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PAPER – 6: FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A : FINANCIAL MANAGEMENT

Suggested Answers/ Hints

PART I – Case Scenario based MCQs

1. **(d)**
2. **(b)**

Particulars	Computation	Result
Sales	100 × 5,00,000	5,00,00,000
Less Variable cost	100 × 4,50,000	4,50,00,000
Contribution		**50,00,000**
Less Fixed cost		25,00,000
EBIT		**25,00,000**
Less Interest	15% × 40,00,000	6,00,000
EBT		**19,00,000**

Operating leverage = Contribution ÷ EBIT = 50 Lakhs ÷ 25 Lakhs = 2 times

Operating leverage = % Change in EBIT ÷ % Change in Sales i.e. if sales increase by 10%, EBIT increase by 20%.

Financial leverage = EBIT ÷ EBT = 25 Lakhs ÷ 19 Lakhs = 1.315 times

Combined leverage = Operating leverage × Financial leverage = 2 × 1.315 = 2.63 times

3. **(b)**

Particulars	Weights	Cost in %	Weights × Cost
Share Capital	40,00,000	5 + 1.9 × (10 – 5) = 14.5	5,80,000
Reserves & Surplus	25,00,000	14.5	3,62,500
Preference Share Capital	12,00,000	12	1,44,000
15% Debentures	20,00,000	15 × (1 – 25%) = 11.25	2,25,000
Total	**97,00,000**	**Total Cost**	**13,11,500**

Discount rate = WACC = 13,11,500 ÷ 97,00,000 × 100 = 13.52%

4. (b)

Particulars	Computation	Result
Savings in Tea cost Less: Annual maintenance Less: Cost of Electricity Less: Consumables Less: Depreciation	200 Employees × 200 days × 3 times × ₹ 10 500 units × ₹ 24 per unit × 12 months 5,00,000 ÷ 5 years	12,00,000 (25,000) (1,44,000) (8,00,000) (1,00,000)
Profit before tax		**1,31,000**
Less: Tax	1,31,000 × 25%	32,750
Profit after tax		**98,250**
Add: Depreciation		1,00,000
Cash flow after tax	98,250 + 1,00,000	**1,98,250**

5. (b)

Year	Particulars	Cash flow	PVF@13.52%	PV
0	Initial investment	5,00,000	1	(5,00,000)
1 to 5	Savings	1,98,250	3.473	6,88,522
	Net present value			**1,88,522**

6. (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**

7. (d) Calculation: Cost of Debt = (Interest Payment/ Market Price of Bond)

= (8,000 / 95,000) = 8.42%

8. (d) Cost of equity will increase. As the company increases its debt ratio, the financial risk increases, which typically leads to an increase in the cost of equity as equity investors demand a higher return for the additional risk.

PART II – Descriptive Questions

1. (a) Let the EBIT at the Indifference Point level be E

Particulars	Alternative 1	Alternative 2
Description	**Fully Equity of 84 Lakhs**	**Debt = 56 Lakhs, Equity = 28 Lakhs**
EBIT Less: Interest at 12% of ₹ 56 Lakhs	E Nil	E 6.72
EBT Less: Tax at 30%	E 0.3 E	E – 6.72 0.3 E – 2.016
EAT Less: Preference Dividend	0.7 E Nil	0.7 E – 4.704 Nil
Residual Earnings	0.7 E	0.7 E – 4.704
No. of Equity Shares (Face Value ₹ 10)	8.4 Lakh Shares	2.8 Lakh Shares
EPS = $\frac{\text{Residual Earnings}}{\text{No. of Equity Shares}}$	$\frac{0.7\text{ E}}{8.4\text{ Lakh Shares}}$	$\frac{0.7\text{ E} - 4.704}{2.8\text{ Lakh Shares}}$

For indifference between the above alternatives, EPS should be equal.

So, $\frac{0.7\text{ E}}{8.4\text{ Lakh Shares}} = \frac{0.7\text{ E} - 4.704}{2.8\text{ Lakh Shares}}$

On cross multiplication and simplification, 2.1 E – 14.112 = 0.7 E. So, 1.4 E = 14.112

So, E = $\frac{14.112}{1.4}$ = 10.08

So, for same EPS, required EBIT = ₹ 10.08 Lakhs. EPS at that level = ₹ 0.84

Note: Presentation of solution may differ.

(b) Computation of PV of Future Cash Flows

Year	Nature	Cash Flow	DF @ 12%	DCF
1	Dividends (₹ 100 × 20%)	20	0.893	17.86
2	Dividends (₹ 100 × 20%)	20	0.797	15.94
3	Dividends (₹ 100 × 20%)	20	0.712	14.24
4	Dividends (₹ 100 × 20%)	20	0.636	12.72
5	Dividends (₹ 100 × 1.2 × 20%)	24	0.567	13.61
6	Dividends (₹ 100 × 1.2 × 20%)	24	0.507	12.17
7	Dividends (₹ 100 × 1.2 × 20%)	24	0.452	10.85
7	Net Sale Proceeds (₹ 900 × 1.2 – 5%)	1,026	0.452	463.75

	Present Value of Cash Inflows			561.14
0	Less: Initial Investment (₹ 500 + 5%)	525	1	525.00
	Net Present Value			36.14

Note: At the end of Year 4, Anand will have 1.2 Share i.e. 1 Bought Share + 1/5th Bonus Share.

(c) i. No of Eq. Shares (before buyback) = Total Earnings (before buyback)/EPS

= 18,00,000/(270/18)

= 1,20,000 shares

ii. Buyback price = 270 + 10% premium = 297

iii. No of Eq. shares (after buyback) = 1,20,000 (-) 20,000 = 1,00,000 shares

iv. Total Book Value of Equity (after buyback) = 1,00,000 X 193.20 = 1,93,20,000

Now,

Total BV of Eq. (after buyback) = Total BV of Eq.(before buyback) (-) Amt of buyback

1,93,20,000 = x (-) (20,000 X 297)

Therefore x = Total BV (before buyback)

= 2,52,60,000

BV per share (before buyback) = 2,52,60,000 / 1,20,000

= 210.50 per share

2. (a) Evaluation of Factoring Proposal -

	PARTICULARS	**₹**	**₹**
(A)	**Savings (Benefit) to the firm**		
	Administration Cost	45,000	45,000
	Bad Debts Cost (On Recourse basis) In House – 75 lakhs X 1% Factoring – 75 lakhs X 0.5% **Net Savings in bad debts cost**	(75 lakhs X 0.5%)	37,500
	Cost of Carrying Debtors Cost	**(WN – 1)**	1,06,750
	TOTAL		**1,89,250**
(B)	**Cost to the Firm:**		

	Factor Commission [Annual credit Sales × % of Commission]	75 lakhs X 1.5%	1,12,500
	Interest Cost on Net advances	**(See WN – 1)**	53,100
	TOTAL		**1,65,600**
(C)	**Net Benefits to the Firm (A – B)**		**23,650**

Advice: Since the savings to the firm exceed the cost due to factoring, the proposal is acceptable.

WN-1 : Calculation of Savings in Interest Cost of Carrying Debtors

(I) In house Management:

Interest Cost = Credit Sales X Avg Collection Period / 360 X Interest (%) p.a

= 75,00,000 x 60/360 x 10%

= 1,25,000

(II) If Factoring services availed: If factoring services are availed, then Sukrut Limited must raise the funds blocked in receivables to the extent which is not funded by the factor (i.e amount of factor reserve **(+)** amount of factor commission for 30 days **(+)** 20% of net advances)

Calculation of Net Advances to the firm -

Debtors = 75 lakhs x 30/360 = 6,25,000

(-) Factor Reserve = 10% of above = (62,500)

(-) Factor Commission = 1.5% of Debtors = (9,375)

Net Advance = 5,53,125

Advance from Factor = 5,53,125 x 80% = 4,42,500

Int cost on Advance from Factor = 4,42,500 x 12% = 53,100

Now, the amount that is not funded by the factor (6,25,000 - 4,42,500) needs to be funded by Sukrut Limited from overdraft facility at 10%

Therefore, Int cost on Overdraft (Cost of carrying debtors) = **1,82,500 x 10% = 18,250**

Net Savings in Interest Cost of Carrying Debtors = 1,25,000 (-) 18,250 = 1,06,750

(b) Level of investment depends on the various factors listed below:

(a) Nature of Industry: Construction companies, breweries etc. requires large investment in working capital due long gestation period.

(b) Types of products: Consumer durable has large inventory as compared to perishable products.

(c) **Manufacturing Vs Trading Vs Service:** A manufacturing entity has to maintain three levels of inventory i.e. raw material, work-in-process and finished goods whereas a trading and a service entity has to maintain inventory only in the form of trading stock and consumables respectively.

(d) **Volume of sales:** Where the sales are high, there is a possibility of high receivables as well.

(e) **Credit policy:** An entity whose credit policy is liberal has not only high level of receivables but may require more capital to fund raw material purchases as that will depend on credit period allowed by suppliers.

3. (a) **WN-1 : Calculation of Cost of Debt (Kd)**

Approximation Method = $\frac{\text{Int (1-t)+(RV – NP)/N}}{\text{(RV + NP) / 2}}$

RV = 100 + 10% = 110, NP = 105 - 4% = 100.8

$= \frac{10\ (1-0.25)+(110 - 100.8)/10}{(110 + 100.8) / 2} = 7.99\%$

YTM Method:

CMP (Po) (-) Floatation Cost = {Int(1-t) × PVAF (r%,10years)} + {RV × PVIF (r%,10th Year)}

105 - 4% = {10 (1 – 0.25) × PVAF (r%,10 years)} + {110 × PVIF (r%,10th year)}

Using trial and error method, NPV at 5% & 10%

Year	Cash flows	Disc Factor @ 5%	PV (₹)	Disc Factor @ 10%	PV (₹)
0	-100.8	1	-100.8	1	-100.8
1 to 10	7.5	7.7217	57.91275	6.1446	46.0845
10	110	0.6139	67.529	0.3855	42.405
			24.64175		**-12.3105**

IRR = $5+\frac{24.64175}{24.64175-(-12.3105)}$ X (10-5) = **8.33%**

Therefore overall cost of debt (Kd) = (7.99 + 8.33) / 2 = 8.16%

WN-2 : Calculation of Cost of Preference (Kp)

Approximation Method = $\frac{\text{Pref. Div.+(RV – NP)/N}}{\text{(RV + NP) / 2}}$

RV = 100 NP = 115 - 2% = 112.7

$= \frac{12 +(100 - 112.7)/10}{(100 + 112.7) / 2}$ = **10.09%**

YTM Method:

CMP (Po) (-) Floatation Cost = {Pref Div × PVAF (r%,10years)} + {RV × PVIF (r%,10th Year)}

115 - 2% = {12 × PVAF (r%,10 years)} + {100 × PVIF (r%,10th year)}

Using trial and error method, NPV at 5% & 10%

Year	Cash flows	Disc Factor @ 5%	PV (₹)	Disc Factor @ 10%	PV (₹)
0	-112.7	1	-112.7	1	-112.7
1 to 10	12	7.7217	92.6604	6.1446	73.7352
10	100	0.6139	61.39	0.3855	38.55
			41.3504		**-0.4148**

IRR = $5+\frac{41.3504}{41.3504-(-0.4148)}$ X (10-5) = **9.95%**

Therefore, overall cost of debt (Kp) = (10.09 + 9.95) / 2 = 10.02%

WN-3 : Calculation of Cost of equity (Ke)

Ke = {D1 / (Po - Floatation)} + G

= {2+9% / 27 – 4.5} + 0.09

= 18.69%

Calculation of WACC using market value weights

Source of Capital	Working	Market Value	Weights	Cost (K)	WACC (Ko)
		(₹)	**(A)**	**(B)**	**(A x B)**
Equity	27 x 150000	40,50,000	0.7377	18.69	13.7877
Reserves	Included in equity	-	-	-	-
Preference	115 x 7500	8,62,500	0.1571	10.02	1.5741
Debentures	105 x 5500	5,77,500	0.1052	8.16	0.8584
		54,90,000	**1**		**16.22%**

WACC (Ko) = 16.22%

(b) Change in Reserve & Surplus = ₹ 25, 00,000 – ₹ 20,00,000 = ₹ 5,00,000

So, Net profit = ₹ 5, 00,000

(i) Net Profit Ratio = 8%

$\therefore$ Sales = $\frac{5,00,000}{8\%}$ = ₹ 62,50,000

(ii) Cost of Goods sold

= Sales – Gross profit Margin

= ₹ 62, 50,000 – 20% of ₹ 62, 50,000

= ₹ 50, 00,000

(iii) Fixed Assets = $\frac{₹\ 30,00,000}{40\%} = ₹\ 75,00,000$

(iv) Stock = $\frac{\text{Cost of Goods Sold}}{\text{STR}} = \frac{50,00,000}{4} = ₹\ 12,50,000$

(v) Debtors = $\frac{62,50,000}{360} \times 90 = ₹\ 15,62,500$

(vi) Cash Equivalent = $\frac{50,00,000}{12} \times 1.5 = ₹\ 6,25,000$

Balance Sheet as on 31st March 2024

Liabilities	(₹)	Assets	(₹)
Share Capital	50,00,000	Fixed Assets	75,00,000
Reserve and Surplus	25,00,000	Sundry Debtors	15,62,500
Long-term loan	30,00,000	Closing Stock	12,50,000
Sundry Creditors (Balancing Figure)	4,37,500	Cash in hand	6,25,000
	1,09,37,500		1,09,37,500

4. (a) Though in a sole proprietorship firm, partnership etc., owners participate in management but in corporates, owners are not active in management so, there is a separation between owner/ shareholders and managers. In theory managers should act in the best interest of shareholders however in reality, managers may try to maximise their individual goal like salary, perks etc., so there is a **principal agent relationship between managers and owners, which is known as Agency Problem**. In a nutshell, Agency Problem is the chances that managers may place personal goals ahead of the goal of owners. Agency Problem leads to Agency Cost. Agency cost is the additional cost borne by the shareholders to monitor the manager and control their behaviour so as to maximise shareholders wealth. Generally, Agency Costs are of four types (i) monitoring (ii) bonding (iii) opportunity (iv) structuring.

Addressing the agency problem

The agency problem arises if manager's interests are not aligned to the interests of the debt lender and equity investors. The agency problem of debt lender would be addressed by imposing negative covenants i.e. the managers cannot borrow beyond a point. This is one of the most important concepts of modern day finance and the application of this would be applied in the Credit Risk Management of Bank, Fund Raising, Valuing distressed companies.

Agency problem between the managers and shareholders can be addressed if the interests of the managers are aligned to the interests of the share- holders. It is easier said than done.

However, following efforts have been made to address these issues:

- Managerial compensation is linked to profit of the company to some extent and also with the long term objectives of the company.
- Employee is also designed to address the issue with the underlying assumption that maximisation of the stock price is the objective of the investors.
- Effecting monitoring can be done.

(b) **(i)** **Sales and Lease Back:** Under this type of lease, the owner of an asset sells the asset to a party (the buyer), who in turn leases back the same asset to the owner in consideration of a lease rentals. Under this arrangement, the asset is not physically exchanged but it all happen in records only. The main advantage of this method is that the lessee can satisfy himself completely regarding the quality of an asset and after possession of the asset convert the sale into a lease agreement.

Under this transaction, the seller assumes the role of lessee (as the same asset which he has sold came back to him in the form of lease) and the buyer assumes the role of a lessor (as asset purchased by him was leased back to the seller). So, the seller gets the agreed selling price and the buyer gets the lease rentals.

(ii) **Leveraged Lease:** Under this lease, a third party is involved besides lessor and the lessee. The lessor borrows a part of the purchase cost (say 80%) of the asset from the third party i.e., lender and asset so purchased is held as security against the loan. The lender is paid off from the lease rentals directly by the lessee and the surplus after meeting the claims of the lender goes to the lessor. The lessor is entitled to claim depreciation allowance.

(iii) **Sales-aid Lease:** Under this lease contract, the lessor enters into a tie up with a manufacturer for marketing the latter’s product through his own leasing operations, it is called a sales-aid lease. In consideration of the aid in sales, the manufacturer may grant either credit or a commission to the lessor. Thus, the lessor earns from both sources i.e. From lessee as well as the manufacturer.

(iv) **Close-ended and Open-ended Leases:** In the close-ended lease, the assets get transferred to the lessor at the end of lease, the risk of obsolescence, residual value etc., remain with the lessor being the legal owner of the asset. In the open-ended lease, the lessee has the option of purchasing the asset at the end of the lease period.

(c) The basic objective of financial management is to design an appropriate capital structure which can provide the highest wealth, i.e., highest MPS, which in turn depends on EPS.

Given a level of EBIT, EPS will be different under different financing mix depending upon the extent of debt financing. The effect of leverage on the EPS emerges because of the existence of fixed financial charge i.e., interest on debt, financial fixed dividend on preference share capital. The effect of fixed financial charge on the EPS depends upon the relationship between the rate of return on assets and the rate of fixed charge. If the rate of return on assets is higher than the cost of financing, then the increasing use of fixed charge financing (i.e., debt and preference share capital) will result in increase in the EPS. This situation is also known as favourable financial leverage or Trading on Equity. On the other hand, if the rate of return on assets is less than the cost of financing, then the effect may be negative and, therefore, the increasing use of debt and preference share capital may reduce the EPS of the firm.

The fixed financial charge financing may further be analysed with reference to the choice between the debt financing and the issue of preference shares. Theoretically, the choice is tilted in favour of debt financing for two reasons: (i) the explicit cost of debt financing i.e., the rate of interest payable on debt instruments or loans is generally lower than the rate of fixed dividend payable on preference shares, and (ii) interest on debt financing is tax-deductible and therefore the real cost (after-tax) is lower than the cost of preference share capital.

OR

(c) When the cost of 'fixed cost fund' is less than the return on investment, financial leverage will help to increase return on equity and EPS. The firm will also benefit from the saving of tax on interest on debts etc. However, when cost of debt will be more than the return it will affect return of equity and EPS unfavourably and as a result firm can be under financial distress. Therefore, financial leverage is also known as "**double edged sword".**

Effect on EPS and ROE:

When, ROI > Interest – Favourable – Advantage

When, ROI < Interest – Unfavourable – Disadvantage

When, ROI = Interest – Neutral – Neither advantage nor disadvantage

PAPER 6B: STRATEGIC MANAGEMENT

ANSWERS

PART I

1. (A)	(i)	(c)	(ii)	(b)	(iii)	(c)	(iv)	(a)	(v)	(c)
1. (B)	(i)	(a)	(ii)	(c)	(iii)	(a)				

PART II

1. (a) The collaboration between TechNova, a software development firm, and ElectroWave, an electronics and hardware manufacturing company, represents a **co-generic merger**. This type of external growth strategy involves the merger of companies from related but non-competing industries, allowing them to leverage complementary strengths and diversify their product offerings.

TechNova specializes in creating cutting-edge software, while ElectroWave focuses on manufacturing advanced electronic devices. By joining forces, they can combine their expertise to design innovative laptops and smartphones, creating products that neither company could have developed as effectively on their own. This strategic partnership allows them to enter new markets, enhance their competitive advantage, and explore synergies between software and hardware.

The co-generic merger provides significant opportunities for both companies to capitalize on shared technologies, streamline their operations, and expand their customer base. It is a strategic move that enables them to diversify while maintaining a strong focus on their core competencies, ultimately helping them to grow and compete more effectively in the global market.

(b) Vikram Patel is facing declining sales due to a significant shift of customers toward online platforms. Although he employs strategic management tools, they cannot always overcome every obstacle or guarantee success. The limitations of strategic management in Vikram's situation include:

- The environment in which strategies are developed is highly complex and unpredictable. The entry of online bookstores, a new type of competitor, introduced a different dynamic to the book retail industry. These online platforms, with their extensive reach and pricing power, have dominated the market, posing a formidable challenge to traditional bookstores.
- Another limitation of strategic management is the difficulty in forecasting future developments. Despite his strategic management efforts, Vikram Patel did not anticipate the extent to which online bookstores would impact his sales.
- While strategic management is a time-consuming process, it is crucial for Vikram to continue managing strategically. These

challenging times demand increased effort and adaptability on his part.

- Strategic management can be costly. Vikram Patel might consider hiring experts to understand customer preferences better and adjust his strategies to offer more personalized services. These customized offerings could be difficult for online stores to replicate, giving him a competitive edge.
- The bookstores owned by Vikram Patel are much smaller in scale compared to online stores. This makes it challenging for him to predict how online platforms will manoeuvre strategically.

(c) 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.

2. (a) As industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace – the particular strategy elements, product attributes, resources, competencies, competitive capabilities and business outcomes that spell the difference between profit & loss and ultimately, between competitive success or failure. KSFs by their very nature are so important that all firms in the industry must pay close attention to them. They are the prerequisites for industry success, or, to put it in another way, KSFs are the rules that shape whether a company will be financially and competitively successful.

(b) 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.

3. (a) A strategic vision serves as a roadmap for a company's future, detailing the specifics of technology, customer focus, geographic and product markets, and the capabilities the organization aims to develop. It answers the critical question, "Where are we going?" and provides a compelling rationale for the chosen direction, ensuring it aligns with the company's long-term objectives.

A strategic vision outlines the organization's aspirations, offering a broad, panoramic view of where it aims to be. It provides a clear direction, charts a strategic path for future endeavors, and helps in shaping the organizational identity.

Essentials of a strategic vision

- The entrepreneurial challenge in developing a strategic vision is **to think creatively about how to prepare a company for the future.**
- Forming a strategic vision is **an exercise in intelligent entrepreneurship**.
- A well-articulated strategic vision **creates enthusiasm among the members of the organization.**
- The best-worded vision statement **clearly illuminates the direction** in which organization is headed.

(b) The strategy in question is the **growth/expansion** strategy.

The Growth/Expansion strategy involves redefining the business, expanding its scope, and significantly increasing investments. This dynamic and vigorous approach is synonymous with promise and

success. It entails a substantial reformulation of goals, major initiatives, and strategic moves, including investments, exploration into new products, technologies, and markets, and innovative decision-making. While promising growth, this strategy navigates the enterprise through relatively unknown and risky paths, rich with potential but also pitfalls.

Major Reasons for Adopting Growth/Expansion Strategy:

- It may become imperative when environment demands increase in pace of activity.
- Strategists may feel more satisfied with the prospects of growth from expansion; chief executives may take pride in presiding over organizations perceived to be growth-oriented.
- Expansion may lead to greater control over the market vis-a-vis competitors.
- Advantages from the experience curve and scale of operations may accrue.
- Expansion also includes intensifying, diversifying, acquiring and merging businesses.

4. (a) **Implementation or execution** is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. In most situations, strategy-execution process includes the following principal aspects:

- ♦ **Developing budgets** that steer ample resources into those activities that are critical to strategic success.
- ♦ **Staffing the organization with the needed skills and expertise**, consciously building and strengthening strategy-supportive competencies and competitive capabilities and organizing the work effort.
- ♦ **Ensuring that policies and operating procedures facilitate** rather than impede effective execution.
- ♦ **Using the best-known practices to perform core business activities** and pushing for continuous improvement.
- ♦ **Installing information and operating systems** that enable company personnel to better carry out their strategic roles day in and day out.
- ♦ **Motivating people to pursue the target objectives energetically.**
- ♦ **Creating culture and climate conducive** to successful strategy implementation and execution.
- ♦ **Exerting the internal leadership** needed to drive implementation forward and keep improving strategy execution.

(b) The PESTLE framework assists in analyzing the macro-environment by systematically evaluating six external factors that impact an organization's operations and strategy.

1. **Political Factors:** This includes government policies, regulations, political stability, and taxation. Understanding these factors helps organizations anticipate regulatory changes and government interventions that could affect their business environment.

2. **Economic Factors:** This involves assessing economic conditions such as interest rates, inflation, exchange rates, and economic growth. These factors influence business costs, consumer purchasing power, and overall market conditions.

3. **Social Factors:** This examines demographic trends, lifestyle changes, cultural norms, and consumer attitudes. Insights into social factors help businesses align their products and services with evolving consumer preferences and societal trends.

4. **Technological Factors:** This includes technological advancements, innovation rates, and technological infrastructure. These factors impact production processes, product development, and competitive positioning.

5. **Legal Factors:** This involves understanding business laws, employment regulations, health and safety standards, and compliance requirements. Legal factors are crucial for ensuring regulatory compliance and avoiding legal risks.

6. **Environmental Factors:** This covers ecological issues, sustainability practices, and environmental regulations. Awareness of environmental factors helps businesses adapt to climate change and meet sustainability goals.

   By analyzing these factors, the PESTLE framework provides a comprehensive understanding of the macro-environment, helping organizations anticipate changes, adapt strategies, and make informed decisions.

OR

A tool to identify the market positions of rival companies by grouping them into like positions is ***strategic group mapping.*** A strategic group consists of those rival firms which have similar competitive approaches and positions in the market.

The **procedure for constructing a strategic group map** and deciding which firms belong in which strategic group are as follows:

1. **Identify the competitive characteristics** that differentiate firms in the industry typical variables that are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).

2. **Plot the firms on a two-variable map** using pairs of these differentiating characteristics.
3. **Assign firms that fall in about the same strategy space** to the same strategic group.
4. **Draw circles around each strategic group** making the circles proportional to the size of the group's respective share of total industry sales revenues.