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INTERMEDIATE: GROUP – II

PAPER – 6: FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A : FINANCIAL MANAGEMENT

Suggested Answers/ Hints

PART I – Case Scenario based MCQs

1. (D) 53,07,120

Total Cost per year = 2,000 per unit x 1,000 units

= 20,00,000

Total Cost after adjusting taxes = 20,00,000 x (1-0.3) = 14,00,000

Present Value of cost at discount rate of 10% p. a

= Cost per Anum x Annuity factor

= 14,00,000 x 3.7908

= 53,07,120/-

2. (B) 48,50,296

1. Cost of Machinery = ₹ 25,00,000/- outflow in year 0.
2. Present value of cost of machinery = ₹ 25,00,000
3. Annual outflows

Raw Material	700
Labour	300
Other Variable Cost	100
Variable Cost	1,100
Total Cost (1,100 x 1,000 units)	11,00,000
Add: Depreciation	5,00,000
Total Cost	16,00,000

Total cost net of taxes (16,00,000x x70/100)	11,20,000
Less: Depreciation	5,00,000
Net Cash Outflow	6,20,000

Present Value of cash outflow for 5 years = 6,20,000 x annuity factor

= 6,20,000 x 3.7908

= 23,50,296

Total Outflows = 25,00,000+23,50,296

= 48,50,296

3. (A) The investment is still cash-positive even at 700 units

Fixed investment cost (depreciation) = ₹ 5,00,000

Per-unit variable savings = ₹ 2,000 – ₹ 1,100 = ₹ 900

Actual annual savings = 700 × 900 = ₹ 6,30,000

Profit before tax = 6,30,000 − 5,00,000 = 1,30,000

Tax = 30% ⟶ 39,000

Profit after tax = 91,000

Add back depreciation = 5,00,000

Cash inflow = ₹ 5,91,000

4. (A) Manufacture the Concentrator dish inhouse

1. Manufacture of Concentrator dish

   Total Outflows after adjusting taxes = 48,50,296

2. Purchase from PQR Ltd.

   Total Outflows after adjusting taxes = 53,07,120

3. Purchase from XYZ Ltd.

   Cost per unit charged by XYZ Ltd. is ₹ 2100/- per unit which is greater than PQR Ltd. Cost of purchasing from PQR Ltd. is already greater than manufacturing it. So, this need not be calculated.

4. Purchase from UVW Ltd.

Cost per Unit = 1,900

Total Cost = 1,900 x 1,000 units = 19,00,000

Total cost after adjusting taxes = 19,00,000 x 70/100

= 13,30,000

Present Value of cost at discount rate of 10% p.a. = Cost per Anum x Annuity factor

= 13,30,000 x 3.7908

= 50,41,764

5. (C) 1,828

So, the cost of Manufacturing is least considering all options and so ABC Ltd should be purchasing it from UVW Ltd only if total cost of purchasing it from UVW Ltd is equal to manufacturing it.

Total outflow of manufacturing concentrator dish = 48,50,296

Lets do a reverse calculation

PV of cost at discount rate of 10% p.a. = Cost per Annum x Annuity factor

48,50,296 = Cost per Annum x 3.7908

Cost per Annum = 48,50,296/3.7908 = 12,79,491

Cost including Taxes $= \frac{12,79,491}{70 \times 100} = 18,27,845$

Cost per unit $= \frac{18,27,845}{1000} = 1,827.8$

6. (D) 12.375%

Operating Leverage (OL)

$$= \frac{\text{Contribution}}{\text{EBIT}} = \frac{\text{EBIT + Fixed Cost}}{\text{EBIT}} = \frac{₹\,15,750 + ₹\,1,575}{15,750} = 1.1$$

Financial Leverage (FL)

$$= \frac{EBIT}{EBT} = \frac{15,750}{7,000} = 2.25$$

Combined Leverage (CL)

$= 1.1 \times 2.25 = 2.475$

Percentage Change in Earnings per share

$$DCL = \frac{\%\ change\ in\ EPS}{\%\ change\ in\ Sales}$$

$$2.475 = \frac{\%\ change\ in\ EPS}{5\%}$$

$\therefore$ % change in EPS = 12.375%.

Hence if sales is increased by 5%, EPS will be increased by 12.375%.

7. (D) 4.34

1. Raw-material holding period

$$RM\ holding\ period = \frac{Average\ RM\ stock}{RM\ consumed} \times 360 = \frac{41,667}{6,00,000} \times 360$$

$$= 0.06945 \times 360 = 25\ days$$

2. Operating Cycle (OC)

$OC = RM\ period + WIP + FG + Debtors - Creditors$

$= 25 + 18 + 25 + 45 - 30 = 83$ days

3. Number of Operating Cycles in a Year

$$No.\ of\ cycles = \frac{360}{83} = 4.34$$

8. (C) 8.52%

After-tax cost of debt

Kd = 9% (1-0.30) = 6.3%

WACC = (E/V) Ke + (D/V) Kd

= 0.6 (10%) + 0.4 (6.3%)

= 6% + 2.52% = 8.52%

PART II – Descriptive Questions

1. (a) (i) Computation of Costs of Different Components of Capital Equity Shares

$$K_e = \frac{D_1}{P_0} + g = \frac{D_0(1+g)}{P_0} + g$$

$$= \frac{₹\,3.60\,(1.09)}{₹\,54} + 0.09 = 0.0727 + 0.09 = 16.27\%.$$

Preference Shares

$$K_p = \frac{\text{Preference Share Dividend}}{P_0} = \frac{₹11}{₹\,95} = 11.58\%.$$

Debt at K_d = 12%

$K_d\,(1 - T) = 12\,(1 - 0.4) = 12\%\,(0.6) = 7.20\%.$

(ii) Weighted Average Cost of Capital (WACC)

$WACC = W_dK_d\,(1 - T) + W_pK_p + W_eK_e$

$WACC = 0.25\,(7.2\%) + 0.15\,(11.58\%) + 0.60\,(16.27\%)$

$= 1.8 + 1.737 + 9.762 = 13.30\%.$

(b) (a) $$G.P.\,ratio = \frac{Gross\,Profit}{Sales} = 25\%$$

$$Sales = \frac{Gross\,Profit}{25} \times 100 = \frac{₹\,8,00,000}{25} \times 100 = ₹\,32,00,000$$

(b) Cost of Sales = Sales − Gross profit

= ₹ 32,00,000 - ₹ 8,00,000

= ₹ 24,00,000

(c) Receivable turnover $$= \frac{Sales}{Debtors} = 4$$

$$= Debtors = \frac{Sales}{4} = \frac{₹\,32,00,000}{4} = ₹\,8,00,000$$

(d) Fixed assets turnover $= \frac{\text{Cost of Sales}}{\text{Fixed Assets}} = 8$

Fixed assets $= \frac{\text{Cost of Sales}}{8} = \frac{₹\ 24,00,000}{8} = ₹\ 3,00,000$

(e) Inventory turnover $= \frac{\text{Cost of Sales}}{\text{Average Stock}} = 8$

Average Stock $= \frac{\text{Cost of Sales}}{8} = \frac{₹\ 24,00,000}{8} = ₹\ 3,00,000$

Average Stock $= \frac{\text{Opening Stock} + \text{Closing Stock}}{2}$

Average Stock $= \frac{\text{Opening Stock} + \text{Opening Stock} + 20,000}{2}$

Average Stock = Opening Stock + ₹ 10,000

Opening Stock = Average Stock - ₹ 10,000

= ₹ 3,00,000 - ₹10,000

= ₹ 2,90,000

Closing Stock = Opening Stock + ₹ 20,000

= ₹ 2,90,000 + ₹ 20,000 = ₹ 3,10,000

(f) Payable turnover $= \frac{\text{Purchase}}{\text{Creditors}} = 6$

Purchases = Cost of Sales + Increase in Stock

= ₹ 24,00,000 + ₹ 20,000 = ₹ 24,20,000

Creditors $= \frac{\text{Purchase}}{6} = \frac{₹24,20,000}{6} = ₹\ 4,03,333$

(g) Capital turnover $= \frac{\text{Cost of Sales}}{\text{Capital Employed}} = 2$

Capital Employed $= \frac{\text{Cost of Sales}}{2} = \frac{₹\ 24,00,000}{2} = ₹\ 12,00,000$

(h) Capital = Capital Employed – Reserves & Surplus

= ₹ 12,00,000 – ₹ 2,00,000 = ₹ 10,00,000

Balance Sheet of T Ltd as on……

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	10,00,000	Fixed Assets	3,00,000
Reserve & Surplus	2,00,000	Stock	3,10,000
Creditors	4,03,333	Debtors	8,00,000
		Other Current Assets	1,93,333
	16,03,333		16,03,333

(c) Modigliani and Miller (M-M) – Dividend Irrelevancy Model:

$$P_0 = \frac{P_1 + D_1}{1 + K_e}$$

Where,

P_o = Existing market price per share i.e. ₹ 120

P_1 = Market price of share at the year-end (to be determined)

D_1 = Contemplated dividend per share i.e. ₹ 6.4

K_e = Capitalisation rate i.e. 9.6%.

(i) (a) Calculation of share price when dividend is declared:

$$P_0 = \frac{P_1 + D_1}{1 + K_e}$$

$$120 = \frac{P_1 + 6.4}{1 + 0.096}$$

$120 \times 1.096 = P_1 + 6.4$

$P_1 = 120 \times 1.096 - 6.4$

$= 125.12$

(b) Calculation of share price when dividend is not declared:

$$P_0 = \frac{P_1 + D_1}{1 + K_e}$$

$$120 = \frac{P_1 + 0}{1 + 0.096}$$

$120 \times 1.096 = P_1 + 0$

$P_1 = 131.52$

(ii) Calculation of No. of shares to be issued:

(₹ in lakhs)

Particulars	If dividend declared	If dividend not declared
Net Income	160	160
Less: Dividend paid	51.20	------
Retained earnings	108.80	160
Investment budget	320	320
Amount to be raised by issue of new shares (i)	211.20	160
Market price per share (ii)	125.12	131.52
No. of new shares to be issued (ii)	1,68,797.95	1,21,654.50
Or say	1,68,798	1,21,655

2. (a) Estimate of the Requirement of Working Capital

		(₹)	(₹)
A.	**Current Assets:**		
	Raw material stock (Refer to Working note 3)	6,64,615	
	Work in progress stock (Refer to Working note 2)	5,00,000	
	Finished goods stock (Refer to Working note 4)	13,60,000	
	Debtors (Refer to Working note 5)	25,10,769	
	Cash and Bank balance	25,000	50,60,384
B.	**Current Liabilities**:		
	Creditors for raw materials (Refer to Working note 6)	7,15,740	
	Creditors for wages (Refer to Working note 7)	91,731	8,07,471
	Net Working Capital (A - B)		42,52,913

Working Notes:

1. Annual cost of production

	₹
Raw material requirements (1,04,000 units × ₹ 80)	83,20,000
Direct wages (1,04,000 units × ₹ 30)	31,20,000
Overheads (exclusive of depreciation) (1,04,000 × ₹ 60)	62,40,000
	1,76,80,000

2. Work in progress stock

	₹
Raw material requirements (4,000 units × ₹ 80)	3,20,000
Direct wages (50% × 4,000 units × ₹ 30)	60,000
Overheads (50% × 4,000 units × ₹ 60)	1,20,000
	5,00,000

3. Raw material stock

It is given that raw material in stock is average 4 weeks' consumption. Since, the company is newly formed, the raw material requirement for production and work in progress will be issued and consumed during the year.

Hence, the raw material consumption for the year (52 weeks) is as follows:

	₹
For Finished goods	83,20,000
For Work in progress	3,20,000
	86,40,000

Raw material stock = $\frac{₹\ 86,40,000}{52\ \text{weeks}} \times 4\ \text{weeks}$ i.e. ₹ 6,64,615

4. Finished goods stock

8,000 units @ ₹ 170 per unit = ₹13,60,000

5. Debtors for sale

Credit allowed to debtors	Average 8 weeks
Credit sales for year (52 weeks) i.e. (1,04,000 units - 8,000 units)	96,000 units

Cost per unit		₹ 170
Credit sales for the year (96,000 units × ₹170)		₹ 1,63,20,000
Debtors	$\frac{₹1,63,20,000}{52 \text{ weeks}} \times 8$ weeks i.e. ₹ 25,10,769	

6. Creditors for raw material:

Credit allowed by suppliers		Average 4 weeks
Purchases during the year (52 weeks) i.e. (₹83,20,000 + ₹3,20,000 + ₹6,64,615) (Refer to Working notes 1,2 and 3 above)		₹ 93,04,615
Creditors	$\frac{₹93,04,615}{52 \text{ weeks}} \times 4$ weeks i.e. ₹ 7,15,740	

7. Creditors for wages

Lag in payment of wages		Average $1\frac{1}{2}$ weeks
Direct wages for the year (52 weeks) i.e. (₹ 31,20,000 + ₹ 60,000) (Refer to Working notes 1 and 2 above)		₹ 31,80,000
Creditors	$\frac{₹31,80,000}{52 \text{ weeks}} \times 1\frac{1}{2}$ weeks i.e. ₹ 91,731	

(b) Business Risk and Financial Risk: Business risk refers to the risk associated with the firm's operations. It is an unavoidable risk because of the environment in which the firm has to operate and the business risk is represented by the variability of earnings before interest and tax (EBIT). The variability in turn is influenced by revenues and expenses. Revenues and expenses are affected by demand of firm's products, variations in prices and proportion of fixed cost in total cost.

Whereas, Financial risk refers to the additional risk placed on firm's shareholders as a result of debt use in financing. Companies that issue more debt instruments would have higher financial risk than companies financed mostly by equity. Financial risk can be measured by ratios such as firm's financial leverage multiplier, total debt to assets ratio etc.

3. (a) (i) Market Value of Vastupal Limited (After conversion)

Value of Levered Co (VL) = Value of Substantial Unlevered Co (VU) + Tax advantage

1,500 lakhs = VU + (250 x 70% x 20%)

∴ Market Value of Substantial Unlevered Co (VU) = 1,465 Lakhs

Alternatively, Market Value of Substantial Unlevered Co (VU) can be calculated as below:

MV of Substantial Unlevered Co (30% Debt)

= MV of Totally Unlevered Co + Tax advantage

= {1500−0.20(250)} + (250 x 30% x 20%)

= 1,450 + 15

Market Value of Substantial Unlevered Co (VU) = 1,465 Lakhs

The impact is that the market value of the company has decreased by 35 lakhs (1500 lakhs - 1465 lakhs)

(ii) Cost of Equity (Ke) – After conversion

WN-1 Preparation of Income Statement

Particulars	Before Conversion	After Conversion
EBIT	350.00	350.00
(-) Int	(37.50) (250 x 15%)	(11.25) (250 x 30% x 15%)
EBT	312.50	338.75
(-) Tax @ 20%	(62.50)	(67.75)
Dividend	250.00	271.00

MV of Equity (Before conversion) $= \frac{\text{Dividend}}{\text{Ke}}$

(1,500 – 250) $= \frac{\text{Dividend}}{0.2}$

∴ Dividend = 250 Lakhs

MV of Equity (Before Conversion) = MV of Co (Before conversion) - MV of Debt

= 1,500 – 250 = 1,250

MV of Equity (After Conversion) = MV of Co (After conversion) - MV of Remaining Debt

= 1,465 - {250 x 30%}

= 1,390 lakhs

∴ Ke (after Conversion) = $\frac{\text{Dividend}}{\text{MV of Equity}}$

= 271/ 1,390

= 19.49%

The impact is that cost of equity has fallen by 0.50% i.e. 20.00% - 19.49% due to reduction in the financial risk.

(iii) Cost of Capital (Ko) – After Conversion

Components	Amount (in lakhs)	Weights (W)	Cost of Capital (K)	WACC (W x K)
Equity	1390.00	0.9488	19.49	18.49
Debt	75.00	0.0512	12.00 15 (1 – 0.2)	0.61
	1465.00			19.10%

Cost of Capital (Ko) – Before Conversion

Components	Amount (in lakhs)	Weights (W)	Cost of Capital (K)	WACC (W x K)
Equity	1250.00	0.8333	20.00	16.67
Debt	250.00	0.1667	12.00 15 (1 – 0.2)	2.00
	1500.00			18.67%

The impact is that the overall cost of capital has increased by 0.43% i.e. 19.10% - 18.67% due to non-availability of tax benefit owing to the reduction in the debt.

WN-2: Calculation of Market Value of the company & Ke after the end of 3 years

MV of Substantial Unlevered Co = MV of Totally Unlevered Co + Tax advantage

1,465 lakhs = MV of Totally Unlevered Co + (250 x 30% x 20%)

∴ MV of Totally Unlevered Co = 1,450 lakhs

Calculation of Ke of Totally Unlevered Co

$$Ke = \frac{\text{Dividend}}{\text{MV of Equity}}$$

Particulars	Amount
EBIT	350.00
(-) Int	0.00
EBT	350.00
(-) Tax @20%	(70.00)
Dividend	280.00

∴ Ke = 280/1,450

∴ Ke = 19.31%

(b) Working Notes:

	(₹)
Net Profit after Tax	2,80,000
Tax @ 30%	1,20,000
EBT	4,00,000
Interest on Debentures	84,000
EBIT	4,84,000
Operating Expenses (1.5 times of EBIT)	7,26,000
Sales	12,10,000

(i) **Operating Leverage**

$$= \frac{\text{Contribution}}{\text{EBIT}} = \frac{₹\ (12,10,000 - 6,29,200)}{₹\ 4,84,000} = \frac{₹\ 5,80,800}{₹\ 4,84,000} = 1.2 \text{ times}$$

$$\textbf{Financial Leverage} = \frac{\text{EBIT}}{\text{EBT}} = \frac{4,84,000}{4,00,000} = 1.21 \text{ times}$$

(ii) **Cover for Preference Dividend**

$$= \frac{\text{PAT}}{\text{Preference Share Dividend}}$$

$$= \frac{₹\ 2,80,000}{₹\ 50,000} = 5.6 \text{ times}$$

Cover for Equity Dividend

$$= \frac{(\text{PAT - Preference Dividend})}{\text{Equity Share Dividend}} = \frac{₹\ (2,80,000 - 50,000)}{₹\ 1,20,000}$$

$$= \frac{₹\ 2,30,000}{₹\ 1,20,000} = 1.92 \text{ times}$$

4. (a) Differentiation between Financial Management and Financial Accounting: Though financial management and financial accounting are closely related, still they differ in the treatment of funds and also with regards to decision - making.

Treatment of Funds: In accounting, the measurement of funds is based on the accrual principle. The accrual based accounting data do not reflect fully the financial conditions of the organisation. An organisation which has earned profit (sales less expenses) may said to be profitable in the accounting sense but it may not be able to meet its current obligations due to shortage of liquidity as a result of say, uncollectible receivables. Whereas, the treatment of funds, in financial management is based on cash flows. The revenues are recognised only when cash is actually received (i.e. cash inflow) and expenses are recognised on actual payment (i.e. cash outflow). Thus, cash flow based returns help financial managers to avoid insolvency and achieve desired financial goals.

Decision-making: The chief focus of an accountant is to collect data and present the data while the financial manager's primary responsibility relates to financial planning, controlling and decision-making. Thus, in a way it can be stated that financial management begins where financial accounting ends.

(b) Some common methods of venture capital financing are as follows:

(i) ***Equity financing:*** The venture capital undertakings generally require funds for a longer period but may not be able to provide returns to the investors during the initial stages. Therefore, the venture capital finance is generally provided by way of equity share capital. The equity contribution of venture capital firm does not exceed 49% of the total equity capital of

venture capital undertakings so that the effective control and ownership remains with the entrepreneur.

(ii) ***Conditional loan:*** A conditional loan is repayable in the form of a royalty after the venture is able to generate sales. No interest is paid on such loans. In India venture capital financiers charge royalty ranging between 2 and 15 per cent; actual rate depends on other factors of the venture such as gestation period, cash flow patterns, risk and other factors of the enterprise. Some Venture capital financiers give a choice to the enterprise of paying a high rate of interest (which could be well above 20 per cent) instead of royalty on sales once it becomes commercially sound.

(iii) ***Income note:*** It is a hybrid security which combines the features of both conventional loan and conditional loan. The entrepreneur has to pay both interest and royalty on sales but at substantially low rates. IDBI's VCF provides funding equal to 80 – 87.50% of the projects cost for commercial application of indigenous technology.

(iv) ***Participating debenture:*** Such security carries charges in three phases — in the start-up phase no interest is charged, next stage a low rate of interest is charged up to a particular level of operation, after that, a high rate of interest is required to be paid.

(c) Limitations of Walter's Model

1. The formula **does not consider all the factors** affecting dividend policy and share prices. Moreover, determination of market capitalisation rate is difficult.

2. Further, the formula **ignores such factors as taxation,** various legal and contractual obligations, management policy and attitude towards dividend policy and so on.

OR

(c) Financial Break-even and EBIT-EPS Indifference Analysis

Financial break-even point is the minimum level of EBIT needed to satisfy all the fixed financial charges i.e. interest and preference dividend. It denotes the level of EBIT for which firm's EPS equals zero. If the EBIT is less than the financial

breakeven point, then the EPS will be negative but if the expected level of EBIT is more than the breakeven point, then more fixed costs financing instruments can be taken in the capital structure, otherwise, equity would be preferred.

EBIT-EPS analysis is a vital tool for designing the optimal capital structure of a firm. The objective of this analysis is to find the EBIT level that will equate EPS regardless of the financing plan chosen.

$$\frac{(EBIT - I_1)(1-T)}{E_1} = \frac{(EBIT - I_2)(1-T)}{E_2}$$

Where,

EBIT	=	Indifference point
E_1	=	Number of equity shares in Alternative 1
E_2	=	Number of equity shares in Alternative 2
I_1	=	Interest charges in Alternative 1
1_2	=	Interest charges in Alternative 2
T	=	Tax-rate

PAPER 6B: STRATEGIC MANAGEMENT

ANSWERS

PART I

1. (A) (i) (b) (ii) (b) (iii) (b) (iv) (b) (v) (b)

1. (B) (i) (c) (ii) (a) (iii) (b)

PART II

1. (a) The strategic decisions described in the case represent the **Corporate-Level Strategy**.

Corporate-level strategy is formulated by the **top management, Board of Directors or corporate headquarters** and it defines the overall scope, long-term direction and resource allocation for the entire organization. It involves decisions regarding the portfolio of businesses**,** entry into or exit from sectors**,** allocation of financial resources among business units and policies affecting the whole enterprise such as investment, growth, stability, retrenchment and dividend decisions.

In the case of **Gromax Industries Ltd.**, the Board is deciding which business unit will receive the highest capital allocation**,** evaluating divestment of the poorly performing Logistics unit and framing a common dividend policy for the group. These decisions influence the future growth path, competitive positioning and overall value maximization of the conglomerate. Therefore, the decisions clearly fall under **Corporate-Level Strategy**, as they determine the strategic direction and structure of the company as a whole rather than focusing on individual business operations or functional activities.

(b) The PESTLE framework can help ABC Corp assess the external factors affecting its decision to expand into a new country by considering the following aspects:

- **Political Factors**: These include the stability of the government, government policies on foreign investment, trade agreements, and regulatory frameworks. By analyzing these factors, ABC Corp can assess the political risks associated with entering the new market.
- **Economic Factors**: Economic factors such as GDP growth rate, inflation rate, exchange rates, and economic stability can impact ABC Corp's decision. By analyzing these factors, the company can understand the economic environment of the new market and its potential impact on business operations.

- **Social Factors**: Social factors such as cultural norms, demographics, and lifestyle trends can influence consumer behavior and demand for ABC Corp's products. Understanding these factors can help the company tailor its marketing strategies to the new market.
- **Technological Factors**: Technological factors such as infrastructure, technological advancements, and the level of technology adoption in the new market can impact ABC Corp's operations. By assessing these factors, the company can determine the technological requirements for entering the new market.
- **Legal Factors**: Legal factors such as laws and regulations related to foreign investment, intellectual property rights, and labor laws can impact ABC Corp's decision. By analyzing these factors, the company can ensure compliance with legal requirements in the new market.
- **Environmental Factors**: Environmental factors such as climate change, environmental regulations, and sustainability practices can impact ABC Corp's operations and reputation. By considering these factors, the company can assess the environmental risks and opportunities in the new market.

Overall, the PESTLE framework can provide ABC Corp with a comprehensive analysis of the external factors that could impact its decision to expand into a new country, helping the company make informed and strategic decisions.

(c) The 'Say No to Sugar' product by Organic Beverages can be classified as a **Star** in the BCG Growth-Share Matrix. This classification is due to the **product's rapid market growth and the company's strong market share achieved** within a short span of five months. Additionally, the product requires heavy investment to maintain its market position and expand further, which aligns with the characteristics of a Star.

Strategies Post-Identification: After identifying the 'Say No to Sugar' product as a Star, the following strategies can be pursued:

1. **Build Strategy:** Increase market share through sustained investments in marketing, distribution, and product development. This ensures the product remains competitive and capitalizes on its growth potential.
2. **Hold Strategy:** Focus on maintaining the current market share and profitability by optimizing resources and sustaining brand reputation.

3. **Harvest Strategy:** This strategy is not suitable for Stars as it prioritizes short-term cash flow over long-term growth, which contradicts the objectives for a Star.

4. **Divest Strategy:** Selling or liquidating the product is unsuitable here, as Stars represent the best opportunities for expansion.

Limitations of BCG Matrix:

1. **Complexity and Cost:** The matrix can be difficult, time-consuming, and costly to implement.

2. **Subjectivity:** Defining SBUs and measuring market share or growth can be challenging and subjective.

3. **Focus on Present:** It emphasizes current business scenarios but provides limited guidance for future strategic planning.

4. **Overemphasis on Growth:** This may lead to unwise investments in high-growth markets or premature divestment of established products.

Thus, while the BCG matrix provides a simplified framework for portfolio analysis, it should be used alongside other strategic tools for balanced decision-making.

2. (a) *Connect Group* has to make strategic changes for its survival. The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business. Unless companies embrace change, they are likely to freeze and unless companies prepare to deal with sudden, unpredictable, discontinuous, and radical change, they are likely to be extinct.

Three steps for initiating strategic change are:

(i) **Recognise the need for change** – The first step is to diagnose the which facets of the present corporate culture are strategy supportive and which are not.

(ii) **Create a shared vision to manage change** – Objectives of both individuals and organisation should coincide. There should be no conflict between them. This is possible only if the management and the organisation members follow a shared vision.

(iii) **Institutionalise the change** – This is an action stage which requires the implementation of the changed strategy. Creating and sustaining a different

attitude towards change is essential to ensure that the firm does not slip back into old ways of doing things.

(b) The term '**strategic management'** refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments were deemed appropriate.

The presence of strategic management cannot counter all hindrances and always achieve success as there are limitations attached to strategic management. These can be explained in the following lines:

- **The environment is highly complex and turbulent.** It is difficult to understand the complex environment and exactly pinpoint how it will shape up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organisationhas to deal with suppliers, customers, governments and other external factors.
- **Strategic management is a time-consuming process.** Organisations spend a lot of time preparing, communicating the strategies that may impede daily operations and negatively impact on routine business.
- **Strategic management is a costly process.** Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete.
- **Competition is unpredictable.** In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

3. (a) Strategic leadership refers to the manager's ability to anticipate, envision, maintain flexibility and empower others to create strategic change as necessitated by external conditions. A manager as a strategic leader is responsible for setting the firm's direction, formulating and implementing strategies and ensuring that the organization moves towards achieving its strategic goals. To achieve this, the manager must play multiple leadership roles such as visionary, strategist, administrator, culture builder and motivator.

Managers have five leadership roles to play in pushing for good strategy execution:

1. **Staying on top of the execution process:** Monitoring progress, resolving emerging issues and understanding obstacles in the way of effective execution.
2. **Promoting a culture of *esprit de corps*:** Nurturing unity, teamwork and high morale to mobilize and energize employees for effective strategy implementation.
3. **Keeping the organization responsive and innovative:** Ensuring the firm remains adaptive to changes, alert to new opportunities and ahead of rivals in developing competencies.
4. **Exercising ethical leadership:** Insisting that the company behaves ethically and acts as a model corporate citizen.
5. **Pushing corrective actions:** Taking necessary corrective measures to overcome execution problems and improve overall strategic performance.

These roles help managers drive strategy execution effectively while maintaining integrity, adaptability and performance.

(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.

4. **(a)** Value chain analysis is a strategic tool used to examine each business activity to determine how it adds value, helping firms improve efficiency, identify cost-saving opportunities and gain competitive advantage through better coordination and performance of internal processes.

Support Activities in Value Chain Analysis (Michael Porter)

Michael Porter identified four main categories of support activities that support the primary activities and help the organization achieve competitive advantage:

1. **Procurement:** Refers to the processes involved in acquiring the various resource inputs needed for the primary activities. It focuses on how resources are sourced rather than the resources themselves. Procurement occurs across many parts of the organization.
2. **Technology Development:** Every value activity has associated technology or know-how. This includes R&D, product design, process development and improvements in resources such as raw materials. Technology development enhances the efficiency and effectiveness of value activities.
3. **Human Resource Management:** This area spans across all primary activities and involves recruiting, managing, training, developing and rewarding employees. Effective HR management is vital for ensuring that the organization has the right people to perform its activities successfully.
4. **Infrastructure:** Infrastructure consists of the systems and routines that support the entire organization, including planning, finance, quality control, information management and organizational culture. It sustains and coordinates primary and support activities and is crucial for overall organizational performance.

(b) The Mendelow's matrix is a simple framework to help manage key stakeholders.

Managing Stakeholders: Mendelow's Matrix is an essential tool for managing stakeholders effectively in project management, as it involves managing the competing interests of various stakeholders. It categorizes stakeholders based on their power and interest levels. This framework helps project managers to identify which stakeholders are incredibly important and prioritize their engagement strategies to ensure project success.

Categorization of Stakeholders: The matrix divides stakeholders into four groups:

- **Key Players (High Power, High Interest)**: These stakeholders require close management and regular communication. Engaging them fully ensures their support and input, which is crucial for project success. For instance, CEOs and shareholders fall into this category.
- **Keep Satisfied (High Power, Low Interest)**: While these stakeholders have significant influence, they may not be as invested in the project's success. It is essential to keep them satisfied with sufficient information to prevent potential conflicts.
- **Keep Informed (Low Power, High Interest)**: Stakeholders in this group are interested in the project but lack the power to influence its outcome. Regular updates and communication can foster goodwill and may provide valuable feedback.
- **Low Priority (Low Power, Low Interest)**: These stakeholders require minimal attention. Monitoring their interest and power levels periodically is sufficient, as they do not significantly impact the project.

In summary, Mendelow's Matrix provides a clear framework for categorizing stakeholders based on their power and interest, facilitating effective stakeholder management and enhancing the likelihood of project success.

OR

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.