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INTERMEDIATE: GROUP – II

PAPER – 6: FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A : FINANCIAL MANAGEMENT

Suggested Answers/ Hints

DIVISION A

Case Scenario 1

1. **(c) Ke = 12%,**

2. **(d) Kd = 6%**

Working Note:

Let the cost of equity be 'X' and cost of debt be 'Y'

WACC under BV

Item	Cost	Weight	Product
Equity	X	20 Lakhs /30 Lakhs = 2/3	$\frac{2X}{3}$
Debt	Y	10 Lakhs /30 Lakhs = 1/3	$\frac{Y}{3}$
		1	**10%**

$10 = \frac{2X}{3} + \frac{Y}{3}$

$30 = 2X + Y$ ....(1)

WACC under MV

Item	Cost	Weight	Product
Equity	X	60 Lakhs /80 Lakhs = 3/4	$\frac{3X}{4}$
Debt	Y	20 Lakhs /80 Lakhs = 1/4	$\frac{Y}{4}$
		1	**10.5%**

10.5 $= \frac{3X}{4} + \frac{Y}{4}$

42 = 3X + Y ....(2)

By Solving both equations

42 = 3X + Y

30 = 2X + Y

Cost of equity (X) = 12%

Substituting in Equation 1,

30 = 24 + Y

Cost of Debt (Y) = 6%

3. (c) ₹ 1.14 lakhs

Statement Showing Calculation of Cash Inflows

Particulars	Year 1	Year 2	Year 3
Cash Inflows (before dep & tax)	8.00	9.00	10.00
Less: Depreciation	6.00	6.00	6.00
Profit Before Tax (PBT)	2.00	3.00	4.00
Less: Tax @ 25%	0.50	0.75	1.00
Profit After Tax (PAT)	1.50	2.25	3.00
Add: Depreciation	6.00	6.00	6.00
Operating Cash Flow	**7.50**	**8.25**	**9.00**
Add: Salvage Value	–	–	2.00
Add: Working Capital Recovery	–	–	3.00
Total Cash Inflow	**7.50**	**8.25**	**14.00**

Investment rate = (6% / 0.75) + 2% = 10%

Statement showing calculation of PV

Year	CF	PV Factor @ 10%	PV (₹ in lakhs)
0	23	1	23
1	7.50	0.909	6.82
2	8.25	0.826	6.81
3	14.00	0.751	10.51
NPV			**1.14**

4. (a) 1.05

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

= 24.14 / 23

= 1.05 (approx)

5. (d) 2.89 years

Year	Discounted cash inflows	Cumulative Discounted cash inflows
1	6.82	6.82
2	6.81	13.63
3	10.51	24.14

$$\text{Discounted Payback Period} = 2 \text{ years} + \left(\frac{23 - 13.63}{10.51}\right) = 2.89 \text{ years}$$

6. (b) 1.25

$$\text{Capital gearing ratio} = \frac{\text{(Pref share capital + Debentures + Other borrowed funds)}}{\text{Equity Share Capital + Reserves and Surplus - Losses}}$$

$$= \frac{₹\ 25 \text{ lakhs} + ₹\ 50 \text{ lakhs} + ₹\ 15 \text{ lakhs}}{₹\ 48 \text{ lakhs} + ₹\ 24 \text{ lakhs}}$$

= ₹ 90 lakhs / ₹ 72 lakhs = 1.25

7. (a) ₹ 1,200

As per Walter's Model, Price per share is computed using the formula:

$$\text{Price (P)} = \frac{D + \frac{r}{Ke}(E-D)}{K_e}$$

Where,

E = Earnings per share.

D = Dividend per share.

K_e = Cost of equity/ rate of capitalization/ discount rate.

r = Internal rate of return/ return on investment

$$\text{Price} \quad P = \frac{45 + \frac{0.20}{0.17}(180-45)}{0.17}$$

Or, $P = \frac{45 + 158.82}{0.17}$ = ₹ 1,200 (approx.)

8. (c) **ROI is greater than interest on loan funds and hence it has favourable financial leverage.**

EBIT = 75,00,000 - 42,00,000 - 6,00,000 = 27,00,000,

ROI = 27,00,000/(45,00,000 + 55,00,000) = 27%,

Rate of Interest lower than Return on investment.

Therefore, there is favourable leverage.

Division B: Descriptive Question

1. (a) (i) **Operating Expenses**

Net Profit = 8% on Sales = 8% x ₹ 3,60,00,000	₹ 28,80,000
Add: Income Tax = 40% x ₹ 28,80,000/60%	₹ 19,20,000
Profit Before tax	₹ 48,00,000
Add: Debenture Interest	₹ 3,36,000
Profit before interest and tax	₹ 51,36,000
Sales	₹ 3,60,00,000
Less:	
Cost of goods sold ₹ 1,44,00,000	
Profit before interest & tax ₹ 51,36,000	₹ 1,95,36,000
Operating Expenses	₹ 1,64,64,000

(ii) **Share Capital and Reserves**

Return on Net worth is 30%, hence profit after tax of ₹28,80,000 is equivalent to 30% of Net Worth.

Net worth x 30/100 = ₹ 28,80,000

Net Worth = 28,80,000 x 100/30

= ₹ 96,00,000

Ratio of Share Capital to Reserves = 6:4

Share Capital = ₹ 96,00,000 x 6/10 = ₹ 57,60,000

Reserves = ₹ 96,00,000 x 4/10 = ₹ 38,40,000

(iii) Closing Stock

Inventory Turnover (based on cost of goods sold) = 12

Cost of goods sold = ₹ 1,44,00,000

Inventory Turnover Ratio = Cost of goods sold / Closing Stock = 12

12 = ₹ 1,44,00,000/Closing Stock

Therefore, Closing Stock = ₹ 1,44,00,000/12

= ₹ 12,00,000

(iv) Fixed Assets

Calculation of Total liabilities

Interest on 14 % Debentures = ₹ 3,36,000

Therefore debentures $= \frac{₹ 3,36,000 \times 100}{14\%}$

= ₹ 24,00,000

Total of Liabilities Side

Share Capital	₹ 57,60,000
Reserves	₹ 38,40,000
Debentures	₹ 24,00,000
Sundry Creditors	₹ 16,00,000
Total Liabilities	₹ 1,36,00,000

Current Ratio = 2:1

Sundry Creditors = ₹ 16,00,000

Current Assets / Current Liabilities = 2

Current Assets / Sundry Creditors = 2

Current Assets /₹16,00,000 = 2

Current Assets = 2 x ₹ 16,00,000

= ₹ 32,00,000

Fixed Assets = Total Liabilities – Current Assets

= ₹ 1,36,00,000 - ₹ 32,00,000

= ₹ 1,04,00,000

(b) **(i)** According to CAPM

Rs = Rf + Beta x RP

15.20 = Rf + 1.2Rp …..(1)

12.80 = Rf + 0.8Rp …..(2)

By solving, 0.4Rp = 2.4.

So Risk Premium = 6%

Substituting in Eqn. 1

15.20 = Rf + 1.2*6%

Rf = 15.20 – 7.20 = 8%

Hence, Risk Free Return = 8%

Rp = Rm – Rf

6 = Rm – 8%

Rm = 14%

Rs (C Ltd.) = 8% + 1.1 x 6% = 14.6%

Security	Beta	CAPM Return
A Ltd	1.2	15.20%
B Ltd	0.8	12.80%
C Ltd	1.1	14.60%
Cash in hand	0	Nil
Treasury Bill	0	8.00%
Stock Market (Nifty)	1	14.00%

(ii) Risk-averse investors may prefer securities with low Beta (<1) i.e. B Ltd. Aggressive investors may choose high Beta (>1) securities for higher potential returns i.e. A or C Ltd.

(c) **Option I : Purchase Machinery and Service Part at the end of Year 1.**

Net Present value of cash flow @ 10% per annum discount rate.

$$NPV = -50{,}000 + \frac{18{,}000}{(1.1)} + \frac{18{,}000}{(1.1)^2} + \frac{18{,}000}{(1.1)^3} - \frac{10{,}000}{(1.1)} + \frac{12{,}500}{(1.1)^3}$$

$= -50{,}000 + 18{,}000\ (0.9091 + 0.8264 + 0.7513) - (10{,}000 \times 0.9091) + (12{,}500 \times 0.7513)$

$= -50{,}000 + (18{,}000 \times 2.4868) - 9{,}091 + 9{,}391$

$= -50{,}000 + 44{,}762 - 9{,}091 + 9{,}391$

NPV $= -4{,}938$

Since, Net Present Value is negative; therefore, this option is not to be considered.

If Supplier gives a discount of ₹ 5,000 then,

NPV = +5,000 – 4,938 = + 62

In this case, Net Present Value is positive but very small; therefore, this option may not be advisable.

Option II : Purchase Machinery and Replace Part at the end of Year 2.

$$\text{NPV} = -50{,}000 + \frac{18{,}000}{(1.1)} + \frac{18{,}000}{(1.1)^2} + \frac{18{,}000}{(1.1)^3} - \frac{15{,}400}{(1.1)^2} + \frac{27{,}000}{(1.1)^4}$$

$= -50{,}000 + 18{,}000\ (0.9091 + 0.8264 + 0.7513) - (15{,}400 \times 0.8264) + (27{,}000 \times 0.6830)$

$= -50{,}000 + 18{,}000\ (2.4868) - (15{,}400 \times 0.8264) + (27{,}000 \times 0.6830)$

$= -50{,}000 + 44{,}762 - (15{,}400 \times 0.8264) + (27{,}000 \times 0.6830)$

$= -50{,}000 + 44{,}762 - 12{,}727 + 18{,}441$

$= -62{,}727 + 63{,}203 = +476$

Net Present Value is positive, but very low as compared to the investment.

If the Supplier gives a discount of ₹ 5,000, then

NPV = 5,000 + 476 = 5,476

Decision: Option II is worth investing as the net present value is positive and higher as compared to Option I.

2. (a) Market Value of Equity = ₹ 25,00,000

$K_e = 21\%$

$$\frac{\text{Net income (NI) for equity - holders}}{K_e} = \text{Market Value of Equity}$$

$$\frac{\text{Net income (NI) for equity holders}}{0.21} = 25,00,000$$

Net income for equity holders = 5,25,000

EBIT= 5,25,000/0.7 = 7,50,000

	All Equity	Debt and Equity
EBIT	7,50,000	7,50,000
Interest to debt-holders	-	75,000
EBT	7,50,000	6,75,000
Taxes (30%)	2,25,000	2,02,500
Income available to equity shareholders	5,25,000	4,72,500
Income to debt holders plus income available to shareholders	5,25,000	5,47,500

Present value of tax-shield benefits = ₹ 5,00,000 × 0.30 = ₹ 1,50,000

(i) Value of Restructured firm

= ₹ 25,00,000 + ₹ 1,50,000 = ₹ 26,50,000

(ii) Cost of Equity (K_e)

Total Value = ₹ 26,50,000

Less: Value of Debt = ₹ 5,00,000

Value of Equity = ₹ 21,50,000

$$K_e = \frac{4,72,500}{21,50,000} = 0.219 = 21.98\%$$

(iii) WACC (on market value weight)

Cost of Debt (after tax) = 15% (1- 0.3) = 0.15 (0.70) = 0.105 = 10.5%

Components of Costs	Amount	Cost of Capital (%)	Weight	WACC (%)
Equity	21,50,000	21.98	0.81	17.80
Debt	5,00,000	10.50	0.19	2.00
	26,50,000			19.80

Comment: At present the company is all equity financed. So, $K_e = K_o$ i.e. 21%. However, after restructuring, the K_o would be reduced to 19.80% and K_e would increase from 21% to 21.98%.

(b) **(i)** ROI = EBIT/Investment

EBIT = Sales - VC – FC

= ₹ 1,50,00,000 – 84,00,000 – 12,00,000

= ₹ 54,00,000

ROI = ₹ 54,00,000/₹ 2,00,00,000 = 27%

(ii) Operating Leverage $= \frac{\text{Contribution}}{\text{EBIT}} = \frac{₹\,66,00,000}{₹\,54,00,000} = 1.222 \text{ times}$

Financial Leverage $= \frac{\text{EBIT}}{\text{EBT}} = \frac{₹54,00,000}{₹45,00,000} = 1.2 \text{ times}$

(iii) Combined Leverage = OL × FL = 1.222 × 1.2 = 1.466 times.

(iv) Operating Leverage = 1.222

$$1.222 = \frac{\Delta \text{ EBIT}}{1/3}$$

$$\Delta \text{ EBIT} = 0.4074$$

New EBIT = ₹ 54,00,000 – 40.74% of 54,00,000

= ₹ 32,00,000

3. **(i)** **(a)** Total cost involved in the collection would include bad debts, cash discount & administration cost i.e. Cost of Carrying debtors

WN – 1 Calculation of Bad debts:

= 4,06,500 x 1.5% + 5,21,200 x 3% + 2,00,000 x 15%

= 6,098 + 15,636 + 30,000

= ₹ 51,734

WN – 2 Calculation of Cash Discount:

= (9,94,100 x 50%) x 2% = ₹ 9,941

WN – 3 Calculation of Interest Income charged on account of delayed payment:

	Amount
Total Invoice value for 31 – 60 days	4,06,500
Less: Bad debts @ 1.5%	(6,098)
	4,00,402

40% of above (payment after 45th day but within 60th day)	1,60,161
Interest @ 2% (160161 x 2%)	**3,203**

	Amount
Total Invoice value for 61 – 90 days	5,21,200
Less: Bad debts @ 3%	(15,636)
	5,05,564
25% of above (payment after 75th day but within 90th day)	1,26,391
Interest @ 4% (126391 x 4%)	**5,056**

∴ Total Interest Income = 3,203 + 5,056 = ₹ 8,259

Operating Cost of Sales = 21,21,800 x 0.75 = ₹ 15,91,350

Effective Cost of Debtors Policy

$$= \frac{\text{Bad debts} + \text{Cash discount} + \text{Administration Cost} - \text{Interest Charged Received}}{\text{Operating Cost of Sales}}$$

$$= \frac{51{,}734 + 9{,}941 + 50{,}000 - 8{,}259}{15{,}91{,}350}$$

∴ Effective Cost of Debtors Policy = 6.50%

Notes -

i. In absence of information on Opportunity Rate of return on Investment, Opportunity Cost of Investment in receivables is not calculated.

(ii) There are basically three aspects of management of receivables:

1. ***Credit Policy:*** A balanced credit policy should be determined for effective management of receivables. Decision of Credit standards, Credit terms and collection efforts is included in Credit policy. It involves a trade-off between the profits on additional sales that arise due to credit being extended on the one hand and the cost of carrying those debtors and bad debt losses on the other. This seeks to decide credit period, cash discount and other relevant matters.

2. ***Credit Analysis:*** This requires the finance manager to determine as to how risky it is to advance credit to a particular party. This involves due diligence or reputation check of the customers with respect to their credit worthiness.

3. ***Control of Receivable:*** This requires finance manager to follow up debtors and decide about a suitable credit collection policy. It involves both laying down of credit policies and execution of such policies.

4. (a) "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.

(b) Various types of Preference shares can be as below:

Sl. No.	Type of Preference Shares	Salient Features
1	Cumulative	Arrear Dividend will accumulate.
2	Non-cumulative	No right to arrear dividend.
3	Redeemable	Redemption should be done.
4	Participating	Can participate in the surplus which remains after payment to equity shareholders.
5	Non-Participating	Cannot participate in the surplus after payment of fixed rate of Dividend.
6	Convertible	Option of converting into equity Shares.

(c) A combination of low DOL and high DFL is considered the best balanced combination of risk.

- Low DOL indicates lower operating (business) risk and higher EBIT
- High DFL indicates higher financial risk due to the use of debt.

This combination is suitable because the Higher financial risk is balanced by lower total business risk, resulting in a moderate and well-balanced total risk.

OR

(c) 1. Managers first choice is to use internal finance.

2. In absence of internal finance, they can use secured debt, unsecured debt, hybrid debt etc.

3. Managers may issue new equity shares as a last option.

PAPER 6B: STRATEGIC MANAGEMENT

ANSWERS

PART I

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

PART II PART II – Descriptive Questions

1. **(a)** The strategic analyst can use **Strategic Group Mapping** to analyse the competitive positioning of smartphone companies based on **price range** and **product features** as follows:

Steps to use Strategic Group Mapping:

1. **Identify key variables:** Select relevant competitive dimensions such as **price (low to high)** and **product features (basic to advanced)**.
2. **Plot companies on a graph:** Position each smartphone company on a two-dimensional map using these variables.
3. **Form strategic groups:** Companies with similar strategies (e.g., high price–high features or low price–basic features) will cluster together forming strategic groups.
4. **Represent market share:** The size of each group (circle) may indicate the **market share** of firms within that group.

Insights derived from the map:

- Helps in understanding the **competitive positioning** of firms in the industry.
- Identifies **direct competitors** within the same strategic group.
- Reveals **market gaps or opportunities** (e.g., underserved segments).
- Highlights **mobility barriers** between groups (e.g., difficulty in moving from low-end to premium segment).
- Assists in analysing the **intensity of competition** within and across groups.

Thus, Strategic Group Mapping provides a visual and analytical tool for better strategic decision-making in the smartphone industry.

(b) PQR Ltd. has planned to implement the Strategic Business Unit (SBU) structure. Very large organisations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units. SBU structure becomes imperative in an organisation with an increase in number, size and diversity.

The attributes of an SBU and the benefits a firm may derive by using the SBU Structure are as follows:

- A scientific method of grouping the businesses of a multi – business corporation which helps the firm in strategic planning.
- An improvement over the territorial grouping of businesses and strategic planning based on territorial units.
- Strategic planning for SBU is distinct from rest of businesses. Products/ businesses within an SBU receive same strategic planning treatment and priorities.
- Each SBU will have its own distinct set of competitors and its own distinct strategy.
- The CEO of SBU will be responsible for strategic planning for SBU and its profit performance.
- Products/businesses that are related from the standpoint of function are assembled together as a distinct SBU.
- Unrelated products/ businesses in any group are separated into separate SBUs.
- Grouping the businesses on SBU lines helps in strategic planning by removing the vagueness and confusion.
- Each SBU is a separate business and will be distinct from one another on the basis of mission, objectives etc.

(c) The strategy adopted by **GreenHarvest Foods** is **Diversification**. Diversification refers to a growth strategy where a company introduces **new products in new markets**. In the given case, GreenHarvest Foods is entering **international markets (new markets)** and simultaneously offering **region-specific organic products (new products)** tailored to local tastes and preferences.

This indicates that the company is not only expanding geographically but also modifying and innovating its product offerings to suit different customer segments across countries.

Diversification is considered the **most risky strategy** in Ansoff's Product-Market Growth Matrix as it involves operating in unfamiliar markets and dealing with new customer preferences, regulatory environments, and competitive dynamics. However, it also offers **high growth potential** by creating new revenue streams and reducing dependence on existing markets. Thus, GreenHarvest Foods' approach clearly reflects a **diversification strategy**.

2. (a) Strategic Management is a dynamic process of formulation, implementation, evaluation and control of strategies to realise the organisation's **strategic intent.** Strategic intent clarifies *what the organisation wants to do* and *why it wants to do it*, which forms the basis of **vision and mission statements.**

A **vision statement** describes the organisation's future aspirations and desired position while a **mission statement** explains its present business scope, purpose, goals and the means to achieve them. Together, they provide **direction and purpose** in strategic planning.

Significance of Vision in Strategic Planning:

- Provides a blueprint of where the organisation wants to be.
- Aligns organisational efforts on a chosen path.
- Creates enthusiasm and mould's identity.
- Clarifies aspirations in products, markets, customers and technology.

Significance of Mission in Strategic Planning:

- Explains the reason for the firm's existence.
- Ensures unanimity of purpose and efficient resource use.
- Standard for allocation and goal translation.
- Gives distinct identity and direction.
- Reflects present activities and ensures legitimacy.

Thus, a well-defined vision and mission provide clarity of purpose, direction for growth and a framework for decision-making. Vision answers, *"where we want to go,"* and mission answers *"what business we are in and why we exist."* Together, they form the philosophical base of strategy and guide the organisation toward long-term success.

(b) The term **business environment** refers to all **external factors, influences, or situations that** in some way **affect business decisions, plans, and operations.** It is highly dynamic and continuously evolving. Organizational success depends not only on its internal abilities but also on its relationship with the external environment.

Interaction between Business and Environment: A close and continuous interaction strengthens the business firm and enables effective utilization of resources in the following ways:

i. **Determine opportunities and threats:** The interaction between the business and its environment would explain opportunities and threats to the business. It helps to find new needs and wants of the consumers, changes in laws, changes in social behaviours and tells what new products the competitors are bringing in the market to attract consumers.

ii. **Give direction for growth:** The interaction with the environment enables the business to identify the areas for growth and expansion of their activities. Once the business is aware and understands the changes happening around, it can plan and strategies to have successful business.

iii. **Continuous Learning:** The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in the realm of business.

iv. **Image Building:** Environmental understanding helps the business organizations to improve their image by showing their sensitivity to the environment in which they operate.

v. **Meeting Competition:** It helps the businesses to analyse the competitors' strategies and formulate their own strategies accordingly. The idea is to flourish and beat competition for its products and services.

3. (a) Key Strategic Drivers of an Organization

Strategic drivers are essential elements that influence an organization's ability to differentiate itself from its competitors and achieve competitive advantage. These drivers assess the current performance of the business and provide insights into areas that need focus. The key strategic drivers include:

1. **Industry and Markets:** Understanding the industry and markets is crucial for identifying the organization's relative position. Industries group similar companies based on their primary products, while markets are defined by the buyers and sellers of these products. Analyzing industry and market

dynamics, often through tools like strategic group mapping, helps organizations evaluate competition and refine strategies.

2. **Customers:** Identifying and understanding customers is a critical driver. Customers are segmented based on their needs and spending capacity, which guides product development and marketing strategies. Differentiating between customers (buyers) and consumers (users) is vital to tailoring pricing, design, and usability strategies effectively.

3. **Products and Services:** Products and services are central to defining the business. Organizations must assess their offerings, classify products, and devise strategies for differentiation, branding, and pricing. Product innovation and marketing are key to maintaining competitiveness.

4. **Channels:** The channels through which products and services are delivered impact on accessibility and customer satisfaction. Strategies related to direct, digital, or relationship-based marketing ensure the efficient distribution of offerings to target customers.

By aligning these drivers with organizational goals, businesses can achieve sustained growth and maintain a competitive edge.

(b) Internationalization has become a pivotal trend for businesses aiming to enhance profitability and access cheaper resources. **It allows companies to explore new markets, achieve economies of scale, and prolong product lifecycles.** However, the process of internationalization is complex due to additional variables and linkages that differ from domestic operations.

To navigate this complexity, businesses should adopt a structured approach to international strategic planning. The steps involved include:

1. **Evaluate Global Opportunities and Threats:** Businesses must assess potential global markets, identifying opportunities and threats while aligning them with their internal capabilities.

2. **Describe the Scope of Operations:** Clearly defining the extent of the firm's international commercial activities is crucial for focused strategy development.

3. **Create Global Business Objectives:** Establishing clear objectives helps guide the organization's international efforts and aligns with its overall mission.

4. **Develop Distinct Corporate Strategies:** Formulating specific strategies tailored for global operations ensures that the organization can effectively compete in diverse markets.

These steps facilitate the identification of market opportunities and the formulation of effective global strategies, enabling businesses to thrive in the international arena despite the inherent challenges and costs associated with such expansion.

4. **(a)** The Ansoff's Product Market Growth Matrix, developed by Igor Ansoff, is a strategic tool that helps businesses identify growth opportunities by analyzing the interplay between products and markets.

It offers four distinct strategies based on whether the products and markets are existing or new. These strategies are:

1. **Market Penetration**: Focuses on selling existing products in existing markets. This involves increasing market share by enhancing sales through advertising, promotions, competitive pricing, or encouraging higher usage among current customers.
2. **Market Development**: Entails selling existing products in new markets. This could involve exploring new geographical regions, utilizing alternative distribution channels, or creating new market segments.
3. **Product Development**: Involves introducing new or modified products into existing markets. This strategy often requires innovation and developing products that meet current market needs.
4. **Diversification**: Refers to marketing new products in new markets. It is a high-risk strategy as the business ventures into unfamiliar products and markets.

As market dynamics evolve, companies may transition between these strategies to adapt and sustain growth. The matrix provides a structured framework for businesses to align their growth strategies with their capabilities and market conditions.

(b) Strategic performance measures are essential for organizations for several reasons:

- **Goal Alignment:** Strategic performance measures help organizations align their strategies with their goals and objectives, ensuring that they are on track to achieve their desired outcomes.
- **Resource Allocation:** Strategic performance measures provide organizations with the information they need to make informed decisions about resource allocation, enabling them to prioritize their efforts and allocate resources to the areas that will have the greatest impact on their performance.

- **Continuous Improvement:** Strategic performance measures provide organizations with a framework for continuous improvement, enabling them to track their progress and make adjustments to improve their performance over time.
- **External Accountability:** Strategic performance measures help organizations demonstrate accountability to stakeholders, including shareholders, customers, and regulatory bodies, by providing a clear and transparent picture of their performance.

OR

Change management is essential during digital transformation to ensure the success of the process. Here are some key strategies to navigate change effectively:

- **Specify the digital transformation's aims and objectives:** Clearly defining the intended outcomes and objectives helps ensure everyone is aligned and working towards the same goals.
- **Always communicate:** Regular and transparent communication is crucial to help people understand the goals of digital transformation and how it will impact various stakeholders, including employees, clients, and other parties.
- **Be ready for resistance:** Change, even if beneficial, can be met with resistance. Having a strategy in place to address resistance is important for overcoming challenges and ensuring a smooth transition.
- **Implement changes gradually:** Instead of making all changes at once, gradual implementation allows individuals to adapt to new ways of doing things without feeling overwhelmed by too much change simultaneously.
- **Offer assistance and training:** Providing support, guidance, and training for employees is crucial as they navigate new procedures, software applications, and other aspects of digital transformation.

In conclusion, meticulous planning and effective change management are vital for the successful completion of digital transformation projects. Without proper change management, these efforts are more likely to fail, and organizations can enhance the integration of new digital systems by anticipating and managing the necessary changes.