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CS-EXECUTIVE

(MODULE-2)

FINANCIAL AND STRATEGIC MANAGEMENT

(Vol.-2)

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EXECUTIVE PROGRAMME
Module 2
Paper 8
FINANCIAL AND STRATEGIC MANAGEMENT

SYLLABUS

Objectives

Part I : To provide knowledge of practical aspects of financial management so as to develop skills in taking financial and investment decisions.

Part II : To enable students to acquire multidimensional skills as to equip them to comprehend the process of strategy formulation.

PART – I: FINANCIAL MANAGEMENT (60 MARKS)

1. Nature, Significance and Scope of Financial Management
2. Capital Budgeting
3. Capital Structure
4. Sources of raising Long term Finance and Cost of Capital
5. Project Finance
6. Dividend Policy
7. Working Capital
8. Security Analysis
9. Portfolio Management
10. Practical Problems and Case Studies

PART – II: STRATEGIC MANAGEMENT (40 MARKS)

11. Introduction to Management
12. Introduction to Strategic Management
13. Business Policy and Formulation of Functional Strategy
14. Strategic Analysis and Planning
15. Strategic Implementation and Control
16. Analysing Strategic Edge

FINANCIAL AND STRATEGIC MANAGEMENT (VOL-2)

{Strictly as per new syllabus (2017) prescribed by The Institute of Company Secretaries of India (ICSI)}

CONTENTS

PART – I FINANCIAL MANAGEMENT

S. No.	Chapter Name	Page No.
1.	CAPITAL BUDGETING	1-28
2.	LEASE AND HIRE PURCHASE	29-34
3.	PORTFOLIO MANAGEMENT	35-74
4.	SOURCES OF FINANCE	75-86
5.	TREASURY MANAGEMENT	87-90

PART – II STRATEGIC MANAGEMENT

S. No.	Chapter Name	Page No.
1.	INTRODUCTION TO MANAGEMENT	91-118
2.	INTRODUCTION TO STRATEGIC MANAGEMENT	119-140
3.	BUSINESS POLICY AND FORMULATION OF SCOPE FUNCTIONAL STRATEGY	141-166
4.	STRATEGIC ANALYSIS AND PLANNING	167-194
5.	STRATEGIC IMPLEMENTATION AND CONTROL	195-204
6.	ANALYZING STRATEGIC EDGE	205-218
7.	MULTIPLE CHOICE QUESTION	219-308

This book should be read along with "FMS Vol-1" containing additional 14 Chapter of FSM Part - I

This book is updated
With all amendments
Till 30th June 2019

(Afterwards amendments will be included / discussed in live lectures at classroom)

1. CAPITAL BUDGETING

Q. 1. What are the basic features of capital budgeting decisions?

Ans. The basic features of capital budgeting decisions are:-

1) Current funds are exchanged for future benefits;
2) There is an investment in long-term activities; and
3) The future benefits will occur to the firm over series of years.

Q. 2. Briefly discuss the factors which give rise to the need for capital investments.

Ans. The following factors give rise to the need:-

1) Wear and tear of old equipments.
2) Obsolescence.
3) Variation in product demand necessitating change in volume of production.
4) Product improvement requiring capital additions.
5) Learning-curve effect.
6) Expansion.
7) Change of plant site.
8) Diversification.
9) Productivity improvement.

Q. 3. Discuss the importance of Capital Budgeting.

Ans.

1) Long-term Implications
   A capital budgeting decision has its effect over a long time span and inevitably affects the company's future cost structure and growth.
2) Involvement of large amount of funds
   Capital budgeting decisions need substantial amount of capital outlay.
3) Irreversible decisions
   Capital budgeting decisions in most of the cases are irreversible because it is difficult to find a market for such assets.
4) Risk and uncertainty
   Capital budgeting decision is surrounded by great number of uncertainties.
5) Difficult to make
   Capital budgeting decision making is a difficult and complicated exercise for the management.

Q. 4. What are the factors influencing investment decision.

Ans.

1) Management Outlook.
2) Competitor's Strategy.
3) Opportunities created by technological change.
4) Market forecast.
5) Fiscal Forecast.
6) Cash flow Budget.
7) Non-economic factors.

Q. 5. Write a short note on 'Capital Budgeting Process'.

Ans.

1) Identification of Potential Opportunities.
2) Establishing the Criteria.
3) Screening and co-ordination.
4) Evaluating Investment Proposals.
5) Budgeting Capital Expenditure.

6) Controlling Projects in Process.
7) Follow-up and Performance Report.

Q. 6. Write a short note on 'Investment Criteria'.

Ans. Sound investment criteria should at least provide the following:-

1) A means of distinguishing between acceptable and non-acceptable projects;
2) Ranking of projects in order of their desirability;
3) Choice among several alternatives;
4) A criteria which is applicable to any conceivable investment project independent of others;
5) Recognizing the fact that the bigger benefits are preferable to smaller one and early benefits are preferable to later benefits;
6) Helping to choose among mutually exclusive projects, one which maximizes the shareholders wealth.

Q. 7. [CS Dec 2000; June 2007; June 2010] Write a short note on 'Capital Rationing' **OR**
Explain how investment decisions are taken in a capital rationing situation.

Ans.

- There may be situations where a firm has a number of projects that yield a positive NPV.
- However, the most important resource in investment decisions, i.e. funds, are not fully available to undertake all the projects. This is considered as a Resource Constraint situation.
- In case of restricted availability of funds, the objective of the firm is to maximize the wealth of shareholders with the available funds. Such investment planning is called Capital Rationing. There are two possible situations of capital Rationing.
  - Generally firms fix up the maximum amount that can be invested in capital projects, during a given period of time, say a year. This budget ceiling imposed internally is called as **Soft Capital Rationing**.
  - There may be a market constraint on the amount of funds available for investment during a period. This inability to obtain funds from the market, due to external factors is called **Hard Capital Rationing**.
- Whenever Capital rationing situation arises, the firm should allocate the limited funds available in such a way that maximizes the NPV of the firm.

Q. 8. "The cash flow approach of measuring future benefits of a project is superior to the accounting approach". Discuss. [CS June 2006]

Ans. The cash flow approach of measuring future benefits of a project is superior to the accounting approach due to following reasons:-+

- Unlike accounting approach, cash flow based approach is not affected by discretionary accounting policies.
- It considers the time value of money.
- Cash position and not accounting profits reflects true potential for investment.
- Cash flow approach considers the basic objective of maximizing shareholders' wealth.

Q. 9. Distinguish between 'Net present value' and 'profitability index'. [CS June 2008]

Ans.

S No.	Net Present Value	Profitability Index
1	NPV is the difference between present value of future cash inflows and present value of future cash outflows.	Profitability index is the ratio of present value of future cash inflows over the present value of cash outflows.
2	NPV is absolute measurement technique.	P1 is a relative measurement technique.
3	The criteria for selection of a project in case of NPV is when NPV is greater than zero.	The criteria for selection of a project in case of Profitability Index is when P1 is greater than one.

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4	It is computed as follows:- Present value of cash outflows **Minus** Present value of cash inflows	It is computed as follows:- Present value of cash inflows ——————————— Present value of cash outflows

Q. 10. Write a short note on 'Payback Method'.

Ans. This technique estimates the time required by the project outlay.

Advantages

- It is easy to calculate and investment proposals can be ranked quickly.
- For a firm experiencing shortage of cash, the payback technique may be used with advantage to select investments involving minimum time to recapture the original investment.
- This is ideal in deciding cash investment in a foreign country with volatile political position and a long-term projection of political stability is difficult.
- This is, likewise, more preferred in case of industries where technological obsolescence comes within short period; say electronic industries.

Disadvantages

- The payback method ignores the time value of money and treats all cash flows at par.
- The payback method does not consider cash flows and income and income that may be earned beyond the payout period.
- Moreover, it does not take into account the salvage or residual value, if any, of the long-term asset.
- The payback technique ignores the cost of capital as the cut-off factor affecting selection of investment proposals.

Q.11. Write a short note on 'Net Present Value Method'

Ans. Net Present Value is the difference between the sum total of present values of all the future cash inflows and outflows:-

Advantages

- Income over the entire life of the project is considered.
- The method takes into account time value of money.
- The method provides clear acceptance so interpretation is easy.
- When projects involves different amount of investment, the method may not provide satisfactory answers.

Disadvantages

- As compared with the first two methods, the present value approach is certainly more difficult to understand and apply.
- An additional difficulty in this approach is encountered when projects with unequal lives are to be evaluated.
- It is difficult to determine the firm cost of capital or appropriate rate of discount.

Q.12. Write a short note on 'Internal Rate of Return (IRR)'.

Ans. The internal rate of return refers to the rate which equates the present value of cash inflows and present value of cash outflows. In other words, it is the rate at which net present value of the investment is zero.

Advantages

- The discounted cash flow (IRR) takes into account the time value of money.
- It considers cash benefits, i.e. profitability of the project for the whole of its economic life.
- This method is considered to be a sophisticated and more reliable technique of evaluating capital investment proposals.
- The objective of maximizing of owner's welfare is met.

Disadvantages

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- The discounted cash flow is the most difficult of all the methods of project evaluation discussed above.
- The rate may be negative or one or may be multiple rates as per calculations. When a project has a sequence of changes in sign of cash flow, there may be more than one internal rate of return.

Q.13. Write a short note on 'Profitability Index (P1)'

Ans. Profitability index is the ratio of present value of future cash inflows over the present value of cash outflows.

It is computed as follows:-

$$\frac{\text{Present value of cash inflows}}{\text{Present value of cash outflows}}$$

Advantages

- Profitability index method gives due consideration to the time value of money.
- Profitability Index method satisfies almost all the requirements of a sound investment criterion.
- This method can be successfully employed to rank projects of varying cash and benefits in order of their profitability.

Disadvantages

- This method is more difficult to understand and compute.
- This method does not take into account the size of investment.
- When cash outflows occur beyond the cement period Profitability Index Ratio criterion is unsuitable as a selection criterion.

Q.14. [CS Dec 2005] Distinguish between 'Net Present Value' and 'Internal Rate of Return'

Ans.

1) Interest Rate
   Under the net present value method rate of interest is assumed as the known factor whereas it is unknown in case of internal rate of return method.
2) Reinvestment Axiom
   Under both the methods, it is assumed that cash inflows can be re-invested at the discount rate in the new projects. However, reinvestment of funds, at cut-off rate is more possible than internal rate of return. So, Net Present Value method is more reliable than Internal Rate of Return method for ranking two or more projects.
3) Objective
   The net present value method took to ascertain the amount which can be invested in a project so that its expected yields will exactly match to repay this amount with interest at the market rate. On the other hand, internal rate of return method attempts to find out the rate of interest which is maximum to repay the invested fund out of the cash inflows.

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Practical Question

Q. 1. Santosh & Co. is considering setting up a new unit. The following data has been complied by the company for the purpose of determining the acceptability of the proposal for setting up the new unit.

(i) Land
  (a) To be paid at the time of purchase (t =0) `2 lakhs
  (b) 1st, 2nd and 3rd installment at the end of next 3 following years each installment `1 lakh

(ii) Factory Buildings: (Total `20 lakhs)
  (a) Initial payment on signing of contract `2 lakhs
  (b) At the end of year 2 `10 lakhs
  (c) Balance at the end of year 3 `8 lakhs

(iii) Plant, Machinery & equipment:
  To be paid at the beginning of
  - year 4 `15 lakhs
  - year 5 `5 lakhs

(iv) Extra Margin for working capital (at the end of year 5) `4 lakhs

(v) Operations will begin in the 6th year and will continue for 10 years upto year 15. Assume revenue and costs at the end of each year.

(vi) Buildings, plant machinery and equipment will be depreciated on straight line method over 10 years starting from year 6, as under:
  Building @ 5%
  Plant, Machinery and equipment @ 10%

(vii) Buildings are expected to be sold for `6 lakhs and land for `8 lakhs at the end.

(viii) Plant, Machinery & equipment will have a salvage value of `2 lakhs.

(ix) Cost of capital is 12%

(x) Other operating data:
  Annual sales – `30 lakhs
  Variable sales of operation – `12 lakhs

Fixed costs (excluding depreciation) – `8 lakhs; and Tax rate – 50%.

Advise whether the company should accept the project or reject it on the basis of NPV of the project:

P.V. Factors at 12% for Re.1

Year 1 – 0.893	Year 6 – 0.507
Year 2 – 0.797	Year 7 – 0.452
Year 3 – 0.712	Year 8 – 0.404
Year 4 – 0.636	Year 9 – 0.361
Year 5 – 0.567	Year 10 – 0.322

Present value of annuity of Re.1 for 9 years at 12% = 5.328.

Ans. NPV -11.721

Q. 2. **(a)**A company is considering an investment proposal to install new milling controls at a cost of `50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35 percent. Assume the firm uses the straight-line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows:

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Year	CFBT
1	`10, 000
2	10, 692
3	12, 769
4	13, 462
5	20, 385

Compute the following:

(i) Pay Back Period — Ans. – 4.328 yer.
(ii) Average Rate of Return — Ans. – 9%
(iii) Internal Rate of return — Ans. - 6.6 %
(iv) Net present value at 10% discount rate. — Ans. - (4648)
(v) Profitability index at 10 percent. — Ans. - 0.907

(b) A company is considering a proposal to install a machine. The cash flows are as follows:

Machine	Immediate Cash out flows (in lakhs of `)	Cash inflows (in lakhs of `) at the end of Year				
		1st	2nd	3rd	4th	5th
Machine A	45	10	14	16	17	15

The Company's cost of capital is 10%. You are required to make these calculations.

(1) Net Present Value — Ans. - 8.596
(2) Profitability Index — Ans. – 1.191
(3) Payback Period — Ans. – 3.29 Yer.
(4) Discounted Payback Period — Ans. – 4.08 Yer.
(5) IRR — Ans. – 17.13%

Note: Present Value of Re. 1 at 10% discount rate are as follows:

Year	0	1	2	3	4	5
P.V.	1.00	0.909	0.826	0.751	0.683	0.621

Q. 3. Following are the data on a capital project being evaluated by the management of X Ltd.

		Project M	
Annual cost saving		`40, 000	
Useful Life		4 years	
I.R.R.		15%	
Profitability Index (P.I.)	1.064		
NPV		?	Ans. – 7304
Cost of Capital	?		Ans. – 12%
Cost of project	?		Ans. 114200
Payback		?	Ans.– 2.855
Salvage value	0		

Find the missing values considering the following table of discount factor only:

Discount Factor	15%	14%	13%	12%
1 year	0.869	0.877	0.885	0.893
2 year	0.756	0.769	0.783	0.797
3 year	0.658	0.675	0.693	0.712
4 year	0.572	0.592	0.613	0.636
	2.855	2.913	2.974	3.038

Conflict of Rankings

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Q. 4. The Cash Flows of projects C and D are reproduced below:

	Cash Flow					
Project	**C0**	**C1**	**C2**	**C3**	**NPV at 10%**	**IRR**
C	`10, 000	+2000	+ 4000	+12,000	`4139	6.5%
D	`10, 000	+10, 000	+ 3000	+ 3000	+`3823	37.6%

(i) Why there is a conflict of rankings ?

(ii) Why should you recommend project C inspire of lower internal rate of return ?

Ans.

(i) Suppose the discount rate as 0, 10, 15, 30 and 40 percent. The NPV for each of the projects is given below:

	NPV	
Discount rate (%)	**C**	**D**
0	8, 000	6,000
10	4, 134	,821
15	2, 660	2,942
30	- 634	831
40	- 2164	238

It is noticed that for project C, the larger cash flows occur later in its life. At the lower discount rates, project's C NPV will be higher than of project D. As in discount rates start increasing, project C's NPV Will, however, fall as a faster rate simply because its largest cash flows come late in life when the compounding effects of timings are most significant. Till the discount rate reaches 14% (approximately), project C has higher NPV than project D. After his break – even discount – rate, project D has higher NPV as well as higher IRR. Thus, the rankings of the projects have differed because of the difference in time – patterns of cash flows.

(ii) If the opportunity cost of capital is 10%, project C should be under taken because the firm will be richer by additional `313 (i.e. `4134 – `3821). This can be better appreciated if we calculate the profitability of the incremental investment (C – D).

	Cash Flows					
Project	**C0**	**C1**	**C2**	**C3**	**NPV at 10%**	**IRR**
C – D	0	-8000	+1000	+9000	+313	12%

The incremental project C – D involves on outlay of `8000 in year 1 and produces cash in flows `1000 and `9000 in year 2 and 3. At 10% opportunity cost of capital, the NPV is positive, `313. The IRR is 12%. What does this imply ? It implies that project C has all the benefits of project D as well as gives additional wealth.

Q. 5. A company is considering which of two mutually exclusive projects it should undertake. The Finance Director thinks that the project with the higher NPV should be chosen whereas the Managing Director thinks that the one with the higher IRR should be undertaken especially as both projects have the same initial outlay and length of life. The company anticipates a cost of capital of 10% and the net after tax cash flows of the projects are as follows:

Year	**0**	**1**	**2**	**3**	**4**	**5**
(cash flows figs 000)						
Project X	(200)	35	80	90	75	20
Project Y	(200)	218	10	10	4	3

Required: -

(a) Calculate the NPV and IRR of each project.

(b) State, with reasons, which project you would recommend.

(c) Explain the inconsistency in the ranking of the two projects.

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(d) At what cost of capital decision will be changed.

The discount factors are as follows:

Year	0	1	2	3	4	5
(cash flows figs 000)						
Project X	1	0.91	0.83	0.75	0.68	0.62
Project Y	1	0.83	0.69	0.56	0.48	0.41

Q. 6. A project has the following cash flows:

(`In lakhs)

Year 0	Year 1	Year 2	Year 3
- 100	52	40	50

Required:

(a) What is the IRR of the project ?

(b) Calculate the unrecovered investment balances using the IRR.

(c) If you were to calculate the unrecovered investment balances using a rate equal to 10% what is the final investment balance ?

(d) What is the NPV of the project if the cash flows are discounted at 10% ?

(e) What is the relationship, if any, between your answers to questions (c) and (d) ?

Ans. (A) 20%, (B) 0, (C) 23.82, (D) 17.858, (E) T. V = N.P.V $(1+r)^n$

REPLACEMENT DECISION

Q. 7. A machine is purchased six years back for `1,50,000 has been depreciated to a book value of `90, 000. It originally had a projected life of fifteen years and zero salvage value. A new machine will cost `2,50,000 and result in a reduced operating cost of `30,000 per year for the next nine years. The older machine could be sold for `50,000. The machine also will be depreciated on a straight line method on nine year life with salvage value of `25,000. The company's tax rate is 50% and cost of capital is 10%.

Determine whether the old machine should be replaced.

Given – Present value of Re. 1 at 10% on 9th year – 0.424 and present value of an annuity of Re. 1 at 10% for 8 years = 5.335.

Ans. (39820)

Q. 8. P Ltd. has a machine having an additional life of 5 year, which costs `10,00,000 and has a book value of `4,00,000. A new machine costing `20,00,000 is available. Though its capacity is the same as that of the old machine, it will mean a saving in variable costs to the extent of `7,00,000 per annum. The life the machine will be 5 years at the end of which it will have a scrap value of `2,00,000. The rate of income tax is 46% and P Ltd. policy is not make an investment if the yield is less than 12% per annum. The old machine if sold today will realize `1,00,000 it will have no salvage value if sold at the end of 5th year. Advise P Ltd., whether or not the old machine should be replaced. (Present value of Re.1 receivable annually for 5 years at 12% = 3.605, present value of Re.1 receivable at the end of 5 years are 12% per annum = 0.567). Capital gain is tax-free. Ignore Income tax savings on depreciation as well as on loss due to sale of existing machine.

Ans. (423910)

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Q. 9. AP Udyog is considering a new automatic blender. The new blender would last for 10 years and would be depreciated to zero over the 10year period. The old blender would also last for 10 more years and would be depreciated to zero over the same 10 year period. The old blender has a book value of `20, 000 but could be sold for `30,000 (the original cost was `40, 000). The new blender would cost `1,00,000.

It would reduce labour expense by `12,000 a year. The company is subject to a 50% tax rate on regular income and a 30% tax rate on capital gains. Their cost of capital is 8%. There is no investment tax credit in effect.

You are required to:

(i) Identify all the relevant cash flows for this replacement decision.

(ii) Compute the present value, net present value and profitability index.

(iii) Find out whether this is an attractive project.

Given: The present value of annuity @8% for rupee one for
10 ears = 6.710.

Ans. 73,000, 10,000, 0.919 No.

Q.10. Anuj Enterprises Ltd. is a manufacturer of high quality running shoes. Ms. Dazling, President is considering computerizing the companies ordering, inventory and billing procedures. She estimates that the annual savings from computerization include a reduction of ten clerical employees with annual salaries of `15,000 each, `8,000 from reduced productions delays caused by raw materials inventory problems, `12,000 from lost sales due to inventory stock outs and `3,000 associated with timely billing procedures. The purchase price of the system is `2,00,000 and installation cost are `50,000. These outlays will be capitalized (depreciated) on a straight line basis to a zero book salvage value which is also its market value at the end of five years. Operation of the new system requires two computer specialists with annual salaries if `40,000 per person. Also annual maintenance and operating (cash) expenses of `12,000 are estimated to be required. The companies tax rate is 40% and its required rate if return (cost of capital) for this project is 12%.

You are required to:

(a) find the projects initial net cash outlay.

(b) find out the projects operating and terminal value cash flows over its five years life.

(c) Evaluate the project using the NPV method.

(d) Evaluate the project using PI method.

(e) Calculate the projects payback method.

(f) Find the project cash flows and NPV [parts (a) through (c)] assuming that the system can be sold for `25, 000 at the end of five years even though the book salvage value will be zero.

(g) Find the project cash flow and NPV [parts (a) through (c)] assuming that the book salvage value for depreciation purpose is `20, 000 even though the machine is worthless in terms of resale value.

Ans. (A) 2,50,000 (B) 68600 (C) (2697) (E) 3.64 Yer. (F) NPV 5808 (G) (3929)

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MCQ QUESTIONS WITH ANSWER

CAPITAL BUDGETING - ESTIMATION OF CASH FLOWS

1. Capital Budgeting is a part of:
   (a) Investment Decision,
   (b) Working Capital Management,
   (c) Marketing Management,
   (d) Capital Structure.

2. Capital Budgeting deals with
   (a) Long-term Decisions,
   (b) Short-term Decisions,
   (c) Both (a) and (b)
   (d) Neither (a) nor (b).

3. Which of the following is not used in Capital Budgeting?
   (a) Time Value of Money,
   (b) Sensitivity Analysis,
   (c) Net Assets Method,
   (d) Cash Flows.

4. Capital Budgeting Decisions are:
   (a) Reversible,
   (b) Irreversible
   (c) Unimportant,
   (d) All of the above.

5. Which of the following is not incorporated in Capital Budgeting?
   (a) Tax-Effect,
   (b) Time Value of Money,
   (c) Required Rate of Return,
   (d) Rate of Cash Discount.

6. Which of the following is not a capital budgeting decision?
   (a) Expansion Programme
   (b) Merger,
   (c) Replacement of an Asset,
   (d) Inventory Level.

7. A sound Capital Budgeting technique is based on:
   (a) Cash Flows,
   (b) Accounting Profit,
   (c) Interest Rate on Borrowings,
   (d) Last Dividend Paid.

8. Which of the following is not a relevant cost in Capital Budgeting?
   (a) Sunk Cost,
   (b) Opportunity Cost,
   (c) Allocated Overheads,
   (d) Both (a) and (c) above.

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9. Capital Budgeting Decisions are based on:
   (a) Incremental Profit,
   (b) Incremental Cash Flows,
   (c) Incremental Assets,
   (d) Incremental Capital.

10. Which of the following does not effect cash flows from a proposal?
   (a) Salvage Value,
   (b) Depreciation Amount,
   (c) Tax Rate Change,
   (d) Method of Project Financing.

11. Cash Inflows from a project include:
   (a) Tax Shield of Depreciation,
   (b) After-tax Operating Profits,
   (c) Raising of Funds,
   (d) Both (a) and (b).

12. Which of the following is not true with reference to capital budgeting?
   (a) Capital budgeting is related to asset replacement decisions,
   (b) Cost of capital is equal to minimum required rate of return,
   (c) Existing investment in a project is not treated as sunk cost,
   (d) Timing of cash flows is relevant.

13. Which of the following is not followed in capital budgeting?
   (a) Cash flows Principle,
   (b) Interest Exclusion Principle,
   (c) Accrual Principle,
   (d) Post-tax Principle.

14. Depreciation is incorporated in cash flows because it:
   (a) Is unavoidable cost,
   (b) Is a cash flow,
   (c) Reduces Tax liability,
   (d) Involves an outflow.

15. Which of the following is not true for capital budgeting?

   (a) Sunk costs are ignored,
   (b) Opportunity costs are excluded,
   (c) Incremental cash flows are considered,
   (d) Relevant cash flows are considered.

16. Which of the following is not applied in capital budgeting?
   (a) Cash flows be calculated in incremental terms,
   (b) All costs and benefits are measured on cash basis,
   (c) All accrued costs and revenues be incorporated,
   (d) All benefits-are measured on after-tax basis.

17. Evaluation of Capital Budgeting Proposals is based on Cash Flows because:
   (a) Cash Flows are easy to calculate,
   (b) Cash Flows are suggested by SEBI,
   (c) Cash is more important than profit,
   (d) None of the above.

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18. Which of the following is not included in incremental cash flows?
(a) Opportunity Costs,
(b) Sunk Costs,
(c) Change in Working Capital,
(d) Inflation effect.

19. A proposal is not a Capital Budgeting proposal if it:
(a) is related to Fixed Assets,
(b) brings long-term benefits,
(c) brings short-term benefits only,
(d) has very large investment.

20. In Capital Budgeting, Sunk cost is excluded because treated in capital it is :
(a) Of small amount,
(b) Not incremental,
(c) Not reversible,
(d) All of the above.

21. Savings in respect of a cost is budgeting as:
(a) An Inflow,
(b) An Outflow,
(c) Nil
(d) None of the above.

[Answers: 1. (a), 2. (a), 3. (c), 4. (b), 5. (d), 6. (d), 7. (a), 8. (d), 9. (b), 10. (d), 11. (d), 12. (c), 13. (c), 14. (c), 15. (b), 16. (c), 17. (c), 18. (b), 19. (c), 20. (b), 21. (a)].

CAPITAL BUDGETING - TECHNIQUES OF EVALUATION

1. Which of the following statements is correct?
(a) If PI < I, its NPV is less than zero,
(b) If PI = 0, its NPV is greater than zero,
(c) If P > 1, its NPV will be negative,
(d) PI of a project is always greater than one.

2. Profitability Index method is an extension of:
(a) Net Present Value,
(b) Internal Rate of Return,
(c) Payback Period,
(d) Accounting Rate of Return.

3. Which of the following variables is not known in Internal Rate of Return?
(a) Initial Cash Flows,
(b) Discount Rate,
(c) Terminal Inflows,
(d) Life of the Project.

4. In case of Mutually Exclusive Proposals:
(a) Only the best project is selected,
(b) AU Projects with Positive NPV are selected,
(c) Even Negative NPV Project may be selected,
(d) At least two proposals are selected.

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5. Reinvestment Rate Assumption is implied in:
   (a) Net Present Value,
   (b) Internal Rate of Return,
   (c) Both (a) and (b),
   (d) None of the above.

6. Payback Period Technique is based on:
   (a) All Cash Flows,
   (b) Only higher Cash Flows,
   (c) Earlier Cash Flows,
   (d) Selected Cash Flows.

7. In Capital Budgeting Decisions, a single cost of capital is used because:
   (a) Required Rate of Return is same for all projects,
   (b) It avoids calculation of Required Rate for different projects,
   (c) Both (a) and (b),
   (d) None of the above.

8. PI of a Project is the ratio of Present Value of Inflows to:
   (a) Initial Cost,
   (b) PV of outflows,
   (c) Total Cash inflows,
   (d) Total Outflows.

9. NPV of a proposal indicates:
   (a) Net Incremental Profit,
   (b) Net addition to Wealth,
   (c) Total Value of the Proposal,
   (d) None of the above.

10. NPV method and IRR method always give to mutually exclusive projects:
   (a) Same Ranking,
   (b) Different Ranking,
   (c) Inverse Ranking,
   (d) None of the above.

11. Which of the following method of evaluation of capital budgeting proposals focuses on liquidity?
   (a) Internal Rate of Return,
   (b) Net Present Value,
   (c) Accounting Rate of Return,
   (d) Payback Period.

12. In case of selection of mutually exclusive projects, the rule is:
   (a) Only the best one,
   (b) All the good ones,
   (c) All Positive NPV projects,
   (d) None of the above.

13. Which method of capital budgeting assumes that the cash flows are reinvested at project's rate of return?
   (a) Terminal Value,
   (b) Net Present Value,
   (c) Internal Rate of Return,
   (d) Accounting Rate of Return.

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14. In case of risky projects; the required rate of return would generally be:
    (a) Higher,
    (b) Lower,
    (c) Same as for others,
    (d) None of the above.

15. Which of the following methods state the return from a project in percentage form?
    (a) Terminal Value Method,
    (b) Discounted Payback Method,
    (c) Internal Rate of Return,
    (d) Net Present Value.

16. Which of the following methods focuses on the maximization of wealth of shareholders?
    (a) Accounting Rate of Return,
    (b) Payback Period,
    (c) Profitability Index,
    (d) Internal Rate of Return.

17. Which of the following assumes that cash flows from a project are uniform throughout the life of the project?
    (a) Internal Rate of Return,
    (b) Net Present Value,
    (c) Profitability Index,
    (d) None of the above.

18. Project costing Rs. 8, 00,000 and a life of 5 years is expected to bring cash inflows of Rs. 2, 00,000 p.a. What is the payback period?
    (a) 5 years,
    (b) 4 years,
    (c) 3 years,
    (d) None of the above.

19. A project has a Profitability Index of 1.30. What does it mean?
    (a) That NPV is less than zero.
    (b) That Payback period is more than one year.
    (c) That the project returns Rs. 1.30 for every Re. 1 invested in project.
    (d) That IRR is 1.30 times that of the Hurdle Rate.

20. Accounting Rate of Return is based on:
    (a) Average Expected Profit,
    (b) Average past Profit,
    (c) Average Cash Profit,
    (d) Life of the Project.

21. NPV technique is based on:
    (a) Discounting Procedure,
    (b) Compounding Procedure,
    (c) Averaging Procedure,
    (d) None of the above.

22. Which of the following statement is correct with reference to Capital Budgeting?
    (a) All Capital Budgeting techniques lead to same decision.
    (b) Internal Rate of Return does not consider time value of money.
    (c) NPV method is superior to Payback method as the former considers time value of money.
    (d) Cash flows of a project are calculated before tax.

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23. Which of the following is likely to increase the NPV of a project?
(a) Increase in cost of capital,
(b) Decrease in working capital,
(c) Spreading cash flows over a longer period,
(d) Decreasing the net revenues.

24. If IRR of a project is equal to opportunity cost of capital, then:
(a) Project should be repeated,
(b) NPV will be zero,
(c) Project has no cash flows,
(d) NPV will be positive.

25. Number of IRR for a project is equal to:
(a) Number of Cash flows,
(b) Number of Cash Outflows,
(c) Life of the Project,
(d) Changes in the signs of cash flows.

26. Which of the following is true about NPV?
(a) Based on all cash flows
(b) Considers Time Value of Money
(c) Both (a) and (b)
(d) None of (a) and (b)

27. If the PI of a Project is equal to 1, then
(a) NPV = 0
(b) IRR = Hurdle Rate
(c) Both (a) and (b)
(d) Project should be rejected.

28. Which, of the following is not applicable to IRR?
(a) Considers all Cash Flows
(b) Based on Time Value of Money
(c) Common for all Projects
(d) Stated in % Return.

29. In which of the following cases, the project is not acceptable?
(a) NPV < 0
(b) IRR < Hurdle Rate
(c) Cost > Total inflows
(d) All of the above

30. The presence of taxes in capital budgeting analysis will cause:
(a) The NPV to Increase (b) The IRR to Decrease
(c) The ARR to remain same (d) All of the above

31. In IRR method, the cash inflows from the project are assumed to be reinvested at rate equal to:
(a) IRR
(b) Risk-free Rate
(c) Cost of Capital
(d) Rate of Interest.

[**Answers:** 1. (a), 2. (a), 3. (b), 4. (a), 5. (c), 6. (c), 7. (c), 8. (b), 9. (b), 10. (d), 11. (d), 12. (a), 13. (c), 14. (a), 15. (c), 16. (c), 17. (d), 18. (b), 19. (c), 20. (a), 21. (a), 22. (c), 23. (b), 24. (b), 25. (d), 26. (c), 27. (c), 28. (c), 29. (d), 30. (b), 31. (a)]

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CAPITAL BUDGETING - SOME ISSUES

1. In capital budgeting, the term Capital Rationing implies:
   (a) That no retained earnings available
   (b) That limited funds are available for investment
   (c) That no external funds can be raised.
   (d) That no fresh investment is required in current year

2. Feasibility Set Approach to Capital Rationing can be applied in:
   (a) Accept-Reject Situations (b) Divisible Projects
   (c) Mutually Exclusive Projects (d) None of the above

3. In case of divisible projects, which of the following can be used to attain maximum NPV?
   (a) Feasibility Set Approach (b) Internal Rate of Return
   (c) Profitability Index Approach (d) Any of the above

4. In case of the indivisible projects, which of the following may not give the optimum result?
   (a) Internal Rate of Return (b) Profitability Index
   (c) Feasibility Set Approach (d) All of the above

5. Profitability Index, when applied to Divisible Projects, impliedly assumes that:
   (a) Project cannot be taken in parts
   (b) NPV is linearly proportionate to part of the project taken up
   (c) NPV is additive in nature (d) Both (b) and (c)

6. If there is no inflation during a period, then the Money Cash flow would be equal to :
   (a) Present Value (b) Real Cash flow
   (c) Real Cash flow + Present Value (d) Real Cash flow - Present Value

7. The Real Cash flows must be discounted to get the present value at a rate equal to:
   (a) Money Discount Rate (b) Inflation Rate
   (c) Real Discount Rate (d) Risk free rate of interest

8. Real rate of return is equal to:
   (a) Nominal Rate x Inflation Rate (b) Nominal Rate ÷Inflation Rate
   (c) Nominal Rate - Inflation Rate (d) Nominal Rate + Inflation Rate

9. If the Real rate of return is 10% and Inflation is 4%, the Money Discount Rate is :
   (a) 14.4% (b) 2.5%
   (c) .25% (d) 14%

10. If the Money Discount Rate is 19% and Inflation Rate is 12%, then the Real Discount Rate is:
   (a) 7% (b) 5%
   (c) 5.70% (d) 6.25%

11. Money Discount Rate is equal to:
   (a) (1 + Inflation Rate) (1 + Real Rate)-1 (b) (1 + Inflation Rate) ÷ (1 + Real Rate)-1
   (c) (1 + Real Rate) ÷ (1 + Inflation Rate)-1 (d) (1 + Real Rate) + (1 + Inflation Rate)-1

12. Real Discount Rate is equal to:
   (a) (1 + Inf. Rate) (1 + Money D Rate)-1 (b) (1 + Money D Rate) + (1 + Inf. Rate)-1
   (c) (1 + Money D Rate) ÷ (1 + Inf. Rate)-1 (d) (1 + Money D Rate) - (1 + Inf. Rate)-1

13. Which of the following cannot be true?
   (a) Inflation Rate > Money Dis. Rate (b) Real Dis. Rate < Money Dis. Rate
   (c) Inflation Rate < Real Dis. Rate (d) Inflation Rate = Real Dis. Rate

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14. Money Cash flows should be adjusted for:
    (a) Only Inflation Effect
    (b) Only Time Value of Money
    (c) None of (a) and (b)
    (d) Both of (a) and (b)

15. EAV should be used in case of:
    (a) Divisible Projects (b) Repetitive Projects
    (c) One-off Investments (d) Indivisible Projects

16. EAV is equal to:
    (a) NPV x $PVAF_{(r,n)}$
    (b) NPV + $PVAF_{(r,n)}$
    (c) NPV ÷$PVAF_{(r,n)}$
    (d) NPV-$PVAF_{(r,n)}$

17. If a project has positive NPV, its EAV is:
    (a) Equal to NPV
    (b) More than NPV
    (c) Less than NPV
    (d) Any of the above

18. Two mutually exclusive projects with different economic lives can be compared on the basis of
    (a) Internal Rate of Return
    (b) Profitability Index
    (c) Net Present Value
    (d) Equivalent Annuity Value

[**Answers :** 1. (b); 2. (a); 3. (c); 4. (c); 5. (d); 6. (b); 7. (c); 8. (b); 9. (a); 10. (d);11. (a); 12. (c); 13. (a); 14. (c); 15. (b); 16. (c); 17. (c); 18. (d)

CAPITAL BUDGETING - RISK AND UNCERTAINTY

1. Risk in Capital budgeting implies that the decision-maker knows……..of the cash flows.
    (a) Variability (b) Probability
    (c) Certainty (d) None of the above

2. In Certainty-equivalent approach, adjusted cash flows are discounted at:
    (a) Accounting Rate of Return (b) Internal Rate of Return
    (c) Hurdle Rate (d) Risk-free Rate

3. Risk in Capital budgeting is same as:
    (a) Uncertainty of Cash flows (b) Probability of Cash flows
    (c) Certainty of Cash flows (d) Variability of Cash flows

4. Which of the following is a risk factor in capital budgeting?
    (a) Industry specific risk factors (b) Competition risk factors
    (c) Project specific risk factors (d) All of the above

5. In Risk-Adjusted Discount Rate method, the normal rate of discount is :
    (a) Increased (b) Decreased
    (c) Unchanged (d) None of the above

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6. In Risk-Adjusted Discount Rate method, which one is adjusted?
   (a) Cash flows (b) Life of the proposal
   (c) Rate of discount (d) Salvage value

7. NPV of a proposal, as calculated by RADR method and CE Approach will be:
   (a) Same (b) Unequal
   (e) Both (a) and (b) (d) None of (a) and (b)

8. Risk of a Capital budgeting can be incorporated by:
   (a) Adjusting the Cash flows (b) Adjusting the Discount Rate
   (c) Adjusting the life (d) All of the above

9. Which element of the basic NPV equation is adjusted by the RADR?
   (a) Denominator (b) Numerator
   (c) Both (d) None

10. In CE Approach, the CE Factors for different years are:
   (a) Generally increasing (b) Generally decreasing
   (c) Generally same (d) None of the above

11. Which of the following is correct for RADR?
   (a) Accept a project if NPV at RADR is negative
   (b) Accept a project if IRR is more than RADR
   (c) RADR is overall cost of capital plus risk-premium
   (d) All of the above

12. In Payback Period approach to risk the target pay-back period is:
   (a) Not adjusted (b) Adjusted upward
   (c) Adjusted downward (d) (b) or(c)

13. In Sensitivity Analysis, the emphasis is on assessment of sensitivity of:
   (a) Net Economic Life (b) Net Present Value
   (c) Both of (a) and (b) (d) None of (a) and (b)

14. Most sensitive variable as given by the Sensitivity Analysis should be:
   (a) Ignored (b) Given Least important
   (c) Given the maximum importance (d) None of the above

15. Expected Value of Cashflow, EVCF, is:
   (a) Certain to occur (b) Most likely Cash flows
   (c) Arithmetic Average Cash flow (d) Geometric Average Cash flow

16. Concept of joint probability is used in case of:
   (a) Independent Cash flows (b) Uncertain Cash flows
   (c) Dependent Cash flows (d) Certain Cash flows

17. Decision-tree approach is used in :
   (a) Proposals with longer life (b) Sequential decisions
   (c) Independent Cash flows (d) Accept-Reject Proposal

[Answers: 1. (b) 2. (d) 3. (d) 4. (d) 5. (a) 6. (c) 7. (b) 8. (d) 9. (a) 10. (b). 11. (c); 12. (c); 13. (b); 14. (c); 15. (b); 16. (c); 17. (b)]

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Capital budgeting: miscellaneous

1. Capital Budgeting is a part of:
(a)Investment Decision, (b) Working Capital Management,
(c) Marketing Management, (d) Capital Structure.

2. Capital Budgeting deals with:
(a) Long-term Decisions (b) Short-term Decisions
(c) Both (a) and (b) (d) Neither (a) nor (b).

3. Which of the following is not used in Capital Budgeting?
(a) Time Value of Money (b) Sensitivity Analysis
(c) Net Assets Method (d) Cash Flows.

4. Capital Budgeting Decisions are:
(a) Reversible (b) Irreversible
(c) Unimportant (d)All of the above

5. Which of the following is not incorporated in Capital Budgeting?
(a) Tax-Effect (b) Time Value of Money
(c) Required Rate of Return (d) Rate of Cash Discount.

6. Which of the following is not a capital budgeting decision?
(a) Expansion Programme (b) Merger
(c) Replacement of an Asset (d) Inventory Level.

7. A sound Capital Budgeting technique is based on:
(a) Cash Flows (b)Accounting Profit
(c) Interest Rate on Borrowings (d) Last Dividend Paid

8. Which of the following is not a relevant cost in Capital Budgeting?
(a) Sunk Cost (b) Opportunity Cost
(c) Allocated Overheads (d) Both (a) and (c) above

9. Capital Budgeting Decisions are based on:
(a) Incremental Profit (b) Incremental Cash Flows
(c) Incremental Assets (d) Incremental Capital

10. Which of the following does not effect cash flows proposal?
(a) Salvage Value (b) Depreciation Amount
(c) Tax Rate Change (d) Method of Project Financing

11. Cash Inflows from a project include:
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(b) Cost of capital is equal to minimum required return
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(c) (1 + Real Rate) 4- (1 + Inflation Rate)-1 (d) (1 + Real Rate) + (1 + Inflation Rate)-1

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34. Which of the following cannot be true?
(a) Inflation Rate > Money Dis. Rate (b) Real Dis. Rate < Money Dis. Rate
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(a) NPV × $PVAF_{(r,n)}$
(b) NPV + $PVAF_{(r,n)}$
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(a) Industry specific risk factors
(b) Competition risk factors
(c) Project specific risk factors
(d) All of the above

44. In Risk-Adjusted Discount Rate method, the normal rate of discount is:
(a) Increased
(b) Decreased
(c) Unchanged
(d) None of the above

45. In Risk-Adjusted Discount Rate method, which one is adjusted?
(a) Cash flows
(b) Life of the proposal
(c) Rate of discount
(d) Salvage value

46. NPV of a proposal, as calculated by RADR real CE Approach will be:
(a) Same
(b) Unequal
(c) Both (a) and (b)
(d) None of (a) and (b)

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47. Risk of a Capital budgeting can be incorporated
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(b) Adjusting the Discount Rate
(c) Adjusting the life
(d) All of the above

48. Which element of the basic NPV equation is adjusted by the RADR?
(a) Denominator
(b) Numerator
(c) Both
(d) None

49. In CE Approach, the CE Factors for different years are:
(a) Generally increasing
(b) Generally decreasing
(c) Generally same
(d) None of the above

50. Which of the following is correct for RADR?
(a) Accept a project if NPV at RADR is negative
(b) Accept a project if IRR is more than RADR
(c) RADR is overall cost of capital plus risk-premium
(d) All of the above

51. In Playback Period approach to risk the target payback period is
(a)Not adjusted
(b)Adjusted upward
(c) Adjusted downward
(d) (b) or c

52. In Sensitivity Analysis, the emphasis is on assessment of sensitivity of
(a) Net Economic Life
(b) Net Present Value
(c) Both (a) and (b)
(d)None of (a) and (b)

53. Most Sensitive variable as given by the Sensitivity Analysis should be:
(a) Ignored
(b) Given Least important
(c) Given the maximum importance
(d) None of the above

54. Expected Value of Cashflow, EVCF, is:
(a) Certain to occur
(b) Most likely Cash flows
(c) Arithmetic Average Cashflow
(d) Geometric Average Cashflow

55. Concept of joint probability is used in case of:
(a) Independent Cash flows
(b) Uncertain Cash flows
(c) Dependent Cash flows
(d) Certain Cash flows

56. Decision-tree approach is used in:
(a) Proposals with longer life
(b) Sequential decisions
(c) Independent Cash flows
(d) Accept-Reject Proposal

57 A large corporation embarks on an investment which exposes it to uncertainties and hence involves more people in the decision- making process. The project is most likely a:
(a) Replacement project.
(b) New product or service.
(c) Expansion project.

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58 The post-audit stage of capital budgeting least likely includes:
(a) Rescheduling and prioritizing of projects.
(b) Indication of systematic errors.
(c) Provision of future investment ideas.

59 When computing the cash flows for a capital project, which of the following is most likely to be included?
(a) Accounting income. (b) Financing costs.
(c) Opportunity costs.

60 A company that sells energy drinks is evaluating an expansion of its production facilities to also produce soda drinks. The company's marketing department recommended producing soda drinks as it would increase the company's energy drinks sales because of an increase in brand awareness. What impact will the cash flows from the expected increase in energy drinks sales most likely have on the NPV of the soda drinks project?
(a) Decrease. (b) Increase. (c) No effect.

61 In the context of capital budgeting, an appropriate estimate of the incremental cash flows from a project is least likely to consider:
(a) Opportunity costs. (b) Externalities. (c) Interest costs.

62 Two mutually exclusive projects have the following cash flows ($) and internal rates of return

Project	IRR	Year 0	Year 1	Year 2	Year 3	Year 4
X	26.36%	-2,340	240	729	505	3,680
Y	26.68%	-2,340	240	729	990	3,115

Assuming a discount rate of 10% annually for both projects, the firm should most likely accept:
(a) Both projects. (b) Project X only, (c) Project Y only

63 A firm is analyzing different new projects for investment but cannot choose more than an outlay of $30 million. This is most likely due to:
(a) Capital rationing:
(b) Project sequencing.
(c) New product or service.

64 Consider the following two mutually exclusive projects:

Project	Year 0	Year 1	Year 2	Year 3
Project A	- 3518	2500	1450	500
Project B	- 3846	900	1500	2500

At an annual discount rate of 10% for both projects, the firm should most likely accept:
(a) project A.
(b) Project B.
(c) Both projects.

65 Mutually exclusive capital budgeting projects A and B have similar outlays, but different pattern of future cash flows. The required rate of return for both projects is 12 percent, at which the NPV and IRR turn out to be as follows:

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Cash Flows

Year	0	1	2	3	4	NPV	IRR
Project A	-100	0	0	0	200	24.20	18.92
Project B	-100	40	40	40	40	19.19	21.86

The appropriate investment decision in this case is to:

(a) Invest in Project A because it has the higher NPV.

(b) Reject both projects as the decision is unclear.

(c) Invest in Project B because it has the higher IRR.

66 A project has the following cash flows. (£):

Year 0	Year 1	Year 2	Year 3	Year 4
-3,250	1,505	550	955	1,820

Assuming a discount rate of 7% annually, the discounted payback period (in years) is closest to:

(a) 3.1. (b) 3.4. (c) 3.7.

67 The project has the following annual cash flows:

Year 0	Year 1	Year 2	Year 3	Year 4
- 85,540	$42,100	$23,025	$30,200	$16,000

With a discount rate of 7%, the discounted payback period (in years) is closest to:

(a) 2.8. (b) 3.1. (c) 3.5

68 A project investment of $100 generates after-tax cash flows of $50 in Year 1, $60 in Year 2, $120 in Year 3 and $150 in Year 4. The required rate of return is 15 percent. The net present value is closest to:

(a) $153.51. (b) $158.33. (c) $168.52.

69 A project manager is working on a complicated large-scale project for a company that will require multiple investments overtime while giving cash- inflows in some years over a period of four years. He develops the following cash flow schedule for his project:

Year 0	-£900,000.00
Year 1	£6,344,400.00
Year 2	- £8,520,364.00
Year 3	£2,245,066.00
Year 4	£650,000.00

At which of the following discount rates is the project least likely to be undertaken?

(a) 18%. (b) 16%. (c) 13%.

70 Given below are the cash flows for a capital project. The required rate of return is 10 percent.

Year	O	1	2	3	4	5
Cash flow	(75,000)	25,000	30,000	30,000	15,000	7,500

The discounted payback period is:

(a) 1.01 years longer than the payback period.

(b) 0.81 years longer than the payback period.

(c) 1.21 years longer than the payback period.

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71 A project has the following annual cash flows:

Year 0	Year 1	Year 2	Year 3
-450,000	-1,000,000	1,000,000	1,000,000

What is the IRR of this project?

(a) 7.5%. (b) 15.5%. (c) 19.5%.

72 A capital investment of 90, 000 is expected to generate an after - tax cash flow of 50,000 one year from today and a cash flow of $55,000 two years from today. The cost of capital is 12 percent. The internal rate of return is closest to:

(a) 7.89 percent. (b) 13.45 percent. (c) 10.74 percent.

73 A capital project with a net present value (NPV) of €14.02 has the following cash flows in Euros:

Year	0	1	2	3	4	5
Cash Flows	150	40	40	50	60	40

The internal rate of return (IRR) for the project is closest to:

(a) 10%. (b) 12%. (c) 16%.

74 An analyst determines the following cash flows for a capital project:

Year	0	1	2	3	4	5
Cash Flow ($)	- 200	80	65	45	45	30

The required rate of return of the project is 12 percent. The net present value (NPV) of the project is closest to:

(a) $1.0. (b) $1.5. (c) $3.5.

75 Given below are the cash flows for a capital project.

Year	0	1	2	3	4	5
Cash flow	(75,000)	25,000	30,000	30,000	15,000	7,500

Assuming the cost of capital is 10 percent, the NPV and IRR are closest to:

Option	NPV	IRR
A	9,962	12.3%
B	5,521	15.9%
C	9,962	15.9%

(a) Option A in the above table. (b) Option B in the above table,

(c) Option C in the above table.

76 A project requires an initial outlay of $75,000, It is expected to result in positive cash flows of $20,000 for the first two years. Projections for the third and fourth year are $36,000 and $38,000 respectively. Given that the discount rate is 9%, the discounted payback for the project is closest to:

(a) 2.6 years. (b) 3.0 years. (c) 3.4 years.

77 Alpha Corporation is considering investing €500 million with expected after tax cash inflows of €110 million per year for six consecutive years. The required, rate of return is 8 percent. The project's payback period and discounted payback period, respectively, are closest to:

(a) 4.3 years and 5.4 years (b) 4.5 years and 5.9 years

(c) 4.8 years and 5.9 years

78 A perpetual after-tax cash flow stream of $2,000 is created by an investment of $15,000. The required rate of return is 8 percent. The investment's profitability index is closest to:

(a) 1.50. (b) 1.67. (c) 1.25

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79 Digital Design Corporation is considering an investment of £400 million with expected after-tax cash inflows of £100 million per year for five years and an additional after-tax salvage value of £50 million in Year 5. The required rate of return is 7.5 percent. What is the investment's PI?
(a) 0.8. (b) 1.2. (c) 1.1.

80 At which point the net present value profiles of two mutually exclusive projects with normal cash flows are most likely to intersect the horizontal axis?
(a) Crossover rate for the projects.
(b) Internal rates of return of the projects.
(c) The company's weighted average cost of capital (WACC).

81 Alpha Corporation is considering investing €500 million with expected after tax cash inflows of €110 million per year for six consecutive years. The required rate of return is 8 percent; the project's NPV and IRR are closest to:

	NPV	IRR
A	€7 million	8.6%
B	€9 million	8.6%
C	€11 million	5.9%

(a) Option A in the above table.
(b) Option B in the above table,
(c) Option C in the above table.

82 While developing the net present value (NPV) profiles for two investment projects, the analyst notes the only difference between the two projects is that Project Alpha is expected to receive larger cash flows early in the life of the project, while Project Beta is expected to receive larger cash flows late in the life of the project. The sensitivities of the projects' NPVs to changes in the discount rate is best described as:
(a) Equal for the two projects.
(b) Lower for Project Alpha than for Project Beta.
(c) Greater for Project Alpha than for Project Beta.

83 Two mutually exclusive projects have conventional cash flows, but one project has a larger NPV while the other has a higher IRR. Which of the following most likely explains this conflict?
(a) The size of the two projects is the same.
(b) Risk of the projects as reflected in the required rate of return.
(c) Differing cash flow patterns.

84 Claude Browning is reviewing a profitable investment project that has a conventional cash flow pattern. If the cash flows of the project, initial outlay, and future after-tax cash flows all reduce by half, Browning would predict that the IRR would:
(a) Stay the same and the NPV would decrease.
(b) Stay the same and the NPV would stay the same.
(c) Decrease and the NPV would decrease.

85 Erika Schneider has evaluated an investment proposal and found that its payback period is two years; it has a negative NPV, and a positive IRR. Is this combination of results possible?
(a) No, because a project with a positive IRR has a positive NPV.
(b) No, because a project with such a rapid payback period has a positive NPV.
(c) Yes.

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86 Capital budgeting projects A and B have similar outlays, but different patterns of future cash flows. The required rate of return for both projects is 12 percent, at which the NPV and IRR turn out to be as follows:

	Cash Flows						
Year	**0**	**1**	**2**	**3**	**4**	**NPV**	**IRR (%)**
Project A	-50	0	0	0	110	17.77	21.79
Project B	-50	22	22	22	22	15.02	27.18

The discount rate which would result in the same NPV for both projects is:

(a) a rate between 21.79 percent and 27.18 percent.
(b) a rate between 0.00 percent and 12.00 percent.
(c) a rate between 12.00 percent and 21.79 percent.

87 Katrina Lowry is facing multiple IRRs problem regarding an upcoming project.

Year	0	1	2
Cash flows	-1.6	10	-10

The NPV is zero when the discount rate is:

(a) 25 percent only.
(b) 25 percent and 600 percent,
(c) 25 percent and 400 percent.

88 In the context of net present value (NPV) profiles of two projects, the crossover rate is most appropriately described as the discount rate at which:

(a) Two projects have the same NPV.
(b) A project's NPV changes sign from negative to positive.
(c) Two projects have the same internal rate of return.

89 In the context of net present value (NPV) profiles, the point at which a profile crosses the vertical axis is most appropriately described as:

(a) a project's internal rate of return when the project's NPV is equal to zero.
(b) The sum of the undiscounted cash flows from a project
(c) The point at which two projects have the same NPV.

[Answers : l(a), 2(a), 3(c), 4(b), 5(d), 6(d), 7(a), 8(d), 9(b), 10(d), 11(d), 12(c), 13 (c), 14(c), 15(b), 16(c), 17(c), 18(b), 19(c), 20(b), 21(a), 22(b), 23(a), 24(c), 25(c), 26(d), 27(b), 28(c), 29(b), 30(a), 31(d), 32(a), 33(c), 34(a), 35(c), 36(b), 37(c), 38(c), 39(d),40 (b), 41(d), 42(d), 43(d), 44(a), 45(c), 46(b), 47(d), 48(a), 49(b), 50(c), 51(c), 52(b), 53(c), 54(b), 55(c), 56(b) 57. (b), 58. (a), 59. (c), 60. (b), 61. (c), 62. (b), 63. (a), 64. (a), 65. (a), 66. (b), 67. (b), 68. (a), 69. (c), 70. (b), 71. (c), 72. (c), 73. (c), 74. (a), 75. (c), 76. (c), 77. (b), 78. (b), 79. (c), 80. (b), 81. (b), 82. (b), 83. (c), 84. (a), 85. (c), 86. (c), 87. (c), 88. (a), 89. (

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2. LEASE AND HIRE PURCHASE

Q. 1. **[Dec 2007/ 2009]** Distinguish between financial lease & operating lease? **Or**
[Dec 2010] Distinguish between leasing hire purchase? **Or**
[Dec 2004/ 2006] Leveraged lease?

Ans. **Meaning**

Lease can be defined as a right to use equipment or capital goods on payment of periodical amount.

Parties to a Lease Agreement

There are two principal parties to any lease transaction as under:-

1) **Lessor** :- Who is actual owner of equipment permitting use to the other party on payment of periodical amount.
2) **Lessee** :- Who acquires the right to use the equipment on payment of periodical amount.

Type of Leasing

The difference leasing option may however, be grouped in by two board categories as under

1) **Operating lease**

Feature of Operating lease:-

- It is short term arrangement.
- It can be cancelled by the lease prior to its expiration date.
- The lease rental is generally not sufficient to fully amortize the cost of the asset.
- The cost of maintenance, taxes, insurance is the responsibility of the lesser.
- The lease is protected against the risk of obsolescence.
- The lessor has the option to recover the cost of the asset from another party on Cancellation of the lease by leasing out the asset.
- The lease term is significantly less than the economic life of the equipment.
- These agreements may generally be preferred by the lease in the following circumstances:-
  a) When the long-term suitability of asset is uncertain.
  b) When the asset is subject to repaid obsolescence.
  c) When the asset is required for immediate use to tide over a temporary problem.
  d) Computers & other office equipments is very common asset which form subject matter of many operating lease agreements.

2) **Financial Lease**

Features of financial lease

- It is a long term arrangement.
- During the primary lease period the lease cannot be cancelled.
- The lease is more or less fully amortized during the primary lease period.
- The costs of maintenance taxes, insurance etc. are to be incurred by the leases unless the contract provides otherwise.
- The lease is required to take the risk of obsolescence.
- The lessor is only the financier and is not interested in the asset.
- The lease is term generally covers the full economic life of the equipment.
- The variants /forms under financial lease are as under:-

S No.	Basis	Finance Lease	Operating Lease
1	Life of Contract	Approximates the economic life of the asset.	Shorter than the economic life of the asset.

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2	Maintenance	The burden of the costs of maintenance repairs, taxes insurance etc are borne by the lessee.	The burdens of all these expenses are borne by the lessor.
3	Cancellation	It is a non revocable contract i.e. it cannot be cancelled by the lessee prior to its expiration date.	It is a revocable one i.e. can be cancelled by the lessee prior to its expiration date.
4	Duration	In this case the lease period is usually related to the useful life of the asset.	It is usually of a shorter duration & bears no relation to the economic life of the asset.
5	Risk of Obsolescence	The lessee has to take the risk of obsolescence in the case of financial lease.	The lease is protected against risk of obsolescence.
6	Cost of Asset	The lease rental would cover the lessor's original investment cost plus return on investment.	The lease rental is generally not sufficient to fully amortize the cost of the asset.
7	Risk & Reward	The risk and reward incident to ownership are passed on the lease .The lessor only remains the legal owner of the asset.	The lease is only provided the use of the asset for a certain time, risk incident to ownership belong wholly to the lessor.
8	Full Payout	The lease is usually full pay out that is the single lease the cost of the asset together with the interest.	The lease is usually non payout, since the Lesser expects to lease the same asset over and over again to several users.

S No.	Basis	Lease Finance	Hire Purchase
1	Meaning	A transaction is a commercial arrangement, where by an equipment owner or manufacturer conveys to the equipment user the right to use the equipment in return for a rental.	Hire-purchase is a type of installments credit under which the hire - purchase agrees to take the goods on hire at a stated rental, which is inclusive of the repayment of principal as well interest, with an option to purchase.
2	Option of User	No option is provided to the lessee (user) to purchase the goods.	Option is provided to the hirer (user).
3	Nature of expenditure	Lease rental paid by the lessee is entirely revenue expenditure of the lessee.	Only interest element included in the HP installments is revenue expenditure by nature.
4	Components	Lease rentals comprise of 2 elements:- 1) Finance charge & 2) Capital recovery	HP installments comprise of 3 element:- 1) Normal trading profit 2) Finance charge and 3) Recovery of cost of goods/assets

Q. 2. **[CA Nov 2008]** Cross border leasing?

Ans. Cross border is a leasing agreement where lessor and lessee are situated in different countries. This raises significant additional issues relating to tax avoidance and tax shelters. It has been widely used in some European countries, to arbitrage the difference in the laws of different countries.

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Cross border leasing have been in practice as a means of financing infrastructure development in emerging nations. Cross- border leasing may have significant applications in financing infrastructure development in emerging nations-such as rail &air transport equipment, telephone & telecommunications, equipment & assets incorporated into power generation and distribution system and other projects that have predictable revenue streams.

A major projective of cross- border leases is to reduce the overall cost of financing through utilization by the lessor of tax depreciation allowances to reduce its taxable income. The tax savings are passed through to the lessee as a lower cost of finance .The basic prerequisites are relatively high tax rate in the lessor's country, liberal depreciation rules and either very formalistic rules governing tax ownership

Q. 3. **[CS Dec 2005]** "For the lessor, lease decision is akin to a capital budgeting exercise."Examine the statement and explain its implication.

Ans.

- When a proposal of lease is evaluated from the point of lessor the same is in the form of capital budgeting problem.
- Just like capital budgeting, the lessor will provide the asset on lease only when the cash inflows (lease rentals) are more than the cash outflows.
- Capital budgeting techniques are deployed by the lessor to evaluate the lease
- Lease rentals, residual value, initial cash investments, period for which lease is to be granted constitutes valid basis for evaluating lease proposal.
- Thus, it can truly be regarded that for the lessor, lease decision is akin to a capital budgeting exercise.

Q. 4. ABC Ltd. is considering a proposal to acquire a machine costing `2,00,000 under borrow to purchase option. The payment under this alternative will be as follows:

Year end	Principal	Interest	Total
1	`60,000	`24,000	`84,000
2	`50,000	`20,000	`70,000
3	`40,000	`16,000	`56,000
4	`30,000	`12,000	`42,000
5	`20,000	` 8,000	`28,000

The installments are payable at the end of each year. Another option before it is to acquire the asset on a lease rental of `50,000 per annum payable at the beginning of each year for 5 years.

The following information is also available:

(a) Terminal Scrap value of the asset is Nil.

(b) The company provides 20% depreciation on straight – line method on the original cost.

(c) Income tax rate is 40%.

Which alternative do you recommend ? (Use post – tax discount rate 10% p.a.).

Q. 5. ABC Ltd. is considering to acquire an additional computer to supplement its time – share computer services to its clients. It has two options:

(i) To purchase the computer for `22, 00, 000.

(ii) To lease the computer for 3 years from a leasing company for `5, 00, 000 as annual lease rent plus 10% of gross time – share service revenue. The arrangement also requires an additional payment of `6, 00, 000 at the third year. Lease rents are payable at the year end, and the computer reverts to the lessor after the contract period.

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The company estimates that the computer under review now will be worth `10 lakhs at the end of the third year.

Forecast Revenues

Year 1	**`Year 2**	**Year 3**
`22, 50, 000	`25, 00, 000	`27, 50, 000

Annual operating costs (excluding depreciation / lease rent of computer) are estimated at `9, 00, 000 with an additional `1, 00, 000 for start – up and training costs at the beginning of the first year. These costs are to be borne by the lessee. ABC Ltd. will borrow at 16% interest to finance the acquisition of the computer, repayments are to be made according to the following schedule.

Year–end	**Principal**	**Interest**	**Total**
1	`5, 00, 000	`3, 52, 000	` 8, 52, 000
2	`8, 50, 000	`2, 72, 000	`11, 22, 000
3	`8, 50, 000	`1, 36, 000	` 9, 86, 000

The company uses the straight – line method to depreciate its assets and pays 50% tax on its income. The management of ABC Ltd. approaches you, as a chartered accountant, for advice. Which alternative would you recommend and why ?

Note: Present value factor at 8% and 16% rate of discount.

Year	**8%**	**16%**
1	0.926	0.862
2	0.857	0.743
3	0.794	0.641

Ans. Lease 1202925, Loan 890470

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MCQ QUESTIONS WITH ANSWERS

1. In lease system, interest is calculated on:
   (a) Cash down payment (b) Cash price outstanding
   (c) Hire purchase price (d) None of the above

2. A short-term lease which is often cancellable is known as:
   (a) Finance Lease (b) Net Lease
   (c) Operating Lease (d) Leverage Lease

3. Which of the following is not a usual type of lease arrangement ?
   (a) Sale & leaseback (b) Goods on Approval
   (c) Leverage Lease (d) Direct Lease

4. Under income-tax provisions, depreciation on lease asset is allowed to :
   (a) Lessor (b) Lessee
   (c) Any of the two (d) None of the two

5. Under the provisions of AS-19 'Leases', a leased asset is shown is the balance sheet of:
   (a) Manufacturer (b) Lessor
   (c) Lessee (d) Financing bank

6. A lease which is generally not cancellable and covers full economic life of the asset is known as:
   (a) Sale and leaseback (b) Operating Lease
   (c) Finance Lease (d) Economic Lease

7. Lease which includes a third party (a lender) is known as:
   (a) Sale and leaseback (b) Direct Lease
   (c) Inverse Lease (d) Leveraged Lease

8. One difference between Operating and Financial lease is:
   (a) There is often an option to buy in operating lease.
   (b) There is often a call option in financial lease.
   (c) An operating lease is generally cancellable by lessee.
   (d) A financial lease in generally cancellable by les-see.

9. From the point of view of the lessee, a lease is a:
   (a) Working capital decision (b) Financing decision
   (c) Buy or make decision (d) Investment decision

10. For a lessor, a lease is a:
   (a) Investment decision (b) Financing decision
   (c) Dividend decision (d) None of the above.

11. Which of the following is not true for a "Lease or Buy" decision for the lessee?
   (a) Helps in project selection (b) Helps in project financing
   (c) Helps in project location (d) All of the above.

12. In lease system, interest is calculated on
(a)Cash down payment (b)Cash price outstanding
(c)Hire purchase price (d)None of the above

13. A short-term lease which is often cancellable is known as
(a)Finance Lease (b)Net Lease
(c)Operating Lease (d)Leverage Lease

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14. Which of the following is not a usual type of lease arrangement?
(a)Sale & leaseback (b)Goods on Approval
(c)Leverage Lease (d)Direct Lease

15. Under income-tax provisions, depreciation on lease asset is allowed to
(a) Lessor (b)Lessee
(c) Any of the two (d)None of the two
16. Under the provisions of AS-19 'Leases', a leased asset is shown is the balance sheet of
(a)Manufacturer (b)Lessor
(c)Lessee (d Financing bank

17. A lease which is generally not cancellable and covers full economic life of the asset is known as
(a) Sale and leaseback (b)Operating Lease
(c)Finance Lease (d)Economic Lease

18. Lease which includes a third party (a lender) is known as
(a)Sale and leaseback (b)Direct Lease
(c)Inverse Lease (d) Leveraged Lease

19. One difference between Operating and Financial lease is:
(a)There is often an option to buy in operating lease
(b)There is often a call option in financial lease
(c)An operating lease is generally cancelable by lease
(d) A financial lease in generally cancellable by lease.

20. From the point of view of the lessee, a lease is a:
(a)Working capital decision
(b)Financing decision
(c)Buy or make decision
(d)Investment decision
21. For a lessor, a lease is a
(a)Investment decision (b)Financing decision
(c)Dividend decision (d)None of the above

22. Which of the following is not true for a "Lease decision for the lessee?
(a) Helps in project selection (b)Helps in project financing
(c)Helps in project location (d)All of the above

[Answers: 1. (b), 2. (c), 3. (b), 4. (a), 5. (c), 6. (c), 7. (d), 8. (c), 9. (b), 10. (a), 11. (b)] . **12. (b), 13. (c), 14. (b), 15. (a), 16. (c), 17. (c), 18. (d), 19. (c), 20. (b), 21. (a), 22. (b)]**

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3. PORTFOLIO MANAGEMENT

Q. 1. Explain briefly the two basic principles of effective portfolio management.

Ans. Portfolio management refers to the selection of securities and their continuous shifting in the portfolio to optimize returns to suit the objectives of the investor.

Two Basic Principles of Portfolio management are:

(i) Effective Investment planning for the investment in securities by considering the following factors:

(a) Fiscal, financial and monetary policies of the Government of India and the Reserve Bank of India.

(b) Industrial and economic environment and its impact on industry prospects in terms of prospective technological changes, competition in the market, capacity utilization with industry and demand prospects etc.

(ii) Constant review of investment: Portfolio managers are required to review their investment in securities on a continuous basis to identify more profitable avenues for selling and purchasing their investment. For this purpose they will have to carry the following analysis:

(a) Assessment of quality of management of the companies in which investment has already been made or is proposed to be made.

(b) Financial and trend analysis of companies' balance sheets / profits and loss accounts to identify sound companies with optimum capital structure and better performance and to disinvest the holding of those companies whose performance is found to be slackening.

(c) The analysis of securities market and its trend is to be done on a continuous basis.

The above analysis will help the portfolio manager to arrive at a conclusion as to whether the securities already in possession should be disinvested and new securities be purchased. This analysis will also reveal the timing for investment or disinvestments.

Q. 2. "Higher the return, higher will be the risk". In this context discuss the various risks associated with portfolio planning.

Ans. There are four different types of risk in portfolio planning.

1. Interest rate risk: It is due to changes in interest rates from time to time. Price of the securities move inertly with change in the rate of interest.
2. Purchasing Power risk: As inflation affects purchasing power adversely. Inflation rates vary over time and the investors are caught unaware when the rate of inflation changes abruptly.
3. Business risk: It arises from sale and purchase of securities affected by business and cycles and technological changes.
4. Financial risk: This arises due to changes in the capital structure of the company. It is expressed in terms of debt-equity ratio. Although a leveraged company's earnings are more, too much dependence on debt financing may endanger solvency and to some extent the liquidity.

Q. 3. Write short note on objectives of portfolio management.

Ans. Objectives of Portfolio management: Portfolio management refers to the selection of securities and their continuous shifting in the portfolio for optimizing the return for investor.

The following are the objectives of portfolio management

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(i) *Security/safety of principal:* Security not only involves keeping the principal sum intact but also keeping intact its purchasing power.

(ii) *Stability of income:* So as to facilitate planning more accurately and systematically the reinvestment or consumption of income.

(iii) *Capital Growth:* Which can be attained by reinvesting in growth securities or through capital purchase of growth securities.

(iv) *Marketability:* The ease with which security can be bought or sold. This is essential to provide flexibility to investment portfolio.

(v) *Liquidity:* It is desirable for an investor to take advantage of attractive opportunities in the market.

(vi) *Diversification:* The basic objective of building a portfolio is to reduce the risk of loss of capital/income by investing in various types of securities and over a wide range of industries.

(vii) *Favourable tax status:* The effective yield an investor gets from his investment depends on tax to which it is subjected. By minimizing tax burden, yield can be improved effectively.

Functions of Portfolio Manager: *A portfolio managers renders services to their clients in different categories, viz. Individuals, resident Indians and non-resident Indians, firms, associations of persons etc. and based on the investment policy statement from the investor containing the specifications and qualification of his objectives, the portfolio manager allocates assets, determines the appropriate portfolio strategy for each asset class and selects the securities. The performance of the portfolio is evaluated constantly to ensure attainment of the investor objectives. The main functions of the portfolio manager are as follows:*

1. **Sale or Purchase of Securities**
   They carry out investment in securities or sale or purchase of securities on behalf of the clients to attain maximum return at lesser risk.
2. **Study of the Economic Environment:**
   The portfolio manager undertakes the study of economic environment affecting the capital market and clients investment. They study securities market and evaluate price trend of shares and securities in which investment is to be made.
3. **Maintain Financial Performance Data:**
   They maintain complete and updated financial performance data of blue chip and other companies so that they can evaluate the company's worth for the investment purpose whether it is sound, price quoted are reasonable for the purpose of the investment.
4. **Record of Policies and Guidelines:**
   They continuously undertake the study of the latest policies and guidelines issued by the Government of India, RBI and stock exchanges for the purpose of the compliance of the guidelines and to update their knowledge.
5. **Study the Q.No of the Industry:**
   They undertake a thorough study of problems faced by the industry, which have the effect on securities market, and the attitude of investors so that they can take the right decision about the securities in which investment to be made.
6. **Study the Financial Behaviour:**
   The portfolio manager study financial behaviour of the financial institutions and other players in the capital market to find out sentiments in the capital market, with the combination of above, they

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counsel the prospective investors' on share market and suggest investments in certain assured securities.

7. **Personal Service to the Client:**
   A portfolio manager acts as a personal financial consultant on investment decisions. He also offers other value added services such as tax planning, benefit collection, safe custody of securities, registration and transfers etc.

Obligations of the Portfolio Manager towards Client

1. **Consider the limit placed by the Client:**
   He shall transact in securities within the limitation placed by the client himself with regard to dealing in securities. He should also consider whether the discretionary power has been given by the client or not, if not, he should transact the deal only with the consent of the client.
2. **Don't make his own profit:**
   He shall not derive any direct or indirect benefit out of the client's funds or securities. Any transaction of purchase or sale including that between his own accounts and his client's accounts or between two client's accounts shall be at the prevailing market price.
3. **Securities to be held in clients name:**
   The securities purchased out of client's fund must be held in the client's name provided that he may hold the securities belonging to the portfolio account in his own name on behalf of his clients only if the contract so provides. In such a case, his records and his report to his client should clearly indicate that he holds such securities on behalf of his client.
4. **Not Indulging in Speculative Activities:**
   While dealing with his client's funds, he shall not indulge in speculative transactions means transaction in which settlement takes place without actual delivery or transfer of security. He may enter into such transactions on behalf of his clients for the specific purpose of meeting margin requirements only if the contract provides for the same and the client is made aware of the attendant risks of such transactions.
5. **Deployment of Fund without Delay:**
   He shall deploy the money received from his client for an investment purpose as soon as possible for that purpose. He shall pay the money due and payable to a client forthwith.
6. **Maintenance of the Professional Ethics:**
   He shall not make any exaggerate or untrue statement, oral or written, to the client about the qualification or the capability to render certain services or his achievements in regard to services rendered to other clients. He shall not disclose to any clients, or press any confidential information about his client, which has come to his knowledge.
7. **Avoidance of the Conflict with the client:**
   He should avoid any conflict of interest in his investment or disinvestments decision relation to his customers. Where there is a conflict of interest with such customers, he shall ensure fair treatment to all his customers. He shall disclose to the customers possible sources of conflict of duties and investors, while providing unbiased services.
8. **Provide other services to the client:**
   He shall, where necessary and in the interest of the client, take advantage steps for registration of the transfer of his client's securities, receiving dividends, interest payments and other rights accruing to his clients. He shall also take necessary action for conversion of securities and subscription/renunciation of/or rights in accordance with the client's instructions.

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Q. 4. **[Dec 2000]** Write short notes on Security Market Line and Capital Market Line.

Ans.

Capital Market Line	Security Market Line
a) CML depicts linear relationship between expected return and total risk, b) CML is concerned with systematic risk as well as unsystematic risk of the security, c) it uses standard deviation as a measure of risk. d) It is a graphical representation of total risk e) $E(R) = R_f + \left(\frac{R_m - R_f}{\sigma_m}\right)\sigma_s$ Where $\left(\frac{R_m - R_f}{\sigma_m}\right)$ Market return risk trade-off.	a) SML depicts linear relationship between expected return and systematic risk. b) SML is concerned only with systematic risk of the security. c) It uses Beta factor as a measure of risk. d) A graphical representation of CAPM is known as SML. e) $E(R) = R_f + R_f + \beta(R_m - R_f)$ Where $(R_m - R_f)$ Market risk premium

Q. 5. **[June 2001]** Write notes Traditional approach of Portfolio management.

Ans.

- The term 'portfolio' refers to the bunch/group of securities one holds.
- Portfolio management refers to the managing of the portfolio (i.e. selection and shuffling of securities) in order to accomplish the objectives.
- The twin objectives associated with portfolio management are:-
  - Maximising Returns.
  - Minimising Risks.
- The traditional approach of portfolio management involves:-
  - Study of investors.
  - Determination of portfolio objectives.
  - Deciding investment strategy.
  - Diversifying the portfolio.
  - Select an individual investment.

Q. 6. **[June 2004]** Write notes assumptions underlying technical analysis.

Ans.

- Technical analysis refers to the science of predicting the movement of share prices on the basis of past data.
- Such an analysis assumes the determination of prices of securities by intersection of demand and supply curve.
- According to this, what has happened in past will also be repeated in future.
- In other words, investor's psychology follows a definite pattern.
- Various assumptions in-built in technical analysis are as follows:-
  - Market price of shares is determined on basis of demand & supply of that security.
  - Various factors affect the demand & supply of securities
  - Such changes in demand and supply can be depicted means of charts.
  - Such movements also reflect some trends over a period of time.
  - These trends repeat themselves in future.

Q. 7. **[June 2005]** Write a note on 'Sharpe Index Model'.

Ans.

- Sharpe Index model was developed by William Sharpe. 'It expresses the relationship between return of a particular security with that of some index such as Nifty, Sensex, Nasdaq etc.
- Sharpe index model is simplified version of Markowitz model
- Alternatively, it is also known one factor model or single index model.
- Thus, this model reflects how the prices of shares get influenced by market index and the same can be used to estimate the return on securities.

Sharpe index can be given by the following equation:-

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$$R = \propto + \beta I + E$$

Where:-

$\propto$ = Alpha coefficient/ Intercept of straight line.

B = Beta coefficient/ Slope of straight line.

I= Rate of Return on market index

E = Error term

Q. 8. **[June 2005]** Write short notes on Markowitz model & the Limitations of Markowitz model.

Ans.

- Markowitz Model was developed by Harry M. Markowitz.
- Harry M. Markowitz is popularly known as 'father of modern portfolio theory' as he was the first one to develop the modern portfolio management model.
- This model provides framework for analysis of risk-return options and strives to achieve maximisation of return with simultaneous emphasis on minimisation of risk.

Assumptions of Markowitz Model

- Decisions of investors are based on expected returns together with variance of return.
- Investors prefer maximum return and try to minimise their risk.
- Investors can estimate the probability distribution of returns
- Return of securities reveals the outcome of such securities
- Risk of securities is proportional to the variance of return expected by them.

Limitation of Markowitz Model

- Markowitz model is not practically possible in the modern day word when there are number of securities and not just to. So, the calculation becomes tedious and cumbersome.

Q. 9. **[June 2006]** Write notes on the Dow Theory.

Ans.

- Dow Theory was given by Charles H. Dow.
- This theory formulated by him is considered as the earliest and also has proved out to be one of the most popular theories.
- According to Dow Jones theory, share price movement can be of the following three types:-
  - Primary Movements.
  - Secondary Movements.
  - Minor Movements or Daily fluctuation.
- Primary movements reflect the long range behavior / trend of share prices (which may last for 1-3 years) and will reflect upward movement (if bullish) or downward trend (if bearish). Also, these movements indicate basic trends in the market.
- Secondary movements are the reversals of the primary movements as they move in the direction opposite to that of the primary movement; however they are in existence for a shorter time frame (probably 1-3 months).
- Minor movements indicate the irregular fluctuations which occur daily and have an indefinite trend being caused by speculative factors.

Q.10. **[Dec 2006]** Write notes on the Technical Charts.

Ans.

- Technical analysis is based on the assumption that prices of shares are based on past movement of share prices.
- Technical charts involve plotting prices of shares and quantity traded in form of charts.
- Such charts help in predicting the future share price movement.
- The three types of technical charts employed by analysts are:-
  - Line chart.
  - Bar chart.
  - Point and figure chart.

Q.11. **[June 2006/2008]** Write notes on the Gilt-edged primary market.

Ans.

- Gilt-edged primary market refers to that primary market in which securities are issued by Reserve Bank (on behalf of Government).
- The securities are issued in accordance with the funds required by the Government.

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- The price, quantum and other terms and conditions of issue are determined by RBI.
- RBI plays a crucial role in this segment of primary market,
- Also, Reserve Bank plays the role of an underwriter and subscribes for that portion of the issue which is not subscribed by the public.

Q.12. **[June 2001]** Most of the new economy companies' stock values have come down heavily whereas initially they were valued at a high premium despite the fact that these companies did not have any track record of profits. Comment.

Ans.

- It is true to say that most of the new economy stock values have come down heavily whereas initially they mere valued at high premium despite the fact that these companies did not have any track record of profits.
- Many times its happens that the markets get flooded with offers by a large number of companies.
- Many new companies (even with adverse rating) take advantage of increasing demand among the investors.

Q.13. **[Dec 2002]** Explain various new instruments in Capital Market.

Ans. Some of the new / innovative instruments in capital market are as follows:-

Deep Discount Bond

- Deep Discount Bonds are the ones which are issued at a deep discount very less price, being issued over a large time period and redeemed at face value.
- IDBI and SIDBI were the first to come up with this innovative instrument

Secured Premium Notes

- Secured Premium Notes or SPN in short are instrument issued alongwith detachable warrants.
- These warrants help the holders to procure shares after the SPN is fully paid.
- TISCO was the one who made these instruments quite popular.

Floating Rate Bonds / Notes (FRN)

- Interest of such bonds is not fixed.
- It floats/ varies as per the market conditions.
- It is used as a means to hedge the risk.

Q.14. **[June 2003]** State the assumptions made in 'capital asset pricing model. What are the uses and limitations of this model?

Ans. CAPM, abbreviation of Capital Asset Pricing Model was developed by Sharpe and Linter in 1960. It describes the relationship between expected return, non diversifiable risk and valuation of a security.

As per CAPM model

$$R_p = R_f + \beta (R_m - R_f)$$

Where

R_p = Return of portfolio

R_f, = Return on Risk free security

R_m = Return on market

B = Beta of security

CAPM takes systematic risk only into consideration.

CAPM when plotted on a graph paper, is known as SML (Security Market Line)

Assumption of CAPM

- Investor's objective is to get highest return for any acceptable level of risk or the lowest risk.
- Investors have full information available at their disposal.
- No transaction costs are involved.
- Absence of any tax expense.
- Investors can lend/ borrow at the risk free rate.
- CAPM assumes existence of an efficient market.

Limitations of CAPM

- Possibility of having efficient market seems dubious.
- It is difficult to estimate risk free rate & beta.

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Q.15. **[June 2004]** "It is possible for an investor to construct a zero risk portfolio of two securities which are perfectly negatively correlated." State, giving brief reasons, whether the statement is true.

Ans.

- Yes, it is possible for an investor to construct a zero-risk portfolio of two securities which are perfectly negatively correlated.
- Such a portfolio can be created using Markdwitz Model.
- One needs to combine two perfectly negatively correlated securities i.e. correlation between the securities as (-1) which can lead to portfolio risk of zero

Q.16. **[Dec 2004]** "Risk and return go together and there is always a conflict between the return from a decision and the risk it brings to the firm." Discuss this statement in the light of finance function.

Ans.

- Risk is defined as the variation in return from the expected return.
- Return is the nomenclature used for indicating the compensation that one gets for not using hi liquidity at present or parting away with his liquidity.
- It is rightly said that risk and return go together and there is always a conflict between the return from a decision and the risk it brings to the firm.
- Investors want to maximise their returns at the set level of risk.
- Alternatively, they desire to minimise the level of risk at set level of returns.
- Higher the risk, higher the return' is a maxim which holds true and describes the relationship between risk and return.
- Thus, both risk and return go together, however there is always a clash between the two objectives from the point of view of the investors.

Q.17. **[Dec 2007]** Comment on the portfolio managers generally attempt to diversify risks by investing in debts and equity instruments.

Ans.

- Many-a- times it is observed that portfolio managers diversify their risks by investing in debts and equity instruments.
- Since equity instruments provide high return but also carry high risk burden [concept of higher the risk, higher the return] portfolio managers go in for equity instrument.
- Debt instrument, though carries lesser return, however face lesser risk since interest paid is a charge and not an appropriation.
- Thus, a portfolio consisting of both equity and debt instrument can help to minimise overall risk and fetch higher returns.

Q.18. **[June 2008]** Attempt the following:

1) **The risk of the portfolio which combines both a risky and a risk-free asset will be reduced to the standard deviation of the risky security, weighted for it proportionate value in the portfolio." Do you agree? Discuss.**
2) **Alpha is an indicator of the extent to which the actual return of a stock deviates from those predicted by its beta value." Discuss.**

Ans. 1) The risk of the portfolio which combines both a risky and a risk-free asset will be reduced to the standard deviation of the risky security, weighted for it proportionate value in the portfolio."

- It is rightly said that the risk of the portfolio which combines both a risky and risk free asset will be reduced to the standard deviation of the risky security weighted for its proportionate value in the portfolio.
- Since standard deviation of risk free security is zero, the risk of portfolio having combined securities will be comparatively lesser.
- Now if standard deviation of security x or y is zero, then risk of portfolio will be just calculated by multiplying the standard deviation of risky security with its weight.

2) Alpha is an indicator of the extent to which the actual return of a stock deviates from those predicted by its beta value."

- Alpha is an indicator of the extent to which the actual return of a stock deviates from those predicted by its beta value.
- Alpha measures the return above/ below the required rate of return.
- It is represented in percentage (%).

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- It may be positive or negative.

Q.19. **[June 2009]** Comment on the CAPM is a tool to workout Cost of Equity.

Ans. CAPM helps to work out required rate of return required by investors in the form of equity investment. It establishes a linear relationship between the required rate of return of a security and its β.

R_s = $R_f + \beta (R_m - R_f)$

B = Beta of Security

R_f = Risk free rate of return

R_m = Market rate of return

The R_s calculated as above is the required rate of return of equity investors and it may be called as the cost of equity.

This R_s can be used to find out the price of the share which depends on Dividend and R_s, and can be calculated as follows:-

$K_e = \frac{D}{p} + g \quad \frac{D}{p} + g$

D = Dividend expected in next year

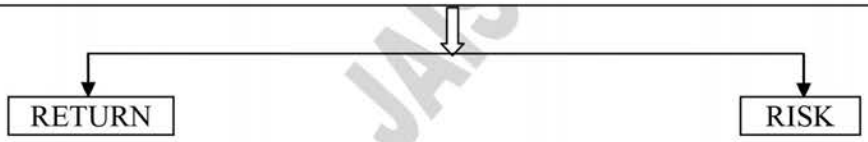
Ke = Cost of equity

G = Growth rate in dividend

Portfolio Management = Investment analysis = Risk & Return

Portfolio Management is a management of selecting a group of securities for maximizing return & minimizing risk

There are two main components of Portfolio Management :



RETURN = The gain or loss of a security in particular period .The return consists of the income &capital gains relative on an investment .It is usually quoted as a percentage

1. when no information about proportion of investment

$$\textbf{Average return} = \frac{R_1 + R_2 + R_3 + \ldots\ldots\ldots\ldots + R_n}{n}$$

where, R is return of the Securities,

2. when information about proportion of investment is given

$$\textbf{Average return of the portfolio} = \frac{R_1W_1 + R_2W_2 + R_3W_3 + \ldots\ldots\ldots\ldots + R_nW_n}{W_1 + W_2 + W_3 + \ldots\ldots\ldots\ldots + W_n}$$

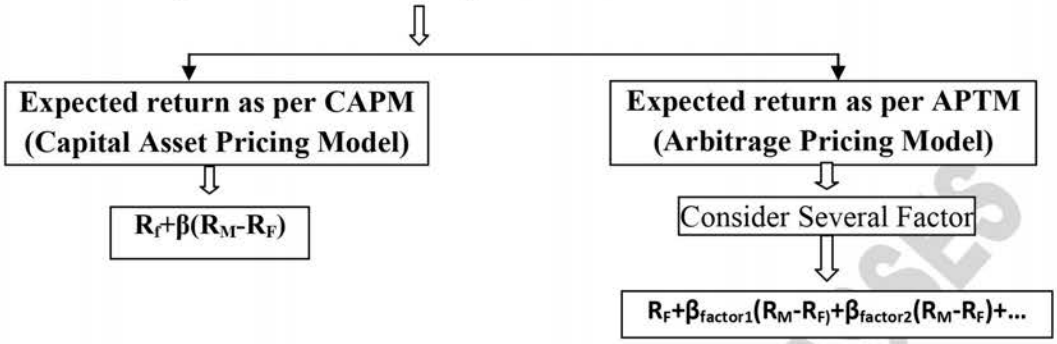
where, R is return of the security and W is proportion of the securities

3. when different possible returns are given with their corresponding probabilities

$$\textbf{Expected Return} = R_1P_1 + R_2P_2 + R_3P_3 + \ldots\ldots + R_nP_n$$

where, R is return & P is Probability

4. **Required return considering Risk factor**



Holding Period Return $= \frac{P_1-P_0+D_1}{P_0}$

Where, P_1= market price per share after holding period, P_0= market price per share at beginning & D= Dividend during the period.

RISK

All adverse thinking is said to be risk. i.e. Risk refers to possibility that expected return May not materialize or investment may be sold for a price less than paid for it or there is no income from investment or income may be less than the expectation. Risk can not be eliminate completely it can be manage to the some extent.

Year	Company-A	Company-B	Company-C
1	196	200	0
2	204	200	1
3	200	200	2
4	194	200	3
5	206	200	994
Total Return	1000	1000	1000
Average return	$\frac{1000}{5}$	$\frac{1000}{5}$	$\frac{1000}{5}$
	200	200	200

If we have to select any one project out of three on the basis of average return then all there projects are equally likely having same Average Return = `200 but a person never invest in Project- C, because there is huge deviation of individual return from Average return. Hence Project-C has huge risk i.e. the Co. having more deviation in return from its average return is said to be riskier than lower deviation.

Therefore, deviation Measure tools is said to be risk Measurement tools i.e.

Standard deviation = σ (Sigma)

1. When different possible returns are given without their probability

$$\text{Standard deviation} = \sigma = \sqrt{\Sigma \frac{(\text{Return} - \text{Average Return})^2}{N}}$$

2. When different possible returns are given with their probabilities

$$\text{Standard deviation} = \sigma = \sqrt{\Sigma \text{Prob.}(\text{Return} - \text{Average Return})^2}$$

3. Portfolio Standard Deviation or Portfolio Risk of two Securities A & B

Portfolio Standard Deviation $= \sqrt{(\sigma_A W_A)^2 + (\sigma_B W_B)^2 + 2(\sigma_A W_A)^2 (\sigma_B W_B)^r AB}$

W = weight, r_{AB} = Coefficient of Correlation

Case A = If Sec A & Sec B are perfectly **+ve** correlation i.e. $r_{AB} = 1$

Portfolio Risk $= \sqrt{(\sigma_A W_A)^2 + (\sigma_B W_B)^2 + 2(\sigma_A W_A)(\sigma_B W_B)1}$

$(a^2 + b^2 + 2ab) = (a+b)^2$

$= \sqrt{(\sigma_A W_A + \sigma_B W_B)^2} = \sigma_A W_A + \sigma_B W_B$

Case-B When Sec-A & Sec-B are perfectly **-ve** Correlation i.e. $r_{AB} = -1$

Portfolio Risk $= \sqrt{(\sigma_A W_A)^2 + (\sigma_B W_B)^2 + 2(\sigma_A W_A)(\sigma_B W_B)-1}$

Portfolio Risk $= \sigma_A W_A - \sigma_B W_B$

Case–C If one of the Securities is Market & other Security is Risk free

Portfolio Risk $= \sqrt{(\sigma_M W_M)^2 + (\sigma_{Rf} W_{Rf})^2 + 2(\sigma_M W_M)(\sigma_{Rf} W_{Wf})^r MRF}$

$= \sqrt{(\sigma_M W_M)^2 + 0 + 0} = \sigma_M W_M$

Portfolio Risk – When Portfolio consists 3 Securities

$$\sqrt{(\sigma_A W_A)^2 + (\sigma_B W_B)^2 + 2(\sigma_A W_A)(\sigma_B W_B)^r_{AB} + 2(\sigma_A W_A) + (\sigma_c W_c)^r_{AC} + 2(\sigma_B W_B) + (\sigma_c W_c)^r_{BC}}$$

Variance of Securities ⟹ **Square of Standard deviation is said to**

Coefficient of Variance $= \frac{\sigma}{X} = \frac{\text{std. deviation}}{\text{mean}}$

Co-Variance covers been two Securities = Co-Movement of two Securities

- When Prob. & return is given ⇩ $\text{Cov}(xy) = \Sigma P[X - E(X)][Y - E(Y)]$
- When return without Probability is given ⇩ $\text{Cov}(xy) = \Sigma \frac{(X - \bar{X})(Y - \bar{Y})}{n}$
- Using Correlation ⇩ $\text{Cov}(AB) = r_{AB}\sigma_A\sigma_B$

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$$r_{AB} = \textbf{Correlation Co-efficient} = \frac{Cov(AB)}{\sqrt{V(X)\,V(Y)}} = \frac{Cov(AB)}{\sqrt{\sigma_A^2\sigma_B^2}}$$

$$r_{AB}\frac{Cov(AB)}{\sigma_A\sigma_B}$$

Correlation Co-efficient (r_{AB}) ⟹ **The dimension of relationship between two securities A & B**

β is Market Sensitivity which represents the movement in Securities return due to movement in market return. In India, Market is represented by **Sensex** & **Nifty**

Beta of a Securities = β = Market Sensitivity Index = Beta Coefficient

Beta represents moment of particular securities due to moment of market.

$$\beta_S = \frac{Cov(SM)}{\sigma_M^2} = \frac{r_{SM}\cdot\sigma_M\sigma_S}{\sigma_M^2}$$

$$\beta_S = \frac{r_{SM}\sigma_S}{\sigma_M}$$

Portfolio $\beta = \beta_A W_A + \beta_B W_B + \ldots.$

(i) Market $\beta = \frac{Cov(MM)}{\sigma_M^2} = \frac{\sigma_M^2}{\sigma_M^2} = 1$

Type of Risk

Systematic Risk	Un-Systematic Risk
1. Systematic risks are also known as market risk or non-diversiable risk	Unsystematic risk can also be called specific risk or diversiable risk.
2. These risks are beyond the control of the management entity	Such risks are within the purview and control of the management.
3. Such risk affects all companies.	Only a particular security gets hit by it.
4. Systematic risk cannot be removed by diversification.	Diversification can surely act as a means to combat unsystematic risk.
5. Taxation policies, inflation, interest rates are examples of systematic risk.	Increase in competition, industrial dispute, change in management are illustrations of unsystematic risks
Systematic Risk $= \left[\sigma_M^2 \times \beta_S^2\right]$ $= \sigma_M^2\left(\frac{Cov\cdot(SM)}{\sigma_M\cdot\sigma_M}\right)^2 = \frac{\sigma_M^2\cdot Cov^2(SM)}{\sigma_M^2\cdot\sigma_M^2}$ $= \frac{r_{SM}^2\cdot\sigma_M^2\cdot\sigma_S^2}{\sigma_M^2} = r_{SM}^2\cdot\sigma_M^2$ **Example of Systematic Risk** We can say that the risk of falling CS student due to the reduced **"%"** result by ICSI's Systematic risk for CS students it can not reduce by Students own efforts	Un Systematic Risk = Total Risk – Systematic Risk $= \sigma_S^2 - r_{SM}^2\cdot\sigma_S^2$ $= \sigma_S^2\left(1 - r_{SM}^2\right)$ **Example of Un-systematic Risk** We can say that the risk of falling CS student due to inadequate & unbalanced Preparation of all subjects is Un-Systematic Risk for CS student & it can be reduced

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Capital Assets Pricing Model = CAPM

It provides the expected return on a Stock on the basis of risk taken by Investor

On Security	On Portfolio
Expected Return $= R_f + \beta_{Security} (R_M - R_f)$	Expected Return $= R_f + \beta_{Portfolio} (R_M - R_f)$
R_f = Risk free rate of return	$\beta_{Portfolio} = \beta_A W_A + \beta_B W_B + \beta_C W_C + \ldots.$
$\beta_S [R_M - R_f]$ = Risk Premium Security	$\beta_{Portfolio} [R_M - R_f]$ = Risk Premium on Portfolio
$R_M - R_f$ = Market Risk Premium	$R_M - R_f$ = Market Risk Premium

It is academic Model which guides the Investor whether Securities should purchase, hold & sale.

Under Valued & Over Valued Stocks

Case - I- Expected return as per **CAPM** < Expected / Available return. It means Investor expects lower as per Risk taken by Investor than Stock Actual gives therefore Securities should purchase. It is said to be **Undervaluation.**

Case - II- Expected return as per **CAPM** > Expected /Available return. It means Investors expects higher than stocks Actual gives therefore Securities should Sale. It is said to be Over Valuation.

Case - III- Expected return as per **CAPM** = Expected Available return. It means Investors expects equal to Stock. Therefore Securities should hold. It is said to be Correctly.

Beta Assets / Beta Company / Beta Projects / Overall Beta

Beta Equity $[\beta_{EQUITY}]$

(i) β_{Equity} is risk of equity shareholder due to investment in the Company. (ii) β_{Equity} is always greater than β_{assets}. (iii) In the case of 100% equity Company. → $\beta_{Assets} = \beta_{Equity}$

Beta Debt

(i) β_{debt} is risk of debt holder due to investment in the Co. If there is no information about $\beta_{debt.}$ It is assumed zero. Because debt holders received fix interest & it does not depend upon profit or loss (However, in real world. It is not true that β_{debt} is risk free because many Companies make default in repayment of debt & interest.)

$$\beta_{ASSETS} = \beta_{COMPANY} = \beta_{PROJECT} = \text{OVERALL } \beta$$

It represents overall risk of the Company related to the business operation. It is weighted average β of equity & debt .It is not effected by capital structure. i.e.

(1) When Weight of debt ↑, Risk of Equity ↑, β_{equity} ↑, but β_{assets} remains same.

(2) When Weight of Debt ↓, risk of equity ↓, β_{equity} ↓, but β_{assets} remains same.

β_{assets} of same class of business risk Industry is always same like β_{Assets} of **Vodafone** = β_{Assets} of **Idea** = β_{Assets} of **MTNL** = β_{Assets} of **BSNL** . . . . . = but β_{Equity} depends of Capital Structure (Debt & Equity Proportion)

$$\beta_{ASSETS} = \beta_{EQUITY}\left[\frac{\text{Equity}}{\text{Debt}(I-\text{Tax Rate})+\text{Equity}}\right] + \beta_{DEBT}\left[\frac{\text{Debt}(I-\text{Tax Rate})}{\text{Debt}(I-\text{Tax Rate})+\text{Equity}}\right]$$

↓ Weight of Equity ↓ Weight of Debt

Case–I If there is no information about β_{Debt}. It is assumed, β_{Debt} = Zero

$$\beta_{ASSETS} = \beta_{EQUITY}\left[\frac{\text{Equity}}{\text{Equity} + \text{Debt}(I - \text{Tax Rate})}\right] + 0$$

Case – II If the information of Tax is not given then it is ignored.

$$\beta_{ASSETS} = \beta_{EQUITY}\left[\frac{\text{Equity}}{\text{Equity} + \text{Debt}}\right] + \beta_{Debt}\left[\frac{\text{Debt}}{\text{Equity} + \text{Debt}}\right]$$

Case – III If a Company has three Projects, **Project-A (Cement Industry)** + **Project-B (Iron & Steel Industry)** + **Project-C (Textile Industry)**

$$\beta_{ASSETS} = \beta_A W_A + \beta_A W_b + \beta_C$$

Weight for Minimum risk of Portfolio A & B.

When Securities A & B has Perfectly – Ve Correlation

$$W_A = \frac{\sigma_B}{\sigma_A + \sigma_B}$$

$$W_B = \frac{\sigma_B}{\sigma_A + \sigma_B}$$

When Securities A & B has other than Perfectly - Ve Correlation

$$W_A = \frac{\sigma_B^2 - Cor(AB)}{\sigma_A^2 + \sigma_B^2 - 2Cor(AB)}$$

$$W_B = \frac{\sigma_A^2 - Cor(AB)}{\sigma_A^2 + \sigma_B^2 - 2Cor(AB)}$$

Market Line

Equation of Market Line based on two Variable & Constant like, **Y = 4x + 3** Here **x & y** are Variable, **3 & 4** are Constant. **Y** is dependent Variable **X** in Independent of Variable.

	Security Market line (SML)	**Capital Market Line (CML)**
Definition	It is Graphical representation of **CAPM**	It is efficient frontier under **Capital Market theory**
Expression	Expected Return = $R_f + [R_M - R_f]\beta_S$ Variable Constant Variable $E(R) = 8 + \beta 6$ $R_f = 8$, $[R_M - R_f] = 6$	Expected Return = $R_f + [R_M - R_f]\sigma_S$ Variable Constant Variable $E(R) = 5 + 7\sigma_S$ $R_f = 5$, $\frac{[R_M - R_f]}{\sigma_M} = 7$=Market's Return Risk Trade Off
Objectives	Its objective is to explain asset pricing	Its Objective is to determine optimum Portfolio
Risk	Risk is defined as un-diversifiable Market related risk.	The risk is defined as total risk.

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Characteristic Line = Alpha + $\beta_{Security} \times R_M$

(Expected Return) = Constant Constant Variable

$$E(R) = 2 + 1.3 \times R_M$$

Constant

Dependent Independent Variable

Practical Questions

Q. 1. An asset can be purchased for `9, 00, 000 today and will have a value of `10, 00, 000 in one year. During the year, the asset will generate cash payments to the holder of `60, 000. What is the expected return on the investment ?

Ans. 17.77 %

Q. 2. A regional stock exchange on January 1st had a total market value for all stocks of `35 million. During the year, the stocks are expected to pay dividends of `2.5 million. The value of the stocks by next year is expected to be `28.5 million. What will be the market rate of return for the year?

Ans. -11.42 %

Q. 3. You have estimated the following probability distribution of expected future return for Stocks X and Y.

Stock X		Stock Y	
Probability	**Return**	**Probability**	**Return**
0.1	- 10%	0.2	2%
0.2	10	0.2	7
0.4	15	0.3	12
0.2	20	0.2	15
0.1	40	0.1	16

(a) What are the expected rate of return for Stock X ? Stock Y?
(b) What is the standard deviation of expected returns for Stock X ? For Stock Y ?
(c) Which stock would you consider to be riskier ? Why ?

Ans. (a) X=15%, Y=10%, (b) X=11.62%, Y=4.94%

Q. 4. An investor is evaluating two securities A & B in terms of their risk and return. The expected returns and standard deviations for both the investments are as follows:

	A	**B**
Expected Return, r,	12%	20%
Standard Deviation	9	10

Advise the investor.

Ans. CV of A=75% CV of B=50%

Q. 5. A person wants to invest in two securities out of these three securities which of these two are selected.

Returns from three securities

Year	**Security A**	**Security B**	**Security C**
1	15	14	11
2	11	15	20
3	18	17	12

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4	17	16	19
5	19	18	18
	80	80	80

Ans. r**AB**=0.75, r**BC**=0.22, rac=0.26

Q. 6. The securities A and B have the expected returns and standard deviations given below. Correlation between expected returns in 0.10.

	Return	**S.D.**
A	14%	20
B	9%	30

Compute the return and risk, for each of two portfolio (i) A 60 per cent, B 40 per cent (ii) A 50 percent & B 50 percent [(i) Risk 17.8; (ii) Risk 12, Return 11.5 Return 18.84].

Q. 7. Consider the following information:

Investor	Investment Objectives
A	* Earn a return of 18%
	* Can assume relevant risk for 18% return
B	* Can assume a risk upto a variance in return of 250(%)^2

Further it is gathered that

Risk Free Interest Rf = 7%

Return on Market portfolio, Rm = 15%

Standard Deviation in the return on Market portfolio, m = 20%

You are required to find

(a) Risk level (Standard Deviation) of portfolio constructed by investor A.

(b) Expected level of return earned by the portfolio constructed by investor B.

Ans. (a) 27.5% (b) 13.324%

Q. 8. You are able to both borrow and lend at the risk – free rate of 9%. The market portfolio of securities has an expected return of 15% and a standard deviation of 21%.

Determine the expected return and standard deviations of the following portfolios:

(a) All wealth is invested in the risk – free asset.

(b) One third is invested in the risk – free asset and two thirds in the market portfolio.

(c) All wealth is invested in the market portfolio. Furthermore, you borrow an additional one third of your wealth to invest in market portfolio.

Ans. (a) 9%, S.D.O. (b) 13%, S.D. = 14%, (c) 17%, S.D=14%

B (BETA)

Q. 9. The following are the returns and their probabilities in respect of the security, S, and the market portfolio, M. Calculate:

Probabilities	**Return %**	
	S	**M**
.3	10	11
.4	16	20
.3	32	19

Ans. ß=1.3

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MCQ QUESTION WITH ANSWER

1. Beta, p, of risk-free investment is:
   (a) Zero
   (b) 1
   (c) -1
   (d) None of these.

2. Return of a portfolio is:
   (a) Total Return of all elements
   (b) Average Return of all elements
   (c) Highest Return
   (d) Lowest Return

3. Which of the following is diversifiable risk?
   (a) Inflation Risk
   (b) Interest Rate Risk
   (c) Seasonal Risk
   (d) All of the above.

4. Which of the following is not a non-diversifiable risk:
   (a) Industrial recession
   (b) Lock-out in a company
   (c) Political Instability
   (d) Both (a) and (c).

5. Which of the following is true?
   (a) Risk can never be reduced to zero
   (b) Diversification always reduces risk to zero
   (c) Diversification does not affect risk
   (d) None of the above.

6. Standard deviation can be used to measure:
   (a) Risk of an investment
   (b) Return of an investment
   (c) Both (a) & (b)
   (d) None of (a) and (b)

7. Which of the following is true?
   (a) Higher the Beta, lower the risk
   (b) Higher the Beta, higher the risk
   (c) Risk is constant
   (d) Beta is constant.

8. Amount of risk-reduction in a portfolio depends upon:
   (a) Market movement
   (b) Degree of correlation
   (c) No. of shares
   (d) Both (b) and (c).

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9. In a diversified portfolio, a new security adds:
   (a) Systematic Risk
   (b) Unsystematic Risk
   (c) Liquidity Risk
   (d) None of the above.

10. Risk-Return trade off implies:
   (a) Minimization of Risk
   (b) Maximization of Risk
   (c) Ignorance of Risk
   (d) Optimization of Risk

11. Basic objective of diversification is:
   (a) Increasing Return
   (b) Maximising Return
   (c) Decreasing Risk
   (d) Maximizing Risk.

12. Risk-aversion of an investor can be measured by:
   (a) Market Rate of Return
   (b) Risk-free Rate of Return
   (c) Portfolio Return
   (d) None of the above.

13. Risk of a portfolio depends on:
   (a) Risk of elements
   (b) Correlation of return
   (c) Proportion of elements
   (d) All of the above.

14. Which of the following will increase the required rate of return?
   (a) Increase in Interest Rates
   (b) Increase in Risk-free Rate
   (c) Increase in Degree of Risk-Aversion
   (d) All of the above.

15. Systematic risk of a security can be measured by:
   (a) Coefficient of variation
   (b) Standard Deviation
   (c) Beta
   (d) Range.

16. Which of the following is unsystematic risk to a firm?
   (a) Inflation
   (b) Surcharge of Income-tax
   (c) Interest Rate
   (d) Scarcity of Raw Material.

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17. Total portfolio risk is equal to systematic plus:
    (a) Non-diversifiable
    (b) Diversifiable
    (c) Unavoidable
    (d) None of the above

18. Which of the following is diversifiable through diversification?
    (a) Systematic
    (b) Unsystematic
    (c) Both of the above
    (d) None of the above

19. Which of the following is the variability of the return from a share associated with the market as a whole?
    (a) Unsystematic
    (b) Avoidable
    (c) Systematic
    (d) None of the above

20. Which of the following describes the relationship between expected rate of return and the standard duration?
    (a) Characteristic Line
    (b) Capital Market Line
    (c) Security Market Line
    (d) None of the above

21. Which of the following describe the relationship between expected rate of return and the p?
    (a) Security Market Line
    (b) Characteristic Line
    (c) Capital Market Line
    (d) None of the above

22. Which of the following describes the relationship between, systematic risk and return?
    (a) Arbitrage Pricing Theory
    (b) Capital Assets Pricing Model
    (c) Harry Marketing Model
    (d) Capital Market Line

23. In CAPM, p (Beta) factor measures:
    (a) Return of an asset
    (b) Risk of an asset
    (c) Life of an asset
    (d) Capital investment

24. Which is the beta for a treasury stock?
    (a) Zero
    (b) One
    (c) Greater than one
    (d) Less than one

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25. Stock beta measures:
(a) EPS
(b) Debt-Equity Ratio
(c) Dividend
(d) Stock Volatility

26. Risk avoidable through proper diversification is known as:
(a) Portfolio Risk
(b) Unsystematic Risk
(c) Systematic Risk
(d) Total Risk

27. Expected Return on the market in 16% and Risk free rate is 6%, which of the following projects be accepted.
(a) A: $\beta = .50$, Return = 11.5%
(b) B: $\beta = 1.25$, Return =18.0%
(c) C: $\beta = 1$, Return = 15.5%
(d) D: $\beta = 2$, return = 25.0%

28. If the intrinsic value of a share is less than the market price, which of the most reasonable?
(a) That shares have lesser degree of risk
(b) That market is over valuing the shares
(c) That the company is high dividend paying
(d) That market is undervaluing the share

29. An aggressive share would have a beta:
(a) Equal to Zero
(b) Greater than one
(c) Less than Zero
(d) Equal to one

30 Modern portfolio theory stresses the correlation between:
(a) particular portfolio and a benchmark portfolio.
(b) individual securities within a portfolio
(c) individual securities macroeconomic variables.

31. Ahmed Musa plans to invest in a number of assets to diversify his portfolio. This portfolio approach will most likely result in:
(a) Risk reduction.
(b) Downside protection,
(c) Risk elimination.

32 Three Level I candidates were discussing portfolio risk and made the statements shown below. Which candidate is correct?
(a) Candidate A: Portfolios impact returns more than risks.
(b) Candidate B: Portfolios impact risks more than returns.
(c) Candidate C: Portfolios impact both risk and return equally.

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33 The diversification ratios of portfolios A, B and C are 0.5, 0.7 and 0.9 respectively. The portfolio that provides the best diversification benefit is:

(a) portfolio A.
(b) portfolio B.
(c) portfolio C.

34 If the average standard deviation of returns of n stocks is 30%, and the standard deviation of returns of an equally weighted portfolio of the n stocks is 20%, then the diversification ratio is closest to:

(a) 0.67.
(b) 1.5.
(c) 0.5.

35 Which of the following institutional investors is most likely to have a low risk tolerance and relatively high liquidity needs?

(a) Endowments.
(b) Defined benefit pension plans,
(c) Insurance companies.

36 An analyst gathers the following information for the asset allocations of three portfolios:

Portfolio	Fixed Income (%)	Equity (%)	Alternative Assets (%)
1	30	45	25
2	45	30	25
3	15	55	30

Which of the portfolios is most likely appropriate for a client who has a high degree of risk tolerance?

(a) Portfolio 1
(b) Portfolio 2.
(c) Portfolio 3;

37 Which of the following types of investors will most likely have the lowest need for income?

(a) Mature defined benefit pension plan.
(b) Insurance companies.
(c) Investment companies.

38 Shakeel Shah manages a defined benefit plan for Acme Co. Acme has a large number of retired employees. The fund is most likely to have a high need for:

(a) liquidity.
(b) income.
(c) liquidity and income.

39 Analyst 1: Endowments typically have a long time horizon, a high risk tolerance and low liquidity needs. Analyst 2: Banks typically have a short time horizon, low risk tolerance and high liquidity needs.

Which analyst's statement is most likely correct?

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(a) Analyst 1.
(b) Analyst 2.
(c) Both

40 Which of the following is least likely a feature of a defined benefit pension plan?
(a) The employer accepts the investment risk.
(b) The employee accepts the investment risk.
(c) The employer provides a specified retirement benefit.

41 Which of the following is most likely a feature of a defined benefit pension plan?
(a) The employee faces investment risk.
(b) The employer faces investment risk.
(c) The employer and employee share the investment risk.

42 Sean McDonald, CFA, manages the portfolios of several clients. With respect to how frequently the investment policy statement must be updated for a client, which of the following is most likely true?
(a) On regular intervals such as every six months.
(b) Only if expectations about the market change.
(c) Only if there is a major change in a client's situation.

43 Which of the following regarding the portfolio management process is most accurate?

	Planning	Execution	Feedback
A	Asset allocation	Security analysis	Monitoring and rebalancing
B	Understanding the clients' needs	Preparing an investment policy statement (IPS)	Portfolio construction
C	Preparing an investment policy statement (IPS)	Portfolio construction	Performance measurement and reporting.

(a) Option A in the above table
(b) Option B in the above table
(c) Option C in the above table

44 Junaid Jamshed is planning a portfolio for his client. In accordance with the planning step of the portfolio management process, he is least likely to assess:
(a) The client's constraints.
(b) The expected returns of various securities,
(c) The client's degree of risk averseness.

45 For a top-down security analysis, the first step is to:
(a) examine macro-economic conditions.
(b) identify the most lucrative companies within each industry.
(c) analyze a firm's business projections and management quality.

46 With respect to portfolio management process, security selection decisions are made in the:
(a) planning step.
(b) execution step,
(c) feedback step.

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47 Which of the following is most likely a part of the planning step in the portfolio management process?
(a) Asset allocation.
(b) Security selection.
(c) Development of the investment policy statement.

48 The planning step in the portfolio management process includes:
(a) deciding the asset allocation between equities, fixed income securities and cash.
(b) preparation of an investment policy statement.
(c) identifying attractive investments in particular market segments.

49 The feedback step of the portfolio management process does not include:
(a) performance management.
(b) asset allocation.
(c) performance reporting

50 The distinguishing factor between a wrap account and a mutual fund is that with wrap accounts:
(a) investments cannot be tailored to the tax needs of a client.
(b) there is a lower required minimum investment,
(c) assets are owned directly by the investor.

51 Serene and Co. is characterized by a few large investments. Serene and Co. is most likely a:
(a) hedge fund.
(b) venture capital fund,
(c) buyout fund.

52 Buyout funds and venture capital funds are similar in that, they both:
(a) restructure companies to increase profitability.
(b) expect only a small percentage of investments to pay off.
(c) actively participate in the management of companies

53 A key difference between a venture capital fund and a buyout fund is that venture capital funds:
(a) make investments in established companies.
(b) make large investments,
(c) avoid the use of leverage.

54 **Analyst 1:** The minimum investment required to open a separately managed account (SM((A) is lower than that of a mutual fund.
Analyst 2: In a separately managed account (SM((A) transactions can be tailored to the specific needs of the investor.

Which analyst's statement is most likely correct?
(a) Analyst 1.
(b) Analyst 2.
(c) Both.

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55 Which of the following is most likely true about exchange traded funds? ETFs:
(a) can be sold short.
(b) generally do not trade close to NAV.
(c) can only trade on closing asset prices.

56 Which of the following types of institutions is most likely to have a higher level of risk tolerance and high income needs?
(a) Defined benefit pension plans.
(b) Banks.
(c) Life insurance companies.

57 In general, which of the following institutions will most likely have a high need for liquidity and a long-time horizon?
(a) Life insurance companies.
(b) Endowments.
(c) Defined benefit pension plans.

58 Which of the following best describes the time horizon, liquidity needs and level of risk tolerance for an endowment?

Time Horizon	Liquidity Needs	Level of Risk	Tolerance
A.	Short	Low	High
B.	Long	Low	High
C.	Long	High	Low

(a) Option A in the above table.
(b) Option B in the above table,
(c) Option C in the above table.

59 In which of the following types of mutual fund would a portfolio manager be most likely concerned about managing liquidity?
(a) A load closed-end fund.
(b) A no-load closed-end fund,
(c) A no-load open-end fund.

60 Siraj intends to evaluate the annualized returns of his buy-and-hold strategy after making his annual deposits to an account for each of the past three years. Which of the following methods should be used, most appropriately?
(a) Geometric mean return.
(b) Money-weighted return.
(c) Arithmetic mean return.

61 An investor's transactions in a mutual fund and the fund's return over a three year period are given below:

	Year 1	Year 2	Year 3
New investment at the beginning of the year	$2,000 -	$2,200	$3,000
Investment return for the year	10%	25%	40%
Withdrawal by investor at the end of the year	$0	$1,000	$0

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Based on the data, the money weighted return for the investor is closest to:
(a) 51.8%.
(b) 24.7%.
(c) 74.9%.

62 An analyst observes that the historic geometric returns are 10% for fixed income securities, 5% for treasury bills and 2% for inflation. The real rate of return for fixed income securities is closest to:
(a) 4.7%.
(b) 7.2%.
(c) 7.8%.

63 An analyst obtains the following annual rates of return for a mutual fund:

Year	2011	2012	2013
Return (%)	23	-14	-1.5

The fund's holding period return over the three-year period is closest to:
(a) 4.19%.
(b) 4.75%.
(c) 5.29%.

64 Ahmed invested in a fund which offered the following returns over the last three years:

Year	Assets under management at start of year	Net Return C%)
1.	15 million	15
2.	20 million	-5
3.	5 million	10

The money-weighted annual return is closest to:
(a) 4.5%.
(b) 5.0%.
(c) 12.1%.

65 You are evaluating the performance of two investment managers in your team:
Soomro: In the last 200 days, he has earned a holding period return of 9.2%
Seemi: Over the past 5 months, her holding period return is 6.0 %.

Which-manager performed better?
(a) Soomro
(b) Seemi
(c) Both did equally well.

66 Saman purchases two shares of Sun Go, one for $32 at time t = 0 and the other for $45 at t = 1. At t = 2, he sells them both for $53 each. The stock paid a dividend of $0.75 per share at t = 1 and at t = 2. The periodic money weighted rate of return on the investment is closest to:
(a) 23.82%.
(b) 25.76%.
(c) 26.75%.

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67 Liquidity least likely impacts which of the following with respect to trading costs?
(a) stock price.
(b) brokerage commissions,
(c) bid-ask spread.

68 Fred David invested in the stock of a hypothetical company called Stars Ltd. He purchased three shares worth $100 eiach at the beginning of the first year. He invested in another share worth $115 before the beginning of the second year. He sold the four shares at the end of the second year for a price of $120 per share. At the end of each period, the stock paid a dividend of $2 per share. Which of the following is most likely to be the money-weighted rate of return?
(a) 8.76%.
(b) 9.62%.
(c) 10.66%.

69 Which of the following asset classes have historically had the highest returns and standard deviation?
(a) Long-term corporate bonds.
(b) Large-cap stocks,
(c) Small-cap stocks.

70 Which of the following asset classes have historically had the lowest returns and standard deviation?
(a) Long term treasury bonds.
(b) Treasury bills.
(c) Large cap stocks.

71 The following table presents historical information for two stocks, ABC and XYZ:

Variance of returns for ABC	0.0308
Variance of returns for XYZ	0.0705
Correlation coefficient between ABC and XYZ	0.6500

The covariance between ABC and XYZ is closest to:
(a) 0.0014.
(b) 0.0717.
(c) 0.0303.

72 A measure of how the returns of two risky assets move in relation to each other is the:
(a) portfolio return.
(b) covariance.
(c) standard deviation.

73 Ahmed's portfolio consists of two stocks: Ivne. Ltd and Iris. Co. The standard deviation of returns is 0.25 for Ivne. Ltd and 0.14 for Iris. Co. The covariance between the returns of the two stocks is 0.0045. The correlation of returns between them is:
(a) 0.008.
(b) 0.129.
(c) 7.778.

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74 Which of the following statements is least accurate?

(a) If you add a stock to a portfolio where the risk of the stock is equal to the risk of the portfolio and the correlation is 0.6, the overall risk of the new portfolio will be lower.
(b) The correlation coefficient and potential benefits from diversification are inversely related.
(c) A zero variance portfolio can be constructed by combining two securities with a correlation coefficient of 0.

46 You are a U.S investor with 78% invested in the S&P 500 and 22% invested in the Dow Jones 30 index. The risk and expected return data is given below:

	Risk (%)	Expected Return (%)	Covariance (%squared)
S&P 500	16.32%	9.82	0.43
Dow Jones 30	32.86%	14.97	

The portfolio's expected return and risk are closest to:
(a) 10.95% and 15.14%.
(b) 10.90% and 15.10%.
(c) 11.58% and 15.10%.

47 The correlation between the historical returns of Stock A and Stock B is 0.75. If the variance of Stock A is 0.25 and the variance of Stock B is 0.36, the covariance of the returns of Stock A and Stock B is closest to:
(a) 0.225.
(b) 0.30.
(c) 0.36.

75 An investment has a 50% probability of returning 10% and a 50% probability of returning 4%. An investor prefers this uncertain investment over a guaranteed return of 8%. This preference most likely indicates that the investor is risk:
(a) seeking.
(b) neutral.
(c) averse.

76 The risk-return relationship for a risk averse investor is most likely to be:
(a) positive.
(b) negative.
(c) Neutral.

77 You are advising three clients of whom Eliyahu Goldratt is the most risk- averse. According to the utility theory, the indifference curve for Goldratt will most likely be the one with the:
(a) greatest slope coefficient.
(b) smallest intercept value.
(c) least convexity.

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78 Which of the following statements about risk-averse investors is least accurate? A risk-averse investor:

(a) will take additional investment risk if sufficiently compensated for this risk.
(b) seeks out the investment with minimum risk, given a certain level of return.
(c) avoids participating in global equity markets.

79 Selected information about shares of two companies is provided below:

	ABC Corporation	XYZ Corporation
Standard deviation	25%	30%
Correlation of returns	0.24	
Portfolio weights	40%	60%

The standard deviation of returns of the portfolio formed with these two stocks is closest to:

(a) 0.0043.
(b) 0.2259.
(c) 0.0756.

80 An analyst studies an investment portfolio with stocks of Company ABC arid Company JKL. He wishes to compute the correlation of returns between the stocks. However, the only bits of information available include the following data.

Stock	**Standard Deviation**	**Portfolio Weights**
ABC	36%	40%
JKL	27%	60%

The standard deviation of the returns for the portfolio is 30%. The correlation coefficient for the returns is closest to:

(a) 0.92.
(b) 1.02.
(c) 1.84.

The following data is available:

Expected Return	Standard Deviation	Risk aversion coefficient
15%	27%	4

The utility of this investment is closest to:

(a) 0.0040.
(b) 0.0041.
(c) 0.0042.

81 If the correlation between Stock A and Stock B in a two-asset portfolio increases during a market decline, with a constant weightage of the assets and expected standard, deviations of each, the portfolio's volatility will:

(a) increase.
(b) stay constant.
(c) decrease.

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82 Arman is considering investing in a small-cap stock fund and a general bond fund. The correlation between the two fund returns is 0.12. Expected annual return equaled 16% and 6% respectively with standard deviation of 30% for small-cap stock and "11.5% for general bond fund. If Arman requires a portfolio return of 10 percent, the proportions in each fund respectively should be closest to:

(a) 30% and 70%.
(b) 36.4% and 63.4%.
(c) 40% and 60%.

83 Information about a portfolio that consist of two assets is provided below:

Asset	Portfolio Weight	Standard deviation
ABC	30%	10%
JKL	70%	8%

If the correlation coefficient between the two assets is 0.8, the standard deviation of the portfolio is closest to:

(a) 8.2%.
(b) 9.8%.
(c) 9.1%.

84 Assume that two securities that are present in equal proportions in an investor's portfolio have the same expected returns and volatility. For which of the following correlations between the two securities would the investor most likely be able to achieve the greatest diversification benefit?

(a) +0.86.
(b) -0.86.
(c) 0.00.

85 A correlation matrix of the returns for securities A, B, and C is reported below:

Security	A	B	C
A.	1		
B.	-1	1	
C.	0.5	-0.5	1

Assuming that the expected return and the standard deviation of each security are the same, a portfolio consisting of an equal allocation of which two securities will be most effective for portfolio diversification? Securities:

(a) A and B.
(b) A and C.
(c) B and C.

86 A portfolio contains equal weights of two securities that have the same standard deviation. If the correlation between the returns of the two securities was to increase, the portfolio risk would most likely:

(a) increase.
(b) remain the same.
(c) decrease.

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87 The set of risky portfolio that give the highest return at each level-of risk will most likely lie on the:
(a) capital allocation line.
(b) efficient frontier.
(c) security market line.

88 The capital allocation line (CAL) dominates the efficient frontier because of the ability of the investor to:
(a) invest in the risk-free asset.
(b) invest in market portfolio.
(c) invest in a zero-beta asset.

89 Which of the following in combination with the risk-free asset forms the dominant capital allocation line?
(a) global minimum-variance portfolio.
(b) optimal risky portfolio.
(c) levered portfolio of risky assets.

90 Which of the following portfolios will most likely lie at the point of tangency between the capital allocation line and the efficient frontier of risky assets?
(a) Optimal investor portfolio.
(b) Global minimum variance portfolio.
(c) Optimal risky portfolio.

91 Relative to an investor with steep upward sloping indifference curves, an investor with a less steep indifference curve most likely has:
(a) a higher level of risk aversion.
(b) a lower level of risk aversion.
(c) the same level of risk aversion.

92 Investor X has a higher risk aversion than investor Y. On the capital allocation line, will investor Y's optimal portfolio have a higher expected return?
(a) Yes.
(b) No, since investor Y has low risk tolerance.
(c) No, since investor Y has high risk tolerance.

93 The optimal portfolio, as suggested by the mean-variance theory, is determined by every individual investor's:
(a) borrowing rate.
(b) risk-free rate.
(c) risk preference.

95 The I FT Fund has achieved returns of 18%, 15%, and -36% in the past three years, respectively. The fund's geometric mean return for the past three years is closest to:
(a) 3.77%.
(b) -4.59%.
(c) -5.12%.

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96 An investor has achieved a return of 4% over a 10-week period. The investor's annualized return is closest to:
(a) 22.62%.
(b) 14.19%.
(c) 35.81%.

97 An analyst observes that stock markets usually demonstrate return distributions concentrated to the right with a higher frequency of positive deviation from the mean. This feature is most likely known as:
(a) negative skewness.
(b) positive skewness.
(c) kurtosis.

98 The annualized return for an investor who has achieved a return of 18% over an 18-month period is closest to:
(a) 11.67%.
(b) 12.00%.
(c) 11.33%.

99 An analyst observes that the historic geometric return is 10% for equities, 2% for treasury bills and 3% for inflation. The real rate of return and risk premiums for equities are closest to:
(a) 7.1% and 5.3%.
(b) §.2% and 5.4%.
(c) 6.8% and 4.7%.

100 A set increase in risk, when one moves from left to right along an efficient frontier, will most likely lead to:
(a) Sequentially larger increases in expected return.
(b) Consistent increases in expected return.
(c) Sequentially smaller increases in expected return.

101 Investor A invests only in risky assets. Investor B invests in risky assets and the risk free asset. Which of the following is most accurate?
(a) For a given level of risk, Investor A's maximum return-is depicted by the CAL and Investor B's maximum return is depicted by the efficient frontier.
(b) For a given level of risk, Investor A's maximum return is depicted by the efficient frontier and Investor B's maximum return is depicted by the CAL.
(c) For a given level of risk, the maximum return for both investor is depicted by the efficient frontier.

102 A portfolio has a risk-free asset and two risky assets. Which of the following is most likely to be a depiction of the risk and return of this portfolio?

(a) Capital allocation line.
(b) Security characteristic line.
(c) Security market line.

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103 Sam, an investor, would have an optimal portfolio with respect to the capital market theory, if the portfolio with a risk-free and a risky asset has the highest:
(a) capital allocation line slope.
(b) expected return.
(c) indifference curve.

104 Roger Phillips is a highly risk-averse investor. A majority of wealth is most likely to be invested in:
(a) an optimal risky portfolio.
(b) risk-free assets.
(c) risky assets.

105 A portfolio with equal parts invested in a risk-free asset and a risky portfolio will most likely lie on:
(a) the security market line.
(b) a capital allocation line.
(c) the efficient frontier.

106 An investment in only one asset type has a worse risk-return tradeoff than an investment in a portfolio of a risk-free asset and a risky asset. This is because the correlation between the risk-free asset and the risky asset is equal to:
(a) -1
(b) 0
(c) 1

107 Which of the following combinations is most likely to have its portfolio's risk and return presented in the form of the capital market line, CML?
(a) Risk-free asset and market portfolio.
(b) Risk-free asset and any risky portfolio,
(c) Risky asset and a leveraged portfolio.

108 Any point above the capital market line is most likely to be considered:
(a) inefficient.
(b) inferior.
(c) Unachievable

109 XYZ is a portfolio on the capital market line. The returns on the market portfolio are greater than the returns on the portfolio XYZ. XYZ is most likely to be:
(a) borrowing portfolio.
(b) lending portfolio.
(c) unachievable portfolio.

110 In defining the CML, we assume that all investors have the same expectations for securities. This results in:
(a) a single optimal risky portfolio called the market-portfolio.
(b) a portfolio of assets with the same risk.
(c) a portfolio of assets with the same returns.

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111 Which of the following assumptions of the capital market theory allows for optimal risky portfolio i.e. market portfolio to exist?
(a) All investors plan for the same holding period.
(b) All investors are price takers
(c) All investors have homogeneous expectations

112 In accordance with the capital market theory, the optimal risky portfolio is most likely to:
(a) have the lowest expected variance.
(b) have the highest expected returns,
(c) be the market portfolio.

113 As compared to a market portfolio, a borrowing portfolio on the capital market line is most likely to have:
(a) lesser returns.
(b) equal returns
(c) greater returns.

114 Risk that can be attributed to factor(s) that impact the market is least likely described as:
(a) systematic risk.
(b) non-diversifiable risks,
(c) unsystematic risk.

115 Which of the following is least likely to be synonymous with systematic risk?
(a) Market risk.
(b) Undiversifiable risk.
(c) Firm-specific risk.

116 Which of the following is most likely to be an example of a nonsystematic risk?
(a) Major oil discovery.
(b) Natural disaster.
(c) Political uncertainty.

117 In accordance to the capital market theory, which of the following risks is priced?
(a) Non-systematic risk.
(b) Systematic risk
(c) Total risk

118 Which of the following statements is most likely to be correct?
(a) Non-systematic risk. The sum of an asset's systematic variance and its nonsystematic variance of returns is equal to the asset's total variance.
(b) The sum of an asset's systematic standard deviation and its nonsystematic standard of returns is equal to the asset's total risk
(c) The sum of an asset's systematic returns and its non systematic returns is equal to the asset's beta.

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119 Andrew, a portfolio manager, aims to maximize risk-adjusted returns. He is least likely to invest in securities with a nonsystematic variance of:

(a) 0.2.
(b) 0.0.
(c) 0.5.

120 Kate Beckett invested her wealth in a diversified portfolio. Which of the following is she most likely to avoid?

(a) Non-systematic risk.
(b) Systematic risk,
(c) Total risk.

121 Barry wishes to compute the beta of a stock that has a correlation of 0 64 with the market. The following data is available: Standard Deviation of Returns of Stock = 14.1%.

Standard Deviation of Returns of Market = 9.44%. The beta is closest to:

(a) 0.43.
(b) 0.74.
(c) 0.96.

122 Three investors, Bill, Jill, and Mill, invest in individual securities. The table below shows the expected annual returns, expected standard deviation, and the correlation between their security and the market.

Investor	Expected Annual Return (%)	Expected Standard Deviation (%)	Correlation between the security and the market
Bill	15	21	0.85
Jill	12	21	0.75
Mill	12	28	0.65

The following information is available for the market: Expected Annual Return: 11% Expected Standard Deviation: 16%

Which investor is most likely to be exposed to the highest total risk?

(a) Bill.
(b) Jill.
(c) Mill.

123 Three investors, Bill, Jill, and Mill, invest in individual securities. The table below shows the expected annual returns, expected standard deviation, and the correlation between their security and the market.

Investor	Expected Annual Return (%)	Expected Standard Deviation (%)	Correlation between the security and the market
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Mill	12	28	0.65

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The following information is available for the market: Expected Annual Return: 11%
Expected Standard Deviation: 16%
Which investor has invested in a security with the highest beta?
(a) Bill.
(b) Jill.
(c) Mill.

124 Three investors, Bill, Jill, and Mill, invest in individual securities. The table below shows the expected annual returns, expected standard deviation, and the correlation between their security and the market.

Investor	Expected Annual Return (%)	Expected Standard Deviation (%)	Correlation between the security and the market
Bill	15	21	0.85
Jill	12	21	0.75
Mill	12	28	0.65

The following information is available for the market: Expected Annual
Return: 11%
Expected Standard Deviation: 16%

Which investor is exposed to the least amount of market risk?
(a) Bill.
(b) Jill.
(c) Mill.

125 In a class discussion, Mary stated that the average beta for all assets in the market is less than 1. Amanda argued that it was equal to 1; whereas James insisted it exceeded 1. Which of the following students is most likely to be correct?
(a) Amanda.
(b) James.
(c) Mary.

126 A security characteristic line's slope is most likely to be the asset's:
(a) Excess return.
(b) Risk premium.
(c) Beta.

127 A stock has a correlation of 1 with the market and a standard deviation of returns of 20%. If the market has a standard deviation of returns of 15%, then the "beta of the stock is closest to:
(a) 1.33.
(b) 0.75.
(c) 0.20.

128 Which of the following assets is most likely to have an expected return less than the risk-free rate?
(a) An asset with beta-0.25
(b) An asset with beta 0.00.
(c) An asset with beta 0.25

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129 Information for stock Z and the market is given below:

Standard deviation for stock Z's returns	25%
Standard deviation of the market's returns	10%
Correlation of stock Z with the market	65%

The beta of stock Z is closet to:
(a) 0.26
(b) 0.016
(c) 1.625

130 Which of the following is least likely an assumption of the Capital Asset Pricing Model (CAPM)?
(a) There are no costs or restrictions to short-selling.
(b) Investors plan for multiple holding periods,
(c) Investors can hold a fraction of any asset.

131 Which of the following statements about the Security Market Line is least accurate? The SML:
(a) does not allow us to identify mispriced securities.
(b) prices securities based only on non-diversifiable risk,
(c) slope equals the market risk premium.

132 The security market line's intercept on the y-axis is most likely to be:
(a) the risk free rate.
(b) beta.
(c) the market risk premium.

133 The security market line's slope is most likely to be:
(a) alpha.
(b) beta.
(c) market risk premium.

134 Correctly priced individual securities are most likely to plot on which of the following lines?
(a) Capital allocation line.
(b) Capital market line,
(c) Security market line.

135 Under CAPM, the market portfolio should ideally consist of all:
(a) investable assets.
(b) risky assets
(c) tradable assets.

136 Which of the following is most likely to be the primary determinant of expected return of an individual asset in the capital asset pricing model?
(a) Asset's beta.
(b) Asset's standard deviation
(c) Market risk premium

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137 Which of the following statements is most likely to be correct for the capital asset pricing model?
(a) The market risk premium exceeds the excess market return.
(b) The market risk premium is equal to the excess market return,
(c) The market risk premium is less than the excess market return.

138 Richard wants to include a graphical representation of the capital asset pricing model in his presentation. Which of the following lines will he most likely consider?
(a) Capital allocation line.
(b) Capital market line.
(c) Security market line.

139 A portfolio manager is analyzing three securities A, B, and C for an investment opportunity. He has the following data:

Stock	A	B	C
Investor's Estimated Return	11.96%	10.88%	16.39%
Beta	1.6	1.2	0.96

(a) Stock A.
(b) Stock B.
(c) Stock C.

If the risk free rate is 2.20% and market return is 9.65%, which of the three securities is most likely undervalued?

140 The following table shows data for the stock of ABC and a market- index.

Expected return of ABC	10%
Expected return of the market-index	9%
Risk free rate	4%
Standard deviation of ABC returns	15%
Standard deviation of market-index returns	12%
Correlation of ABC and market-index returns	0.5%

Based on the capital asset pricing model (CAPM), ABC is most likely:
(a) undervalued.
(b) overvalued.
(c) fairly valued.

141 The table below shows information for securities held by three investors, Daniel, David, and Diana.

Investor	Expected Standard Deviation	Beta
Daniel	30	1.60
David	25	1.80
Diana	20	1.40

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Given that the expected market risk return is 7% and the risk-free rate is 2.5%, what is the expected return for Daniel's security?

(a) 4.48%.
(b) 9.70%.
(c) 14.2%.

142 The table below shows information for securities held by three investors, Daniel, David, and Diana.

Investor	Expected Standard Deviation	Beta
Daniel	30	1.60
David	25	1.80
Diana	20	1.40

Given that the expected return for David's security is 14% and the risk- free rate is 2.5%, what is the expected return for the market?

(a) 6.39%.
(b) 8.88%.
(c) 15.30

143 The table below shows information for securities held by three investors, Daniel, David, and Diana.

Investor	Expected Standard Deviation	Beta
Daniel	30	1.60
David	25	1.80
Diana	20	1.40

Given that the expected market risk premium is 7.5%, which of the following investors has the lowest expected return?

(a) Daniel.
(b) David.
(c) Diana.

144 The table below shows information for securities held by three investors, Daniel, David, and Diana.

Investor	Expected Standard Deviation	Beta
Daniel	30	1.60
David	25	1.80
Diana	20	1.40

Given that the expected market return declines, which of the following investor's security will have the greatest impact on the expected return?

(a) Daniel.
(b) David.
(c) Diana.

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145 Miranda, an analyst, makes use of the capital asset pricing model to come up with the expected return of Stock X. She then estimates the return for Stock X using cash flow projections. The estimated return is higher than the return predicted by CAPM.

She should conclude that Stock X is:

(a) undervalued.
(b) properly valued.
(c) overvalued.

119 If the expected return on the market portfolio is 8% and the risk free rate is 4%, the expected return of a security with a beta of 1.25 is closest to:

(a) 8%.
(b) 9%.
(c) 10%.

120 Information about three stocks is provided below:

Stock	Expected Return	Beta
ABC Corp.	6%	0.7
KLM Corp.	10%	1.0
XYZ Corp.	16%	1.5

If the expected market return is 10% and the average risk-free rate is 2%, according to the capital asset pricing model (CAPM) and the security market line (SML), which of the three stocks is most likely undervalued?

(a) Stock ABC.
(b) Stock KLM.
(c) Stock XYZ.

146 Last year, a portfolio manager earned a return of 10%. The portfolio's beta was 0.5. For the same period, the market return was 7% and the average risk-free rate was 4%. Jensen's alpha for this portfolio is closest to:

(a) 1.5%.
(b) 4.5%.
(c) -1.5%.

147 An investment manager has the following information regarding his portfolio's return and volatility as compared to the market:

	Return	Risk
Market	9.50%	17.50%
Portfolio	15.50%	23.20%

Given that the risk free rate is 3.50%, M2 would be closest

(a) 3.05%.
(b) 9.91%.
(c) - 1.47%.

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148 Which of the following statements is least likely to be correct about Jensen's alpha?
(a) It is the excess risk-adjusted return on a portfolio.
(b) It is based on systematic risk.
(c) It is the slope of the security market line.

149 George, a portfolio manager, aims to maximize risk-adjusted returns. He is most likely to invest in securities with a Jensen's alpha of:
(a) -0.5.
(b) 0.
(c) 0.5.

150 Which of the following adjusts for total risk?
(a) Jensen's alpha and M-squared.
(b) Jensen's alpha and Sharpe ratio.
(c) M-squared and Sharpe ratio.

151 Carlos wants to evaluate the performance of his portfolio manager. He wants to use a measure based on systematic risk and one which does not require a comparison to determine whether the performance is good or not. Which of the following measures is he most likely to use?
(a) Jensen's alpha.
(b) Treyor ratio.
(c) M-squared.

152 Brad, an investor, has a portfolio which is not fully diversified. Which performance measure is most appropriate for Brad?

(a) Jensen's alpha.
(b) M-squared.
(c) Treynor ratio.

153 The following information is provided about a stock market index m and security i:

Statistic	Value
Covariance between market return and security return[Cov (Ri, Rm)]	0.01208
Correlation coefficient between market return and security return (pi,m)	0.35
Standard deviation of market return (om)	0.15 .

The beta of security i, βi, is closest to:
(a) 1.11.
(b) 0.37.
(c) 0.54.

154 Two stocks, A and B, have same total risk. Stock A has twice the systematic risk of stock B and half its unsystematic risk. Stock B's expected return will most likely be:
(a) higher than the expected return stock A.
(b) lower than the expected return of stock A. c) the same as the expected return of stock A.
(c) Number of questions: 22 (130 to 151)

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[Answers: 1. (a), 2. (a), 3. (c), 4. (b), 5. (d), 6. (a), 7. (b), 8. (b), 9. (a), 10. (d), 11. (c), 12. (d), 13. (d), 14. (d), 15. (c); 16. (d), 17. (b), 18. (b), 19. (c), 20. (b), 21. (a), 22. (b), 23. (b), 24. (a), 25 (d), 26. (b), 27. (a), 28. (b), 29. (b). 30. (b), 31. (a), 32. (b), 33. (a), 34. (a), 35. (c), 36. (c), 37. (b), 38. (b), 39. (c), 40. (b), 41. (b), 42. (a), 43. (c), 44. (b), 45. (a), 46. (b), 47. (c), 48. (b), 49. (b), 50. (c), 51. (c), 52. (c), 53. (c), 54. (b), 55. (a), 56. (a), 57. (a), 58. (b), 59.(c), 60.(a), 61. (b), 62. (c), 63. (a), 64.. (a), 65. (a), 66. (c), 67. (b), 68. (c), 69. (c), 70. (b), 71. (c), 72. (b), 73. (b), 74. (c), 75. (a), 76. (a), 77. (a), 78. (a), 79. (a), 80. (c), 81. (b), 82. (a), 83. (c), 84. (a), 85. (c), 86. (a), 87. (b), 88. (a), 89. (a), 90. (b), 91. (a), 92. (b), 92. (c), 93. (b), 94. (a), 95. (c), 96. (b), 97. (a), 98. (a), 99. (a), 100. (c), 101, (c), 102. (b), 103.(a), 104. (c), 105. (b), 106. (b), 107. (b), 108. (a), 109. (c), 110. (b), 111. (a), 112. (c), 113. (c), 114. (c), 115. (c), 116. (c), 117. (a), 118. (b), 119. (a), 120. (c), 121. (a), 122. (c), 123. (c), 124. (c), 125. (b), 126. (a), 127. (c), 128. (a), 129. (a), 130. (c), 131. (b), 132. (a), 133. (a), 134. (c), 135. (c), 136. (b), 137. (a), 138. (b), 139. (c), 140. (c), 141. (a), 142. (b), 143. (b), 144. (c), 145. (b), 146. (a), 147. (b), 148. (c), 149. (b), 150. (a), 151. (c), 152. (c), 153. (c), 154. (a)]

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4. SOURCE OF FINANCE

Q. 1. **[Dec 1998]** Write short notes on "External Commercial Borrowings".

Ans.

- The foreign currency borrowings raised by the Indian corporates from outside India is known as "External Commercial Borrowings" (ECB's).
- These borrowings occupy a very important position as a source of funds for corporate
- This foreign currency borrowing can be raised within ECB policy guidelines of Govt. of India/ Reserve Bank of India issued from time to time.
- Thus, the main Ingredients of ECB are:-
  - It is a commercial loan.
  - It is a foreign exchange.
  - It is availed by a person resident in India.
  - It is availed from non-residents lenders.
- The ECB's route is beneficial to the Indian corporates on account of the following:-
  - It provides the foreign currency fund which may not be available in India.
  - The cost of fund at times works out to be cheaper as compared to the cost of raising domestic funds.
  - The availability of the funds from the international market is huge as compared to domestic market and corporate can raise large amount of funds at competitive price.
- ECB can be accessed under two routes:-
  - Automatic Route and
  - Approval Route.

Q. 2. **[June 2000]** Write notes on Capital account Convertibility.

Ans. Capital account Convertibility

- Capital account convertibility refers to an economic tool expected to engender more efficient capital flows and catalyse growth impulses and enable the society to strike out a balance between its internal and external prices.
- The objectives of capital account convertibility are:-
  - Deepen and integrate the financial market.
  - Discipline domestic policy market.
  - Allow better decision making.
  - Permits accessibility to global savings.
- Indian Government has already permitted the full convertibility of rupees on current account. Full convertibility on capital account is yet to be allowed.
- Government has even appointed a committee on capital account convertibility under the chairmanship of S.S Tarapore.

Q. 3. **[June 2004]** List out the benefits of issuing bonus shares. **OR**
[Dec 2009] Apart from the retention of profits and capitalizing the accumulated earnings, the bonus shares serve several other objectives. Comment.

Ans.

- The basic idea behind issue of bonus shares is the objective of retention of profits and capitalizing the accumulated earning for financing from internal sources the cost of company's expansion, modernization or diversification schemes.
- Issue of bonus shares does not affect the liquidity position of the company.
- The company issues bonus shares to serve the following ends:-
  a) To enhance the prosperity of the company by conserving the cash inflows.

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b) To increase capitalization, lower rate of dividend can be followed by issued of bonus shares by a company. Increase in equity shares through bonus issue reduces the rate of dividend; usually high rate dividend may attract adverse notice of the general public or authorities towards profiteering.
c) To transfer the formal ownership of surplus and reserves to equity holders by issuing bonus shares;
d) Financing the growth programmed of the company by expansion, modernization or diversification;
e) With broad based equity structure, a company can better bargain the debt to balance its capital structure and increase earnings on equity shares through financing leverage.

- The bonus shares entail and increase in the capitalization of the corporate unit which should be justified by a proportionate increase in the earning capacity of the company.
- Bonus issue suit to such companies who have regularity in profits.
- To maintain suitability and regulating bonus issue. Government brings out guidelines from time to time for the issue of bonus shares.

Q. 4. **[Dec 2003]** "Bonus shares represent simply a division of corporate pie into a large number of pieces" Discuss?

Ans.

- Most of the shareholders, considered that the bonus shares are valuable. But they fail to realize that the bonus shares do not affect their wealth and therefore, in itself they have no value for them.
- It merely divides the ownership of the company into a large number of pieces.
- Infact, the bonus issue does not give any extra or special benefit to a shareholder.
- His proportionate ownership in the company does not change.
- Further, from the company's point of view the issue of bonus shares is more costly to administer than cash dividend.
- The company has to print certificates and send them to lakhs of shareholders.

Q. 5. **[Dec 2004]** Write short note on "Bonus Debentures".

Ans. A co. which has issued debenture can only issue bonus debenture.

To issue bonus debentures, the company capitalizes its retained earnings into debentures. Bonus debentures are like Bonus Shares. There are a number of benefits to the issuing company, namely:-

- The floating stock of shares in the market does not increase.
- Company gets tax advantage on interest payments on debentures.
- These are issued when the issuing company anticipates that in the coming years, the company will have cash balances and the same would not be needed for financing. The expected return on internal retention would be lower than market return. In such circumstances cash outflows in redeeming the debentures would not affect the company's liquidity position.
- The Cost of debt Capital (Kd) would be lower than Cost of equity (Ke).
- The practice of issuing bonus debentures, however, is not popular in India.

Q. 6. **[Dec 2005]** Differentiate between 'Bonus issue of shares' and 'stock split'

Ans.

S No.	Bonus Issue	Stock Split
1	The par value of the share is unchanged.	The par value of the share is reduced.
2	A part of reserves is capitalized.	There is no capitalization of reserves.
3	The shareholders' proportional ownership remains unchanged.	The shareholders' proportional ownership remains unchanged.
4	Total paid up capital increases.	Total paid up capital remains same.

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5	To book value per share, the earnings per share, and the market price per share decline.	The book value per share, the earnings per share, and the market price per share decline.
6	The market price per share is brought within a more popular trading range.	The market price per share is brought within a more popular trading range.

Q. 7. **[Dec 2007]** Write notes on the following:-

a) Re-financing

b) Bridge Finance

Ans. a) Re-financing

- Re-financing is a process by which a large financial institution provides funds to reimburse funds to another institution to help development, relief or other similar causes identified as the purpose of the formal, e.g.
- National bank for Agriculture and Rural Development (NABARD) is a government organization established with the primary objective of financing the farm sector; it is an arm through which government extends certain concessions / privileges to the farming community. NABARD does not deal with farmers directly but deals with manly banks such as scheduled and nationalized banks providing re-financing for quite a few schemes intended for the benefit of the agriculture sector. This is one example.
- Small industries Development Bank of India (SIDBI) is another governmental organization whose objective is to assist the development of small industries. It is another institution which is engaged in refinancing activities; it funds a few schemes intended for SSIs through scheduled / nationalized banks.

b) Bridge Finance

- It refers to the loan taken by a company normally from commercial bank for short period, pending disbursement of loan sanctioned by financial institutions.
- Normally, it takes time for financial institutions to disburse loan to companies due to non-compliance of terms and stipulated conditions and hence it becomes necessary to obtain short term loan for intermediated period.
- These loans are adjusted out of the main term loan.
  The rate of interest charged on bridge finance is much higher as compared to the rate of interest on term loan.

Q. 8. **[June 2004]** Write notes on (Hi) Methods of Venture Capital Financing.

Ans.

- Venture capital is the capital contributed in new, highly risky projects promoted by qualified entrepreneurs with high reward expectations. It is either in the form of equity or combination of equity and debt, generally through equity alone.
- This type of capital is provided by risk-oriented people to such a group of entrepreneurs who have talent & skill but lack funds.
- These projects are risky but have high return prospect.
- There are four types of venture capital investing:-

1) Equity financing
   In this method the venture capitalist purchases the equity shares of the company to the extent of 49%

2) Conditional loan
   In this the venture capitalists provide funds to the company Instead of interest royalty are charged against such loan.

3) Income Note
   It is a mixture of conventional loan and conditional loan. The company has to pay both interest and royalty but both at substantially lower rates.

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4) Participating debenture
Under this venture capitalist purchases debentures of the company which are participating in nature. Thus if there are no profits then no interest is charged. If the profits are low interest is charged and if the profits are high then high interest is charged.

Some of the venture capitalists in India are IDBI, ICICI, State Finance Corporation etc.

Q. 9. **[Dec 2004]** Write notes on Green Shoe Option.

Ans. Green Shoe Option

- Green shoe option means an option of issuing securities in excess of the securities issued included in public issue.
- The name comes from the fact that green shoe company was the first entity to use this option.
- It is an option that allows the underwriting of an IPO to sell additional shares if the demand is high.
- Under this option, the company can allocate shares in excess of the public issue and operating a post- listing.
- Price stabilising mechanism through a stabilising agent.
- It is thus a means of retaining over subscription to a certain extent.
- SEBI guidelines deal with the provision governing the limit on the exercise of green shoe option.

Q.10. **[June 2004]** Discuss the foreign sources of finance available to the corporate sector. **OR** **[Dec 2002]** Write a short note on 'International financial markets'.

Ans.

- In International financial market the borrower from one country may seek lenders in other countries in specific currency.
- The availability of foreign currency is assured under four main systems:-
  - Euro currency markets;
  - Export credit facilities;
  - Bond issues; and
  - Financial institutions.
- Eurocurrency market
  - Here funds are made available as loans through syndicated Euro credits/instruments known as Floating Rate Notes FRNS.
  - Interest rates vary every 3 to 6 months based on London — Interbank offered — Rate.
- Export Credit Facilities are made available by several countries through an institutional frame work in which EXIM Banks play a prominent role. EXIM Bank of India is playing a significant role in financing exports and other offshore deals.
- International Bond Market provides facilities to raise long term funds by using different types of instruments. The bond market is generally known as Euro bond market.
- UN Agency financial institutions viz. IMF of World Bank and its allied agencies, IFC (W),

ADB, etc. provide finance in foreign currency.

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Q.11. **[June 2005]** Write a short note on 'Syndicated Eurocurrency loans'. **OR**
[June 2005] Describe the main objectives of syndication of Euro currency loans.

Ans.

- The Eurocurrency market refers to the availability of a particular currency in the international financial market outside the 'home country' of that currency.
- For example, the Eurodollar market refers to the financial market for US dollars in England, France, West Germany, Hong Kong and other financial centres outside the US.

Main Objective of Syndication (Borrowers' point of view)

a) Large sum is arranged without delay and at least cost.
b) Gets better introduction to enter into international loan market without much difficulty.
c) Funds are made available easily for meeting balance of payment deficit and for financing large industrial projects.
d) The borrower is allowed to select the length of the roll over period and in choosing different currencies to repay or cancel agreements after a short notice period without penalty.

Lenders' point of view

a) It helps the bank to share large credit with other banks, to fiancé many borrowers.
b) Different size banks can participate.
c) It provides more profitability to banks as costs are relatively low.
d) Syndicated loan is under-written by a small group banks which resell portions of the commitment to other banks.

Q.12. **[June 2010]** Write a short note on 'Disaster Bonds'.

Ans.

- These are issued by companies and institutions to share the risk and expand the capital to link investors return with the size of insurer losses.
- The bigger the losses, the smaller the return and vice-versa.
- The coupon rate and the principal of the bonds are decided by the occurrence of the casualty of disaster and by the possibility of borrower's defaults.

Q.13. **[June 2010] Write a short note on 'Deep Discount Bond'.**

Ans.

- IDBI and SIDBI had issued this instrument.
- For a deep discount price of Rs. 2,700/- in IDBI the investor got a bond with the face value of Rs. 1,00,000.
- The bond appreciates to its face value over the maturity period of 25 years.
- Alternatively, the investor can withdraw from the investment periodically after 5 years.
- The capital appreciation is charged to tax at capital gains rate which is lower than normal income tax rate.
- The deep discount bond is considered a safe, solid and liquid instrument an assigned the best rating by CRISIL.

Q.14. **[June 2009]** Write a short note on 'Participating Preference Shares'

Ans.

- These are quasi equities and can be issued by companies to bolster the net worth without dilution of management control.
- They are similar in all respects to nonvoting equity shares except for preference over equity in the event of winding up.
- The face value of the share may be Rs. 10 or Rs. 100.
- The coupon rate may be linked into equity dividend.

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- These shares will have the right to fully participate in the profits of the company and also be eligible for bonus shares.
- These are irredeemable in nature and hence an amendment to Section 80 of the Companies Act is necessary to enable the issue of such shares.
- They are issued to risk averse investors interested in a study return.

Q.15. [June 2002] Write short note on" Sweat Equity Shares".

Ans.

- The section that deals with sweat equity share is section 79 A of Companies Act., 1956
- Sweat equity shares are those shares which are issued by the company to employees or directors at a discount or for consideration other than cash, for providing know how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.
- These shares are specially issued to the employees or director only.
- Sweat equity shares are issued if the following conditions are satisfied:-
  1) Special resolution is passed.
  2) Resolution specifies the number of shares, current market price, consideration if any, and the class or classes of directors or employees to whom such equity shares are to be issued.
  3) Atleast one year has passed since commencement of business.
  4) Issued in accordance with regulation made by SEBI.

Q.16. [Dec 2010] Write a short note on 'Secured Premium Note'.

Ans.

- These instruments are issued with detachable warrants and are redeemable after a notified period say 4 to 7 years.
- The warrants enable the holder to get equity shares allotted provided the secured premium notes are fully paid.
- During the lock in period no interest is paid.
- The holder has an option to sell back the SPN to the company at par value after the lock in period. If the holder exercises this option, no interest/premium is paid on redemption.
- In case the holder keeps it further, he is repaid the principal amount along with the additional interest/premium on redemption in installments as per the terms of the issue.
- The terms of the SPN were so formulated that the return on investment was treated as capital gain and not regular income. Consequently, the rate of tax applicable was lower.

Q.17. [June 1999] Discuss the impact of corporate taxation on corporate financing. **OR**
[June 2007] Corporate financing decision without consideration of corporate taxation is meaningless. **OR**
[Dec 2007] Taxation provisions have a significant effect on financial planning of a company.
[Dec. 2011] Comment on the Corporate taxation creates incentive for advancement to the company by utilising borrowed funds for financing its growth schemes.

Ans.

- Financing decision is greatly influenced by the corporate taxation.
- The external sources are tax deductible i.e. the interest paid on loans, debentures are tax deductible.
- The deductibility of interest greatly influences the company to go in for the loan or debt as a source of finance.

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- There is also a consequent increase in EPS (Earning per share) due to the gearing effect.
- Corporate taxation creates incentives for advancement to the company by utilizing borrowed funds for financing its growth schemes.
- The government has offered various tax incentives of the following expenditure or payment:-
  - Development of undertaking in Special Economic Zone.
  - Depreciation allowance
  - Amortization of preliminary expense
  - Capital expenditure.
- Interest on loan borrowed.
- Thus, we can conclude that the corporate financing is directly or indirectly influenced by corporate taxation.

Q.18. **[Dec 2003]** Depreciation is a part of cost of production and is at the same time an important source of internal finance. Discuss this statement. **OR**
[June 2004] Depreciation is a non-cash item of an expense and it is said that it is a source of finance. Explain the statement.

Ans.

- While calculating cost of production of an item, prime costs and factory overheads are considered.
- Under factory overheads depreciation on plants and machinery and other assets are included.
- Thus depreciation forms part of cost of production.
- Depreciation indicates the decrease in the value of assets due to wear and tear, lapse of time and accident and hence some funds are desired to be kept apart for replacement of worn-out assets.
- "It's a deduction out of profits of the company calculated as per accounting rules on the basis of estimated life of each asset each year over the life of the assets to an amount equal to original value of the assets".
- The pool of funds generated due to accumulation of depreciation provides an opportunity to a firm to use it in the funding of its working capital requirements, acquisition of new assets or replacement of worn out plant and machinery.
- Those who consider dep. as a source of funds argue that dep. does not result into any cash outlay since it is a non-cash expense.
- Those who oppose considering it as a source of funds argue that funds are generated by operating profits and not by making provision for dep.
- Dep. is considered as a special amount set aside out of the revenue generated by the firm.
- If it would have been really a source of funds, any firm could have improved its position at its will, just by increasing the periodical depreciation charge.
- Hence in a strict sense, dep. should not be considered as a source of funds.

Q.19. **[June 2007]** "Internal funds are the important sources of finance." Discuss.
Ans.

- The various internal sources of funds are:-
  - Bonus share
  - Reserve and surplus
  - Provisions including provisions for depreciation.
- Internal financing is also known as ploughing back of profit.

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- Benefits of internal source of finance are as follows:-
  - Helps in financing of project without resorting to debt financing.
  - Helps in achieving a suitable dividend policy and receiving the support of public.
  - Deficiency in liability and reserve and liability are fulfilled out of the retained income.
- It helps in redemption of bonds or debenture of building of sinking funds.

Q.20. Write a short note on 'Clip and Strip bonds'.

Ans.

- Clip and strip bonds also referred to as coupon notes, split the principal and coupon portions of a bond issue and two separate coupon instruments are sold to the investors.
- In structuring a coupon note issue, a conventional currency coupon bond is sold to the investor.
- The streams of coupon payments are stripped away and the principal amount of bond is sold as a deep discount bond.
- The gain to the investor is difference between the purchase price and the par value.
- The coupon streams are sold like zero coupon bonds where the investor pays discount for it and receives the payment at a lower rate.

Q.21. Write a short note on 'Commodity bonds'.

Ans.

- Commodity bonds are bonds issued to share the risk and profitability of future commodity prices with the investor.
- For example, petro bonds, silver bonds, gold bonds and coal bonds.
- A petro bond may carry a fixed rate of interest with part of the face value of the bonds denominated in barrels of oil.
- There would be a floor in the face value of the bond.
- In view of the upside profit potential in oil prices, the interest rate could be lower than the market rate of interest.
- These bonds may be issued for decontrolled items.

Q.22. Write a short note on 'Participating Debentures'.

Ans.

- These debentures are profit sharing debentures which are unsecured with a right to participate in the profits of companies.
- These debentures can be is
- These instruments are suited for high growth oriented existing dividend paying companies and may be issued by companies with a track record of dividend payment in the last two years and in 4 out of 5 or in 5 out 7 previous years.
- These debentures may be offered to all classes of investors including NRIs and foreigners.
- The investors in these instruments may also be given entitlement in right and bonus issues.

Q.23. Write a short note on 'Deferred Payment Arrangements'.

Ans.

- Deferred payments arrangements are one of the sources of finance to industry.
- Machinery suppliers in India or overseas where machinery is proposed to be imported may agree to accept payment in a scheduled manner in installments in the period ahead of delivery. This is known as deferred payment arrangement with the machinery suppliers.

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- The machinery suppliers in India or abroad may agree to above arrangement on security which is produced in the form of guarantee from financial institutions and banks of repute relied upon by the machinery suppliers.
- Guarantee for deferred payments is offered by All India institution viz, IFCI, IDBI, ICICI to foreign machinery supplier and also to indigenous machinery supplier against the request of the company for financing project cost of the company.

Q.24. Write a short note on 'Asian Development Bank'.

Ans.

- The Asian Development Bank (ADB) an international partnership of 67 member countries was established in 1966 with its headquarters in Manila, Philippines.
- India is its founder member.
- The Bank is engaged in promoting economic and social progress of its developing member countries in the Asia and the Pacific region with principle functions as follows:-
  - To make loans and equity investments for the economic and social advancement of its developing member countries;
  - To provide technical assistance for the preparation and execution of development projects and programmes and advisory services;
  - To respond to the requests for assistance in coordinating development policies and plans of developing member countries; and
- To promote investment sued upto a maximum of 50% of the voting equity shares.
- They shall have a maturity period of 3-10 years, and shall be listed separately on the stock exchanges.
  - of public and private capital for development purposes.
- India and the Asian Development Bank have a sociable relationship.
- The Asian Development Bank has provided India with loans of huge amounts over the years.
- The Asian Development bank has helped India to reduce its level of poverty, improve infrastructure, and has also given boost to its economy.

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MCQ QUESTIONS WITH ANSWER

1. The type of collateral (security) used for short-term loan is:
   (a) Real estate (b) Plant & Machinery
   (c) Stock of good (d) Equity share capital

2. Which of the following is a liability of a bank?
   (a) Treasury Bills (b) Commercial papers
   (c) Certificate of Deposits (d) Junk Bonds.

3. Commercial paper is a type of:
   (a) Fixed coupon Bond (b) Unsecured short-term debt
   (c) Equity share capital (d) Government Bond

4. Which of the following is not a spontaneous source of short-term funds ?
   (a) Trade credit (b) Accrued expenses
   (c) Provision for dividend (d) All of the above.

5. Concept of Maximum Permissible Bank finance was introduced by:
   (a) Kannan Committee (b) Chore Committee
   (c) Nayak Committee (d) Tandon Committee.

6. In India, Commercial Papers are issued as per the guidelines issued by:
   (a) Securities and Exchange Board of India (b) Reserve Bank of India
   (c) Forward Market Commission (d) None of the above.

7. Commercial papers are generally issued at a price:
   (a) Equal to face value (b) More than face value
   (c) Less than face value (d) Equal to redemption value

8. Which of the following is not applicable to commercial paper?
   (a) Face Value (b) Issue Price
   (c) Coupon Rate (d) None of the above.

9. The basic objective of Tandon Committee recommendations is that the dependence of industry on bank finance should gradually :
   (a) Increase (b) Remain Stable
   (c) Decrease (d) None of the above

10. Cash discount terms offered by trade creditors should never be accepted because
   (a) Benefit is very small (b) Cost is very high
   (c) No sense to pay earlier (d) None of the above.

11. Value stated on the face of a share certificate is
   (a) Market Price, (b) Par Value,
   (c) Issue Price, (d) Redemption Value.

12. Maximum redemption period for preference shares in India is:
   (a) 10 years, (b) 15 years, (c) 20 years, (d) None of the above.

13. Trading on Equity refers to :
   (a) Insider Trading, (b) Buy-back of Equity Shares,
   (c) Use of Debt in Capital Structure,(d) Trading of Equity Shares,

14. Share Premium is the difference between:
   (a) MP and FV, (b) Issue Price & FV,
   (c) MP and Issue Price, (d) FV and Paid-up value.

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15. Which of the following is not an external source of finance ?
(a) Bank Overdraft, (b) Lease Finance,
(c) Retained Earnings, (d) Right Issue of Share.

16. Which of the following have ownership interest in the company?
(a) Convertible Debentures, (b) Equity Shares,
(c) Redeemable Debentures, (d) None of the above.

17. When a company announces a Right offer, shares are initially traded as:
(a) Ex-Right, (b) Cum-Right,
(c) No Right, (d) None of the above.

18. Which of the following is not a feature of preference shares in India ?
(a) Redemption, (b) Fixed Rate of Dividend,
(c) Face Value, (d) Irredeemability.

19. Which of the following cannot be issued in India ?
(a) Cumulative Convertible Preference shares,
(b) Zero-Interest Convertible Debenture,
(c) Irredeemable Preference shares,
(d) Deep Discount Bonds.

20. Which of the following is not a source of long-term finance ?
(a) Bank Term Loan, (b) Preference Share Capital,
(c) Certificate of Deposits, (d) Reserves and Surplus.

21. Which of the following is a method of raising funds from existing shareholders?
(a) Bonus Issue, (b) Euro Issues,
(c) Right Issue, (d) Private Placement.

22. A stock dividend is also known as :
(a) Bonus shares, (b) Right Issue,
(c) Warrant, (d) IPO.

23. A convertible security is convertible into:
(a) Equity Shares, (b) Bonds,
(c) Preference Shares, (d) None of the above.

24. Which of the following is reinvested within the firm and is a part of shareholders equity ?
(a) Equity Share Capital, (b) Retained Earnings,
(c) Dividends, (d) Bank Overdraft.

25. In case of convertible debentures, generally the con-version price is:
(a) Higher than Market Price of shares, (b) Lower than Market Price of shares,
(c) Undecided, (d) Face Value of Shares.

26. Claim of Preference Share Capital on assets of the company comes:
(a) After Secured Debt, (b) Before Long-term debt,
(c) After Equity Share Capital, (d) After Unsecured Creditors.

27. The provision that preference shares will get additional dividend in good years is known as :
(a) Participative Dividend, (b) Conversion Dividend,
(c) Cumulative Dividend, (d) Interim Dividend.

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28. Which of the following distinguishes the cumulative preference shares from non-cumulative preference shares ?
(a) Former is not redeemable,
(b) Letter is not redeemable,
(c) Former is eligible to get arrears of dividend,
(d) Former is convertible into equity shares.

29. Raising fresh capital from existing shareholders on pro rata basis is known as :
(a) Bonus Issue, (b) Private Placement,
(c) Right Issue, (d) Public Issue.

30. If the entire debt is replaced by equity share capital, what will generally follow ?
(a) Liquidity Position will deteriorate, (b) EPS will decrease,
(c) No further borrowing for company, (d) Shareholders to loose confidence.

31. Deep Discount Bonds are issued at:
(a) Face Value, (b) Maturity Value,
(c) Premium to Face Value, (d) Discount to Face Value.

32. A company issues Bonus shares in the ratio of 1:2, it means that the company will issue:
(a) One new share for 2 existing, (b) Two new shares for 1 existing,
(c) 1/3 new share for one existing, (d) 2/3 new share for one existing.

33. A company issues Right shares in the ratio of 10 : 6. An investor has 30 shares with him. How many shares, he would have been offered ?
(a) 18 shares, (b) 50 shares,
(c) 16 shares, (d) 1.6 shares.

34. ABC Ltd. has 1,00,000 equity shares of Rs. 5 each, being currently traded at Rs. 10 each. The company is pro-posing to raise funds of Rs. 10,00,000. Mr. X has 20 shares registered in his name. How many shares would be offered by ABC Ltd. to Mr. X ?.
(a) 50 shares (b) 40 shares
(c) 100 shares (d) 20 shares

Answers : 1. (c), 2. (c), 3. (b), 4. (c), 5. (d), 6. (b), 7. (c), 8. (d), 9. (c), 10. (d), 11(b), 12(c), 13(c), 14(b), 15(c), 16(b), 17(b), 18(d), 19(c), 20(c), 21(c), 22(a), 23(a), 24(b), 25(b), 26(d), 27(a), 28(c), 29(c), 30(b), 31(d), 32(a), 33(b), 34(d).

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5. TREASURY MANAGEMENT

Q. 1. **[Dec 2003]** What is "treasury management"? Explain the various tools of treasury management. How is it different from financial management?

Ans. Treasury management is the science of managing treasury operations of a firm. The main function of treasury management is the management of funds. Treasury management has both macro and micro aspects. Treasury management is different from financial management.

Some of the tools of treasury management are as follows:-

1) Zero Base Budgeting

It is a method of budgeting which requires each cost element to be specifically justified. It requires each budget to be prepared & justified from zero, instead of simply using last year's budget as base.

2) Financial Statement Analysis

Financial statement analysis helps to know the soundness & intrinsic worth of the company. It plays an important role in deciding whether to invest in the company or not to invest in the company.

3) Analytic & Planning Tools

Analytic & planning tools are necessary for planning & budgeting. Planning & budgeting are important to achieve the targets of treasury function.

Q. 2. **[Dec 2008]** Distinguish between Treasury Management' and 'Financial Management'.

Ans. Some of the differences between 'Treasury Management' & 'financial management' are as follows:-

- Treasury management is concerned with monitoring the income & expense budgets on a periodic basis while financial management is concerned with the preparation of profit & Loss account and the Balance Sheet.
- Current assets of the firm are dealt by the treasury manager whereas the finance manager deals with the creation of fixed assets.
- Treasury management is mainly short term in nature while financial management is mainly a long- term in nature.
- Treasury management is involved in internal audit but external audit is dealt by financial management.
- Treasury manager is concerned with short term investments but financial manager is concerned with long – term investments.

Q. 3. **[June 2004]** Describe the responsibilities of Treasury Manager.

Ans. Treasury manager plays an important role in the overall functioning of the firm. Some of the responsibilities of the treasury manager are as follows:-

- Treasury manager has a responsibility to comply with the statutory guidelines & the rules framed there under.
- Treasury manager has a responsibility to provide an equal treatment to all the departments. He has to keep the interest of the organisation in mind.

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- Treasury manager should be willing to teach & is required to keep himself abreast of all the developments in the field.
- He has to see that there is a proper use of surplus fund. This is necessary for expansion & diversification plan & also for protecting the interest of shareholders.
- Treasury manager is responsible for:-
  - Management of cash.
  - Management of exchange rate risk as per the group policy.
  - Maintaining a good relationship with all the financers.
  - Giving expert advice on aspects of corporate finance.

Q. 4. **[June 2009]** Distinguish between 'Liquidity Management' and 'Treasury Management'

Ans.

- 'Liquidity management ensures that the right amount of cash is available, at the right time and in the right place, is firmly positioned as a pivotal task for every treasurer.
- Liquidity management is in fact a part of treasury management.
- Over the past few years, many treasurers have made substantial progress towards increasing the visibility of their cash flow and centralizing cash within countries or regions.
- However, liquidity management and particularly cash flow forecasting remain the greatest challenges facing treasures.
- With credit more expensive and elusive for many companies, it is now imperative to tackle these challenges effectively.
- Liquidity management of a financial institution or bank or company is somehow different to that of other trading units.
- The process starts with trapping of funds at lower rate in share/ deposits/ borrowing and ends with investing the same in higher rate to earn profit out-of business with a margin of small portion of cash-in-hand kept to meet day to day operation.

Q. 5. **[Dec 2004]** "Treasury management has both macro and micro aspects" Explain. **OR**
[June 2005] "Treasury management has both macro and micro aspects." Comment.

Ans. Treasury management is the efficient management of liquidity and the financial risk in the business.

The objective of treasury management is planning, organizing and controlling cash assets to achieve the financial goals on which may be maximise the return on available cash or minimize the interest cost or mobilise cash for different Activities/ transactions.

Treasury management has both macro & micro aspects.

Macro Level

At the macro level, the inflows & outflows of cash, credit and other financial instruments are the functions of the government and the business sectors. These inflows are arranged by them as borrowings from the public. Reserve Bank of India manages the macro treasury management of the country through issue of currency notes, maintenance of currency chests, distribution of coins & rupee notes on behalf of government.

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Micro Level

At micro level, the finance manager aims at optimizing the value of his assets. He tries to maximise the wealth of stakeholders of the micro unit. He seeks to increase his operational profits.

Q. 6. **[Dec 2004]** How the 'real time gross settlement' (RTGS) mechanism initiated by the Reserve Bank of India would help treasury managers to manage their funds more efficiently?

Ans.

- 'Real Time gross settlement' [RTGS] mechanism initiated by the Reserve Bank of India would help treasury managers to manage their funds more efficiently.
- Real Time gross settlement' [RTGS] systems do not create credit risk, RTGS settle each payment individually.
- Under the RTGS system, the payments are settled on a transaction to transaction basis.
- Payee banks & their customers receive funds with certainty.
- Payment instructions are processed & settled throughout the day
- Financial intermediaries can settle their bank transfers for their own account.

Thus RTGS mechanism helps the treasury manager to manage their funds more efficiently.

Q. 7. **[Dec 2005/2006]** Internal treasury control is a process of self-improvement. Comment **OR** **[Dec 2007]** Effective treasury management involves incorporation of control and supervision measures.

Ans.

- Internal treasury control is a process of self improvement.
- It is concerned with all flows of funds, cash and credit and all financial aspects of operations.
- From time to time and on regular basis, the internal treasury control is exercised on financial targets. The control aims at operational efficiency and removal of wastages and inefficiencies and promotion of cost effectiveness in the firm.
- The control is exercised under phases of planning and budgeting.
- These phases include setting up of targets, laying down financial standards, evaluation of performance as per these norms and reporting in a standard format.
- Following principles of internal control need to be mentioned here:-
  - Control should be at all levels of management. The management control can be decentralized of decentralized.
  - There has to be a system of building up of effective communication from top to bottom and bottom to the top.
  - The control should be built upon the management information system.

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About the Faculty

CS SWETA CHUGH

("CS by profession, teacher by passion")

* **Renowned faculty of Strategic Management** for CS Students.
* Having Excellent teaching style, command over the subject, past outstanding results, motivational examples and honest insights made favorite amongst the students.
* With an experience of more than 7 years of teaching, taught and **encouraged more than 5,000 students to achieving their goal successfully.**
* As a teacher always believe in imparting knowledge with a vision to ensure a transformation of students into a successful and wise professional.
* Associate Member of Institute of Company Secretary of India.

EXECUTIVE PROGRAMME
Module 2
Paper 8
Financial and Strategic Management
(Max Marks 100)

Syllabus

Objective:

Part I: **To provide knowledge of practical aspects of financial management so as to develop skills in taking financial and investment decisions.**

Part II : **To enable students to acquire multidimensional skills as to equip them to comprehend the process of strategy formulation.**

PART II: STRATEGIC MANAGEMENT (40 MARKS)

10. **Introduction to Management:** An Overview of functions of management.
11. **Introduction to Strategic Management:** An Overview- Meaning & Process; Strategic Leadership; Functions and Importance for Professionals like Company Secretaries; Environmental Influences of Business- Characteristics and Components of Business Environment, Factors of Micro & Macro Environment of Business; Competitive Environment and Porter's Five Force Model.
12. **Business Policy and Formulation of Functional Strategy**: Introduction to Business Policy; Framework of Strategic Management; Strategic Decision Model; Vision; Mission; Objectives and Goals; Strategic Levels of the Organization; Formulation of Functional Strategy-Formulation of Financial; Marketing; Production; Human Resource and Logistics strategies.
13. **Strategic Analysis and Planning:** Situational Analysis, Strategic Choices-SWOT and TOWS Analysis; PERT (Programme Evaluation Review Technique) and CPM (Critical Path Method); Portfolio analysis-Boston Consulting Group (BCG) growth-share Matrix, Ansoff's Product Growth Matrix, ADL Matrix and General Electric (GE) Model; Strategic Planning; Strategic Alternatives-Glueck and Jauch and Michael Porter's Generic Strategies.
14. **Strategic Implementation and Control:** Issues in Strategy Implementation; Various Organizational Structures and Strategy Implementation; Leadership and its forms ; Strategic Change and Control.
15. **Analysing Strategic Edge :** Introduction to Business Process Reengineering; Concept of Benchmarking; Introduction to Total Quality Management and Six Sigma.

Chapter 1
INTRODUCTION TO MANAGEMENT

WHAT DO YOU MEAN BY MANAGEMENT?

MANAGEMENT
MANAGE + MEN + TACTLY

Managing men and getting work done by others is what is called as management.

Managing people at work in an organisation is an art which may not be seen in every organisation. Management is inevitable for the survival and growth of an enterprise.

A business develops in course of time with complexities. With increasing complexities managing the business has become a difficult task. The need of existence of management has increased tremendously. Management is essential not only for business concerns but also for banks, schools, colleges, hospitals, hotels, religious bodies, charitable trusts etc. Every business unit has some objectives of its own. These objectives can be achieved with the coordinated efforts of several personnel.

Q.1. What are the three levels of management?

Ans. The three levels of management seen in an organisation are-
Top level or strategical level
Middle level or tactical level
Lower level or operational level

Q.2. What is management theory?

Ans. Management theory addresses how managers and supervisors relate to their organizations in the knowledge of its goals, the implementation of effective means to get the goals accomplished and how to motivate employees to perform to the highest standard.

Q.3. Who has given principles of management?

Ans. Henry Fayol was able to synthesize 14 principle of management after years of study.

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FEATURES OF MANAGEMENT

Both art and science	Dynamic in nature	Is all pervasive
Is Intangible	Group activity	Is result oriented
Aided by technology	Follows established rules	Multidisciplinary in nature
Use of professional approach	Separate from ownership	



1. **Ever ending process**

Management is an ongoing process. It involves continuous handling of problems and issues. It is concerned with identifying the problem and taking appropriate steps to solve it. E.g. the target of a company is maximum production. For achieving this target various policies have to be framed but this is not the end. Marketing and Advertising is also to be done. For this policies have to be again framed. Hence this is an ongoing process.

Management is a continuous or never ending function. All the functions of management are performed continuously, for example planning, organizing; staffing, directing and controlling are performed by all the managers all the time. Sometimes, they are doing planning, then staffing or organizing etc. Managers perform ongoing series of functions continuously in the organisation.

2. **Art of getting work done from others**

Management is essentially leading, guiding, developing and motivating people to effective performance for attainment of common goals.

Management is said to be the art of getting the things done tactfully.

The workers should not be forced or threatened to do the things rather they should be motivated by creating a favorable work environment and creating a win-win situation.

3. **Situational in nature**

Management makes plans, policies and decisions according to the situation. It changes its style according to the situation. It uses different plans, policies, decisions and styles for different situations.

The manager first studies the full present situation. Then he draws conclusions about the situation. Then he makes plans, decisions, etc., which are best for the present situation. This is called **Situational** Management.

4. **Both science and art**

Management is a science because it consists of an organized knowledge and systematic body of principles. It is, however, a combination of social sciences and behavioral sciences, not an exact science like the physical or natural sciences.

Management is also an art because it involves application of systematic knowledge and scientific principles for achieving the desired results in actual work situations. Science teaches on "to know" while art "to do". It may be said that management is the oldest of arts and the youngest of sciences. Management is essentially a practice as it is performance oriented creative action.

5. **Dynamic in nature**

Management principles and systems are dynamic, open, progressive and flexible in nature-not rigid, closed or absolute. They can be adapted or modified to suit the requirements of different types of organizations and changed situations.

6. **Pervasive in nature**

Management is a universal phenomenon. The use of management is not restricted to business firms only it is applicable in profit-making, non-profit-making, business or non-business organisation; even a hospital, school, club and house has to be managed properly. Concept of management is used in the whole world whether it is USA, UK or India.

7. **Intangible**

Management function cannot be physically seen but its presence can be felt. The presence of management can be felt by seeing the orderliness and coordination in the working environment. It is easier to feel the presence of mismanagement as it leads to chaos and confusion in the organisation.

8. **Group activity**

Management always refers to a group of people involved in managerial activities. The management functions cannot be performed in isolation. Each individual performs his/her role at his/her status and department, and then only management function can be executed.

Management is essentially leading, guiding, developing and motivating people to effective performance for attainment of common goals.

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9. Result oriented

The success of any management activity is assessed by its achievement of the predetermined goals or objective. Management is a purposeful activity. It is a tool which helps use of human & physical resources to fulfill the pre-determined goals. For example, the goal of an enterprise is maximum consumer satisfaction by producing quality goods and at reasonable prices. This can be achieved by employing efficient persons and making better use of scarce resources.

10. Aided by technology

Computers and technology aid the managers to form a basis for making accurate decisions. However, artificial intelligence is only an aid and cannot replace management.

This is because; management involves humans who are held responsible for every decision that is taken to attain organizational goals. However, technology and artificial intelligence if utilized properly can make such decisions excellent one as these will be based on facts and calculations rather than intuition and experience only.

11. Follows established rules

On the basis of observations and experience over time, certain universally established principles for management have been established such as division of work, specialization, discipline, unity of command, unity of direction, subordination of individual interest to group interest etc. These universal principles are based on certain fundamental truths and serve as a really useful guide for decision making for managers.

12. Multidisciplinary in nature

Management has grown as a separate discipline drawing upon the knowledge and skills of various disciplines like economics, commerce, cooperation, finance, political science, sociology, statistics, demography, quantitative techniques, engineering, ecology, geography, biology, etc.

Management uses the relevant information from these disciplines and integrates them to form a multi-disciplinary and cross functional field of study and develops a broad-spectrum approach in dealing with organizational problems.

13. Use of professional approach

Managers use a professional approach for getting the work done from their team mates. The work is not done themselves by the managers but delegated to their subordinates. The participation of subordinates is invited and considered in attaining objectives. They also motivated subordinates to take the novel initiatives and think out-of-the-box. Therefore, management follows a professional approach in getting the work done.

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14. Separate from ownership

In smaller organizations or sole proprietorship, most of the times, management and ownership are one and the same. However, in larger organizations such as company form, management is separate from ownership. The managers are highly qualified experienced professionals who are on the rolls of the company while the owners are the shareholders of the company who may be large in number and geographically dispersed.

THEORIES OF MANAGEMENT

With the passing times, scholars began studying and theorizing the essence of management, which gave birth to diverse ideas and concepts of management. Here are some the most influential theories outlined about the ideas about the functions of management.



- **Henri Fayol** (29 July 1841 – 19 November 1925) was a French mining engineer, mining executive, author and director of mines who developed general theory of business administration that is often called Fayolism.
- Henri Fayol is classified as 'the founding father' of a variety of concepts including the line and staff organization. Based on his experience as a thriving director or a mining Company, he developed numerous theories which still find their relevance in contemporary times.
- At the time when Henry Fayol gave such principles, there was no formal training mechanism in existence for managers; therefore, Fayol principles were ground breaking. However, the growing complexity of organizations visibly generated a call for professional management.
- While developing fourteen principles of management, Fayol also defined the five core functions of management, which are still used and form the basis of theories developed by other scholars later on.
- As per Fayol, management is a process, which includes functions such as forecasting, planning, organizing, commanding and controlling.

These functions are the fundamental foundation of setting the relationship between the subordinates and the superior in tune and the five core functions help the managers to solve troubles/dilemmas in this relationship or within the organization in a creative and innovative manner.

Management Principles of Henri Fayol

1.	Division of work or division of labour
2.	Balancing authority and responsibility
3.	Discipline
4.	Unity of Command
5.	Unity of Direction
6.	Subordination of individual interest to the general interest
7.	Remuneration

8.	Centralization
9.	Scalar chain
10.	Order
11.	Equity
12.	Stability of tenure of personnel
13.	Initiative
14.	Esprit de corps

➢ George R. Terry wrote a book Principles of Management in the year 1968 and elaborated his viewpoint. ➢ **George Robert Terry** (1909 – 1979) was an American management author, Professor of Business at Ball State University, and 14th president of the Academy of Management.	
➢ In the year 1976, Harold Koontz and Cyril O'Donnell published an essay 'Management: A Systems and Contingency Analysis of Managerial Functions'. ➢ They were of the opinion that the preceding studies in the past have been successful in describing the functions of management, but, they were of viewpoint that the division of such functions needs to be more comprehensive	
➢ *Management is about persuading people to do things they do not want to do, while leadership is about inspiring people to do things they never thought they could.* ***-Steve jobs***	
➢ *"Management is a multi-purpose organ that manages business and manages managers and manages workers and work."*	**According to Peter Drucker,**
➢ *"Management is the art of getting things done through people."*	**According to Mary Parker Follet**

The functions of management can be divided into five parts

PLANNING ORGANIZING STAFFING

DIRECTING CONTROLLING

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FUNCTIONS OF MANAGEMENT

Effective management and leadership involve creative problem solving, motivating employees and making sure the organization accomplishes objectives and goals. There are five functions of management and leadership: planning, organizing, staffing, coordinating and controlling. These functions separate the management process from other business functions such as marketing, accounting and finance.

PLANNING

- The planning function of management controls all the planning that allows the organization to run smoothly.
- Planning involves defining a goal and determining the most effective course of action needed to reach that goal.
- Typically, planning involves flexibility, as the planner must coordinate with all levels of management and leadership in the organization.
- Planning also involves knowledge of the company's resources and the future objectives of the business.
- Planning is supposed to be done at each and every level of an organization by each and every employee. It is basically forecasting the future course of action. It bridges gap between present and future, planning our vision and mission.



If companies improve how they plan, managing and leadership will also improve. The following steps can help businesses plan better.

- **Devise a Plan:** Write important details down and focus on strengths, what matters, what people are most important to you and what you can do for them. This will help you communicate your vision to your employees.
- **Define Success:** How do you see your business in several years? Define long-term goals and be specific. Establish milestones for certain goals and who will achieve the goals. Look at what drives your business; it may be presentations, conversions, page views or something else. Then establish a review schedule and re-examine your long-term goals as necessary.

- **Put It in Motion:** Track and analyze numbers to help you manage the work behind the numbers. You'll be better able to make changes — or to develop new plans — that will help you manage better.

Types of plans

Strategic plans	• Involves analyzing competitive opportunities & threats, as well as the strengths & weaknesses of the organization, & determining how to position the organization to compete effectively in their environment.
Tactical plans	• Creates the blueprint for the lager strategic plan. These plans are often short term and are carried out by middle-level managers.
Operational plans	• Covers the entire organization's goals & objectives and puts into practice the ways & action steps to achieve the strategic plans. Very short term plans, usually less than a year.

Why is planning is important?

Importance of Planning - Why Planning is Important?

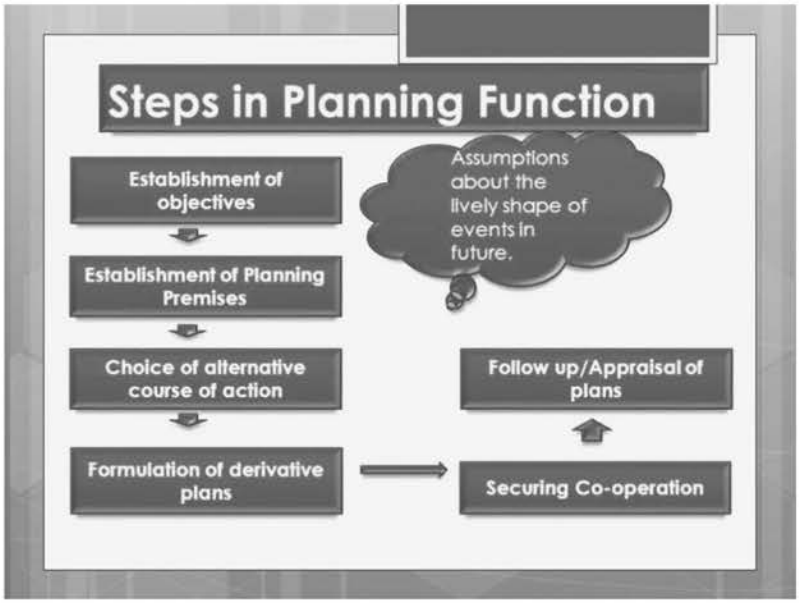
1. Increases Efficiency
2. Reduces Business-related Risks
3. Facilitates Proper Coordination
4. Aids in Organising
5. Gives Right Direction
6. Keeps Good Control
7. Helps to Achieve Objectives
8. Motivates the Personnel
9. Encourages Creativity and Innovation
10. Helps in Decision Making

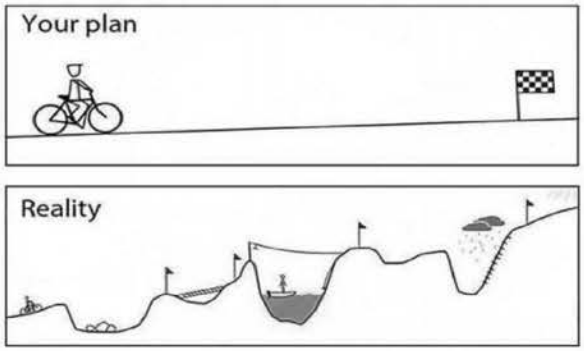
Why planning is not important?

Limitations of Planning in Management

1. Time Consuming.
2. Costly.
3. Rigid.
4. Gap between Plans and Achievement.
5. Problem for Technical Staff.
6. Resistance to Change.
7. Paperwork.
8. Causes Frustration.
9. Dangers of Over-Targeting.
10. Dangers of Under-Targeting.
11. Danger of Human Error.
12. Inter-Departmental Rivalries.

Steps in planning function





Why do you need planning?



Never adopt this methodology of making plans

1. **Establishment of objectives**

- Planning requires a systematic approach and starts with the setting of goals and objectives. Theobjectives provide a rationale for carrying out a range of activities as well as indicates the directionof the efforts of the team. Besides, the objectives also focus the attention of managers on the endresults to be achieved.
- Objectives form nucleus of the planning process. Therefore, the objectives should be stated in a clear, precise and explicit language. In the lack of this, the activities are bound to be futile andunproductive.
- As far as possible, the objectives should be stated in quantitative terms. For example, numberof wage earners, per hour wages, number of units produced in each quarter, pro□t desired as apercentage of sales etc.
- The objectives should be practical, acceptable, feasible and realizable.

2. **Establishment of planning premises**

- Planning premises are the assumptions about the events in future and serve as a basis of planning.

- Establishment of planning premises is concerned with determining the possible deviations fromthe actual plans and reasons of such deviations. Establishment of planning premises is concernedto take such steps that avoid such obstacles to a great extent.
- Planning premises may be internal or external. Internal planning premises consist of capitalinvestment policy, management labour relations, philosophy of management, etc. Whereas,external premises include socio- economic, political and economical changes. In terms of control,Internal premises are controllable whereas external are non- controllable.

3. Choice of alternative courses of action

- When forecast are available and premises are established, a number of alternative course ofactions have to be considered. For this purpose, each and every alternative will be evaluated byweighing its pros and cons in the light of available resources and organisations requirements. Theadvantages, disadvantages as well as the consequences of each alternative must be thoroughly examined before making the final choice.
- After objective and systematic evaluation, the best alternative is chosen.
- The planners should take assistance of a number of quantitative techniques to judge the stabilityof an alternative.

4. Formulation of derivative plans

- Derivative plans are the sub plans or secondary plans which aid in the accomplishment of masterplan.
- Secondary plans will □ ow from the master plan. These are supposed to be act as a support andaccelerate the pace of attainment of basic plans. These detail plans include policies, procedures,rules, programmes, budgets, schedules, etc. For example, if profit maximization is the key aimof the enterprise, derivative plans will include sales maximization, production maximization,productivity and cost minimization.
- Derivative plans indicate time schedule and sequence of accomplishing a range of tasks.

5. Securing Co-operation

- After the plans have been determined, it is essential to take in confidence the subordinates orthose who have to execute these plans. The rationale behind taking team into confidence are:-

  Subordinates may feel motivated as they have a say in the decision making process.

  Such involvement may result in valuable suggestions and improvement in formulation aswell as implementation of plans.

  The employees will be willingly ensuring that such plans see light of the day due to beingattached with these.

6. Follow up/Appraisal of plans

- After choosing a certain plan, it needs to be put into action and appraised for its effectiveness.Suchan appraisal is done on the basis of feedback or information received those who are responsiblefor its execution.

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- Feedback enables the management to take corrective actions for rectifying deviations.
- Follow up establishes a link between planning and controlling function.
- Execution and follow up must go side by side so that the planning exercise in the future may bemade more realistic in the light of observations.

ORGANISING

The organizing function of leadership controls the overall structure of the company. The organizational structure is the foundation of a company; without this structure, the day-to-day operation of the business becomes difficult and unsuccessful. Organizing involves designating tasks and responsibilities to employees with the specific skill sets needed to complete the tasks. Organizing also involves developing the organizational structure and chain of command within the company.



Why is organisation important

1. **Specialization** - Organizational structure is a network of relationships in which the work is divided into units and departments. This division of work is helping in bringing specialization in various activities of concern.
2. **Well defined jobs** - Organizational structure helps in putting right men on right job which can be done by selecting people for various departments according to their qualifications, skill and experience. This is helping in defining the jobs properly which clarifies the role of every person.
3. **Clarifies authority** - Organizational structure helps in clarifying the role positions to every manager (status quo). This can be done by clarifying the powers to every manager and the way he has to exercise those powers should be clarified so that misuse of powers do not take place. Well defined jobs and responsibilities attached helps in bringing efficiency into managers working. This helps in increasing productivity.
4. **Co-ordination** - Organization is a means of creating co-ordination among different departments of the enterprise. It creates clear cut relationships among positions and ensure mutual co-operation among individuals. Harmony of work is brought by higher level managers exercising their authority over interconnected activities of lower level manager.

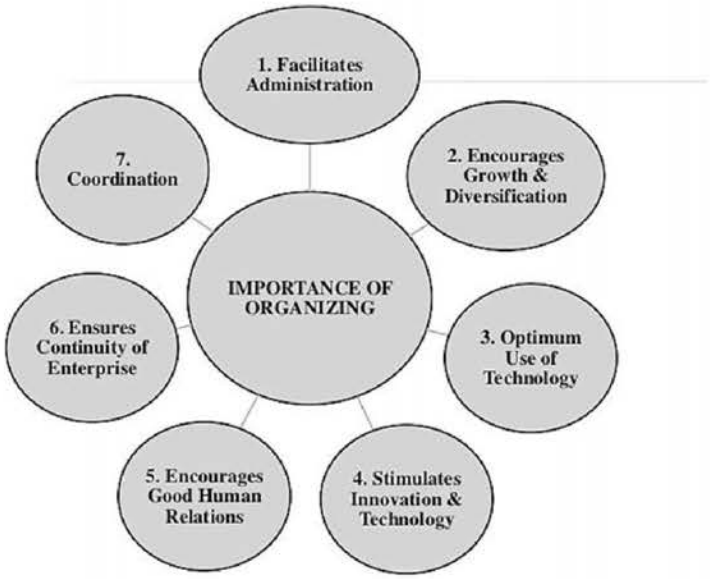
5. **Authority responsibility** relationships can be fruitful only when there is a formal relationship between the two. For smooth running of an organization, the co-ordination between authority- responsibility is very important. There should be co-ordination between different relationships. Clarity should be made for having an ultimate responsibility attached to every authority. There is a saying, "Authority without responsibility leads to ineffective behaviour and responsibility without authority makes person ineffective." Therefore, co-ordination of authority- responsibility is very important.

6. **Effective administration** - The organization structure is helpful in defining the jobs positions. The roles to be performed by different managers are clarified. Specialization is achieved through division of work. This all leads to efficient and effective administration.

7. **Growth and diversification** - A company's growth is totally dependent on how efficiently and smoothly a concern works. Efficiency can be brought about by clarifying the role positions to the managers, co-ordination between authority and responsibility and concentrating on specialization. In addition to this, a company can diversify if its potential grows. This is possible only when the organization structure is well- defined. This is possible through a set of formal structure.

8. **Sense of security** - Organizational structure clarifies the job positions. The roles assigned to every manager are clear. Co-ordination is possible. Therefore, clarity of powers helps automatically in increasing mental satisfaction and thereby a sense of security in a concern. This is very important for job- satisfaction.

9. **Scope for new changes** - Where the roles and activities to be performed are clear and every person gets independence in his working, this provides enough space to a manager to develop his talents and flourish his knowledge. A manager gets ready for taking independent decisions which can be a road or path to adoption of new techniques of production. This scope for bringing new changes into the running of an enterprise is possible only through a set of organizational structure.



Steps of Organization function:-

1. Determination of activities of the enterprise in the line of its objectives
2. Dividing the activities into appropriate groups
3. Assignment of these activities to individuals
4. Delegation of authority
5. Fixing responsibilities
6. Co-ordination of these activities and authority relation



STAFFING

The staffing function of management controls all recruitment and personnel needs of the organization. The main purpose of staffing is to hire the right people for the right jobs to achieve the objectives of the organization. Staffing involves more than just recruitment; staffing also encompasses training and development, performance appraisals, promotions and transfers. Without the staffing function, the business would fail because the business would not be properly staffed to meet its goals.



In simple words, staffing function relates to:

(a) Manpower planning.

(b) Recruitment, selection and placement of employees at the right places and at the right time, doing things which result in the organisation, individual employees and the society at large receiving maximum long-run benefits.

(c) Training and development through counselling and performance evaluation.

(d) Employee welfare, including safety and health;

(e) Maintaining healthy labour relations;

(f) Framing suitable compensation policies;

(g) Maintaining effective discipline and control mechanism.

NATURE OF STAFFING

1. It is significant function of management
2. It is an important part of management process
3. It is continuous activity function of management
4. It is concerned with human resources of an organisation
5. It is separate from physical factors, because it is complicated and sensitive function
6. It deals with the maximum utilisation of human resources like direction, coordination and control.

Why is staffing important

1. Staffing function help in discovering of qualified and obtaining competent personnel for various jobs in the organisation.
2. Since the right person is recruited for the right jobs, it leads for maximum productivity and higher performance.
3. It promotes optimum utilization of human resources.
4. It increases job satisfaction and morale of the workers through adequate remuneration for each job.
5. Since the staffing helps to ensure maximum utilization of human resources exist the labour costs per unit or production will be reduced.
6. It ensures the continuity and growth of the organization, through development managers.
7. It helps business activities are not disrupted at any time due to shortage of competent workers or excess of workers. Because it forecasts the correct staff requirements for the present and for the long-term.
8. It leads to efficient functioning of the organization due to systematic programmes for the selection; training and appraisal of employees are required by proper staffing function.
9. The use of latest technology can be achieved by the right person, selected in the organization.
10. Employees now recognize the dignity of labour, there is awareness of the role of performing the staffing function well; management can show the significance it attaches to the human resource development.

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Process of staffing





1. Manpower requirements- The very first step in staffing is to plan the manpower inventory required by a concern in order to match them with the job requirements and demands. Therefore, it involves forecasting and determining the future manpower needs of the concern.
2. Recruitment- Once the requirements are notified, the concern invites and solicits applications according to the invitations made to the desirable candidates.
3. Selection- This is the screening step of staffing in which the solicited applications are screened out and suitable candidates are appointed as per the requirements.
4. Orientation and Placement- Once screening takes place, the appointed candidates are made familiar to the work units and work environment through the orientation programmes. Placement takes place by putting right man on the right job.
5. Training and Development- Training is a part of incentives given to the workers in order to develop and grow them within the concern. Training is generally given according to the nature of activities and scope of expansion in it. Along with it, the workers are developed by providing them extra benefits of in-depth knowledge of their functional areas. Development also includes giving them key and important jobs as a test or examination in order to analyze their performances.

6. Remuneration- It is a kind of compensation provided monetarily to the employees for their work performances. This is given according to the nature of job- skilled or unskilled, physical or mental, etc. Remuneration forms an important monetary incentive for the employees.
7. Performance Evaluation- In order to keep a track or record of the behavior, attitudes as well as opinions of the workers towards their jobs. For this regular assessment is done to evaluate and supervise different work units in a concern. It is basically concerning to know the development cycle and growth patterns of the employeesin a concern.
8. Promotion and transfer- Promotion is said to be a non- monetary incentive in which the worker is shifted from a higher job demanding bigger responsibilities as well as shifting the workers and transferring them to different work units and branches of the same organization.

DIRECTING

The coordinating function of leadership controls all the organizing, planning and staffing activities of the company and ensures all activities function together for the good of the organization. Coordinating typically takes place in meetings and other planning sessions with the department heads of the company to ensure all departments are on the same page in terms of objectives and goals. Coordinating involves communication, supervision and direction by management.

The essential steps in this function are as follows:-

- Issuing orders and instructions
- Guiding and counseling
- Supervision



Directing is always done by a person who possesses appropriate skills:-

1. Communication
2. Leadership
3. Empathy
4. Supervision
5. Motivation

Characteristics of Directing

1. Pervasive function
2. Continuous activity
3. Human factor

4. Creative activity
5. Executive function
6. Delegate function

Directing is said to be a procedure in which the managers train, guide and oversee the recital of the workers to achieve predetermined goals. Directing is said to be the heart of management process. Planning, organizing, staffing has got no importance if direction function does not take place.

Directing initiates action: Directing is a key managerial function. A manager has to perform this function along with planning, organizing, staffing and controlling while discharging his duties in the organization.

Directing takes place at every level of management: Every manager, from top executive to supervisor performs the function of directing. The directing takes place wherever superior – subordinate relations exist.

Directing is a continuous process: Directing is a continuous activity. It takes place throughout the life of the organization irrespective of people occupying managerial positions.

Directing flows from top to bottom: Directing is first initiated at top level and flows to the bottom through organizational hierarchy. It means that every manager can direct his immediate subordinate and take instructions from his immediate boss.



(1) It Initiates Action:

The employees are appointed up to the first three functions of management (planning, organizing and staffing). But they cannot commence their job until they are not informed about what to do and how to do the manager performs this job through direction. Thus, it is evident that it is direction which initiates action in an organisation.

(2) It Integrates Employees Efforts:

Many employees work in an organisation. The activities of all are co-related. Success of an organisation is possible only when everybody does their job efficiently. If any one of employees in the employees- chain does not perform up to the mark, it adversely affects the performance of the remaining employees.

Thus, it is essential to establish coordination among all the activities. The manager establishes this coordination by supervising, providing good leadership, motivating and exchanging ideas with his subordinates. For example, an employee welcomes customers at a readymade garments showroom.

(3) It is the Means of Motivation:

The objectives of an organisation can only be achieved by motivated employees. Motivated employees work with full dedication and with a feel of belongingness. Now the question is: how can the employees be motivated? The work of motivating employees can be accomplished through the Directing function of management.

For example, under directing function of management the problems of employees are curbed by the manager there and then. Also, he guides them in the right direction. In this manner, they deliver work performance of superior quality. They get both the appreciation and salary hike for their better work performance. As a result, they get motivated.

(4) It Facilitates Implementing Changes:

Often, the employees show resistance to change in their organisational structure. But with the changing demand of time, it needs to be implemented / enforced. Managers through the medium of Direction shapes the mindset of the employees in a manner that they willfully accept changes.

For example, if in an office typewriters are replaced with computers, then a typist who does not have the knowledge of computer will definitely show resistance to this change. The reason of this resistance is the fear of losing the job.

Manager through effective direction makes them a part of change process and acquaints them with the benefits of this change. He motivates them to learn modern technology.

He also takes them into confidence that they will be shifted to some other department job and this relaxes them from the fear of losing the job. As a result, the employees do not show resistance to any kind of change.

(5) It Creates Balance in the Organisation:

Sometimes there is a clash between individual and organisational objective. Directing helps to settle down these clashes and creates a balance in the organisation.

On the one hand, a person works in an organisation for the fulfillment of his objectives like higher salary, promotion, etc. On the other hand, the objectives of a company can be to earn higher profits, more market share etc. Managers, through direction, tell employees how they can fulfill their objectives while achieving organisational objectives.

For example, Libra Cosmetics Company Ltd. offers commission to its Sales Manager in addition to the fixed salary. To earn more commission he wants to make more and more sales. In this effort, he recommends for introducing the scheme of "Buy Two, Get One Free"- But higher officials, considering it to be a costly affair, reject the same.

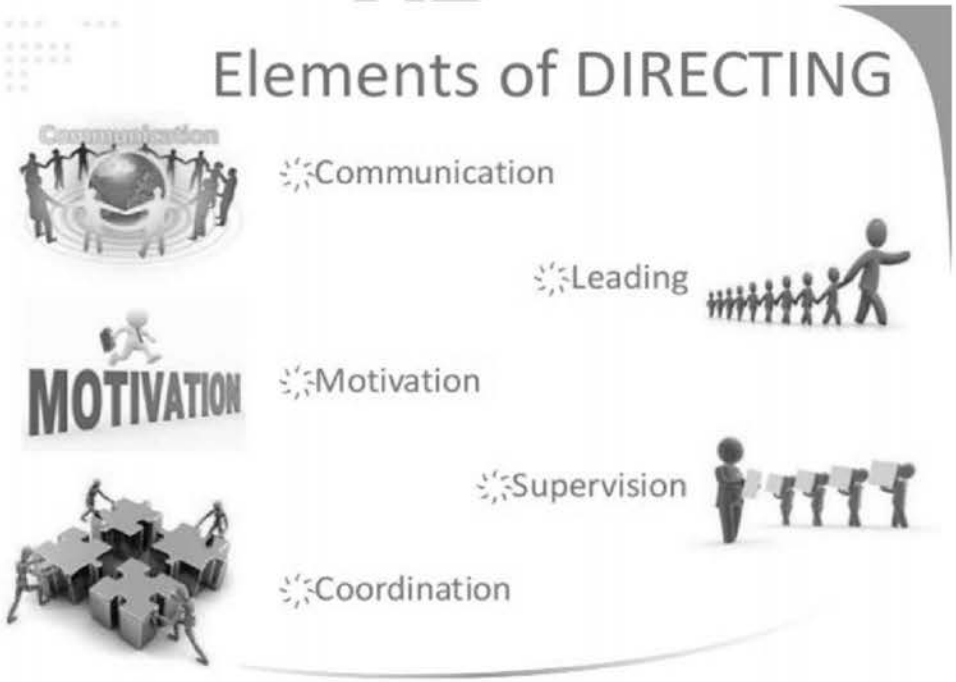
This is a situation of clash between individual and organisational objective. Here rightful direction is needed.

The sales manager by playing the role of director suggests ways to sales representative as to how he can increase sales and thus settles down the clash which subsequently, establishes balance in the organisation. The sales manager can suggest more advertising, better services-after-sales, sales on credit, etc.

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(6) Efficient Utilization of Resources - Direction finance helps in clarifying the role of every subordinate towards his work. The resources can be utilized properly only when less of wastages, duplication of efforts, overlapping of performances, etc. doesn't take place. Through direction, the role of subordinates become clear as manager makes use of his supervisory, the guidance, the instructions and motivation skill to inspire the subordinates. This helps in maximum possible utilization of resources of men, machine, materials and money which helps in reducing costs and increasing profits.







Supervision is an intervention

There are unique competencies and skills involved in supervision that allow the supervisor to help the supervisee. Models of supervision exist that provide a framework for the process. In addition, supervisors incorporate various modes and interventions to facilitate supervisee development.

Awareness of these models, modes, and interventions will help the supervisee understand the underlying processes of supervision and therefore, be a more active participant in the supervision process. A dialogue can develop between supervisor and supervisee as a means to share personal styles and preferences for frameworks and interventions to be used in supervision.



Communication

It is the process of telling, listening, understanding or passing information from one person to another. A manager has always to tell the subordinates what they are required to do, how to do it and when to do it. He has to create an understanding in the minds of the people at work.

An organisation can't operate successfully without an effective system of communication. The process ofcommunication can be carried through different Media's viz., telephone, intercom system, issuing letters and messengers etc.



Leadership is the ability of an individual or a group of individuals to influence and guide followers or other members of an organization.

Leadership involves making sound -- and sometimes difficult -- decisions, creating and articulating a clear vision, establishing achievable goals and providing followers with the knowledge and tools necessary to achieve those goals.



Motivation is the word derived from the word 'motive' which means needs, desires, wants or drives within the individuals. It is the process of stimulating people to actions to accomplish the goals. In the work goal context the psychological factors stimulating the people's behaviour can be-

- desire for money
- success
- recognition
- job-satisfaction
- team work, etc





Commanding

Managers must supervise subordinates in their daily work, and inspire them to achieve company goals. Likewise it is the responsibility of managers to communicate company goals and policies to subordinates. The commanding of subordinates should always be consistent with company policies, and every manager should treat subordinates in line with the standards of the company.

CONTROLLING

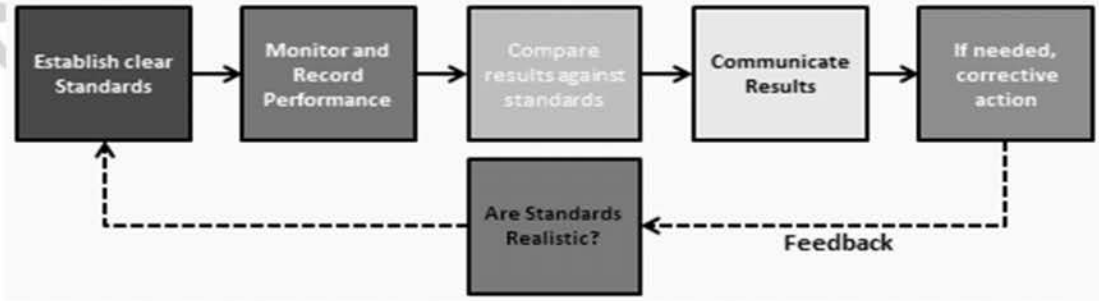
The controlling function of management is useful for ensuring all other functions of the organization are in place and are operating successfully. Controlling involves establishing performance standards and monitoring the output of employees to ensure each employee's performance meets those standards. The controlling process often leads to the identification of situations and problems that need to be addressed by creating new performance standards. The level of performance affects the success of all aspects of the organization.

Controlling involves:-

- Measurement of accomplishment against standards
- Analyzing reasons and deviations
- Responsibility Fixation
- Taking corrective measures

IMPORTANCE OF CONTROLLING

1. Fulfilling organisation goals.
2. Accuracy of standards
3. Efficient use of resources
4. Improving employee motivation
5. Insure order and disciplines
6. Facilitates coordination.
7. Psychological pressure
8. Organizational efficiency and effectiveness.
9. Corporate image
10. Managerial responsibility.



Steps in controlling

1. **Establishment of standards-** Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criterions for judging the performance. Standards generally are classified into two-

   a. Measurable or tangible - Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.
   b. Non-measurable or intangible- There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.

   Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.

2. **Measurement of performance-** The second major step in controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be measured. Performance of a manager cannot be measured in quantities. It can be measured only by-

   a. Attitude of the workers,
   b. Their morale to work,
   c. The development in the attitudes regarding the physical environment, and
   d. Their communication with the superiors.

   It is also sometimes done through various reports like weekly, monthly, quarterly, yearly reports.

3. **Comparison of actual and standard performance-** Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here- extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. He has to find out those deviations which are critical and important for business. Minor deviations have to be ignored. Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked upon consciously. Therefore it is said, " If a manager controls everything, he ends up controlling nothing." For example, if stationery charges increase by a minor 5 to 10%, it can be called as a minor deviation. On the other hand, if monthly production decreases continuously, it is called as major deviation.

   Once the deviation is identified, a manager has to think about various cause which has led to deviation. The causes can be-

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a. Erroneous planning,
b. Co-ordination loosens,
c. Implementation of plans is defective, and
d. Supervision and communication is ineffective, etc.

4. **Taking remedial actions-** Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here-

a. Taking corrective measures for deviations which have occurred; and
b. After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets. It is here the controlling process comes to an end. Follow up is an important step because it is only through taking corrective measures, a manager can exercise controlling.



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Student's Summary/ Important Notes

ADDITIONAL WRITING

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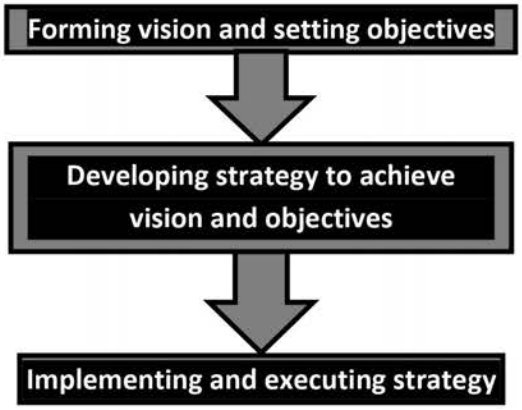
Student's Summary/ Important Notes

ADDITIONAL WRITING

CHAPTER 2
INTRODUCTION TO STRATEGIC MANAGEMENT

The term 'strategic management' is combination of strategy + management.

This term refers to forming a strategic vision, setting objectives, developing a strategy, implementing and executing the strategy. Thereafter building a business portfolio accordingly and carrying the functional activities to achieve the set mission, objectives and goals.







Originally, the term strategy has been derived from Greek word 'strategos' which means general. The word strategy, therefore, means the art of general.A strategy is a plan of action designed to achieve a specific goal. Strategy is all about gaining or at least attempting to gain, a position of advantage over adversaries or competitors.

MINTZBERG ANSWER THE QUESTION WITH 5 PS





IMPORTANCE OF STRATEGIC MANAGEMENT

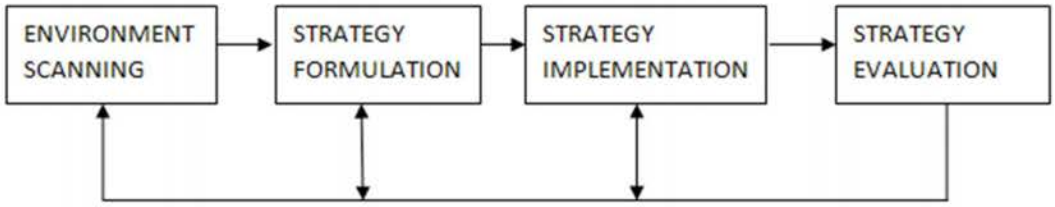
✓ Discover organization strength and weaknesses
✓ Identify the available opportunities and possible threats
✓ discover the objectives and goals in line with organization strength and available opportunities
✓ implement changes to overcome weaknesses and manage the threats
✓ provide vision and mission
✓ build a strong organization
✓ help to achieve growing and stable organization

STRATEGIC MANAGEMENT PROCESS

The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance

- ✓ Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and fixes goals to meet the entire present and future competitor's and then reassesses each strategy.
- ✓ Strategic Management Process is defined as the way an organization defines its strategy.

- ✓ The strategic management process is best implemented when everyone within the business understands the strategy.
- ✓ The five stages of the process are goal-setting, analysis, strategy formation, strategy implementation and strategy monitoring
- ✓ The process of strategic management lists what steps the managers should take to create a complete strategy and how to implement that strategy successfully in the company.



Environment scanning

Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment. It helps the managers to decide the future path of the organization. Scanning must identify the threats and opportunities existing in the environment. While strategy formulation, an organization must take advantage of the opportunities and minimize the threats. A threat for one organization may be an opportunity for another.

Strategy formulation

Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. This process is essential to an organization's success, because it provides a framework for the actions that will lead to the anticipated results. Strategic plans should be communicated to all employees so that they are aware of the organization's objectives, mission, and purpose.

Strategy formulation forces an organization to carefully look at the changing environment and to be prepared for the possible changes that may occur. A strategic plan also enables an organization to evaluate its resources, allocate budgets, and determine the most effective plan for maximizing ROI (return on investment).

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. Strategies can be formulated after diagnosing the environment. Each strategy with suitable sub-strategies and alternative strategies should be available to top management. Thus, top management always mentors the administration with strategies which can be adapted from time-to-time.

Strategy implementation

This is an important stage in strategic management process. Well-designed strategies may fail in implementation. Hence, adaptability of strategies and implementation process should be clearly mentioned while formulating strategy. It is the strategist's responsibility to take care of implementing strategies in accordance with the requirements of an organization.

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance.

Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, resource-allocation process, etc.

Strategy evaluation

Strategic evaluation is a way for businesses to evaluate the health and productivity of their company and their future endeavors. Typically, strategic evaluations attempt to see past the obvious factors that influence short-term plans, and seek a more-dynamic study of the trends that will dictate the future success or failure of the company. Like a chess match, strategic evaluation succeeds when companies are able to accurately analyze and predict several moves ahead into the future, in order to best tailor their present policies.

The significance of strategy evaluation lies in its capacity to co-ordinate the task performed by managers, groups, departments etc, through control of performance. Strategic Evaluation is significant because of various factors such as - developing inputs for new strategic planning, the urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice etc.

WHAT IS THE DIFFERENCE BETWEEN STRATEGY IMPLEMENTATION AND STRATEGY EVALUATION?

Strategy formulation	Strategy implementation
✓ It is positioning forces before action	✓ It is managing forces during action
✓ Strategy formulation requires good conceptual, integrative and analytical skills	✓ Strategy Implementation requires special skills in motivating and managing others
✓ Strategy formulation occurs primarily at the corporate level of an organization	✓ Strategy implementation connects all hierarchy levels.
✓ Strategy formulation requires coordination among a few individuals	✓ Strategy implementation requires coordination among many
✓ Strategy formulation is a plan	✓ Strategy implementation is an Action against plan
✓ It focusses on effectiveness	✓ It focusses on efficiency
✓ It is an intellectual process	✓ It is operational process
✓ It requires coordination of few individuals	✓ It requires coordination among all the individuals within the organisation
✓ It is unsystematic	✓ It is systematic

ELEMENTS IN STRATEGIC MANAGEMENT PROCESS

Each phase of strategic management process can be viewed to be consisting of a number of elements, which can be clearly defined with input and output relationships. The steps have logical connectivity and hence these are sequential.

1. Defining the vision of the company
2. Defining the mission of the company
3. Determining the purpose and goals
4. Defining the objectives
5. Environment scanning
6. Carrying out corporate appraisal
7. Developing strategic alternatives
8. Selecting a strategy
9. Formulating detailed strategy
10. Preparing a plan
11. Implementing a strategy
12. Evaluating a strategy

DIFFERENCE BETWEEN STRATEGY AND TACTICS

Basis	STRATEGY	TACTICS
Conduct	It is developed at the highest level of management	It is applied and relates to lower levels of management
Time horizon	Strategy has a long term perspective	Tactics has a short term perspective and definite
Uncertainty	Elements of uncertainty is seen more in case of strategy	Tactical decisions are more certain
Importance	Strategies are more important as they decide the future course of action.	Tactics are less important as they concerned with specific part of organization
concept	Strategy is a broader concept	Tactics is a part of strategy and hence a narrower concept

Strategic leadership is a practice in which executives, using different styles of management, develop a vision for their organization that enables it to adapt to or remain competitive in a changing economic and technological climate. Strategic leaders are able to use this vision to motivate employees and departments, fostering among them a sense of unity and direction, in order to implement change within their organization or streamline its processes.

- Strategic Leaders must first understand their organization's mission in order to be strategic. This means fully grasping why the company exists, who its customers are and how exactly it can provide value for them.

- Then, strategic leaders will need to create a vision of what that mission will look like at a specified time in the future.
- Finally, leaders must craft a strategy to put that vision into action. The strategy maps out the steps a company needs to take or changes it needs to make in order to get from its current state to its desired state.





Strategic leadership is learned—it does not come naturally. Therefore, educating yourself about the characteristics you want to embody will help you become a better leader. A good leader with these traits can also be a successful strategic leader. One must inherent following qualities to achieve its goals.

There are top five attributes which believe are critical to develop.

1. Strong communication
2. Passion and commitment
3. Optimistic
4. Innovative
5. Collaboration with team

A final thing to consider is that strategic leadership is different for everyone. How your leadership characteristics manifest depends on the company culture and existing frameworks, as well as your individual skills. For example, effective communication channels will look very different for a manager who is working on-site daily with the team versus a remote manager checking in every so often. Adapt your strategic leadership style to fit your role, your company, and your working situation.

According to Harvard Business Review, Strategic leadership competencies include six essential skills:

- Anticipate: Collect information from a wide range of sources both inside and outside your company's industry or function, to predict competitors' moves and reactions to new initiatives or products.
- Challenge: View and reframe a problem from multiple angles to understand underlying causes.
- Interpret: Exhibit curiosity and openness when testing several working hypotheses, involving others, before coming to any conclusion.

- Decide: Weigh long-term investments for growth with short-term pressure for results, as well as the risks and trade-offs for customers and other stakeholders, when making decisions.
- Align: Examine stakeholders' incentives and tolerance for change and identify conflicting interests.
- Learn: Convey stories of success and failure to advocate learning; course-correct decisions after they have been made if there is refuting evidence





1. **Connect and communicate**

   Leading a group of people requires a mutual sense of trust and understanding between the leader and the team members. As a first step toward that goal, leaders should learn to connect.

   "Building a real personal connection with your teammates is vital to developing the shared trust necessary to build a strong culture of accountability and exceptional performance," St. Marie said. "With that culture in place, the team can achieve a successful business, a happy team and a fulfilled leader."

2. **Know your team**

   Once you've mastered the art of communicating and connecting with your team members, you can really get to know them — who they are, what they're interested in and what their talents are.

   "If you care about and take care of your people, they will take care of your customers, and ultimately, you will accomplish your mission."

3. **Encourage creativity**

   If you want your staff to do their best work, you need to give them the freedom to brainstorm and explore, Negrash said. Be open to your team's ideas and suggestions, and be ready to consider them and possibly develop them further.

   "A good leader also gives the team new challenges, preventing them from becoming bored and complacent while showing confidence in their potential," Negrash added.

4. **Focus on the positives**

The leader shall concentrate on positive side of the manpower in an organisation. If the leader would only pick up negative points in their subordinates then it would create an environment of negative motivation.

THESE NINE ROLES OF THE TOP STRATEGIC LEADERSHIP ARE

1. **Navigator**

In this role, the leader works quickly and clearly to deal with difficulties, solves problems and takes advantage of various opportunities to influence existing work and people. The Navigator role of the leader makes the leader to analyze a large amount of conflicting information, understand the root cause of the problems and identify the feasible and optimal solutions.

2. **Strategist**

The strategist role of the leader enables the leader to develop a long-term strategy and set targets to match the vision of an organization. The strategy is focused on creation of future plans and required actions immediately. The strategist role enables the leader to provide a direction to the organization to achieve the desired vision.

3. **Entrepreneur**

In this role, the leader acts an entrepreneur. He/she identifies and takes advantage of opportunities and expands business by creating innovative products, services or markets. Thinking like an entrepreneur and owner of the organization, the leader generates new ideas, takes advantage of opportunities or proposals and transforms them into a new path. The leader develops the ability to solve problems easily through his acumen and shrewdness and creates a new style of leadership.

4. **Mobilizer**

Playing the role of mobilizer, the strategic leader mobilizes all kinds of resources and develops teams and partners to work with them by leveraging the synergy of wide variety of talent. Also, he / she build a capacity that allows rapid implementation of work in order to achieve complex objectives.

5. **Talent advocate**

In this role, the strategic leader identifies talented and skillful employees, internally and externally and stays in touch with them to tap their talent as and when required. He / she create a culture of talent development by encouraging innovative ideas, by providing training, by empowering the talented employees to reach their highest possible abilities.

6. **Captivator**

Playing the role of a captivator, the strategic leader continues to build confidence among employees, and creates positive feelings and a culture of belongingness. In this role, the leader converts the talent of employees into a useful outcome for the organization. Also, he convinces employees to accept his leadership style, synchronizes it with the vision of the organization and empowers them achieve the vision.

7. **Global thinker**

The other important role played by the strategic leader is as a global thinker. The leader understands and respects all types of diversity in the organization and designs the strategies and action keeping the diversity factor in mind. He thinks from a very high macro level perspective and keeps identifying global opportunities.

8. **Change driver**

Organizations need to adapt to the dynamic business environment by making changes on a continuous basis. The strategic leader plays an important role as a change driver. The leader creates and develops change management strategies and evolves techniques to make the employees accept the changes from time to time. The leader convinces the employees by projecting the fruitful outcomes of the changes.

9. **Enterprise guardian**

In this role, the strategic leader acts as an enterprise guardian. He / She keep a constant check on the status of the organization by keenly observing the business environment and guard the enterprise from any disturbances. The leader refuses to negotiate over long-term gains.

WHY ONE NEED TO POSSESS LEADERSHIP SKILLS?

He / She take bold and wise decisions with courage and risk taking attitude for a long-term benefit to the organization.

The leader takes the onus of failure and shares the success with all the employees.

Keeps away from emotions and personal relationships when it comes to the achievement of results.

He / She become popular in the organization and outside by taking bold, useful but unpopular decisions.

It is essential to develop the leaders with the above abilities in every organization. Management institutions like Skyline University, an accredited university in UAE offering MBA courses, BBA courses and diploma courses in Sharjah have a key role in inculcating such leadership traits right from the college days among the management students to enable them to grow and become strategic leaders in future.

WHAT IS THE ROLE OF COMPANY SECRETARY IN STRATEGIC MGT.?

Due to higher degree of association with business matters, now a company secretary's platter is full of various tasks. For instance they interact with the top management on a continuous basis to apprise them of the latest developments taking place in the capital market, corporate laws, securities laws and their impact on the organization and also communicating with different external agencies and regulatory authorities, thereby enlarging their role in the organization.

Further, a company secretary has to take care of the following critical facets of the business, i.e. Risk management, assessing the sustainability of an organization, contribution towards corporate vision and mission, assessment of the magnitude of business competition, guiding the company on the path of corporate social responsibility etc. have enhanced the significance of a company secretary manifold.



A company secretary in today's era while discharging his or her professional obligations has to perform several key roles which are also integral components of strategic management. A brief discussion on some of the roles is as follows:





MEANING OF BUSINESS ENVIRONMENT

The definition of Business Environment, **"The sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but the business still depends upon them as they affect the overall performance and sustainability of the business."**

The forces which constitute the business environment are its suppliers, competitors, consumer groups, media, government, customers, economic conditions, market conditions, investors, technologies, trends, and multiple other institutions working externally of a business constitute its business environment. These forces influence the business even though they are outside the business boundaries.

- A business can be established, but to successfully sustain a business, the business needs resources like finance, for which it has to depend on financial institutions.
- Acceptance of social norms, for which it has to depend on the society. Proper market conditions, for which it has to depend on the market.
- The sale of products/services, for which it has to depend on the customers. The labour, for which it has to depend on the society.
- Then there are natural resources and raw material, for which it has to depend on Nature. Also, the legal support of the government, for which it has to depend on the government.

These factors are many different components of a single concept called

Business Environment

These factors which business depends upon aren't standstill, they are very dynamic and ever-changing. The changing needs of customers and new innovations in the market are a part of the business environment. The challenge for businesses in this technological era is not to enter the market but to survive in the market. *To survive in the market means to adapt to the changes* as a fast as possible. *To adapt to the changes means to be aware of the business environment.*

IMPORTANCE OF BUSINESS ENVIRONMENT

On the basis of the foregoing discussion, it can be said that the Business Environment is the most important aspect of any business. To be aware of the ongoing changes, not only helps the business to adapt to these changes but also to use them as opportunities.

Business Environment presents threats as well as opportunities for any business. A good business manager not only identifies and evaluates the environment but also reacts to these external forces. The importance of business environment can be neatly understood if we consider the following facts:

1. **Enables to Identify Business Opportunities**

   All changes are not negative. If understood and evaluated them, they can be the reason for the success of a business. It is very necessary to identify a change and use it as a tool to solve the the problems of the business or populous.

   For example, Mr. PhanindraSama was troubled by the ticket booking condition in India. He used to travel a long distance to his travel agent to book his ticket but even after travelling this distance he was not sure if his seat was confirmed. He saw the opportunity to establish an app in the face of the problem and co-founded the online ticket booking app called 'RedBus'.

2. **Helps in Tapping Useful Resources**

   Careful scanning of the Business Environment helps in tapping the useful resources required for the business. It helps the firm to track these resources and convert them into goods and services.

3. **Coping with Changes**

   The business must be aware of the ongoing changes in the business environment, whether it be changes in the customer requirements, emerging trends, new government policies, technological changes. If the business is aware of these regular changes then it can bring about a response to deal with those changes.

   For example, when the Android OS market was blooming and the customers preferred Android devices for its easy interface and apps, Nokia failed to cope with the change by not implementing Android OS on Nokia devices. They failed to adapt and lost tremendous market value.

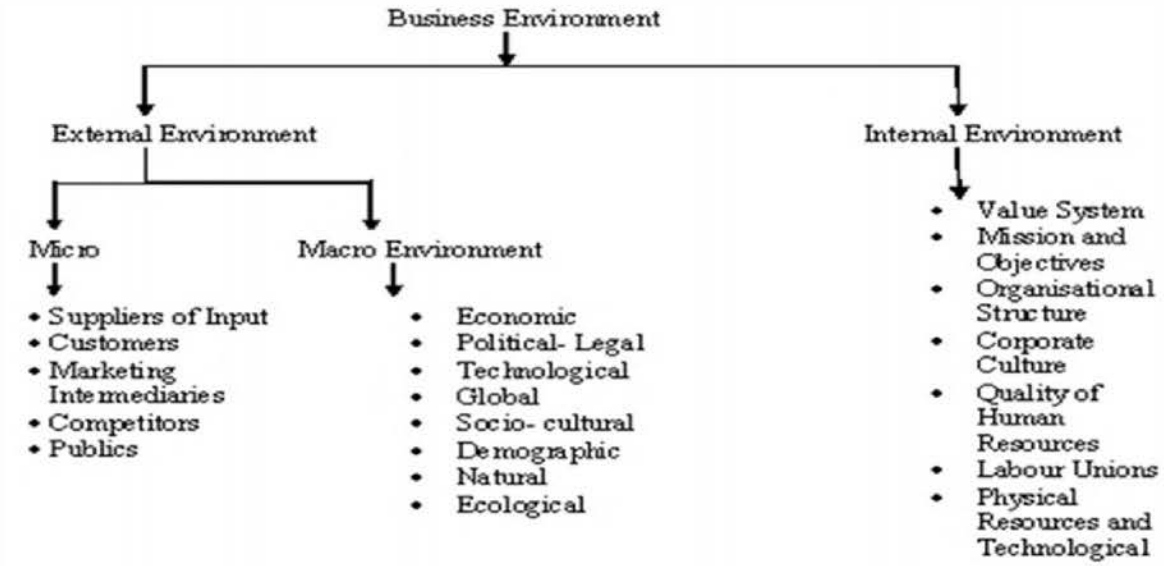
4. **Assistance in Planning**

   This is another aspect of the importance of business environment. Planning purely means *what is to be done in the future.* When the Business Environment presents a problem or an opportunity, it is up to the business to decide what plan would it have to come up with in order to address the future and solve the problem or utilize the opportunity. After analyzing the changes presented, the business can incorporate plans to counteract the changes for a secure future.

5. **Helps in Improving Performance**

Enterprises that are thoroughly scanning their environment not only deal with the changes presented but also flourish with them. Adapting to the external forces help the business to improve the performance and survive in the market.

TYPES OF BUSINESS ENVIRONMENT



A. External Micro- Environment

"The micro environment consists of factors in the company's immediate environment". Micro environmentincludes those players whose decisions and actions have a direct bearing on the company. Production and saleof goods are the two important aspects of modern business. The various constituents of micro environment areas under:

(a) Suppliers of inputs:

These supply of resources (finances, raw materials, fuel, power and other factorsof production) and pave the way for smooth conduct of the business. Firms should keep themselvesupdated about the policies of suppliers as rise in the cost of inputs will influence their sales volume and profitability. The scarcity of inputs also have a bearing on the production schedules. For smoothproduction and sales, the business should have more than one supplier in their list to have anunhampered production schedules.

(b) Customers:

The people who buy and use products and services of business and are an importantpart of external micro environment. A business may have diverse customers such as households,producers, retailers, Government and foreign buyers on its portfolio. Since sales of a product or serviceis critical for a firm's survival and growth, it is necessary to keep the customers satisfied.

(c) Marketing intermediaries:

In the firm's external micro environment, marketing intermediaries playan essential role of selling and distributing its products to the final customers. They are the physical distribution firms (transport firm), service agencies (media firms), financial intermediaries (banks,insurance companies) etc. that assist in production, marketing and insurance of the goods against loss of theft, fire etc. Business has to maintain healthy relations with them to carry their activities smoothly.

(d) Competitors:

Different firms in an industry compete with each other for sale of their products. Thiscompetition may be on the basis of pricing of their products and also non- price competition throughcompetitive advertising such as sponsoring some events to promote the sale of different varieties andmodels of their products. They constantly watch competitors' policies and adjust their policies to gain customer confidence.

(e) Public:

Finally, publics are an important force in external micro environment. Public, according to PhilipKotler, "is any group that has an actual or potential interest in or impact on the company's ability toachieve its objective." A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its interest. Environmentalists, media groups, women's associations,consumer protection groups, local groups, citizens association are some important examples ofpublics which have an important bearing on the business decisions of the firm. Companies observe the behaviour of these groups to make functional policies.

B. External Macro Environment

Apart from micro environment, business firms also come across some other external environmental forceswhich are beyond their control and operate at macro level. Because of the uncontrollable nature of such macroforces, a firm has to adjust or adapt itself to harness the opportunities thrown by such forces and mitigate thethreats. These factors are:

(a) Economic Environment:

Economic environment includes all those forces which have an economic impact on business. Accordingly, total economic environment consists of agriculture, industrial production, infrastructure, and planning, basic economic philosophy, stages of economic development, trade cycles, national income, per capita income, savings, money supply, price level, fiscal and monetary policies and population.

The economic environment has definitely an impact on the activities of business enterprises. In the capitalist economies, the economic decisions concerning investment, production and sale are driven by profit motives. While in socialist economies, such decisions are taken by the public sector and driven by social welfare motive rather than profit maximization. In a mixed economy, public and private sectors have a co-existence and they may individually or jointly own the factors of production.

(b) Political-legal Environment:

The political- legal environment includes the activities of three political institutions, namely, legislature, executive and judiciary which usually play a useful role in shaping, directing, developing and controlling business activities. In order to attain a meaningful business growth, a stable and dynamic political-legal environment is very important. Legal environment is also significant for functioning of the business as various laws are in force to regulate the operations of the business enterprises. They relate to standard of products, packaging, protection of environment and ecological balance, ban on advertisement of (alcohol and medicines), advertisement of certain products with statutory warning (cigarette) etc. Laws also exist to prevent restrictive trade practices (RTP) and monopoly.

(c) Technological Environment:

Technology implies systematic application of scientific or other organized knowledge to practical tasks or activities. It includes innovations too. As technology is changing fast, businessmen should keep a close look on those technological changes for its adaptation in their business activities. Not adopting technological changes and imitating innovation is not possible technical threats from external environment have to be converted into opportunities and gainfully employed in business operations.

(d) Global or International Environment:

The Global environment or 'borderless world' plays an important role in shaping business activity. With the liberalisation and globalization of the Indian economy in 1991, there have been significant economic and political changes and increasing role for the private sector to play since then. The global business environment is radically affected by the principles and agreements of World Trade Organisation (WTO) as it keeps a watch and regulates the business transacted in the international environment.

(e) Socio-cultural Environment:

The social environment consists of the social values; concern for socialproblems like protection of environment against pollution, providing employment opportunities, health care for the aged and old etc.; consumerism (indulging in fair trade practices) to satisfy human wants.

The cultural environment represents values and beliefs, norms and ethics of the society. The buying habits, buying capacities, tastes, preferences and many other factors are dependent on the cultural environment. For example, in India, beef is not eaten by a majority of people as it is not part of their culture. Similarly, white wedding dress is very less preferred in Hindu weddings. Therefore, business has to offer socially acceptable goods to maintain its positive business image and survive competition.

Every business has to keep in mind that the business operations successfully meet the ethical and value system of the society and if not, making necessary changes?

(f) Demographic environment:

The demographic environment includes the gender ratio, size and growth of population, life expectancy of the people, rural-urban distribution of population, the technological skills and educational levels, language skills of labour force. All these demographic features have an important bearing on the functioning of busines[s] rms. For example, huge populated countries such as Indian and China can adopt labor-intensive technologies than capital intensive ones to give employment to its labor force. Similarly, the population of kids will decide product range and space for such products to be offered in a mall while planning logistics.

(g) Natural Environment:

The natural environment is the ultimate source of many inputs such as raw materials and energy, which firms use in their productive activity. The natural environment which includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions and port facilities are all highly significant for various business activities. For example, steel producing industries are set up near the coal mines to save cost of transportation to distant locations. The natural environment also affects the demand for goods.

For example, places with hot temperatures will have high demand for air conditioners. Areas which are highly polluted will have more scope of selling air-purifiers. Similarly, weather and climatic conditions influence the demand pattern for clothing, building materials for housing etc. Natural calamities like floods, droughts, earthquake etc. are devastating for business activities.

(h) Ecological environment:

Though natural resources such as air, water and solar energy can be replenished, yet, business organisation are polluting these resources by dumping chemical industrial wastes in water and affecting the ozone layer. The environment damage to water, earth and air caused by industrial activity of mankind is harmful for future generations.

INTERNAL ENVIRONMENT

Survival and growth of a business depends upon its strengths and adaptability to the external environment.

The internal strengths represent its internal environment. These consist of financial, physical, human and technological resources. The factors in internal environment of business are to a certain extent controllable because the firm can change or modify these factors to improve its efficiency. However, the firm may not be able to transform all the factors.

The various internal factors are:

(a) Value system:

The value system of an organisation means the ethical beliefs that guide the organisation in achieving its mission and objectives. The value system of a business organisation also determines its behavior towards its employees, customers and society at large. The value

system of a business organisation makes an important contribution to its success and its prestige in the world of business.

For instance, the value system of J.R.D. Tata, the founder of Tata group of industries, was its self-imposed moral obligation to adopt morally just and fair business policies and practices which promote the interests of consumers, employees, shareholders and society at large. This value system of J.R.D.Tata was voluntarily incorporated in the articles of association of TISCO, a premier Tata company.

Infosys Technologies which won the first national corporate governance award in 1999 attributes its success to its high value system which guides its corporate culture. To quote one of its reports, "our corporate culture is to achieve our objectives in environment of fairness, honesty, transparency and courtesy towards our customers, employees, vendors and society at large" Thus value system of a business firm has an important bearing on its corporate culture and determines its behaviour towards its employees, shareholders and society as a whole.

(b) Mission and objectives:

The business domain of the company, direction of development, business philosophy, business policy etc. are guided by the mission and objectives of the company. The objective of all firms is assumed to be maximization of profit. Mission is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities.

(c) Organisation structure:

The organisational structure, the composition of the board of directors, the professionalism of management etc. are important factors influencing business decisions. An efficient working of a business organisation requires that the organisation structure should be conducive for quick decision-making. The board of directors is the highest decision making body in a business organisation.

For efficient and transparent working of the board of directors in India it has been suggested that the number of independent directors be increased.

(d) Corporate culture:

Corporate culture and style of functioning of top managers is important factor for determining the internal environment of a company. Corporate culture is an important factor for determining the internal environment of any company. In a closed and threatening type of corporate culture the business decisions are taken by top level managers while the middle level and lower level managers have no say in business decision making. This leads to lack of trust and confidence among subordinate officials of the company. In an open and participating culture, business decisions are taken by the lower level managers and top management has a high degree of confidence in the subordinates.

(e) Quality of human resources:

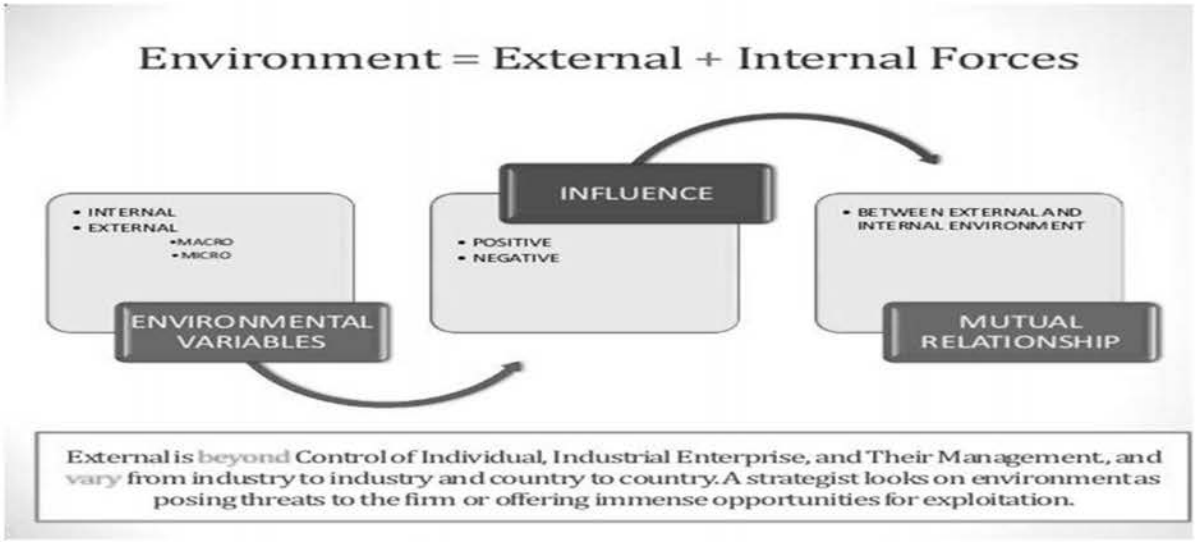
Quality of employees that is of human resources of a firm is an important factor of internal environment of a firm. The characteristics of the human resources like skill, quality, capabilities, attitude and commitment of its employees could contribute to the strength and weaknesses of an organisation. It is difficult for the top management to deal directly with all the employees of the business firm. Therefore, for efficient management of human resources, employees are divided into different groups. The manager may pay little attention to the technical details of the job done by a group and encourage group cooperation in the interests of a company.

(f) Labour unions:

Labour unions collectively bargains with the managers for better wages and better working conditions of the different categories of workers etc. For the smooth working of business firm good relations between management and labour unions is required.

(g) Physical resources and technological capabilities

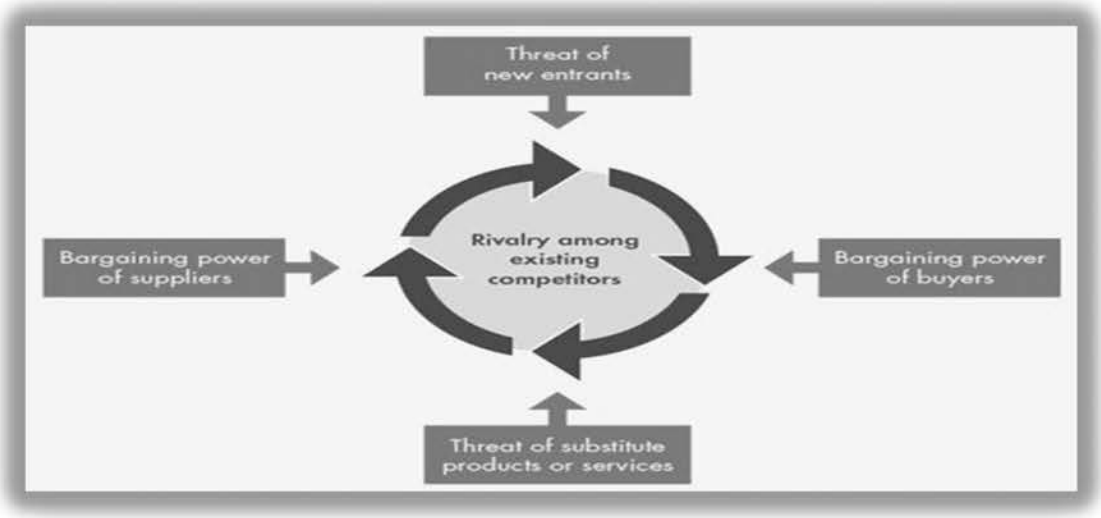
Physical resources such as plant and equipment and technological capabilities of a firm determine its competitive strength which is an important factor for determining its efficiency and unit cost of production. Research and development capabilities of a company determine its ability to introduce innovations which enhances productivity of workers.



PORTER'S FIVE FORCES

The tool was created by Harvard Business School professor Michael Porter. Porter's five forces model is an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level. Since its publication in 1979, it has turned into one of the most popular and highly regarded business strategy tools.

Porter was of the viewpoint that the organizations should keep a close watch on their rivals, but he also encouraged them to go beyond the boundaries of their competitors and make an assessment of other factors impacting the business environment. In this process, he identified five forces that build competitive environment, and have a take away its profitability.



THE FIVE FORCES ARE:

1. **Supplier power.** An assessment of how easy it is for suppliers to drive up prices. This is driven by the: number of suppliers of each essential input; uniqueness of their product or service; relative size and strength of the supplier; and cost of switching from one supplier to another.
2. **Buyer power.** An assessment of how easy it is for buyers to drive prices down. This is driven by the: number of buyers in the market; importance of each individual buyer to the organisation; and cost to the buyer of switching from one supplier to another. If a business has just a few powerful buyers, they are often able to dictate terms.
3. **Competitive rivalry.** The main driver is the number and capability of competitors in the market. Many competitors, offering undifferentiated products and services, will reduce market attractiveness.
4. **Threat of substitution.** Where close substitute products exist in a market, it increases the likelihood of customers switching to alternatives in response to price increases. This reduces both the power of suppliers and the attractiveness of the market.
5. **Threat of new entry.** Profitable markets attract new entrants, which erodes profitability. Unless incumbents have strong and durable barriers to entry, for example, patents, economies of scale, capital requirements or government policies, then profitability will decline to a competitive rate.

How to implement porter's five forces

Step 1. The first thing you want to do is to define the relevant industry by both its product scope and geographic scope. The 5 forces from Michael Porter will help you to structure this reflection process.

Step 2. Identify competition and, if possible, segment them into groups.

Step 3. What are the driving forces in the industry?

Step 4. Did these change recently or not? Are they likely to change in the near future?

Step 5. How are your competitors positioned on each of these driving forces?

Step 6. How are you going to position your company on each of these driving forces?

Student's Summary/ Important Notes

ADDITIONAL WRITING

Student's Summary/ Important Notes

ADDITIONAL WRITING

CHAPTER 3
BUSINESS POLICY AND FORMULATION OF SCOPE FUCTIONAL STRATEGY

Business Policy defines the scope or spheres within which decisions can be taken by the subordinates in an organization. It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions.

Business policies are the guidelines developed by an organization to govern its actions. They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be achieved. Business policy is the study of the roles and responsibilities of top level management, the significant issues affecting organizational success and the decisions affecting organization in long-run.

FEATURES OF BUSINESS POLICY

An effective business policy must have following features-

1. **Specific**- Policy should be specific/definite. If it is uncertain, then the implementation will become difficult.
2. **Clear**- Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.
3. **Reliable/Uniform**- Policy must be uniform enough so that it can be efficiently followed by the subordinates.
4. **Appropriate**- Policy should be appropriate to the present organizational goal.
5. **Simple**- A policy should be simple and easily understood by all in the organization.
6. **Inclusive/Comprehensive**- In order to have a wide scope, a policy must be comprehensive.
7. **Flexible**- Policy should be flexible in operation/application. This does not imply that a policy should be altered always, but it should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios.
8. **Stable**- Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.

DIFFERENCE BETWEEN POLICY AND STRATEGY

The term "policy" should not be considered as synonymous to the term "strategy". The **difference between policy and strategy** can be summarized as follows-

1. Policy is a blueprint of the organizational activities which are repetitive/routine in nature. While strategy is concerned with those organizational decisions which have not been dealt/faced before in same form.
2. Policy formulation is responsibility of top level management. While strategy formulation is basically done by middle level management.
3. Policy deals with routine/daily activities essential for effective and efficient running of an organization. While strategy deals with strategic decisions.
4. Policy is concerned with both thought and actions. While strategy is concerned mostly with action.
5. A policy is what is, or what is not done. While a strategy is the methodology used to achieve a target as prescribed by a policy.

ADVANTAGES OF BUSINESS POLICIES

Policies flow from planning and are extremely useful connections between goals and action. The policies are useful day-to-day guides. As a guide for making decisions, policies provide the following advantages:

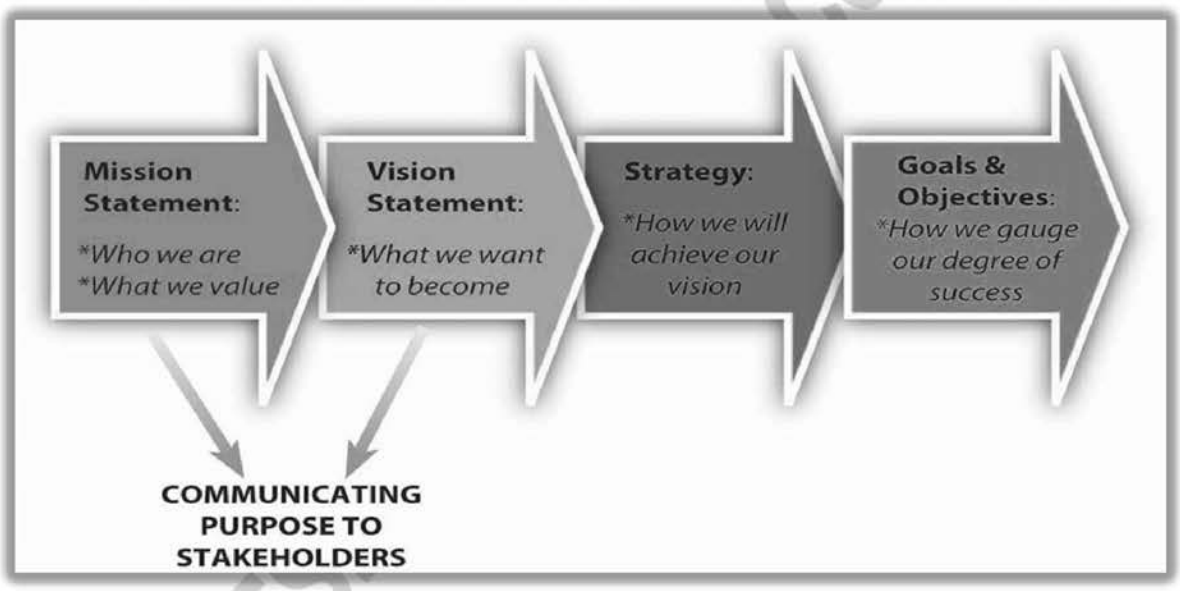
1. They tend to **serve as precedents** and thus reduce the repetitive rethinking of all the factors in individual decisions; they save time.
2. Clear **policies helps each manager to understand the range** within which he can make decision and thus feels less uncertain as to whether he can give answers to subordinates without 'getting into trouble.'
3. Because they specify routes towards selected goals, **policies help in evaluating performance**.
4. Policies are '**control guides of delegated decision-making**'.
5. Good administration and implementation of policies naturally **improves the workingenvironment** with good labor-management relations.
6. Policies **help the firm to clarify its objectives**, guide planning for future operations, aid subordinates in reaching operating decisions, facilitate overall coordination and control and act as yardsticks for evaluating the quality of executive decision-making and action.

It is through policies that the organization's objectives are achieved, better use of resources is ensured, social responsibility is fulfilled in an increasing manner, personal satisfaction is obtained by the employees and the management is enabled to take useful decisions.

Since policies emanate from good plans and since the actual performance of duties and activities depend upon some means of directing future actions, planning and policies are closely related in the management of an organization.

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VISION STATEMENT

Vision serves the purpose of stating what an organization wishes to achieve in the long run. It articulates theposition that the organisation would like to occupy in future. The vision is about looking forward and aboutformalizing where you, and the business, are going. It is a future aspiration that leads to an inspiration of beingthe best in one's business sphere. It creates a common identity and a shared sense of purpose.

A vision statement is a company's road map, indicating both what the company wants to become and guiding transformational initiatives by setting a defined direction for the company's growth. Vision statements undergo minimal revisions during the life of a business, unlike operational goals which may be updated from year-to-year.

MISSION STATEMENT

A mission statement defines the basic reason for the existence of that organization. Such a statement reflects the corporate philosophy, identity, character, and image of an organization. It may be defined explicitly or could be deduced from the management's actions, decisions, or the chief executive's press statements.

A mission statement is a short statement of an organization's purpose, identifying the goal of its operations: what kind of product or service it provides, its primary customers or market, and its geographical region of operation.

It communicates primarily to the people who make up the organization—its members or employees—giving them a shared understanding of the organization's intended direction.

Some of the benefits of having a vision and mission statement are discussed below:

- Above everything else, vision and mission statements provide unanimity of purpose to organizations and imbue the employees with a sense of belonging and identity. Indeed, vision and mission statements are embodiments of organizational identity and carry the organizations creed and motto. For this purpose, they are also called as statements of creed.
- Vision and mission statements spell out the context in which the organization operates and provides the employees with a tone that is to be followed in the organizational climate. Since they define the reason for existence of the organization, they are indicators of the direction in which the organization must move to actualize the goals in the vision and mission statements.
- The vision and mission statements serve as focal points for individuals to identify themselves with the organizational processes and to give them a sense of direction while at the same time deterring those who do not wish to follow them from participating in the organization's activities.
- The vision and mission statements help to translate the objectives of the organization into work structures and to assign tasks to the elements in the organization that are responsible for actualizing them in practice.
- To specify the core structure on which the organizational edifice stands and to help in the translation of objectives into actionable cost, performance, and time related measures.
- Finally, vision and mission statements provide a philosophy of existence to the employees, which is very crucial because as humans, we need meaning from the work to do and the vision and mission statements provide the necessary meaning for working in a particular organization.

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VISION & MISSION STATEMENTS COMPARED

DIFFERENCE	VISION	MISSION
ANSWERS QUESTION	**Why** are we here?	**What** do we do? For **whom** do we it? What is the **benefit**?
TIME	Vision statement talk about the **very long term future**. In an **ideal** world our vision would be...	Mission statement talk about the organisation's**present** leading to the future.
CHANGE	Your vision should remain **impact**, even the market changes dramatically, because it speaks to what your company represents, not just what it does.	Mission statement may **change** if your organisation outlives the industry it started in, but it should still tie back to your core vision and values.
ABOUT	Vision statement outlines **WHERE** an organisation wants to be in future. Communicates both long term purpose and **values** of the organisation.	Mission statement talks about **HOW** the organisation will get where it wants to be. Defines the organisation's purpose and primary objectives. Mission Statement puts the Vision into practice.
FUNCTION	Describes where the organisation sees itself **years from now**. Shapes **customer's understanding** of why they should work with the organisation.	Lists **broad goals** for which the organisation is formed. Prime function is **internal**, to define the key measure of success and its prime audience is leadership team and stockholders
EMPLOYEES	Identifies **why** employees need/want to work with the organisation and gives direction about how they are **expected to behave** and **inspires** them to give their best.	Helps the team act and **guides** them in what they should do.



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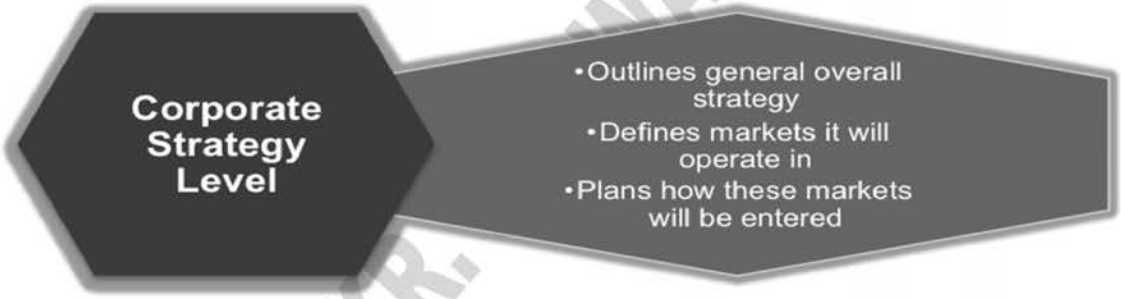
Many of the most successful business men and women throughout history have been great strategic thinkers, and that is no accident. If you wish to take your business to the top of the market as quickly as possible, it is going to be strategy that leads the way.

Of course, before you can get into the process of determining your own business strategies, you need to understand what the word 'strategy' really means in a business context.

Does it involve long-term planning as to the general course of the business? Or is it related to the day-to-day operations and how they are designed in order to achieve success? Well, in practical application, strategy can refer to both of those things and more.

CORPORATE STRATEGY

The first level of strategy in the business world is corporate strategy, which sits at the 'top of the heap'. Before you dive into deeper, more specific strategy, you need to outline a general strategy that is going to oversee everything else that you do. At a most basic level, corporate strategy will outline exactly what businesses you are going to engage in, and how you plan to enter and win in those markets.



It is easy to overlook this planning stage when getting started with a new business, but you will pay the price in the long run for skipping this step. It is crucially important that you have an overall corporate strategy in place, as that strategy is going to direct all of the smaller decisions that you make.

For some companies, outlining a corporate strategy will be a quick and easy process. For example, smaller businesses who are only going to enter one or two specific markets with their products or services are going to have an easy time identifying what it is that makes up the overall corporate strategy. If you are running an organization that bakes and sells cookies, for instance, you already know exactly what the corporate strategy is going to look like – you are going to sell as many cookies as possible.

However, for a larger business, things quickly become more complicated. Carrying that example forward to a larger company, imagine you run an organization that is going to sell cookies but is also going to sell equipment that is used while making cookies. Entering into the kitchen equipment market is a completely different challenge from selling the cookies themselves, so the complexity of your corporate strategy will need to rapidly increase. Before you get any farther into the strategic planning of your business, be sure you have your corporate strategy clearly defined.

BUSINESS STRATEGY

It is best to think of this level of strategy as a 'step down' from the corporate strategy level. In other words, the strategies that you outline at this level are slightly more specific and they usually relate to the smaller businesses within the larger organization.



Carrying over our previous example, you would be outlining separate strategies for selling cookies and selling cookie-making equipment at this level. You may be going after convenience stores and grocery stores to sell your cookies, while you may be looking at department stores and the internet to sell your equipment. Those are dramatically different strategies, so they will be broken out at this level.

Even in smaller businesses, it is a good idea to pay attention to the business strategy level so you can decide on how you are going to handle each various part of your operation. The strategy that you highlighted at the corporate level should be broad in scope, so now is the time to boil it down into smaller parts which will enable you to take action.

FUNCTIONAL STRATEGY

This is the day-to-day strategy that is going to keep your organization moving in the right direction. Just as some businesses fail to plan from a top-level perspective, other businesses fail to plan at this bottom-level. This level of strategy is perhaps the most important of all, as without a daily plan you are going to be stuck in neutral while your competition continues to drive forward. As you work on putting together your functional strategies, remember to keep in mind your higher level goals so that everything is coordinated and working toward the same end.



It is at this bottom-level of strategy where you should start to think about the various departments within your business and how they will work together to reach goals. Your marketing, finance, operations, IT and other departments will all have responsibilities to handle, and it is your job as an owner or manager to oversee them all to ensure satisfactory results in the end. Again, the success or failure of the entire organization will likely rest on the ability of your business to hit on its functional strategy goals regularly. As the saying goes, a journey of a million miles starts with a single step – take small steps in strategy on a daily basis and your overall corporate strategy will quickly become successful.

Good strategy alone isn't going to automatically lead you to success in business, but it certainly is a good place to start. Once you have sound strategies in place, the focus of the organization will shift toward executing those strategies properly day after day. Of course, your strategies will need to be continually monitored and adjusted as you move forward to ensure you are staying on a path that is consistent with the goals of the business, so always keep the three levels of strategy near the front of your mind as your guide your company.

HOW TO IMPLEMENT FUNCTIONAL STRATEGY

Finance Strategy

Financial metrics have long been the standard for assessing a firm's performance. Financial goals and metricsare established based on benchmarking the "best-in-industry" and include:

1. **Free Cash Flow**

   This is a measure of the firm's financial soundness and shows how efficiently its financial resources are beingutilized to generate additional cash for future investments. It represents the net cash available after deductingthe investments and working capital increases from the firm's operating cash flow. Companies should utilize thismetric when they anticipate substantial capital expenditures in the near future or follow-through for implementedprojects.

2. **Economic Value-Added**

   This is the bottom-line contribution on a risk-adjusted basis and helps management to make effective, timelydecisions to expand businesses that increase the firm's economic value and to implement corrective actions inthose that are destroying its value. It is determined by deducting the operating capital cost from the net income.

   Companies set economic value-added goals to effectively assess their businesses' value contributions andimprove the resource allocation process.

3. **Asset Management**

   This calls for the efficient management of current assets (cash, receivables, inventory) and current liabilities(payables, accruals) turnovers and the enhanced management of its working capital and cash conversion cycle.

   Companies must utilize this practice when their operating performance falls behind industry benchmarks orbenchmarked companies.

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4. Financing Decisions and Capital Structure

Here, financing is limited to the optimal capital structure (debt ratio or leverage), which is the level that minimizes the firm's cost of capital. This optimal capital structure determines the firm's reserve borrowing capacity (shortandlong-term) and the risk of potential financial distress. Companies establish this structure when their cost ofcapital rises above that of direct competitors and there is a lack of new investments.

5. Profitability Ratios

This is a measure of the operational efficiency of a firm. Profitability ratios also indicate inefficient areas thatrequire corrective actions by management; they measuret pro relationships with sales, total assets, and net worth. Companies must set profitability ratio goals when they need to operate more effectively and pursue improvements in their value-chain activities.

6. Growth Indices

Growth indices evaluate sales and market share growth and determine the acceptable trade-off of growth with respect to reductions in cash cows, profit margins, and returns on investment. Growth usually drains cash andreserve borrowing funds, and sometimes, aggressive asset management is required to ensure sufficient cash and limited borrowing. Companies must set growth index goals when growth rates have lagged behind the industry norms or when they have high operating leverage.

7. Risk Assessment and Management

A firm must address its key uncertainties by identifying, measuring, and controlling its existing risks in corporate governance and regulatory compliance, the likelihood of their occurrence, and their economic impact. Then, a process must be implemented to mitigate the causes and effects of those risks. Companies must make these assessments when they anticipate greater uncertainty in their business or when there is a need to enhance their risk culture.

8. Tax Optimization

Many functional areas and business units need to manage the level of tax liability undertaken in conducting business and to understand that mitigating risk also reduces expected taxes. Moreover, new initiatives, acquisitions, and product development projects must be weighed against their tax implications and net after-tax contribution to the firm's value. In general, performance must, whenever possible, be measured on an after-tax basis. Global companies must adopt this measure when operating in different tax environments, where they are able to take advantage of inconsistencies in tax regulations.

The introduction of the balanced scorecard emphasized financial performance as one of the key indicators of a firm's success and helped to link strategic goals to performance and provide timely, useful information to facilitate strategic and operational control decisions. This has led to the role of finance in the strategic planning process becoming more relevant than ever.

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FORMULATION OF FINANCE STRATEGY

Strategic Financial Management (SFM): Strategic Financial Management (SFM) SFM is concerned with development of a finance strategy by identification of some key strategic alternatives which are capable of maximizing entity's Net Present Value (NPV) and by allocation of scarce capital resources among the competing opportunities. It is concerned with taking these three key financial decisions:

INVESTMENT DECISION

It is the first and foremost important component of financial strategy. In the course of business, the available finance with business is usually limited but the opportunities to invest are plenty. Hence the finance manager is required to access the profitability or return of various individual investment decisions and choose a policy which ensures high liquidity, profitably of an organization. It includes short term investment decisions known as working capital management decisions and long term investment decisions known as capital budgeting decisions.

- *Capital Budgeting*:- It is the process of making investment decisions in capital expenditure, benefitsof which are expected over a long period of time exceeding one year. Investment decision should be evaluated in the terms of expected profitability, costs involved and the risks associated. This decision is important for setting new units, expansion of present units, reallocation of funds etc.
- *Short Term Investment Decision*:- It relates to allocation of funds among cash and equivalents, receivables and inventories. Such decision is influenced by trade-off between liquidity and profitability.

Proper working capital management policy ensures higher profitability, proper liquidity and sound structural health of the organization.

FINANCING DECISION

Once the requirement of funds has been estimated, the next important step is to determine the sources of finance. The manager should try to maintain a balance between debt and equity so as to ensure minimized risk and maximum profitability to business.

DIVIDEND DECISION

The third and last function of finance includes dividend decisions. Dividend is that part of profit, which is distributed to shareholders as a reward to high risk investment in business. It is basically concerned with deciding as to how much part of profit will be retained for the future investments and how much part of profit will be distributed among shareholders. High rate of dividend ensures higher wealth of shareholders and also increase market price of shares.

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PRACTICAL QUESTIONS

Q. 1. Explain the three levels of Strategy.

Q. 2. Write short note on:-

(a) Formulation of Finance Strategy

(b) Business Strategy

Q. 3. Point out the difference between-

(a) Corporate Strategy and Business Strategy.



Marketing strategy is a broad plan for achieving marketing objectives. A marketing strategy that is well - articulated will enable one to focus on marketing activities to achieve the organisational goal.

Definitions of Marketing Strategy

- By Philip Kotler, "Marketing Strategy is the marketing logic by which the business unit expects to achieve its marketing objectives."
- By Dibb and Simkin, "Marketing Strategy indicates the specific markets towards which activities are to be targeted and the types of competitive advantage to be exploited."
- By Piercy, "Choosing market targets and a strong market position base on differentiating capabilities to create a robust and sustainable value proposition to customers and networks of critical relationships."

Marketing strategy is a process that can allow an organization to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage. A marketing strategy should be centeredaround the key concept that customer satisfaction is the

main goal. Fulfilment of wants of the prospects is one the important goals of marketing activities. A prospective buyer is known as a prospect.



THE STORY BEHIND "FLIPKART.COM"

There was the huge risk taken by both the Bansal's "Sachin Bansal &Binny Bansal".(Started with selling of books). They both got a high profile job in the world's biggest e-commerce website named **Amazon**. Leaving Amazon to start their own company with just Rs 4 Lakhs involved a huge risk as there was no guarantee that their idea would Succeed or not. It was a result of risk taking only that today Flipkart generates 1.5 cr a day.

Customer -Relation

The customer is informed at every step through email/text when the order has been confirmed order summary & shipment detail tracker information are provided.

Straightforward Return and Exchange policies

Flipkart allows its users to return the product if unsatisfied within 30 days period with the full refund of money or exchange for another product.

Flipkart Wallet Add Money

Enjoy a Hassle-Free Shopping experience. The Wallet is a Prepaid Instrument that enables you to shop on Flipkart multiple times by making one- time payment of a certain value. This will be added your wallet as prepaid balance. When you select the Wallet as the mode of Payment for your the corresponding amount will be deducted from your wallet balance.

STRATEGIC GAP

Strategic Gap Analysis helps identify performance gap with respect to the strategy the company follows to achieve its goals, whether the performance is aligned with the mission and vision of the company. This leads to resource optimization through the sages of determination, writing and application.

Strategic Gap = what the firm is doing - what the firm must do

The variance between the current and desired performance is an indicator of the gap in this case. The outcome is the identification of means to fill the gap.

Gap Analysis refers to the comparison between what the performance was (actual) and what the performance should has been (potential). The results of this analysis help identify the errors in resource allocation and what steps need to be taken further to help improve performance through better utilization of the input resources.





Strategic marketing planning

Market positioning
- Market leaders
- Market challengers
- Market follower
- Market nicher

Entry strategies
- Pioneers
- Close followers
- Late entrants

MARKET POSITIONING

Market leader

In the majority of industries there is one firm that is generally recognized to be the leader. It typically has the largest market share and, by virtue of its pricing, advertising intensity, distribution coverage, technological advance and rate of new product introductions, it determines the nature, pace and bases of competition. It is this dominance that typically provides the benchmark for other companies in the industry. However, it needs to be emphasized that market leadership, although often associated with size, is in reality a more complex concept and should instead be seen in terms of an organization's ability to determine the nature and bases of competition within the market.

Market challengers and followers

Firms with a slightly smaller market share can adopt one of two stances. They may choose to adopt an aggressive stance and attack other firms, including the market leader, in an attempt to gain share and perhaps dominance (market challengers), or they may adopt a less aggressive stance in order to maintain the status quo (market followers)

Market nichers

Virtually every industry has a series of small firms that survive, and indeed often prosper, by choosing to specialize in parts of the market that are too limited in size and potential to be of real interest to larger firms. A case in point would be Morgan specializing in traditional sports cars. By concentrating their efforts in this way, market nichers are able to build up specialist market knowledge and avoid expensive head-on fights with larger companies.

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ENTRY STRATEGIES

Pioneers

Market pioneers are known for innovative product development, resulting into some early entry market-share advantages than the followers as they have the first-mover advantage, pioneers must ensure that they are having at least one or more of three primary sources: Technological Leadership, Pre-emption of assets or buyer switching costs

Close followers

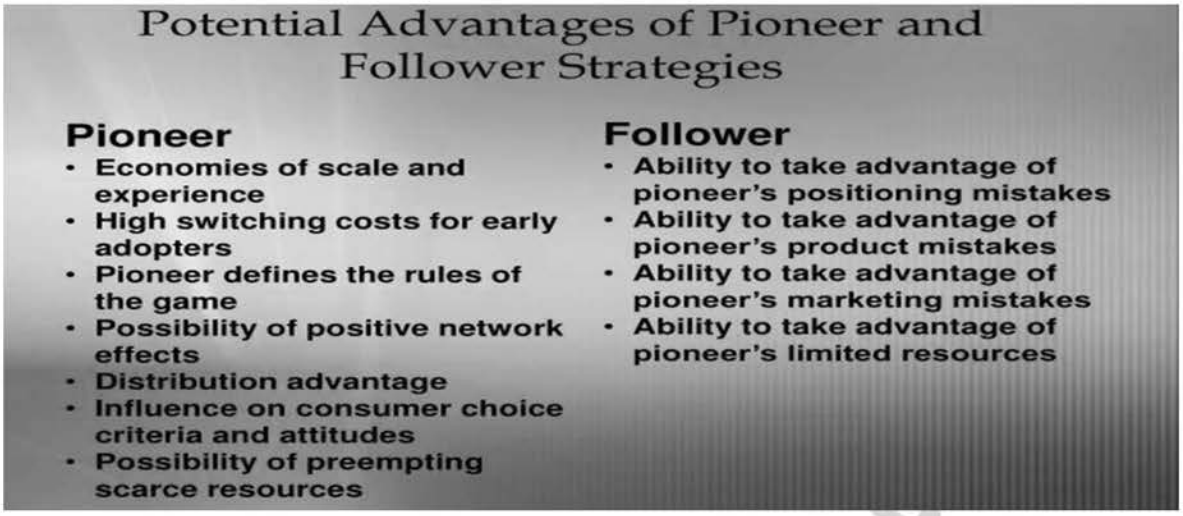
If there is a profit potential in the innovation introduced by marker pioneer, many businesses would step in offering the same product. Such people are more commonly known as Close Followers. These entrants into the market can also be seen as challengers to the Market Pioneers and the Late Followers. This is because early followers are more than likely to invest a significant amount in Product Research and Development than later entrants.

Late Entrants

Those who follow after the Close Followers are known as the Late Entrants. Late entrant has certain advantages such as ability to learn from their early competitors and improving the benefits or reducing the total costs.

This allows them to create a strategy that could essentially mean gaining market share and most importantly, staying in the market. In addition to this, markets evolve, leading to consumers wanting improvements and advancements on products. Late Followers could have a cost advantage over early entrants due to the use of product imitation. Late Entry into a market does not necessarily mean there is a disadvantage when it comes to market share; it depends on how the marketing mix is adopted and the performance of the business.

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HUMAN RESOURCE STRATEGY

✓ Human resource strategy differs from traditional HR in a couple of important aspects.
✓ HR strategy is long-term and focuses on workforce planning and workforce development from a forward-thinking perspective. Traditional HR, or personnel as it was once called, is focused more on the transactional nature of HR, such as reviewing applications, maintaining a census of FTEs (full-time equivalents) and signing up employees for insurance benefits.
✓ Strategic human resource management, on the other hand, focuses on alignment of employee qualifications with the organization's workforce needs. This type of HR management provides employee training and development to prepare the workforce for company growth, as well as the employee's professional growth.
✓ An effective way to approach strategic HR management is for HR leadership to participate in or lead high-level or executive discussions about the strategic direction of the company and how to ensure the workforce meets the company needs. Human resource strategy is critical in both the private sector and in the public sector. Specific employer needs may differ between the sectors; however, the needs for a strategic vision where human resources are concerned are universal.

Some of the activities that fall under the purview of human resources strategy include gaining a seat at the executive table so that human resources don't operate as a solo. Participating in executive-level discussions and decisions ensures that the human resources function of the organization is an integral part of the organization. Obtaining feedback from department supervisors and managers is another function of human resource strategy. If your strategy has an impact on the organization, then it should include department-specific input.

Human Resource Strategy Examples

Adopting a strategic approach for recruitment and selection – talent acquisition – may consist of analyzing the current labor market availability for qualified applicants and comparing it to the organization's current and future needs. With an eye towards the long-term, the recruitment

strategy might include cultivating relationships with area colleges and universities to ensure they are aware of your company's workforce requirements when students graduate.

IMPLEMENTING HR STRATEGY

1. **Assessing the current HR capacity**

   This includes taking stock of the skills of the existing human resources of the organisation to have a clearunderstanding of the current skill set of the company. This will help in forecasting future HR requirements.

2. **Forecasting HR requirements**

   This step includes projecting what the HR needs for the future will be based on the strategic goals of the organization and assessment of total skill set of existing human resources. Some questions to ask during this stage include:

   - The positions to be filled in the future period
   - The number of staff will be required to meet the strategic goals of the organization
   - Effect of external environmental forces in getting new human resources

3. **Gap analysis**

   In this stage, one will make a comparison between existing and desired position of the organisation in terms of strategic. During this phase you should also review your current HR practices and if these require any amendments.

4. **Developing HR strategies to support the strategies of the organization**

   The five HR strategies which may be adopted to attain the organizational goals are given hereunder:

   - **Restructuring strategies**

     This includes reducing staff, regrouping tasks to create well-designed jobs, and reorganizing work groups to perform more efficiently.

   - **Training and development strategies**

     This includes providing the current staff with training and development opportunities to encompass new roles in the organization

   - **Recruitment strategies**

     This includes recruiting new hires that already have the skills the organization will need in the future.

   - **Outsourcing strategies**

     This includes outreaching to external individuals or organizations to complete certain tasks.

   - **Collaboration strategies**

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This includes collaborating with other organizations to learn from how others do things, allow employees to gain skills and knowledge not previously available in their own organization.

- **Retention strategy**

Every area of the employer-employee relationship in your organization deserves your attention. Embrace these key strategies to improve your organization's employee retention and boost employee satisfaction:

- **Onboarding and orientation** – The job orientation is just one component of onboarding, aim to develop an onboarding process where new staff members not only learn about the job but also the company culture and how they can contribute and thrive, with ongoing discussions, goals and opportunities to address questions and issues as they arrive.
- **Mentorship programs** – Pairing a new employee with a mentor is a great for retention. New team members can learn from the experience of a senior.
- **Employee compensation** – the organisation should offer competitive compensation packages which include salaries, bonuses, paid time off, health benefits, retirement plans and all the other perks.
- **Recognition and rewards systems** – Every person wants to feel appreciated for what they do. When they go the extra mile, they should be recognized. Some companies set up rewards systems that incentivize great ideas and innovation.
- **Work-life balance** – A healthy work-life balance is essential. Companies should give a serious thought for offering telecommuting or flexible schedules to improve work-life balance for their employees.
- **Training and development** – Smart managers invest in their workers› professional development and seek opportunities for them to grow. Some companies pay for employees to attend conferences or industry events each year, or provide tuition reimbursement or continuing education training.
- **Communication and Feedback** – Lines of communication should be kept open for ensuring employee retention. Their ideas, questions and concerns must be welcomed.
- **Dealing with change** – If the organization is going through a merger, layoffs or other big changes, the employees must be taken into confidence beforehand to maintain their trust.
- **Fostering teamwork** – When people work together, they can achieve more than they would have individually. Foster a culture of collaboration by clarifying team objectives, business goals and roles, and encouraging everyone to contribute ideas and solutions.
- **Team celebration** – Celebrate major milestones for individuals and for the team. Whether the team just finished that huge quarterly project under budget or an employee brought home a new baby, seize the chance to celebrate together with a shared meal or group excursion.

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WHAT ARE PRODUCTION STRATEGIES?

All great products start with a clear strategy that is customer and market-driven. Your strategy defines the direction of your product and what you want to achieve. Establishing this first aligns the organization and keeps everyone focused on the work that matters the most. It tells the team where the product is headed and what needs to be done to get there.

The main purpose of a strategy is to align executives and other key stakeholders around how the product will achieve the high-level business objectives. It also provides the product manager with a clear direction to guide the team through implementation and to communicate the value of the product to cross-functional teams, such as sales, marketing, and support.

A product strategy is the foundation for the entire product lifecycle. As product leaders develop and adjust their product strategy, they zero in on target audiences and define the key product and customer attributes necessary to achieve success.

The types of production strategies under **Business Strategies** are as follows:

1. Differentiation strategy
2. Cost leadership strategy
3. Market segmentation strategy

The production strategies under **Competitive Priorities** are as follows:

1. Price or cost strategy
2. Quality strategy
3. Delivery strategy
4. Product mix or flexibility strategy
5. Service strategy
6. Eco-friendly products

The production strategies under **Competitive Advantages** are as follows

1. Flexible response strategy
2. Low cost strategy

1. **Differentiation strategy**

   Under a differentiation strategy, the company tries to be make a product different and unique from that offered by its competitors in the market. Such a differentiation may be done in terms of enhanced quality, quantity, pricing, appearance, and after sales-service than its rivals. Such a uniqueness and divergence in its product quality and customer service may lead to fetching higher prices by the company in the same market.

2. **Cost leadership strategy**

   Under a cost leadership strategy, the company tries to diminish its cost of production by reaping economies of the scale on a larger volume of production in a single batch. Higher the scale of production, lower will be the cost of production due to reduction in fixed costs per unit of production be it raw materials, labour, advertising, sales promotion, R & D, etc.

3. **Market segmentation strategy**

In market segmentation strategy, the company divides the market according to the type of customers it has tofocus and target. It sells different products and services to different types of customers. To achieve this goal,it produces and sells goods and services as per the needs of the customers. Therefore, market segmentation strategy is also called **Focus Strategy**. For example, many detergent companies offer different variants of detergents with different price brackets.

4. **Price or cost strategy**

Under price or cost strategy, the company sells its product at a very small price. This strategy is used when the products are homogeneous in nature and company is not able to differentiate that. That is, when the customers cannot distinguish the company's product from the competitors' products. In this case, the company will fix a low price to fetch maximum market share. For example, match sticks; the customer will not care much about brand while buying this and will easily switch to other brand, if his current company tries to raise the price.

5. **Quality strategy**

Under quality strategy, the company produces and sells 'premium' goods and services. The prices of such goods and services are naturally very high such as luxury cars and bikes. However, this strategy attracts those customers who have huge incomes and therefore prefer top quality products as a status symbol and are ready to pay high prices intentionally. To gain success in the market, the company must smartly invest to make quality innovative products that are free from any defects.

6. **Delivery strategy**

Under delivery strategy, the company delivers its product and services to their customers as early as possible within a fixed time period. The company gives top priority to fast delivery of products and providing quickest accessibility of services. Speed delivery of products and fastest accessibility of services removes the problem of scarcity and unnecessary delays in the market. Delivery strategy is used as a selling tactic to fight cut-throat competition.

7. **Product mix or flexibility strategy**

Under this strategy, the company produces and sells a product mix. A product mix is a group of products, which are sold by the same company for example Hindustan Lever. Here, the company does not depend only on a single product for its survival and growth. It uses a product mix because it offers many advantages to the company. However, only large companies with huge production capacity can adopt this strategy.

8. **Service strategy**

Under this strategy, the company uses a service to attract the customers. It gives quicker and better aftersales service. It gives around the clock, i.e. 24-hour customer service. It may render this service directly via the company or through the network of call centres. Service is required for both consumer goods as well as industrial goods.

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9. Eco-friendly products

Under eco-friendly strategy, the company produces and sells environment-friendly products also called as **Green Products**. For e.g. producing and selling lead-free petrol to reduce pollution, manufacturing mercury freetelevision panels, etc., are some good steps to preserve nature. This is a new type of production strategy. Itis used to reduce pollution and protect thebiosphere. Companies may also recycle certain materials like plastic, metals and papers. The properly recycled products are later used for manufacturing new products and in packaging. Companies use biodegradable packing material to reduce the problem of waste disposal. Recycling reduces continuous demand cycle of natural resources and hence somewhat minimize the exploitation of environment. The company informs the public about their environment-friendly manufacturing approach through advertisements.

10. Flexible response strategy

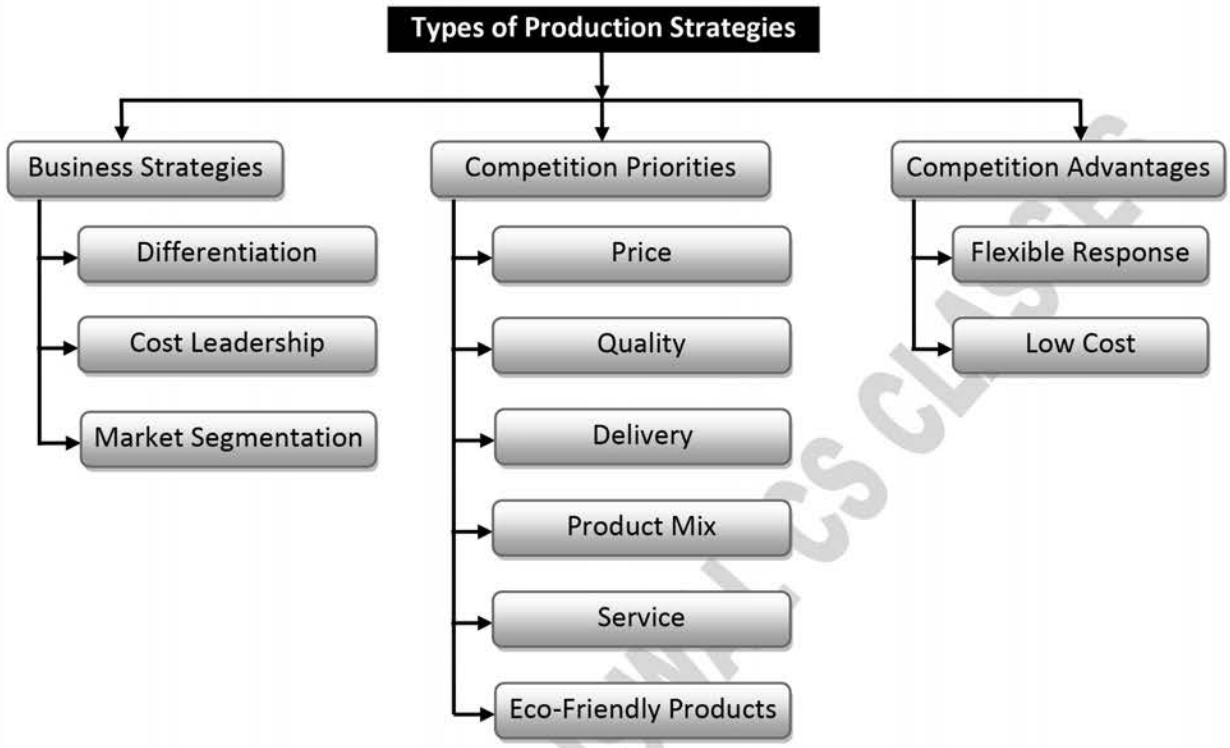
Flexible response strategy is said to be used when a company makes required changes in its production plans in accordance with the emerging changes in the market. Here, focus is given to speed and reliability. That is, the company must make swift changes as per the emerging changes in the market demand. It must also give a regular supply of goods to its customers. There must not be any shortage of goods in the market. To achieve this, the company must follow a strict production schedule.

11. Low cost strategy

Under low cost strategy, the company fights massive market competition by selling its products at very lower prices. Simultaneously, it must also maintain the quality of its products. A company can only sell its goods at minimum prices if it maintains a low cost of production and distribution. This can be done by producing and distributing goods on a large scale. That is, company must take advantage of economies of large-scale production.

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TYPES OF PRODUCTION STRATEGIES





01

Survey

We find, explore, and define potential design risk to give you a clear road map of the development and use case challenges



02

Envision

We conceptualize, prove out, and refine your ideas to enable critical decisions to be made based upon real world feedback.



03

Develop

We engineer, verify, and optimize your designs at the highest .level to ready you for your production and manufacturing.



04

Deliver

We transition your designs on to your suppliers, teams, teams, and partners to guide them to success.



Logistics strategy is defined as "the set of guiding principles, driving forces and ingrained attitudes that help to coordinate goals, plans and policies between partners across a given supply chain."

Logistics is not confined to tactical decisions about transportation and warehousing. Longer-term decisions are needed to put in place the capabilities that ensure that logistics plays a full role in supporting a company's products in the market place.

When a company creates a logistics strategy it is defining the service levels at which its logistics organization is at its most cost effective. Because supply chains are constantly changing and evolving, a company may develop a number of logistics strategies for specific product lines, specific countries, or specific customers.

Strategic Level: By examining the company's objectives and strategic supply chain decisions, the logistics strategy should review how the logistics organization contributes to those high-level objectives. The top level is the Strategic level that defines **Customer service strategy**. Customer service strategy is the driving force behindthe design and operations of a company's logistics supply chain. The key inputs that go into defining a customerservice strategy are the company's products, its markets and its customer service goals.

Structural and Functional Levels: In any Strategic planning exercise, there is interplay between strategy and functional operations. In our logistics strategy framework, functional layers provide important inputs to finalize the Structural layer.

Channel Design: Pertains to activities and functions that need to be carried out to achieve the Customer service goal.

Network Strategy: Locations and missions of facilities and strategies for using these facilities to achieve the Customer service strategy.

The process of designing the Structural element of the strategy is integrated with the functional elements of the strategy as well. Warehouse Operations, Transportation Management and Material management decisions are inputs to a detailed Structural strategy.

Implementation: In this final phase, people, business processes and IT come together to support and execute the Logistics Strategy. Implementation is one of the most important and challenging aspects of your Logistics strategy.

Elements of the Logistics Strategy plan

The Logistics Strategy plan is then developed within eight elements:

1. Customer service policy – the appropriate level of service for customers, by product group or market segment; considering: order fulfilment requirements, enquiry and investigation capability and the available information. The customer service policy informs the nodes and links of the supply network
2. Inventory location policy (Supply Network nodes) – centralized or decentralized inventory; whether to differentiate facilities by fast and slow moving stock; location of sites; use of specific technologies and layouts; company-owned or contracted facilities
3. Inventory policy – form and function of inventory by location; the appropriate amount of stock to hold for various groups of inventory; planning structure that links outbound and inbound materials
4. Cost plan – trade-off analysis between cost and service level requirements; cost of Logistics operations
5. Transport and distribution (Supply Network links) policy – affected by whether enterprise imports orexports and the size and structure of conurbations being served. This incorporates transport modes,delivery pattern and storage location considerations, based on the time taken for deliveries.
6. IT and Communications capability: technologies (including software) that will be internally developed; buy planning and scheduling applications from single supplier or obtain 'best of breed' applications
7. Logistics organisation structure: function□dr ow based; allocation of responsibilities; managed or self-managed teams
8. Logistics Targets and metrics: measures of performance and achievement targets; operations improvements process and management.

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Student's Summary/ Important Notes

ADDITIONAL WRITING

Student's Summary/ Important Notes

ADDITIONAL WRITING

CHAPTER 4
STRATEGIC ANALYSIS AND PLANNING

What is strategic analysis?

Strategy analysis may be looked upon as the starting point of the strategic management process. It consists of the "advance work" that must be done in order to effectively formulate and implement strategies. Many strategies fail because managers may want to formulate and implement strategies without a careful analysis of the overarching goals of the organization and without a thorough analysis of its external and internal environment.

What is situational analysis?

A situational analysis defines the internal and external factors of a company or organization and clearly identifies the capabilities, customers, potential customers and the business environment and the impact they may have on that organization or business.

It can also help in identifying strengths, weakness, opportunities, and threats to the organization or business. This analysis can be eye-opening to what's really going on within a business and can help in determining the next steps a business needs to take within the marketplace.

Elements Worth Considering

- **Product Situation**

  What is my current product? You may want to break this definition up into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core client needs. Feel free to also discuss here which of your client's needs your product is meeting.

- **Competitive situation**

  Analyze your main competitors – who are they what are they up to – how do they compare – feature/ benefit analysis. What are their competitive advantages?

- **Distribution Situation**

  Review your distribution Situation – how are you getting your product to market? Do you need to go through distributors or other intermediaries?

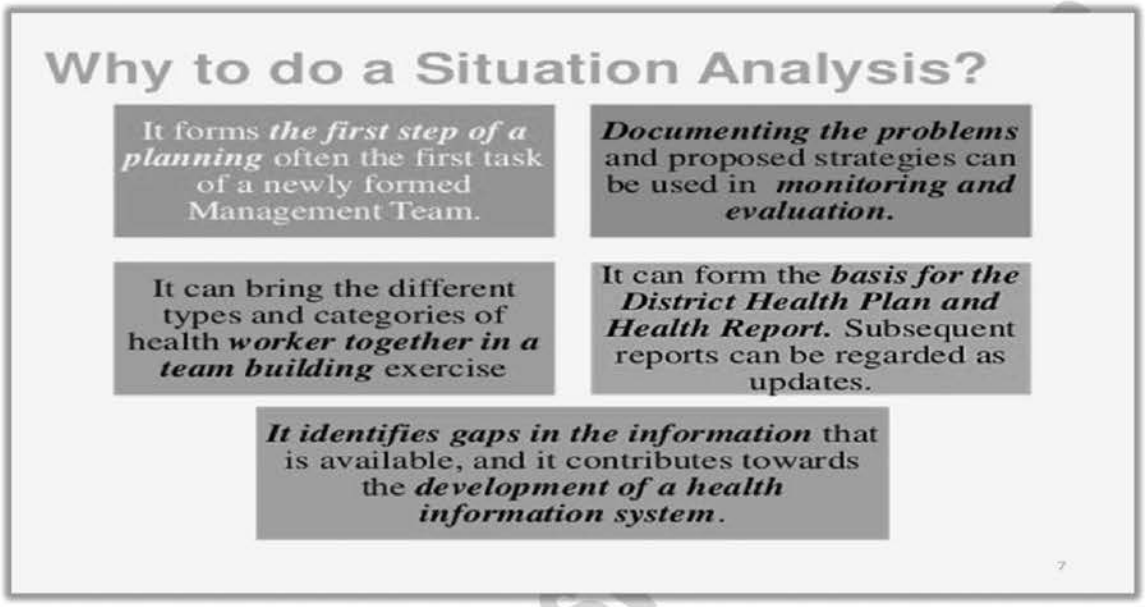
- **Environmental factors**

  What external and internal environmental factors are there that need to be taken into account. This can include economic or sociological factors that impact on your performance.

- **Opportunity and issue analysis**

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Which requires conducting a SWOT analysis (Strengths, Weaknesses, Opportunity and Threats). Things to write down her are what current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance.



PRACTICAL QUESTIONS

Q. 1. Write short note on:-

(a) Strategic Analysis

(b) Situational Analysis

Q. 3. What is the difference betweenSituational Analysis and Strategic Analysis?





S.W.O.T. is an acronym that stands for Strengths, Weaknesses, Opportunities, and Threats. A SWOT analysis is an organized list of your business's greatest strengths, weaknesses, opportunities, and threats.

Strengths and weaknesses are internal to the company (think: reputation, patents, location). You can change them over time but not without some work. Opportunities and threats are external (think: suppliers, competitors, prices)—they are out there in the market, happening whether you like it or not. You can't change them.

When and why you should do a SWOT analysis?

A SWOT analysis is often used at the start of or as part of a strategic planning exercise. The framework is considered a powerful support for decision-making because it enables an entity to uncover opportunities for success that were previously unarticulated or to highlight threats before they become overly burdensome.

Tows analysis

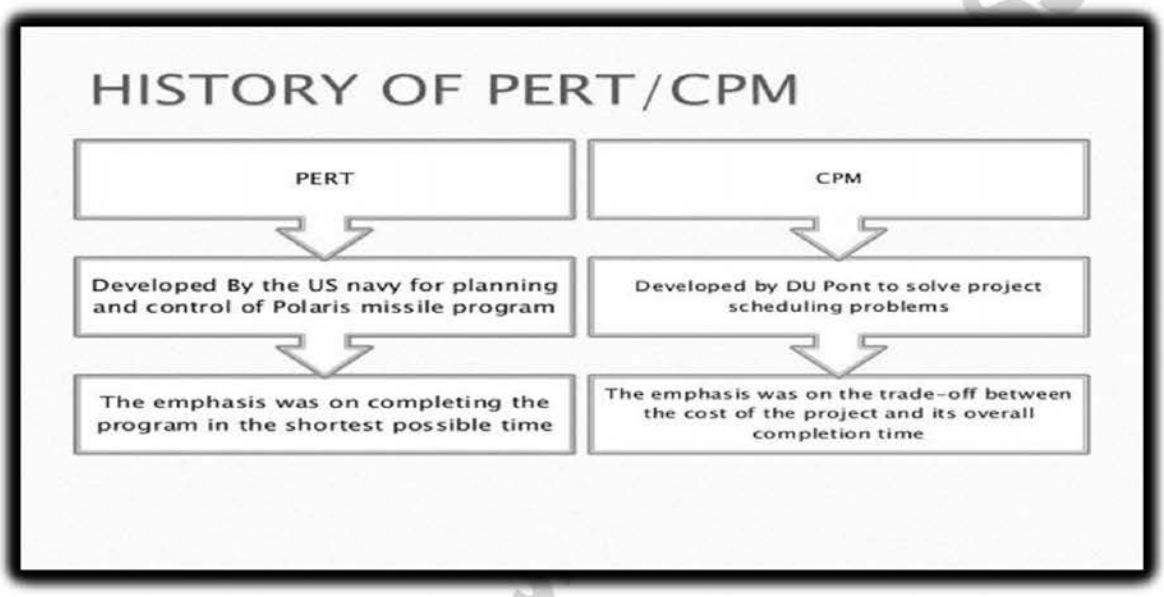
TOWS analysis is a tool which is used to generate, compare and select strategies. Strictly speaking it is not the same as SWOT analysis, and it is certainly not a SWOT analysis which focuses on threats and opportunities. This is a popular misconception. TOWS may have similar roots. TOWS is a tool for strategy generation and selection; SWOT analysis is a tool for audit and analysis. One would use a SWOT at the beginning of the planning process, and a TOWS later as you decide upon ways forward.

There is a trade-off between internal and external factors. Strengths and weaknesses are internal factors and opportunities and threats are external factors. This is where our four potential strategies derive their importance. The four TOWS strategies are Strength/Opportunity (SO), Weakness/Opportunity (WO), Strength/Threat (ST) and Weakness/Threat (WT).

WHAT IS THE DIFFERENCE BETWEEN SWOT AND TOWS?

- The major difference between SWOT and TOWS analysis is the order that the managers are concerned about the strengths, weaknesses, threats and opportunities in making strategic decisions.

- In TOWS analysis, initial focus is on threats and opportunities, which may lead towards productive managerial discussions about the things which happen in the external environment rather than considering about the company's strengths and weaknesses.
- In SWOT, inward analysis starts first; that is, the company's strengths and weaknesses are analysed first in order to harp on the strengths to capture the opportunities and identify the weakness to overcome them.



When working on complex multi-phase projects with multiple stakeholders, many organizations use established project management methods to ensure they are meeting their goals on time and on budget. The Program Evaluation and Review Technique (PERT) or Critical Path Method (CPM) are two techniques organizations can leverage to manage their projects. Both have their strengths and weaknesses based on what kind of project they are being used to manage.

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Basic Difference Between PERT & CPM

Basis	PERT	CPM
Stands for	PERT stands for Programme Evaluation and Review Technique	CPM stands for Critical Path Method.
Model	It is a probabilistic model under which the result estimated in a manner of probability.	It is a deterministic model under which the result is ascertained in a manner of certainty.
Time	IT deals with the activities of uncertain time.	It deals with the activities of precise well known time.
Jobs	It is used for onetime projects that involve activities of non-repetitive nature	It is used for completing of projects that involve activities of repetitive nature.
Orientation	It is activity oriented in as much as its result is calculated on the basis of the activities.	It is even oriented, in as much as its results are calculated on the basis of the events.
Dummy Activities	It does not make use of dummy activities.	It makes use of dummy activities to represent the proper sequencing of the activities.
Cost	It has nothing to do with cost of a project.	It deals with the cost of a project schedules and their minimization.
Estimation	It finds out expected time of each activity on the basis of three types of estimates.	Its calculation is based on one type of time estimation that is precisely known.
Time	PERT is restricted to time variable.	CPM includes time-cost trade off.

Advantages of PERT

- ✓ Planning For Large Projects
- ✓ Visibility of Critical Path
- ✓ Analysis of Activities
- ✓ Coordinating Ability
- ✓ The What - if -Analysis

Planning For Large Projects:

The scheduling of project activities is done easily with the help of PERT system by the project manager. This technique is more active in large sophisticated project works. As PERT is event oriented programming technique, three elements are necessary to define an event. They are:

What is the time required to perform the event?

What comes after the event?

What is coming before the event?

The answers to the above question make the scheduling easier and clear.

Visibility of Critical Path:

with activities that cannot be delayed under any circumstances. A proper knowledge about the stack values with limited conditions of dependencies will help the project manager to bring fast and quality decisions that will favor the project performance.

Analysis of Activity:

The activity and the events are analyzed from the PERT networks. These are analyzed independently as well as in combination. This will give a picture about the likely completion of the project and the budget.

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Coordination:

The various departments of the construction organization will deliver data for the PERT activities. A good integration is developed between all the departments which will help in improving the planning and the decision-making capabilities of the project team. The combination of qualitative and quantitative values from a large amount of data will help in improving the coordination of the project activities. This will also improve the communication between various departments of the organization.

What - if -Analysis:

The possibilities and the various level of uncertainties can be studied from the project activities by properly analyzing the critical path. This type of analysis is called as what-if-analysis. For this various sets of permutation and combination is conducted. Among them, the most suitable combination is taken into consideration. This set chosen will be the one with minimum cost, economy and best result. This analysis helps to identify the risk associated with any activities.

Disadvantages of PERT

- ✓ Time Focused Method
- ✓ Subjective Analysis
- ✓ Inaccuracy due to Prediction
- ✓ Expensive
- ✓ Other Issues

Time Focused Method:

The method of PERT is a time oriented method, where the time required to complete the respective activity is of higher importance. Hence the time determination of each activity and its allocation is very much necessary. This is done based on an assumption and within this time the work will be completed. If this is not the case issues will arise.

Subjective Analysis:

The activities for a project are identified based on the data available. This is difficult in case of PERT as these are mostly applied for a project that is newly conducted or those without repetitive nature. The project dealt by PERT will be a fresh project data that make the collection of information to be subjective in nature. This will bring less accuracy on the time and the estimated time.

There are chances to have inaccuracy and bias in the sources of data. This makes it unreliable. As this is not repetitive in nature, there is no sense in bringing the records from the past historical data.

Prediction Inaccuracy:

As there is not past records or assistance to bring an outline for the project, predictions take their role. The overall project may move to total loss if the predictions and the decisions are inaccurate. No trial and error method can be employed.

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Expensive:

As this method is carried out based on predictions in overall, they find too expensive in terms of methods employed, the time consumed and the resources used.

Other Issues:

This method is highly labor intensive in nature. As there are chances of increase in project activities large and complicated networks are developed as many task dependencies come into existence. If two activities share common resources, this technique won;t find very apt for the project.

What are the advantages in a CPM IMPLEMENTATION?

1. The CPM makes it easier for the project managers to build a team and create human network for efficient handling of a multitasked project.
2. The CPM binds the entire team together and motivates the human resources in timely completion of the tasks in a project.
3. The CPM takes into consideration the requirements well in advance to complete a project in the most efficient way possible.
4. With help of the CMP the project managers can determine the duration and estimate exact time and cost of the project. It helps to monitor human resources, and the direct and indirect costs associated with the project.
5. The CPM assists the project managers in planning schedules, monitoring tasks, and helps control the project expenses.
6. The CPM also makes it convenient for the project managers to calculate the time required to complete the tasks of the project. That helps them to predict completion date of every phase, anticipate problems along the way, if any, and react accordingly.
7. Charting in a CPM makes it easier to evaluate parallel activities, handle delays and judge the outcome of a task.
8. It enables the managers to minimize the project length by monitoring the critical path.
9. The CPM chart clearly identifies critical path/s of the project, which assists the managers in decision making to address the issue quickly. It also enables the project head to determine if the task is on schedule or needs boost to accelerate the process.
10. The charting in a CPM also enables the managers to determine start time, end time, slack time and float time associated with each activity of the project.

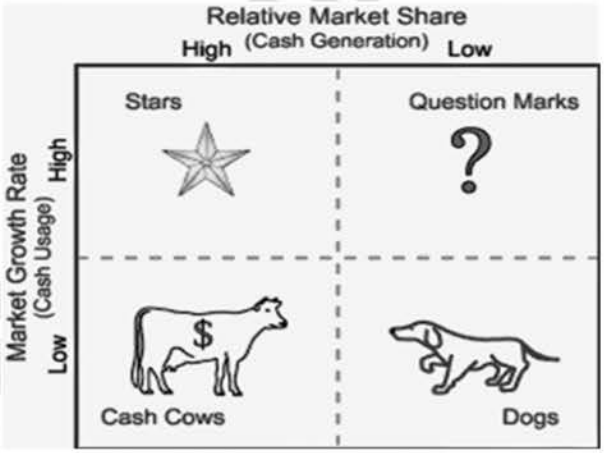
WHAT ARE THE DISADVANTAGES IN A CPM IMPLEMENTATION?

1. In a big project, a CPM can become extremely complicated and difficult to fathom for the new recruits to the project team.
2. If the project is far too bulky and lengthy, the CPM requires software to monitor the plan.
3. CPM can become ineffective and difficult to manage if it is not well-defined and stable.

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4. It cannot effectively handle sudden changes in the implementation of the plan on ground. It is very difficult to redraw the entire CPM chart if the plan of the project suddenly changes midway.
5. The CPM cannot form and control the schedules of the persons involved in the project.
6. The allocation of resources cannot be properly monitored.
7. The critical path of the CPM of a big project is not always clear. The project managers have to spend a lot of time to calculate it carefully.
8. The CPM takes longer to identity and to monitor the critical path when the project is of big dimension.
9. Using CPM, identifying and determining a critical path is difficult when there are many other similar duration paths in the project.
10. At times, to design a CPM is time consuming. It is also difficult to estimate the activity completion time in a multidimensional project.





BCG matrix is a framework created by Boston Consulting Group to evaluate the strategic position of the business brand portfolio and its potential. It classifies business portfolio into four categories based on industry attractiveness (growth rate of that industry) and competitive position (relative market share). These two dimensions reveal likely profitability of the business portfolio in terms of cash needed to support that unit and cash generated by it. The general purpose of the analysis is to help understand, which brands the firm should invest in and which ones should be divested.

DIMENSIONS USED UNDER BCG MATRIX

Relative market share

One of the dimensions used to evaluate business portfolio is relative market share. Higher corporate's market share results in higher cash returns. This is because a firm that produces more, benefits from higher economies of scale and experience curve, which results in higher profits. Nonetheless, it is worth to note that some firms may experience the same benefits with lower production outputs and lower market share.

Market growth rate

High market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growth. Therefore, business units that operate in rapid growth industries are cash users and are worth investing in only when they are expected to grow or maintain market share in the future.

THERE ARE FOUR QUADRANTS INTO WHICH FIRMS BRANDS ARE CLASSIFIED:

Dogs

Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. But this is not always the truth. Some dogs may be profitable for long period of time, they may provide synergies for other brands or SBUs or simple act as a defense to counter competitors moves. Therefore, it is always important to perform deeper analysis of each brand or SBU to make sure they are not worth investing in or have to be divested.

Strategic choices: Retrenchment, divestiture, liquidation

Cash cows

Cash cows are the most profitable brands and should be "milked" to provide as much cash as possible. The cash gained from "cows" should be invested into stars to support their further growth. According to growth-share matrix, corporates should not invest into cash cows to induce growth but only to support them so they can maintain their current market share. Again, this is not always the truth. Cash cows are usually large corporations or SBUs that are capable of innovating new products or processes, which may become new stars. If there would be no support for cash cows, they would not be capable of such innovations.

Strategic choices: Product development, diversification, divestiture, retrenchment

Stars

Stars operate in high growth industries and maintain high market share. Stars are both cash generators and cash users. They are the primary units in which the company should invest its money, because stars are expected to become cash cows and generate positive cash flows. Yet, not all stars become cash flows. This is especially true in rapidly changing industries, where new innovative products can soon be outcompeted by new technological advancements, so a star instead of becoming a cash cow, becomes a dog.

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Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development

Question marks

Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become cash cow. Question marks do not always succeed and even after large amount of investments they struggle to gain market share and eventually become dogs. Therefore, they require very close consideration to decide if they are worth investing in or not.

Strategic choices: Market penetration, market development, product development, divestiture

Although BCG analysis has lost its importance due to many limitations, it can still be a useful tool if performed by following these steps:

- Step 1. Choose the unit
- Step 2. Define the market
- Step 3. Calculate relative market share
- Step 4. Find out market growth rate
- Step 5. Draw the circles on a matrix

Step 1. Choose the unit. BCG matrix can be used to analyze SBUs, separate brands, products or a firm as a unit itself. Which unit will be chosen will have an impact on the whole analysis. Therefore, it is essential to define the unit for which you'll do the analysis.

Step 2. Define the market. Defining the market is one of the most important things to do in this analysis. This is because incorrectly defined market may lead to poor classification. For example, if we would do the analysis for the Daimler's Mercedes-Benz car brand in the passenger vehicle market it would end up as a dog (it holds less than 20% relative market share), but it would be a cash cow in the luxury car market. It is important to clearly define the market to better understand firm's portfolio position.

Step 3. Calculate relative market share. Relative market share can be calculated in terms of revenues or market share. It is calculated by dividing your own brand's market share (revenues) by the market share (or revenues) of your largest competitor in that industry. For example, if your competitor's market share in refrigerator's industry was 25% and your firm's brand market share was 10% in the same year, your relative market share would be only 0.4. Relative market share is given on x-axis. It's top left corner is set at 1, midpoint at 0.5 and top right corner at 0 (see the example below for this).

$$\text{Relative Market Share} = \frac{\text{Your firm's market share (or revenues)}}{\text{Largest competitor's market share (or revenues)}}$$

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Step 4. Find out market growth rate. The industry growth rate can be found in industry reports, which are usually available online for free. It can also be calculated by looking at average revenue growth of the leading industry firms. Market growth rate is measured in percentage terms. The midpoint of the y-axis is usually set at 10% growth rate, but this can vary. Some industries grow for years but at average rate of 1 or 2% per year. Therefore, when doing the analysis you should find out what growth rate is seen as significant (midpoint) to separate cash cows from stars and question marks from dogs.

Step 5. Draw the circles on a matrix. After calculating all the measures, you should be able to plot your brands on the matrix. You should do this by drawing a circle for each brand. The size of the circle should correspond to the proportion of business revenue generated by that brand.

Strategies based on the BCG Matrix

There are four strategies possible for any product and these are the strategies which are used after the BCG analysis. These strategies are:

1) Build – By increasing investment, the product is given an impetus such that the product increases its market share. Example – Pushing a Question mark into a Star and finally a cash cow (Success sequence)
2) Hold – The company cannot invest or it has other investment commitments due to which it holds the product in the same quadrant. Example – Holding a star there itself as higher investment to move a star into cash cow is currently not possible.
3) Harvest – Best observed in the Cash cow scenario, wherein the company reduces the amount ofinvestment and tries to take out maximum cash flow from the said product which increases the overall profitability.
4) Divest – Best observed in case of Dog quadrant

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The Ansoff Matrix was developed by H. Igor Ansoff and first published in the Harvard Business Review in 1957, in an article titled "Strategies for Diversification." It has given generations of marketers and business leaders a quick and simple way to think about the risks of growth.

Each quadrant is explained as follows:

Market penetration, in the lower left quadrant, is the safest of the four options. Here, you focus on expanding sales of your existing product in your existing market: you know the product works, and the market holds few surprises for you.

Product development, in the lower right quadrant, is slightly more risky, because you're introducing a new product into your existing market.

With market development, in the upper left quadrant, you're putting an existing product into an entirely new market. You can do this by finding a new use for the product, or by adding new features or benefits to it.

Diversification, in the upper right quadrant, is the riskiest of the four options, because you're introducing a new, unproven product into an entirely new market that you may not fully understand.

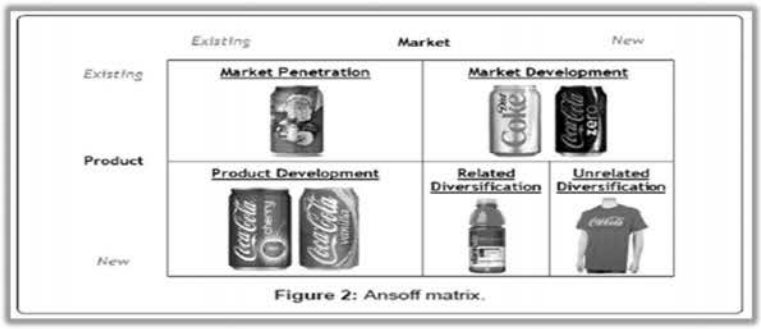
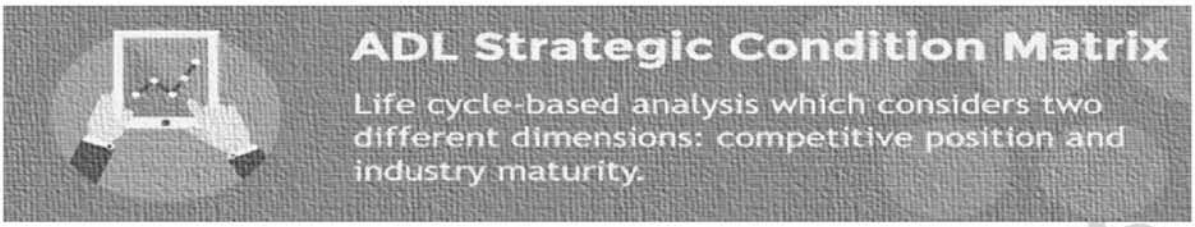


Figure 2: Ansoff matrix.



ADL MATRIX

What is the ADL Matrix?

To gain more insight into the competitive position of organizations, Arthur D. Little developed the strategic condition matrix, which is also known as the ADL Matrix. The ADL Matrix consists of two important dimensions: the competitive position and industry maturity (maturity of the product).

INDUSTRIAL MATURITY

There are four categories of industry maturity:

- ✓ **Embryonic stage -**The introduction of the product is characterized by a rapid growth market, very little competition and (still) high sales prices.
- ✓ **Growth stage -**The market continues to strengthen and sales increase, there are few (if any) competitors.
- ✓ **Maturity stage-**The market and market shares are stable, there is an established customer base and the price is lowered because of the growing competition.
- ✓ **Ageing stage-**The demand for the product decreases and companies are abandoning the market. Companies stop consolidating or leave the market.

COMPETITIVE POSITION

Arthur D. Little formulated five categories for the competitive position within the ADL matrix:

- ✓ **Dominant-**At this stage there is little or no competition because a brand-new or unknown product is brought to market.
- ✓ **Strong-**The market share is strong and stable, regardless of what the competition is doing.
- ✓ **Favorable-**The organization enjoys competitive advantages in certain segments of the market. There are many competitors.
- ✓ **Tenable-**The position of the organization in the overall market is small and market share is based, among other things, on a niche or some other form of product differentiation.
- ✓ **Weak-**The organization experiences continual loss of market share and it business line istoo small to maintain profitability.

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ADL Matrix

Competitive Position	Industry Life Cycle Stage			
	Embryonic	Growth	Mature	Aging
Dominant	All out push for share. Hold Position	Hold Position. Hold Share.	Hold Position. Grow with industry	Hold Position.
Strong	Attempt to improve position. All out push for share	Attempt to improve position. Push for share.	Hold Position. Grow with industry	Hold Position or Harvest.
Favorable	Selective or all out put for share. Selective attempt to improve position.	Attempt to improve position. Selective push for share.	Custodial or maintenance. Find niche and attempt to protect it.	Harvest, or phased out withdrawal.
Tenable	Selectively push for position	Find niche and protect it.	Find niche and hang on, or phased out Withdrawal.	Phased out withdrawal, or Abandon
Weak	Up or out	Turnaround or abandon	Turnaround, ophaned out withdrawal.	Abandon





It is a strategy tool that offers a systematic approach for the multi business corporation to prioritize its investments among its business units.

It is a framework that evaluates business portfolio, provides further strategic implications and helps to prioritize the investment needed for each business unit

Understanding the tool

- ✓ In the business world, much like anywhere else, the problem of resource scarcity is affecting the decisions the companies make.
- ✓ With limited resources, but many opportunities of using them, the businesses need to choose how to use their cash best.
- ✓ The fight for investments takes place in every level of the company: between teams, functional departments, divisions or business units. The question of where and how much to invest is an ever going headache for those who allocate the resources.

How does this affect the diversified businesses? Multi business companies manage complex business portfolios, often, with as much as 50, 60 or 100 products and services. The products or business units differ in what they do, how well they perform or in their future prospects. This makes it very hard to make a decision in which products the company should invest. At least, it was hard until the BCG matrix and its improved version GE-McKinsey matrix came to help. These tools solved the problem by comparing the business units and assigning them to the groups that are worth investing in or the groups that should be harvested or divested.

HISTORY

In 1970s, General Electric was managing a huge and complex portfolio of unrelated products and was unsatisfied about the returns from its investments in the products. At the time, companies usually relied on projections of future cash flows, future market growth or some other future projections to make investment decisions, which was an unreliable method to allocate the resources. Therefore, GE consulted the McKinsey & Company and as a result the nine-box framework was designed. The nine-box matrix plots the BUs on its 9 cells that indicate whether the company should invest in a product, harvest/divest it or do a further research on the product and invest in it if there're still some resources left. The BUs are evaluated on two axes: industry attractiveness and a competitive strength of a unit.



Industry Attractiveness

Industry attractiveness indicates how hard or easy it will be for a company to compete in the market and earn profits. The more profitable the industry is the more attractive it becomes. When evaluating the industry attractiveness, analysts should look how an industry will change in the long run rather than in the near future, because the investments needed for the product usually require long lasting commitment.

There's no definite list of which factors should be included to determine industry attractiveness, but the following are the most common:

Long run growth rate

Industry size

Industry profitability: entry barriers, exit barriers, supplier power, buyer power, threat of substitutes and available complements (use Porter's Five Forces analysis to determine this)

Industry structure (use Structure-Conduct-Performance framework to determine this)

Product life cycle changes

Changes in demand

Trend of prices

Macro environment factors (use PEST or PESTEL for this)

Seasonality

Availability of labor

Market segmentation

Competitive strength of a business unit or a product

Along the X axis, the matrix measures how strong, in terms of competition, a particular business unit is against its rivals. In other words, managers try to determine whether a business unit has a sustainable competitive advantage (or at least temporary competitive advantage) or not. If the company has a sustainable competitive advantage, the next question is: "For how long it will be sustained?"

The following factors determine the competitive strength of a business unit:

Total market share

Market share growth compared to rivals

Brand strength (use brand value for this)

Profitability of the company

Customer loyalty

VRIO resources or capabilities (use VRIO framework to determine this)

Your business unit strength in meeting industry's critical success factors (use Competitive Profile Matrix to determine this)

Strength of a value chain (use Value Chain Analysis and Benchmarking to determine this)

Level of product differentiation

Production flexibility

Advantages

Helps to prioritize the limited resources in order to achieve the best returns.

Managers become more aware of how their products or business units perform.

It's more sophisticated business portfolio framework than the BCG matrix.

Identifies the strategic steps the company needs to make to improve the performance of its business portfolio.

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Disadvantages

Requires a consultant or a highly experienced person to determine industry's attractiveness and business unit strength as accurately as possible.

It is costly to conduct.

It doesn't take into account the synergies that could exist between two or more business units.

STEP 1. DETERMINE THE INDUSTRY ATTRACTIVENESS OF EACH BUSINESS UNIT

List the factors: To determine industry attractiveness, the following are among factors taken into consideration: the industry growth rate, market size, industry profitability, low competition, and PEST factors.

Decide weights: To keep it simple, let us take just three of the factors that make an industry attractive for investments: High profit, industry growth, and low competition.

Now, we need to decide the weight of each factor—that is, how important each factor is—by giving it points from 1 (not important) to 10 (very important).

The total of all the weights should be 10. Let us assume that high profit is the most important of the factors; if so, give it a weight of, say, 5 out of 10.

Give industry growth 3 out of 10, and low competition 2 out of 10 (these are just random weights, given only for example).

So, this means that the possibility of making a high profit is the most important consideration in entering the market, followed by market growth and low competition.

Rate the factors: Now, rate each factor for each business unit on a scale of 1 (not attractive) to 10 (very attractive). Let us say that for Unit A, low competition is the most attractive factor.

If so, it is put at 6 (for example) on the scale. Industry growth and high profit get scores of 4 and 1, respectively, for Unit A. For Unit B, industry growth scores 3, high profit 6, and low competition 1 (the ratings need not add up to 10).

Weighted score: To get the weighted score for each factor of industry attractiveness, we multiply the weight of the factor by the rate for the unit. Here are the weighted scores for Unit A and Unit B.

Unit A: Low competition: 2 (weight) x 6 (rate) = 12. Industry growth: 3 x 4 = 12. High profit: 5 x 1 = 5. Total weighted score for Unit A = 12 + 12 + 5 = 29.

Unit B: Low competition: 2 x 1 = 2. Industry growth: 3 x 3 = 9. High profit: 5 x 6 = 30. Total weighted score for Unit B = 2+ 9 + 30 = 41.

STEP 2. DETERMINE THE COMPETITIVE STRENGTH OF EACH BUSINESS UNIT

Step 2 is similar to Step 1, but instead of industry attractiveness, we try to find out the competitive strengths of Units A and B.

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List the factors: To determine the competitive strengths of Units A and B, the following are among the factors that can be taken into consideration: market share, growth rate, profitability, brand reputation, and customer service.

Decide weights: For simplicity's sake, let us take into account only three factors here: market share, profitability of the unit, and brand reputation.

As in the case of industry attractiveness above, we need to decide the weight of each factor—that is, how important each factor is—on a scale from 1 (not important) to 10 (very important).

Say, market share is the most important factor, so give it 5 out of 10. Give profitability 3 out of 10, and brand reputation 2 out of 10 (the weights must add up to 10).

So, this means that, in this example, market share is being considered as the most important factor in evaluating the relative strengths of the two units.

Rate the factors: Now, as above, rate each factor for each business unit on a scale of 1 (not important) to 10 (very important factor).

Let us imagine that for Unit A, brand reputation is the strongest factor, and gets 5 out of 10. Market share and profitability score 1 each for Unit A.

For Unit B, market share gets a score of 3, profitability 6, and brand reputation 1 (the ratings need not add up to 10).

Weighted score: To get the weighted score for each factor of competitive strength for each unit, we multiply the weight for the factor by the rate for the unit. Here are the weighted scores for Unit A and Unit B.

Unit A: 1. Brand reputation: 2 (weight) x 5 (rate) = 10. Market share: 5 x 1 = 5. Profitability: 3 x 1 = 3. Total weighted score = 10+ 5+ 3 = 18.

Unit B: Brand reputation: 2 x 1 = 2. Market share: 5 x 3 = 15. Profitability: 3 x 6 = 18. Total weighted score: 2 + 15 + 18 = 35.

STEP 3. DETERMINE THE POSITION OF THE UNITS ON THE MATRIX

Once we have the weighted scores of the units, we can plot the units on the matrix. Here, in the example, Unit A and Unit B score 29 and 41 in industry attractiveness, and 18 and 35 in unit strength, respectively.

Each unit is represented by a circle with its size showing the unit's market size. A pie chart can also be shown on the circle showing its market share.

Generally, unit that are above the diagonal of the matrix would be candidates for additional investments and those below candidates for divestment.

Units that fall on or about the diagonal are usually put in the "hold" category. A dimension showing the outlook for the units can also be included, and it is explained in Step 5.

STEP 4. DETERMINE THE STRATEGY OPTION FOR THE UNITS

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Depending on the position of the unit on the matrix and the box on the matrix in which it has been placed, three categories of investment or divestment decisions can be made: (1) invest; (2) hold; (3) harvest or divest.

Corporations are advised to make resources available to units in the "invest" category, as they promise high returns in the future. As for the "hold" category of units, corporations may invest in them only if they appear to have a future and if resources are available to the corporation after investments have been made in the units in the "invest" category.

Corporations are advised to harvest or divest units in the "harvest/divest" category" if they are not showing any promise. If these units are still generating cash, this revenue can be used to fund the promising units.

Units that are making losses and those for which a turnaround plan is not feasible should be divested.

In the example of the two units above, Unit A is in the "hold" category, and Unit B is in the "invest" category.

STEP 5. FORECAST THE FUTURE OF THE UNITS

The wisdom of business analysts is necessary to predict the outlook for any industry. For example, the matrix shows that Unit B is in the invest category.

However, if the outlook for its industry shows that the market is likely to shrink and it might lose strength, Unit B would become much less attractive for investment.

On the other hand, if the future scenario for Unit A shows that its industry is poised for growth, the unit, now placed in the "hold" category by the matrix, will become attractive for investment.

STRATEGIC PLANNING

Strategic planning is a process in which organizational leaders determine their vision for the future as well as identify their goals and objectives for the organization. The process also includes establishing the sequence in which those goals should fall so that the organization is enabled to reach its stated vision.

Strategic planning process

Organizations generally look three to five years ahead when engaged in strategic planning.The strategic planning process results in a strategic plan, a document that articulates both the decisions made about the organization's goals and the ways in which the organization will achieve those goals. The strategic plan is intended to guide the organization's leaders in their decision-making moving forward.

The strategic planning framework and committee

A strategic planning committee typically leads this process. Experts in the strategic planning discipline say the strategic planning committee should include representatives from all areas

within the enterprise and it should work in an open and transparent way where information is documented from start to finish.

The strategic planning committee works by researching and gathering the information required to understand the organization's current status as well as the factors that will impact it in the future. The committee should solicit input and feedback to validate or challenge its assessment of the information.

The strategic planning committee can opt to use one of many different methodologies that have been developed to guide leaders through this process. These methodologies, or frameworks, move the strategic planning committee through a series of steps that include an analysis or assessment stage; the formulation of the actual strategy; and the articulation and communication of the actions needed to move the organization toward its strategic vision.

Features of Strategic Planning:

The following are the salient features of strategic planning:

1. Process of questioning:	It answers questions like where we are and where we want to go, what we are and what we want to be.
2. Time horizon:	It aims at long-term planning, keeping in view the environmental opportunities. It helps organizationsanalyses their strengths and weaknesses and adapt to the environment. Managers should be farsighted to make strategic planning meaningful.
3. Pervasive process:	It is done for all organizations, at all levels; nevertheless, it involves top executives more than middle or lower-level managers since top executives envision the future through scientific techniques of forecasting.
4. Focus of attention:	It focuses organization's strengths and resources on important and high-priority activities rather than routine and day-to-day activities. It reallocates resources from non-priority to priority sectors.
5. Continuous process:	Strategic planning is a continuous process that enables organisations to adapt to the changing, dynamic environment.
6. Co-ordination:	It coordinates organisation's internal environment with the external environment, financial resources with non-financial resources and short-term plans with long- term plans.

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Importance of Strategic Planning:

Strategic planning offers the following benefits:

1. Financial benefits:

Firms that make strategic plans have good sales, low costs, high EPS (earnings per share) and high profits. Firms have financial benefits if they make strategic plans. Companies like Reliance, Infosys, Tata, Wipro, Deloitte, etc. are the giants who report good financial results as a result of sound strategic planning.

2. Guide to organisational activities:

Strategic planning guides members towards organisational goals. It unifies organisational activities and efforts towards the long-term goals. It guides members to become what they want to become and do what they want to do. It focuses on specific goals making it clear for members to know the direction towards which they have to move.

3. Competitive advantage:

In the world of globalization, firms which have competitive advantage (capacity to deal with competitive forces) have better sales and financial performance. This is possible if they foresee the future. Future can be predicted through strategic planning. It enables managers to anticipate problems before they arise and solve them before they become worse.

4. Minimize risk:

Strategic planning provides information to assess risk and frame strategies to minimise risk and invest in safe business opportunities. Chances of making mistakes and choosing wrong objectives and strategies, thus, get reduced.Risk is inherent in every business and failure to anticipate risk through strategic planning is almost sure to lead the business to failure unless otherwise proved by chance. Lack of strategy, framing wrong strategies or ineffective implementation of strategy cannot be afforded by business enterprises operating in the dynamic, changing and risky environment.

5. Beneficial for companies with long gestation gap:

The time gap between investment decisions and income generation from those investments is called gestation period. During this period, changes in technological or political forces can affect implementation of decisions and plans may, therefore, fail. Strategic planning discounts future and enables managers to face the threats and opportunities. Huge capital investments in projects are followed by expected financial returns.

6. Promotes motivation and innovation:

Strategic planning involves managers at top levels. They are not only committed to objectives and strategies but also think of new ideas for implementation of strategies. This

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promotes motivation and innovation. It also provides motivation to people at lower levels when they know their efforts are contributing towards organisational goals.Satisfied workforce is the strength of the organisation. It saves huge costs on reducing absenteeism, labour turnover, role conflicts etc. It promotes discipline in the organisation and enhances human resource effectiveness and also organisational effectiveness.

7. Optimum utilization of resources:

Strategic planning makes best use of resources to achieve maximum output. Resources are scarce and strategic planning helps in their use in the areas where they are required most.General Robert E. Wood remarks, "Business is like war in one respect. If its grand strategy is correct, any number of tactical errors can be made and yet the enterprise proves successful." Effective allocation of resources, scientific thinking, effective organisation structure, coordination and integration of functional activities and effective system of control, all contribute to successful strategic planning.

Limitations of Strategic Planning:

1. Lack of knowledge:

Strategic planning requires lot of knowledge, training and experience. Managers should have high conceptual skills and abilities to make strategic plans. If they do not have the knowledge and skill to prepare strategic plans, the desired results will not be achieved. It will also result in huge financial losses for the organisation. This limitation can be overcome by training managers to make strategic plans.

2. Interdependence of units:

If business units at different levels (corporate level, business level and functional level) are not coordinated, it can create problems for effective implementation of strategic plans.

3. Managerial perception:

In order to avoid developing risky objectives and strategies which they will not be able to achieve, managers may land up framing sub-optimal goals and plans. Sometimes, short-term commitments also defer making long-term strategies.

4. Financial considerations:

Strategic planning requires huge amount of time, money and energy. Managers may be constrained by these considerations in making effective strategic plans. These limitations are by and large, conceptual and can be overcome through rational, systematic and scientific planning. Researchers have proved that companies which make strategic plans outperform those which do not do so.

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Strategic alternatives

Glueck and jauch generic strategy alternative

According to Glueck and Jauch, strategic management is a stream of decisions and actions which leads to the development of effective strategy or strategies to help achieve corporate objectives. They, basically, identified the following phases in the strategic management model: 1. Analysis and diagnosis 2. Choice 3.Implementation and 4.Evaluation.

Stability

The stability strategy involves the maintenance of the current business definition by safeguarding the existinginterests and strengths. It continues to pursue its well established and tested objectives and goals and optimizes the resources committed to attain such goals. It may also change the pace of effort within its stable business definition in order to become more efficient or effective.

Operationalize the stability strategy along four dimensions:

- Implemented wherein few functional changes are made in the products/markets
- A business continues to serve existing customers in the same or similar market segment with same portfolio of products
- Not a "do nothing" strategy, but a "do nothing new" strategy
- It has its sharp focus on incremental improvement of functional performance;
- It continues to pursue same set of objectives and goals; and
- The business adjusts the level of improvement he equivalent proportion every year.
- Involves keeping track of new developments to ensure that strategy continues to make sense

The strategy is a substitute to growth or retrenchment strategy as goals such as pro□t or growth are not dumped, rather, returns can actually be increased, for instance by improving efficiency.

An internal growth (expansion) strategy

An internal growth strategy involves re-defining of business definition by substantially scaling the level of operations through internal development and not taking help of other corporations or businesses. Marketpenetration, market development and product development are emphasised to develop new products, enter new markets and embracing new technology.

- Implemented by redefining the business by adding business scope substantially, this increases the efforts of current business
- Promising and famous strategy, which may take company along relatively risky untraveled paths
- Includes diversification, acquisition and mergers

External expansion

Glueck and Jauch (1984) note that there are a number of terms used for external expansion. These includeacquisitions, mergers (one business loses its identity), consolidations (both businesses lose their identity, anda new business arises) and joint ventures. The distinguishing feature of all external growth strategies, though, is that they involve another company or business.

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Retrenchment

Pearce et al. (1987) operationalise a retrenchment strategy along three dimensions: improvement in performance by scaling down the level and/or scope of product/market objectives; cut back in costs; and reduction of the scale of operations through the divestment of some units or divisions. Glueck and Jauch (1984) also suggest that retrenchment also involves a reduction in functions. Internal retrenchment is, labelled as an operating turnaround strategy where the emphasis is on reducing costs, increasing revenues, reducing assets, and reorganizing products and/or markets to achieve greater efficiency. External retrenchment constitutes a more serious form of strategic turnaround, including such measures as divestiture and liquidation. Glueck and Jauch's (1984) typology introduces the concepts of stability and external versus internal aspects of growth and retrenchment.

- Redefinition of business by divesting a major product line/market
- Not always bad proposition as it saves org's vital interests, minimise certain adverse effects, regroup resources before launching a rise on growth ladder
- For temporary setbacks, cut on its capital & revenue expenditure, advertising, executive perks, employee welfare subsidies, community development projects
- In second stage, cut on inventory levels, manpower, dividend, interest on deposits
- In third stage, withdraw marginal markets, some brands, product sizes, etc.
- In fourth stage, go for sale of some manufacturing facilities, product divisions, retirement either from production or marketing stage, may offer itself for take over
- At last option, org may seek for liquidation which means corporate death

Porter's generic strategy

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage.

There are two basic types of competitive advantage a firm can possess: low cost or differentiation.

The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

1. **Cost Leadership**

   In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. if a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

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2. Differentiation

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price.

3. Focus

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others.

The focus strategy has two variants.

(a) In cost focus a firm seeks a cost advantage in its target segment, while in

(b) differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments.

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CHAPTER 5
STRATEGIC IMPLEMENTATION AND CONTROL

Implementation is *the process that turns strategies and plans into actions in order to accomplish strategic objectives and goals*. Implementing your strategic plan is as important, or even more important, than your strategy.

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives.

Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance.

Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality, and customer satisfaction-the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees.

Following are the main steps in implementing a strategy:

- ✓ Developing an organization having potential of carrying out strategy successfully.
- ✓ Disbursement of abundant resources to strategy-essential activities.
- ✓ Creating strategy-encouraging policies.
- ✓ Employing best policies and programs for constant improvement.
- ✓ Linking reward structure to accomplishment of results.
- ✓ Making use of strategic leadership.



Strategy Formulation – Implementation: Interrelationship

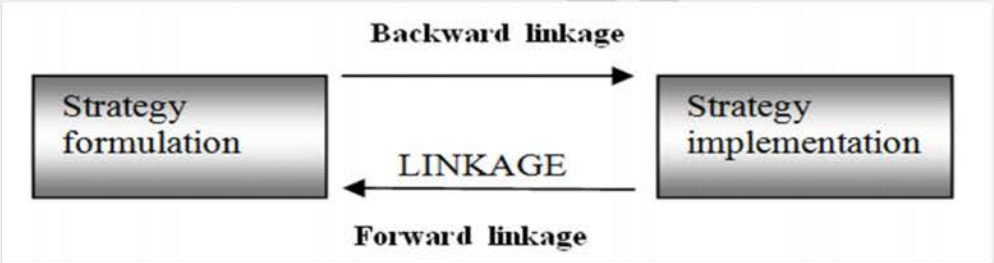
STRATEGY FORMULATION	STRATEGY IMPLEMENTATION
• It is positioning forces before action. • It focuses on effectiveness. • It is an intellectual process. • It requires good intuitive and analytical skills.	• It is managing forces action. • It forces on efficiency. • It is primarily and operational and leadership skills.

• It requires coordination among few individuals. • Concepts and tools do not differ greatly for small, large, profit or non profit organisation.	• It requires combination of many individuals. • Concepts and tools varies substantially among small, large, profit or non profit organisation.

There are two types of linkages-

Forward linkage is concerned with the influence of the formulation on implementation. Strategy formulation has forward linkage with implementation in the sense that total implementation activities are geared according to strategy chosen for implementation. The nature and type of organizational processes and systems are conditioned by the strategy for its successful implementation. Thus, implementation is dependent upon formulation.

Backward linkage, on the other hand, deals with the influence in the opposite direction. Strategy formulation has backward linkage with implementation as organization tends to adopt those strategies which can be implemented with the help of existing structure of resources joined with some additional efforts. The strategy is formulated in a particular environment which is dynamic. The feedback from operations, a result of strategy implementation gives notices of the changing environmental factors to which strategy should be seen in continuity rather than in discrete form.



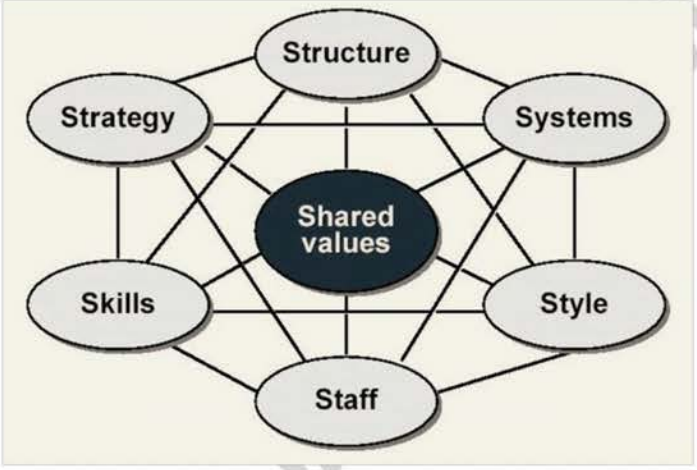


McKinsey 7s model

It is a tool that analyzes firm's organizational design by looking at 7 key internal elements: strategy, structure, systems, shared values, style, staff and skills, in order to identify if they are effectively aligned and allow organization to achieve its objectives.

✓ McKinsey 7s model was developed in 1980s by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips with a help from Richard Pascale and Anthony G. Athos.

✓ Since the introduction, the model has been widely used by academics and practitioners and remains one of the most popular strategic planning tools.
✓ It sought to present an emphasis on human resources (Soft S), rather than the traditional mass production tangibles of capital, infrastructure and equipment, as a key to higher organizational performance.
✓ The goal of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company.
✓ The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of a firm for it to function effectively.



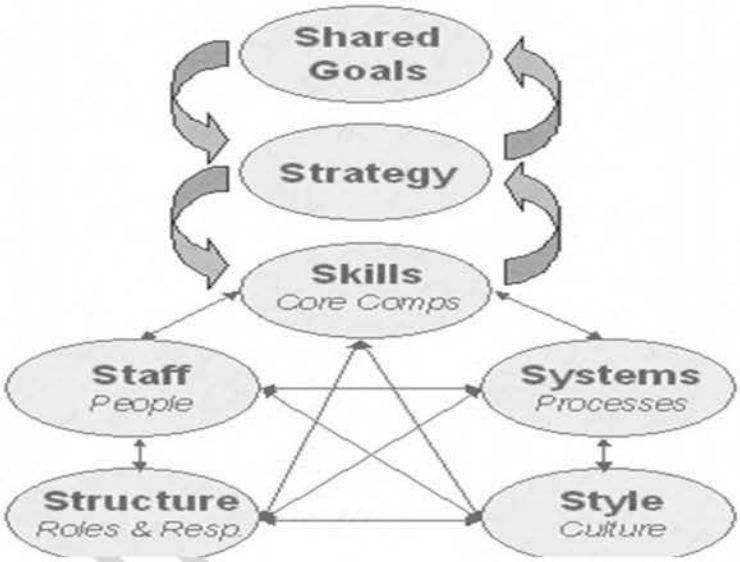
- **Structure:** The line ofreporting, task allocation, coordination and supervision levels
- **Strategy:** The top level plan to create competitive advantage
- **Systems:** The supporting systems and process of the firm, like Information systems, financial reporting, payment systems, resource allocation etc.
- **Shared Values:** These are the core values of the company and form the underpinning culture and how the business behaves and is perceived to behave in the wider context of the community
- **Style:** the overarching style of leadership adopted within the organisation
- **Staff:** the number and types of employees within the organisation
- **Skills:** the skills and competencies of the employees

The 7S model, developed by Mckinsey Consulting, can describe how affectively one can organize a company, holistically. It is based around seven key elements of any organisation, with the view that in order for it to operate successfully, all the elements in this model must align synergistically together.

The factors are split into two groups: hard or soft.

The hard elements are those that can physically be seen when in place, whereas the soft are more intangible and cannot readily be seen.

Hard Elements	Soft Elements
Strategy	Shared Values
Structure	Skills
Systems	Staff
	Style

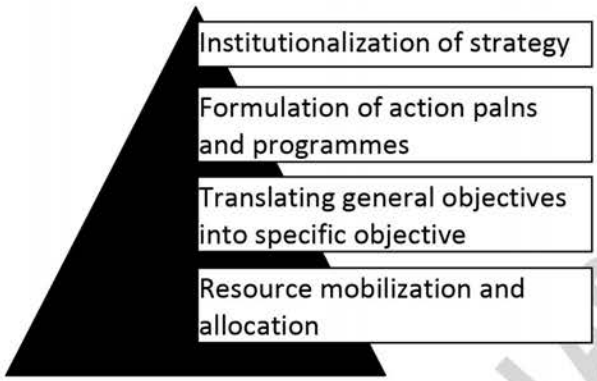


Activating strategy

Activation is the process of stimulating an activity -so that it is undertaken effectively. Activating Strategy is required because only a very small group of people is involved in strategy formulation while its implementation involves a large number of people in the organisation. So long as a strategy is not activated, it remains in the mind of strategists. Activating Strategy or set of strategies requires the performance of following activities:

1. Institutionalisation of strategy,
2. Formulation of derivative-plans and programmes,
3. Translation of general objectives into specific objectives.
4. Resource mobilization and allocation.

Activation of strategy requires the performance of following activities-



Institutionalization of strategy	The first basic role of the strategist in strategy implementation is the institutionalization of the strategy .Often what happens is that leader's role is quite prominent in strategy formulation and his personality variables become influential factors in the strategy formulation. Thus, in practice, it becomes an almost personal strategy of the top man in the organisation. Therefore, there is an urgent need for the institutionalization of the strategy because, without it, the strategy is subject to being undermined. Institutionalization of the strategy involves two elements: • Communication of strategy to organisational members and • Getting acceptance of strategy by these members.
Formulation of action plans and programs	Once the strategy is institutionalised through its communication and acceptance, the organisation may proceed to formulate action plans and programmes. Since these plans and programmes are derived from a strategic choice (strategic plan), these are known as derivative plans and programmes.
Translating general objectives into specific objectives	Sometimes objectives are too general and intangible to be transformed into action. In order to make these objectives operational, managers determine specific objective within the framework of general objectives which the organization and its various departments will seek to achieve within a particular period. A specific objective provides focus on the activities that may be undertaken to achieve the overall growth of the organization. Translation of general objectives in the specific and operative objectives must fulfil the following criteria: • It should be tangible, meaningful and easily measurable as organizational performance; and • It should contribute to the achievement of the general objectives.

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STRUCTURAL IMPLEMENTATION

✓ Structural implementation involves the designing of organizational structure and interlinking various departments and units of the organization created as a result of the organizational structure.
✓ Organizational structure is a pattern in which the various parts of the organization are interrelated or interconnected.
✓ It involves how the organization will be divided and assigned among various positions, groups, departments, divisions etc., and the coordination necessary to accomplish organizational objectives.
✓ The structure defines the framework within which the activities work. When structuring an organization, the management needs to consider such aspects as departmentalization, level of authority, specialization, supervision, centralization, decentralization, size of departments, grouping of activities, extent and nature of delegation etc. There are two aspects of organization design i.e.Differentiation; and (ii) integration.

FORMS OF ORGANISATION STRUCTURE

There are two basic forms of organization structures available for large organizations i.e. functional structure and divisional structure. These forms can further be supplemented by additional prescriptions which may result in the form of matrix organization, free-form organization, etc.

Basis	Functional structure	Divisional structure
Meaning	Grouping of jobs of similar nature under functions and organising these functions as department creates functional structure.	Organisations with diversified activities organise their structure with separate business units or divisions, which is known as divisional structure.
Formation	It is formed on the basis of functions performed in the organisation.	It is formed on the basis of product lines, supported by functions.
Specialisation	It leads to functional specialisation.	It leads to product specialisation.
Responsibility	It is difficult to fix responsibility on a department.	It is easy to fix responsibility for performance.
Managerial development	Less scope of managerial development as specialised functions are performed.	High degree of managerial development with ease, due to autonomy and performance of multiple functions.
Cost involved	It is economical as there is no duplication.	It is costly as there is duplication of work and resources.

Procedural implementation

A procedure refers to series of related task which make-up a chronological sequence. It is an established way of performing the work to be accomplished. Procedural implementation level concerned with completion of all statutory and other formalities which have been prescribed by the Government both at Central and State. The major procedural requirements involved in the strategy implementation process are discussed as under:

(i) Licensing Requirements

The licensing provisions have been provided under the Industries (Development and Regulation) Act, 1951. In many industries industrial license is required particularly in those industries which are perceived to be injurious to public health.

(ii) FEMA Requirements

Under the provisions of FEMA, all companies registered under the Companies Act, 1956 having foreignshareholding in excess of 50% and all foreign companies are required to obtain permission from Reserve Bank of India, regarding different activities like, fresh investments, issue of shares and debentures, acquisition of an Indian business unit, etc.

(iii) Foreign Collaboration Procedures

The emergence of joint venture projects with foreign collaborators brings technology and participation in equity.Besides, joint ventures, Indian companies may enter technology agreements for the import of technical knowhow. In the case of joint venture and technology agreement prior approval has to be received from the Central Government.

(iv) Capital Issue Requirements

Under the provisions of Securities Exchange and Board of India Act, 1992, SEBI exercises some controls over capital issues to the public in the form of adherence to disclosure norms. For this purpose, SEBI scrutinizes the prospectus of the company intending to enter the capital market to ensure that relevant information has been provided in the prospectus on the basis of which the public can analyze the worth of issue of shares or debentures. For raising funds from abroad by way of Global Depository Receipts, American Depository Receipts, and long term loans, prior permission of the Central Government is required.

(v) Import and Export Requirements

Import and Export requirements differ in two types of goods i.e. which are under the list of open general license and those under restrictive list. There is less requirements for items falling under open general license except that the companies going for import/exports have to inform the Reserve Bank of India. However, import and export license is required to be procured from the Ministry of Commerce in the case of items falling under restrictive list.

BEHAVIORAL IMPLEMENTATION

Behavioral implementation is concerned with those aspects of strategy implementation which have influence on the behavior of the people in the organization. Since the organization is basically a deliberate creation of human beings for certain specified objectives, the activities and behavior of its members need to be directed in certain way. Some of the issues which are relevant for behavioral implementation of strategy in an organization are discussed as under:

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Leaders are the vital aspect of an organization which helps to cope the change by ensuring that plans and policies formulation are implemented as planned. Leadership is basically the ability to persuade others to achieve the defined objectives willingly and enthusiastically.

A strategic leadership involves the process of transforming an organization with the help of its people so as to put it in a unique position. Thus, strategic leadership transforms the organization which involves changing all faces that is size, management practices, culture and values etc.

Organizational culture affects strategy implementation as it provides a framework within which the behavior ofthe members takes place. It is defined as a set of assumptions, beliefs, values and norms which are shared bypeople and groups in the organization and control the way they interact with each other and with stakeholderoutside the organization. There are two types of elements which define the culture of an organization i.e.

(i) abstract elements and (ii) material elements.

Abstract elements are internally oriented and include values,attitudes, beliefs and feelings. Material elements are extremely focused and include building, personnel dresses,products etc.

Values and Ethics

Values are convictions and a framework of philosophy of an individual on the basis of which he judges what isgood or bad. Business ethics generates from: (a) value forming institutions; (b) organizational values and goals;(c) colleagues; and (d) professional code of conduct.

- ✓ Strategy implementation is, thus, mostly affected by instrumental values of people in the organization.
- ✓ Fromstrategic management point of view, people in the organization are divided into–Board of Directors, ChiefExecutives, managers and corporate planning staff. Of these groups, Chief Executive and managers under himare mostly responsible for strategy implementation.
- ✓ However, values are held by individuals which are part oftheir personality. Therefore, it is quite likely that values of different individuals do not match each other.
- ✓ Thus, inactual practice, the relationship between organizational values and personal values exists in the organisation.

FUNCTIONAL IMPLEMENTATION

The implementation of strategy also requires development of functional policies which provide the direction to middle management on how to make the optimal use of allocated resources. They guide the middle level executives in framing operational plans and tactics to make strategy implementable. Policies are basically general guidelines to help executives to make certain choices. They are developed in order to ensure that strategic decisions are implemented.

In order to formulate plans at the functional level, the strategist has only to decide which functional area goals(or set of related goals) for which it is necessary to formulate action plans. A single goal may require action plans at several functional areas such as marketing, finance, research and development, personnel, production and external relations.

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STRATEGIC CONTROL

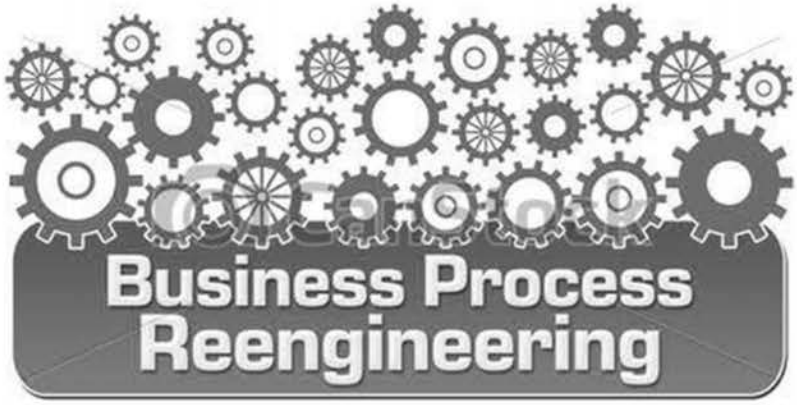
- Strategic control is concerned with that aspect of strategic management through which an organization ensures whether it is achieving its objectives contemplated in the strategic action.
- Strategic control involves the monitoring and evaluation of plans, activities, and results with a view towards future action, providing a warning signal through diagnosis of data, and triggering appropriate intervention, be they tactical adjustments or strategic re-orientation.
- Strategic management is basically divided into two distinct part i.e. strategic evaluation and strategic control.
- However, because of the nature of strategic evaluation and strategic control both these are intertwined.
- Therefore, the term strategic control includes evaluative aspect also.

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CHAPTER 6
ANALYSING STRATEGIC EDGE



Business Process Reengineering involves the radical redesign of core business processes to achieve dramatic improvements in productivity, cycle times and quality. In Business Process Reengineering, companies start with a blank sheet of paper and rethink existing processes to deliver more value to the customer. They typically adopt a new value system that places increased emphasis on customer needs. Companies reduce organizational layers and eliminate unproductive activities in two key areas. First, they redesign functional organizations into cross-functional teams. Second, they use technology to improve data dissemination and decision making.

How Business Process Reengineering works:

Business Process Reengineering is a dramatic change initiative that contains five major steps that managers should take:

• Refocus company values on customer needs
• Redesign core processes, often using information technology to enable improvements
• Reorganize a business into cross-functional teams with end-to-end responsibility for a process
• Rethink basic organizational and people issues
• Improve business processes across the organization

Companies use Business Process Reengineering to:

- Reduce costs and cycle times. Business Process Reengineering reduces costs and cycle times by eliminating unproductive activities and the employees who perform them. Reorganization by teams decreases the need for management layers, accelerates information flows and eliminates the errors and rework caused by multiple handoffs.
- Improve quality. Business Process Reengineering improves quality by reducing the fragmentation of work and establishing clear ownership of processes. Workers gain responsibility for their output and can measure their performance based on prompt feedback.



1. Define Objectives and Framework: First of all, the objective of re-engineering must be defined in the quantitative and qualitative terms. The objectives are the end results that the management desires after the reengineering. Once the objectives are defined, the need for change should be well communicated to the employees because, the success of BPR depends on the readiness of the employees to accept the change.
2. Identify Customer Needs: While, redesigning the business process the needs of the customers must be taken into prior consideration. The process shall be redesigned in such a way that it clearly provides the added value to the customer. One must take the following parameters into the consideration:
   - Type of Customer and customer groups.
   - Customer's expected utilities in product and services
   - Customer requirements, buying habits and consuming tendencies.
   - Customer problems and expectations about the product or service.

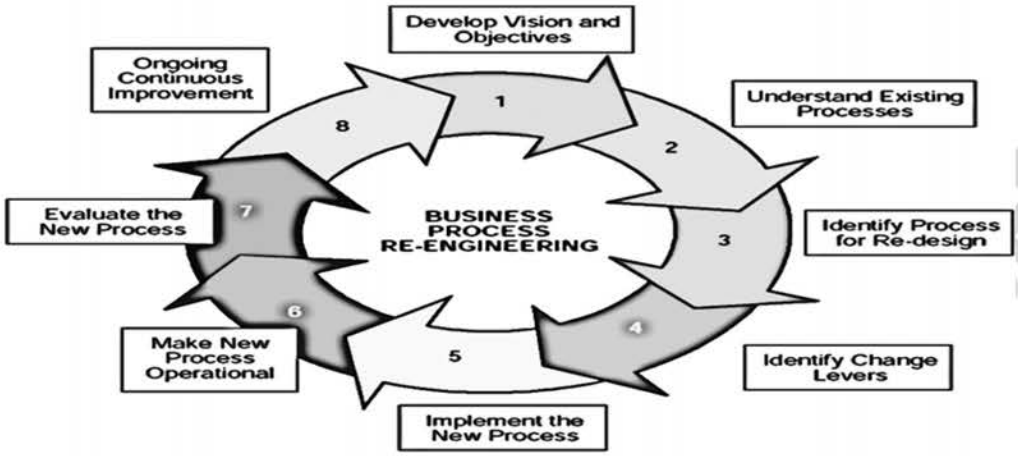
   Study the Existing Process: Before deciding on the changes to be made in the existing business process, one must analyze it carefully. The existing process provides a base for the new process and hence "what" and "why" of the new process can be well designed by studying the right and wrongs of the existing business plan.

   Formulate a Redesign Business Plan: Once the existing business process is studied thoroughly, the required changes are written down on a piece of paper and is converted into an ideal re-design process. Here, all the changes are chalked down, and the best among all the alternatives is selected.

   Implement the Redesign: Finally, the changes are implemented into the redesign plan to achieve the dramatic improvements. It is the responsibility of both the management and the designer to operationalize the **new process and gain the support of all.**

Thus, the business process reengineering is collection of interrelated tasks or activities designed to accomplish the specified outcome.

Process of BPR

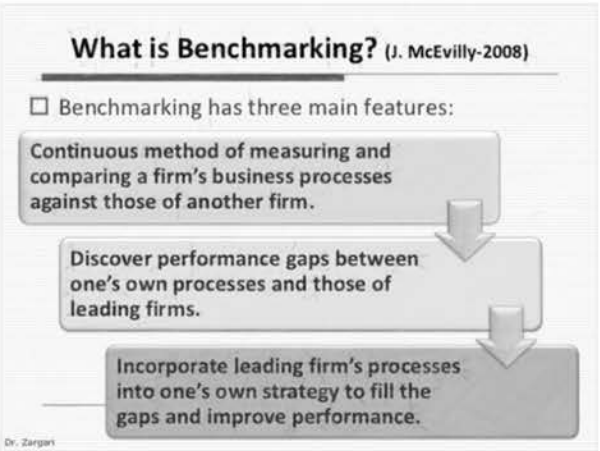




A measurement of the quality of an organization's policies, products, programs, strategies, etc., and their comparison with standard measurements, or similar measurements of its peers.

The objectives of benchmarking are

(1) to determine what and where improvements are called for,
(2) to analyze how other organizations achieve their high performance levels, and
(3) to use this information to improve performance.



On its basic level, benchmarking puts business performance into perspective. In a management context, businesses use benchmarking to identify the areas that are being underperformed or over-performed. With benchmarking, organizations are better prepared to make data-based decisions about improvement initiatives, while simultaneously revealing those success stories that can form the basis of future campaigns. Benchmarking compares how cost, time, and quality are used between different organizations. The result is often a business case for making changes to lead to greater improvements.

The widely accepted benchmarking process, developed by Robert Camp, who wrote one of the earlier books on benchmarking, consists of a 12-step approach:

I. Select the subject
II. Define the process
III. Identify the potential partners
IV. Identify the data sources
V. Collect the data and select the partners
VI. Determine the gap
VII. Establish process differences
VIII. Target future performance
IX. Communicate
X. Adjust the goal
XI. Implement
XII. Review and recalibrate

There are four primary types of benchmarking: internal, competitive, functional, and generic.

1. Internal benchmarking is a comparison of a business process to a similar process inside the organization.
2. Competitive benchmarking is a direct competitor-to-competitor comparison of a product, service, process, or method.
3. Functional benchmarking is a comparison to similar or identical practices within the same or similar functions outside the immediate industry.
4. Generic benchmarking broadly conceptualizes unrelated business processes or functions that can be practiced in the same or similar ways regardless of the industry.

Internal benchmarking

Internal benchmarking is a comparison of a business process to a similar process inside the organization to acquire the best internal. business practices. At the federal level, two Department of Transportation sites might prepare their budget submissions for Congressional approval. In the private sector, a retail food store chain selects its most profitable store as a benchmark for the others.

Competitive benchmarking

Competitive benchmarking is a direct competitor-to-competitor comparison of a product, service, process, or method. This form of benchmarking provides an opportunity to know yourself and

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your competition better; combine forces against another common competitor. An example of competitive benchmarking within the Department of Defense, might include contrasting Army and Air Force supply systems for Joint initiatives. Within the private sector, two or more American car companies might benchmark for mutual benefit against common international competitor; or, rival chemical companies benchmark for environmental compliance.

Functional benchmarking

Functional benchmarking is a comparison to similar or identical practices (e.g., the picking process for assembling customer orders, maintaining inventory controls of spare computer parts, logistics to move operational forces, etc.) within the same or similar functions outside the immediate industry. Functional benchmarking might identify practices that are superior in your functional areas in whatever industry they may exist. Functional benchmarking would be accomplished at the federal level by comparing the IRS collections process against those of American Express. Comparing copper mining techniques to coal mining techniques is an example in the private sector.

Generic benchmarking

Generic benchmarking broadly conceptualizes unrelated business processes or functions that can be practiced in the same or similar ways regardless of the industry (e.g., transferring funds, bar coding, order fulfillment, admissions, replenishing inventory, warehousing, etc.). Generic means without a brand. It is a pure form of benchmarking,.(Camp, 1989). The focus is on being innovative and gaining insight into excellent work processes rather than on the business practices of a particular organization or industry. The outcome is usually a broad conceptualization, yet careful understanding, of a generic work process that works extremely well. Generic benchmarking is occurring when a Veterans Administration hospital's check-in process is contrasted against a car rental agency's check-in process. Adapting grocery store bar coding to control and sort airport luggage might be another example.

Common misconceptions for benchmarking can be commonly grouped under the following:

- Benchmarking leads to rating and ranking of performance
- Participation in benchmarking is revealing trade secrets that would lead to compromising competitive advantage.
- Benchmarking leads to explicit cause-effect relationships with best practices.
- Benchmarking is a panacea.
- It is a one-time programme
- It is a reactive tool
- Benchmarking is just copying others.

Requirements for a successful benchmarking Model

A benchmarking model should have logical flow o f ideas. The attributes o f the model should be clear so that people can describe it to others and the listener can understand in order to translate into action. A benchmarking model should have the following requirements built in:

- A clear understanding o f benchmarking requirements

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- Identification o f benchmarking team
- Use o f effective project planning tools and techniques
- The model has to create a set o f expectations regarding the information; how it is to be gathered, reported and used to review and adjust progress o f activity.
- Identification and analysis o f gaps.
- Feedback provision to take action and recycle.

TOTAL QUALITY MANAGEMENT



History of Total quality

Dr. Joseph M. Juran (1991):

He is most renowned for coining the phrase "fitness for use or purpose". The importance of this idea is that a product or service can meet its specification may be faulty or it may not accord with what the customer wants. Meeting specifications may be a necessary condition of quality in most instances but it is not sufficient one. Today, the workforce is educated. Workers know what is needed to improve their jobs, and companies that do not tap into this significant source of knowledge will truly be at a competitive disadvantage."

"TQM is a management approach for an organization, centered on quality, based on the participation of all its members and aiming at long-term success through customer satisfaction, and benefits to all members of the organization and to society." Definition TQM is composed of three paradigms: Total: Organization wide Quality: With its usual Definitions, with all its complexities (External Definition) Management: The system of managing with steps like Plan, Organise, Control, Lead, Staff, etc.

Definition Total Quality Management (TQM) is a management strategy aimed at embedding awareness of quality in all organizational processes.

Definition Total Quality Management (TQM) is a management strategy aimed at embedding awareness of quality in all organizational processes.

„TQM has being implemented in TVS Group.„ Boeing Aircraft „ Reliance „ Tata L & T HMT „ ITI 15 Guru's of TQM

The dimensions of quality primarily for manufactured products which a consumer looks for in a product include the following:

Performance

The basic operating characteristic of a product is performance. For example, how well a car handles or its gas mileage etc.

Features

Features are the "extra" items added to the basic features, such as stereo CD or a leather interior in a car.

Reliability

Reliability is the probability that a product will operate properly within an expected time frame, e.g., a TV without repair for about 7 years.

Conformance

Conformance is the degree to which a product meets pre-established standards.

Durability

Durability tells how long a product lasts, i.e. its life span before replacement.

Serviceability

Serviceability is the ease of getting repairs, the speed of repairs, and the courtesy and competence of the repairperson.

Aesthetics

Aesthetics tells how a product looks, feels, sounds, smells or tastes.

Safety

Safety refers to assurance that the customer will not suffer injury or harm from the product. It is an especially important consideration for automobiles.

Other Perceptions

Other perceptions include the subjective perceptions based on brand name, advertising and the like.

A customer relative to the cost of the product weighs these quality characteristics. In general, consumers will pay for the level of quality they can afford. If they feel they are getting what they paid for, they tend to be satisfied with the quality of the product.

The dimensions of quality for a service differ somewhat from those of a manufactured product. Service quality is more directly related to time and the interaction between employees and customer.

Evans and Lindsay identify the following dimensions of service quality:

Time and Timeliness

Time and timeliness tells how long a customer should wait for a particular service and if it is completed in time. For example, is an overnight package delivered overnight?

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Completeness

Completeness answers, "Has everything a customer asked for been provided?" For example, is a mail order from a catalog company complete when delivered?

Courtesy

Courtesy tells how employees treat customers. For example, are catalog phone operators nice and are their voices pleasant?

Consistency

Consistency answers, "Is the same level of service provided to each customer each time?" Another example could be "is your newspaper delivered on time every morning?"

Accessibility and Convenience

Accessibility and convenience answers, "How easy it is to obtain the service?" For example, when you call BPL Mobile, does the service representative answer quickly?

Accuracy Is the service performed right every time? Is your bank or credit card statement correct every month? Responsiveness How well the company reacts to unusual situations, which can happen frequently in a service company. For example, how well a telephone operator at a catalog company is able to respond to a customer's questions about a catalog item not fully described in the catalog.

All the product and service characteristics mentioned previously should be considered in the design process to meet the consumer's expectations for quality. This requires that a company accurately assess what the consumer wants and needs.

Factors Affecting Quality The quality of products and services are directly affected by many base factors. In today's, world these factors play a crucial role in an organization are listed below.

Markets

New products are hitting the market at an explosive rate. Many of these products are manufactured by material and methods unheard till a few years back. Customers demand and get better products today. As markets broaden in scope, the scope of goods and services become more and more specialized. Burners today should be very flexible and be able to a respond rapidly and appropriately in different markets worldwide.

Money

As competition has increased, profit margins have decreased. Automation forced companies to spend heavily on new equipment's and processes. To absorb these costs productivity has to the increased, which means loss production, reworks and scrap has to be kept to the minimum. Quality costs have to be kept low which mean cost saving due to quality improvement has to be kept in prime focus.

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Man

The rapid growth of technology and opening of new fields have created a great demand for workers with specialized knowledge. This specialization of people has created a need for persons who can bring together this knowledge to plan and create operating systems that will bring the desired results.

Materials

Due to high material costs engineers have to constantly keep coming up with ways to bring down the cost of material used. They also need to come up with new alternate materials that can replace costlier older material.

Machines

The demand to cut costs is forcing companies to use newer machines, which will deliver better quality and product using lesser cycle times. Further the machines need to deliver higher quantities also to keep production costs low. This means maintaining of these machines also becomes critical as any and only down time of these machines leads to increased costs.

Management

Today responsibility for product quality has to be distributed among, various functions. For example, design of design for quality of product design. Manufacturing for process quality, service for after sales quality and marketing for establishing the quantity of the new product required. This means that top management should ensure proper allocation of responsibilities to all to achieve the organization goals.

Motivation

The increased complexity of the product means that every employee has to give his best if quality is to be maintained. This requires that quality consciousnesses among employees are high. This can be achieved only through continuous education and motivation of the work force. Motivation, therefore, needs to be on the top of the agenda for any management team of an organization.

Modern Methods of Information

With the spread of computers, data collection, storage retrieval retrieved and transmission of information has become easy. This also means that the right information can be given to the right person at his workplaces be it on the machines or in the office.

The Below Table Indicates What TQM 'Is' And 'Not'

Is	Not
A cultural exchange	An overnight cure
Responsibility of Top Management	QA manager is responsible
A systematic way to improve processes	A new program
Structured approach to solving problems	Fire fighting
Proactive organisation	Reactive

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Action speaks	Slogan speaks
Practiced by everyone	A specialized discipline
Team involved	Only one person of department involved

Total quality management

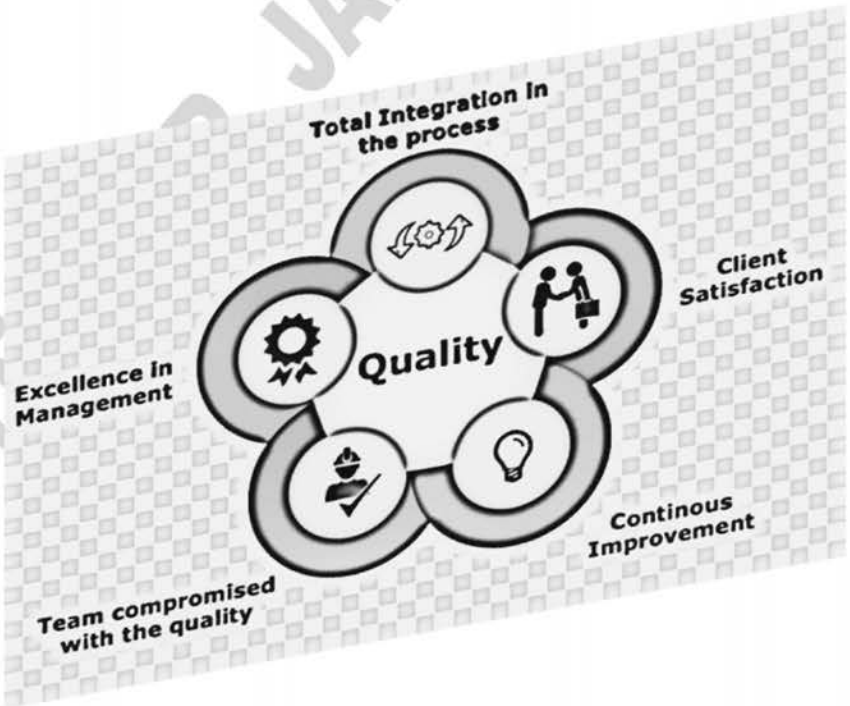
It is the approach of the manafement to achieve long term success by focusing on customer satisfaction. The organisation works towards a steady improvement in the quality at all stages of production.

How to implement Total Quality Management ?

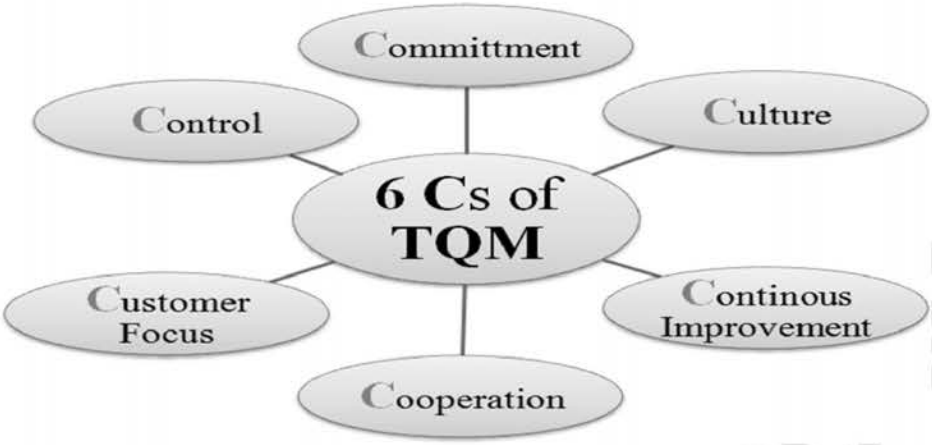
- Customer focused
- Total employee involvement
- Process centered
- Strategic and Systematic Approach
- Continuous Improvement
- Fact-based Decision Making
- Communications

What is TQM?

Total = everyone is involved in Quality = continuously improving service to customers Management = with data and profound knowledge.



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Advantages of TQM

- Improve the quality.
- Major decrease in wasted resources.
- Leap in productivity as staff use time more effectively.
- Products and services are improved.
- Workforce becomes more motivated, as employees realize their full potential.
- Internal & External Customer Satisfaction

Disadvantages of TQM

- Extremely demanding of management and staff time.
- It can become overly bureaucratic and mechanical, and lead to an emphasis on consistency of produces, rather than a focus on improvement, or the means rather than the end.
- Only help if the organisation is heading in the implement.
- It can lead to too much attention.



BEGINNING PHASE OF TQM

McDonald's

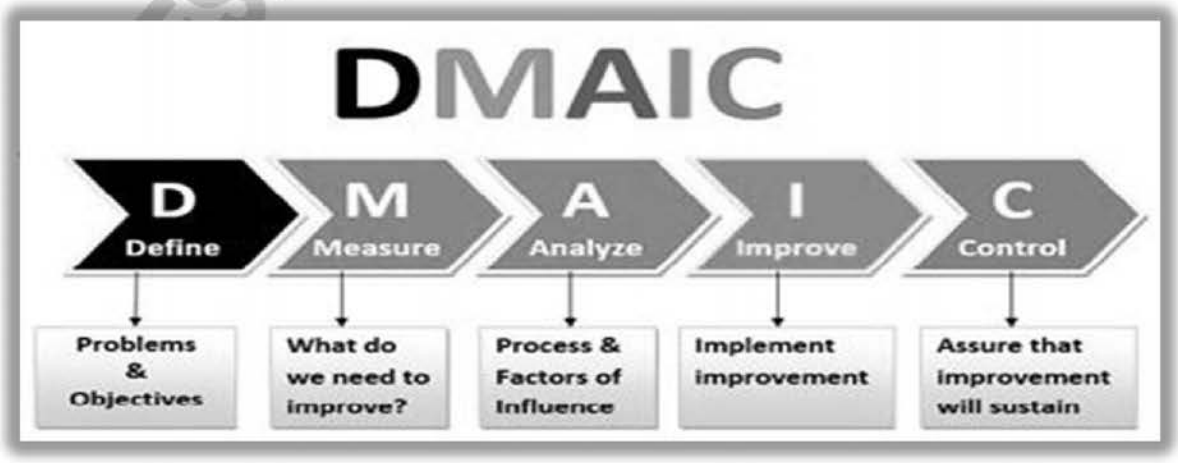
"McDonald's brand mission is to be our customers' favorite place and way to eat and drink. Our worldwide operations are aligned around a global strategy called the Plan to Win, which center on an exceptional customer experience – People, Products, Place, Price and Promotion. We are committed to continuously improving our operations and enhancing our customers' experience."

Google

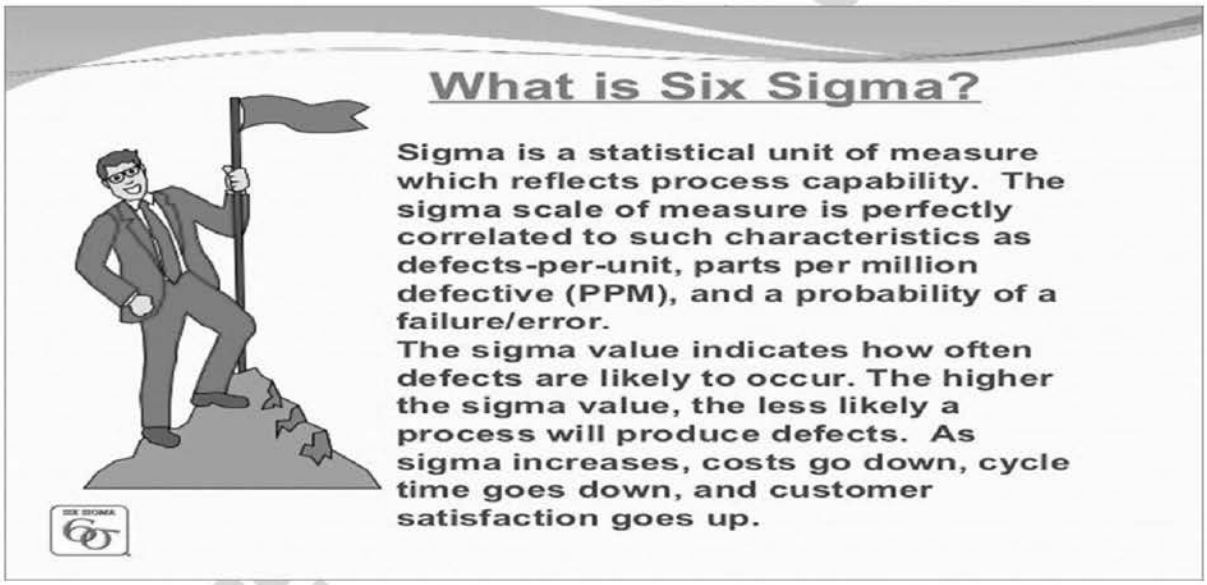
"Google's mission is to organize the world's information and make it universally accessible and useful."

SIX SIGMA









Introduction

The introduction of Six Sigma into the manufacturing arena in the early 1980s by Motorola was a step in revolutionizing the scope and use of quality systems in business today (Mayor, 2003). To define Six Sigma in simple terms is not possible because it encompasses the methodology of problem solving, and focuses on optimization and cultural change. Six Sigma accomplishes this goal by utilizing an extensive set of rigorous tools, uncompromising use of statistical and advanced mathematical tools, and a well-defined methodology that produces significant results quickly. The success of this methodology within an organization has significant momentum that can only lead to fundamental organizational cultural transformation. The roots of sigma as a measurement standard go back to Carl Fredrick Gauss (1777-1855), who introduced the concept of the normal curve or distribution. Walter Shewhart introduced three sigma as a measurement of output variation in 1922, and stated that process intervention was needed when the output went beyond this limit.

The origins of Six Sigma Motorola was facing the same problems as the industry at this time, but found that they were losing a large portion of their business and productivity through the cost of non-quality. This includes not only the 2,600 parts per million loss in manufacturing, but lost business due to defective parts and support of systems in the field that were unreliable. Motorola's chairman at the time, Bob Galvin, decided that a much more intense effort was needed to address their problems. A Motorola engineer, Bill Smith, found that the quality level associated with a measure of Six Sigma corresponds to a failure rate of two parts per billion and adopted this as a standard. The program to achieve this lofty goal was developed at Motorola and coined "Six Sigma", which included many of the systematic and rigorous tools associated with the Six Sigma programs of today. Incidentally, "Six Sigma" is a federally registered trademark of Motorola



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STRATEGIC MANAGEMENT MCQ,S

1. Which statement is true?

A. The strategic management involve the determination of the organisation's mission, strategic policies, and strategic objectives

B. Strategic management is a stream of decisions and action which leads to the development of an effective strategy or strategies to help achieve corporate objectives

C. The strategic management process is the way in which strategists determine and make strategic decisions.

D. All of the above.

2. "_____is the process of managing the pursuit of organisational mission while managing the relationship of the organisation to its environment."

A. System Management

B. Strategic Management

C. Financial Management

D. Cost Management

3. Match the following

List-I (Level of Strategy)	**List-II (Areas)**
A. Operating Level	1. Plants Strategy
B. Functional Level	2. Personnel Strategy
C. Business Level	3. Particular Line Strategy of Business
D Corporate Strategy	4. Objectives
	5. Cost

A.	(A)	(B)	(C)	(D)
	3	4	2	1
B.	(A)	(B)	(C)	(D)
	1	2	5	4
C.	(A)	(B)	(C)	(D)
	1	2	3	4
D.	(A)	(B)	(C)	(D)
	1	5	4	3

4. In the context of strategic management resources can be defined as

A. The knowledge and skills within the organisation

B. Something that an organisation owns, controls or has access to on a semi-permanent basis

C. The physical assets of the organisation

5. Strategic Management involves

A. The determination of the organiation's mission, strategic policies and strategic objectives

B. Cost

C. The determination of price of the product and service

D. Planning with high cost

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6. Which statement is true?

A. Strategy has more subjective values
B. Strategy is developed at the highest level
C. Strategy requires more difficult-to-get information. A manager requires more information for arriving at a strategic decision, while tactics requires normal information which is generated within the organisation
D. All of the above

7. Stability strategy is a _____ strategy

A. Corporate level
B. Business level
C. Functional level
D. Strategic level

8. Strategic Management handles:

A. External issues
B. Management issues
C. Internal issues
D. Administrational issue

9. Corporate level strategy deals with:

A. Objectives of specific functions
B. Objective of Single strategic Business Unit
C. Objectives of the corporate
D. Objectives of specific operations

10. Mcdonalds is deciding whether to expand into manufacturing kitchen equipment in China. At what level is this decision likely to be made?

A. Business
B. Corporate
C. Functional
D. International

11. Which one of the following is of concern for not-for-profit organizations?

A. The markets to service
B. Identifying suppliers to deal with
C. Developing capabilities
D. Building monopolies.

12. The impact of strategies on the general direction and basic character of a company is

A. Short range
B. Medium range
C. Long range
D. Minimal

13. Which of the following statements best describes strategic management?

A. A process consisting of determining objectives and strategic actions to achieve those objectives
B. A process consisting of determining objectives, strategic actions to achieve those objectives, the implementation of desired strategy, and the monitoring of that strategy
C. A process consisting of the determination of direction, strategic actions to achieve objectives, the implementation of desired strategy, and monitoring of that strategy
D. A process for determining direction, strategic actions to achieve objectives, and the implementation of desired strategy

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14. Which of these is not a key stakeholder that an organization must seek to satisfy?

A. Managers
B. Shareholders
C. Employees
D. Customers

15. Who can be considered as the main stakeholders for London Zoo?

A. Research groups
B. Visitors
C. The government
D. Private investors

16. What common, related problem do not-for-profit organizations such as the British Museum and the National History Museum often face?

A. Costs associated with repairs and maintenance
B. The need to be educational and adhere to their scientific/research orientation whilst addressing commercial issues (e g , admission charges to cover costs)
C. The need to be educational and adhere to their scientific/research orientation whilst satisfying main stakeholders
D. The conflict between pursuing organizational objectives and resource availability constraints

17. Which one of these would not be a problem for an organization attempting to establish a unified vision or direction?

A. The constraints applied by key stakeholders upon the organizations management
B. The personal objectives of those within the organization
C. The varying expectations of external stakeholders
D. Conflicts between the product and its desired target market.

18. _____is the collection of managerial decisions and actions that determine the long-run performance of an organization

A. Planning
B. Goal-oriented management
C. Strategic management
D. Leadership

19. Why is strategic management important?

A. It has little impact on organizational performance
B. It is involved in many of the decisions that managers make
C. Most organizations do not change
D. Organizations are composed of similar divisions and functions

20. Middle level managers typically are responsible for _____ strategies

A. Business
B. Organizational
C. Operational
D. Corporate

21. _____ strategy determines what businesses an organization should be in

A. Business
B. Organizational
C. Operational
D. Corporate

22. Why should governments seek to regulate?

A. To control competition and stop monopoly power
B. To minimize resource wastage and monopoly power

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C. To control competition and minimize resource wastage
D. To control competition, minimize resource wastage, and inhibit the exploitation of weak buyers and suppliers

23. The strategic management process is
A. A set of activities that is guaranteed to prevent organizational failure
B. A process concerned with a firms resources, capabilities, and competencies, but not the conditions in its external environment
C. A set of activities that to date have not been used successfully in the not- for-profit sector
D. A dynamic process involving the full set of commitments, decisions, and actions related-to the firm

24. _____are external forces affecting organizations
A. Technological forces B. Political forces
C. Economic forces D. All of the above

25. _____assesses the whole strategic management process
A. Strategic audit B. Company audit
C. Business audit D. None of the above

26. The word strategy originated from
A. Stratagos B. Stratum
C. Statistics D. Straight

27. What are designed to guide managers in the pursuit and achievement of strategies and objectives?
A. Procedures B. Budgets
C. Policies D. Plans

28. Strategy effectiveness and competitive success is dependent on which of the following groups of competencies?
A. Change, planning, learnin B. Content, change, plannin
C. Content, change, learnin: D. Learning, planning, content

29. The three organizational levels are:
A. Corporate level, business level, functional level
B. Corporate level, business unit level, functional level
C. Corporate strategy level, business unit level, functional level
D. Corporate strategy level, business level, specialist level

30. The Holiday Inn, Burlington statement, "If a customer has a need or want, we fill it." is an example of a:
A. Business unit goals B. Marketing objectives
C. Business unit mission D. Goal of a business segment

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31. When actual performance results are better than what the plan called for, managers should:

A. Ignore it
B. Sell more products
C. Issue more stock options to employees
D. Increase prices

32. The basic activities of strategic management include:

A. Offense, defense, and control
B. Situation analysis, strategy formulation, implementation, and evaluation
C. Development, control, and management
D. Ethics, management, and practice

33. The three stages of strategic management are

A. Strategy formulation, strategy implementation, and strategy execution
B. Strategy formulation, strategy execution, and strategy assessment
C. Strategy formulation, strategy implementation, and strategy evaluation
D. Stratify assessment, strategy execution, and strategy evaluation

34. How often should strategic-management activities be performed?

A. Annually
B. Quarterly
C. Monthly
D. Continuously

35. In a large organization, strategic management activities occur at what level (s)?

A. Corporate and divisional
B. Functional, business and corporate
C. Strategic business unit
D. Divisional

36. The origins of Business Policy Strategic Management can be retraced to

A. 1930
B. 1911
C. 1879
D. 1938

37. Which _____ liberalization has made strategic management a buzz word among the Indian corporate?

A. Cultural
B. Economic
C. Social
D. None of the above.

38. Bajaj Auto, until a few years back had a monopoly in their line of business. But with the competition on the rise, they had to resort to Strategic Management.

A. True
B. False

39. Which of the following terms are used interchangeably in strategies?

A. Strategic movement
B. Business policy.
C. Corporate strategy.
D. All of the above.

40. In corporate language, the term 'Mission' leads to

A. Goals
B. Targets
C. Objectives
D. None of the above

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41. Business decisions are influenced by _____ sets of factors.

A. One
B. Three
C. Two
D. Four

42. The external environment consists of two types of environment. Name them.

A. Mini And Micro
B. Mega and Micro
C. Micro and Macro
D. Mini and Mega

43. Who is the author of 'Competitive Strategy, Competitive Advantage'?

A. Chandler
B. Porter
C. David
D. Waterman

44. The _____ answers the question "What do we want to become?" Whereas _____ answers the question "What is our business?"

A. Vision statement; mission statement
B. Short-term objectives; long-term objectives
C. Objectives; strategies
D. Mission; vision

45. What is the recommended length of an effective mission statement?

A. One page
B. Less than 200 words
C. One sentence of 10 to 20 words.
D. There is no recommendation. It can be as long as the management wants.

46. The three stages of strategic management are

A. Strategy formulation, strategy implementation, and strategy execution.
B. Strategy formulation, strategy execution, and strategy assessment.
C. Strategy formulation, strategy implementation, and strategy evaluation.
D. Stratify assessment, strategy execution, and strategy evaluation.

47. _____ are the means by which long-term objectives will be achieved

A. Mission statements
B. Strategies
C. Vision statements
D. Long-term goals

48. Strategic management allows an organization to be more

A. Complacent
B. Proactive
C. Authoritarian
D. Reactive

49. _____ may be the most important benefit of strategic management.

A. Profit
B. Commitment
C. Understanding
D. Order

50. _____ is one of the reasons for poor or no strategic planning in organizations.

A. Prior good experience
B. Fear of success
C. Low expense
D. Self-interest

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51. Matching of internal resources against external demands forms part of:

A. Strategic objectives. B. Strategic definition,
C. Strategic implementation. D. Strategic analysis.
E. None of the these

52. An organization's strengths and weaknesses are determined relative to

A. Its strategic business units. B. Government
C. Competitors D. External opportunities and threats.

53. An organisation's mission can be defined as:

A. The overriding purpose in line with the values or expectations of stakeholders.
B. The overriding purpose regardless of the values or expectations of stakeholders.
C. The organisation's business plan.
D. The desired future state of the organisation.

54. The purpose of analysing an organisation's strategic position is:

A. To understand the operational and corporate requirements of an organisation.
B. To understand the strategic position of the organisation in terms of its strategic capability and the expectations and purposes of stakeholders.
C. To understand the strategic position of the organisation in terms of its external environment, the strategic capability of the organisation and the expectations and purposes of stakeholders.
D. To evaluate the resources necessary to translate strategy into action.

55. Strategic choices require an understanding of:

A. The underlying bases for future strategy at business unit and corporate levels; the options for developing strategy in terms of directions and methods of development.
B. The business environment, the competition and the strategic capability of the organisation.
C. The key drivers of change.
D. The organisational strengths and weaknesses.

56. Strategy in a public sector organisation differs from a private sector company because:

A. Planning horizons are determined by political considerations, rather than market conditions.
B. They do not have customers.
C. They do not have to make a profit.
D. They do not have stakeholders.

57. Strategic management deals with

A. Production and quality
B. Profit and loss
C. Business process
D. All of the above

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58. _____ function applies to all company levels irrespective of levels of hierarchy.

A. Planning
B. Organizing
C. Staffing
D. Directing

59. Strategic management is concerned with

A. Short range planning
B. Long range planning
C. Both 'A' and 'B'
D. None of the above

60. Which statement is true about goal?

A. Goal setting gives base to a company for long term existence
B. Goal is an equipment to measure of execution, it provides clear measure for control. These measures are accepted by most of the people.
C. Goal setting is helpful in decision-making
D. All of the above

61. "Mission is the fundamental work given by the society to an organisation." Who said?

A. Koontz and O'Donnell
B. Daulton E. Mcfarland
C. Thomspon
D. All of the above

62. Strategic Management involves

A. The determination of the organiation's mission, strategic policies and strategic objectives
B. Cost
C. The determination of price of the product and service
D. Planning with high cost

63. The pattern of diversification includes

A. Vertical diversification
B. Market diversification
C. Product diversification
D. All of the above

64. Which of the following are typically seen as being associated with strategic decisions?

A. The organisations long-term direction
B. The detailed planning of a departments work over the next month
C. The values and expectations of powerful actors in the organisation
D. The scope of the organisations activities

65. Which strategy is about how to compete successfully in particular markets?

A. Business-level strategy
B. Corporate-level strategy
C. Alliance-based strategy
D. Operational-level strategy

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1.	D	12.	C	23.	D	34.	D	45.	D	56.	A
2.	B	13.	C	24	D	35.	B	46.	C	57.	C
3.	C	14.	A	25	A	36.	B	47.	B	58.	C
4.	A	15.	B	26.	A	37.	B	48.	B	59.	B
5.	A	16	C	27.	C	38.	B	49.	C	60.	D
6.	D	17.	D	28.	C	39.	D	50.	D	61.	A
7.	A	18	C	29.	A	40.	C	51.	D	62.	A
8.	A	19.	B	30.	B	41.	B	52.	C	63.	D
9.	C	20.	A	31.	D	42.	C	53.	A	64.	A
10.	B	21.	D	32.	B	43.	B	54.	C	65.	A
11.	A	22.	D	33.	C	44.	A	55.	A		

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1. The acronym SWOT stands for

A. Special Weapons for Operations Timeliness
B. Services, Worldwide Optimization and Transport
C. Strengths, Weakness, Opportunities and Threats
D. None of the above.

2. The two internal elements of SWOT analysis are

A. Weaknesses and threats
B. Opportunities and threats
C. Strength and weaknesses
D. Strengths and threats

3. Ansoff s growth vector matrix is used for

A. Analyzing the different strategic directions an organization can pursue
B. Analyzing the balance of the portfolio
C. Assessing whether the corporate parent is adding value
D. Assessing the market share of a business

4. In Ansoffs matrix, product development involves going in the direction of

A. Present products to present markets
B. Present products to new markets
C. New products to present markets
D. New products to new markets

5. _____ and _____ are outcomes from a study of the external environment

A. Threats and Weaknesses
B. Strengths and Weaknesses
C. Weights and Measures
D. Opportunities and Threats

6. _____ are the organizations major value creating skills, capabilities and resources that determine the organizations competitive weapons

A. Strengths
B. Opportunities
C. Core competencies
D. Weaknesses

7. An example of a core competency of a firm is

A. The corporate reputation
B. Communicating with customers in their own languages worldwide
C. Developing least squared exemptions within its accounting system
D. Evaluating tangible and intangible assets

8. The merging of analysis of internal and external factors influencing the organizations strategy is known as

A. Complete studies
B. Organizational behavior and theory
C. Definitional analysis
D. SWOT analysis

9. A stability strategy is particularly appropriate when

A. The firm is facing rapid growth opportunities
B. The industry is in a state of rapid upheaval
C. An organization is not meeting its goals
D. An organizations performance is declining

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10. A _____ strategy addresses organizational weaknesses, helps stabilize operations and revitalizes organizational resources and capabilities

A. Unrelated diversification
B. Horizontal integration
C. Vertical integration
D. Retrenchment

11. An organization is said to have _____ when it has several different businesses that are independent and that formulate their own strategies

A. Operational units
B. Strategic business units
C. Competitive advantages
D. Legal subunits

12. Which of the following would not be considered a barrier to entry?

A. High innovation
B. Concentration of distribution channels
C. Steep experience curves
D. Concentration of suppliers

13. To succeed, Ansoff (1987) demands that organizations become

A. More aggressive in terms of competitive strategies and entrepreneurialism or change orientation
B. More aggressive in terms of competitive strategies
C. More aggressive in terms of competitive strategies and in their pursuit of opportunities
D. More aggressive in terms of competitive strategies and innovation

14. The _____ has its own business strategy, objectives and competitors and these are often differ from parent company

A. Strategic Business Unit structure
B. Matrix structure
C. Divisional structure
D. None of given option

15. _____ refers to the strategies and counter strategies of a firm that compete in a shared market place

A. Retrenchment strategy
B. Competitive gaming
C. Business strategy
D. Corporate strategy

16. _____ is identifying opportunities and threats affecting their business

A. Organizational analysis
B. Environmental analysis
C. Industry analysis
D. Competitive analysis

17. _____ begins with identifying the industry's dominant economic features and forming picture of the industry landscape

A. Organizational analysis
B. Industry analysis
C. Environmental analysis
D. Competitive analysis

18. Strategy creation involves three strands. Which of the following is not one of the three stands?

A. Planning
B. Vision
C. Entrepreneurship
D. Emergent strategies

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19. In business, _____generally refers to the fight for market share which serves the same basic customer needs

A. Competition B. Composition
C. Rivalry D. None of the above

20. Which of the following is not one of the three elements of strategy creation?

A. Sales B. Innovation
C. Planning D. Leadership

21. A young industry that is beginning to form is considered to be in _____ stage

A. Introduction B. Growth
C. Shakeout D. Maturity

22. Explosive growth cannot be maintained indefinitely. Sooner or later, the rate of growth slow and the industry enters the

A. Embroynic stage B. Growth stage
C. Shakeout stage D. Maturity stage

23. _____ are the resources, skills or other advantages a firm enjoys relative to its competitors

A. Weakness B. Strength
C. Threat D. Opportunities

24. If unprepared, what strategic pressures are recognized as key factors that can weaken the organization?

A. Competitive and environmental pressures
B. Control at the expense of flexibility
C. Lack of planners
D. Competitive and environmental pressures, and excessive control

25. _____ is a widely used framework to summarize a company's situation or position

A. SWOT analysis B. TOWS matrix
C. Ansoffs matrix D. BCG matrix

26. The concept Core competence was developed by

A. Schwiz Marker B. Peter Schiffman
C. Prahalad and Gary D. None of the above

27. _____ is the process through which an organization evaluates its capability so as to have competitive advantage at market place

A. Environmental analysis B. Organizational analysis
C. Industry analysis D. Business analysis

28. Which of the following is not an element of the growth/market options matrix developed by Ansoff (1987)?

A. Market development B. Diversification
C. Product development D. Market segmentation

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29. _____ of an organization deals with investigation of organizational strengths and weaknesses by focusing on factors which are relevant to it

A. External analysis B. Internal analysis
C. Industry analysis D. Business analysis

30. Which of the following is one of the factors related to the issue of the feasibility of a strategy?

A. Skills and resources, available and needed
B. Levels of return expected
C. Finance and other resource availability
D. Effect on strategic perspective

31. _____ strategies are also known as grand or root strategies

A. Corporate B. Business
C. Functional D. Operational

32. SBU stands for

A. Satisfied business unit B. Stratified business unit
C. Strategic building unit D. Strategic business unit

33. Which of the following is a consideration when assessing the feasibility of a strategy?

A. Timing B. Planning gap
C. Synergy D. Culture

34. Firms that practice unrelated mergers _____

A. Conglomerate B. Hostile
C. Friendly D. Retrenchment

35. Swot Analysis is done to know the

A. Strengths
B. Threats and strengths
C. Weaknesses and opportunities
D. Threats, strengths Weaknesses and opportunities

36. Which of the following is an aspect of implementation that can be changed indirectly if necessary?

A. Organizational structure B. Information systems
C. Quality D. Procedures

37. Which one of the following types of organizations would benefit from a matrix structure?

(a) Diverse independent businesses in a conglomerate
(b) Organizations growing through merger and acquisition
(c) Small companies with few plants and limited product or service diversity
(d) Small, sophisticated service companies

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38. Which of these is not a main determinant of centralization/ decentralization?

A. Geographical considerations (e g , location etc)
B. Costs
C. Size
D. Demographical considerations (e g , age; ethnicity etc)

39. Which of these is not an identified form of organizational structure?

A. Intrapreneurial
B. Functional
C. Divisional
D. Matrix

40. When are holding company structures are most useful?

A. For organizations in stable environments
B. Where appropriate business unit splits exist
C. For companies pursuing restructuring strategies
D. For large, multinational companies

41. Which of these are characteristic of matrix structures?

A. Decentralization and co-ordination
B. Centralization and co-ordination
C. Decentralization and control
D. Centralization and control

42. Which of these is not a valid reason in support of focused strategies?

A. Greater control
B. Reduction of weak business to develop a strong core
C. Competence consolidation
D. Cost reduction

43. Which of the following elements of strategy affect the process of strategy creation and implementation?

A. Synergy
B. The strategic leaders perspective on strategy
C. Structure
D. Strategic paradoxes

44. Aggregating prospective buyers into groups is called:

A. Market categorization
B. Market segmentation
C. Modeling
D. BCG matrix analysis

45. Cohesive marketing mix consists of the product, promotion, price, and

A. Personnel
B. Production
C. Advertising
D. Communication

46. Which of the following is NOT a characteristic of strategic management that makes it different from other types of management?

A. It is interdisciplinary
B. It has an external focus
C. It has an internal focus
D. It concerns the present direction of the organization

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47. An organization's strategies should be designed so that they incorporate:

A. Opportunities and threats
B. Resources and capabilities
C. Only traditional values of past organizations
D. Opportunities, threats, resources, and capabilities

48. Situation analysis involves the process of:

A. Designing and choosing appropriate organizational strategies
B. Analyzing the current environment of the organization
C. Analyzing the external environment only
D. Evaluating the internal aspects of the organization

49. Situation analysis allows the organization to examine:

A. External factors only
B. Internal factors only
C. The organization's top management only
D. Both external and internal factors

50. Environmental scanning occurs in what phase of strategic conflict management?

A. Reactive
B. Proactive
C. Recovery '
D. Strategic

51. Which of the following is not a limitation of SWOT (Strengths, Weaknesses, Opportunity, Threats) analysis?

A. Organizational strengths may not lead to competitive advantage
B. SWOT gives a one-shot view of a moving target
C. SWOT's focus on the external environment is too broad and integrative
D. SWOT overemphasizes a single dimension of strategy

52. What kind of organizational structure combines a vertical chain of command with horizontal reporting requirements?

A. Line authority
B. Matrix
C. Functional
D. Quality circle

53. BCG in BCG matrix stands for

A. Boston Calmette Group
B. British Consulting Group
C. Boston Corporate Group
D. Boston Consulting Group

54. What does Dog symbolize in BCG matrix?

A. Introduction
B. Growth
C. Maturity
D. Decline

55. What does Stars symbolize in BCG matrix?

A. Introduction
B. Growth
C. Maturity
D. Decline

56. What does Question Mark (?) Symbolize in BCG matrix?

A. Remain Diversified
B. Invest
C. Stable
D. Liquidate

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57. What do Cash Cows symbolize in BCG matrix?

A. Remain Diversified B. Invest
C. Stable D. Liquidate

58. What does Green symbolize in BCG matrix?

A. Invest Expand B. Select Earn
C. Harvest Divest D. Both a & b

59. What does Yellow symbolize in BCG matrix?

A. Invest Expand B. Harvest Divest
C. Select Earn D. Both a & b

60. What does Red symbolize in BCG matrix?

A. Invest Expand B. Harvest and Earn
C. Harvest Divest D. Select Earn

61. The BCG Matrix is based on

A. Industry attractiveness Business Strength
B. Industry Growth rate Business strength
C. Industiy Attractiveness Relative market share
D. Industry Growth rate Relative market share

62. In BCG matrix, what is the label of the horizontal axis?

A. Relative Market share B. Business Strength
C. Industry Growth Rate D. Market Growth Rate

63. In BCG Matrix, what is the label of the Vertical axis?

A. Relative Market share B. Business Strength
C. Industry Growth Rate D. Market Growth Rate

64. The GE 9 cell model is based on

A. Industry attractiveness Business Strength
B. Industry Growth rate Business strength
C. Industry Attractiveness Relative market share
D. Industry Growth Relative market share

65. In strategic thinking, how long is the long term, approximately?

A. 1 Month to 1 year B. 2 to 3 years
C. 3 to 5 years D. More than 5 years

66. Low cost, Differentiation and Focus are examples of

A. Corporate strategies B. Operational Strategies
C. Business Strategies D. Functional Strategies

67. The word tactic is most likely to be associated with:

A. Business Strategy B. Corporate strategy
C. Operational Strategy D. All of the above

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68. In GE 9 cell matrix, what is the label of the horizontal axis?

A. Relative Market share B. Industry Attractiveness
C. Industry Growth Rate D. Market Growth Rate

69. Another name for GE 9 cell model is

A. Three colour matrix B. Stop light matrix
B. Strategic Portfolio Matrix D. Colour light matrix

70. Which of the following is a renowned profounder of core competence?

A. Glueck B. Gary Hamel
C. Waterman D. Chandler

71. Which of the following are the internal factors that influence the strategy and other decisions?

A. Value System
B. Mission and Objectives
C. Management Structure and Nature
D. All of the above

72 . _____ analysis is one of the prime and primary steps in strategic management.

A. SCOT B. WOTS
C. ETOP D. SWOT

73. Which of the following is strength of the SWOT analysis, concerning Marketing?

A. Poor brand image B. Weak distribution
C. Deep product mix D. Narrow product mix

74. Which of the following is an opportunity concerning SWOT analysis

A. Recession B. Boom
C. Political Instability D. Delicensing

75. As _____ succinctly puts it, "strategy formulation is largely an Intellectual process, whereas, strategy implementation is more operational in character.

A. John David B. Fred David
C. Waterman D. Chandler

76. What is the full form of BCG?

A. Bombay Consulting Group B. Barmby Consulting Group
C. Bolivia Consulting Group D. Boston Consulting Group

77. Products in High Growth-High Market share are called

A. Dogs B. Cash Cows
C. Stars D. Question marks

78. As per the BCG Matrix, Dogs may produce

A. Loss B. Profit
C. No loss no profit D. None of the above

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79. Portfolio matrix is also known as?

A. Business Alternative screen
B. Business Attractiveness screen
C. Backwards Attractiveness screen
D. Business Attractive system

80. Which of the following is not a limitation of SWOT (Strengths, Weaknesses, Opportunity, Threats) analysis?

A. Organizational strengths may not lead to competitive advantage
B. SWOT gives a one-shot view of a moving target
C. SWOT's focus on the external environment is too broad and integrative
D. SWOT overemphasizes a single dimension of strategy

81. In an IFE Matrix, the weight range is from _____ and the ratings range from _____

A. To 1.0; 1.0 to 4.0
B. To 1.0; 0.0 to 4.0
C. To 3.0; 1.0 to 2.0
D. To 4.0; 0.0 to 1.0

82. Two reasons for mergers and acquisitions are

A. To increase managerial staff and to minimize economies of scale.
B. To reduce tax obligations and increase managerial staff.
C. To create seasonal trends in sales and to make better use of a new sales force.
D. To provide improved capacity utilization and to gain new technology.

83. A coordinate of _____ in the SPACE Matrix is a defensive profile.

A. +1,+1
B. -4,-2
C. +5,-1
D. -2,+3

84. The first option that should be considered for firms in Quadrant II of the Grand Strategy Matrix is the _____strategy.

A. Integration
B. Intensive
C. Defensive
D. Diversification

85. The pie slices within the circles of a _____ reveal the percent of corporate profits contributed by each division.

A. QSPM
B. BCG Matrix
C. SPACE Matrix
D. Grand Strategy Matrix

86. Auditing the existing applications portfolio is part of:

A. Strategic analysis.
B. Strategic definition
C. Strategic implementation
D. Strategic objectives.
E. None of the above.

87. Strategic option selection forms part of:

A. Strategic analysis.
B. Strategic objectives.
C. Strategic definition,
D. Strategic implementation,
E. None of the above.

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88. An example of a metric from the process component of the balanced Scorecard is:

A. Procurement lead times. B. Customer satisfaction index.
C. Margin. D. Training hours per employee,
E. None of the above.

89. For an existing organization, typical stages of e-commerce development are:

A. Image and product information, customer support, transactions, information collection.
B. Information collection, image and product information, customer support, transactions.
C. Transactions, image and product information, information collection, customer support.
D. Image and product information, information collection, customer support, transactions.
E. None of the above.

90. The most appropriate order to conduct these planning activities is:

A. Situation analysis, strategy, objective setting, tactics.
B. Situation analysis, objective setting, tactics, strategy.
C. Situation analysis, objective setting, strategy, tactics.
D. Situation analysis, objective setting, tactics, strategy.
E. None of the above.

91. The emergent approach to strategy entails:

A. Largely sequential development of strategy analysis and development.
B. An interrelated development of strategy analysis and development.
C. An unrelated development of strategy analysis and development.
D. Both the first and third answer above.
E. None of the above.

92. A buy-side supplier threat of e-commerce is:

A. Drives down cost of commoditized products.
B. Reduction in customer loyalty.
C. Less flexibility in switching procurement.
D. Increase in cost of supplies.
E. None of the above.

93. Developing new digital products is:

A. A product development strategy.
B. A market development strategy.
C. A market penetration strategy.
D. Both the first and third answers above. E. None of the above.

94. The online revenue contribution indicates:

A. The proportion of online sales in a market.
B. The actual audience of a website.
C. The number of visitors a site receives.
D. The potential audience of a website.
E. None of the above.

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95. Strategic drift, where strategies progressively fail to address the strategic position of the organisation, is frequently followed by:

A. Transformational change.
B. Demise.
C. Transformational change or demise.
D. A change of CEO.

96. A design view of strategy refers to:

A. The systematic, rational way in which strategy is always developed m
B. The pulling together of ideas that develop from different parts of the
C. Pulling together the different decisions made throughout an organisation so as to develop a coherent overall strategy.
D. The deliberate positioning of the organisation through a rational, analytic, structured and directive process.

97. The experience lens suggests that strategies develop.

A. Through the individual experience of a few top managers or strategic planners.
B. Through the shared assumptions in the organisation often thought of as the Organisational culture.
C. Through the shared assumptions across similar sorts of organisations within an industry (or organisational field).
D. All of the above.

98.

Question	**Match the following** **Correct Answer**
a. Retrenchment Strategies	**1.** Retrenchments - either internally or externally
b. Divestment Strategies	2. Contraction of activities through elimination of the scope of one or more of its business
c. Turnaround Strategies	3. Involves the sale or liquidation of a portion of a business

A. A-1, b-2, c-3 B A-3, b-2, c-1
C. A-2, b-3, c-1 D. A-3, b-1, c-2

99. Match the following

List-I (Elements of SWOT)	**List-II (Concepts)**
A. Strength	1. Shortage of Fund
B. Weakness	2. Cost Advantage
C. Opportunity	3. Sound Capital Structure
D. Threat	4. Cut Throat Competition
	5. Business

A.	(A)	(B)	(C)	(D)
	1	2	3	4
B.	(A)	(B)	(C)	(D)
	3	1	4	2
C.	(A)	(B)	(C)	(D)
	4	3	2	1
D.	(A)	(B)	(C)	(D)

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3 1 2 4

100. Match the following

List-I (Concepts)		List-II (Examples)	
(A)	Inbound logistics	1.	Raw Material
(B)	Procurement	2.	Machinery
(C)	Operations	3.	Production
(D)	HRM	4.	Training and Development
		5.	Accounting

A.
B.
C.
D.

101. Match the following

List-I (Elements of SWOT)		List II (Examples)	
(A)	Strength	1.	New entrant
(B)	Weakness	2.	Cost Advantage
(C)	Opportunity	3.	Ineffective promotion
(D)	Threat	4.	Diversified portfolio

A.	(A)	(B)	(C)	(D)
	1	2	3	4
B.	(A)	(B)	(C)	(D)
	4	3	2	1
C.	(A)	(B)	(C)	(D)
	1	3	4	2
D.	(A)	(B)	(C)	(D)
	4	2	3	1

102. Which statement is true?

A. An offensive strategy, if successful, can open up a competitive advantage over competitors
B. AU firms are subject to attacks from competitors in a competitive environment
C. A grand offensive involving several major initiatives may be sometimes launched by the aggressors
D. There is a benefit period, after a successful competitive offensive.

103. SWOT analysis includes

A. Functional Strategy B. Business Level Strategy
C. Corporate Strategy D. All of the above

104. Which environment can create new market and new business segments?

A. Political environment B. Economic environment
C. Socio cultural environment D. Technological environment

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105. Analysing the ext environment and the organisations resources are part of the:

A. Functional level planning process
B. Determining the mission of the business
C. Financial planning process
D. Strategic planning process

106. Marketing current products with possible modifications and range increases is also known as what?

A. Retrenchment B. Market penetration
C. Product development D. Market development

107. The value chain is subdivided into two main headings. These are primary activities and:

A. Peripheral activities B. Support activities
C. Secondary activities D. Outsourced activities

108. The pie slices within the circles of a _____ reveal the percent of corporate profits contributed by each division

A. QSPM B. BCG matrix
C. SPACE matrix D. Grand strategy matrix

109. Which is the reasons for change of a firm from concentration strategies?

A. Overconfidence
B. Pressure to use idle capacity
B. Temptations of diversification
C. All of the above

110. Which statement is true?

A. Strategy has more subjective values
B. Strategy is developed at the highest level
C. Strategy requires more difficult-to-get information. A manager requires more information for arriving at a strategic decision, while tactics requires normal information which is generated within the organisation
D. All of the above

111. SWOT analysis includes

A. Functional Strategy B. Business Level Strategy
C. Corporate Strategy D. All of the above

112. What does stars symbolize in BCG matrix?

A. Growth B. Decline
C. Maturity D. Introduction

113. Which statement is true?

A. A budget is a statement of expected results expressed in numeric terms
B. Budgets may be variable budgets and flexible budgets
C. Budgetaiy planning is accurate, detailed and clear
D. All of the above

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114. Which is the strategic disadvantage of Product Organisation Structure?

A. Results in duplication of equipment and personal
B. Involves difficulty in allocating over-heads
C. Result in inconsistent decisions from one department to another
D. All of the above

Solutions

1	C	17	B	33	A	49	D	65	D	81	A	97	D	113	D
2	C	18	C	34	A	50	B	66	C	82	D	98	C	114	D
3	A	19	A	35	D	51	C	67	C	83	B	99	D		
4	C	20	A	36	C	52	B	68	B	84	B	100	A		
5	D	21	A	37	D	53	D	69	B	85	B	101	B		
6	C	22	C	38	D	54	D	70	B	86	A	102	A		
7	B	23	B	39	A	55	B	71	D	87	C	103	D		
8	D	24	D	40	C	56	A	72	D	88	A	104	D		
9	B	25	A	41	A	57	C	73	C	89	D	105	D		
10	D	26	C	42	A	58	A	74	B	90	C	106	D		
11	B	27	B	43	D	59	C	75	B	91	B	107	B		
12	A	28	D	44	B	60	C	76	D	92	C	108	B		
13	A	29	B	45	D	61	D	77	C	93	A	109	D		
14	A	30	C	46	D	62	A	78	A	94	A	110	D		
15	C	31	A	47	B	63	C	79	B	95	C	111	D		
16	B	32	D	48	B	64	A	80	C	96	D	112	A		

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Strategic Management Process

1. Select the most accurate statement. Value

A. Means value for money
B. Is best described as the benefits the business chooses to give to customers Through its product/service
C. Is the benefits of a product/service as perceived by the customer
D. Does not offer competitive advantage.

2. Which of these questions is not addressed by an effective business model?

A. What do customers value today?
B. Who are our customers?
C. What does the organization produce?
D. None of the above all is essential questions for effective business models

3. Which of the following would you not expect to see in a vision statement?

A. Descriptions of desirable future situations
B. Motivational terminology
C. Focus on the values to which the organization is committed
D. What the organization seeks to do to reach desirable future states

4. What are the decisions and actions that determine long-run performance of an organization?

A. Strategies B. Missions
C. Goals D. Opportunities

5. Strategic mission

A. Is a statement of a firms unique purpose and scope of operations
B. Is an internally-focused affirmation of the organization's societal and ethical goals
C. Does not limit the firm by specifying the industry in which the firm intends to compete
D. Is developed by a firm before the firm develops its strategic intent

6. The vision and mission statement can often be found

A. In the SEC report B. In annual reports
C. On customer receipts D. On supplier invoices

7. The purpose of a mission statement is to declare all of these except

A. A reason for being B. An annual financial plan
C. A statement of purpose D. A statement of beliefs

8. As indicated in the strategic-management model, a clear _____ is needed before alternate strategies can be formulated and implemented.

A. Long-term objective B. Short-term objective
C. Policy D. Mission statement

9. Innovation and quality can be seen as which form of management?

A. Marketing management B. Financial management
C. Operations management D. Human resource management

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10. The mission statement answers which question?

A. What is our business?
B. How can we improve ourselves?
C. What do we want to become?
D. Who are our stakeholders?

11. The vision statement answers which question?

A. What is our business?
B. How can we improve ourselves?
C. What do we want to become?
D. Who are our stakeholders?

12. In the process of developing a mission statement, it is important to involve

A. As few managers as possible
B. As many managers as possible
C. Upper-level management only
D. Lower-level management only

13. The process of developing a mission statement includes which of these as the first activity?

A. A request to modify the current document
B. Ask managers to read selected articles about mission statements
C. Ask managers to prepare a mission statement for the organization
D. A merging of several mission statements into one document

14. An effective mission statement is all of the following except

A. It reflects judgments about future growth directions that are based upon forward-looking external and internal analyses
B. It provides useful criteria for selecting among alternative strategies
C. It provides a basis for generating and screening strategic options
D. It is static in orientation

15. Good mission statements identify the _____ of a firms products to its customers

A. Utility
B. Price
C. Profit margin
D. Demand

16. Effective mission statements can vary in

A. Length
B. Content
C. Format
D. All of the above

17. Which component of a mission statement addresses the firms distinctive competence or major competitive advantage?

A. Technology
B. Philosophy
C. Concern for public image
D. Self- concept

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18. Why of the following is the best reason for why strategic planning is still important today?

A. Without a formal strategic plan a company cannot expect to compete effectively.
B. Without a strategic plan an organization can drift without purpose or definition
C. Without it, companies would exist without cause or co-ordination.
D. Because of slower economic growth, globalization and technological change

19. Which of the following is true for small business in relation to strategic planning?

A. It belongs in all organizations
B. It is too expensive
C. It only belongs in large organizations
D. The benefits are too long term

20. Developing a _____ is like having a dream to be covered in to reality in future

A. Mission
B. Objectives
C. Goals
D. Vision

21. First step in developing a vision statement is

A. Targeting the vision
B. Developing
C. Setting vision context
D. Conducting vision audit

22. How might an organization spot, create, and exploit new opportunities ahead of its rivals?

A. Through managers in the various businesses working together, sharing information and capabilities, helping each other, and creating synergy
B. Through managers in the various businesses sharing information, capabilities, and creating synergy
C. Through managers in the various businesses working together, sharing information, and sharing capabilities
D. Through managers in the various businesses working together to create strategic competencies for the organization in order to pursue opportunities

23. A useful framework used to assess a company's investments/divisions is called:

A. Unit production analysis
B. Corporate insight analysis
C. Company productivity analysis
D. Business portfolio analysis

24. Cash cows are SBU's that typically generate:

A. Problems for product managers
B. Paper losses in the long run
C. Large awareness levels but few sales
D. A lot of competition

25. Business unit competencies should be distinctive enough to provide a(n):

A. Clear understanding of who you want to lead the company
B. Competitive advantage
C. Opportunity to compete on a productivity basis
D. Additional strategic mission

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26. Which of the following is NOT a major element of the strategic management process?

A. Formulating strategy B. Implementing strategy
C. Evaluating strategy D. Assigning administrative tasks

27. A marketing department that promises delivery quicker than the production department's ability to produce is an example of a lack of understanding of the

A. Synergy of the business units
B. Need to maintain the reputation of the company
C. Organizational culture and leadership
D. Interrelationships among functional areas and firm strategies

28. Which of the following lists is comprised of support activities:

A. Human resource management, information systems, procurement, and firm infrastructure
B. Customer service, information systems, technology development, and procurement
C. Human resource management, technology development, customer service, and procurement
D. Human resource management, customer service, marketing and sales, and operations

29. Cultural values would be part of which of the following factor in macro environment?

A. Demographic B. Social
C. Ecological D. Natural

30. In _____ SBU companies, the corporate strategy is implemented through SBU strategies, which are formulated to achieve the corporate strategy.

A. Single B. Multi
C. Solo D. None of the above

31. Which of the following is a factor on which structure depends?

A. Size of business
B. Nature of business
C. Characteristics of the market
D. All of the above

32. Developing a vision and mission, identifying an organization's external opportunities and threats, and determining internal strengths and weaknesses are all _____ activities.

A. Strategy-formulation B. Strategy-implementation
C. Long-range planning D. Short-range planning

33. Which of these is not a reason why some firms do no strategic planning?

A. Laziness
B. Competitive leadership
C. Honest difference of opinion
D. Poor reward structures

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34. The means by which long-term objectives will be achieved are

A. Mission statements
B. Strategies.
C. Vision statements.
D. Long-term goals.

35. An effective information system collects, codes, stores, synthesizes, and information in such a manner that it answers important operating and strategic questions.

A. Prints
B. Distributes
C. Presents
D. Filters

36. All of the following are stated advantages of a divisional structure except

A. It allows local control of local situations.
B. It leads to a competitive climate within a firm.
C. Accountability is clear,
D. It promotes specialization of labor.

37. The control process requires the following types of information

A. Planned performance
B. Variances
C. Reasons
D. All of the above

38. A group of managers is considering pricing strategy and differentiation. At which level of strategy are the managers most likely to be working.

A. Corporate level
B. Operational level
C. Business level
D. Mission and vision

39. An organisations general expression of its overall purpose is known as its:

A. Objective
B. Vision
C. Goal
D. Mission

40 Which of the following terms correctly complete the definition Operational strategies are about how the component parts of an orgamsatxon deliver strategies in terms of _____and _____

A. People
B. Alliances
C. Mission
D. Resources
E. Processes

41. Strategy involves:

A. Senior managers and board members
B. Managers at all levels
C. Senior and middle managers
D. Senior management

42. What are the three main branches of strategy research that make up study of strategy?

A. Strategy content
B. Strategic context
C. Strategy lenses
D. Strategy processes

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43. Core competences are the skills and abilities by which sources are deployed through an organisations activities and processes such as to.

A. Survive using approaches and techniques that others cannot imitate or obtain.
B. Survive.
C. Achieve competitive advantage in ways that others cannot imitate or obtain.
D. Achieve competitive advantage.

44. A competitor finds it difficult to identify the basis for an organisations competitive advantage. What term is used for this situation?

A. Interdependent causality
B. Causal dependency
C. Causal ambiguity
D. Ambiguous inter causality

45. Which of the following statements correctly relate to explicit and tacit knowledge?

A. A systems manual is in example of explicit knowledge.
B. Tacit knowledge is easier to imitate.
C. Explicit knowledge is easier to communicate.
D. Tacit knowledge is personal, context-specific and therefore hard to communicate.

46. The strategist uses the career planning in order?

A. To enable the employees to develop and make them ready to meet the future challenges
B. To provide suitable promotional opportunities
C. To attract competent persons and retain them in the organisation
D. All of the above

47. The strategic management process is the way in which strategists determine objectives and

A. Make recording
B. Make coordinating
C. Make, strategic decisions
D. Make planning

48. Which is the step in the process of strategic decision-making?

A. Problem Diagnosis
B. The Selection of a Solution
C. Problem Awareness
D. All of the above

49. Match the following

List-I (Tools of Strategy)	**List-II (Concepts)**
(A) Monitoring	1. Mission
(B) Establishing Standards	2. Performance
(C) Measuring Performance	3. Strategic Audit
(D) Compare Performance with Standard	4. Variance Finding
	5. Budget

	(A)	(B)	(C)	(D)
A.	3	2	1	4
B.	(A)	(B)	(C)	(D)

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	1	2	3	4
C.	(A)	(B)	(C)	(D)
	1	3	2	5
D.	(A)	(B)	(C)	(D)
	1	4	3	2

50. Match the following

List-I (Types of Objective)		List-II (Concepts)
(A)	Performance Objective	1. Promotion in Position
(B)	Individual Objective	2. Production
(C)	Improvement Objective	3. Job Work
(D)	Social Objective	4. Pollution Control
		5. Innovation

A.	(A)	(B)	(C)	(D)
	3	1	2	4
B.	(A)	(B)	(C)	(D)
	1	2	3	4
C.	(A)	(B)	(C)	(D)
	1	2	5	4
D.	(A)	(B)	(C)	(D)
	4	1	3	2

51. The_____ answers the question "What do we want to become?" whereas answers the question "What is our business?"

A. Vision statement, mission statement
B. Short-term objectives; long term objectives
C. Objectives; strategies
D. Mission vision

52. Which statement is true about goal?

A. Goal setting gives base to a company for long term existence
B. Goal is an equipment to measure of execution, it provides clear measure for control. These measures are accepted by most of the people.
C. Goal setting is helpful in decision-making
D. All of the above

53. "Mission is the fundamental work given by the society to an organisation." Who said?

A. Koontz and O'Donnell
B. Daulton E. Mcfarland
C. Thomspon
D. All of the above

54. Which is the reasons for change of a firm from concentration strategies?

A. Overconfidence
B. Pressure to use idle capacity

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C. Temptations of diversification
D. All of the above

55. What are the means by which long term objectives will be achieved?
A. Strategies B. Policies
C. Strength D. Opportunities

56. Marketing strategy is a _____ type of strategy
A. Business level B. Growth strategy
C. Corporate strategy D. Functional strategy

57. A possible and desirable future state of an organization is called:
A. Mission B. Vision
C. Strategy implementation D. Strategy formulation

58. What does Question mark symbolize in BCG matrix?
A. Remain-Diversified B. Invest
C. Stable D. Liquidate

59. What do Cash Cows symbolize in BCG matrix?
A. Remain Diversified B. Invest
C. Stable D. Liquidate

60. The BCG matrix is based on
A. Industry attractiveness and Business strength
B. Industry Growth rate and Business strength
C. Industry Attractiveness and Relative Market share
D. Industry growth rate and relative market share

61. How many cells are in a SWOT matrix?
A. 9 B. 6
C. 3 D. 2

62. What is the starting point of strategic intent?
A. Objectives B. Goals
C. Mission D. Vision

63. Which of the following can be identified as a best statement that represents a firms big picture statements, describing a desired end state, general? In scope and not restrictive?
A. Corporate philosophy statement
B. Company creed
C. Vision statement
D. Mission statement

64. The sketch of the BCG matrix, what is the label of the horizontal axis?
A. Industry growth rate B. Market share
C. Market growth rate " D. Business strength

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65. The sketch of the BCG matrix, what is the label of the vertical axis?

A. Market growth rate
B. Business strength
C. Market share
D. Industry growth rate

66. According to the BCG matrix SBU comprising products in an attractive industry but representing little market share would be referred to as:

A. A cash cow
B. A star
C. A dog
D. A question mark

67. _____are short-term milestones or benchmarks that organizations must achieve in order for longer term objectives are to be reached

A. Vision
B. Mission
C. Plans
D. Goals

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1	C	11	C	21	D	31	D	41	B	51	A	61	A
2	D	12	B	22	A	32	A	42	ABD	52	D	62	D
3	D	13	B	23	D	33	B	43	C	53	A	63	C
4	A	14	D	24	D	34	B	44	C	54	D	64	B
5	A	15	A	25	B	35	D	45	ACD	55	A	65	D
6	B	16	D	26	D	36	D	46	B	56	D	66	D
7	B	17	D	27	D	37	D	47	C	57	B	67	D
8	D	18	D	28	A	38	C	48	D	58	A		
9	C	19	A	29	B	39	D	49	B	59	C		
10	A	20	D	30	B	40	A	50	A	60	D		

1. Which of the following is a key external factors that should be taken into account by a corporate strategy?

A. Economic conditions
B. Political conditions
C. Legal environments
D. Competition

2. The term corporate strategy concerns strategy and strategic decisions

A. In certain types of organization
B. At all levels in an organization
C. Developed by the senior management in an organization
D. In the private sector only

3. What are focus strategies?

A. Where a company focuses on achieving lower costs than,, its rivals so as to compete across a broad range of market segments
B. Where a company chooses to concentrate on only one market segment or a limited range of segments
C. When a company conducts market research through focus groups to determine how their strategy should be shaped
D. When a company focuses on supplying differentiated products which appeal to different market segments

4. Which of the following is not a key theme in market development?

A. Identifying new uses for existing products and services
B. Strategic positioning
C. Developing new products for new markets and segments
D. Identifying new markets and segments

5. Research into diversification and acquisition can be divided into 4 schools. Which of the following is not one of the schools?

A. Environmental
B. Financial
C. Accounting
D. Economic

6. If a business is blinkered, technology shy, and 'impoverished', what does this signal?

A. A weak strategic plan
B. A planning gap
C. A lack of innovation and vision
D. Weak strategic leadership

7. When a company is experiencing an economic recession this is a good time to do what?

A. Reduce costs and assets
B. Refocus
C. Simplify
D. Invest

8. Turnaround strategies involve changes at what level of strategy?

A. Corporate
B. Functional
C. Competitive
D. All levels

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9. Acquisitions often fail to deliver the successes that were predicted prior to acquisition. What is the main reason for this failure?

A. Premium price
B. Poor strategic leadership
C. Goodwill
D. Synergy

10. Which of these is not an issue in selecting a business as a divestment candidate?

A. Current market position
B. Product life-cycle
C. Alternate uses for resources
D. The size of the business

11. If an organization is to survive, which of the following is most essential?

A. Strong financial performance
B. Committed employees
C. High level of service
D. Customer retention

12. The corporate level is where top management directs:

A. All employees for orientation
B. Its efforts to stabilize recruitment needs
C. Overall strategy for the entire organization
D. Overall sales projections

13. Value for shareholders of a firm is measured by:

A. Customer comments
B. Stock performance and profitability
C. Sales revenue
D. Satisfactory employee targets

14. Which of the following is an issue considered in developing corporate strategies?

A. What business (es) are we in?
B. What direction are we going?
C. What resources do we have to implement our strategies?
D. What businesses are we in and what to do with those businesses?

15. Which of the following statements is NOT true regarding corporate strategies?

A. They are concerned with the broad and more long-term issues of the organization
B. They are concerned with how the organization is going to compete in a specific business or industry
C. They are concerned with the direction the organization is headed
D. They are concerned with the business (es) that the organization is in and the businesses they want to be in

16. An example of a corporate strategy would involve the decision to:

A. Increase the price of the Hummer
B. Spin Taco Bell off from Pepsi
C. Combine marketing functions in the Northeast and the Southeast
D. Increase the advertising budget for Coca-Cola

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17. What are core competences?

A. Resources which critically underpin competitive advantage and that others cannot obtain
B. Activities and processes needed to meet customers' minimum requirements and therefore to continue to exist
C. Key skills required for success in a particular business
D. Activities that underpin competitive advantage and are difficult for competitors to imitate or obtain

18. Which of these questions is addressed by a mission statement?

A. What do we want to become?
B. What is our business?
C. How many employees must we have?
D. Who do we want to serve?

19. Which of the following is an important reason for pursuing stability strategy?

A. The company is doing fairly well and it is hopeful of the same in the future
B. The feeling that sticking to the known business is always better and safe
C. The company may not want to take the risks of growth and expansion
D. All of the above

20. Retrenchment strategy is also known as?

A. Offensive strategy ,
B. Medium strategy
C. DEFENSIVE STRATEGY
D. All of the above

21. A combination strategy does not result from environmental changes.

A. True B. False

22. Opportunities provide great stimulus to an urge for growth.

A. True B. False

23. Which of the following is an important reason for business growth?

A. Natural urge B. Survival
C. Market Share D. All of the above

24. The important indicators of growth need not be positive simultaneously.

A. True B. False

25. Terms such as merger mania, merger frenzy and merger_____ have been used by business magazines and dailies in India.

A. Forever B. Fever
C. Feany D. All of the above

26. Most of the waves of M&As occurred during_____ booms

A. Social B. Political
C. Cultural D. Economic

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27. _____ adding new, unrelated products or services for present customers.

A. Concentric diversification
B. Horizontal diversification
C. Conglomerate diversification
D. Product development

28. Which strategy would be effective when the new cyclical sales pattern compared to an organization's present products.

A. Forward integration
B. Retrenchment
C. Horizontal diversification
D. Market penetration

29. The term 'corporate strategy' concerns strategy and strategic decisions:

A. In certain types of organizations.
B. At all levels in an organization.
C. Developed by the senior management m an organization.
D. In the private sector only.

30. A key characteristic of strategic decisions is:

A. They are likely to be concerned with, or effect, the long-term direction of an organization.
B. They are normally definite decisions about of the organization.
C. They identify specific areas of strategic interested for the management of an organization.
D. They result in better organizational performance..

31. Strategic fit means:

A. Creating opportunities by building on resources and competences.
B. Having a balanced portfolio which meets customer requirements
C. Tailoring strategies to address forces in the business environment.
D. Meeting the expectations of stakeholders.

32. The purpose of strategy is to provide:

A. The strategic direction for an organisation in the foreseeable future.
B. Direction and scope of an organisation over the long-term, which achieves advantage for an organisation within a changing environment to meet the needs of markets.
C. Direction and scope of an organisation over the long-term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.
D. A set of standards which all employees in an organisation should strive to attain.

33. It is possible to identify different levels of strategy in an organization, these are:

A. Corporate; strategic business unit; operational.
B. Corporate and functional.
C Strategic and tactical.
D. Corporate and business unit.

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34. Horizontal integration is concerned with

A. Production B. Quality
C. Product planning D. All of the above

35. It refers to formal and informal rules, regulations and procedures that complement the company structure

A. Strategy B. Systems
C. Environment D. All of the above

36. Micro environment is the_____ environment of a company.

A. Working B. Human
C. External D. Internal

37. Techniques used in environmental appraisal are

A. single-variable extrapolation/multivariable interaction analysis
B. Structured/ unstructured expert/inexpert opinion
C. Dynamic modes and mapping
D. All of the above

38. The reasons for acquisition are

A. Increased market power B. Increased diversification
C. Increased speed to market D. All of the above

39. Market research is conducted by

A. By employees B. By research agencies
C. By consultants D. all of the above

40. Vertical integration is concerned with

A. supply chain B. production
C. Quality D. planning

41. _____ cost accounting measures the cost of producing and ignores the Cost of non-producing

A. Lean B. Traditional
C. Environmental D. Throughput

42. In which of the following situations is buyer power likely to be high?

A. Where switching costs are low
B. Where ultimate consumer power is weak
C. Where the buyer can threaten to compete
D. Where a few large customers account for the majority of sales

43. Forward vertical integration occurs when suppliers are able to cut out buyers who act as intermediaries.

A. True B. False

44. When identifying strategic groups, which two headings can the relevant characteristics most usefully be grouped under?

A. Resource commitment B. Competitiveness
C. Scope of activities D. PESTEL factors

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45. What are the two constraints most likely to face organisations seeking greater market penetration?

A. The risk of downsizing
B. The need to consolidate market share
C. Legal constraints
D. Retaliation from competitors

46. In what three ways may market development take place?

A. By focusing on new users This is the correct answer.
B. By focusing on efficiency of production
C. By focusing on new geographies
D. By focusing on economies of scale

47. What term is used for corporate development beyond current products and markets, but within the capabilities or the value network of the organisation?

A. Backward integration B. Related diversification
C. Vertical integration D. Divergent diversification

48. Which two of the following are most likely to be sources of conglomerate value creation?

A. Exploiting dominant logics rather than concrete operational relationships
B. Divestment
C. Entering markets of high risk
D. Entering countries with underdeveloped markets

49. What is meant by diversifying through vertical or horizontal integration?

A. Vertical integration describes either backward or forward integration into adjacent activities in the value network. Horizontal integration is development into activities that are complementary to present activities.
B. Vertical integration is where a firm diversifies activities that are inputs into the companys current business. Horizontal integration refers to diversification into activities that are concerned with the companys outputs.
C. Vertical integration is where a firm diversifies into activities that are competitive with or complementary to its current activities. Horizontal integration is either backward or forward integration into adjacent activities in the value network.
D. Vertical integration is concerned with ensuring that all the activities of the organisation are well coordinated. Horizontal integration is concerned with coordination of activities with buyers and suppliers.

50. A film company and a music recording company may choose to combine, believing that the result will be more effective than the sum of the two component parts. What term is used for the benefits?

A. Synergy B. Diversification
C. Integration D. Consolidation

51. Diversification may create efficiency gains by applying the organisations existing resources or capabilities to new markets, products or services. These gains are known as economies of scale.

A. False B. True

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52. What does conventional finance theory say about the spreading of risk for shareholders when a company diversifies?

A. There is significant benefit, provided the diversification leads to synergy.
B. There is little benefit to shareholders as they have already spread their risk by holding a range of shares.
C. There is significant benefit, provided the diversification leads to an increase in corporate parenting capabilities.
D. There are always significant benefits from the reductions in risk.

53. Which of the following definitions explains what is meant by the corporate parent?

A. The central head office of the organisation
B. The founder of the business
C. The owner or major shareholder of the corporation
D. The levels of management above that of business units

54. Which three of the following are the key criteria that should be considered in relation to a multibusiness portfolio?

A. Potential problems
B. Attractiveness
C. Balance
D. Fit
E. Synergy

55. A particular business unit operates in a low-growth, mature market, in which it has a large market share. What term is used in the BCG matrix for this business?

A. Ballast
B. Cash cow
C. Star
D. Harvest/divest

56. Common problems in making acquisitions work relate to:

A. Lack of cultural fit.
B. Failure to add value, inability to integrate the new company, lack of organisational learning and poor cultural fit.
C. The two companies having different core competences.
D. Failure to add value and inability to integrate the new company.

57. Which three of the following are most likely to be motives for acquisitions and mergers?

A. To increase capabilities
B. To create consolidation opportunities
C. To use existing capabilities more successfully
D. To increase speed of entry into a rapidly changing market

58. What term is used for M&A integration in which it is implied that both the acquired firm and the acquiring firm learn the best qualities from the other?

A. Preservation
B. Symbiosis
C. Holding
D. Absorption

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59. The Royal Bank of Scotlands consortium competed with Barclays Bank to acquire the Dutch bank ABN AMRO: the Royal Bank of Scotland won, but the excessive price of 70bn (~$98bn) soon drove the victor into financial collapse and government ownership. What term is used for this situation?

A. Winners curse
B. Hubris
C. Acquisition
D. Excessibility

60. In the context of strategic alliances, what is meant by the term collaborative advantage?

A. The benefits of being part of a network of alliances of which an organisation is a member
B. The aim of two or more organisations in sharing resources and activities to pursue a strategy
C. The benefit of creating a new entity that is owned separately by the partners involved
D. The result of managing alliances better than competitors

61. Which of the following is not a stage that occurs when two organisations form and eventually dissolve an alliance?

A. Courtship
B. Negotiation
C. Storming
D. Maintenance
E. Start-up
F. Termination

62. Networks differ from joint ventures in that networks:

A. Are arrangements whereby two or more organisations work in collaboration without creating a new formal entity, but where there is mutual advantage in doing so.
B. Are based on personal relationships.
C. Are arrangements whereby two or more organisations work in collaboration with the creation of a new formal entity.
D. Are limited to e-commerce businesses.

63. Which of the following statements is not true reg corporate strategies?

A. They are concerned with the broad and more long-term issues of the organization
B. They are concerned with how the organization is going to compete in a specific business or industry
C. Are concerned with the direction the organization is headed

64. In the case where an organisation acquires its supplier, this is an example of

A. Horizontal integration
B. Forwards vertical integration
C. Backwards vertical integration
D. None of the above

65. Thompson andstrickeland say that the use of joint venture as a strategic alternative is becoming popular, because

A. It is a more flexible and adaptable to rapidly changing technological and market conditions than a formal joint venture
B. It can readily accommodate multiple partners

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C. Lt provides a favoured mechanism to take strategically important diversification opportunities

D. All of the above

66. Match the following

List-I (Strategy)	List-II (Features)
(A) Stability	1. Sustainable growth
(B) Growth	2. Horizontal integration
(C) Retrenchment	3. Liquidation
(D) Combination	4. Restructuring

A.	(A)	(B)	(C)	(D)
	1	3	2	4
B.	(A)	(B)	(C)	(D)
	1	2	3	4
C.	(A)	(B)	(C)	(D)
	4	3	2	1
D.	(A)	(B)	(C)	(D)
	4	2	1	3

67. The guidelines for delegating authority includes

A. Select the key jobs and competent managers and appoint the right and competent manager as head of each unit.

B. Revenue-producing and results producing activities should not be subordinate to internal support or staff functions.

C. Activities and organisational units with a crucial role in strategy implementation process should not be subordinate to routine and non-key activities

D. All of the above

68. The corporate level management help each strategic business unit to define its

A. Goal of nature B. Goal of production

C. Goal of firm D. Scope of operation

69. Which is advantage of the merging from buyer's point of view?

A. To take balance in product line

B. To make better investment

C. To raise the price value of company's stock

D. All of the above

70. The pattern of diversification includes

A. Vertical diversification

B. Market diversification

C. Product diversification

D. All of the above

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71. Selling all of a companys assets in parts for their tangible worth is called:

A. Divestiture
B. Concentric Diversification
C. Liquidation
D. Unrelated integration

72. Buying another company by one company means:

A. Joint venture
B. Acquisition
C. Amalgamation
D. Merger

73. The Reasons for diversification is:

A. To reduce competition
B. To increase organizational capabilities
C. To get tax advantage
D. To get quick entry into a business

74. Allah group of industries is involved in the sale of its marginal business. It is most likely to say that Abdullah group is implementing which one of the following strategies?

A. Retrenchment
B. Liquidation
C. Acquisition
D. Join venture

75. An organisation increases its sales through greater marketing efforts, and expands its workforce and production capacity to cope with the increase in demand for its product, it is following a growth strategy in which growth is achieved through:

A. Unrelated diversification
B. Acquisition
C. Merger
D. Direct expansion

76. When does horizontal integration occur?

A. When a firm acquires or merges with a major competitor
B. When a firm acquires or merges with a an unrelated business
C. When a firm acquires or merges with a distributor
D. When a firm acquires or merges with a supplier firm

77. Divestment is what kind of strategy?

A. An asset-reduction strategy
B. A weakness-reduction strategy
C. A product-reduction strategy
D. A cost-reduction strategy

78. In which of the following scenarios is a joint venture likely to be more attractive than acquisition?

A. Horizontal integration
B. Vertical integration
C. New market entry
D. Larger resource pool

79. The slowest way to grow a business is likely to be through:

A. A merger
B. Outsourcing
C. Internal development
D. A strategic alliance

80. Which of the following is not a recognized element of corporate strategy?

A. Competitive advantage
B. Closure
C. Acquisition
D. Divestment

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1	D	13	B	25	B	37	D	49	A	61	C	73	B
2	B	14	D	26	D	38	D	50	A	62	A	74	C
3	B	15	B	27	C	39	D	51	A	63	B	75	D
4	C	16	B	28	A	40	A	52	B	64	C	76	A
5	A	17	D	29	B	41	B	53	D	65	D	77	A
6	D	18	B	30	A	42	ACD	54	BCD	66	B	78	A
7	B	19	D	31	C	43	A	55	B	67	D	79	C
8	C	20	C	32	C	44	D	56	B	68	D	80	A
9	B	21	B	33	A	45	CD	57	ABD	69	D		
10	D	22	A	34	A	46	AC	58	B	70	D		
11	C	23	D	35	B	47	B	59	A	71	C		
12	C	24	B	36	D	48	AD	60	D	72	D		

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1. Porter's generic strategies are

A. Low price, differentiation, focus
B. Cost leadership, differentiation, cost focus, focus differentiation
C. Price leadership, differentiation, focus
D. Low cost, differentiation, focus differentiation.

2. In Porter's generic strategies model, a focus strategy involves

A. Selling a limited range of products
B. Selling to a narrow customer segment
C. Selling to one region only
D. Selling simple products that are cheap to produce

3. A question for business level strategy would be

A. Which industries do we want to be in?
B. How should the businesses be related?
C. How should the business compete in its market?
D. How should resources be shared amongst the businesses?

4. Which of the following is a force in the Porter's five forces model of industry attractiveness?

A. Opportunity for new entrants
B. Opportunity for substitutes
C. Bargaining power of suppliers
D. Sustainable competitive advantage for customers

5. Which of the following factors does not increase the bargaining power of a supplier?

A. Substitutability
B. Concentration of suppliers
C. A buyer is important to the supplier
D. High switching costs

6. The five forces model developed by _____ has been the most commonly used analytical tool for examining competitive environment

A. Michnal E Porter
B. Lewis Charter
C. Barrywell
D. Schwiz

7. The first of Porters Five Forces model is the

A. Intensity of rivalry among industry competitors
B. Threats of new entrants
C. Bargaining power of suppliers
D. Bargaining power of buyers

8. Cross-functional teams are:

A. A small group of people from the same department who work on projects together
B. A small group of people who come together to resolve business unit issues
C. A small group of specialists who collaborate on a task force

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D. A small group of people from different departments who are mutually accountable to a common set of performance goals

9. The business unit strategy has three major components:

A. Mission, business, and SBU goals
B. Marketing, advertising and pricing objectives
C. Mission, business unit goals, and competencies
D. Business mission, department mission, and daily plans

10. Disney is in the business of:

A. Theme parks or movies B. Creating entertainment, fun and fantasy
C. Building theme parks D. Designing new imaginative characters

11. A company's ability to meet its short-term financial obligations is measured by which of the following categories?

A. Liquidity ratios B. Profitability ratios
C. Activity ratios D. Leverage ratios

12. Peter Drucker observes " that business purpose and business mission are so rarely given adequate thought is perhaps the most important single cause of business failure".

A. True B. False

13. Which of the following is a common entry barrier?

A. Government policy B. Economics on scale
C. Cost disadvantages D. All of the above

14. Which of the following is a factor which influences the intensity of rivalry?

A. The volume of purchase relative to the total sale of the seller
B. The importance of the product to the buyer in terms of the total cost
C. Number of firms and their relative market share
D. Switching costs

15. For several industries, buyers are potential competitors.

A. True B. False

16. All of these, except_____, are part of Porter's competitive forces in industry analysis. Strategic Management

A. Potential entry of new competitors
B. Bargaining power of suppliers
C. Development of substitute products
D. Bargaining power of union

17. Job titles that refer to strategists include which of the following?

A. External audit
B. Owner, entrepreneur, executive director, and accountant
C. Chief executive officer, salesman, dean, and lawyer
D. Owner, dean, president, and executive director

18. Relative deficiency or superiority is important information in performing which activity?

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A. External audit B. Allocating resources
C. Internal audit D. Evaluating strategies

19. How often should strategic-management activities be performed?
A. Annually B. Quarterly
C. Monthly D. Continuously

20. Who is most responsible for developing, communicating, and enforcing the code of business ethics for a firm?
A. Strategists B. Line managers
C. Staff managers D. All managers

21. What is the key benefit of identifying the organisationssbus?
A. It helps the development of business-level strategies.
B. It makes financial control easier.
C. It prevents a focus solely on market-based criteria.
D. It decreases the complexity of the organisations structures.

22. Which of the following are generally used when identifying sbus?
A. Market-based criteria B. Structurally-based criteria
C. Capabilities-based criteria D. Finance-based criteria

23. What is meant by focused differentiation?
A. Providing a high perceived value service or product to a selected market segment that justifies a substantial price premium
B. Simultaneously seeking to achieve differentiation and a price lower than that of competitors
C. Concentrating on a particular feature of a product or service to achieve differentiation
D. Concentrating on differentiation as the primary means of achieving competitive advantage

24. A differentiation strategy is defined as:
A. The provision of products or services that offer benefits different from those of competitors and that are widely valued by buyers.
B. The innovation of products or services greater than the competition.
C. Higher quality products or services than those of competitors.
D. The provision of different products or services that draw upon competences or resources which competitors do not have.

25. How might an organisation sustain and win a price war?
A. By cross-subsidising one business from another
B. By having deeper pockets to fund short- to medium-term losses
C. By having a lower cost structure
D. All of the above

26. Which of the following are key principles for successful competition in hypercompetitive conditions?
A. Misleading the competition
B. Maintaining constant strategies
C. Developing new bases of success
D. Making a series of small moves (rather than big moves) This is the correct answer.
E. Being unpredictable

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27. Which one of the following best explains the aim of collaboration?

A. To achieve advantage
B. To avoid competition
C. Neither to achieve advantage nor to avoid competition
D. To achieve advantage or avoid competition

28. Which of the following could be major benefits for a seller that collaborates with a major customer in a technological industry such as aerospace or car manufacturing?

A. It may enable joint research and development
B. Increased seller power
C. It increases the buyers power
D. It enables the customer to increase barriers to entry

29. Many governments have promoted, or required, collaboration between buyers of pharmaceuticals and centralised government drug-specifying agencies. What is the outcome of these moves?

A. Greater sensitivity to end-user requirements
B. Increased selling power
C. Increased buyer power
D. Greater barriers to entry

30. What are the two key assumptions in understanding competitive dynamics in terms of game theory?

A. Competitors may opt to follow game rules of their own choosing.
B. Competitors are in an interdependent relationship.
C. Competitors approach business as though it was a game, so do not always behave rationally.
D. Competitors will behave rationally in trying to win their own benefit.

31. Based on the two basic assumptions of game theory, which two principles guide the development of successful competitive strategies?

A. Think forwards and reason backwards
B. Analyse forwards and think backwards
C. Get in the mind of the competitors
D. Assume that your competitor cannot get in your mind

32. Consider the example of a company that is always battling on the basis of price, but realises that with its cost structure it cannot hope to compete effectively. What, according to game theory, should it do?

A. Change the rules
B. Avoid all collaboration
C. Continue with current strategies, knowing that the. Competition will act irrationally
D. Continue with its current strategies

33. Strategic business units

A. Are found in one-business organisations
B. Carry out strategies assigned by the CEO
C. Develop their own unique way of competing
D. Implement the marketing function's strategic planning and management decisions

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34. A company offers unique products that are widely valued by customers, it is likely to follow a:

A. Differentiation strategy B. Combination strategy
C. Focus strategy D. Cost-leadership strategy

35. Which of the following is not one of Porters five competitive forces?

A. Bargaining power of suppliers
B. Threats of new entrants and barriers to entry
C. Threats of technological advances
D. Threats of substitutes

1	B	6	A	11	A	16	D	21	A	26	ACDE	31	AC
2	B	7	B	12	A	17	D	22	AC	27	D	32	A
3	C	8	D	13	D	18	C	23	A	28	AB	33	C
4	C	9	C	14	C	19	D	24	A	29	C	34	A
5	C	10	B	15	A	20	A	25	D	30	BD	35	C

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1. Which one of the following would not be considered a functional strategy?

A. Financial
B. Marketing
C. Product-market
D. Operations

2. Functional level strategy directly supports

A. Corporate strategy
B. Business strategy
C. Differentiation strategy
D. Focus strategy

3. A marketing department that promises delivery quicker than the production department's ability to produce is an example of a lack of understanding of the

A. synergy of the business units.
B. need to maintain the reputation of the company.
C. organizational culture and leadership.
D. interrelationships among functional areas and firm strategies.

4. XYZ Corp. Is centering on the objective of low-cost, high quality, on- time production by curtailing idle productive facilities and workers.The XYZ Corp.Is taking advantage of a_____ system.

A. Just-In-Time (JIT)
B. Last In, First Out (LIFO)
C. First In, First Out (FIFO)
D. Highly mechanized

5. Which of the following lists is comprised of support activities:

A. human resource management, information systems, procurement, and firm infrastructure
B. customer service, information systems, technology development, and procurement
C. human resource management, technology development, customer service, and procurement
D. human resource management, customer service, marketing and sales, and operations

6. Although firm infrastructure is quite frequently viewed only as overhead expense, it can become a source of competitive advantage. Examples include all of the following except:

A. negotiating and maintaining ongoing relations with regulatory bodies.
B. marketing expertise increasing a firm's revenues and enabling it to enter new markets.
C. effective information systems contributing significantly to a firm's overall cost leadership strategy.
D. top management providing a key role in collaborating with important customers.

7. The competencies or skills that a firm employs to transform inputs into outputs are:

A. tangible resources.
B. intangible resourced.
C. organizational capabilities.
D. reputational resources.

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8. An array of firm resources include interpersonal relations among managers in the firm, its culture, and its reputation with its customers and suppliers. Such competitive advantages are based upon

A. physical uniqueness. B. path dependency.
C. social complexity. D. tangible resources.

9. A company's ability to meet its short-term financial obligations is measured by which of the following categories?

A. liquidity ratios B. profitability ratios
C. activity ratios D. leverage ratios

10. The "balanced scorecard" supplies top managers with a view of the business.

A. long-term financial B. detailed and complex
C. simple and routine D. fast but comprehensive

11. Which of the following is NOT an influence on organisational purposes?

A. Minor stakeholders. B. Business ethics.
C. Corporate governance. D. The organisational mission.

12. The governance framework determines:

A. Whom the organisation is there to serve.
B. Whom the organisation is there to serve and how the purposes and priorities of the organisation should be decided.
C. The legal framework for the administration of the organisation.
D. The regulatory framework in which the organisation operates.

13. Financial_____ environment is concerned with

A. demand & supply of money
B. capital markets
C. both 'A' and 'B'
D. None of the above

14. Harvest_____ strategy is used for

A. Dogs B. Question marks
C. both 'A' and *B' D. none of the above

15. Type (s) important managerial skill(s) required for the effective strategic management

A. Conceptual skill B. Human skill
C. Intellectual skill D. all of the above

16. Factors encouraging joint ventures are

A. Uneconomical separate existence
B. Risk of business gets shared
C. Sharing competence of each other
D. All of the above

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17. _____is the drive to achieve beyond one's expectations.

A. Motivation B. Training
C. Development programme D. All of the above

18. Which is the functional area of Strategic Management?

A. Production or Operations B. Finance
C. Marketing D. All of the above

19: _____system istoasically one of private enterprise in which decisions about what and how much to produce are left to discretion of owners and managers

A. Political System
B. Capitalistic Economic System
C. Economic System
D. Legal System

20: Producing a_____ reduces the quantity of defects product

A. Cost of Sales B. Cost of Production
C. Advantage of Profit D. Quality of Product

21. Is the managerial process of developing and maintaining a viable fit between the organisation's objectives, skills and resources and its changing market opportunities.

A. Cost
B. Product Oriented Strategic Planning
C. Product
D. All of the above

22: Which is the strategic disadvantage of Product Organisation Structure?

A. Results in duplication of equipment and personal
B. Involves difficulty in allocating over-heads
C. Result in inconsistent decisions from one department to another
D. All of the above

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1	C	6	B	11	D	16	D	21	D
2	B	7	C	12	B	17	A	22	D
3	D	8	C	13	C	18	D		
4	A	9	A	14	C	19	B		
5	A	10	D	15	D	20	D		

1. **Which of these is not a reason for why employees resist the implementation of strategic changes?**
   A. Anxiety regarding jobs
   B. Lack of necessary strategic resources
   C. Lack of knowledge
   D. Poor strategic leadership

2. **What is likely to be the effect of a logical corporate strategy but poor strategy implementation.**
   A. Strategic weaknesses and underachievement
   B. Fragmented performance through strategic and structural flaws
   C. Structural and stylistic flaws
   D. Effectiveness but little efficiency

3. **What term best describes the use of both financial and non-financial measures in assessing whether an entity has achieved its objectives?**
   A. Balanced scorecard
   B. Benchmarking
   C. Performance measurement
   D. Target setting

4. **_____is any sharp disagreement or collision of interests and ideas.**
   A. Issues management
   B. Conflict positioning
   C. A conflict
   D. A crisis

5. **_____takes place in the recovery phase of strategic conflict management**
   A. Conflict positioning
   B. Reputation management
   C. Risk communication
   D. Issues tracking

6. **Best in Class Benchmarking seeks to assess organisational performance against:**
   A. The nearest geographical competitor
   B. The competitor who is 'best in class' wherever that may be
   C. The competitor who is the best in the industry
   D. The nearest principal competitor

7. **Strategy-implementation activities include**
   A. Conducting research
   B. Measuring performance
   C. Preparing a TOWS matrix
   D. Establishing annual objectives

8. **Conducting research, integrating intuition with analysis, and making decisions are all activities.**
   A. Strategy-formulation
   B. Strategy-implementation
   C. Long-range planning
   D. Short-range planning

9. **The average employee performance bonus is_____ percent of pay for individual performance, _____ percent of pay for group productivity, and _____ percent of pay for company-wide profitability.**
   A. 10.5; 5.5; 2.8
   B. 6.8; 5.5; 6.4
   C. 10.8; 8.5; 12.4
   D. 15.4; 12.4; 10.4

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10. Strategy-implementation activities include

A. Conducting research. B. Measuring performance.
C. Preparing a TOWS matrix, D. Establishing annual objectives.

11. In a large organization, strategic management activities occur at what level (s)?

A. Corporate and divisional only
B. Divisional
C. Strategic business unit only
D. , divisional, and corporate

12. Conducting research, integrating intuition with analysis, and making decisions are all _____ activities.

A. Strategy-formulation B. Strategy-implementation
C. Long-range planning D. Short-range planning

13. Which of these questions is addressed by a mission statement?

A. What do we want to become?
B. What is our business?
C. How many employees must we have?
D. Who do we want to serve?

14. Internal strengths and weaknesses are usually

A. The major cause of organizational demise or success.
B. Controllable activities within an organization.
C. Most important for ceos and the board of directors.
D. Not as important as external opportunities and threats.

15. It enables the strategists to take corrective action at the right time

A. Implementation control
B. Special alert control
C. Strategic Surveillance control
D. Premise control

16. Like roots of a tree, _____ of organization is hidden from direct view.

A. Performance B. Strategy
C. Core competence D. All of the above

17. Changes in company_____ also necessitates changes in the systems in various degrees

A. structure B. system
C. strategy D. turnover

18. The actual performance deviates positively over the budgeted performance. This is an indication of_____ performance.

A. superior B. inferior
C. constant D. any of the above

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19. Criteria for making an evaluation is (are)

A. Consistency with goals
B. Consistency with environment
C. Money
D. All of the above

20. The_____ of any organization is "the aggregate of all conditions, events and influences that surround and affect it."

A. system B. environment
C. structure D. strategy

21. Strategic management is mainly the responsibility of

A. Lower management B. Middle management
C. Top management D. All of the above

22. The major issue(s) of appraisal system is (are)

A. Factors of appraisal B. Relevance of appraisal
C. Procedure of appraisal D. All of the above

23. They have time based utility

A. Goals B. Resources
C. both 'A' and 'B' D. None of the above

24. Formal systems are adopted to bring_____ & amalgamation of decentralized units into product groups.

A. Manpower B. Co-ordination
C. Production D. All of the above

25. Change in company's gives rise to problems necessitating a new to be made _____

A. structure, strategy B. strategy, structure
C. structure, structure D. strategy, strategy

26. Systems are formal and informal rules and regulations that complement the company

A. strategy B. structure
C. system D. environment

27. Benchmarking is

A. Historical analysis B. Competitive analysis
C. Re-engineering D. All of the above

28. A major part of strategy implementation is

A. Planning B. Communication
C. Resource allocation D. Monitoring

29. The purpose of a SWOT analysis is to analyse:

A. The strategic capability of an organisation.
B. External and internal environments.

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C. The business environment and the strategic capability of an organisation relative to its competitors.
D. The business environment in which an organisation operates.

30. Best-in-class benchmarking seeks to assess organisational performance against:
A. The competitor who is best in class wherever that may be.
B. The nearest geographical competitor.
C. The nearest principal competitor.
D. The competitor who is the best in the industry.

31. Analysis suggests that a company could find a strategy that gains market share for advantage, and that exploits its superior resources and competences. The organisational culture suggests that it should stick to what it knows best. What strategy would you suggest?
A. Diversification B. Retrenchment
C. Market penetration D. Market development

32. Analysis suggests that a company's existing markets are saturated. The company wants to exploit its strategic capabilities in new arenas and satisfy its stakeholders by making rapid growth. What strategy would you suggest?
A. Retrenchment B. Market development
C. Diversification D. Market penetration

33. If managers use their judgement when applying the techniques, the criteria of suitability, acceptability and feasibility will identify the best strategy.
A. True B. False

34. What is most often the limitation when assessing return using cost- benefit analysis?
A. Difficulty in quantification
B. Clear identification of the key stakeholders
C. Difficulties in establishing the timescales to be applied
D. Identifying objectives of the strategy

35. Profitability analyses for assessing the acceptability of a strategy include:
A. Return on capital employed (ROCE); ratio analysis; and funds flow analysis.
B. Return on capital employed (ROCE); payback period; and discounted cash flow (DCF).
C. Payback period; discounted cash flow; and decision trees.
D. Ranking; decision trees; and scenarios.

36. Acceptability assessment concerns:
A. The strategic fit of the strategy to the future trends and changes in the environment.
B. The resources and competences required to implement the strategy.
C. The expected performance outcomes, such as risk, return and stakeholder reactions, if a strategy is implemented.
D. The stakeholder reaction to a strategy.

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37. One of the top level manager of a large manufacturing plant uses to spend her day trying to ensure that the material waste is not more than 10%, she spends her day performing the management process of:

A. Planning B. Organizing
C. Leading D. Controlling

38. Which of the following requires a firm to establish annual objectives, devise, policies, motivates employees and allocate resources for the execution of strategies?

A. Strategy formulation B. Strategy evaluation
C. Strategy implementation D. Strategy estimation

39. Match the following

	List-I (Thinkers) —	**List-II (Contributions)**
(A)	Charles, W. Hofer & Dan E. Schendel	1. Strategic Management
(B)	Hofer, Murray & Pitts	2. Management Policy
(C)	Alfred, D. Chandler	3. Strategy and Structure
(D)	Melvin, J. Stanford	4. Business Policy
		5. Strategy Formulation :

Analytical Concept

A.	(A)	(B)	(C)	(D)
	3	1	2	4
B.	(A)	(B)	(C)	(D)
	1	2	3	4
C.	(A)	(B)	(C)	(D)
	1	3	2	4
D.	(A)	(B)	(C)	(D)
	5	1	3	2

40. The strategy evaluation factors include

A. Contributory Relationships
B. MVC-Host Country Relationships
C. Financial Measures
D. All of the above

41. Is a tool used to establish processes, costs and performance indicator and to compare them against identical organisations with the objectives of identifying and progressing towards 'best practice and best value' through continuous improvement.

A. Cash Flow B. Fund Flow
C. Strategic Management D. Bench Marking

42. Internal audit is done:

A. Before external audit B. After external audit
C. Parallel to external audit D. Vertical to external audit

43. Industry/sector benchmarking compares:

A. Organisational performance between firms/public sector organisations in different industries or sectors

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B. Organisational performance between firms/public sector organisations in the same industry or sector

C. Organisational performance between firms/public sector organisations in different countries

D. Organisational performance between different divisions of the firm

1	B	2	C	3	C	4	C	5	B
6	B	7	D	8	A	9	B	10	D
11	D	12	A	13	B	14	B	15	D
16	C	17	B	18	A	19	D	20	B
21	C	22	D	23	C	24	B	24	B
25	B	26	B	27	B	28	C	29	C
30	A	31	C	32	B	33	A	34	B
35	C	36	C	37	D	38	C	39	D
40	A	41	D	42	C	43	B		

NITESH KR. JAISWAL CS CLASSES

1. Select the statement that best applies to emergent strategies. Emergent strategy...

A. Implies an ability to react to events
B. Implies strategizing
C. Implies no deviation from plans
D. Implies constant evaluation of the bigger picture

2. Which of the following is not a way in which organizations can behave more ethically and socially responsibly?

A. By avoiding discrimination and improving working conditions
B. By lowering prices to their targeted market, to stimulate demand and increasing profit by increases in productivity to meet customer demands
C. By ensuring product safety
D. By avoiding pollution and safely disposing of waste

3. Which is alternatives objectives of sbus as per Kotler?

A. Build
B. Harvest
C. Hold
D. All of these

4. Which is the member of 'APEC forum?

A. New Zealand
B. China
C. Malaysia
D. All of these

5. Match the following

List-I (Thinkers)	List-II (Ideas)
(A) P. F. Drucker	1. Strategic Management
(B) Hosmer	2. Strategies for Change
(C) Andrews	3. The Concept of Corporate Strategy
(D) Quinn	4. Management: Tasks, Responsibilities Practice
	5. Change

A.	(A)	(B)	(C)	(D)
	3	1	4	2
B.	(A)	(B)	(C)	(D)
	1	2	3	4
C.	(A)	(B)	(C)	(D)
	1	3	2	4
D.	(A)	(B)	(C)	(D)
	4	1	3	2

6. Which statement is true?

A. Operating goals clear that which element is significant as result-oriented or qualitative
B. Official goals and operating goals both are different
C. Operating goals express that what is an organisation exactly trying to do
D. All of the above

NITESH KR. JAISWAL CS CLASSES

7. Cultural values would be part of which of the following factor in macro environment?

A. Economic B. Natural
C. Social D. Ecological

8. Who says that "management objectives is the specific and expected goals which determines a manager's area and give suggestion for direct to his efforts."

A. Glueck and Jauch B. Thompson and Strickland
C. G. R. Terry D. None of these

9. Which statement is true

A. Effective goals are related to the important features of job
B. Feedback arrangement with revaluation is also an effective goal
C. The goal improves organisational and personal execution, clearly tells about reason for increment in control
D. All of the above

10. The average employee performance bonus is _____percent of pay for individual performance, percent of pay for group productivity, and_____ percent of pay for company-wide profitability.

A. 10.5; 5.5; 2.8 B. 6.8; 5.5; 6.4
C. 10.8; 8.5; 12.4 D. 15.4; 12.4; 10.4

11. Approaches to organisational change includes

A. Protecting employees interests
B. Encourage team work
C. Employee Participation in decision-making relating the changes.
D. All of the above

12. 'Rfeputation' in the context of an organisation's resources can provide competitive advantage because

A. It is difficult to copy
B. It is based on word-of-mouth
C. It is a threshold resource
D. It is explicit

13. Organisational Capability includes

A. Managerial Experience
B. Strategic Planning and Management System
C. Superior Information
D. All of the above ANS. D

14. Which statement is true?

A. A budget is a statement of expected results expressed in numeric terms
B. Budgets may be variable budgets and flexible budgets
C. Budgetary planning is accurate, detailed and clear
D. All of the above

NITESH KR. JAISWAL CS CLASSES

15. When an industry relies heavily on government contracts, which forecasts can be the most important part of an external audit

A. Economic
B. Competitive
C. Political
D. Multinational

16. What are the guides to decision making?

A. Rules
B. Procedures
C. Goals
D. Policies

17. In strategic thinking, how long is the long term, approximately?

A. 1 month to 1 year
B. 2 to 3 years
C. 3 to 5 years
D. More than 5 years

18. Low cost, Differentiation and Focus are examples of

A. Corporate strategies
B. Operational strategies
C. Business strategies
D. Functional strategies

19. The word tactics is most likely to be associated with

A. Business strategy
B. Corporate strategy
C. Operational strategy
D. All of the above

20. From the following activity which does not comes under the primary activities of value Chain analysis:

A. Operations
B. Technology development
C. Marketing and sales
D. Services

21. Buyers' market exist when:

A. Few suppliers in the market
B. Buyers purchases in small volume
C. Buyers purchases in large volume
D. Product of suppliers are unique and differentiated

22. All of the following are key opportunities and threats in external environment because of political, government and legal forces except:

A. Tax rate
B. Social security program
C. Cross boarder relationship
D. Patent law

23. Bargaining power of customers is high if:

A. Differentiation of competitors product is low
B. Switching costs are low for substitute products
C. The buyer has little information about the market
D. The buyer requires a high quality product for own production

24. The magnitude and changes that may affect an organization is survival owing to all of the following except:

A. Merger-mania
B. Demographics
C. E-commerce
D. Dubious firms

NITESH KR. JAISWAL CS CLASSES

25. Which type of trend can be exemplified by the increasing numbers of two income households in a society?

A. Solid
B. Economic
C. Cultural
D. Technological

26. The primary benefit brought from restructuring is:

A. Employee involvement
B. Cost reduction
C. Increased morale
D. Increased number and organizational hierarchy

27. Technological advancements can create which of the following advantage besides many other existing powerful advantages for the businesses?

A. Economic
B. Social
C. Environmental
D. Competitive

28. Which strategies aim at improving internal weakness by taking advantage of external opportunities?

A. SO
B. WO
C. SW
D. ST

29. What is the purpose of an activity map?

A. A system to facilitate better time-planning
B. It is used in business process reengineering to show how the different activities of an organisation are linked together
C. It is used to identify and understand strategic capability by mapping how the different activities of an organisation are linked together
D. A list of activities undertaken by an organisation
E. They are concerned with the business that the organization is in and the businesses they want to be in

30. Which would be classified as a stakeholder?

A. Communities
B. Banks
C. Suppliers
D. Communities Banks Suppliers

31. The following are considered grand strategies, except for:

A. A retrenchment strategy
B. Strategic business units
C. A Growth strategy
D. Related diversification

32. Retrenchment is:

A. When a company experiences declining profits and makes cutbacks to improve efficiency
B. When a company adopts a new strategic position for a product or service
C. The sale of the complete business, either as a single going concern or piecemeal to different buyers or sometimes by auctioning the assets
D. "ely to take place when an organization lacks a key success factor for a particular market

NITESH KR. JAISWAL CS CLASSES

33. Sustained survival implies

A. That a turnaround is achieved but there is little further growth
B. That a turnaround is achieved and there is potential for further growth
C. That a turnaround is achieved and there is a clear opportunity to employ a new growth strategy
D. That a turnaround is achieved and it is appropriate to diversify soon

34. Corporate governance is concerned with:

A. Executive remuneration, disclosure of information, auditing and accounting procedures, and organizations' management structures
B. Elections to the board of directors
C. Relationships with national governments
D. A growth strategy
E. Corporate-level strategy

35. A joint venture can be defined as:

A. Two firms collaborate together on a specific project
B. One firm licenses its intellectual property to another firm
C. Two firms merge together
D. Two firms come together to form a third, legally separate firm

36. _____ refers to the purposes an organization strives to achieve

A. Strategic Intent
B. Strategic Formulation
C. Strategic Implementation
D. Strategic Control

37. _____strategy may require a firm to redefine its business and may involve divestment of a major product line or an SBU, abandon some markets or reduce its functions

A. Expansion Strategy
B. Retrenchment Strategy
C. Combination Strategy
D. Stability Strategy

38. Which of the following statements is false? Formal strategic planning

A. Implies determined actions for achieving objectives
B. Is a time consuming process
C. Should develop clear and rigid plans for the organization to implement
D. Is most applicable in stable environments

39. _____strategy is often considered as entrepreneurial strategy where firm develops and introduce new products and markets or penetrate markets to build share

A. Expansion Strategy
B. Retrenchment Strategy
C. Combination Strategy
D. Stability Strategy

40. Which of the following statements best describes the concept of strategic awareness?

A. Managers understanding of the organizations history, competencies, and current strategy
B. Managers understanding of current strategy and its effectiveness
C. Managers understanding of the strategic options available to the organization
D. Managers understanding the organizations strategy, its effectiveness

NITESH KR. JAISWAL CS CLASSES

41. Which of the following is associated with successful strategies?

A. Creating superior value to customers
B. Exploitation of key success factors
C. Creating and maintaining strategic fit
D. All of the above

42. What is the recommended length of an effective mission statement?

A. One page
B. Less than 200 words
C. One sentence of 10 to 20 words
D. There is no recommendation It can be as long as the management wants

43. Which type of strategies are of particular importance to global companies?

A. Corporate
B. Functional
C. Competitive
D. Corporate and competitive

44. Two reasons for mergers and acquisitions are

A. To increase managerial staff and to minimize economies of scale
B. To reduce tax obligations and increase managerial staff
C. To create seasonal trends in sales and to make better use of a new sales force
D. To provide improved capacity utilization and to gain new technology 45. SM

45. SM Processprocess starts with

A. formulation
B. Implementation

46. The primary/fundamental function of management is :

A. Planning,
B. Organization
B. Controlling,
D. Direction,

47. The father of modern management theory is :

A. W.F. Taylor
C. Koontz O Donnel
B. Henri Fayol
D. Samulson

48. POSDCORB was coined using the initial letters of management function by:

A. Koontz O'Donnel
C. Peter F. Drucker
B. Luther Guilick
D. Henry Mintzberg

49. Delegation is must for

A. Centralization
C. Organization
B. Decentralization
D. Controlling

50. Which functions as comprising human relationship in group activity,

A. Planning,
C. Organization
B. Controlling
D. Directing

51. Delegation of authority and placing of responsibility to the executives of the Department for carrying out the assigned activities is an important step of :

A. Planning,
C. Directing
B. Organizing
D. Controlling

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52. Can be defined as collection of people and co-ordination of their activities of the enterprise:

A. Directing 5
B. Controlling
C. Organizing
D. Planning

53. Organization is based on the principal of_____.

A. Decision making
B. Division of Work
C. Developing Relationships
D. Group Efforts

54. _____means a large-part of decision making and authority is withhold at higher positions in the management hierarchy.

A. Decentralization
B. Centralization
C. Delegation
D. Both A and b

55. The Organization can sustain without _____ but not without_____

A. Centralization, Decentralization,
B. Delegation, Authority,
C. Centralization, Decision making
D. Decentralization, Delegation.

56. Which of the following is not a factor determining degree of Decentralization?

A. Control Techniques
B. Size of the Enterprises
C. Management Attitude
D. Allotment of Duties

57. _____regards informal organization as the network of personal and social relationships which is not established or required by formal organization.

A. Keith Davis
B. Barnard
C. Kasts and Resenzweing
D. Larry E. Greiner

58. The right to give orders and exact obedience is :

A. Authority
B. Responsibility
C. Accountability
D. Authority - Power Contimum.

59. Management is originated from the greek word:

A. Kiyo
B. Nomos
C. Oikeu
D. None of the above

60. Anagement is a_____ and_____ science.

A. Exact & disciplinary
C) Exact and social
B) Inexact and inter disciplinary
D) None of the above.

61. Management is an art because it involves_____ and _____

A. Experience and intelligence
C. Skills and knowledge
B. Creativity and personalization
D. None of the above.

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62. Management as a profession satisfies all the tests. True or false?

A. True
B. Partly True / Partly False
C. False
D. None of the above

63. _____function calls for properly motivating, communicating, leading & supervising the subordinates.

A. Staffing
B. Direction
C. Orginasing
D. Controlling.

64. True or false : If co-operation exists, co-ordination with automatically follow:

A. True
B. False
C. Partly True
D. Partly False.

65. Co-ordination is achieved through understanding of _____ relationships.

A. Interpersonal, (horizontal)
B. Vertical
C. Hierarical
D. None of the above.

66. _____is the father of 'scientific management'

A. Henry Fayol
B. Frederich Taylor
C. Luther Guiich
D. Nowmann& Summer

67. Authority and responsibility are _____.

A. Co-extensive
B. Mutually exclusive
C. Complimentary to each other
D. None of the above.

68. Management is affected by and in turn affects the system in which it operates. Thus,it is a_____ system.

A. Closed
B. Open
C. Neither closed nor open
D. Notice of the above.

69. Enterpreneur's, role of a disturbance handler, allocator of resources & negotiator's role are the _____ roles that the manager has to perform.

A. primary
B. secondary

70. Functions of administration are _____ &_____ .

A. Executive & Governing
C. Legislative & determinative.
B. Policy making & implementation
D. Sustisating& controlling.

71. Managerial skills are classified as _____ & _____ by katz.

A. Technical, human & conceptual.
B. Communication, administrative & leadership.
C. Conceptual, technical & leadership.

72. _____is deciding in advance the course of action to be followed.

A. Organising
B. Direction
C. Controlling.
D. Planning v

73. _____represents the end point of planning :

A. Goals
B. Strategies
C. Objectives
D. None of the above.

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74. _____have changes in perception & branding as their primary goal.

A. Marketing Plans
B. Operational Plans
C. Strategic Plans
D. Business Plans.

1	A	12	A	23	A	34	A	45	A	55	D	66	B
2	B	13	D	24	D	35	D	45	A	56	D	67	A
3	D	14	D	25	B	36	A	46	A	57	A	68	B
4	D	15	C	26	B	37	B	47	B	58	A	69	A
5	D	16	D	27	D	38	C	48	B	59	B	70	A
6	D	17	D	28	B	39	A	49	B	60	B	71	B
7	C	18	C	29	C	40	D	50	C	61	B	72	D
8	C	19	C	30	D	41	D	51	B	62	C	73	C
9	D	20	B	31	B	42	D	52	C	63	D	74	A
10	B	21	C	32	A	43	D	53	B	64	B		
11	D	22	B	33	A	44	D	54	B	65	A		

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STRATEGIC MANAGEMENT QUESTIONS FROM ICSI MODULE

1.Strategy Is Developed By The Visionary Chief Executive In _____ Mode Of Strategic Management

A. Planning Mode
B. Strategy Mode
C. Adaptive Mode
D. Entrepreneurial Mode

2. Stability Strategy Is A _____ Strategy

A. Corporate Level
B. Business Level
C. Functional Level
D. Strategical Level

3. What Are The Means By Which Long Term Objectives Will Be Achieved?

A. Strategies
B. Policies
C. Strength
D. Opportunities

4. Marketing Strategy Is A _____ Strategy

A. Business Level
B. Growth
C. Corporate
D. Functional

5. A Possible And Desirable Future State Of An Organization Is Called:

A. Vision
B. Mission
C. Strategy Implementation
D. Strategy Formulation

6. What Does Question Mark Symbolize In Bcg Matrix?

A. Remain Diversified
B. Invest
C. Stable
D. Liqidate

7. What Do Cash Cows Symbolize In Bcg Matrix?

A. Remain Diversified
B. Invest
C. Stable
D. Liqidate

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8. The Bcg Matrix Is Based On
A. Industry Attractiveness And Business Strength
B.Industry Growth Rate And Business Strength
C. Industry Attractiveness And Relative Market Share
D.Industry Growth Rate And Relative Market Share

9. What Are The Guides To Decision Making?
A.Rules
B.Procedures
C.Goals
D. Policies

10. Which Environment Can Create New Market And New Business Segments?
A. Political Environment
B. Economic Environment
C. Socio Cultural Environment
D. Technological Environment

11. The Word Tactics Is Most Likely To Be Associated With
A. Business Strategy
B.Corporate Strategy
C. Operational Strategy
D.AllOf The Above

12. Buyers Market Exist When:
A.Few Suppliers In The Market
B.Buyers Purchases In Small Volume
C.Buyers Purchases In Large Volume
D. Product Of Suppliers Are Unique And Differentiated

13. The Reasons For Diversification Is:
A. To Reduce Competition
B. To Increase Organizational Capabilities
C. To Get Tax Advantage
D. To Get Quick Entry Into A Business

14. Strategic Management Handles:
A. External Issues
B.Management Issues
C.Internal Issues
D.Administrational Issues

15. What Is The Starting Point Of Strategic Intent?
A. Objectives
B. Goals
C. Mission
D. Vision

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16. Corporate Level Strategy Deals With:
A. Objectives Of Specific Functions
B. Objective Of Single Strategic Business Unit
C. Objectives Of The Corporate
D. Objectives Of Specific Operations

17 Which Of The Following Can Be Identified As A Best Statement That Represents A Firms Big Picture Statements, Describing A Desired End State, General In Scope And Not Restrictive?
a. Corporate Philosophy Statement
b. Company Creed
c. Vision Statement
d. Mission Statement

18. One Of The Top Level Manager Of A Large Manufacturing Plant Uses To Spend Her Day Trying To Ensure That The Material Waste Is Not More Than 10% , She Spends Her Day Performing The Management Process Of:
A. Planning
B. Organizing
C. Leading
D. Controlling

19. Bargaining Power Of Customers Is High If:
A. Differentiation Of Competitors Product Is Low
B.Switching Costs Are Low For Substitute Products
C. The Buyer Has Little Information About The Market
D. The Buyer Requires A High Quality Product For Own Production

20. Which Of The Following Requires A Firm To Establish Annual Objectives, Devise, Policies, Motivates Employees And Allocate Resources For The Execution Of Strategies?
A.Strategy Formulation
B.Strategy Evaluation
C.Strategy Implementation
D.Strategy Estimation

21. Technological Advancements Can Create Which Of The Following Advantage Besides Many Other Existing Powerful Advantages For The Businesses?
A.Economic
B.Social
C.Environmental
D.Competitive

22. Which Strategies Aim At Improving Internal Weakness By Taking Advantage Of External Opportunities?
A.So
B. Wo
C. Sw
D. St

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23. The Sketch Of The Bcg Matrix, What Is The Label Of The Horizontal Axis?
A.Industry Growth Rate
B.Market Share
C. Market Growth Rate
D.Business Strength

24. Which Of The Following Statements Is Not True Regarding Corporate Strategies?
A. They Are Concerned With The Broad And More Long-Term Issues Of The Organization
B. They Are Concerned With How The Organization Is Going To Compete In A Specific Business Or Industry
C. Are Concerned With The Direction The Organization Is Headed
D. They Are Concerned With The Business(Es) That The Organization Is In And The Businesses They Want To Be In

25. According To The Bcg Matrix Sbu Comprising Products In An Attractive Industry But Representing Little Market Share Would Be Referred To As:
A. Cash Cow
B. A Star
C. A Dog
D. A Question Mark

26. Which Of The Following Is Not One Of Porters Five Competitive Forces?
A. Bargaining Power Of Suppliers
B.ThreatsOf New Entrants And Barriers To Entry
C. Threats Of Technological Advances
D. Threats Of Substitutes

27. Strategic Business Units
A. Are Found In One-Business Organisations
B.CarryOut Strategies Assigned By The Ceo
C.Develop Their Own Unique Way Of Competing
D. Implement The Marketing Function's Strategic Planning And Management Decisions

28. Mcdonalds Is Deciding Whether To Expand Into Manufacturing Kitchen Equipment In China. At What Level Is This Decision Likely To Be Made?
A. Business
B. Corporate
C. Functional
D. International

29. Which Of The Following Statements Is False? Formal Strategic Planning
A. Implies Determined Actions For Achieving Objectives
B. Is A Time Consuming Process
C. Should Develop Clear And Rigid Plans For The Organization To Implement
D. Is Most Applicable In Stable Environments

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30. Which Of The Following Statements Best Describes Strategic Management?
A. A Process Consisting Of Determining Objectives And Strategic Actions To Achieve Those Objectives
B. A Process Consisting Of Determining Objectives, Strategic Actions To Achieve Those Objectives, The Implementation Of Desired Strategy, And The Monitoring Of That Strategy
C. A Process Consisting Of The Determination Of Direction, Strategic Actions To Achieve Objectives, The Implementation Of Desired Strategy, And Monitoring Of That Strategy
D. A Process For Determining Direction, Strategic Actions To Achieve Objectives, And The Implementation Of Desired Strategy

31 .Porter's Generic Strategies Are
A. Low Price, Differentiation, Focus
B. Cost Leadership, Differentiation, Cost Focus, Focus Differentiation
C. Price Leadership, Differentiation, Focus
D. Low Cost, Differentiation, Focus Differentiation

32. A Question For Business Level Strategy Would Be
A. Which Industries Do We Want To Be In?
B. How Should The Businesses Be Related?
C. How Should The Business Compete In Its Market?
D How Should Resources Be Shared Amongst The Businesses?

33. Ansoff's Growth Vector Matrix Is Used For
A. AnalyzingThe Different Strategic Directions An Organization Can Pursue
B. AnalyzingThe Balance Of The Portfolio
C. Assessing Whether The Corporate Parent Is Adding Value
D. Assessing The Market Share Of A Business

34. In Ansoff's Matrix, Product Development Involves Going In The Direction Of
A. Present Products To Present Markets
B. Present Products To New Markets
C. New Products To Present Markets
D. New Products To New Markets

35 Which Of The Following Would You Not Expect To See In A Vision Statement?
A. Descriptions Of Desirable Future Situations
B Motivational Terminology
C. Focus On The Values To Which The Organization Is Committed
D. What The Organization Seeks To Do To Reach Desirable Future States

36. Why Is Strategic Management Important?
A.It Has Little Impact On Organizational Performance
B. It Is Involved In Many Of The Decisions That Managers Make
C. Most Organizations Do Not Change
D. Organizations Are Composed Of Similar Divisions And Functions

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37 _____ Are The Organizations Major Value Creating Skills, Capabilities And Resources That Determine The Organizations Competitive Weapons
A. Strengths
B. Opportunities
C. Core Competencies
D. Weaknesses

38. Which Of The Following Is Not A Purpose Of Strategic Thinking?
A.To Realize What Needs To Change
B.To Establish The Agenda For Managing Strategic Change
C.To Clarify Future Direction
D.To Allocate Scarce Resources

39 Which Of The Following Is A Force In The Porter's Five Forces Model Of Industry Attractiveness?
A. Opportunity For New Entrants
B. Opportunity For Substitutes
C. Bargaining Power Of Suppliers
D. Sustainable Competitive Advantage For Customers

40. Functional Level Strategy Directly Supports
A. Corporate Strategy
B. Business Strategy
C. Differentiation Strategy
D. Focus Strategy

41 _____ Are Short-Term Milestones Or Benchmarks That Organizations Must Achieve In Order For Longer Term Objectives Are To Be Reached
A. Vision
B. Mission
C. Plans
D. Goals

42. Low Cost Foreign Competition Can Be Classified As-
A. Potential Opportunities
B. Potential Threats
C. Potential Strength
D. Potential Weakness

43. What Our Business Is Stated In_____
A. Mission Statement
B. Strategic Goals
C. Vision Statement
D. All Of The Above

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44. Diversification Can Be Classified As-
A. Potential Opportunities
B. Potential Threats
C. Potential Strength
D. Potential Weakness

45. It Permits The Lower Level Management To Deal With The Routine Problems And Issues On Their Own Without Reverting Back To Top Management For The Purpose Of Decision Making. Here It Represents.
a. Plans
b. Strategic Objectives
c. Business Policy
d. Corporate Strategy

46.Choose The Appropriate Code-
An Effective Business Policy Must Have Following Features-
1. Specific 2. Appropriate 3. Unstable 4.Static 5.Comprehensive 6. Exclusive

a. 1,2,5
b. 1,2,6
c. 2,3,5
d. 3,4,6

47. The Origins Of Business Policy Can Be Traced Back To The Year _____
a. 1921
b. 1951
c. 1911
d. 1981

48. _____ Report, Sponsored By The Ford Foundation,
Recommended A Capstone Course Of Business Policy "... Which Will Give Students An Opportunity To Pull Together What They Have Learned In The Separate Business Fields And Utilize This Knowledge In The Analysis Of Complex Business Problems.
a. Pierson
b. Harvard School
c. American Assembly
d. Gordon And Howell

49. In _____, The _____, A Regulatory Body For Business Schools, Made The Course Of Business Policy A Mandatory Requirement For The Purpose Of Recognition.
A. 1980, American Discipline Of Collegiate Schools Of Business
B. 1969, American Assembly Of Collegiate Schools Of Business
C. 1999, American Oxford Of Collegiate Schools Of Business
D. 1949, American Express Of Collegiate Schools Of Business

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50. Formal Management Education Started In India In The Late Fifties And Gained An Impetus With The Setting Up Of The Indian Institutes Of Management (Iims) And The Administrative Staff College Of India In The Early_____
A. 60s
B. 70s
C. 80s
D. 90s

51. The Iim, _____ Based Its Teaching Methodology On The Harvard Model Of Developing And Using Case Studies As The Major Tool.
A. Bangalore
B. Lucknow
C. Calcutta
D. Ahmedabad

52. Such A Statement Reflects The Corporate Philosophy, Identity, Character, And Image Of An Organization. It May Be Defined Explicitly Or Could Be Deduced From The Management's Actions, Decisions, Or The Chief Executive's Press Statements.
Which Statement Is Talked About Here.
a. Vision Statement
b. Mission Statement
c. Business Policy Statement
d. Strategic Statement

53. Which Of These Are Not Depicting The Feature About Mission Statement.
A. A Mission Statement Defines The Basic Reason For The Existence Of That Organization.
B. A Mission Statement Is A Short Statement Of An Organization's Purpose, Identifying The Goal Of Its Operations
C. Mission Statement Is Communicated Primarily To The People Who Make Up The Organization—Its Members Or Employees—Giving Them A Shared Understanding Of The Organization's Intended Direction.
D. There Are Hard And Fast Rules To Developing A Mission – What Matters Most Is That Is Generally Be Considered To Be An Accurate Reflection.

54. General Principles For Drafting Mission Statement Does Not Include-
A. Make It Memorable
B. Make It Realistic
C. Make It As Succinct As Possible
D. Make It Common To You.

55. _____ (2007) Have Developed The Curve Which Connects Together The Three Issues In Developing A Successful Business Model.
A. Brown And Blackmon
B. Hill And Jones
C. Michael Porter
D. Harvard School

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56. _____ Is Stated In The Mission Statement, Which Explains The Business Type And Ultimate Goal Of The Firm.
A. Business Strategy
B. Functional Strategy
C. Divisional Strategy
D. Corporate Strategy

57. _____ Has An Introverted Approach.
A. Business Strategy
B. Functional Strategy
C. Divisional Strategy
D. Corporate Strategy

58. Companies Must Utilize This Practice When Their Operating Performance Falls Behind Industry Benchmarks Or Benchmarked Companies.
Which Practice Is Talked About.
a. Economic Value Added
b. Free Cash Flow
c. Asset Management
d. Financing Decisions

59._____ Also Indicate Inefficient Areas That Require Corrective Actions By Management; They Measure Profit Relationships With Sales, Total Assets, And Net Worth.
A. Growth Indices
B. Risk Management
C. Profitability Ratios
D. Tax Optimization

60. _____ Evaluate Sales And Market Share Growth And Determine The Acceptable Trade-Off Of Growth With Respect To Reductions In Cash Flows, Profit Margins, And Returns On Investment.
A. Growth Indices
B. Risk Management
C. Profitability Ratios
D. Tax Optimization

61. It Is The Process Of Making Investment Decisions In Capital Expenditure, Benefits Of Which Are Expected Over A Long Period Of Time Exceeding One Year.
Process Here Is_____
a. Capital Budgeting
b. Dividend Decision
c. Financing Decision
d. Working Capital Management

62. _____ Is Also A Function Of Dividend Decision.

a. Capital Budgeting

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b. Capital Structure Decision
c. Finance Decision
d. Working Capital Management

63. _____ May Adopt Unconventional Or Unexpected Approaches To Building Growth And Their Tactical Responses Are Likely To Include: Product Proliferation; Diversification; Multi-Branding; Erecting Barriers To Entry; Vertical And Horizontal Integration And Corporate Acquisitions.
A. Market Nichers
B. Market Challengers
C. Market Folllowers
D. Market Leaders

64. They Will Compete 'Neck To Neck' With The Market Leader In An Effort To Grab Their Market Share. Their Overall Strategy Is To Gain Market Share Through Product, Packaging And Service Innovations; New Market.
Who Refers To 'They' Above.
A. Market Nichers
B. Market Challengers
C. Market Folllowers
D. Market Pioneers

65. Tactically, _____ Are Likely To Improve The Product Or Service Offering, Leverage Cross-Selling Opportunities, Offer Value For Money And Build Relationships Through Superior After Sales Service, Service Quality And Other Related Value Adding Activities.
A. Market Nichers
B. Market Challengers
C. Market Folllowers
D. Market Pioneers

66. According To_____, Every Entrant Into A Market – Whether It Is New Or Not – Is Classified Under A Market Pioneer, Close Follower Or A Late Follower.
A. Brown And Blackmon
B. Hill And Jones
C. Michael Porter
D. Lieberman And Montgomery

67. _____Are Known For Innovative Product Development, Resulting Into Some Early Entry Market-Share Advantages Than The Followers As They Have The First-Mover Advantage, Pioneers Must Ensure That They Are Having At Least One Or More Of Three Primary Sources: Technological Leadership, Pre-Emption Of Assets Or Buyer Switching Costs.
A. Close Followers
B. Market Pioneers
C. Nichers
D. Late Enterants

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68. Arrange The Process Of Implementing Hr Strategy.
1. Developing Hr Strategy 2. Gap Analysis 3. Forecasting Hr Requirement
4. Assessing Current Hr Capacity
a. 1,4,3,2
b. 1,2,4,3
c. 4,3.2.1
d. 4,2,3,1

69. Pairing A New Employee With A Mentor Is A Great For Retention. New Team Members Can Learn From The Experience Of A Senior. This Strategy Is Called As_____
A. Onboarding And Orientation
B. Recognition And Reward System
C. Work Life Balance
D. Mentorship Programs

70. This Strategy Includes Outreaching To External Individuals Or Organizations To Complete Certain Tasks.
A. Outsourcing Strategy
B. Recognition And Reward System
C. Work Life Balance
D. Mentorship Programs

71. Which Strategy Does Not Come Under Production Strategies Under Business Strategies.
A. Differentiation Strategy
B. Quality Strategy
C. Market Segmentation Strategy
D. Cost Leadership Strategy

72. _____ Strategy Is Also Called Focus Strategy.
A. Differentiation Strategy
B. Quality Strategy
C. Market Segmentation Strategy
D. Cost Leadership Strategy

73. Under _____ , The Company Produces And Sells Environment-Friendly Products Also Called As Green Products
A. Differentiation Strategy
B. Quality Strategy
C. Market Segmentation Strategy
D. Eco Friendly Strategy

74. _____ Strategy Is Defined As "The Set Of Guiding Principles, Driving Forces And Ingrained Attitudes That Help To Coordinate Goals, Plans And Policies Between Partners Across A Given Supply Chain."
A. Production
B. Marketing
C. Human Resource
D. Logistics

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75. The Top Level Is The Strategic Level That Defines _____
A. Customer Oriented Strategy
B. Logistics Strategy
C. Customer Service Strategy
D. Network Designing Strategy

76. Logistics Strategy Is Developed With _____ Principles
A. 7
B. 6
C. 8
D. 9

77. A Situation Analysis Or Environmental Analysis Is An Essential Component Of Any _____ And It Has To BeAssured That Such Analysis Is Conducted Periodically To Keep The Strategies Up To Date.
A. Strategy Formulation
B. Strategy Implementation
C. Strategy Evaluation
D. Strategy Control

78. A Complete Situation Analysis Does Not Focus On_____
A. The Problem
B. The People
C. The Factors
D. The Strategy

79. The Quality Of The _____ Will Affect The Success Of The Whole Plan.
A. Strategic Plan
B. Situation Analysis
C. Strategic Framework
D. Corporate Strategy

80. Which Of These Is Not The Element Of Situation Analysis.
A. Product Situation
B. Competitive Situation
C. Distribution Situation
D. Resource Situation

81. The Origin Of The _____ Is Supposed To Be Rooted In The Concept Of 'Force Field Analysis'
A. Swot Analysis
B. Bcg Analysis
C. Ansoff Analysis
D. G.E Mckinsey Analysis

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82. 'Force Field Analysis' Pronounced By _____ In _____.
A. Porter, 1980s
B. K. Levin, 1950s
C. Albert, 1970s
D. Black Boston, 1950s

83. _____ Of The "Harvard Business Review" Says That Focusing On Threats And Opportunities First Helps Lead To Productive Discussions About What Is Going On In The External Environment Rather Than Getting Bogged Down In Abstract Discussions About What A Company Is Good At Or Bad At.
A. Porter
B. K.Levin
C. Michael Watkins
D. Albert Topscott

84. _____Refers To An Organization, Within Which The Synergy Effect Is Present And And Opportunities Are Dominating In The Environment. It Consists In Strong Expansion And Development, With Maximum Application Of Strengths And Available Opportunities.
A. Mini-Maxi
B. Maxi-Mini
C. Mini-Mini
D. Maxi- Maxi

85. It Is Present In An Organization In A Situation, When With High Internal Potential, It Undergoes Unfavorable System Of External Conditions Or Threats. The Threats Need To Overcome With Use Of The Strengths.
Which Strategy Symbolizes Above Characteristic.
A. Mini-Maxi
B. Maxi-Mini
C. Mini-Mini
D. Maxi- Maxi

86. Competitive Strategy Is Categorized As_____
A. Mini-Maxi
B. Maxi-Mini
C. Mini-Mini
D. Maxi- Maxi

87. This Strategy Enables Survival In A Situation, When An Organization Works In An Unfavorable Environment, It Is Deprived Of Strengths.
Which Strategy Is Talked About Here.
A. Mini-Maxi
B. Maxi-Mini
C. Mini-Mini
D. Maxi- Maxi

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88. Pert AndCpm Two Complementary Statistical Techniques Utilized In _____
A. Business Strategy
B. Product Development
C. Market Management
D. Project Management

89. First Developed By The United States Navy In The 1950s To Support The U.S. Navy's Polaris Nuclear Submarine Project. What Was Developed By U.S Navy.
A. Pert
B. Cpm
C. Bcg
D. Adl

90. Cpm Is _____
A. Probabilistic Model
B. Deterministic Model
C. Integrative Model
D. Substantive Model

91. The Tool To Identify The Strengths And Weaknesses Of A Company Is A Product Portfolio Analysis. The Product Portfolio Analysis Was Proposed In _____ By _____ As A Way To Classify Current And Expected Profitability.
A. 1963, Michael Porter
B. 1973, Peter Drucker
C. 1983, Henry Fayol
D. 1965, Bruce Henderson

92. What Is The Success Sequence In Bcg Matrix
A. When A Question Mark Becomes A Star And Finally It Becomes A Cash Cow.
B. When A Star Becomes A Cash Cows And Finally It Becomes A Question Mark
C. When A Cash Cows Becomes A Star And Finally It Becomes A Question Mark.
D. When A Dog Becomes A Question Mark And Finally It Becomes A Star.

93. Arrange The Steps In Bcg Matrix.
1. Calculate Revise Market Share
2. Define The Market
3. Find Out Market Growth Rate
4. Choose The Unit
5. Draw The Circles On Matrix

a. 2,3,4,1,5
b. 4,2,1,3,5
c. 4,1,2,5,3
d. 4,2,5,1,3

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94. _____ Observed In Case Of Dog Quadrant Products Which Are Generally Divested To Release The Amount Of Money Already Stuck In The Business.
A. Build
B. Hold
C. Divest
D. Harvest

95. It First Appeared In The Harvard Business Review In 1957.
What Is 'It' Here.
a. Adl Matrix
b. Bcg Matrix
c. Ansoff Matrix
d. G.E Kinsey Matrix

96. The _____ Option WithinAnsoff's Growth Matrix Uses Existing Resources And Capabilities And Can Be Thought Of As "Business As Usual But On Steroids".
A. Market Penetration
B. Diversification
C. Product Development
D. Market Development

97. In Which Stage Of Plc Customers Are Making Repeated Orders, But, With A Lot Of Competitors, The Company Has To Make Efforts In Differentiating Their Product From Competitors.
A. Embryonic Stage
B. Growth
C. Mature
D. Aging

98. In Which Stage Of Plc, Snatching Market Shares From The Competitors Becomes Difficult, Then Company Requires Innovating Or Modifying The Product Or To Make An Exit.
A. Embryonic Stage
B. Growth
C. Mature
D. Aging

99. Ge Mckinsey Matrix Is A Strategy Tool Is Similar To _____
A. Bcg
B. Adl
C. Ansoff
D. Swot/Tows

100. _____ Strategy Is Implemented Along Three Dimensions: Improvement In Performance By Scaling Down The Level And/Or Scope Of Product/Market Objectives; Cut Back In Costs; And Reduction Of The Scale Of Operations Through The Divestment Of Some Units Or Divisions.
A. External Expansion
B. Internal Expansion

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C. Stability
D. Retrenchment

101. _____ Is Deemed To Be Successful When A Company Is Able To Fetch A Premium Price For Its Products Or Services, Has Increased Revenue Per Unit, Or Is Able To Retain Loyalty Of Its Customers.
A. Differentiation Strategy
B. Cost Leadership Strategy
C. Focus Strategy
D. Retrenchment Strategy

102. The _____ Is Also Known As 'Niche' Strategy.
A. Differentiation Strategy
B. Cost Leadership Strategy
C. Focus Strategy
D. Retrenchment Strategy

103. Not A "Do Nothing" Strategy, But A "Do Nothing New" Strategy Is Followed Under Which Strategy.
A. External Expansion
B. Internal Expansion
C. Stability
D. Retrenchment

104. As Per _____ "That Set Of Decisions And Actions Which Leads To The Development Of An Effective Strategy Or Strategies To Help Achieve Corporate Objectives.
A. Gluek
B. Peter Drucker
C. George R Terry
D. Henry Fayol

105. _____ Identifies Three Principles Underlying Strategy: Creating A "Unique And Valuable [Market] Position", Making Trade-Offs By Choosing "What Not To Do", And Creating "Fit" By Aligning Company Activities With One Another To Support The Chosen Strategy.
A. Gluek
B. Peter Drucker
C. George R Terry
D. Michael Porter

106. _____ Is The Process Of Deciding About The Best Course Of Action For Accomplishing Organizational Objectives And Therefore, Attaining Organizational Purpose.
A. Environment Scanning
B. Strategy Formulation
C. Strategy Implementation
D. Strategy Control

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107. The Internal And External Scan Helps In Selecting The Strategic Factors. These Have To Be Reviewed And Redefined In Relation To The Mission And Objectives.
Which Process Of Strategic Management Is Talked Here.
A. Environment Scanning
B. Strategy Formulation
C. Strategy Implementation
D. Strategy Control

108. Evaluation Ascertains That The Organizational Strategy As Well As Its Implementation Is In Line With The Organizational Objectives.
Which Process Of Strategic Management Is Talked Here.
A. Environment Scanning
B. Strategy Formulation
C. Strategy Implementation
D. Strategy Evaluation

109. The Main Purpose Of Strategic_____ Is Strategic Productivity.
A. Plan
B. Framework
C. Management
D. Leadership

110. Strategic Leader Ensures Shareholder Value Through Courageous Decision-Making That Supports Enterprise – Or Unit-Wide Interests.
Which Role Is Played By Strategic Leader.
a. Talent Advocate
b. Captivator
c. Enterprise Guardian
d. Change Driver

111. Which Of These Is Not An Advantage Of Environment Study.
A. Redevelopment Of Strategies And Long-Term Policies And Objectives Of The Firm.
B. Development Of Action Plans To Deal With Changes In Environment.
C. To Forecast The Consequences Of Socio-Economic Changes At The National And Global Levels On The Company's Stability.
D.AnalysisOf Competitor's Strategies And Formulation Of Effectual Counter Measures.

112. An Advertisement Says, 'Have Roohafza With Milk And Lassi Too'. Which Strategy Is The Company Trying To Use:
A. Market Development
B. Product Development
C. Market Penetration
D. New Markets

113. According To Porter, What Is Usually The Most Powerful Of The Five Competitive Forces?
A. Rivalry Among Existing Firms
B. Potential Development Of Substitute Products
C. Bargaining Power Of Buyers And Suppliers
D. Potential Entry Of New Competitors

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114. Which Of The Following Is Correct?
A. Strategy Is Always Pragmatic And Not Flexible
B. Strategy Is Not Always Perfect, Flawless And Optimal
C. Strategy Is Always Perfect, Flawless And Optimal
D. Strategy Is Always Flexible But Not Pragmatic

115. Change In Company's ——————— Gives Rise To Problems Necessitating A New ——————- To Be Made.
A. Structure, Strategy
B. Strategy, Structure
C. Strategy, Policy
D. Policy, Strategy

116. 'Customer Analysis' And 'Market Analysis' Are Part Of-
A. Internal Analysis
B. Strategy Identification
C. External Analysis
D. Strategy Selection

117. The Niche Strategy Is The Best Way To Enter A_____
A. New Market
B. Growing Market
C. Matured Market
D. Existing Market

118. What Can Be Defined As The Art And Science Of Formulating, Implementing And Evaluating Cross-Functional Decisions That Enable An Organization To Achieve Its Objectives?
A. Strategic Management
B. Strategy Formulation
C. Strategy Implementation
D. Strategy Evaluation

119. The Emphasis On Product Design Is Very High, The Intensity Of Competition Is Low, And The Market Growth Rate Is Low In The_____Stage Of The Industry Life Cycle.
A. Maturity
B. Embryonic
C. Growth
D. Decline

120. A Firm Implementing Differentiation Strategy Would Expect
A. Customers To Be Sensitive To Price Increases
B. To Charge Premium Prices
C. Customers To Perceive Product Standard
D. To Have High Level Powers Over Suppliers

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121. A Tool By Which Management Identifies And Evaluates The Various Businesses That Make Up A Company Is Termed As
A. Value Chain Analysis
B. Portfolio Analysis
C. Competition Analysis
D. Strategic Analysis

122. Adl Matrix Has Been Propounded By:
A. Arthur D. Lowey
B. Arthur D. Little
C. Arthur D. Lewin
D. Arthur D. Louise

123.If An Organization Is To Survive, Which Of The Following Is Most Essential?
A. Strong Financial Performance
B. Committed Employees
C. High Level Of Service
D. Customer Retention

124. Value For Shareholders Of A Firm Is Measured By:
A. Customer Comments
B. Stock Performance And Profitability
C. Sales Revenue
D. Satisfactory Employee Targets

125. Which Of The Following Is Not A Characteristic Of Strategic Management That Makes It Different From Other Types Of Management?
A.It Is Interdisciplinary
B. It Has An External Focus
C. It Has An Internal Focus
D. It Concerns The Present Direction Of The Organization

126. A Strategic Decision Can Be Distinguished From Other Types Of Decisions By Three Factors, These Are Magnitude, Time-Scale And:
A.Commitment
B. Riskiness
C. Impact
D. Longevity

127. Mcdonalds Is Deciding Whether To Expand Into Manufacturing Kitchen Equipment In China. At What Level Is This Decision Likely To Be Made?
A. Business
B. Corporate
C. Functional
D. International

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128. To Find Out What An Organization's Strategy Is, You Should:
A. Read The Mission Statement
B. Look At What The Organization Actually Does
C. Read The Strategic Plan
D. Ask TheCeo

129. Which Of The Following Statements Is Not True When Describing A Successful Strategy?
A. It Provides Some Property That Is Unique Or Distinctive
B. It Provides The Means For Renewing Competitive Advantage
C. It Addresses Changes In The External Environment
D. It Guarantees Long Term Survival

130. In The Context Of Strategic Management Resources Can Be Defined As:
A.The Knowledge And Skills Within The Organization
B. Something That An Organization Owns Or Controls That Cannot Be Copied
C. Something That An Organization Owns, Controls Or Has Access To On A Semi-Permanent Basis
D. The Physical Assets Of The Organization

131. In The Context Of Strategic Management, Stakeholders Can Be Defined As:
A. An Individual Or Group With A Financial Stake In The Organization
B. An External Individual Or Group That Is Able To Impose Constraints On The Organization
C. Internal Groups Or Individuals That Are Able To Influence Strategic Direction Of The Organization
D. An Individual Or Group With An Interest In The Organization's Activities And Who Seeks To Influence Them

132. A Strategic Manager That Seeks To Reach Acceptable Profit Targets As Opposed To Making As Much Profit As Possible Is Making Decisions Of Which Type?
A. Satisfactory
B. Sacrificing
C. Irrational
D. Optimal

133. Large Inventories Can Be Classified As_____
A. Potential Opportunities
B.Potential Threats
C. Potential Strength
D. Potential Weakness

134.Like Roots Of A Tree, _____Of Organisation Is Hidden From Direct View
A. Performance
B. Strategy
C. Core Competence
D. All Of The Above

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135. Marketing Strategy Is A _____Type Of Strategy.
A.Business Level
B. Growth Strategy
C. Corporate Strategy
D. Functional Strategy

136. Stability Strategy Is A _____ Strategy.
A.Corporate Level
B. Business Level
C. Functional Level
D. Strategic Level

137. Strategic Decision Making Can Take Place At Various Levels Of An Organisation, What Are The Three Most Common?
a. Operational, Board, And Industrially
b. Governmental, Locally, And Individually
c. Corporate, Business, And Functional
d. Board Of Directors, Chief Executive, And Junior Management

138. Michael Porter (1985) Identified Six Stages In The Analysis Of A Business Organization's Value Proposition Which Are Supported By The Organisation's Infrastructure, What Answer Best Describes An Organisations Infrastructure?
a. Human Resource Management, Technology Development, Purchasing, And Procurement
b. Human Resource Management, And Finance
c. Human Resource Management, Marketing, Capital
d. Human Resource Management, Technology Development, Sales, And Research

139. Which Of These Is Not Part Of The Developmental View Of Creativity?
a. A Group Process
b. Being Teachable
c. That It Is Within All Professions
d. Great Works Of Art

140. The HRM Function Can Be Carried Out At Two Levels Namely:
a. Reactive And Strategic
b. Proactive And Strategic
c. Operational And Strategic
d. Technical And Operational

141. What Benefit Is Derived From Competitive Rivalry?
a. Price War
b. Differentiation
c. Alliances
d. Higher Marketing Budgets

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142. One Determinant Which Allows The Supplier To Gain Selling Power Is:
a. Easy Accessibility
b. High Substitutes
c. Threat Of Entry
d. Buyer Switching Cost

143. What Do Organisations Need To Adopt To Overcome Competition?
a. Relocation Strategy
b. Creation Of Subsidiaries
c. Competitive Strategy
d. Collusion

144. What Would A Company Have To Offer In Order To Apply Differentiation?
a. Unique Selling Point
b. Reduced Cost
c. Multiple Promotions
d. User Engagement

145. The Strategist Uses The Career Planning In Order?
A.
To Enable The Employees To Develop And Make Them Ready To Meet The Future Challenges
B.
To Provide Suitable Promotional Opportunities
C.
To Attract Competent Persons And Retain Them In The Organisation
D.
All Of The Above

46. 146. Macro Environment
(A) Political- Legal
(B) Socio-Cultural
(C) Economic-Demographic
(D) All Of The Above

48. 147. A Major Part Of Strategy Implementation Is
(A) Planning
(B) Communication
(C) Resource Allocation
(D) Monitoring

33. 148. Type(S) Important Managerial Skill(S) Required For The Effective Strategic Management
(A) Conceptual Skill
(B) Human Skill
(C) Intellectual Skill
(D) All Of The Above

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39.

40. 149. _____ Should Have The Ability To Develop A Vision To See Patterns Into The Future.

(A) Leaders
(B) Managers
(C) Management
(D) Workers

43. 150. Strategic Management Deals With

(A) Production And Quality
(B) Profit And Loss
(C) Business Process
(D) All Of The Above

ANSWERS

1	D
2	A
3	A
4	D
5	A
6	A
7	C
8	D
9	D
10	D
11	C
12	C
13	B
14	A
15	D
16	C
17	C
18	D
19	A
20	C
21	D
22	B
23	B
24	B
25	D

26	C
27	C
28	B
29	C
30	C
31	B
32	C
33	A
34	C
35	D
36	B
37	C
38	A
39	C
40	B
41	D
42	B
43	A
44	A
45	C
46	A
47	C
48	D
49	B
50	A

51	D
52	B
53	D
54	D
55	B
56	D
57	A
58	C
59	C
60	A
61	A
62	C
63	D
64	B
65	A
66	D
67	B
68	C
69	D
70	A
71	B
72	C
73	D
74	D
75	C

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76	C
77	A
78	D
79	B
80	D
81	A
82	B
83	C
84	D
85	B
86	A
87	C
88	D
89	A
90	B
91	B
92	A
93	B
94	C
95	C
96	A
97	C
98	D
99	A
100	D
101	A

102	C
103	C
104	A
105	D
106	B
107	A
108	D
109	D
110	C
111	A
112	C
113	A
114	B
115	B
116	C
117	C
118	A
119	B
120	B
121	B
122	B
123	B
124	B
125	D
126	A
127	B

128	B
129	D
130	C
131	D
132	B
133	D
134	C
135	D
136	A
137	C
138	A
139	D
140	C
141	B
142	D
143	C
144	A
145	D
146	D
147	C
148	D
149	A
150	C

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