

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL THREE

BUSINESS POLICY AND STRATEGY - PAPER 14

WEDNESDAY, 08 DECEMBER 2010

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 15 minutes**.

The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.

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

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SECTION A

Question 1

Toto Uganda Limited (TUL) is a Ugandan company that brews beer. Until a few years ago, TUL was among the leading blue-chip Ugandan companies. It had won the investor of the year award in 1998, the employer of the year award in 1999 and even listed on the Uganda Securities Exchange in the early 2000's.

The initial public offering (IPO), was over subscribed by a record 150%, a feat only exceeded by the Safaricom IPO in neighboring Kenya. But the latter was a regional offer, unlike TUL. Lately however, things have not been good as shareholders sell their stock in panic. The company has been consistently making losses for the past five years, and the investors have run out of patience.

Performance

According to TUL's draft financial statements for 2009, the company made a net loss of Shs 5.5 billion up from Shs 3.3 billion in 2008. The draft statement of financial position also indicates that TUL also had several outstanding obligations, including an overdraft of Shs 400 million and a term loan of \$10 million from a European based parent company. Given the above debt together with the accumulated losses, questions are being asked about the ability of TUL to continue as a going concern.

On the contrary, however, TUL's management are optimistic about the future. They anticipate a return to profitability in 2011, and payment of dividends in 2012. They claim that the huge loss in 2009 was largely a result of restructuring costs, and declining revenues from sorghum exports. The decline in exports was partly attributed to concerns over the quality of sorghum exported.

The restructuring exercise

As part of the restructuring and value chain re-alignment, TUL was chosen by its parent company as a strategic source of sorghum. This meant that the company was going to do away with the brewing of sorghum beer (which was hitherto accounting for 70% of the beer production), and concentrate on brewing malt lager. The company is now expected to contract farmers in cultivation of sorghum; dry/roast it before exporting it to related companies in Europe. In mid 2009, TUL closed down the Mbarara plant (where sorghum beer had until then been brewed) to concentrate on sorghum growing and procurement. It now has three main lines of business; sorghum roasting/drying (70%),

brewing of malt lager (25%) and distribution of imported beer and spirits (5%).

Under the new arrangements with farmers, TUL contracts farmers at the beginning of the season, and even subsidizes them with fertilizers and pesticides to produce sorghum for export to its related companies. However, some other small players in the market have come and offer better prices for the sorghum. This has led to accusations and counter accusations between TUL, and its competitors. Some farmers claim that they are cheated by TUL, while the company claims that they all sign binding contracts before the planting season. On their part, the smaller competitors claim that they never buy sorghum from TUL contracted farmers, but they also boast that they always offer better prices than TUL.

Other challenges

The above put aside, smuggled beer continues to threaten TUL's market share and revenues, and is estimated to cost the country Shs 1 billion in tax revenue annually. The other reason for TUL's woes is the current power cuts and tariff hikes resulting from the reduced generation capacity of the only hydro power station in the country. Failure to have a continuous supply of power during roasting affects the quality of sorghum, yet diesel as an alternative is very expensive given the general rise in global oil prices.

In the recent budget speech, the minister for finance proposed to increase the excise duty on beer and beer products in Uganda.

Globally, the beer industry is suffering from the persistent anti-beer campaigns. Despite the fact that Uganda has no anti-beer legislation, TUL is under pressure to warn their clients about the health dangers of drinking.

Uganda has also experienced a significant drought in the past one year which led to a fall in sorghum yields by 30%. This partly explains the rivalry among players in the sorghum industry. Unfortunately the drought was expected to continue this year.

Prospects

According to Kiprop the managing director, "With the Mbarara factory now closed and the operations substantially streamlined, management focus is now on its core business. With continued financial support by the parent company, TUL should return to profitability sooner rather than later".

Required:

- (a) Guided by the political, economic, social and technological (PEST) framework, five forces model and value chain analysis, comment on TUL's operating environment. (25 marks)
- (b) Evaluate TUL's present strategy. (12 marks)
- (c) What strategic interventions could management explore to restore the company to profitability? (13 marks)
- (Total 50 marks)**

SECTION B

Question 2

All Construction Materials Uganda Limited (ACMUL) is a supplier of building products for the housing and construction industry. Its main business is the production and sale of roofing tiles and other decorative clay products. ACMUL deals in a variety of products but roofing tiles are the flagship one. Others include cement blocks, burnt clay bricks, interlocking and corner blocks, partition blocks, ventilators, grilles, suspended floor units, vases, floor tiles, pipes, flowerpots and other pottery.

The company prides itself in being among the dominant forces in the clay products manufacturing industry, even though it is no longer the market leader. Over the years, the company's positive performance has been supported by the improvement in Uganda's economy, high cost of entry into the industry and the consistent growth in demand for residential and commercial properties.

For long the company enjoyed a near monopoly status, even though this did not affect its quality. One major problem though was customer care. Clients had to book their products three months in advance, with payment of 90% of the price. Back then, ACMUL seemed unable to meet its demand. Lately however, the industry has seen several big new entrants, who are now threatening to reduce ACMUL's market share. They sell their products at lower prices though of lower quality. These new players have also taken active roles in sponsoring major sports as well as charity events. ACMUL has never been involved in any such activity. They do not even have a public relations officer. Other challenges being faced by ACMUL include the ageing machinery which can no longer run for six hours without breaking down, as well as clay deposits running low. Having operated in their northern Kampala location for over 50 years, the company's clay deposits are expected to run out in three years' time. Unlike its competitors however, ACMUL

complies with all the National Environmental Management Authority requirements. All clay mines are back-filled and trees are planted to restore the environment.

Required:

Prepare a marketing plan that will enable ACMUL meet the increasing competitive threats.

(25 marks)

Question 3

Kabs Ltd is a paper processing company with its major product being exercise books. The company also manufactures newsprint and box wrappers among other products. The company has registered declining productivity for the past two years and the owner who doubles as managing director is getting alarmed.

You met the managing director last week and this is what he had to say about the situation. "The production process is semi-automated, with lots of manual intervention. Staff work in two shifts of 11 hours, with two hours devoted to maintenance. All production shifts are supervised by managers who record the daily staff output, as a basis for wages. Generally there is a poor working relationship between the managers and the shift workers. Staff have on several occasions complained of the noise in the factory, general absence of protective gear, poor hygiene at the factory and low wages. Even the white collar staff at the factory complain about the routine nature of their jobs, as well as the inexistent advancement in form of promotion or general career growth. Every body seems low on motivation. "

Required:

Using Herzberg's motivation theory, advise the managing director on how staff motivation levels could be restored.

(25 marks)

Question 4

SMES Bank is a government bank established to facilitate small and medium-size enterprises. It is popularly known to businessmen as "our bank". The bank offers a whole range of products; from working capital loans, short term loans to leases and long term loans ranging from 7-15 years. The bank also accepts deposits from the general public. Until the liberalization policies of the government in the early 1990's, the bank was one of a few selected banks that could give foreign currency denominated finance. This is the main factor which explains the bank's good performance in which gross profit margins always exceeded the 50% mark. Liberalisation not only opened up the trading of foreign currency, but it came with many more financial institutions. This led to increased competition. Despite the competition, the bank had consistently paid a dividend to government until 1998. In a move that "shocked" analysts that year, the bank announced that it had parted company with its managing director. The annual report for that year indicated that despite the seemingly impressive performance, the bank had accumulated a huge bad loan portfolio.

When asked for comments by the press, the outgoing managing director is quoted to have angrily said...*"Go and ask your politicians why the bank has huge bad debts..."*

A new managing director was promptly appointed, but little seems to have changed to-date. Despite the write off of most previous bad debts, the portfolio of bad loans seems to be growing. The managing director has also been criticized for his management style. Staff have always silently complained that he is unapproachable, a poor listener and enjoys running the bank like it were his home.

In an attempt to keep pace with competitors, over \$300,000 was spent on a management information system but staff are hesitant to use it. They prefer their old methods of work in which information is manually processed. This has continued to slow down transaction processing time and many clients have complained. "I have used this bank for decades, but I have now given up. We used to think that this was our bank for life but..." Complained one customer after closing his account.

The managing director recently circulated a memo in which he threatened to sack all staff who failed to appreciate use of the management information system.

Required:

(a) What external environment factors could explain the present situation at SMES Bank?

(15 marks)

(b) Comment on the present management style at SMES Bank.

(6 marks)

(c) To what extent would management by objectives help in alleviating the situation?

(4 marks)

(Total 25 marks)