

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL THREE

BUSINESS POLICY AND STRATEGY - PAPER 14

MONDAY, 18 JUNE 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 in a separate 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

Julika Beatrika Ltd (JBL) was incorporated in Uganda in 1994 and deals in household and office furniture. Over time, JBL has expanded and started exporting its products to the rest of East African counties, South Sudan, The Sudan and Libya in 2008. Despite the expansion, JBL has not made substantial returns on investment as had been projected. In January 2012, JBL's board of directors (BoD) contracted a consortium of consultants and tasked them to diagnose the company's value chain, market segments and the strategic plan and come up with workable proposals.

In addition to the household and office furniture business, JBL leases natural and planted forests from National Forest Authority (NFA) and private foresters, respectively where JBL carries out lumbering. The company transports timber to rented warehouses, stores it for two years before delivering it to carpentry workshops. The consultants have estimated that on average the cost of storage and time value for money lost was Shs 10,000 per piece of timber. The process of buying planted forests, lumbering, handling and storage up to delivering seasoned timber to carpentry workshops was conservatively estimated to be Shs 30,000 per piece. The consultants further established that JBL's competitors were getting the same quality of timber ready for factory use at Shs 18,000 per piece. As a consequence, customers perceived JBL as an expensive market player and were slowly shifting their loyalty to other companies. The consultants recommended that the timber supply be fully outsourced to at least five just-in-time quality suppliers.

Outsourcing carpentry workshops would save JBL Shs 5 million annually. The consultants recommended that the process be outsourced. However, JBL's board objected to the proposal for fear of leaking core competence processes to the public. There was also fear for compromising quality, total quality management (TQM), and timely response to customer needs. Outsourcing this process would virtually create a lean organization which would require a full organizational process re-engineering. JBL was not yet ready for a lean organization. The BoD observed that outsourcing needed to be undertaken gradually in a phased manner.

JBL manages its sales and marketing (S & M) systems and makes sales worth Shs 50.6 billion annually. The company has stores and showrooms in the cities of the eight countries where it operates. The S & M costs incurred include transportation, breakage, marketing and sales labour costs, and sales returns.

The consultants established that, JBL incurs S & M costs of Shs 8.6 billion annually while competitors incur 10 percent of sales or less as S & M costs. Whereas JBL BoD feared that their long trusted S & M staff would lose jobs, it was convinced that outsourcing the function was a worthwhile undertaking. The one-off cost of restructuring S & M staff would be Shs 0.6 billion. The new outsourced partners would certainly retain some S & M staff after the takeover of the function / process.

JBL operates in four market segments classified according to the market share study. JBL has a high market share in Mazimawanvu (comprising of South Sudan, The Sudan and Libya) and Munenemunene (comprising of Rwanda & Burundi) market segments. Its market share is low in Mazongoto (comprising of Uganda & Kenya) and Tindatiine (Tanzania) market segments. The Mazimawanvu and Tindatiine market segments are already mature while the rest are steadily growing. JBL had the potential of realizing its required rate of return from most market segments apart from Tindatiine segment which would perform below the 16% return on investment even if more resources were injected in it. However, JBL's success would depend on the strategies adopted to balance the market portfolio in which it operates.

JBL has a strategic plan which guides its business. The vision is "Quality all through the value chain". The mission is "To become a leader in quality furniture through leasing mature planted forests, doing own lumbering and seasoning timber to our set standards and managing own marketing and sales channels across all our markets". The goals were; to acquire forests that can serve the industry sustainably; to produce high quality timber and; to operate all market outlets in countries of operation. The strategic objectives were also aligned to value chain management. The furniture industry performance benchmarks for the companies in JBL's sector across the African continent were found to be; Earn a return on investment of 16% and above, annual sales of USD 30 million (equivalent to Shs 80 billion), outsource 70% of the value chain activities, manage the supplier quality by having at least 5 approved just-in-time suppliers, use of the latest technology and tools in the industry. The companies have also trained in major industrial hubs like Hong Kong and China. JBL would like to become a market challenger on and to African continent by extending to Egypt, Zimbabwe, Malawi, Mozambique and to more countries in North Africa in the next five years.

After the consultants had presented their report to JBL's BoD, the latter are considering to turn JBL into a cost leader by restructuring its value chain, market segments and re-aligning its vision, mission, goals and strategic objectives to this dream. The Board envisions JBL will perform to its full potential which matches

the African furniture industry benchmarks. Having gone through the report, the BoD have requested you, as JBL's business development manager, to come up with specific aspects as per the terms of reference.

Required:

- (a) With the help of the value chain analysis:
 - (i) critically analyze the current value chain of JBL. **(12 marks)**
 - (ii) comment on the BoD's objection to outsourcing of the carpentry workshop process in JBL's value chain. **(4 marks)**
 - (b) Using the Boston Consulting Group's (BCG) growth share matrix:
 - (i) analyze and plot JBL's market portfolio. **(12 marks)**
 - (ii) advise JBL on the strategies of managing its current market portfolio. **(4 marks)**
 - (c) Prepare a memo to the BoD stating how the following parts of JBL's strategic plan that will guide it in the next five years:
 - (i) vision. **(3 marks)**
 - (ii) mission. **(5 marks)**
 - (iii) goals. **(4 marks)**
 - (iv) five-year strategic objectives. **(6 marks)**
- Total (50 marks)**

SECTION B

Attempt two of the three questions in this section.

Question 2

Mr. Mariko Ogarunga was recently appointed as executive director (ED) of Buchanan Bank (Uganda) Ltd (BBUL). The bank was government owned until 1 January 2012 when it was divested to South African Investors Ltd. BBUL is faced with stiff information technology-driven competition. The board of directors hired an organizational development specialist (ODS) to carry out an organizational diagnosis on BBUL's operations. During the diagnostic meeting with 10 branch managers and 20 headquarter staff, the following issues came up:

Diagnostic Element	Current Situation	The Ideal Situation to Deliver New Plan	Recommended Change
Skills	Largely not related to banking	Banking, customer care, business	New skills (recruit & train, retire the unfit)
Systems	The accounting information not on wide area network (WAN)	Computerized, networked operations (WAN) as competitors do	Automate systems, meet redundancy cost
Structure	Long, 10 layers	Lean structures	Restructure, lean structure
Staffing	400 redundant staff	Small effective team	Restructure, retire, train
Strategy	Social service to people	Profit, customer satisfaction	Evaluate viability, open
Shared values	Staff not inspired to organizational vision	Compelling vision and mission	Formulate new vision, redirect staff to the new vision
Style of Leadership	Laissez faire, "eyes off", "hands off", not reacting to intense competitive pressure	Appropriate mix of autocratic & democratic leadership, responsive to competitive pressure	Devise appropriate leadership style mix, leadership training, responsive to competition

Some managers expressed gratitude to the proposed changes to make BBUL competitive. However, the majority of the managers stated that the changes were undesirable and branded the new top management as prophets of doom for BBUL.

Required:

Prepare a report to the executive director explaining the:

- (a) forces for and against the suggested changes at BBUL as per Kurt Lewin's force-field theory of change. (11 marks)
- (b) methods of minimizing resistance to change. (8 marks)
- (c) importance of human resource training to an organization like BBUL. (6 marks)

(Total 25 marks)

Question 3

Leka Bayogana Traders Ltd (LBTL), obtained a franchise from Lean International Ltd (LIL) to deal in assembling, sales and distribution of KEVINAH bicycles in Uganda and the rest of East Africa. LBTL was finding it a problem to meet its customer and market needs mainly because of delays in the deliveries to the market. LBTL also had an 8 layer organisation structure where an order for supply had to go through before it could reach the factory. LBTL did not have proper budgeting systems; they only depended on quarterly financial reports and would evaluate end of year financial reports to celebrate victory.

The new board of directors (BoD) at LBTL started work in January 2011 and would like to improve the performance of the company in all areas. In May 2011, the BoD evaluated the performance of the last 5 years and realized that their return on investment was 10% below the industrial average of 15 %. The chief executive officer (CEO) was immediately sacked and replaced with Dr. Melchiard Katambulanyo, PhD (Mechanical Engineering) in October 2011. One director with a business management background proposed that LBTL should fast track benchmarking, a balanced score card, business process re-engineering and total quality management. The new CEO has recruited you as a consultant to guide him in the terms that are new to him.

Required:

Write a report to the CEO describing the following strategic management concepts:

- (a) Benchmarking process. (7 marks)
- (b) Balanced scorecard. (6 marks)
- (c) Business process re-engineering. (6 marks)
- (d) Total quality management. (6 marks)

(Total 25 marks)

Question 4

Bufanana Uganda Ltd (BUL) operates all over Uganda with headquarters in Mbalala industrial area (Mukono district). It deals in the processing and export of crop & animal products. BUL sells by-products (animal feeds and manure) on the local market. BUL has factories in five branches within Uganda. It uses a wide area net work (WAN) to link head office with branches as well as the export market. The accounting information systems (AIS) and human resource management information systems (HRMIS) support the financial and human resource monitoring respectively. The export transactions are made online by the top management at head office.

Over the past few years, BUL lost over Shs 600 million to fraud committed by trusted on-line customers. For over a year, branch managers have not met with top management physically. There has been neither transfer nor promotion of staff in the last 4 years. Some managers defrauded the company of over Shs 200 million by making some transactions off the AIS. Management experts attribute these financial losses to moral and ethical issues related to information systems and lack of effective motivation.

BUL effectively automated the factory and office operations. In the company's complaints email inbox, employees commented on arrogant supervisors, perpetual overtime work, blame culture, poor job characteristics and non-remittance of their pension to the National Social Security Fund.

Required:

Prepare a memo to the board of directors of BUL with the following terms of reference:

- (a) Explain the moral dimensions of the information systems age according to Laudon and Laudon.

(13 marks)

- (b) With the help of Herzberg's theory of motivation, briefly explain the factors responsible for low motivation at BUL.

(12 marks)

(Total 25 marks)