

Mock Test Paper - Series II: April, 2026

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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.

Case Scenario 1

Working Notes:

$$\text{Depreciation on Machine X-Pro} = \frac{20,00,000}{5}$$

$$= 4,00,000$$

$$\text{Depreciation on Machine Z-Elite} = \frac{25,00,000}{5} = 5,00,000$$

Particulars	Machine X-Pro (₹)	Machine Z-Elite (₹)
Annual Savings:		
Direct Wages	7,00,000	9,00,000
Scraps	60,000	1,00,000
Total Savings (A)	7,60,000	10,00,000
Annual Estimated Cash Cost :		
Indirect Material	30,000	90,000
Indirect Labour	40,000	50,000
Repairs and Maintenance	45,000	85,000
Total Cost (B)	1,15,000	2,25,000
Annual Cash Savings (A-B)	6,45,000	7,75,000
Less: Depreciation	4,00,000	5,00,000
Annual Savings before Tax	2,45,000	2,75,000
Less: Tax @ 30%	73,500	82,500

Annual Savings /Profits after tax	1,71,500	1,92,500
Add: Depreciation	4,00,000	5,00,000
Annual Cash Inflows	5,71,500	6,92,500

1. (C) 3.50 years

$$\begin{aligned} \text{Payback Period Machine X-Pro} &= \frac{\text{Total Initial Capital Investment}}{\text{Annual expected after tax net cashflow}} \\ &= \frac{20,00,000}{5,71,500} = 3.50 \text{ Years} \end{aligned}$$

2. (D) 3.61 Years

$$\text{Payback Period Machine Z-Elite} = \frac{25,00,000}{6,92,500} = 3.61 \text{ Years}$$

3. (A) X-Pro: 17.15%, Z-Elite: 15.40%

Accounting (Average) Rate of Return (ARR)

$$\text{ARR} = \frac{\text{Average Annual Net Savings}}{\text{Average investment}} \times 100$$

$$\text{Machine X-Pro} = \frac{1,71,500}{10,00,000} \times 100 = 17.15\%$$

$$\text{Machine Z-Elite} = \frac{1,92,500}{12,50,000} \times 100 = 15.4\%$$

4. (C) 1.03

Present Value Cash Inflow = Annual Cash Inflow x PV factor at 12%

Machine X-PRO Present Value Cash Inflow = 5, 71,500 x 3.605 = ₹ 20, 60,258

$$\text{PV Index} = \frac{\text{Present Value of Cash Inflow}}{\text{Investment}}$$

$$\text{PV Index Machine X-PRO} = \frac{20,60,258}{20,00,000} = 1.03$$

5. (D) 1.00

Machine Z-Elite Present Value Cash Inflow = 6,92,500 x 3.605 = ₹ 24,96,463

$$\text{PV Index Machine Z-Elite} = \frac{24,96,463}{25,00,000} = 0.998 = 1.0 \text{ approx.}$$

6. (D) 22%

$$K_e = \frac{D_1}{NP} + g$$

$$\begin{aligned} \text{Net proceeds per share} &= P_0 - \text{underpricing} - \text{Floatation cost} \\ &= 64 - 3 - 1 = 60 \end{aligned}$$

$$\begin{aligned} K_e &= \frac{6}{60} + 0.12 \\ &= 22\% \end{aligned}$$

7. (A) ₹ 16,800

Computation of Rate of Preference Dividend

$$\begin{aligned} \frac{(\text{EBIT} - \text{Interest}) (1 - t)}{\text{No. of Equity Shares } (N_1)} &= \frac{\text{EBIT} (1 - t) - \text{Preference Dividend}}{\text{No. of Equity Shares } (N_2)} \\ \frac{(\text{₹}2,40,000 - \text{₹}24,000) (1 - 0.30)}{40,000 \text{ shares}} &= \frac{\text{₹}2,40,000 (1 - 0.30) - \text{Preference Dividend}}{40,000 \text{ shares}} \\ \frac{\text{₹}1,68,000 (1 - 0.30)}{40,000 \text{ shares}} &= \frac{\text{₹}1,68,000 - \text{Preference Dividend}}{40,000 \text{ shares}} \\ \text{₹ } 1,51,200 &= \text{₹ } 1,68,000 - \text{Preference Dividend} \\ \text{Preference Dividend} &= \text{₹ } 1,68,000 - \text{₹ } 1,51,200 = \text{₹ } 16,800 \end{aligned}$$

8. (A) 4.50

$$\begin{aligned} \text{Operating Cycle Period} &= R + W + F + D - C \\ &= 50 + 18 + 22 + 45 - 55 = 80 \text{ days} \end{aligned}$$

**Number of Operating Cycle in a Year**

$$= \frac{360}{\text{Operating Cycle Period}} = \frac{360}{80} = 4.5 \text{ times}$$

**PART II – Descriptive Questions**

1. (a)

Particulars	1	2	3	4
EBIT	60,00,000	60,00,000	60,00,000	60,00,000
Less:				
Interest	6,00,000	9,75,000	12,60,000	14,70,000
Earning available for equity holders [A]	54,00,000	50,25,000	47,40,000	45,30,000
Equity capitalization rate [B]	12%	15%	16%	16%
Market Value of equity [A]/[B]	4,50,00,000	3,35,00,000	2,96,25,000	2,83,12,500
Market value of debt (given)	60,00,000	75,00,000	90,00,000	105,00,000
Total Market Value	5,10,00,000	4,10,00,000	3,86,25,000	3,88,12,500
Overall cost of capital	11.76%	14.63%	15.53%	15.46%
= $\frac{\text{EBIT} \times 100}{\text{Total Market Value}}$				

The capital structure having debt of ₹ 60,00,000 is recommended as overall cost of capital is minimum at 11.76%.

(b) (i) **Determination of earnings per share (EPS)**

Sales Level	1,50,000 Units	1,80,000 Units
	(₹)	(₹)
Sales Revenue	22,50,000	27,00,000
Variable Cost	12,00,000	14,40,000
Contribution	10,50,000	12,60,000
Fixed Cost	3,00,000	3,00,000
<b>EBIT</b>	<b>7,50,000</b>	<b>9,60,000</b>
Interest	1,50,000	1,50,000
<b>EBT</b>	<b>6,00,000</b>	<b>8,10,000</b>

Tax (30%)	1,80,000	2,43,000
EAT	4,20,000	5,67,000
No. of Shares	15,000	15,000
<b>EPS (₹)</b>	<b>28.00</b>	<b>37.80</b>

(i) The percentage increase in earnings per share =  $\frac{37.8 - 28}{28} \times 100$   
= 35%

(ii) DFL at 1,50,000 units =  $\frac{\text{EBIT}}{\text{EBT}} = \frac{₹ 7,50,000}{₹ 6,00,000} = 1.25$

DFL at 1,80,000 units =  $\frac{\text{EBIT}}{\text{EBT}} = \frac{₹ 9,60,000}{₹ 8,10,000} = 1.19$

(iii) DOL at 1,50,000 units =  $\frac{\text{Contribution}}{\text{EBIT}} = \frac{₹ 10,50,000}{₹ 7,50,000} = 1.40$

DOL at 1,80,000 units =  $\frac{\text{Contribution}}{\text{EBIT}} = \frac{₹ 12,60,000}{₹ 9,60,000} = 1.31$

(II) With the increase in production and sales from 1,50,000 units to 1,80,000 units, the EPS has increased by 35%, indicating improved profitability. Further, both operating leverage and financial leverage have decreased, which implies:

- Reduction in business risk (due to lower operating leverage), and
- Reduction in financial risk (due to lower financial leverage).

Hence, the overall risk profile of the company declines with an increase in of production from 1,50,000 to 1,80,000 units.

**(c) Ratios for the year 2025-2026**

**(i) Inventory turnover ratio**

$$= \frac{\text{COGS}}{\text{Average Inventory}} = \frac{20,860}{\frac{(2,867 + 2,407)}{2}} = 7.91$$

(ii) **Financial leverage**

	2025-26	2024-25
$= \frac{\text{EBIT}}{\text{EBIT} - I}$	$= \frac{170}{57}$ $= 2.98$	$= \frac{586}{481}$ $= 1.22$

(iii) **ROCE**

$$= \frac{\text{EBIT} (1-t)}{\text{Average Capital Employed}} = \frac{57 (1-0.4)}{\left(\frac{5,947 + 4,555}{2}\right)} = \frac{34.2}{5251} \times 100 = 0.651\%$$

[Here Return on Capital Employed (ROCE) is calculated after Tax]

(iv) **ROE**

$$= \frac{\text{Profits after tax}}{\text{Average shareholders' funds}} = \frac{34}{\left(\frac{2,377 + 1,472}{2}\right)} = \frac{34}{1,924.5} = 1.77\%$$

(v) **Average Collection Period\***

$$\text{Average Sales per day} = \frac{22,165}{365} = ₹ 60.73 \text{ lakhs}$$

$$\text{Average collection period} = \frac{\text{Average Debtors}}{\text{Average sales per day}} = \frac{(1,495 + 1,168)}{2} \div 60.73 = \frac{1331.5}{60.73} = 22 \text{ days}$$

2. (a) **Statement showing Working Capital for each policy**

(1) **Statement showing working capital investment under each policy**

	Particulars	Working capital policy		
		Conservative	Moderate	Aggressive
(A)	Current assets	4.50	3.90	2.60
(B)	Fixed assets	<u>2.60</u>	<u>2.60</u>	<u>2.60</u>
(C)	Total assets (A) + (B)	7.10	6.50	5.20
(D)	Current liabilities	<u>2.34</u>	<u>2.34</u>	<u>2.34</u>
(E)	Net worth (C) – (D)	4.76	4.16	2.86
(F)	Estimated sales	<u>12.30</u>	<u>11.50</u>	<u>10.00</u>

(G)	EBIT	1.23	1.15	1.00
(i)	Net working capital position (A) – (D)	2.16	1.56	0.26
(ii)	Rate of return (G)/(C) (in per cent)	17.3	17.7	19.2
(ii)	Current ratio (A)/(D)	1.92	1.67	1.11

(2) **Statement showing effect of financing under alternative financing policy**

(₹ in crores)

	Particulars	Financing policy		
		Conservative	Moderate	Aggressive
(A)	Current assets	<u>3.90</u>	<u>3.90</u>	<u>3.90</u>
(B)	Fixed assets	2.60	2.60	2.60
(C)	Total assets (A) + (B)	6.50	6.50	6.50
(D)	Current liabilities	2.34	2.34	2.34
(E)	Short-term debt	0.54	1.00	1.50
(F)	Long-term debt	1.12	0.66	0.16
(G)	Equity capital	2.50	2.50	2.50
	Total liabilities (D) + (E) + (F) + (G)	<u>6.50</u>	<u>6.50</u>	<u>6.50</u>
	Estimated sales	11.50	11.50	11.50
(H)	EBIT	1.15	1.15	1.15
(I)	Less: Interest on short-term debt [12% of (E)]	(0.06)	(0.12)	(0.18)
(J)	Interest on long-term debt [16% of (F)]	(0.18)	(0.11)	(0.03)
(K)	EBT [(H) – (I) – (J)]	0.91	0.92	0.94
(L)	Less: Taxes @ 35%	(0.32)	(0.32)	(0.33)
(M)	EAT [(K) – (L)]	0.59	0.60	0.61
(a)	Net working capital [(A) – (D) – (E)]	1.02	0.56	0.06
(b)	Rate of return on equity funds [(M)/(G)%]	23.6%	24%	24.4%
(c)	Current ratio [(A)/(D) + (E)]	1.35	1.17	1.02

(b) **Ageing Schedule:** An important means to get an insight into collection pattern of debtors is the preparation of their 'Ageing Schedule'. Receivables are classified according to their age from the date of invoicing e.g. 0 – 30 days, 31 – 60 days, 61 – 90 days, 91 – 120 days and more. The ageing schedule can be compared with earlier month's figures or the corresponding month of the earlier year.

This classification helps the firm in its collection efforts and enables management to have a close control over the quality of individual accounts. The ageing schedule can be compared with other firms also.

$$3. \quad (a) \quad (i) \quad \text{Cost of Equity} - K_e = \frac{D_1}{P_0} + g = \frac{₹ 24(1+0.05)}{₹ 150} + 0.05$$

$$= 0.168 + 0.05 = 0.218 \text{ or } 21.8\%$$

Cost of Preference share =  $10/100 = 0.10$  or 10%

**Alternatively** - If cost of preference share is calculated on the basis of market price of preference share

Cost of Preference share =  $10/120 = 0.0833$  or 8.33%

Cost of long term debt =  $1(1 - t) = 12\% (1 - 0.25) = 9\%$

Cost of retained earning i.e.  $K_e = 21.8\%$

(ii) **Weighted Average Cost of Capital (book value weights)**

Source	Amount (₹)	Weight	After tax cost of capital %	WACC %
Equity	6,00,00,000	0.3	21.8	6.54
Retained earnings	4,00,00,000	0.2	21.8	4.36
10% Preference shares	2,00,00,000	0.1	10	1
12% Long term debt	8,00,00,000	0.4	9	3.6
<b>TOTAL</b>	<b>20,00,00,000</b>	<b>1</b>		<b>15.5</b>

(iii) **Weighted Average Cost of Capital (market value weights)**

Source	Amount (₹)	Weight	After tax cost of capital %	WACC %
Equity	5,40,00,000	0.27	21.8	5.886
Retained Earning	3,60,00,000	0.18	21.8	3.924

10% Preference Shares	2,40,00,000	0.12	10	1.2
12% Long term debt	8,60,00,000	0.43	9	3.87
<b>TOTAL</b>	<b>20,00,00,000</b>	<b>1.0</b>		<b>14.88</b>

**Alternatively using cost of preference share on the basis of market price**

Source	Amount (₹)	Weight	After tax cost of capital %	WACC
Equity	5,40,00,000	0.27	21.8	5.886
Retained Earning	3,60,00,000	0.18	21.8	3.924
10% Preference Shares	2,40,00,000	0.12	8.33	1
12% Long term debt	8,60,00,000	0.43	9	3.87
<b>TOTAL</b>	<b>20,00,00,000</b>	<b>1.0</b>		<b>14.68</b>

- (b) **As per Dividend discount model, the price of share is calculated as follows:**

Retained earning per share = ₹ 3.60

Dividend per share,  $D_0 = \frac{₹ 3.60}{40\%} \times 60\% = ₹ 5.40$

$$P = \frac{D_1}{(1+K_e)^1} + \frac{D_2}{(1+K_e)^2} + \frac{D_3}{(K_e - g)} + \frac{1}{(1+K_e)^2}$$

Where,

P = Price per share

$K_e$  = Required rate of return on equity

g = Growth rate

$$P = \frac{₹ 5.4 \times 1.1}{(1+0.15)^1} + \frac{₹ 5.94 \times 1.1}{(1+0.15)^2} + \frac{₹ 6.534 \times 1.08}{(0.15-0.08)^1} \times \frac{1}{(1+0.15)^2}$$

$P = 5.17 + 4.94 + 76.23 = ₹ 86.33$

Intrinsic value of share is ₹ 86.33

4. (a) **International Funding:** With liberalization and globalization a business enterprise has options to raise capital from International markets also. Foreign Direct

Investment (FDI) and Foreign Institutional Investors (FII) are two major routes for raising funds from foreign sources besides ADR's (American depository receipts) and GDR's (Global depository receipts). Obviously, the mechanism of procurement of funds has to be modified in the light of the requirements of foreign investors.

**Angel Financing:** Angel Financing is a form of an equity-financing where an angel investor is a wealthy individual who provides capital for start-up or expansion, in exchange for an ownership/equity in the company. Typically, angels, as they are known as, will invest around 25 to 60 per cent to help a company get started. This source of finance sometimes is the last option for startups which doesn't qualify for bank funding and are too small for venture capital financing.

(b) The fundamental tasks for which treasury department of any enterprise is responsible are:

1. **Cash Management:** It involves efficient cash collection process and managing payment of cash both inside the organisation and to third parties.

Treasury will also manage surplus funds in an investment portfolio. Investment policy will consider future needs for liquid funds and acceptable levels of risk as determined by company policy.

2. **Currency Management:** The treasury department manages the foreign currency risk exposure of the company. In a large multinational company (MNC) the first step will usually be to set off intra-group indebtedness. The use of matching receipts and payments in the same currency will save transaction costs and also will save the organization from any unfavorable exchange movements.

The treasury will manage any net exchange exposures in accordance with company policy. If risks are to be minimized then forward contracts can be used either to buy or sell currency forward.

3. **Fund Management:** Treasury department is responsible for planning and sourcing the company's short, medium and long-term cash needs. They also facilitate temporary investment of surplus funds by mapping the time gap between funds inflow and outflow.

4. **Banking:** It is important that a company maintains a good relationship with its bankers. Treasury department carry out negotiations with bankers with respect to interest rates, foreign exchange rates etc. and act as the initial point of contact with them.

**5. Corporate Finance:** Treasury department is involved with both acquisition and divestment activities within the group. In addition, it will often have responsibility for investor relations.

\* Any four points

- (c) In dividend price approach, cost of equity capital is computed by dividing the current dividend by average market price per share. This ratio expresses the cost of equity capital in relation to what yield the company should pay to attract investors. It is computed as:

$$K_e = \frac{D_1}{P_0}$$

Where,

$D_1$  = Dividend per share in period 1

$P_0$  = Market price per share today

Whereas, on the other hand, the advocates of earnings price approach co-relate the earnings of the company with the market price of its share. Accordingly, the cost of ordinary share capital would be based upon the expected rate of earnings of a company. This approach is similar to dividend price approach, only it seeks to nullify the effect of changes in dividend policy.

**Or**

- (c) “Operating risk is associated with cost structure whereas financial risk is associated with capital structure of a business concern”.

Operating risk refers to the risk associated with the firm’s operations. It is represented by the variability of earnings before interest and tax (EBIT). The variability in turn is influenced by revenues and expenses, which are affected by demand of firm’s products, variations in prices and proportion of fixed cost in total cost. If there is no fixed cost, there would be no operating risk. Whereas financial risk refers to the additional risk placed on firm’s shareholders as a result of debt and preference shares used in the capital structure of the concern. Companies that issue more debt instruments would have higher financial risk than companies financed mostly by equity.

## PAPER 6B: STRATEGIC MANAGEMENT

### ANSWERS

#### PART I

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

#### PART II PART II – Descriptive Questions

1. (a) The corporate level decides what the business wants to achieve, the business level formulates plans, and the functional level executes them, with different types of relationships linking these levels.

**Functional and Divisional Relationship:** In XYZ Pharmaceuticals, this relationship is evident as different product divisions such as generics and specialty drugs operate independently, each headed by a division head, with separate functional teams like marketing, HR and production under them. This independent structure ensures specialisation, clarity in roles and efficient management of diverse product lines, making it highly suitable for the organisation.

**Horizontal Relationship:** Elements of horizontal relationship can be observed through coordination and idea sharing across teams at similar hierarchical levels. This promotes openness, transparency and innovation in the organisation. However, since the pharmaceutical industry is complex and highly regulated, this relationship is not dominant but still useful in encouraging collaboration and faster decision-making.

**Matrix Relationship:** The company also follows a matrix relationship as it forms cross-functional teams for new product launches, where employees report to more than one manager (functional and project heads). This grid-like structure enhances flexibility, coordination and effective utilisation of resources, making it highly suitable for project-based work, although it may lead to complexity in reporting and authority.

- (b) Suraj Prakash is a follower of **transactional leadership style** that focuses on designing systems and controlling the organization's activities. Such a leader believes in using the authority of his office to exchange rewards, such as pay and status. They prefer a more formal approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. Transactional

leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.

On the other hand, Chander Prakash is a follower of **transformational leadership style**. The style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling to elicit more dramatic changes in organizational performance. Such leadership motivates followers to do more than originally affected by stretching their abilities and increasing their self-confidence and promoting innovation throughout the organization.

- (c) In this case, the **bargaining power of customers** is a significant force. Customers have multiple dining choices and are highly price sensitive. Since switching costs are low, they can easily move to other restaurants offering better value, quality, or discounts. This forces the company to continuously improve its offerings and pricing strategies.

The **threat of substitutes** is also high, as customers can opt for alternatives such as fast food, home-cooked meals, or online food delivery services. These substitutes can significantly impact demand, especially if they are more convenient or cost-effective.

The **threat of new entrants** is moderate because, although some investment and regulatory compliance are required, there are no major technological barriers. New players can enter the market if they identify growth opportunities, increasing competition over time.

The **competitive rivalry** is moderate, as there are limited premium organic restaurants, but competition still exists in attracting and retaining health-conscious customers.

There is no strong indication of high or low **bargaining power of suppliers** in the scenario. However, if organic ingredient suppliers are limited, supplier power could increase; otherwise, it may remain moderate.

2. (a) Values are fundamental principles or standards that guide the behaviour and decision-making of individuals and organizations. They are at the core of strategic intent and help define a company's culture and ethical posture.

A company's values set the tone for how people think and behave, especially in situations involving dilemmas. They create a sense of shared purpose, enabling all stakeholders to align and focus on the long-term success of the company.

Values have both internal and external implications:

- **Internally**, they influence employee behaviour, build trust, boost morale and help in creating a consistent workplace culture.
- **Externally**, they impact how customers, investors and society at large perceive the company. A majority of consumers prefer companies whose values reflect their own belief systems.

Some common organizational values include Integrity, Trust, Accountability, Humility, Innovation and Diversity.

Values and Intent are two distinct concepts:

- Intent refers to the purpose of doing business – the long-term direction the company aims to pursue.
- Values are the principles and ethical standards that guide how decisions are made and how the business is conducted.

While they go hand-in-hand, values often drive intent. Therefore, values are broader and more foundational than intent.

- (b) **SWOT** analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strengths, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.
- (a) **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.
  - (b) **Weakness:** A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.
  - (c) **Opportunity:** An opportunity is a favourable condition in the external environment which enables it to strengthen its position.
  - (d) **Threat:** An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.

The major purpose of SWOT analysis is to enable the management to create a firm-specific business model that will best align, fit or match organisational resources and capabilities to the demands of the environment in which it operates.

3. (a) The concept is **Experience Curve**. The experience curve, akin to a learning curve, explains the efficiency increase gained by workers through repetitive productive work. It is based on the phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production – the idea being, “*we learn as we grow.*”

#### **Relevant Features of Experience Curve in Strategic Management**

- As business organisations grow, they gain experience which enables cost efficiencies.
- Experience may provide an advantage over competition as lower costs create a barrier for new entrants.
- Experience is considered a key barrier to entry for new firms contemplating industry entry.
- Large and successful organisations possess stronger experience effect, helping in leadership and cost advantage.

Thus, the experience curve is a critical concept in strategic management as it links growth with learning, cost reduction and competitive advantage, making it a strong determinant of industry positioning and entry barriers.

- (b) The ADL matrix has derived its name from Arthur D. Little which is a portfolio analysis method based on product life cycle. The approach forms a two-dimensional matrix based on stage of industry maturity and the firm's competitive position, environmental assessment and business strength assessment. The role of ADL matrix is to assess the competitive position of a firm based on an assessment of the following criteria:

- ◆ **Dominant:** This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.
- ◆ **Strong:** By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitors.

- ◆ **Favourable:** This position, which generally comes about when the industry is fragmented and no one competitor stands out clearly, results in the market leaders having a reasonable degree of freedom.
- ◆ **Tenable:** Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.
- ◆ **Weak:** The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

4. (a) 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.

(b) York Investors is employing the McKinsey 7S Model to achieve its strategic objectives. The model focuses on seven interdependent elements within an organization, categorized into "Hard Ss" and "Soft Ss." In this case:

- **Strategy (Hard S):** Investing in training programs and technology aligns with the strategic objective of enhancing workforce skills and operational efficiency.
- **Structure (Hard S):** The investment suggests a structural alignment to support the strategic initiatives, indicating a deliberate organization of resources.
- **Systems (Hard S):** The use of cutting-edge technology and communication systems reflects a commitment to optimizing daily tasks and improving overall efficiency, addressing the system component of the model.
- **Shared Values (Soft S):** The emphasis on comprehensive training initiatives indicates a commitment to shared values, reflecting a focus on developing a skilled and capable workforce.
- **Style (Soft S):** The leadership style is implied in the strategic decision to invest in technology and training for workforce development and operational efficiency.
- **Staff (Soft S):** The commitment to enhancing skills and capabilities reflects a focus on the talent pool within the organization.
- **Skills (Soft S):** The strategic investment in training programs directly addresses the development of key skills within the workforce.

York Investors' approach demonstrates a holistic application of the McKinsey 7S Model, emphasizing the interconnectedness of both hard and soft elements to achieve strategic alignment and organizational effectiveness.

**OR**

Merako Appliances has improved operational **efficiency** by automating its assembly line. However, declining sales due to products not meeting customer needs indicate a lack of **effectiveness**. This highlights the importance of balancing *doing things right* (efficiency) with *doing the right things* (effectiveness).

To achieve **sustainable success**, Merako must align its operations with customer preferences through sound **strategy formulation** (effectiveness), followed by efficient **strategy implementation**.

**Four Possible Situations Based on Efficiency and Effectiveness:**

1. **Efficient and Effective (Thrive):** Ideal scenario. The firm does the right things and does them well. Merako should aim for this by aligning products with customer needs while maintaining efficiency.
2. **Efficient but Ineffective (Die Slowly):** Merako’s current state. Operations are streamlined, but customer needs are unmet, risking decline without strategic correction.
3. **Inefficient but Effective (Survive):** Right strategy but poor execution. The firm may survive but must improve efficiency to sustain.
4. **Inefficient and Ineffective (Die Quickly):** Neither aligned with customer needs nor operationally sound. Leads to rapid failure unless overhauled.

**Strategic Formulation**

		Strategic Formulation	
		Effective	Ineffective
Operational Management	Efficient	1 Thrive	2 Die Slowly
	Inefficient	3 Survive	4 Die Quickly

**Principal combinations of efficiency and effectiveness**

Merako must integrate **customer feedback** into strategic planning and ensure both efficient execution and effective direction to gain long-term competitiveness.