisition is vertical integration. This happens when the venture acquires a firm that is either upstream or downstream in the value-production chain that is, it acquires a business that is a customer or a supplier. The acquisition of customers is referred to as ‘forward’ integration and that of a supplier as ‘backward’ integration. The second type of acquisition occurs when the venture integrates a business that is at the same level of value production as itself that is, a business that is, ostensibly at least, a competitor. The third type of acquisition occurs in the remaining cases when the integrated business is not a supplier, nor a customer nor a competitor. These might be referred to as ‘lateral’ or ‘unrelated’ integrations.

c) Describe the growth stage of a business life cycle and state THREE challenges faced at this stage.

Sustained growth is typically characterised by a strong increase in demand and sales, leading in turn to a growing number of employees. This ‘go-go’ phase is often accelerated by technological breakthrough, aggressive or ingenious marketing, a hungry market, sluggish competition, or some combination of these.

Three basic challenges usually confront rapid growth firms:

- **Instant size:** When firms double or triple in size very quickly, this in turn creates problems of disaffection, inadequate skills and inadequate systems.
- **A sense of infallibility:** By virtue of their success to date, owner-managers often view their strategies and behaviour as infallible and immune from criticism.
- **Internal turmoil:** There is a stream of new faces — people who do not know one another and who do not know the firm. The business founders find themselves burdened with unwanted management responsibilities. They long for the ‘good old days’ and try to act as they did in the past. Decision making suffers, internal political battles abound, and people burn out.

QUESTION SEVEN

Marking guide

Qn	Description	Marks	Total Marks
a	FIVE advantages of using Mobile Money transfers: Should be briefly stated 5 advantages *1 marks = 5 maximum marks Simply outlined advantages earn 0.5 marks	5	
b	FIVE disadvantages of using Mobile Money transfers: Should be briefly stated 5 disadvantages *1 marks = 5 maximum marks Simply outlined disadvantages score 0.5 marks	5	10
c	FIVE barriers to effective communication: Should be clearly explained 5 barriers * 2 marks = 10 maximum marks Unexplained answers score 1 mark Consider other logical barriers proposed by candidates		10
Total			<u>20</u>

Detailed answer

a) State FIVE advantages and FIVE disadvantages of using Mobile Money transfers.

Mobile Money is an electronic wallet service which allows users to store, send and receive money using their mobile device under financial regulation is known as mobile money. The following are advantages and disadvantages of Mobile Money:

Advantages of Mobile Money

Following are the benefits or advantages of Mobile Money:

- Using this solution, money can be transferred almost anywhere, even when there are no banks nearby. This increases accessibility in rural areas.

- It enables cashless payments which reduces dependency on cash and allows tracking of transaction records. This increases financial security and reduces inherent risks of cash handling such as loss, theft, or fraud.
- Mobile money has lower transaction costs with improved security compared to credit card method.
- Customers need not require middlemen for money transfers anymore. Hence it increases transparency.
- It avoids long travel to send/receive money or to pay bills by standing in long queues. This provides great comfort to the customers.
- Purchasing of online goods and services have become easier and provides more options based on pricing/features selection.
- Mobile money system provides services to the people who are geographically inaccessible and/or having very low income.
- Mobile money platforms are accessed through most basic mobile phones with low transaction costs.
- They are distributed by vast network of agents which provides person to person contact and training to those who are unfamiliar with the mobile money technology.

Disadvantages of Mobile Money

Following are the drawbacks or disadvantages of Mobile Money:

- The customers are required to obtain compliance from the respected banks.
- Lack of interoperability between networks restricts reach and makes transactions cumbersome.
- Adoption of mobile money usually requires multi-party involvement (viz. agents, governments, corporations etc.). The trust is needed between these to have successful mobile money platform.
- The ignorance and illiteracy from people need to be reduced to have wide acceptance of the system.
- It requires app to be installed which is not available in all the mobile phones. Smart phones are needed for this purpose.

- It is advisable not to provide passwords and other details to anyone. Failing to do so will lead to scam and theft.

b) Explain FIVE barriers to effective communication (8 marks)

The following are barriers to effective communication:

Poorly defined Channels of Communications: The organizational structure may hinder good communications. Managers and employees may not be aware of the information needs of other sections of the organization.

Organizational Culture: The culture of the organization may not allow for sufficient opportunities for communication to take place. Meetings may be arranged infrequently and even then they are not conducive to free speech and openness.

Personality Clashes: Personality differences between individuals or rivalry between departments can stifle communications.

Inappropriate Choice of Medium or Presentation: Information can be either too detailed or too generalized or the information may not be expressed clearly. A medium such as written communication is more suitable for detailed communication while verbal communication is more appropriate when persuasion and clarification are necessary.

Frame of Reference: Depending on past experience, individuals may interpret communications differently. This is a common cause of breakdown in communications.

Jargon: Using technical language may make communication incomplete or incomprehensible to those unfamiliar with it.

Communication Overload or Underload: Too much or too little information being communicated, directly affects receiver comprehension. Too little generates a feeling of mistrust, while too much information may produce mental overload or stress.

Communicator Credibility: The level of credibility a receiver assigns to a sender will affect how the receiver will react to the ideas suggested by the sender.

Selective Listening: Individuals tend to selectively perceive information which reaffirms their beliefs and filter out conflicting information.

Withholding Information and Filtering: The sender may withhold or manipulate information for to create a more favourable appearance. The communication may become distorted and meaningless if information is omitted.

End of model answers and marking Guide