ANSWER SHEET

CODE : FMSM P2531 **MARKS : 100**

CA INTERMEDIATE

FINANCIAL MANAGEMENT AND STRATEGIC MANAGEMENT

SYLLABUS : FULL **TIME ALLOWED : 3 HOURS**

SECTION A (FINANCIAL MANAGEMENT) (50 MARKS)

DIVISION A (MCQ)

1- (A) ₹ 6,24,500

Calculation of Incremental Benefit Statement (Current Policy v/s Policy A)

	Current Policy (₹)	Policy 'A' (₹)
Credit Sales (365 lakhs X 0.9)	3,28,50,000	3,28,50,000
(-) Cost Of Sales @ 0.8	2,62,80,000	2,62,80,000
Operating Profit	65,70,000	65,70,000
(-) Bad Debts Exp (Wn-1)	98,550	98,550
(-) Collection Exp	5,00,000	3,50,000 (30% Reduction)
(-) Cash Discount Exp (Wn-2)	-	4,38,000
(-) Opportunity Cost of Carrying Debtors (Wn – 3)	13,14,000	4,01,500
Net Benefit	**46,57,450**	**52,81,950**

Incremental Benefit in Policy 'A' = ₹ 6,24,500

WN – 1: Calculation of Bad debts expense

Of the total credit sales, 15% are sold to the customers who are not financially sound and 2% of such sales is bad debts.

Bad debts = ₹ 3,28,50,000 x 0.15 x 0.02 = ₹ 98,550 (same under Policy A as well)

WN – 2: Calculation of Cash Discount under Policy A

Credit Sales made to 2/3 of the customer's avail Cash discount @ rate of 2% as they would be paying their dues within maximum of 15 days.

Cash Discount = ₹ 3,28,50,000 x 2/3 x 2% = ₹ 4,38,000

WN – 3: Calculation of Opportunity Cost of Carrying Debtors assuming Debtors are valued at Cost of Sales

Current Policy -

a) Average Debtors = Cost of Sales x Avg Collection Period / 360
= (₹ 3,28,50,000 x 80%) x 120 / 360
= ₹ 87,60,000

b) Apply Rate of Return on above debtors calculated
= ₹ 87,60,000 X 0.15 = ₹ 13,14,000

Policy 'A'

Total Cost of Sales = ₹ 2,62,80,000

2/3 Customers

Cost of Sales = ₹ 1,75,20,000

Avg Collection Period = 15 days

Debtors = 1,75,20,000 x 15/360

= ₹ 7,30,000

Opportunity Cost = ₹ 7,30,000 x 0.15 = ₹ 1,09,500

1/3 Customers

Cost of Sales = ₹ 87,60,000

Avg Collection Period = 80 days

Debtors = 87,60,000 x 80/360 = ₹ 19,46,667

Opportunity Cost = ₹ 19,46,667 x 0.15 = ₹ 2,92,000

Total Opportunity Cost = ₹ 1,09,500 + ₹ 2,92,000 = ₹ 4,01,500

2- (A) ₹ 27,294

Calculation of Incremental Benefit Statement (Current Policy v/s Policy B)

	Current Policy (₹)	Policy 'B' (₹)
Credit Sales (365 lakhs X 0.9)	3,28,50,000	3,61,35,000 (10% Increase)
(-) Cost Of Sales @ 0.8	2,62,80,000	2,89,08,000
Operating Profit	65,70,000	72,27,000
(-) Bad Debts Exp (Wn-1)	98,550	1,35,506
(-) Collection Exp	5,00,000	6,00,000
(-) Opportunity Cost of Carrying Debtors (Wn – 3)	13,14,000	18,06,750
Net Benefit	**46,57,450**	**46,84,744**

Incremental Benefit in Policy 'B' = ₹27,294

WN – 1: Calculation of Bad debts expense under Policy 'B'

Of the total credit sales, 15% are sold to the customers who are not financially sound (As proportion of those customer to remain same) and 2.5% of such sales is bad debts.

Bad debts = ₹ 3,61,35,000 x 0.15 x 0.025 = ₹ 1,35,506.25

WN – 3: Calculation of Opportunity Cost of Carrying Debtors assuming Debtors are valued at Cost of Sales under Policy 'B'.

Average Debtors = Cost of Sales x Avg Collection Period / 360

= ₹ 2,89,08,000 x 150 / 360

= ₹ 1,20,45,000

Therefore, Opportunity Cost of Carrying Debtors = ₹ 1,20,45,000 x 0.15 = ₹ 18,06,750

3- (B) Proposal 2, 3 & 1

Evaluating Proposal, I - Selling washing machine at discount

Selling price (with 5% discount) = ₹ 15,675

Therefore, Selling Price (Without Discount) = ₹ 15,675 / 0.95 = ₹ 16,500 per unit.

To increase the demand, a minimum of 10% discount is necessary and the marketing team has proposed a 12% discount to get a competitive advantage.

Thus, the New Selling Price = ₹ 16,500 – 12% = ₹ 14,520 per unit.

Total Sales @ new Selling Price = 1,000 Units x 4 Quarters x ₹ 14,520

= ₹ 5,80,80,000

Evaluating Proposal II - Exchange-sales scheme

Total Sales (Units) = 4,650
Selling Price per unit = ₹ 16,500
(-) Exchange off set price = ₹ 3,500
Net Proceeds = ₹ 13,000
Total Sales = 4,650 x ₹ 13,000
= ₹ 6,04,50,000

Evaluating Proposal III - All-round reduction in Inventory levels

Selling Price = ₹ 3,000 advance + ₹ 9,500 on delivery = ₹ 12,500
Total Sales = 400 x 12 x ₹ 12,500
= ₹ 6,00,00,000
Rankings: Rank 1 – Proposal 2
Rank 2 – Proposal 3
Rank 3 – Proposal 1

NOTE: In absence of other info, we would be considering the benefits in the form sales and decide on the proposal to be selected

4- (C) ₹ 98,550 and ₹ 1,35,506

5- (D) The best combination of Inventory proposal and Credit policies comes to Proposal 2 & Credit Policy 'A'.

(5*2=10 MARKS)

6- (B) ₹ 18,541.28, ₹ 36,369.12

(2 MARKS)

7- (B) ROCE = EBIT / Total Capital Employed
Total Capital Employed = Total Assets – Current Liabilities
= 50 lakhs – 10 lakhs
= 40 lakhs
EBIT = 40 lakhs x 15%
= 6 lakhs
Now, OL of 3.5 = Contribution / EBIT
Therefore Contribution = 6 Lakhs X 3.5 = 21 lakhs
Sales = **Contribution / PV Ratio = 21 lakhs / 0.7 = 30 lakhs**

(2 MARKS)

8- (c) ₹ 350 Lakhs
Value of Equity = 30 Lakhs ÷ 15% = ₹ 200 Lakhs
Value of Debt = ₹ 150 Lakhs
Value of Firm = 200 Lakhs + 150 Lakhs = ₹ 350 Lakhs

(1 MARKS)

DIVISION B (DESCRIPTIVE)

A-1.(a) Given,

Cost of Equity (K_e)	12%
Number of shares in the beginning (n)	40,000
Current Market Price (P_0)	₹200
Net Profit (E)	₹5,00,000
Expected Dividend (D_1)	₹10 per share
Investment (I)	₹10,00,000

Situation 1 – When dividends are paid	Situation 2 – When dividends are not paid
(i) $P_0 = \frac{P1+D1}{1+Ke}$ $200 = \frac{P1+10}{1+0.12}$ $P_1 + 10 = 200 \times 1.12$	(i) $P_0 = \frac{P1+D1}{1+Ke}$ $200 = \frac{P1+0}{1+0.12}$
$P_1 = 224 - 10 = 214$ (ii) Calculation of funds required = Total Investment - (Net profit - Dividend) = 10,00,000 - (5,00,000 – 4,00,000) = 9,00,000 (iii) No. of shares required to be issued for balance fund No. of shares = $\frac{\text{Funds Required}}{\text{Price at end (P1)}}$ $\Delta n = \frac{9,00,000}{214} = 4,205.61$ (iv) Calculation of value of firm $V_f = \frac{(n+\Delta n)P1-I+E}{1+Ke}$ $= \frac{(40,000+\frac{9,00,000}{214})214-10,00,000+5,00,000}{1+0.12}$ $= \frac{94,60,000 - 5,00,000}{1.12} = 80,00,000$	$P_1 + 0 = 200 \times 1.12$ $P_1 = 224 - 0 = 224$ (ii) Calculation of funds required = Total Investment - (Net profit - Dividend) = 10,00,000 – (5,00,000 - 0) = 5,00,000 (iii) No. of shares required to be issued for balance fund No. of shares = $\frac{\text{Funds Required}}{\text{Price at end (P1)}}$ $\Delta n = \frac{5,00,000}{224} = 2,232.14$ (iv) Calculation of value of firm $V_f = \frac{(n+\Delta n)P1-I+E}{1+Ke}$ $= \frac{(40,000+\frac{5,00,000}{224})224-10,00,000+5,00,000}{1+0.12}$ $= \frac{94,60,000 - 5,00,000}{1.12} = 80,00,000$

(5 MARKS)

A-1.(b) Working Notes:

Long term debt to Shareholder's fund		= 0.6:1
Long term debt	= 0.6 x ₹ 9,00,000	= ₹ 5,40,000
Total Assets	= ₹ 17,40,000	
Total Asset turnover ratio	$= \frac{\text{Sales}}{\text{Total Assets}}$	= 2.5 times
Sales	= 2.5 x ₹ 17,40,000	= ₹ 43,50,000
Current ratio	$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$	= 2.9:1

Current Assets	= 2.9 x ₹ 3,00,000	= ₹ 8,70,000
Fixed Assets	= Total Assets - Current Assets	
	= ₹ 17,40,000 – ₹ 8,70,000	= ₹ 8,70,000
Gross profit ratio	= 25% on sales	
Gross Profit (GP)	= ₹ 43,50,000 x 0.25	= ₹ 10,87,500
Cost of Good Sold (COGS)	= Sales – GP	
	= ₹ 43,50,000 - ₹ 10,87,500	
	= ₹ 32,62,500	
Inventory Turnover Ratio	$= \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	= 7.5 times
Inventory	= ₹ 32,62,500/7.5	= ₹ 4,35,000
Debtor Collection Period	$= \frac{\text{Average Accounts Receivables}}{\text{Average Daily Credit Sales}}$	= 30 days
Receivables	= 30 days x ₹ 43,50,000/360 days	= ₹ 3,62,500

Balance Sheet as on 31st March 2024

Liabilities	(₹)	Assets	(₹)
Share Capital	6,00,000	Fixed Assets	8,70,000
Reserve and Surplus	3,00,000	Inventories	4,35,000
Long-term loan	5,40,000	Debtors	3,62,500
Creditors	3,00,000	Cash (Balancing Figure)	**72,500**
	17,40,000		17,40,000

(5 MARKS)

A-1.(c)

(i) Operating leverages:

Particulars	Situation-I (₹)	Situation-II (₹)
Sales (3,000 units @ ₹ 30/- per unit)	90,000	90,000
Less: Variable Cost (VC) @ ₹ 15 per unit	(45,000)	(45,000)
Contribution (C)	45,000	45,000
Less: Fixed Cost (FC)	15,000	20,000
EBIT	30,000	25,000
Operating Leverage $\left(\frac{C}{EBIT}\right)$	$\frac{45,000}{30,000}$	$\frac{45,000}{25,000}$
	= 1.5	= 1.8

(ii) Financial Leverages:

	A (₹)	B (₹)
Situation I:		
EBIT	30,000	30,000
Less: Interest on debt	(2,000)	(1,000)
EBT	28,000	29,000
Financial Leverage $\left(\frac{EBIT}{EBT}\right)$	$\frac{30,000}{28,000}$	$\frac{30,000}{29,000}$
	= 1.07	= 1.03
Situation-II:		
EBIT	25,000	25,000
Less: Interest on debt	(2,000)	(1,000)
EBT	23,000	24,000
Financial Leverage $\left(\frac{EBIT}{EBT}\right)$	$\frac{25,000}{23,000}$	$\frac{25,000}{24,000}$
	= 1.09	= 1.04

(iii) Combined Leverages:

	A (₹)	B (₹)
(a) Situation I	1.5 × 1.07 = 1.61	1.5 × 1.03 = 1.55
(b) Situation II	1.8 × 1.09 = 1.96	1.8 × 1.04 = 1.87

(5 MARKS)

A-2.(a) Problem mentions that the company has applied to the Private Bank for financing its working capital needs. Ideally, banks would not finance for Depreciation cost being a non-cash cost and it would also not finance the profit for you. So, problem needs to be solved using Cash Cost Basis.

Estimation of working capital required (cash cost basis)

	Particulars		Amount
	A) Current Assets		
	A1) Stock of RM	15,84,960 x 30/360	1,32,080.00
	A2) Stock of WIP	(From Cost Statement)	4,77,360.00
	A3) Stock of FG	(From Cost Statement)	2,37,500.00
	A4) Debtors	32,74,686 x 45/360	4,09,335.75
	A5) Cash & Cash Equivalents	(Given)	1,25,000.00
	Gross Working Capital		**13,81,275.75**
Less:	**B) Current Liabilites**		
	B1) Creditors	17,17,040 x 30/360	1,43,086.67
	B2) Lag in Wages Payment	9,20,400 x 15/360	38,350.00
	Excess of Current Assets Over Current Liabilites	(A) - (B)	**11,99,839.08**

Add:	Safety Margin @ 15% Of Net Working Capital	2,11,736.31
	Net Working Capital	**14,11,575.39**

WN -1: Calculation of Profit

Profit = 25% of total cost i.e 20% of sales price

= {(31,200-2,500) x 150} x 20% = Rs. 8,61,000

WN – 2:	**Completed Units**	**WIP Units**
	31,200	9,360
Raw Mat. Consumed	12,48,000	3,36,960
Direct Wages	7,80,000	1,40,400
Overheads	9,36,000	1,68,480
	29,64,000	6,45,840
Gross Factory Cost	**36,09,840**	
Add: Op WIP	-	
Less: Cl. WIP **(At Prime Cost)**	4,77,360	
Cost of Production	**31,32,480**	
Add: Op FG Stock	-	
Less: Cl. FG Stock	2,37,500	
Cash Cost of Goods Sold	**28,94,980**	
Add: Selling & Distribution Expenses (Bal. Figure)	3,79,706	
Cost Of Sales	**32,74,686**	
Profit*	8,61,000	
Sales	**41,35,686**	

*It is assumed that profit is unchanged

WN 3 - Calculation of WIP stock (units) and WIP stock amount

WIP UNITS = 30% of FG produced units i.e 30% of 31,200 units

= 9,360 units

WIP amount (at prime cost)

Raw materials = 9,360 x 40 x 90% = 3,36,960

Direct wages = 9,360 x 25 x 60% = 1,40,400

WN 4 - Calculation of purchases from suppliers

Raw Materials Consumed = OP RM Stock + Purchases - Closing RM Stock

15,84,960 = 0 + Purchases – 1,32,080

Purchases = 17,17,040

WN 5 – Calculation of safety margin

Safety Margin = 15% Of Net Working Capital Needs

Excess Of CA Less CL	85	11,99,839.08
Safety Margin	15	2,11,736.31
Net Working Capital	100	1411575.388

(6 MARKS)

A-2.(b) Value of AN Ltd. = $\frac{NOI}{K_o} = \frac{₹\ 10,00,000}{20\%} = ₹\ 50,00,000$

(i) Return on Shares of Mr. R on AN Ltd.

Particulars	Amount (₹)
Value of the company	50,00,000
Market value of debt (50% x ₹ 50,00,000)	25,00,000
Market value of shares (50% x ₹ 50,00,000)	**25,00,000**
Particulars	**Amount (₹)**
Net operating income	10,00,000
Interest on debt (10% × ₹ 25,00,000)	2,50,000
Earnings available to shareholders	**7,50,000**
Return on 8% shares (8% × ₹ 7,50,000)	**60,000**

(ii) Implied required rate of return on equity of AN Ltd. $= \frac{₹\ 7,50,000}{₹\ 25,00,000} =$ **30%**

(4 MARKS)

A-3. Calculation of Net Initial Cash Outflows:

Particulars	₹
Cost of new machine	24,00,000
Less: Sale proceeds of existing machine	(1,80,000)
Add: Installation	1,40,000
Add: Testing	60,000
Less: Subsidy from government (15% of 24,00,000) x 0.877	**(3,15,720)**
Net initial cash outflows	**21,04,280**

Calculation of Incremental Depreciation

Particulars	₹
Depreciation on existing machine (4,80,000/6) **(i)**	80,000
Depreciation base of New Machine	
Cost of new machine	24,00,000
Add: Installation	1,40,000
Add: Testing	60,000
Less: Subsidy from government	(3,60,000)
Less: Salvage value at the end of 6th year	(3,20,000)
Depreciation base of New Machine	**19,20,000**
Depreciation on New Machine (19,20,000/6) **(ii)**	3,20,000
Incremental depreciation [(ii) – (i)]	2,40,000

Computation of Annual Operating Cash flow after tax (CFAT)

Particulars	Amount (₹)	Amount (₹)
Savings in cost		
Cost of 3 skilled workers (₹1,68,000 x 3)	5,04,000	
Reduced wastage of material	4,80,000	
Saving in loss of sales	3,50,000	
Total		13,34,000

Less: Increase in cost		
Salary to trained technician	3,90,000	
Increase in annual operation and maintenance cost	1,54,000	
Total		(5,44,000)
Incremental Saving before tax and depreciation		7,90,000
Less: Incremental Depreciation		(2,40,000)
Incremental PBT		5,50,000
Less: Tax @30%		(1,65,000)
PAT		3,85,000
Add: Depreciation		2,40,000
Incremental CFAT		6,25,000

Calculation of NPV

Particulars	**Year**	**Net Cashflow (₹)**	**PVF @ 14%**	**PV (₹)**
Net initial cash outflows	0	(24,20,000)	1	(21,04,280)
Incremental CFAT	1 to 6	6,25,000	3.888	24,30,000
Salvage Value of New Machine	6	3,20,000	0.456	1,45,920
PV of inflows				25,75,920
Net Present Value				**4,71,640**

$$\text{Profitability Index} = \frac{\text{Sum of discounted cash inflows}}{\text{Initial cash outlay or Total discounted cash outflow (as the case may)}}$$

= 25,75,920/21,04,280= **1.224**

Advise: Since the NPV is positive and PI is greater than 1, the company should replace the machine

Computation of Discounted Payback Period

Year	**Cashflow**	**PVF @ 14%**	**PV of CFs (₹)**	**Cumulative PV (₹)**
1	6,25,000	0.877	5,48,125	5,48,125
2	6,25,000	0.769	4,80,625	10,28,750
3	6,25,000	0.675	4,21,875	14,50,625
4	6,25,000	0.592	3,70,000	18,20,625
5	6,25,000	0.519	3,24,375	21,45,000
6	9,45,000	0.456	4,30,920	25,75,920

Discounted Payback Period

$$= 4 + \frac{21,04,280 - 18,20,625}{3,24,375}$$

= 4.87 years

If we take subsidy in cash inflow of 1st year,

then solution can also be done in the following way:

Calculation of Net Initial Cash Outflows:

Particulars	₹
Cost of new machine	24,00,000
Less: Sale proceeds of existing machine	(1,80,000)
Add: Installation	1,40,000
Add: Testing	60,000
Net initial cash outflows	**24,20,000**

Note: However, Incremental Depreciation and CFAT will remain same.

Calculation of NPV

Particulars	Year	Net Cashflow (₹)	PVF @ 14%	PV (₹)
Net initial cash outflows	0	(24,20,000)	1	(24,20,000)
Subsidy	1	3,60,000	0.877	3,15,720
Incremental CFAT	1 to 6	6,25,000	3.888	24,30,000
Salvage Value of New Machine	6	3,20,000	0.456	1,45,920
PV of inflows				28,91,640
Net Present Value				**4,71,640**

$$\text{Profitability Index} = \frac{\text{Sum of discounted cash in flows}}{\text{Initial cash outlay or Total discounted cash outflow (as the case may)}}$$

= 28,91,640 /24,20,000 = **1.195**

Advise: Since the NPV is positive and PI is greater than 1, the company should replace the machine

Computation of Discounted Payback Period

Year	Cashflow	PVF @ 14%	PV of CFs (₹)	Cumulative PV (₹)
1	9,85,000	0.877	8,63,845	8,63,845
2	6,25,000	0.769	4,80,625	13,44,470
3	6,25,000	0.675	4,21,875	17,66,345
4	6,25,000	0.592	3,70,000	21,36,345
5	6,25,000	0.519	3,24,375	24,60,720
6	9,45,000	0.456	4,30,920	28,91,640

Discounted Payback Period

$$= 4 + \frac{24,20,000 - 21,36,345}{3,24,375}$$

= 4.87 years

(10 MARKS)

A-4.(a) Environmental, Social and Governance-linked bonds (ESG): These bonds carry a responsibility of the issuer company to prioritize optimal environmental, social and governance (ESG) factors. Investing in ESG bonds is considered as **socially responsible investing**. ESG bonds can be project-based - green bonds and social bonds; and target-based - sustainability-linked bonds (SLBs).

- **Green bonds:** These are the most popular ESG bonds that are issued by a financial, non-financial or public institution, where the bond proceeds are used to finance "green projects". Green projects are aimed at positive environmental and/or climate impact including the cultivation of eco-friendly technology.

- **Social bonds:** These bonds finance the socially impactful projects. The projects here are related to the social concerns such as Human rights, Equality, animal welfare etc.
- **Sustainability-linked bonds (SLBs):** These bonds are combination of green bonds and social bonds. Proceeds of SLBs are not meant for a specific project but for general corporate purpose to achieve Key Performance Indicator (KPIs).

(4 MARKS)

A-4.(b)

i. **Fully Hedged Bonds:** In foreign bonds, the risk of currency fluctuations exists. Fully hedged bonds eliminate the risk by selling in forward markets the entire stream of principal and interest payments.

ii. **Medium Term Notes (MTN):** Certain issuers need frequent financing through the Bond route including that of the Euro bond. However, it may be costly and ineffective to go in for frequent issues. Instead, investors can follow the MTN programme. Under this programme, several lots of bonds can be issued, all having different features e.g. different coupon rates, different currencies etc. The timing of each lot can be decided keeping in mind the future market opportunities. The entire documentation and various regulatory approvals can be taken at one point of time.

iii. **Floating Rate Notes (FRN):** These are issued up to seven years maturity. Interest rates are adjusted to reflect the prevailing exchange rates. They provide cheaper money than foreign loans.

iv. **Euro Commercial Papers (ECP):** ECPs are short term money market instruments. They have maturity period of less than one year. They are usually designated in US Dollars.

(4 MARKS)

A-4.(c) "The profit maximisation is not an operationally feasible criterion." This statement is true because Profit maximisation can be a short-term objective for any organisation and cannot be its sole objective. Profit maximization fails to serve as an operational criterion for maximizing the owner's economic welfare. It fails to provide an operationally feasible measure for ranking alternative courses of action in terms of their economic efficiency. It suffers from the following limitations:

i) Vague term: The definition of the term profit is ambiguous. Does it mean short term or long term profit? Does it refer to profit before or after tax? Total profit or profit per share?

ii) Timing of Return: The profit maximization objective does not make distinction between returns received in different time periods. It gives no consideration to the time value of money, and values benefits received today and benefits received after a period as the same.

iii) It ignores the risk factor.

iv) The term maximization is also vague.

OR

A-4.(c) Modified Internal Rate of Return (MIRR): There are several limitations attached with the concept of the conventional Internal Rate of Return. The MIRR addresses some of these deficiencies. For example, it eliminates multiple IRR rates; it addresses the reinvestment rate issue and produces results, which are consistent with the Net Present Value method.

Under this method, all cash flows, apart from the initial investment, are brought to the terminal value using an appropriate discount rate (usually the cost of capital). This results in a single stream of cash inflow in the terminal year. The MIRR is obtained by assuming a single outflow in the zeroth year and the terminal cash inflow as mentioned above. The discount rate which equates the present value of the terminal cash inflow to the zeroth year outflow is called the MIRR.

(2 MARKS)

SECTION B (STRATEGIC MANAGEMENT) (50 MARKS)

DIVISION A (MCQ)

1- (D) Decline

2- (A) Strategic Group Mapping

3- (D) Blend of proactive and reactive strategy

4- (C) Strategic Alliance

5- (A) Enlightened marketing

(5*2=10 MARKS)

6- (B) Strategic management is time-consuming but necessary

(2 MARKS)

7- (D) Strategic business unit

(2 MARKS)

8- (B) Core Competency

(1 MARKS)

DIVISION B (DESCRIPTIVE)

A-1.(a) The component of strategic intent that best indicates the company's future aspirations is the Vision.

A Vision implies the blue print of the company's future position that outlines what an organization aspires to become in the long term. It reflects management's aspirations and serves as a guiding beacon for strategic decision-making by shaping the product-market-customer-technology focus of the business.

A strategic vision is important because -

- it provides a clear sense of direction, helping the organization focus its resources and efforts toward defined long-term goals.
- it serves as a source of alignment and inspiration for stakeholders—including employees, customers and investors—by communicating the overarching purpose and aspirations of the business.
- it shapes the organization's identity and culture, encouraging unity and collective motivation to achieve shared objectives.

Essentials of a Strategic Vision:

- It involves creative foresight to prepare the company for future challenges and opportunities.
- It is an exercise in intelligent entrepreneurship not merely operational planning.
- It creates enthusiasm and emotional engagement among organizational members.
- It is clearly worded to illuminate the organization's strategic direction.

(5 MARKS)

A-1.(b) A workable action plan for turnaround of the textile mill would involve:

- **Stage One – Assessment of current problems**: In the first step, assess the current problems and get to the root causes and the extent of damage.
- **Stage Two – Analyze the situation and develop a strategic plan:** Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions after analyzing strengths and weaknesses in the areas of competitive position.
- **Stage Three – Implementing an emergency action plan**: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive.
- **Stage Four – Restructuring the business**: If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.
- **Stage Five – Returning to normal**: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

(5 MARKS)

A-1.(c) Strategic Performance Measures (SPM) are metrics organizations use to evaluate and track the effectiveness of their strategies in achieving their goals and objectives. SPM provides a framework for monitoring key areas critical to the organization's success, ensuring progress toward desired outcomes and enabling timely adjustments to improve performance. For *GreenEdge Solutions*, various types of SPM can be utilized:

- **Financial Measures:** Metrics like revenue growth, return on investment (ROI), and profit margins help evaluate the company's financial health and profitability.
- **Customer Satisfaction Measures:** Assessments of customer satisfaction, retention, and loyalty indicate how well the company meets customer needs.
- **Market Measures:** Market share, customer acquisition, and referral rates reflect competitiveness and market position.
- **Employee Measures:** Employee satisfaction, engagement, and turnover rate help track workplace culture and talent retention.
- **Innovation Measures:** R&D spending, patent filings, and new product launches gauge the company's innovation capabilities.
- **Environmental Measures:** Monitoring energy consumption, waste reduction, and carbon emissions ensures the company aligns with sustainability goals.

Using these measures, GreenEdge Solutions can systematically assess its strategy and make informed decisions to drive sustainable growth and success.

(5 MARKS)

A-2.(a) According to Michael Porter's Five Forces framework, rivalry among competitors significantly influences the attractiveness and profitability of an industry. When rivalry becomes cutthroat, several conditions contribute to low industry profitability:

1. **Industry Leader Presence**: While a strong industry leader can help maintain pricing discipline, the effectiveness diminishes as the number of competitors increases. Many rivals can engage in aggressive pricing strategies, leading to decreased profitability.
2. **Number of Competitors**: A higher number of competitors increases rivalry, making it difficult for any single firm to control pricing. This leads to intensified price competition, which adversely affects industry profitability.
3. **High Fixed Costs**: Industries with high fixed costs create pressure on firms to fully utilize their capacity. When firms face excess capacity, they often resort to price cuts to maintain sales volume, which diminishes profitability across the industry.
4. **Exit Barriers**: High exit barriers prevent firms from leaving the industry, keeping competition high. Specialized assets or other constraints can lead firms to remain in the market, maintaining competitive pressure and negatively impacting profitability for all players.
5. **Product Differentiation**: In industries lacking product differentiation, firms primarily compete on price. This leads to price wars and lower profitability. In contrast, firms that can differentiate their products tend to achieve higher profit margins and reduce competitive pressure.
6. **Slow Industry Growth**: When industry growth slows, firms may adopt aggressive tactics to protect or gain market share, resulting in intensified rivalry and diminished profitability as they compete for a limited customer base.

   In summary, conditions such as the presence of a strong industry leader, the number of competitors, high fixed costs, exit barriers, lack of product differentiation, and slow industry growth contribute to cutthroat rivalry and low industry profitability.

(5 MARKS)

A-2.(b) According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas - competitor differentiation, customer value, and application to other markets.

- **Competitor differentiation:** The company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate. This can provide a company an edge compared to competitors. It allows the company to provide better products or services to market with no fear that competitors can copy it.
- **Customer value:** When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence. It will include all the skills needed to provide fundamental benefits. The service or the product has to have real impact on the customer as the reason to choose to purchase them. If customer has chosen the company without this impact, then competence is not a core competence.
- **Application of competencies to other markets:** Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise. Therefore, although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence, if it is not fundamental from the whole organization's point of view. Thus, a core competence is a unique set of skills and expertise, which will be used throughout the organisation to open up potential markets to be exploited.

(5 MARKS)

A-3.(a) The scenario being referred to is the organizational culture at Orion Tech Solutions Pvt. Ltd. A strong culture encourages effective strategy execution when there is alignment and drives performance even when there is minimal alignment. A culture rooted in values, practices, and behavioural norms that align with the requirements for successful strategy execution energizes employees across the organization to perform their roles in a manner that supports the strategy. Orion's culture, built around principles such as listening to customers, encouraging employees to take pride in their work, and providing a high degree of decision-making autonomy, is highly conducive to successfully executing a strategy focused on delivering superior software solutions.

A strong strategy-supportive culture at Orion makes employees feel genuinely better about their jobs, work environment, and the organization's goals. It motivates them to embrace the challenge of realizing the company's vision, perform their duties competently and enthusiastically, and collaborate effectively with others.

(5 MARKS)

A-3.(b) The suitable organizational structure for **MTS Ltd** is the **Network Organizational Structure**. A company with such a structure is often called a **Virtual Organization.**

Merits of the Network Structure:

1. **Flexibility and Adaptability**: The structure allows for rapid technological changes and shifting competition patterns. This enables the company to adapt quickly to the unstable environment and changing customer preferences.
2. **Focus on Core Competencies**: The company can concentrate on its distinctive competencies while outsourcing non-core functions to specialized firms, which can perform them more efficiently.
3. **Cost Efficiency**: Through subcontracting and outsourcing, MTS Ltd can reduce the costs associated with maintaining in-house teams.
4. **Decentralized Operations**: The network structure scatters business functions across various geographical locations, reducing the need for a large central headquarters and ensuring responsiveness in different regions.

Demerits of the Network Structure:

1. **Loss of Synergies**: Contracting out functions may prevent MTS Ltd from discovering synergies that could emerge from combining internal activities.
2. **Over-Specialization Risk**: By focusing on only a few functions, the company may risk choosing the wrong functions, leading to a loss of competitiveness.
3. **Stress and Learning Challenges**: The flatter structure and increased need for personal interactions may

create stress for employees, especially those who lack the confidence for active participation in organization-sponsored learning programs.

(5 MARKS)

A-4.(a) Channels represent the **distribution system** through which organizations distribute their products or provide services to customers. They play a pivotal role in reaching target markets, maximizing sales, and establishing competitive advantages.

Channel analysis is important when the business strategy is to scale up and expand beyond the current geographies and markets. When a business plans to grow to newer markets, they need to develop or leverage existing channels to get to new customers. Thus, analysis of channels that suit one's products and customers is of utmost importance.

There are typically three channels that should be considered: sales channel, product channel and service channel.

- **The sales channel** - These are the intermediaries involved in selling the product through each channel and ultimately to the end user. The key question is: Who needs to sell to whom for your product to be sold to your end user? **For example**, many fashion designers use agencies to sell their products to retail organizations, so that consumers can access them.
- **The product channel** - The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user. This is true of Australia Post, who delivers and distributes many online purchases between the seller and purchaser when using eBay and other online stores.
- **The service channel** - The service channel refers to the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. The service channel is an important consideration for products that are complex in terms of installation or customer assistance. **For example**, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.

(5 MARKS)

A-4.(b) Mendelow's Matrix can be used effectively to analyze and manage stakeholders through a grid-based approach by the following steps:

1. **Identify Stakeholders:** Begin by identifying all relevant stakeholders for your project or organization. This includes individuals, groups, or organizations that may be impacted by or have an impact on your activities.
2. **Assess Power and Interest:** For each stakeholder, assess their power to influence your project or organization and their level of interest in its success. Power can be assessed based on factors such as authority, resources, and expertise, while interest can be gauged by their level of involvement, expectations, and potential benefits or risks.
3. **Plot Stakeholders on the Grid:** Create a grid with Power on one axis and Interest on the other. Plot each stakeholder on the grid based on your assessment. Stakeholders with high power and high interest are placed in the "Key Players" quadrant, those with high power but low interest are in the "Keep Satisfied" quadrant, those with low power but high interest are in the "Keep Informed" quadrant, and those with low power and low interest are in the "Low Priority" quadrant.

4. **Develop Strategies for each Quadrant:** Based on the placement of stakeholders in the grid, develop specific strategies for managing each quadrant:
   - **Key Players:** Fully engage with these stakeholders, seek their input, and keep them informed. They are crucial for the success of your project, so their needs and expectations should be a top priority.
   - **Keep Satisfied:** These stakeholders have significant power but may not be as interested in your project. Keep them satisfied by providing regular updates and addressing any concerns they may have to prevent them from becoming detractors.
   - **Keep Informed:** While these stakeholders may not have much power, they are highly interested in your project. Keep them informed to ensure they remain supportive and to leverage their insights and feedback.
   - **Low Priority:** These stakeholders have low power and interest. Monitor them for any changes but allocate minimal resources to managing their expectations.
5. **Monitor and Adapt:** Continuously monitor the power and interest of stakeholders and adjust your strategies accordingly. Stakeholders may move between quadrants based on changing circumstances, so it's important to remain flexible and responsive.

By using Mendelow's Matrix as a grid-based tool, you can effectively analyze and manage stakeholders by tailoring your engagement strategies to their specific needs and expectations, ultimately increasing the likelihood of project success.

OR

A-4.(b) The following are the principal points of distinction between concentric diversification and conglomerate diversification:

(i) Concentric diversification occurs when a firm adds related products or markets. On the other hand, conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business.

(ii) In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. In conglomerate diversification, no such linkages exist; the new business/product is disjointed from the existing businesses/ products.

(iii) The most common reasons for pursuing concentric diversification are that opportunities in a firm's existing line of business are available. However, common reasons for pursuing a conglomerate growth strategy are that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

(5 MARKS)

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