CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.1: STRATEGY AND LEADERSHIP

DATE: MONDAY 24, APRIL 2023

INSTRUCTIONS:

1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has **two** sections**: A & B.**
3. Section **A** has **one** Compulsory Question while section B has **three** optional questions to choose any **two.**
4. In summary attempt **three** questions.
5. Marks allocated to each question are shown at the end of the question.
6. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

Hanga Plc:

Hanga Plc is a clothing manufacturing company established in 1997 and head-quartered in Masoro-Kigali, Rwanda with operations across the world. Most of its clothing brands have been produced using paper patterns. However, the company's innovation department recently introduced digital elements to the production process to improve the quality of clothes and meet the tastes of the ever-changing textile industry demands. Specifically, the company's production department recently introduced the keeping of sewing patterns in a file rather than on paper only.

The trends and innovation

Hanga Plc believes that consumer adoption and constant technological development are critical when it comes to fashion. This is mainly driven by the fact that both technology and fashion are future-driven and consumer-focused.

In 2022, the company's management decided to think futuristic and introduce Artificial Intelligence (AI), digital influencers, and material innovation to its fashion brands. With its new trendy 'Twika' clothing brand, Hanga Plc uses apple leftovers to manufacture high quality leather clothes. Twika leather brand is a bio-based material made using the leftover pomace and peel from the fruit juice and compote industry. The fabric is created by reducing recovered apple waste to a powder. Once processed, it is sent to the company's factories, where it is combined with polyurethane and coated onto a cotton and polyester canvas.

Many fashion customers have welcomed the Twika brand and its sales have sky-rocked over the past few months. This is because many customers perceive clothes made using this new technology to be superior to existing clothes. Secondly, customers love this brand because they believe the technology used in producing them is both environmentally friendly and compatible with other existing wardrobe accessories. Further, Twika brand is popular because the technology used in making the clothes is relatively easy to explain to an average customer compared to other complex technologies. Hanga Plc gives the opportunity for customers to try clothes on both in their homes for online purchases and in-store before completing payment. This is extremely convenient for customers especially busy moms, professionals, children, and tweens. Lastly, Hanga Plc has, through its aggressive marketing campaigns, effectively communicates the various benefits of the Twika brand technology such as environmental friendliness, water resistant fabric, durability, and much more.

Stakeholders

Hanga Plc's decision-making is often based on perceived or actual stakeholder influence and interests. The company's Chief Executive Officer (CEO) recently made the following comments:

'Hanga Plc values its stakeholders and does everything it does in the interest of its stakeholders. All our clothing brands are hinged around customer tastes and preferences. Our shareholders, suppliers, sub-contractors, employees, and financiers are all valuable to us and we implement their wishes and decisions.'

Hanga Plc's international strategy

Hanga Plc has its head office in Rwanda but has operations across the world. In 2023, the company decided to export its brands to other countries where it does not yet have factories. The company's management agreed to start with fewer countries this year and gradually scale up its export efforts. As such, the company will start with Somalia, Burundi, United States of America (USA), the European Union, and China. This is because these countries have had the most online sales over the past year.

Since Twika brand is relatively new and its demand has been high, its production has been mainly done in Rwanda to leverage Rwanda's capabilities, innovations, and products in different foreign countries. The company currently has distinctive capabilities and strong reputation for the Twika brand. The company exports large quantities of Twika clothes in foreign countries monthly to meet the soaring demand.

For other clothing brands, however, Hanga Plc produces them from its various factories located in various parts of the world. This is because the company has standardised most of its clothing brands to fully exploit integration and efficiency in operations. The company has geographically dispersed value chain activities being coordinated and controlled centrally from Rwanda.

In some countries, Hanga Plc sells locally made clothes and exported clothes to maximise both responsiveness and integration. For instance, in Uganda Hanga Plc sells clothes made in Uganda and those imported from Rwanda. The local clothes are tailored to the needs of Ugandan customers. This is mainly to support efficiency and effectiveness while at the same time being able to serve local needs and leverage learning across brands.

Hanga Plc's board of directors (BoD) has asked management to consider the company's international strategies and advise if they serve the company's grand strategy. The BoD has asked that the findings and recommendations are submitted in a report on 3 May 2023 ahead of a BoD meeting scheduled for 30 May 2023. The report should be addressed to Ms Kamashazi Shyne, the BoD chairwoman.

Required:

a) With reference to Everett Rogers' innovation adoption model, **examine main characteristics influencing the Twika brand innovation's rate of adoption**. (15 Marks)

b) Applying stakeholder mapping, **discuss potential sources of power for Hanga Plc's stakeholders**. (16 Marks)

c) Assuming you are a Hanga Plc's Strategic Analyst, **draft a report to the company's board of directors critically exploring the various international strategies pursued by the company**. (19 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

Karamuka Electronics Limited (KEL):

Karamuka Electronics Limited (KEL) is a start-up that produces and sells consumer electronics. Mr Karamuka Fernandes, the Chief Executive Officer (CEO), is supported by a high performing team of executives comprising the top management team of KEL, which takes daily decisions.

Recently, the senior management team's decisions have come under scrutiny. The Board of Directors (BoD) have questioned the effectiveness of the company's management due to plummeting sales, soaring costs, and high staff turnover. Over the past year, the company's revenues have declined by 10%, costs rose by 20%, and 40% of its middle-level managers have resigned. What surprises the BoD is that management seems unbothered and there's no talk of disagreements within senior management. The BoD chair was recently quoted saying 'in an environment where almost everything is falling apart, you would expect varying views in senior management and potential mild conflicts. There seems to be none now.'

Concerns have been reported by staff about senior management decision-making and treatment. Staff suggest that there's a feeling that major decisions and actions by management are untouchable or that the management is invincible to the point of ignoring warnings of poor performance. Staff further claim that the CEO and his team have so much ego that they rationalise their decisions even in the face of obvious warning negative feedback that they receive from staff, the market, and other key stakeholders. Ms Linda Teta, a department manager, was recently quoted saying 'the CEO and his team think anyone and everyone questioning their decisions is an enemy, hence, mislabelling the enemy group as 'stupid' when they may not be.'

Although everyone in senior management appears to accept every decision made by the team, there's mention of some management members feeling forced to agree to conclusion even if they believe it is unreasonable. they just look supportive of choices in senior management meeting to maintain their job since they fear being asked to resign. Some senior management members have quietly been saying that they hold off on raising opinions contrary to the management consensus for fear of judgment from everyone else. Mr Fernandes seems to believe that silence head-nodding in meetings means that everyone agrees with what's being discussed.

In addition to the above issues, the BoD feels like there is a sense of lack of a clear vision for the company and that KEL has lost its core competencies that used to set it above the competition partly because key staff have left. New staff have not been trained and the on-going disagreements mean that there's no clear culture that supports KEL's strategy.

Required:

a) Using the above case study, **discuss factors that potentially give rise to the groupthink phenomenon in KEL's senior management.** ***Hint:*** *Use the Irving Janis' groupthink theory to answer this question.* (13 Marks)

b) Assuming you are appointed as KEL's new CEO, **draft an email to the BoD discussing key strategic leadership actions you would take to turn the company around.** ***Note:*** *The email shall be sent to the BoD's distribution list on 5 May 2023.* (12 Marks)

(Total: 25 Marks)

QUESTION THREE

Hinga Agroexperts Limited (HAL):

Hinga Agro-experts Limited (HAL) is a Rwandan multinational food processing and commodities trading corporation founded in 1996 and headquartered in Kigali. The company operates more than 30 plants and 60 crop procurement facilities worldwide, where cereal grains and oilseeds are processed into products used in food, beverage, nutraceutical, industrial, and animal feed markets worldwide.

Since early 2000s, HAL was a high performer and often cited as an exemplary agrobusiness in Africa. However, the company's performance has been unsatisfactory over five years. The company's share price has plummeted to half its price in the past five years. The company's management suggest the retreating performance is mainly attributable to changing climate change, geopolitical dynamics as well as the COVID-19 pandemic all of which undermine the company's supply chain systems and customers' purchasing power. The company also faces pressure from climate activists to cutdown its carbon footprint.

To revise the company's performance, the company's management published a new strategic plan for sustainable growth and decarbonization for the next five years. Talking to reporters in her townhall strategic plan announcement event last week, Ms Aamiina Muhammad, the company's CEO was quoted saying 'We're committed to continuous decarbonization of our business operations and promoting sustainable farming practices. To walk the talk, we recently introduced the industry's first carbon-neutral milling footprint to store as much metric tons of carbon dioxide as possible.' Ms Aamiina further said that HAL has dynamically positioned its business portfolio for strong performance reinforced by the two key pillars of food security and sustainability. With this plan, the company targets an improvement in earnings per share (EPS) of Frw 3 by 2028 and a reduction of greenhouse gas emissions (GHG) of 20% by the same year. The expected industry average growth in EPS during the same horizon is Frw 1.5 while the expected industry average GHG reduction during the same time frame is 15%.

Although investors are generally pleased with HAL's announced new strategy, experts have expressed concerns that due to the recent uncertainties, there is a risk that this performance may not be achieved. 'Owing to the war in Ukraine, the possibility of the outbreak of another pandemic, and the looming retreat in globalisation, HAL's strategic plan may flop', an industry expert has recently commented. However, Ms Amina has reassured investors that the company's chances of success are high because the company currently has the required resources and capabilities to implement the strategy effectively.

The company has secured adequate funding through the recent issue of ordinary shares. The company has also recently finalised an aggressive campaign in which skilled staff were hired.

Ms Aamiina suggests that the company also intends to become the systematically lowest cost among its peers in order to achieve the announced strategy and achieve competitive advantage. The company's main input costs include costs for oilseeds such as soybeans and soft seeds (cottonseed, sunflower seed, canola, and flaxseed), corn, dextrose, and starch. The company also incurs significant costs of to buy, store, clean, and transport agricultural commodities, such as oilseeds, corn, wheat, milo, oats, rice, and barley.

Required:

a) With help of the suitability, acceptability, feasibility, and evaluation (SAFE) technique, **evaluate HAL's announced strategy and advise if it is likely to succeed or not.** (12 Marks)

b) With reference to Michael Porter's Generic Competitive Strategies, **identify and discuss key cost drivers that will help deliver HAL's competitive strategy**. (13 Marks)

(Total: 25 Marks)

QUESTION FOUR:

Huye Company Limited (HCL):

Huye Company Limited (HCL) is a beverage corporation based in Huye District. The company manufactures, sells, and markets both non-alcoholic and alcoholic beverages. HCL has two major product brands including Kanyota and Huha. Table 4.1 below demonstrates key information about HCL's major product brands:

Table 4.1: Key information about HCL's major product brands

Type of brand	Brand name	Market share	Market assessment
Alcoholic	Kanyota	70%	• Many people in Huye know the product. • It is less known and consumed elsewhere.
Non-alcoholic	Huha	25%	• It is perceived to be relatively expensive. • Less people are aware of the drink.

The new normal: Remote working

HCL's management has proposed the introduction remote working policy which is aimed at allowing all staff more flexibility to work remotely. In its early stages, the policy was mostly unique to small information technology (IT) department staff. Many things have changed since Covid-19 pandemic hit the world. Management is now convinced that almost everyone can work remotely. However, some board members are opposed to the idea of staff working outside offices. A board member was recently quoted saying 'you can't know whether staff are working or not when they are left to work outside offices.'

Disciplinary action against Kamanzi Freddy

Kamanzi Freddy, an employee who has been an employee of HCL for the past 10 years, has been performing poorly against his annual performance targets despite all attempts to help him improve. His supervisor has unsuccessfully tried to address the problem. No action has been taken against Kamanzi yet.

The human resources management (HRM) department has been asked to assess feasibility of the proposed remote working policy and present a report to management to help decide on whether the policy should be rolled out or not. The CEO has also asked that the report includes recommended steps to be followed in taking disciplinary action for an employee who has passed the probation period. The report should be submitted to the company's Chief Executive Officer (CEO), with a copy to the Chief Operating Officer (COO), on 10 May 2023.

Required:

a) Using the Ansoff matrix, **examine HCL's two major product brands and propose appropriate strategic directions for the company to pursue.** (9 Marks)

b) You are the head of the HRM department. **Prepare a report:**

i. **Assessing the proposed remote working policy.** ***Note:*** *Tabulate your answer clearly stating benefits and challenges associated with the proposed policies to HCL.* (11 Marks)

ii. **Recommending steps followed in taking disciplinary action against an employee who has passed the probation period.** (5 Marks)

(Total: 25 Marks)

End of question paper

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