

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL THREE

BUSINESS POLICY AND STRATEGY - PAPER 14

MONDAY, 26 NOVEMBER 2012

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** are to be attempted. Each question carries 25 marks.
4. Write your answer to each question on a fresh page in your answer booklet.
5. Please, read further instructions on the question paper and answer book before attempting any question.

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SECTION A

This section has one compulsory question to be attempted.

Question 1

Youth Group (Uganda) Ltd (YGL) was incorporated in 1987 to encourage the youth to participate in industrialization. The company manufactures alcoholic drinks using locally produced agricultural products such as local brew (waragi), fruits, honey, and sorghum, to produce lager, liquor, and wine. The liquor products include Kangarasi, Kamurandi, Kavangata and Jagarasi. The lager products include, Bakoroga, Bawomoro, Kagorogora and Mwoyotu. The wine products include, Nywachamuka, Gonjagonja, Kitoberaine, and Kachanchamula. The different products are at different levels of growth in the market. YGL began operations with liquor products and has maintained them on the market. The wine and larger products are new products which have lasted for less than two years. Besides alcoholic drinks, YGL produces cigarettes which it sells in the same markets. The company currently operates within the borders of Uganda but has external export markets.

Most consumers of YGL's products are located on the outskirts of Kampala city with very few outlets upcountry. The major outlets are the makeshift bars in different slums of Kampala. The company's customers are low-income earners such as casual laborers, commercial motorcycle riders (boda-boda) and taxi drivers and conductors. Following the coming into force of the Kampala Capital City Authority (KCCA) Act, many makeshift structures have been demolished while the rest are at the verge of being demolished. The high cost of living has left low income earners with little disposable income for leisure spending. In line with the city laws and terrorism threats, the bars in Kampala and its suburbs are required to close by midnight. Many non-governmental organizations in Kampala are campaigning against alcoholism. Additionally, a group of 'independent minded' members of parliament is planning to table a private members' bill seeking a ban on cigarette production.

Population and urban experts have established that KCCA's policy of face-lifting Kampala will lead to a major urban-rural migration of the low income earners such as taxi drivers, casual labourers as high income earners will join the city. National Environmental Management Authority (NEMA) revealed that YGL's technology used in waste disposal was not environmentally friendly. The industrial experts have pointed out YGL's factory equipment as obsolete and dangerous to the health of the people living in its proximity.

The cost of agricultural products has of recent increased and the prices are not expected to come down in the foreseeable future.

Due to laxity of security at the factory, petty theft by staff has been common. The cost management accountant has estimated the annual costs associated with petty theft to Shs 120 million. YGL does not evaluate product performance hence keeping the unprofitable products in the market. The company does not have a human resource department although it has over 40 employees recruited through head hunting. Factory labour is generally very cheap.

The local agricultural inputs are readily available at fair prices. The government has set up a local inputs fund to finance local investors such as YGL at low interest rates. YGL has also negotiated a finance lease for modern equipment from a leasing company repayable in 20-years' time. In order to keep the cost of raw materials low, YGL engages in pre-financing through fixed prices at the time of harvest. The local agricultural materials are available throughout the year and the formula used to produce the products is highly confidential, hence a competitive tool.

The current organizational structure is based on products and functions (matrix). The company has 12 product managers and 4 functional managers (production, sales, marketing and finance). All the 16 managers report to the managing director (MD). This has compelled the MD to set up a data analysis unit to make reports understandable to him.

The organizational structure at YGL has in the past caused role conflict, duplication of work and high operational costs. On average, the inefficiencies associated with the current organizational structure is estimated to cost the company Shs 100 million annually. YGL has decided to change from a matrix to a functional structure in order to improve operations.

YGL won a prize for being the best in product marketing in the liquor industry. In addition, it has one of the best quality tasting kits for its products in the industry.

On average, over the last six years, YGL has made a net profit of about Shs 200 million annually. The directors (owners) are well trained in business and factory management although their breadth of experience has been rated as low.

Government has increased funds for fruit and honey production through modernization of agriculture initiatives. Additionally, the company received a five-year grant of US dollars 400,000 from a non-governmental organization to boost its business.

Of recent, the company has been facing some challenges. The factory machines are old and breakdown frequently, leading to return on investment that is below the industry average. The directors are also concerned about lack of human resource policy to regulate performance, discipline, and recruitment among other

issues. The line managers have been accused of failing to supervise their subordinates despite constant reminders by the board of directors (BOD).

The BOD hired a human resource (HR) consultant who came up with three proposals of managing the HR function: create a stand alone HR department mandated to manage all HR functions; devolve all HR functions to line managers (and therefore no need for an HR department) and; create an HR department to coordinate HR functions with line managers. A fortnight ago, the BOD held a meeting to review the proposals. Though not concluded, the majority of directors preferred an HR department that plays a coordination role.

With one year left to complete the implementation of a five year strategic plan that ends on 31 December 2013, the top management of YGL held a planning retreat aimed at reviewing performance, analyzing the current situation and coming up with a new five-year strategic plan (2014 -2018). One of the key outputs of the retreat was coming up with strategy development initiatives. In his presentation, the business development manager came up with three motives to guide the development on workable strategy initiatives. The environment-based motives would favour a diversification strategy; resource-based motives would favour market penetration or consolidation in the current market segments, and expectations-based motives would warrant product development and market development in order to keep current suppliers and markets satisfied. The proposals ranged from entering markets in the Great Lakes region where alcoholism was not over-restricted, producing soft drinks from agricultural products and producing factory spirits and detergents.

Required:

- (a) Examine the major factors affecting the current business environment of YGL, with the help of any two strategic analysis tools.
(14 marks)
- (b) Justify the proposal by YGL's BOD to change from a matrix to a functional organizational structure.
(6 marks)
- (c) Evaluate the strategic initiatives made by the business development manager at the planning retreat, with the help of Ansoff's product / market matrix and a review of the general business environment faced by YGL.
(10 marks)

- (d) Critically examine the application of the following proposals in managing the human resource function in a company like YGL:
- (i) devolving all HR functions to line managers without a human resource department.
(6 marks)
 - (ii) creation of a stand alone human resource department mandated to manage all human resource functions in the department
(6 marks)
- (e) Comment on the BOD's preference to create an HR department that coordinates HR functions with line managers.
(8 marks)
(Total 50 marks)

SECTION B

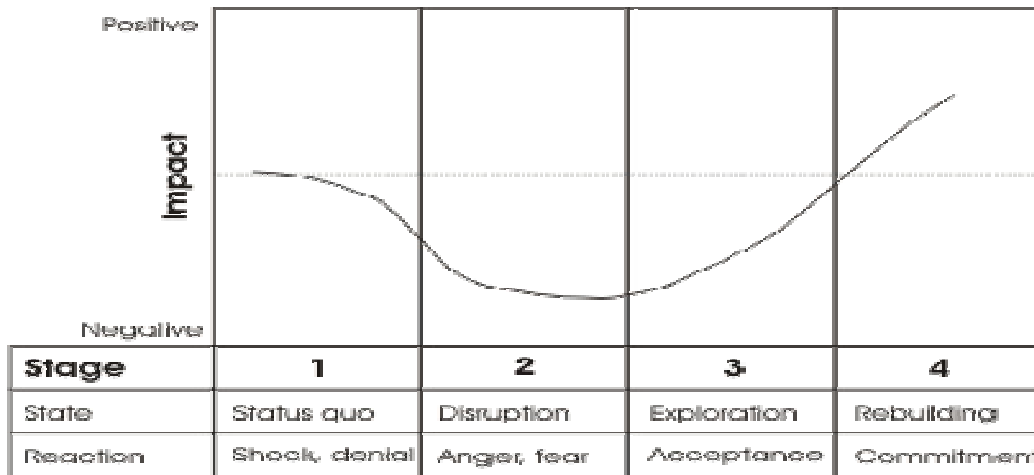
Attempt two of the three questions in this section.

Question 2

Uganda Agricultural Producers and Exporting Company Ltd (UGAPEC) buys, processes and sells maize and rice within and outside Uganda. UGAPEC deploys its agriculture extension workers to help other farmers adhere to quality standards. Despite the deployment, however, the quality has not significantly improved. In March 2012, UGAPEC board chairperson attended an international conference on global agriculture value chain system held in Kampala. The chairperson observed that knowledge of global agriculture value chain system can significantly help UGAPEC's financial, quality, donor support and market gains. The board of directors (BOD) decided to reposition UGAPEC in order to fit in the overall global agriculture value chain system.

In order to address performance concerns, the BOD hired a consultant to help in fast-tracking transformational change. The consultants observed that, UGAPEC had to go through three steps of change; unfreeze, change and refreeze as per Kurt-Lewin's model. The consultant advised that, throughout the change process, the BOD would have to take action with the guidance of the change curve.

Figure 1: The Change Curve



Source: Elisabeth Kubler-Ross (1960's), Stages of grief

Required:

Prepare a report to the BOD:

- (a) showing the importance of a value chain system to a company like UGAPEC.

(13 marks)

- (b) examining the actions that should be taken in response to employee reactions at the different stages of the change curve for change at UGAPEC to be a success, with the help of Kurt-Lewin's model of change.

(12 marks)

(Total 25 marks)

Question 3

Venture Publishers Ltd (VPL) is engaged in the publishing business. The company has three major divisions; editorial consulting; the printing press; online journal publication and sales services. VBL's customers are universities, companies and individual authors/writers located across the globe. VPL has set out two major goals that will greatly guide its competitiveness in the next five years: to gain competitive edge through optimal use of information technology (IT) and; to improve customer profitability through application of customer profitability analysis (CPA). A management consultancy firm was hired to diagnose IT and customer profitability. The role of IT has been summarized in the table below:

| Division | Current Role | Future Role |
|------------------------------|--------------|-------------|
| Printing press division | Low | High |
| Online journal publications | High | Low |
| Editorial consulting | Low | Low |
| Overall corporate operations | High | High |

The customer profitability study revealed that, many big customers were actually not very profitable compared to the medium and small customers. The consultants observed that, the special service that was being given to some big customers was not worthy undertaking. The board of directors decided to recruit a new chief executive officer, Mr. Bamusakata Jeremy to steer VPL to its heights.

Required:

Prepare a report to the chief executive officer:

- (a) Examining the role of IT in VPL's business operations using Mc Farlan's model of importance of information technology.

(13 marks)

- (b) With help of customer profitability analysis (CPA):

- (i) examining the processes of undertaking CPA.

(8 marks)

- (ii) commenting on the possible strategic actions that can be developed from CPA results.

(4 marks)

Total 25 marks)

Question 4

Quality & Beauty Ltd (QBL) was incorporated in Uganda as a manufacturing company for ladies' jewellery. In addition, QBL has a service division which deals in body bleaching and events management. The company places its jewellery products in high class design and clothing shops as well as leading supermarkets in Kampala and Entebbe. Whereas QBL makes a high return due to premium pricing, it has lost out on market share and has not met turnover targets. The company conducted a market survey in the rural areas of Uganda and the capital cities of East Africa. The survey showed that the potential of rural market in Uganda was very high given the high income realized from sale of agricultural produce. The market survey recommended exploitation of the Ugandan market in the next five years before venturing in the rest of East African states. Exploiting the Ugandan market required a thorough marketing mix for both products and services offered by QBL.

In order to improve performance, QBL's board of directors hired performance management consultants. The consultants observed that QBL used profit as the only measure of performance. As a result, customer complaints were not well handled. Despite being closely supervised and coerced, the employees were not responsive especially in the services division. The consultants also observed that, the services division was losing customers at a high rate due to failure to manage by results rather than process supervision. The consultants recommended an improvement in the marketing mix; performance assessment and results-based management.

Required:

Prepare an internal memo:

- (a) explaining how QBL can apply the marketing mix to improve marketing of its products and services. **(8 marks)**
- (b) showing how QBL can improve on performance management, with the help of the balanced score card. **(8 marks)**
- (c) explaining the process QBL should undertake while applying results oriented management especially in the beauty service division. **(9 marks)**

(Total 25 marks)