

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL THREE

BUSINESS POLICY AND STRATEGY - PAPER 14

MONDAY, 16 JUNE 2008

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Section **A** has **one** compulsory question carrying 50 marks.
3. Section **B** has **three** questions and only **two** are to be attempted. Each question carries 25 marks.
4. Please, read further instructions on the answer book.

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SECTION A

Question 1

Meaty Uganda Ltd is a limited liability company incorporated in Uganda whose core business is meat processing. Having commenced operations as a hides and skins firm in the early 1980's, the company is presently the largest processor and exporter of meat in Uganda. Its export destinations are mainly the neighbouring East and Central African countries. This tremendous growth was largely attributed to the government policies like liberalisation which were implemented soon after the end of the turbulent period in 1986, as well as the increased regional integration. These factors combined have opened up market opportunities in the region. The company is also involved in exporting hides. This business unit (hides) has been on the decline since the late 1990's, and is no longer seen as core to the operations of Meaty Uganda Ltd. In the words of the CEO..."the only reason as to why we still deal in hides is because these are part of our waste...".

In 2001, the company obtained funding to the tune of Shs 5 billion repayable under a long term loan arrangement with the African Development Bank. This loan was meant to improve automation of meat processing aimed at improving on both productivity and quality/hygiene. The loan was to be serviced from cash flows generated from meat exports.

During the same year, the company embarked on the construction of a modern sausage processing plant, located on the same 10 acre piece of land. With this structure at full capacity, Meaty Uganda Ltd would be among the largest exporters in Uganda, with turnover in excess of Shs 15 billion per annum. Extracts from the financial statements extracts are provided as appendix 1.

Having received ISO certification (*see appendix 2*) for its sausage product range, the company was under pressure to begin exporting sausages whose market potential was even projected higher than the normal meat products range. Consequently, as part of the hasty implementation, revenue from the meat processing operations as well as heavy and expensive short term borrowings from three commercial banks were committed to the sausage plant. The meat processing operations, until then the lifeline of the company were seriously hampered and could not sustain profitable operations. Meaty Uganda Ltd's turnover which had been growing over time since commencement of operations assumed a declining trend in 2004 while operating expenses sustained an increasing trend. In due course, the company's ability to discharge its day-to-day obligations was severely constrained. As if that was not enough, the sausage plant was operating at 20% capacity.

Since commencement of operations, Meaty Uganda Ltd has managed to transform itself from a small meat processing plant to a large and complex meat packing facility. The majority shareholder / Chief Executive Officer (CEO), Mr. Paul Mugambe, 60, is the founder. He is said to have been a butcher during the 1970's. He therefore has a wealth of experience and instinct in the industry. However, Mr. Mugambe cannot de-link himself from active day-to-day running of individual departments. In fact he constantly reminds staff of how the facility is his "baby" and therefore he can not let anybody mess it up. He is involved in trivial matters like office imprest management and procurement of stationery.

The major departments of production, finance, engineering and quality control are in place and manned by qualified professionals. However, it is apparent that staff are not allowed to exercise professional and independent decision making. Most decisions must be sanctioned by Mr. Mugambe. Purchasing, sales and marketing functions seem to be a preserve of the CEO while there is nobody specifically in charge of personnel and administration matters.

At a recent meeting, the head of finance proposed that the company considers diversifying into the European and Asian markets. The proposal was supported but followed by a heated argument regarding how these markets would be penetrated.

The deputy to the CEO is Mr. Kimera who is Mr. Mugambe's eldest son. While he is an MBA holder, he is hardly involved in any company operations/decision making, apart from communicating Mr. Mugambe, the CEO's stand on key decisions. The ironic thing here is that the deputy was brought in as part of an attempt to carryout succession planning. This was after Mr. Mugambe attended a one day seminar organised by the Uganda Manufacturers Association at which the topic was discussed. He had left the seminar convinced that someone should be groomed to take charge of the company in future.

Meaty Uganda Ltd is now faced with imminent collapse if no action is taken to arrest the situation.

Appendix 1. Extracts from the income statement

Sausages

	2003	2004	2005	2006	2007
	Shs billion	Shs billion	Shs billion	Shs billion	Shs billion
Turnover	1.3	2.53	2.8	3.2	3.5
Expenses	0.4	0.7	0.75	0.7	1.3

Hides and Skins

	2003	2004	2005	2006	2007
	Shs billion	Shs billion	Shs billion	Shs billion	Shs billion
Turnover	1.8	2.5	3.2	3	2.5
Expenses	1.5	2.3	3.3	3.8	3.2

Other meat products

	2003	2004	2005	2006	2007
	Shs billion	Shs billion	Shs billion	Shs billion	Shs billion
Turnover	0.7	0.71	0.65	0.68	0.53
Expenses	0.4	0.3	0.55	0.56	0.5

Appendix 2

Extract from the Annual publication of the International Standards Organisation (ISO) for the year 2001. Issue 10, No 12

"...Among the few African companies certified this year is Meaty Uganda Ltd. This is a company dealing in meat processing and packaging. Having conducted tests on its sausage product range, and having interviewed a sample of their customers, the ISO was satisfied with Meaty Uganda Ltd..."

Required:

- Using the balanced score card as a guiding framework, discuss the challenges faced by Meaty Uganda Ltd.
(10 marks)
- Using the Growth Share Matrix (BCG), comment on whether or not the product range at Meaty Uganda Ltd is sustainable.
(10 marks)
- Write a memo to the management team indicating which entry options could be used in pursuing the European/Asian market.
(10 marks)
- To what extent is Mugambe's leadership style appropriate to a company like Meaty Uganda Ltd?
(10 marks)
- Suggest strategic interventions that could arrest the situation at Meaty Uganda Ltd.
(10 marks)

(Total 50 marks)

Question 2

Patrick Kiwala is the grandson of the founder of KP Engineering Ltd. The company is now listed on the Uganda Securities Exchange and employs over 800 staff. Even though Patrick Kiwala, Chairman, Board of Directors (BOD) and Managing Director owns only 2% of the share capital, he portrays an image that the company is his personal property. He is very autocratic in decision making and does not trust his staff. Most of the decisions end up with him in one way or another. This has hindered the establishment of formalized strategic planning and strategy formulation processes. Consequently, the company has suffered from confusion, uncertainty and in corporate decision making. Unfortunately this culture appears to have influenced most staff in middle and lower management positions. Lately, the company has been faced with very adverse media publicity. It has been criticized for a number of accounting irregularities, the bribing of key government personnel, sexual harassment, and unethical business practices in the construction work itself, including a collapsed school building in a Kampala suburb. It is also alleged that the company auditors were suspended by ICPAU (Institute of Certified Public Accountants of Uganda) over ethical concerns. Inevitably this has adversely affected the share price which has fallen by over 60 % in the last one and a half years.

The Board of Directors has now been forced into action after the extensive media coverage. Unfortunately, the BOD is not in touch with current corporate governance developments. They are not sure of their roles or whether they need both executive and non-executive directors on the BOD. The key institutional shareholders who hitherto these events were unbothered by the developments are also demanding for the removal of Patrick Kiwala from office.

Required:

- (a) Discuss actions which if taken earlier, would have prevented such a situation from developing within KP Engineering Ltd.
(15 marks)
- (b) The culture of the company is in need of change. Using an appropriate change management framework, discuss how change could be implemented within this company.
(10 marks)

(Total 25 marks)

Question 3

Kabs Teddy was recently appointed as head of human resources in one of the “big four” accounting firms. Her appointment came after months of discussions about the need for a human resource expert in the accounting firm. The then managing partner was totally against her appointment. He felt that this was a wastage of financial resources on somebody whose tasks could still be performed by the managing partner. The other partners argued that human resource planning is a critical aspect of strategic planning, and that Teddy's appointment was justified. This argument aside, performance appraisal had never been done for staff from managerial level upwards; there were no formal processes for recruitment or promotion of staff. These were all based on personal loyalties to the “Powerful” managing partner. The other partners are convinced that it is strategically important to align the human resource aspects of the firm to its strategic plan.

Required:

In light of the above, discuss the Human Resource Management Process and show its relationship with the strategic planning process. Regard should be paid to planning, recruitment, selection, placement and induction, training and development and performance appraisal.

(25 marks)

Question 4

Maureen Namatovu designs and makes garments. Her label, MN Designs, are largely inspired by Ugandan ethnic patterns. Her product range therefore is partly based on the different cultural regions in the country. *For example, she makes kanzus and gomesis for the Baganda, minagiro for the Bakiga, busuuti for the Banyankore, suuka for the Batooro, etc*

The products are trendy yet not so expensive. It is not uncommon to find teenagers donning the MN label jeans, while for those past 50 years of age, you often find gents putting on the MN *kanzus*, and ladies smartly dressed in the MN *gomesis*. After winning a jackpot in a lottery run by a South African company, she decided to re-launch her designer brand “MN.” Even though she has launched a website, most of her customers are still local and sales over the internet are minimal. The sales and, in particular, profits have been disappointing and so she has hired a marketing consultant to give her some advice.

The following are some extracts from the consultant's report:

- She is ranked a market follower in the industry.
- The designs have neither patents nor copyright.

- The promotional efforts are too general. No specific market is focused on, and the image offers little opportunity for brand awareness.
- The pricing structure is too cost-based. The margins are too low to provide the necessary capital to re-invest if the business is to develop profitably in the future.

Required:

Maureen is now attempting to implement the consultant's report, and has decided to begin by segmenting her market.

- (a) Suggest potential bases for segmenting the above market and discuss the conditions against which these segments can be assessed.
- (15 marks)**
- (b) Suggest strategies which Maureen might pursue as a market follower to make her company more competitive.

(10 marks)
(Total 25 marks)