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**CERTIFIED PUBLIC ACCOUNTANT  
ADVANCED LEVEL 1 EXAMINATION**

**A1.1: STRATEGY AND LEADERSHIP**

**DATE: MONDAY 21, AUGUST 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**

#### **Safe Motors Ltd.**

#### **Introduction**

Safe Motors Ltd (SML) is a company that was established in 2010 and headquartered in the Kigali Special Economic Zone. SML employs 50 staff across all the departments, and the employees appear to be well paid as they strictly adhere to all occupational safety, minimum wage, health, and working conditions issued by the government legislators. One of the staff who started as a freelance marketer asserted that ‘SML is one of the best employers: when I finished serving my six months, I was automatically hired as a permanent worker, unlike other companies who could keep you as a casual labourer without a formal contract or documentation’. SML’s main line of business includes the sale of new motorcycles to all customers countrywide as well as supplying of a technology - the only app that is used to transact all motorcycle payments that they can use to efficiently charge for individual transport or any other delivery. The application is provided free of charge when a customer buys a motorcycle from SML. Upon establishment, SML was allowed some tax incentives and grants that are usually given to all companies that invest in technology. Besides that incentive, SML’s shareholders do believe that Rwanda is a country that provides several business opportunities, not mentioning being the safest country in Africa, its GDP growth is over 10% per annum, inflation has been kept at a single digit since 2010, its strong governance policies, highly developed technological infrastructure, strong measures against anti-money laundering and corruption, more jobs especially in service industry have been created and hence forth the living standards of its citizens significantly improving, among many others.

#### **Performance**

The company’s performance in the years 2020, 2021 and 2022, was not that good due to the impact of Covid-19, where motorcycle purchases went down by close to 30% in 2020, increased by 10% in 2021 and finally by 15% in 2022, nonetheless, SML is getting back to normal business as motorcyclists have since formed their own cooperative under the Rwanda Cooperative Agency. This Saving and Credit Cooperative Society has helped motorcyclists to have a common bond. They can now save money and lend it to one another at agreed interest rate, time and conditions. It has also become easier for them to borrow money from the Cooperative to buy new motorcycles, which is good news for SML as it revives its business since the pandemic set in. Some repeat customers are allowed to execute a lease and buy arrangement at favourable terms. Notwithstanding, that period which was characterised by stringent government measures to curb the spread of the pandemic including lockdowns and quarantines, led to worsening economic conditions which also resulted into declines in customer commitment towards long-term motorcycle investment. SML holds 40% of the market share.

## **Motor cycles Supplies**

Safe Motors Limited (SML) suppliers are based in the United States of America (USA), where issues of climate change are equally rampant. They supply spare parts – some of which are used to assemble the motor cycles at the Kigali factory whilst others are imported when they are already assembled. The supplying company has a good reputation of enforcing sustainability development and its reporting. SML has dealt with other suppliers in Europe and Asia who may supply relatively good quality motorcycles. Before, sending any ordered consignment, SML staff confirms first as to whether what they are sending to Rwanda is acceptable by the laws of the land, including safety precautions of both motorcycles and other spare parts. A recent survey conducted by the company revealed that SML motorcycles are of good quality compared to the three (3) competitors on the market, though their prices were found to be slightly higher. Motorcycles prices can be accessed via SML’s website and customers are able to compare prices against those of other distributors.

## **Climate change and new product proposals**

Following the government ‘s campaign to make Rwanda a cashless economy in order to attract more business activity, generating employment opportunities, and subsequently increasing higher tax revenues for the country; most institutions have since followed suit in its usage by promoting digital transactions.<sup>3</sup> It is also believed that achieving a cashless economy would increase productivity, improve the velocity of money and bring more money into the formal economy, whilst enabling cost savings and increased resources in the financial institutions which would later allow for cheaper loans and more investments. With the introduction of a cashless mobile payment app, SML has contributed to this cause, not mentioning the recent award they won for being one of the technologically innovative companies of the year, 2022. To continue contributing to this cause, SML shareholders in their Annual General Meeting (AGM) recently, promised that in two years they shall have brought on the market, completely electric motor cycles bidding at supporting the country’s ambitious green development goals that will facilitate the country to counter the effects of climate change on people and economy including emissions from cars and motorcycles. Likewise, due to the need of limiting air pollution, the carbon foot print gases will need to be reduced from the current 14% of the country’s greenhouse gas emissions that are driving the climate crisis to below 10% by 2025, as recently announced by Rwanda Environment Management Authority (REMA). Besides, electronic vehicles (EV), Plugin stations have already been installed around Kigali, which are capable of charging both cars and motorcycles. The stations in many ways symbolize Rwanda’s hopes of becoming an electric vehicle powerhouse.

The proposal to introduce full electric motor cycles was welcomed by all members, but one of the board members, Mr Alfred Nkusi was sceptical about how that would be done. ‘Introducing a new product on the market might not be an obvious process as some of us here would wish to believe, I think we might need to relook at our product policy including assessing the various activities that should be examined before we launch this new product onto the market’ he asserted. Ms Susan Linda, another board member who also chairs the audit and risk committee, welcomed the idea and also added that quality is an important aspect and it should remain as everybody’s responsibility at SML. She also stressed that, to realise NML’s long-term goals and objectives, strategic management skills are equally a must. It was from that context that the

chair, asked whether SML had an operations manager to facilitate in some key aspects of operations management as it appears SML might consider constructing a new assembling factory in Rwanda to achieve its long-term goals and objectives.

### **Safety**

A lot of people have talked about motorcycle accidents to be a major risk and behind the reasons as to why women and the elderly fear them, though it has appeared to be the most favoured means of transport to teenagers and the working-class people who want to bit the rush hour traffic and it is also favoured to those travelling to areas with feeder roads. One of the motorcycle clients claimed ‘I usually take a moto cycle because it is faster, cheaper compared to a hired tax service, and can literally take you to any location around town including in its suburbs conveniently’.

### **The Ukraine invasion**

The Ukraine war and subsequent cost-of-living crisis is an indication that some developing countries are even less likely to access essential services and are more at risk of violence, exploitation, abuse and heightened inflation. Rwanda is not an exception, though fuel prices and other consumables’ prices increased by a considerable percentage, government intervention facilitated in trying to keep it stable. In the process, some people parked their cars whilst some others embraced public transport and the use of motorcycles. This did not just increase the demand for motorcycles, but also contributed to the realisation of Rwanda’s long-term goal of becoming a carbon-neutral nation as articulated in its Vision 2050 aspirations, since the motorcycles sold by SML are ecological and support the shared mobility initiative for greener cities, thereby making SML motorcycles’ rides to be sustainable, comfortable, and noiseless. This too has provided a competitive advantage to SML over its other competitors.

### **Required:**

- a) **Evaluate the macro-environment of SML in reference to the PESTEL framework.** (15 Marks)
- b) **With the use of the Porter’s five forces model, analyse the market place environment in which SML operates.** (13 Marks)
- c) **Considering the board chair’s concern of SML obtaining an operations manager to facilitate in some key aspects of operations management, evaluate the key elements of operations management that would be fundamental while establishing a new assembling factory in Rwanda.** (8 Marks)
- d) **Introduction of electric cars would be considered as a new product development. Referring to Mr Alfred Nkusi’s scepticism, examine the activities that should be considered while launching the new electric motor cycles.** (8 Marks)
- e) **Explain how the ‘adoption’ process would fit into SML’s strategy of launching electric motor cycles.** (6 Marks)

**(Total: 50 Marks)**

## **SECTION B**

### **QUESTION TWO**

Mambo Fried Chicken (MFC) opened its Kigali franchise in 2010. MFC specialises in fried chicken, pizzas, breakfast, coffee, tea, pastries, juice, fruits and other delicious foods. This came after its Managing Director had just come from Nairobi, where he had seen many MFC outlets, including the ones he had seen in other neighbouring countries i.e., Uganda, and Tanzania. He had kept on wondering why in Kigali there is no MFC outlet at the time. When he visited Nairobi, he was lucky to have met Mr Joseph Musiu, the MFC proprietor and owner. They had a discussion and this culminated into MFC getting established in Kigali. From the onset, apart from the initial three years upon registration, the company was making some good profits, employees appeared to be happy, at the first impression – with a smile on their face, no employee turnovers or scandals at the outlet, in the media, among others.

Towards the end of last year, 2022, the company was all over the headlines. The level of staff turnover was unmanageable, profitability was declining down, poor liquidity, and some of the used to be loyal customers had migrated to other outlets. One of the previous customers was quoted as saying ‘we cannot continue to support that outlet when they buy their raw materials and other ingredients from Nairobi, although it is us, who give them our money, they either stop that practice or we continue boycotting them’. A staff member who met one of the news anchors was like ‘we have spent three months without being paid our salaries, I am not so sure what could be happening at MFC’. When the Managing Director was approached, he acknowledged that he understands what could be happening and he vowed to make some changes so that MFC gets back to its glory days.

In their weekly meetings, Jean Claude, the Operations Manager (one of the best operations managers in the country) had shared his views on why it is important to initiate some changes at MFC, to which he was passionately committed despite some negative feedback from some staff members. The Finance Manager, Sharon Mutamba approved the idea and vowed to explain it to the rest of the staff, though she had initially criticised it herself.

The Managing Director believes that one of the ways of reviving MFC is to take over another business, the potential targets include: Ngezi Cafe, Savannah lounge, Nina Furniture, and Sam & Sons Ltd. Ngezi Café offers delicious foods and drinks, though they appear to lack operational knowledge and skills needed to manage a café; Sam & Sons deal in the sale of motor vehicle spare parts; Nina Furniture, they do sell furniture and other home appliances, they possess a high market share and the market is growing; while Savannah lounge, are in the same business as MFC, though they appear to be self-sustaining.

#### **Required:**

- a) Which two techniques could be deployed by MFC managers to effect the required change? (4 Marks)
- b) According to Richard Daft, evaluate how the change idea will be championed using the four roles and recommend who should be the change champion. (8 Marks)
- c) Explain the areas of change which you believe MFC should focus on. (5 Marks)
- d) Use the Ashridge Model to evaluate the attractiveness of the above potential targets which the Managing Director believes may be required to revive MFC. (8 Marks)

**(Total: 25 Marks)**

### QUESTION THREE

Jobill Ltd is a company that was established a few years ago and it specialises in the production and sale of cooking oil countrywide. Its performance over the years has been impressive until recently when sales dropped by 30% and profits equally reduced by 15%. This became a big concern to company management, as it appeared that, there was some cooking oil which customers believe that could be healthier and hence the switch; the research conducted by a strong research team showed. Jobill's cooking oil is manufactured from soybeans but the same survey shows that customers prefer cooking oil manufactured from sunseed sunflower as it is believed to be rich in vitamin E, low in saturated fat and cholesterol free for healthier cooking and a healthier body. This cooking oil is sold at a premium and Jobill is capable of joining a few players who are already earning average profits, though there are customers who still prefer Jobill's cooking oil as it is cheaper. Jobill's sales and marketing department strongly believes that Jobill can compete in this industry, as they are assured of high-quality cooking oil which the market currently wants. The Board has tasked the Chief Executive Officer, to spearhead that project as the project sponsor. The board chair asserted 'the project sponsor will ensure that this project is fast-tracked, set timelines are adhered to, all questions are addressed, risks are mitigated, including acting as the liaison person to solve conflicts (if any) among other activities.'

#### Required:

- a) Recommend which Porter's Generic Strategy should Jobill Ltd pursue (Your analysis should include advantages and or characteristics of each strategy). (15 Marks)
- b) The Chief Executive Officer has been appointed the project sponsor to ensure that Jobill Ltd remains competitive, what are the likely responsibilities of the CEO in this regard (10 Marks)

(Total: 25 Marks)

#### QUESTION FOUR

Amarilis Super Market (ASM) has a chain of stores in Kigali. It employs approximately 120 staff across its three super market chains. Mr. John Sano, the Chief Executive Officer (CEO) of ASM appears to have a high level of trust as well as a high level of respect shared by him and other staff. He always gets things done by directing his staff who typically do well defined tasks. ASM presently pays its employees via a human resource software, while customers/clients at the supermarkets counters can pay with cash or via a Point of Sale (POS) gadget. In their most recent management meeting, the IT manager advised the CEO to plan a significant investment in IT to remain competitive. The CEO stated that, it is better if ASM has an IT plan to support the project and also ascertain whether it would be within the overall company objective. After a month, the CEO requested a consultant to develop an IT strategy for ASM.

**Required:**

- a) With the use of a strategic IT grid, evaluate ASM and recommend a contingency approach that would better suit Amarilis Super Market. (10 Marks)
- b) As a consultant at ASM, explain to management the benefits of possessing a well-designed IT strategy. (10 Marks)
- c) Fiedler's contingency theory compares the leadership style to three situational factors to determine as to whether one can be an effective leader by the use of a Least Preferred Co-worker (LPC) scale to describe a co-worker with whom they least enjoy working.

**Required:**

Given the situation at hand regarding the CEO's skills in ASM, evaluate the leadership style of the CEO by applying Fiedler's Contingency Theory of Leadership. (5 Marks)

(Total: 25 Marks)

**End of question paper**

