CERTIFIED PUBLIC ACCOUNTANT

STRATEGIC LEVEL EXAMINATIONS

SM3.2: STRATEGIC MANAGEMENT

DATE: FRIDAY 28, AUGUST 2026

INSTRUCTIONS:

1. Time Allowed: **3 hours 15 minutes** (15 minutes reading and 3 hours 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

Last Chance Saloon (LCS) is a chain of 34 pubs owned by a consortium of eleven private investors. The consortium was formed nine years ago when the founding investors bought out a struggling regional pub group and repositioned it around technology-enabled table service. Turnover has grown from FRW41 Billions to FRW96 Billions over that period, and the consortium's stated long-term ambition, restated at every annual strategy day, is to reach 60 sites within five years, either through organic openings or by acquiring smaller independent chains.

The consortium appoints an Executive Director (ED) to manage the business, hire staff, and make day-to-day operational decisions. The ED reports to the board of the consortium, which meets quarterly to set strategy and review performance, and delegates detailed financial oversight to a finance committee, a sub-committee of three directors, one of whom is a qualified accountant. There is no separate risk or audit committee; risk oversight currently sits with the full board, supported by a risk manager who reports operationally to the ED but has a stated (though never tested) right to raise matters directly with the board chair.

Customers scan a QR code on their phones to view the menu and order their drinks and food using an app, and are served at their tables. Customers who are undecided can consult a chatbot, which gives advice on menu items likely to match their preferences, based on information the customer volunteers when prompted (dietary needs, budget, mood) and on the customer's order history. When customers are finished, they can settle their bill entirely through the app without going to the bar.

Customers enjoy the convenience of doing everything through the app, and take-up has been high: roughly 78% of transactions across the estate are now app-based, up from 40% three years ago. The added incentive for the owners is that customers must provide contact details and store a payment card to use the app at all. LCS uses this data to build customer profiles showing how frequently each customer visits, which pubs they favour, and what they typically eat and drink. This profiling is used to customise digital advertising, and to tailor special event invitations, menu changes, guest beers, and promotional pricing to individual customers - a capability the marketing director has described as “the single biggest driver of repeat visits we have.”

Artificial intelligence is also used for inventory control. Fridges and storerooms across all 34 sites are connected to the internet via smart technology, allowing automated reordering of drinks and food materials from third-party warehouses once stock falls below set thresholds. This has reduced stockouts materially, though it has also meant that LCS's cost base is now more exposed to fluctuations in the wholesale prices set by its warehouse partners than it was under the old manual-ordering system, since reorders are triggered automatically rather than reviewed against price before purchase.

Both the customer-facing app/chatbot platform and the inventory-automation platform were built and are maintained by the same third-party software vendor, under a five-year contract that runs for a further eighteen months. No formal exit or transition plan exists should that relationship end.

The members of the consortium have expressed their risk appetite in board discussions, though

it has never been formally documented in a written risk appetite statement. They describe themselves as being moderately risk hungry: they understand and accept the need to take risks to grow, and have backed the technology investments on that basis. However, when it comes to potential damage to the LCS brand and reputation, the consortium is risk averse. The ED has been instructed to ensure there are adequate arrangements in place for risk management and internal control, but no director has ever been asked to define, in concrete terms, where the line between "acceptable growth risk" and "unacceptable reputational risk" actually sits.

Working with a risk manager, the ED has established a system of internal control stated to be consistent with the COSO Internal Control - Integrated Framework. The risk manager produced the following risk map ahead of the last board meeting:

Impact						
	5	G				D
	4	C				
	3			A		
	2		F			E
	1				B	
		1	2	3	4	5
		Likelihood				

The following key is available:

A. Loss of key personnel leading to disruption in operations.

B. Theft by staff from the till (impact is low as only small amounts of cash are held).

C. Major fire in one of the pubs leading to temporary closure.

D. Cyberattack leading to loss of data, fines, and reputational damage.

E. Complaints from the local community about the operations of the pub (music, noise, disruption, traffic, property damage by customers leaving, etc.) leading to fines or possible restrictions on opening hours.

F. Extended outage of the app used by customers to order and pay in the pubs, requiring manual back-up processes.

G. Pandemic shuts down all restaurants for quarantine, allowing take away or delivery only.

The risk manager's covering paper to the board noted, in a single sentence that attracted no discussion at the time, that Risk D's likelihood rating had been raised from 3 to 5 since the previous quarter "following an unsuccessful phishing attempt on head office systems, contained without loss of data." No director asked for further detail on that incident at the meeting.

The ED receives a salary and a performance-related bonus, based on a review and evaluation carried out by the finance committee against financial targets set at the start of each year. In growing months there has been a growing tension between the ED and the board. At the last quarterly meeting, the ED presented the risk map above alongside financial projections for the next six months. A long discussion followed. Some board members said they believed the targets

were not high enough, given the scale of the technology investment already made and the strong app take-up figures; others said they thought the targets were overoptimistic, pointing to the automated-reordering exposure to wholesale price rises and the unresolved vendor concentration risk. One of the major investors said it did not seem like they were getting all the information they needed to assess the projections properly. The ED said it felt like there was a lack of trust. The chair of the board said he thought it was more a problem of a lack of transparency. The meeting closed without a resolution on either the targets or on what additional information the board should routinely expect to receive.

Required:

a) Evaluate the agency problem between the ED and the consortium as it manifests specifically in LCS's target-setting process and the "trust" versus "transparency" disagreement, and recommend a set of governance mechanisms the board should introduce to address it, justifying why each mechanism is suited to this boardroom relationship rather than agency problems in general. (9 Marks)

b) Evaluate, component by component, how well LCS's current arrangements satisfy the five components of the COSO Internal Control - Integrated Framework, using specific evidence from the scenario to support your judgement on each component, and recommend improvements. (12 Marks)

c) Explain, with reference to LCS's specific circumstances, TWO operational risks and TWO strategic risks it faces from the risk map and narrative, and justify your classification of each. (9 Marks)

d) Assess LCS's current risk profile as shown on the risk map using an appropriate risk evaluation model, and recommend risk responses for each risk. (14 Marks)

e) Analyse TWO opportunities and TWO threats that LCS's digital technology and data strategy present, and discuss the benefit of the current model. (6 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

Being There Ltd (BTL) is an IT software company founded six years ago by a small group of five friends, investing their own capital and expertise. Those same people remain in charge as the senior directors and, between them, still hold 71% of the shares as a private limited company, the remaining 29% having been sold three years ago to a venture capital fund, Northfield Growth Partners, in exchange for the funding that financed BTL's international expansion. Northfield holds one seat on BTL's five-person board, non-voting on product decisions but with a contractual right of veto over any transaction valued above FRW15 Billions, a threshold the proposed merger will exceed.

The business grew rapidly and is now the acknowledged leader in the market for linking virtual reality with teleconferencing. The software allows users to participate in virtual meetings with a very high degree of interactivity. BTL's patented 3D glasses, when connected with its software, are, in the words of BTL's own marketing, "the next best thing to being in the same room together." The patents underpinning the glasses are held personally by two of the five founders rather than by BTL itself, an arrangement set up in BTL's earliest days for tax reasons that nobody has revisited since, and which the founders have not yet disclosed.

BTL rents accommodation for office and development work on short renewable leases, and all of BTL's manufacturing is outsourced to a single specialist contractor in an arrangement that has run, informally and without a long-term contract, since BTL's second year of trading. Many of BTL's own features have evolved in a haphazard fashion: version releases are driven by whichever developer has momentum on an idea, rather than by a formal product roadmap. The leaders say they are too busy coming up with ideas and turning them into reality to have time to establish an orderly structure and formalised processes such as recruitment, payroll, accounting and purchasing. HR matters are handled personally by one of the founders alongside her product duties, and the annual accounts are prepared by an external bookkeeper who visits twice a year. The culture is very casual, energetic and playful: there is no dress code, working hours are self-set, and the open-plan office includes a games area that staff say is central to how ideas get shared. Staff turnover has been almost zero since BTL was founded, and exit interviews (of the handful who have left) consistently cite "the freedom to just build things" as the reason they joined and stayed.

The Ultimate Gaming Company (UGC) sells an array of games for multiple platforms (TVs, computers, tablets, laptops and phones). It is very interested in BTL's technology and believes there are many opportunities to apply it to gaming, particularly as UGC's own R&D pipeline for immersive/VR gaming has fallen behind two of its listed competitors over the past two years - a gap flagged critically in analyst notes and referenced directly in UGC's last annual report as a strategic risk. UGC was established 25 years ago and has a much larger workforce than BTL (roughly 40 times the headcount). It also owns its headquarters and manufacturing facilities outright. UGC is a public limited company, listed on the main exchange, with well-established structures and systems to the point of being bureaucratic and hierarchical: seven layers of management between the shop floor and the CEO, a formal stage-gate product development process, and compliance obligations (under the exchange's corporate governance code) that

require documented internal controls, a whistleblowing policy, and a named internal audit function, none of which BTL has ever needed as a private company.

Despite these differences, BTL and UGC have approximately the same total value, based on independent valuations commissioned by both boards (UGC's value is driven by its physical assets, distribution network and recurring game-sales revenue; BTL's value is driven almost entirely by its technology, patents and growth trajectory, with comparatively few tangible assets). As a result of discussions about the application of BTL's technology in UGC games, the two companies agree to merge via a share-for-share exchange: BTL's shareholders (the five founders and Northfield) will receive UGC shares and, together, one board seat on the enlarged UGC board - a minority position relative to UGC's existing six-person board.

Two of UGC's institutional shareholders, who together hold 18% of UGC's stock, issued a public statement welcoming the merger but explicitly calling for "full integration of BTL's operations onto UGC's governance and control framework within twelve months" to protect their investment, a timeline that leaked internally at BTL within days and has already prompted informal comments from several senior developers questioning whether they will "still be able to just build things." Separately, UGC's compliance team has indicated that, once the merger completes, BTL's payroll, purchasing, recruitment and accounting activity will need to be brought under UGC's existing control framework as a matter of listing-rule compliance, not merely as a matter of preference, removing much of the discretion either side previously assumed the integration would involve.

The leadership of the two companies agree to establish a working group to manage the change and to appoint a project manager to lead it. Within the working group, BTL's founders have proposed that the project manager should report jointly to both CEOs; UGC's board has proposed that the project manager should sit within UGC's existing PMO (Programme Management Office) and report through UGC's normal management line, given that PMO's established track record of successfully delivering prior acquisitions for UGC. No agreement had been reached on this point at the time the working group was constituted.

Required:

a) Evaluate the leadership skills and behaviours that will be needed to lead this specific change successfully. Justify why generic change-leadership skills alone will be insufficient in this case, and recommend how the leadership role(s) should be structured to address the specific tensions identified. (8 Marks)

b) Describe the nature of the planned change with reference to Balogun and Hope Hailey's Change Kaleidoscope. What aspects of the two organisations will be impacted by the merger? (10 Marks)

c) Critically assess the likely barriers to change arising from this merger. Recommend and justify an approach to change management that could be adopted to address these barriers and give the merger the best chance of success. (7 Marks)

(Total: 25 Marks)

QUESTION THREE

Quick Grow Company (QGC) was established as a sole trader working from home buying and selling second-hand records. Most sales were made online although the owner also traded at record fairs and similar events. The business grew quickly and expanded into rented office and storage space. The sole trader employed staff to help manage purchases, sales, inventory, marketing and shipping. To advance the business and spread the risks, the owner invited partners to provide capital, support activities, and share profits. Operations widened to include buying and selling high quality audio equipment, starting with record players, speakers and amplifiers but soon expanding further to collectible electric guitars and then other musical instruments. The partnership was dissolved to create a private limited company that now also recorded and sold music under the QGC label. Recording studios and record plants were initially leased but soon it proved beneficial to acquire these. Multiple studios were established in major cities with associate retail outlets for musical instruments, records, and sound equipment. Within five years the company was floated on the stock exchange and began making acquisitions of smaller related businesses, including speciality record labels, a guitar manufacturer, a firework manufacturer and a stage management company for live performances.

Within the space of 15 years, QGC grew from buying and selling second hand records to an entertainment industry conglomerate. The chair of the board and the Chief Executive Officer (CEO) agree that it is time to consolidate and concentrate on process redesign to optimise efficiencies and performance. In some cases, the administrative and functional operations of strategic business units (SBUs) have been absorbed by the QGC headquarters. In other cases, the SBUs have retained greater autonomy. This has created some confusion and duplication. The company has also struggled to establish a unifying brand identity.

Required:

a) Critically analyse the changes in QBC's ownership, funding and control over its 15-year history. (8 Marks)

b) Describe the importance of brand identity to QGC and how this may be supported by the company's mission, vision and core values. (8 Marks)

c) Explain the concept of corporate parenting and describe different options for QGC and its relationships with its strategic business units. (9 Marks)

(Total: 25 Marks)

QUESTION FOUR

NP is a public corporation whose shares are wholly owned by the government. It was created as a step toward full privatisation. Prior to the creation of NP, postal offices and postal services were a public monopoly managed directly by government through senior appointments led by a government minister. Now NP operates on a commercial basis and is expected to compete with private sector companies offering similar services.

NP has a network of stores in major cities and towns and in many smaller communities, although these are generally unprofitable. NP's message to the unprofitable post office stores is to generate a profit within the next five years or face shut down. To support its programme of modernisation, NP has introduced a new accounting system linking the post office stores to headquarters and

requiring a daily reconciliation. It is hoped this system will create greater transparency and contribute to efficiency gains, improvements to performance and a decrease in fraud and false accounting. The managers of the stores are not happy with a system they see as cumbersome, intrusive and subject to errors where the managers are personally liable for any irregularities.
Representative of the national accounts office conduct audits and performance reviews. A range of financial and nonfinancial metrics are used.
The national headquarters of the NP is also undergoing change. The managing director (MD) - a government appointment - has been charged with undertaking a review of every major process and determining the best approach to making improvements, using Harmon's process-strategy matrix as a guide. The following processes are being reviewed:

- Payroll. NP has 5,000 employees on the payroll. Because the employees include both full- and part-time workers and different pay and conditions operate in different regions, the processes are complex, weekly timesheets are collected electronically and reviewed and verified manually before payments are made.
- Motor vehicle maintenance. NP operates a large fleet of vans and trucks to gather and distribute mail. Presently it manages maintenance of these through its own workshops and team of engineers stationed at multiple parts of the country.
- Driving license renewals. The post office stores process driving license renewals. The process is manual and labour intensive. It first requires the customer to complete a form. Then the manager logs into the Department of Motor Vehicles and Licenses website and enters the information provided on the form while the customer waits. When the website confirms all details are correct, the manager is authorised to issue a new license.
- Creating and printing postage stamps. The process of creating stamps is critical to NP's ability to operate a national postal monopoly. The stamps are in some ways its flagship and the distribution of counterfeits would seriously undermine its performance.

Although NP has an effective monopoly on regular mail services, it competes for most of its other services with private sector counterparts. How local stores decide to do this has often been ad hoc and confusing. NP is developing a national strategy that takes a consistent approach with a view to strengthening NP's business in its areas of core competency.

Required:

a) Describe the key characteristics of public sector entities in respect of ownership, governance, control, funding. (3 Marks)

b) Explain THREE appropriate ways of measuring performance of public sector entities and how does this apply to NP. (6 Marks)

c) Evaluate the processes NP is reviewing using Harmon's Process-Strategy Matrix and make recommendations for how they should be managed. (8 Marks)

d) What are the options NP and its stores have as an alternative to competition with its commercial rivals and What are the relative benefits and potential pitfalls of these different approaches? (8 Marks)

(Total: 25 Marks)

End of Question Paper