
**CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 1 EXAMINATION**

A1.1: STRATEGY AND LEADERSHIP

DATE: MONDAY 26, FEBRUARY 2024

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

Noble Construction Ltd (NCL)

Noble Construction Ltd (NCL) is a construction company that was established 10 years ago with the main objective of constructing and selling luxury residential, affordable housing, apartment complex and commercial buildings as well as industrial buildings. NCL employs close to 150 staff. The company is headed by its Managing Director, Fred Mugisha; and below him, there are several departments represented by managers. They include Human Resource Manager, Procurement Manager, Finance Manager, Marketing Manager and the Operations manager.

Each departmental manager has a role to play towards the successful attainment of NCL's goals. Specifically, the operations manager is the one who plans and designs the layout of all buildings constructed by NCL. His skills in architectural design allows him to translate their clients' visions and ideas into a functional space, from a mere concept to viable and safe designs. His role does not end at that, he is the one who oversees the construction projects by ensuring that he visits regularly all construction sites whilst resolving any issues that could have surfaced. Essentially, the operations manager work on the project from the start until completion including intervening or responding to clients' inquiries after the buildings' handover. This allowed NCL to generate better sales and consequently profit margins compared to its rivals, in the previous years.

Recently, NCL performance went down, where by sales reduced by 20%, while profitability went down by 30%. The shareholders of NCL are concerned with the bad performance and they want management to devise a new strategy that would take them back to profitability.

According to the finance manager's presentation, during the management meeting hosted by the managing director, poor performance was attributed to loss of sales on the low-cost houses and apartments. This section alone used to bring in more than 40% of NCL's sales revenue; but the year ended 2023, it only brought in 10%. The marketing manager explained that he did some research to understand the trends and customer preference, and the findings indicate that, two new competitors have since joined the industry with different approaches. First, is a leaseback approach they adopted which allows the owner occupant of the property to sell it to an investor landlord while continuing to occupy the property. This was a welcome concept to most people who do not have a total lump sum to pay off the property at once. Secondly, Own Your Home Ltd, one of the competitors has an arrangement with the bank where a buyer would be facilitated to obtain a mortgage at an interest rate of 12% as opposed to the normal interest rate of 15% which NCL's customers would pay if they were to buy a property from NCL. Last but not least, is the cost of the properties, competitors are selling at a lower price compared to NCL. The marketing manager believes that based on the research findings, NCL would do better if it diversified into road and bridges construction, considering its existing capabilities.

The Finance Manager welcomed the Marketing Manager's opinion. However, he stressed that such a strategy would require a further evaluation to be able to conclude as to whether diversification would influence NCL's success. Besides, this may depend on the type of diversification adopted. Having heard from each manager, all in support of the diversification strategy, the Managing Director remarked that all the types of diversification should be looked at, and a choice is made to which would be the most beneficial to NCL.

When the Managing Director heard that, he stressed that a detailed plan has to be developed to ensure that NCL improves its performance; notably formulating a new strategy while improving the operations management approach. Under here, he explained that NCL should assess its internal and external capabilities to be able to identify the strategic options that can be adopted to gain a competitive advantage. He concluded that NCL had a strategy already, but it appears the strategic objectives are not being realised as per the plan, therefore requiring a strategy re-alignment. He also reiterated on the need to manage costs effectively such that NCL can be able to offer its properties to the market at either same cost with competitors or even cheaper.

NCL shareholders

NCL shareholders are ready to bring more capital into the business, provided that management can show them a well laid out strategy that can guarantee improved performance and profitability. From the Finance Managers analysis, if NCL was to diversify, the project would provide a positive Net Present Value (NPV) and the Payback period will be just four (4) years. The shareholders also inquired on the necessary skills and competencies that would be required to effectively enter into this market, to which the Operations Manager responded that he has the required capabilities to be able to control all roads and bridges projects.

Market environment

Considering the National Strategy for Transformation (NST 1) implementation plan, a lot of activities will be conducted in the short to medium term including construction of roads and bridges. The government has already laid out a plan to effectively implement all pending infrastructural projects. This is to ensure that Rwanda gains modern infrastructure, cost effective and quality services, while ensuring sustainable economic growth and development, supported by safe and seamless integrated multimodal transport system for passenger and goods, both at national and regional level.

Required:

(a) Operations management is concerned with managing an entire production system that converts inputs into outputs. Based on the scenario above, **explain three roles of NCL's Operations Manager.** (6 Marks)

(b) NCL performance in the previous years was acceptable, until competition set in, and now the company is struggling. The decline is attributed to lost sales on low-cost houses and apartments. To improve performance, the Managing Director believes, formulating a new strategy as well improving NCL's operations management approach to gain competitive advantage should be adopted. **Demonstrate six key elements of operations management NCL should focus on to improve performance mainly under cost control.** (12 Marks)

(c) In his remarks, the Managing Director emphasised the need to formulate a new strategy to improve NCL's performance. He also highlighted the need for a strategy re-alignment as the current NCL strategy appears not to facilitate achievement of NCL's objectives, as initially planned. **Advise NCL's management which strategic approach they should adopt that would better help NCL to get back to the required performance standards.** (7 Marks)

(d) Due to the current challenges at NCL, several strategies are being thought after, including growth strategies. **With the use of the Ansoff model, evaluate as to which strategic choice would better provide the opportunity for revenue growth at NCL.** (10 Marks)

(e) Assuming that NCL is pursuing the diversification strategy as its growth strategy, **recommend the type of diversification that would be the most effective, providing clear examples.** (7 Marks)

(f) The choice of a preferred growth strategy that would better provide the opportunity for revenue growth at NCL, would require that NCL evaluates those strategies. **Critically evaluate the criteria that NCL would deploy to evaluate the chosen strategic option.** (8 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

Airnet Ltd

Airnet Ltd is a company that was incorporated in 2020 in Kigali though it is headquartered in Niece, Eurasia. The company ranks among the top 10 mobile service providers globally, and it specialises in the provision of mobile commerce, wireless services, voice and data services, and fixed line services. The company equally possesses a mobile service that allows its clients to send and receive money across other networks in the country, to buy airtime for self or other individuals, make payments using Airnet money, among other services. The company however, has not yet integrated its platform with banks (Digital Payment System) where by customers will be able to conduct bank transactions such as checking bank balances, sending money from some one's phone to the bank and vice versa or to another account. The absence of this platform has hindered Airnet Ltd from gaining enough market share. Airnet Ltd has only 5,000 clients as per the statistics from its recent publication. The company's Chief Executive Officer, Mr. Peter Mugabo has vowed to have this changed, though he is not sure how to proceed. In the recent staff meeting, the Chief Consumer and Digital Manager, who is passionate about the idea, pledged to follow it up with the concerned stakeholders even though the Human Resources Manager had not thought about it, as a good idea. The Risk and Compliance Manager, was worried about the intellectual property rights when such an initiative is implemented to which the Chief Financial Officer addressed by ensuring him that, by the time the platform is launched all paper work and the required approvals shall have been sought.

The CEO reiterated that apart from the missing platform, he believes that change is required within Airnet Ltd to be able to compete favourably and increase the current market share. Apart from the missing bank integration platform, he also believes that the company should shift away from the current "Organisation by Function" structure to Organisation by Product Division. His argument revolved around some employees focusing on departmental goals rather than organisational goals and that competition was starting to develop between functions. Implementing a new organisation structure, he emphasised, would make control and communication easier, resources shall be utilised efficiently, among other benefits.

The company equally believes that due to the recent advancements in technology and globalisation, it can be able to borrow from what its Head office has done and replicate it here in Rwanda including becoming one of the pioneers to launch the 5G network onto the Rwandan market. In his remarks in one of the company meetings, the CEO gave an example that, effective change within the company is a must, since change is occurring faster globally, with extensive impact and complexity in nature. "Airnet Ltd will therefore have to devise new ways of initiating innovative change and creativity if we are to remain competitive", the CEO stated.

Required:

(a) The CEO remarked that change is a must within Airnet Ltd and that, it is globally occurring faster, with extensive impact and complexity in nature. **Giving examples, explain three factors that are influencing change to occur in the manner described in the scenario above.** (6 Marks)

(b) Airnet Ltd's CEO, Mr. Peter Mugabo is passionate about the Digital Payment System that has to be integrated with Airnet money, an initiative he believes would increase Airnet Ltd's market share. According to Richard Daft, championing an idea successfully, requires four roles in an organisational change. With reference to Airnet Ltd's scenario above, **critically evaluate the four roles.** (8 Marks)

(c) The CEO remarked that apart from the missing DPS platform, he believes that change is required within Airnet Ltd to be able to compete favourably and increase the current market share. He also stated that effective change within the company is a must since change is occurring faster globally, with extensive impact and complexity in nature. **Explain at least four other ways through which Airnet Ltd can initiate the needed change.** (4 Marks)

(d) The CEO, Mr Peter Mugabo revealed some challenges a company would encounter when it sticks to what is considered as a traditional organisation structure. He went ahead to recommend that Airnet Ltd should shift from the current "Organisation by Function" structure to "Organisation by Product Division". **Evaluate three benefits that Airnet Ltd would gain from the shift as per the CEO's recommendation.** (7 Marks)

(Total: 25 Marks)

QUESTION THREE

Iwacu Sacco

A savings and Credit Cooperative (SACCO) is a financial institution in which members save their money and can be able to access that money through loans. The money stays within the membership and the locality of the SACCO. The concept of the SACCO was developed based on the assumption that banks and other financial institutions are concentrated in towns and yet the poor, mainly those in rural areas' rate of financial inclusion was still very low.

This is how Mr. Gatera Xavier together with the residents of Nyaruguru sector started their privately owned SACCO called Iwacu SACCO. All members of Iwacu SACCO have equal voting rights regardless of their deposit amounts or shareholding. Iwacu SACCO has been in existence for over 10 years. The SACCO has close to 10,000 members. It has a board which is led by Mr. Gatera, a Board chair, Mrs. Uwera Jane, a Chief Executive Officer (CEO) and another team of 50 staff, working in the 5 Iwacu SACCO branches.

Through the recycling of savings and returning profits made to members in form of loans, Iwacu SACCO has been able to construct its Head office in Nyaruguru and the year ended 31 December 2021, the SACCO made profits of over FRW 250 million, however, recently in the just concluded financial year 2023, the SACCO made a loss of FRW 20 million. When the board asked management to explain what happened, they defended themselves that, losses are emanating from mainly administrative challenges which include: high operational costs mainly attributed to the traditional way of transacting business manual way of booking transactions which is risky, and also accelerates customer dissatisfaction which impedes SACCO's growth prospects.

After listening to management, the board chair, instructed the CEO to immediately devise a strategy that would allow them migrate to a digital platform by deploying a core banking software which would automate the 5 branches of Iwacu SACCO. Mr. Gatera further advised that with the digital technology, customer data and financial information shall be stored securely, financial inclusion will be enhanced with improved customer trust and more members onboarding, agency banking shall be embraced, among other benefits. "If this strategy is implemented effectively, Iwacu SACCO performance will be restored and thereby turning to better performance and profitability", Mr Gatera argued. The CEO was tasked with the leadership role of ensuring that Iwacu SACCO's new strategy of digitalising its operations is effectively implemented. The CEO was equally tasked with the role of training the entire staff team in the areas of risk management, governance, credit administration as well as product development to ensure an effective transition, including making the needed corrective adjustments where required.

Required:

(a) Based on the tasks ahead for Iwacu SACCO to restore its performance, **discuss five requirements that should be in place if the strategy of digitalising Iwacu SACCO is to be effectively implemented.** (10 Marks)

(b) Mrs. Uwera Jane, the Iwacu SACCO's CEO, has been tasked with the leadership role while implementing this strategy. **Explain what her role would be as a strategy implementer at Iwacu SACCO.** (10 Marks)

(c) Mrs. Uwera Jane, the Iwacu SACCO's CEO was equally entrusted to take the lead in making corrective actions while implementing the strategy. If the process does not go as per the plan, **explain how Mrs. Uwera Jane would successfully make corrective adjustments.** (5 Marks)

(Total: 25 Marks)

QUESTION FOUR

Neliz Mugeda is the Chief Executive Officer (CEO) of Nega Cosmetics, a company which manufactures and sells its own brand of environmentally friendly cosmetics. The company is the market leader in its niche market, and is one of the top ten brands in the total cosmetics market in Rwanda, where it is based. Neliz Mugeda has always been perceived by her staff as a visionary leader. However, she sometimes lets her enthusiasm for certain ideas become an obsession. She often fails to think through all the implications of her ideas and will pursue them to fruition regardless of cost. Her managers are aware of this, but are also aware that it is her vision and drive which has helped the company reach the position it is in today. Neliz Mugeda has called a meeting of managers from the information technology, production, accounting, marketing and procurement departments. The company's business analyst has also been asked to attend the meeting. At the meeting she announced, 'I have an idea...', at which her managers thought about their busy schedules and inwardly groaned. 'We'll bring together people from all over Rwanda, get them to compete in a fun, but challenging, beauty obstacle race and turn it into a huge marketing event. We are going to host a beauty run,' she continued. 'We'll give away gift bags containing samples of our latest beneficial 'mud' skincare range and invite finishers of the race to experience an introductory treatment using our 'sore muscle' products.' She emphasised that this would be a very significant marketing project and she asked Fabiola, the marketing manager, to be the project manager, with the other attendees at the meeting forming the project team.

Amongst her list of requirements for the event were: An attention-grabbing venue, such as the grounds of a stately home or palace, Large display screens at the start and finish points and around the venue, Digital timers for competitors, Celebrity guests, After-race entertainment, such as rock bands, Media coverage before she could continue with her lengthening list of requirements, Mutuyimana, the production manager, asked why he had been invited to the meeting. He felt that this was purely a marketing exercise rather than a project, and suggested that the marketing department should run it just like any other marketing campaign. Neliz Mugeda replied, 'I believe that this is a project.'

In fact, I've come up with a great name for it: we'll call it the 'Beauty Rush' project. It has all the characteristics of a project and it needs the full support of all of you. I'll leave it in Fabiola's capable hands, but I want regular updates.' At which point, she left the room to attend another important meeting. After her departure, the departmental managers discussed Neliz Mugada's idea. Fabiola felt, and the others agreed, that despite Neliz Mugada's enthusiasm, the event should still be fully justified from a business perspective and that it should be managed correctly in order to ensure its success. Mutuyimana stated that he was worried about negative repercussions if anyone should get injured and Fabiola stated that all the risks should be fully documented. The business analyst agreed, and stated that this, and other project documentation, would be key to the success of the project and that much of this documentation should be produced during the early stages of the project.

Required:

Neliz Mugada had stated that the Beauty Rush project 'has all the characteristics of a project'.

- (a) **Explain the features which make this a project and distinguish it from routine work at Nega Cosmetics.** (5 Marks)
- (b) **Discuss, within the context of the Beauty Rush project, why each of the following documents is needed to help ensure the eventual success of the project:**
 - (i) **Project initiation document.** (2 Marks)
 - (ii) **Business case.** (5 Marks)
 - (iii) **Project plan.** (5 Marks)
 - (iv) **Project evaluation plan.** (3 Marks)
 - (v) **Risk analysis.** (5 Marks)

(Total: 25 Marks)

End of question paper