MULTIPLE CHOICE QUESTIONS (MCQs)

PART-A – STRATEGIC MANAGEMENT ACCOUNTING

MCQ No.	Most Appropriate/ Correct Answer
1	D – Rs.90,720
2	D – Machine N, Rs.619,260
3	A – 7.36%
4	B – Rs.3,020
5	C – Rs.504,000,000
6	D – 21,875 units and 18,750 units
7	D – Rs.816,000
8	A – GF Limited, Rs.30.263
9	B – Rs.2,630,400
10	C – Rs.45 million, 162,000 patient days
11	C – Rs.517,500, No
12	B – Rs.448,000
13	B – Yes, Rs.110,138
14	A – Product A1
15	C – Rs.4,900
16	B – 1,800 units
17	A – is using collaboration as the value driver in its value chain.
18	B – an aggregation of independent and strategically relevant activities that collectively contribute to the economic value generated by the organization
19	C – to identify and manage the risks associated with an organization's product offerings
20	B – II
21	B – Using activity-based costing to allocate marketing and sales administration costs to customers will provide a useful measure of customer profitability.
22	C – increased spending on prevention costs and decreased spending on external failure costs
23	C – No, because it contributes to sound business practice.
24	C – 3.85 minutes
25	B – Rs.3,000

PART-B – STRATEGIC FINANCIAL MANAGEMENT

MCQ No.	Most Appropriate/ Correct Answer
1	D – 22.37%
2	B – Project 1 and 3
3	C – 24.80
4	D – Rs.2.48 million
5	D – Rs.20.07 million
6	D – Rs.74
7	C – Rs.100.34
8	A – 21,429 shares
9	A – I only
10	A – Overestimate equity value with the FCFE model and underestimate firm value and equity value with the FCFF model.
11	B – Rs.2,250,000
12	B – Rs.107.11

PART-C – STRATEGIC MANAGEMENT

MCQ No.	Most Appropriate/ Correct Answer
1	D – Differentiation-focus strategy.
2	C – Goal congruence
3	A – Internal Analysis
4	C – Rational model
5	C – Crises of Autonomy
6	A – responding to changes in the business environment
7	A – Strategic planning
8	D – Strategic intelligence
9	C – If the maturity stage of the public limited company is reached quickly, this will give the firm the incentive to enter export markets before others do.
10	A – Distinctive competences
11	C – Gemini 4Rs framework
12	A – Resource-based
13	C – Incrementalism

DESCRIPTIVE QUESTIONS

Question-1

(a) **25 Marks**

	Units
Components worked on in the process	6,120
planned defective units	(612)
replacement to customers (0.02x 5400)	(108)
	5,400

(b) **25 Marks**

Therefore, actual results agree with planned results.

- Planned component cost= 7200 + 5400 + 3000= Rs. 15,600
- Comparing with the data in the appendix:
- Materials= 88,128,000/6120= Rs. 14,400
- Variable overheads= 18,360,000/6120= Rs. 3,000
- This indicates that prices were at planned levels
- Internal failure costs= 612 x 15600= Rs. 9,547,200
- External failure costs= 108 units x 15600= Rs. 1,684,800

(c) **50 Marks**

	Period-2 (units)	Period-3 (units)
Components invoiced to customers	5500	5450
Planned replacement	110	109
Unplanned replacement	60	-69
Components delivered to customers	5670	5490
Planned process defects (10% worked on in the process)	620	578
Unplanned defects (difference to agree with final row)	-90	-288
Components worked on in the process	6200	5780

	Period-2 (Rs.)	Period-3 (Rs.)
Internal failure costs	8,268,000	4,524,000
External failure costs	2,652,000	624,000
Appraisal costs	2,000,000	3,000,000
Prevention costs	1,000,000	2,500,000

The following points should be included in the report:

1. Insufficient detail is provided in the statistics shown in the appendix thus resulting in the need to for improvement in reporting.
2. The information presented for the components worked in the process that free replacements to customers were 60 greater than planned (approximately 50%) in period 3.
3. Internal failures costs show a downward trend from periods 1-3 with a substantial decline in period 3. External failure costs increased in period 2 but declined significantly in period 3.
4. The costs savings arising in periods 2 and 3 are as follows:

	Period-2 (Rs.)	Period-3 (Rs.)
Increase or decrease from previous period:		
Internal failure costs	(1,279,200)	(3,744,000)
External failure costs	(967,200)	3,276,000
Total decrease	**(2,246,400)**	**(468,000)**

   The above savings should be compared against the investment of Rs. 2 Million appraisal costs and Rs. 1 Million prevention costs for period 2 and Rs. 3 Million and Rs. 2.5 Million respectively in period 3. It can be seen that the costs exceed the savings in period 2 but the savings exceeded the costs in period 3. There has also been an increase in the external failure costs from period 1 to period 2. Investigations should be made relating to the likely time lag from incurring prevention/ appraisal costs and their subsequent benefits.

5. The impact on customer goodwill from the reduction in replacements should also be examined.

Question-2

(a) **50 Marks**

(i) ***Total production units (pre-inspection)***

	Existing situation		Revised situation
Total sales requirements	6,000		6,000
Specification losses (7%)	420	3.50%	210
	6,420		6,210
Downgrading at inspection (15.5/84.5x6420)	1,178	(10.5/89.5x6210)	729
Total units before inspection (100/84.5x 6420)	7,337	(100/89.5x6210)	6,939

(ii) ***Purchase of material X (m^2)***

	Existing situation		Revised situation
Material required to meet pre-inspection production requirements (7337x9m^2)	66,033	(6939x9m^2)	62,451
Processing losses (5/95x66,033)	3,475	(3.5/96.5x62,451)	3,287
Input to process (100/95x66033)	69,508		65,738
Scrapped materials (7/93x69,508)	5,232	(5/95x65738)	3,460
Total purchases (100/93x69,508)	74,740	(100/95x65738)	69,198

(iii) ***Gross machine hours***

	Existing situation		Revised situation
Initial requirements (7337x0.8)	5,870	(6939x0.7 hours)	4857
Rectification units (70%x420x0.3 hours)	88	(70%x210x0.3 hours)	44
	5958		4901
Idle time (30/70x5958)	2553	(15.5/84.5x4901)	899
Gross machine hours (100/70x5958)	8511	(100/84.5x4901)	5800

(b) **50 Marks**

New Horizon Limited
Profit or Loss Accounts
For the period ended

	Existing situation		Revised situation
Sales Revenue:			
First quality 6000x Rs. 2500	15,000,000	(6000*2500)	15,000,000
Second quality (1178 x Rs. 1500)	1,766,450	(729x Rs. 1500)	1,092,821
Third quality 294x Rs.1250	367,500	(147 x Rs. 1250)	183,750
Scrap sales (126 x Rs.125)	15,750	(63 x Rs.125)	7,875
	17,149,700		16,284,446
Costs:			
Material R (74,740 x Rs. 55)	4,110,713.07	(46871x Rs. 4)	3,805,878.12
Inspection/ Storage costs (74740 x Rs.2)	149,480.48	(69198 x Rs. 2)	138,395.57
Machine costs (8511 x Rs. 500)	4,255,653	(5800 x Rs. 500)	2,900,049
Delivery of replacements (420 x Rs. 250)	105,000	(210x Rs. 250)	52,500
Inspection and other costs	250,000	(Rs. 250000 x 60%)	150,000
Product Liability (4% x Rs. 15,000,000)	600,000	(2% x 500,000)	300,000
Sundry fixed costs	600,000	(90% x Rs. 60,0000)	480,000
Prevention programme costs	200,000		600,000
	10,270,847		8,426,823
Net Profit	6,878,853		7,857,623

Question-3

(a) **12 Marks**

Budgeted statement of profit or loss based on direct costing: Rs.'000'

Sales		60,000
Variable cost of goods sold:		
Materials	22,500	
Labour	12,000	
Manufacturing expenses	4,500	
Selling and administrative expenses	3,500	42,500
Contribution margin		17,500
Fixed costs (W-1)		10,000
Net income		7,500

W-1: Fixed Costs: Rs. '000'

Material	2,500
Labour	3,000
Manufacturing expenses	3,000
Selling and administrative expenses	1,500
	10,000

(b) **28 Marks**

Product wise contribution margin ratios: Rs. '000'

	Tube Light	Energy Saver	Halogen Lamps	Solar Bulbs	LED Light	Total
Sales	18,000	9,000	4,200	16,800	12,000	60,000
Materials	9,000	4,500	2,250	4,500	2,250	22,500
Labour	1,800	3,000	1,200	3,000	3,000	12,000
Manufacturing expenses	1,350	450	450	1,350	900	4,500
Selling and administrative expenses	350	1,050	700	1,050	350	3,500
Total variable cost	12,500	9,000	4,600	9,900	6,500	42,500
Contribution margin	5,500	0	(400)	6,900	5,500	17,500
Contribution margin ratios (%)	30.56	0	ñ 9.52	41.07	45.83	29.17

Three of the products (Tube Lights, Solar Bulbs and LED Light) make a contribution towards fixed cost and profit, but product Halogen Lamp has negative contribution and product Energy Saver has zero contribution.

In making decisions about the future of the various products, at least three factors would have to be considered.

1. The **stage in the product life**. It is possible for example, Energy savers, and Solar bulbs are relatively new products which have not yet achieved full profitability, or that they reaching the end of their lives, with demand falling.
2. An **interrelationship between the products**. It is possible that sale of more profitable products can be made only when a full range (including Energy saver and Halogen lamp) is offered.
3. Whether there are any **significant limiting factors on the production or sales** that can be achieved. If so the amount of contribution per unit of the limiting factor becomes important.

(c) **17 Marks**

Product-wise breakeven sales level: **Rs. '000'**

Assuming a constant mix of sales, average contribution margin ratio is:

Rs.17,500 ÷ 60,000 = 29.17%

The break-even sales level is therefore:

Rs.10,000 ÷ 29.17% = Rs.34,281.80

	Total Sale	% Sale	B/E Sale	Margin
Tube Lights	18,000	30	10,285	3,144
Energy Saver	9,000	15	5,142	0
Halogen Lamps	4,200	7	2,400	(228)
Solar Bulbs	16,800	28	9,599	3,942
LED Lights	12,000	20	6,856	3,142
	60,000	100	34,282	10,000

(d) **05 Marks**

Order of sale preference:

The order of preference, based on contribution margin ratios is:

(i) LED Light

(ii) Solar Bulb

(iii) Tube Light

(iv) Energy Saver

(v) Halogen Lamps

(e) **12 Marks**

Revised mix of Rs. 60 million sales to maximize contribution:

The mix of sales to maximize contribution, assuming variations from present level of ±10% is:

Rs. '000'

Product		Sales	Contribution
LED Light	(12,000 + 10%)	13,200	6,050
Solar Bulbs	(16,800 + 10%)	18,480	7,590
Halogen Lamp	(4,200 – 10%)	3,780	(360)
Energy Saver	(9,000 – 10%)	8,100	0
Tube Light	(Balance 18,000 – 8.67%)	16,440	5,024
Total		60,000	18,304

(f) **18 Marks**

Preliminary calculation – Contribution per Rupee labour cost (physical manpower not given):

			Rank
Tube Light	(5,500 ÷ 1,800)	306%	1
Energy Saver	(0 ÷ 3,000)	0%	4
Halogen Lamp	(–400 ÷ 1,200)	-33.3%	5
Solar Bulbs	(6,900 ÷ 3,000)	230%	2
LED Light	(5,500 ÷ 3,000)	183%	3

Rs. '000'

		Labour	Sales	Contribution
Tube Light	(18,000 + 20%)	2,160	21,600	6,601
Halogen Lamp	(4,200 – 20%)	960	3,360	(320)
Energy Saver	(9,000 – 20%)	2,400	7,200	0
LED Light	(12,000 – 20%)	2,400	9,600	4,400
Solar Bulbs	(Balancing 16,800 – 4%)	2,880	16,128	6,624
		10,800	57,888	17,305

(g) **08 Marks**

Percentage of commission: Rs. '000'

	Tube Light	Halogen Lamp	LED Light	Total
Sales	1,500	1,500	1,500	4,500
Contribution margin ratio	30.56%	(9.52)%	45.83%	
Contribution margin	458.4	(142.8)	687.45	1,003
Minimum desired contribution (4,500 x 20%)				900
Available commission				103

Question-4

(a) **25 Marks**

There are numerous ways in which you could sell part of your shareholding in PAL. I outline the possibilities of:

- **Option 1** Flotation of PAL with subsequent open market sale of shares to the general public
- **Option 2** Sale of shares to a private investor or institution prior to flotation/instead of flotation
- **Option 3** Sale of the business to a competitor or customer
- **Option 4** Sale of your shares to some of your fellow directors or employees
- **Option 5** maintaining your existing shareholding but obtaining a cash withdrawal from the company

Option 1: Flotation

Should the company be floated, you would obtain a better price per share for your investment, since your shares would be more easily marketable than is currently the case as a private limited company.

There are several advantages from PAL's viewpoint:

- Increased access to third party capital
- Increased marketability of shares
- An increased public profile for the company resulting in greater shareholder confidence
- The possibility of using a share-for-share exchange if in the future PAL wishes to expand by acquiring other companies.

Disadvantages of flotation include the costs of obtaining a flotation and the management time involved.

Regulation by the Pakistan Stock Exchange will mean increased reporting requirements, such as the need for interim financial statements. The Pakistan Corporate Governance Code also requires a number of procedures to be introduced which limit the power of senior management (such as the appointment of non-executive directors and audit committees). These may not fit easily into the corporate culture of PAL.

You should also bear in mind that your wish to retain control of the company is likely to depress the price you could obtain for your shares, since any prospective shareholders would be buying into a non-controlling (minority) interest in the company. Since the non-controlling shareholders (minority interest) have little protection should you subsequently disagree with them over business decisions, they are likely to be prudent in valuing shares. Some investors are historically unwilling to invest in companies which have a dominant shareholder. The discount arising as a result of your dominant shareholding would be unlikely to be very large, however, as most listed company shareholders (other than large institutional shareholders) have virtually no ability to influence business decisions.

Any shares which you retained would be quoted either on the Pakistan Stock Exchange or the alternative Investment Market. This option would make any later disposals/realizations easier which may be of importance when, say, you retire.

Option 2: Sales of shares to third party

Flotation would increase the market value of your shares, since the shares are more easily realizable into cash. As discussed the costs of flotation are high and you will ultimately bear 85% of those costs.

It may be possible therefore to sell some of your shares to a private or institutional investor, using the valuation in Appendix B.

The valuation given in Appendix B includes a discount for non-marketability of the shares. As noted earlier, a flotation increases the marketability and price of shares and so would be likely to raise more funds for you.

If you were willing to sell a shareholding of at least 50% of the voting shares, this would be likely to attract a control premium, increasing the proceeds you could obtain on realization of your investment.

Once again, however, it is unlikely that a third party would be willing to pay a high sum for your shares whilst you retain a controlling interest.

Option 3: Sale of business to competitor or customer

The market you operate in is competitive, with more than 15 competitors headed by listed companies. I am aware that some companies are very similar to PAL and others may be interested in diversifying their business risk. They could do this by acquiring shares in your company in return for shares in themselves. Although it would be impossible to achieve your aim of retaining control of PAL by doing this (since the acquiring company would certainly require a controlling interest) this option may be a desirable method of increasing the liquidity and marketability of your investment whilst avoiding the costs associated with flotation.

Also, some of your customers may be interested in vertical integration and this may make them a potential acquirer. There are a lot of potential investors to allow you to choose the most beneficial offer.

Option 4: Sale of shares to fellow directors

It appears likely that some of your fellow directors would be interested in purchasing shares from you.

As you have worked together for some time, you would be likely to obtain a fair price while still having investors who would be willing to accept your desire for a controlling interest in the short term.

This option would be unlikely to generate the most cash for you however, and it relies upon your fellow directors having the cash available to purchase your shares. It could easily be used as a means of satisfying your desire to reward your staff and fellow directors for their loyalty.

Option 5: Cash withdrawal

This could be achieved in one of three ways.

Bonus payment

As a controlling interest, you may elect to pay yourself a very large salary. Although not technically requiring the consent of the other shareholders, this may be seen as a breach of fiduciary duty and in an extreme circumstance could precipitate an action under the Companies Act for unfair prejudice against the non-controlling (minority) shareholders. It may not therefore be desirable.

Should you nevertheless decide on this method, PAL would obtain a corporation tax deduction for the payment, but you would be taxed on your earnings?

Dividend payment

A fair alternative to allow you to realize cash would be payment of a large dividend. This will have no impact on the corporation tax position of the company, but you would be taxed on this source of income.

Share buy-back

Finally, the company could buy back some of the shares you wish to sell. This is governed by the Companies Act, with the over-riding aim that the permanent capital of the company must be maintained. If the company were to buy back all of your shares then the premium on the repayment would need to be covered by distributable reserves and it would be necessary to transfer Rs. 170,000,000 to a non-distributable capital redemption reserve to cover the reduction in the share capital of the company.

A share buy-back may be treated as either a capital distribution or an income distribution depending on whether it fulfilled the necessary tax conditions. A capital distribution would have the advantage of being taxed at a lower rate than an income distribution. If the company is interested in the idea of the share buy-back, one of my colleagues in the tax planning department will be happy to discuss the tax implications of the buy back with you.

These methods all have the following drawbacks:

- They will severely limit the company's ability to replace its assets and effectively manage working capital.
- They will probably remove the possibility of the company growing by acquisitive growth, since acquisitions of other companies are normally at least partially financed by cash.
- They rely upon the company having the necessary liquid resources, although the company is currently cash rich, holding cash balances of Rs. 35,200 million following the sale of land.
- In essence, realization of your investment by these means is undesirable and should be discounted.

(b) **25 Marks**

Establishing a fair value of your holding in the company is extremely difficult since certain factors make PAL difficult to compare to other companies, specifically:

- An investor purchasing into PAL would be unlikely to participate in dividend policy, so the value they should ascribe to the company may rationally be based upon past dividend growth, using a method such as Gordon's dividend growth model.
- The earnings of the company in 2020 are significantly increased by the exceptional gains on the sale of property. Although this would be included in the EPS measure of the other similar companies it is unlikely that these companies will have included items of such a sale this year, so it is best to exclude the exceptional item when undertaking any comparative analysis.

Earnings based valuation:

- The current year sustainable earnings of PAL are the latest operating profit of Rs. 8,610 Million, less tax at 29%, i.e. Rs. 6113.1 Million. Interest received has not been included as part of sustainable earnings as there is no guarantee that it will be received in perpetuity. The cash generating the interest may for example eventually be used for further expenditure on non-current assets. Applying the sector P/E of 14.43 gives

	Rs. Million
Value of an equivalent listed company= Rs. 6113.1 million x 14.43	88212.03
Value of your proportion (65%)	57,337.82

Dividend growth model valuation:

Dividend growth has been reasonably stable over the last six years, and we could calculate the growth rate using

$(1+g)^5 = 1- 5\sqrt{}(2{,}000/ 1640) = 1.040$

So

g=0.040 or 4%

Based on the market information available, the required return for the business can be calculated using the capital asset pricing model as
ke = rf + Beta(rm – rf) = 7 + 0.65 (10 – 7) = 8.95%, say 9%

And putting these into the dividend valuation model gives a business value of

$P_o = d_1/ r_e\text{-}g$ = 2,000,000,000 x 1.04/ (0.09-0.04) = Rs. 41,600 million

	Rs. Million
Total business value	41,600
Value of your proportion (65%)	27,040

Free cash flows valuation:

	2021	2022	2023	2024	2025
	Rs. Million				
Sales	91,953.40	101,148.74	111,263.61	122,389.98	134,628.97
Gross Profit	33,057.20	36,362.92	39,999.21	43,999.13	48,399.05
Operating costs excluding depreciation	(18,085.26)	(18,627.82)	(19,186.65)	(19,762.25)	(20,355.12)
Depreciation	(4,000)	(4,000)	(4,000)	(5,200)	(5,200)
Operating Profit	10,971.94	13,735.10	16,812.56	19,036.88	22,843.93
Interest	1,198.00	1,198.00	1,198.00	1,198.00	1,198.00
Profit before tax	12,169.94	14,933.10	18,010.56	20,234.88	24,041.93
Tax at 29%	(3,529.28)	(4,330.60)	(5,223.06)	(5,868.12)	(6,972.16)
Add back depreciation	4,000.00	4,000.00	4,000.00	5,200.00	5,200.00
Capital expenditure				12,000.00	
Working capital	(9,195.34)	(10,114.87)	(11,126.36)	(12,239.00)	(13,462.90)
Free cash flow	3,445.32	4,487.63	5,661.14	19,327.77	8,806.87
Discount factor	0.917	0.842	0.772	0.708	0.650
Present value	3,159.36	3,778.58	4,370.40	13,684.06	5,724.47
Net present value	**30,716.86**				

	Rs. Million
Value of an equivalent listed company	30,716.86
Value of proportion (65%)	**19,965.96**

The valuation is rather lower than the valuation suggested by the other two methods. However that is connected with the timeframe of the forecast, and extending it beyond 2025 is likely to give a higher valuation.

Conclusion:

These different valuation bases have produced similar though different results, indicating that a value somewhere in the range of Rs. 19,965.96 million – Rs. 57,337.82 million should be achievable. This is clearly rather a broad range but leaves plenty of scope for negotiation. The value you may ultimately realize will be very dependent on market conditions and the market appetite for new issues at the date of any flotation.
With personal wealth of this magnitude, we strongly advise that you begin to plan for both capital gains tax and inheritance tax at your earliest opportunity. Our colleagues in the tax planning department will be pleased to assist you.

(c) **50 Marks**

Problems associated with a change of ownership
If a controlling interest is sold to a competitor or another business, then the changes made to PAL are likely to be more extensive than if you retain a controlling interest. Even if you keep a non-controlling (minority) interest, the power you have to influence matters may be limited, and the success of change of ownership will depend on the attitudes and actions of the new owners.
Problems may include:

- Lack of integration plans. Plans need to include changed reporting relationships, information and resource requirements and redefined strategic objectives.
- Inflexibility of integration plans. After the takeover the new owners need to be willing to adapt their initial plans.
- Poor man management. Even if managers are highly motivated under the current arrangements, they may not remain so if there is a lack of communication of goals and future prospects.
- Cultural differences may also result in a lack of communication, and these will be enhanced if the acquirer's management team show a lack of respect for what PAL has previously achieved.

Issues connected with sustainability and the importance of sustainability

Environmental concern – The concept of sustainability is often used in the context of environmental sustainability; for example, reducing greenhouse gas emissions, reducing waste or increased recycling.

The newspaper articles highlight that these aspects of environmental sustainability are very important in the automobiles industry.

Customer and consumer requirements – Importantly, however, this environmental concern isn't confined to the packaging and carton companies themselves, but environmental issues are becoming increasingly important to customers and consumers. As such, they could have financial implications for PAL. If customers – particularly large B2B customers – want the packaging they use for their food products to be environmentally friendly, and PAL's packaging doesn't meet their requirements in this respect, it is possible that the customers might switch suppliers – for example, to either CAL or FEL who appear to be paying considerable attention to these issues.

In this respect, environmental sustainability could be more closely linked to the interests of your fellow shareholders than they might think.

Competitive disadvantage – The newspaper articles also highlight that CAL and FEL have been developing new types of environmentally-friendly packaging. We are not sure whether PAL has been taking any similar steps, but if not, this could lead to it being at a competitive disadvantage to its competitors.

On the one hand, it will increasingly not be able to offer customers the environmentally-friendly packaging they want; and on the other, PAL is in danger of being seen as less innovative than its competitors.

PAL has correctly identified a need to maintain its competitive advantage by employing the latest technology; but it needs to complement this by also offering innovative products and ones that meet customer requirements.

In this respect, the cost implications of different products could also affect PAL's competitive advantage. It appears that, not only are the new products developed by CAL and FEL environmentally friendly, they also allow the companies to make savings on their material costs. Here again, the links between sustainability and financial benefit might be closer than at first thought, and adopting an environmentally friendly approach would seem to create a 'win-win' situation for the business.

Sustainability and strategy – However, whilst environmental issues are an important aspect of sustainability, they are by no means the only aspect. Although the newspaper articles you have collected seem to focus primarily on environmental performance (for example, in relation to recycling or carbon emissions), you should look at sustainability in a wider context; including also social and economic dimensions.

Social dimension – You have already identified that you now have some very highly motivated managers in the business, and it is important to retain them. In more general terms, being seen as an attractive employer could help PAL to recruit and retain high quality staff; and offering good quality working conditions, training and opportunities should help to maintain employee motivation.

These social dimensions, in turn, should benefit the performance of the company.

Economic dimension – We have already alluded to the economic dimension of sustainability with reference to PAL's competitive position and innovation, but more generally issues such as effective corporate governance, risk management and customer relationship management are all likely to be important to the continuing success of the business.

Business sustainability – The economic dimension of sustainability should also encourage a focus on the long-term viability and success of the business. Clearly, PAL has been successful in recent years – with increasing sales, profits and productivity – but the notion of sustainability should challenge you and the other shareholders to consider how the business' success can be maintained into the future. In particular, is the group adopting strategies that can deliver it long-term competitive advantage?

Importantly, once your fellow shareholders start considering this idea of business sustainability they may also look at a more balanced range of performance indicators, rather than concentrating on short-term financial performance indicators only. Doing so should also encourage them to think about the risks and opportunities which could shape the longer-term prospects and performance of the business.

Perhaps more importantly though, the idea of sustainability should encourage the current shareholders and any future owners of the business to think about the longer-term consequences of any decisions they make, to ensure that those decisions have the best chance possible of creating value over time.

Question-5

(a) **30 Marks**

Three alternatives can be identified from the scenario:
1) Produce Product 'R' and replace it with Product 'F' at Karachi factory
2)Produce Product 'R', then sell the factory situated in Karachi in Year-2 and make Product 'F' in Faisalabad factory for 8 years
3) Produce Product 'R' fpr a limited period, replace with Product 'F' and sell the Factory in Karachi in Year-4 and make Product 'F' in Faisalabad for 8 years.

Ke= Rf+ B (Rm)
Ke= 8 + 0.5 (9)= 12.5%
WACC= (0.125x 40%)+ (0.09x 60%)= 10.4%

Alternative:1

Years		Cash Flows	Discount Factor		PV
					545.400
					379.960
1	Normal sales of Product 'R'	600	0.909		(991.200)
2	Normal sales of Product 'R'	460	0.826		
2	Equipment and training costs for Product 'F'	-1200	0.826	(6.814-1.736)	6,347.500
					245.630
3 to 12	Net cash inflows from Product 'F'	1250	5.078	**NPV**	6,527.290
12	Sale of factory*	770	0.319		

* Sale of factory= 1100+ 70-400= Rs.770 Million

Alternative:2

Years		Cash Flows	Discount Factor		PV
					545.400
					379.960
1	Normal sales of Product 'R'	600	0.909		(991.200)
2	Normal sales of Product 'R'	460	0.826		
2	Equipment and training costs	-1200	0.826		636.020
	for Product 'F'			(6.814-1.736)	3,808.500
2	Sale of factory*	770	0.826	**NPV**	4,378.680
3 to 12	Net cash inflows from Product 'F'	750	5.078		

Alternative:3

Years		Cash Flows	Discount Factor		PV
					(727.200)
					545.400
1	Purchase of Equipment Product 'G'	-800	0.909		
1	Normal sales of Product 'R'	600	0.909		74.340
2	Sales of Stock of Product 'R'				751.660
	(0.15x 600)	90	0.826		
2	Inflow from Product 'G'	910	0.826		946.260
	(65000 x 14000)				
3	Inflow from Product 'G'	1260	0.751		860.580
	(90000 x 14000)				
4	Inflow from Product 'G'	1260	0.683		525.910
	(90000 x 14000)				
4	Sale of factory*	770	0.683		(991.200)
2	Equipment and training costs	-1200	0.826	(6.814-1.736)	3,808.500
	for Product 'F'			**NPV**	5,794.250
3 to 12	Net cash inflows from Product 'F' in addition to transportation costs	750	5.078		

(b) **20 Marks**

The first alternative yields the highest NPV:

(i) Both alternatives 2 and 3 involve the same transport cost but alternative 3 yields a significantly higher NPV. Therefore, it is appropriate to test the sensitivity of transport costs by comparing alternative 3 against 1, which does not involve transport costs. The NPV of alternative 1 exceeds the NPV of alternative 3 by Rs. 733.040 Million. The present value of the transport costs is Rs. 2,539 Million (Rs. 2000 x 250,000 units x 5.078) for Year 3-12. Therefore, the present value of would have to fall below Rs. 1,806 Million (2539 Million-733.040 Million) for alternative 3 to be preferred to alternative 1. This represents annual cash flows of Rs. 355.64 Million (1806/5.078). Estimated annual cash flows for transport costs are Rs. 500 Million so cash flows would have to be declined by Rs. 144 Million which represents a 29% decline.

(ii) Let SV= net difference in sales value for NPV to be the same for both alternatives so that:

SV x year 4 discounting factor (0.683)- SV x year 12 discount factor (0.319)= Rs. 733.040 Million
0.361 SV=733.040 Million
SV=733.040/0.361
SV=Rs. 2031 Million

Given that the existing sales value is Rs. 1100 Million, the sales value can increase to Rs.3130.582 Million (1100+ 2030.52), representing an increase of approximately 200%.

Question-6

(a) **40 Marks**

Selection of project on the basis of net present value (NPV):

Gas Project Rs. '000'

	First 10 Years (2024 – 33)	Last 20 Years (2034 – 53)
Annual revenues	500,000	500,000
Annual costs:		
Gas purchase	200,000	200,000
Customer relation	3,000	3,000
Labour	60,000	60,000
Sales and marketing	35,000	35,000
Other costs	4,000	4,000
Total costs	302,000	302,000
Incremental taxable cash flow	198,000	198,000
Tax at 35%	69,300	69,300
After tax cash flows	128,700	128,700
Tax credit on depreciation (300,000 x 10% x 35%)	10,500	0
Incremental cash flow	139,200	128,700
PV factor @ 6% (W-1)	6.180	5.377
Present value	860,256	692,020

Other cash flows: Rs. '000'

Years	2021	2022	2023	2024	2053
After tax redundancy costs				3,000	
Plant and machinery cost	150,000	150,000			
After tax demolition cost of existing power station			7,000		
After tax demolition cost of gas station					5,000
PV factor @ 6%	0.943	0.890	0.840	0.792	0.146
Present value	141,450	133,500	5,880	2,376	730
Total	283,936				

Total NPV = Rs.860,256,000 + Rs.692,019,900 – Rs.283,936,000

= Rs.1,268,339,900

W-1: Weighted average cost of capital (WACC):

Cost of equity (K_e) {5.6% + (15% – 5.6%) x 1.2}	16.88%
Cost of debt (K_d) {0.09 x (1 – 0.35)}	5.85%
WACC {(16.88 x 0.7) + (5.85 x 0.3)}	13.57%
Real rate {(1 + 0.1357) ÷ (1 + 0.07) – 1}	0.0614 or 6%

2019 – 28	=	8.853 – 2.673	=	6.180
2029 – 48	=	14.230 – 8.853	=	5.377

Coal Project Rs. '000'

	First 10 Years (2024 – 33)	Last 20 Years (2034 – 53)
Annual revenues	500,000	500,000
Annual costs:		
Coal purchase	10,000	10,000
Customer relation	15,000	15,000
Labour	25,000	25,000
Sales and marketing	35,000	35,000
Other costs	20,000	20,000
Total costs	105,000	105,000
Cash flows before tax	395,000	395,000
Tax at 35%	138,250	138,250
After tax cash flows	256,750	256,750
Tax credit on depreciation (2,000,000 x 10% x 35%)	70,000	0
Incremental cash flow	326,750	256,750
PV factor @ 8% (W-2)	5.327	3.610
Present value	1,740,597	926,868

Other cash flows: Rs. '000'

Years	2021	2022	2023	2024	2053
After tax redundancy costs				30,000	
Plant and machinery cost	1,000,000	1,000,000			
After tax demolition cost of existing power station			7,000		
After tax demolition cost of coal station					500,000
PV factor @ 8%	0.926	0.857	0.794	0.735	0.079
Present value	926,000	857,000	5,558	22,050	39,500
Total	1,850,108				

Total NPV = Rs.1,740,597,250 + Rs.926,867,500 – Rs.1,850,108,000

= Rs.817,356,750

W-2: Weighted average cost of capital (WACC):

Cost of equity (K_e) {5.6% + (15% – 5.6%) x 1.6}	20.64%
Cost of debt (K_d) {0.12 x (1 – 0.35)}	7.80%
WACC {(20.64% x 0.6) + (7.8 x 0.4)}	15.50%
Real rate {(1 + 0.155) ÷ (1 + 0.07) – 1}	0.0795 or 8%

2024 – 33	=	7.904 – 2.577	= 5.327
2024 – 53	=	11.514 – 7.904	= 3.610

Based on NPV, Gas project should be accepted.

(b) **10 Marks**

Significance of the existence of real options to the capital investment decision:

Real options in capital investment decisions:

There are 3 types of real options available in investment appraisal decision:

- Option to expand
- Option to abandon
- Option to wait

A real option is such a choice or opportunity, which exists because of a capital investment.

Options associated with the project:

Options associated with the projects are in the main more valuable for the gas than for the coal power project. They include the following:

- The option to abandon the project early. This may be needed for a variety of reasons, for example because of falling demand or because of the emergence of new technology. High decommissioning costs make this a problem for the coal powered project.
- The option to expand if demand increases. This is easier for gas because of the lower investment costs.
- The option to switch power sources in the future. This is more valuable for gas, because the technology could be adopted for other fossil fuels such as oil. Coal power technology has no easy power source alternatives.

Question-7

Requirement-1 **15 Marks**

Many organizations developed a 'paradigm' which is a way of understanding how their organizations worked and that some found it difficult to react to change if the paradigm was particularly strong.

The concept of the cultural web helps organizations to map out 7 main aspects which drive its culture to determine the elements of culture which need to change and to determine those factors which are likely to block cultural change. If all aspects of Spectrum Pakistan's cultural web are considered, it can be identified that there are range of issues which are likely to block cultural change.

The key aspects of the cultural web for Spectrum Pakistan are as follows:

Stories and myths

Spectrum Pakistan relies heavily on its reputation. It uses its monthly newsletter to promote the stories and history of Spectrum Pakistan and to 'reinforce' the organization's beliefs and values. The stories and myths will play a strong part in re-enforcing the culture of conformity and commitment to Spectrum Pakistan and its current way of operating, thus blocking a change of culture in Spectrum Pakistan.

Routines and rituals

The formal staff appraisals and the need to make appointments to see the three founding senior partners are examples of routines and rituals. The formal appraisals do not appear to involve any input in terms of targets and performance measures from the administrative staff themselves and therefore these are likely to be very demotivating (as is evidenced by the high staff turnover). Also, the requirement to seek senior partners' agreement on decisions by associate consultants is a routine which stifles creativity and independence and again is likely to lead to dissatisfaction and consultants feeling undervalued. This high staff turnover and dissatisfaction, although not necessarily blocking cultural change, will be a factor, as high staff turnover will lead to lack of staff continuity and therefore no momentum for change to happen amongst the staff.

Organizational structure

Spectrum Pakistan's organizational structure is very hierarchical and does not encourage collaboration. The structure is rigid and inflexible and compounded by the three senior partners being rather isolated from the rest of the staff and by the decision making routines. This rigid organizational structure is not conducive to flexibility or collaboration.

Control systems

The appraisal systems and reward systems are largely based upon punctuality and commitment to Spectrum Pakistan, rather than on high levels of individual performance or team work. This seems to have a negative effect as administrative staff turnover is high. The rigid control systems reward conformity and commitment and not creativity and collaboration. Thus the current control systems are likely to stand in the way of change in Spectrum Pakistan.

Power structures

There is a hierarchy based on power and influence and decision making is only undertaken by senior managers in Spectrum Pakistan.

The three founding senior partners have very strong beliefs about what Spectrum Pakistan should be done and these beliefs are the main blockers for change as clearly no strategic decisions can be made without their final agreement.

Symbols

The best offices and privileges for senior partners are clear symbols of power and hierarchy in Spectrum Pakistan. The wearing of uniforms by administrative staff creates conformity and creates a 'them' and 'us' barrier in Spectrum Pakistan. This is a clear block on collaboration and a re-enforcement of a top down culture.

The organizational paradigm

There is the general view amongst the three founding senior partners of 'the way we do things' in Spectrum Pakistan. They have a strong view about the areas of law which they practice and the way in which the firm operates. This view and the culture which has been developed over the last 45 years will be difficult to change. It is clear that these three senior partners are not at all willing to release their decision making power and work towards a more collaborative culture. However, the other senior partners seem more willing to change and they may be the main facilitators.

Requirement-2 17 Marks

Introduction

Spectrum Pakistan can evaluate the potential for competitive advantage based on its location in Pakistan by using Porter's Diamond. Michael Porter suggested that a firm can gain competitive advantage from its home nation by exploiting four aspects of that nation's business environment. These four factors are factor conditions, demand conditions, firm strategy structure and rivalry, and related and supporting industries and are considered from the perspective of Spectrum Pakistan below.

Factor conditions

Spectrum Pakistan clearly has significant access to a key strategic resource, highly qualified staff, within its home country. The local universities in Pakistan have an excellent reputation and specialism in business and management teaching and research, and job vacancies at Spectrum Pakistan appear to be over-subscribed. This may not be the case in other countries in Asia, therefore Spectrum Pakistan should have a potential competitive advantage over those countries where business and management teaching and research is less well developed than in Pakistan.

Demand conditions

Pakistan appears to have a growing economy and a highly developed financial and business services sector, particularly in the capital city. This suggests that business and economic growth in Pakistan will continue to provide Spectrum Pakistan with cash flow to support its proposed growth in other Asian countries. This may put F at an advantage when competing with competitors in target countries, which may lack the resources to defend their positions or to grow outside of their own economies.

Firm strategy, structure and rivalry

Pakistan's top universities have specialized courses in business and management and research. Therefore, the country has established a specific strategy to develop the business sector by providing suitable educational facilities and supporting the growth of its financial and business services companies.

Spectrum Pakistan has grown significantly since it was founded and now has a number of top business clients in Pakistan. This suggests that Spectrum Pakistan has experience in competing for (and winning) new business and may be better able to compete in new markets than other local rivals who lack this level of experience. Spectrum Pakistan may therefore have a competitive advantage over local rivals who are not so commercially aware, or are competing in less mature markets. Its strategy of building locally and winning business in neighboring countries has allowed it to construct strong regional foundations which should provide it with a firm basis for an expansion strategy. Country S has enjoyed growth in its economy and has encouraged the development and expansion of its financial and business services sector.

Related and supporting industries

There is clearly a highly developed financial and business services sector within the country which has been a key driver of the growth of Spectrum Pakistan. Spectrum is supported by several information systems design consultancies, management and financial training businesses and the country's largest Internet Service Provider (ISP), Weber Communications Limited, all located in Islamabad. These will support Spectrum Pakistan in the growth and development of its business through their expertise and assistance.

Conclusion

Spectrum Pakistan seems ideally placed to pursue international expansion. However, the partners will need to analyze each target country to see if competitive advantage is available. Its home nation may give Spectrum Pakistan potential for competitive advantage, but only if the aspects contained in Porter's Diamond are present to a greater degree 'at home' than in each specific target country.

Requirement-3 **18 Marks**

The other senior partners of Spectrum Pakistan recognize that the growth of Spectrum Pakistan is limited by the size of the local market within Pakistan and its neighboring countries. Therefore they are currently reviewing the suitability of its current basic website, with a view to investing in the development of a more sophisticated website in order to pursue further international development of the business through greater use of the internet. Spectrum Pakistan can be described as pursuing an e-commerce strategy. This can be evaluated using Johnson, Scholes and Whittington's criteria of suitability, acceptability and feasibility.

Suitability

Suitability is concerned with whether the proposed e-commerce strategy addresses the circumstances in which the organization is operating. That is, does the proposal have strategic fit with Spectrum Pakistan's current strategic position?

Clearly e-commerce has a direct fit with the current position of Spectrum Pakistan and the products and services offered by Spectrum Pakistan to its customers. The proposal to use the services of a local specialist web design company is a suitable way for F to achieve the goal of an improved website, as this local specialist company should have all the necessary expertise. The company should be able to provide a state-of the- art website in the shortest time period and at a competitive cost as this is its core competence.

However, it is questionable as to whether the hosting of the web server would be suitable for Spectrum Pakistan. It is unlikely that Spectrum Pakistan has experience in web hosting, as it currently uses another company, Weber Communication Limited, to host its website. Web hosting is a specialized business that is outside the range of Spectrum Pakistan's core competences. This would introduce significant cost and risk, as Spectrum would have to hire new staff or retrain existing employees. Web hosting also involves significant security risks, and it might be better to continue having the website professionally hosted. Therefore, it is considered that hosting its own web server is likely not to be a suitable strategy for Spectrum Pakistan.

Acceptability

Acceptability is concerned with the expected performance outcomes of a strategy and the extent to which these would be in line with the expectations of its stakeholders.

There is a potential risk that the development of an upgraded website may lead Spectrum Pakistan to receive a significant demand for its services from other countries. Whilst this is a positive outcome of the investment, Spectrum must ensure it has the capacity available to satisfy this demand, as disappointed customers will not be good for Spectrum Pakistan's reputation. There is also a risk that financial resources may not be sufficient to finance rapid expansion, and this could even force Spectrum Pakistan out of business. Spectrum Pakistan also runs the risk of demand from non-target countries (i.e. outside Asia). The Internet is a global medium, and it is very difficult to exclude other continents from its marketing effect.

The staff of Spectrum Pakistan may welcome the challenge of working for clients in other countries but this may become a risk if they are not suitably trained or do not possess the experience and knowledge to work with customers in other countries. Many staff of Spectrum Pakistan's staff is natives of Pakistan and its universities and therefore staff may not have the experience to work on large international projects. This may make the proposal unacceptable to some of Spectrum's staff. Therefore, Spectrum Pakistan needs to consider the potentials costs of investing in new staff and training of existing staff to cope with the potential demands of international growth.

Current customers may not feel that the proposal is acceptable if this means that Spectrum Pakistan will be spending less time servicing their own needs. However, the updated website will certainly provide better access to Spectrum Pakistan and therefore they should react positively to this change. Potential customers should certainly find the proposal acceptable as the new website should allow them access to Spectrum Pakistan which was previously unavailable.

Feasibility

Feasibility is concerned with whether the strategy could be made to work in practice and as such looks at more detailed practicalities of strategic capability.

Spectrum Pakistan is proposing to outsource the development of its new website to a specialist organization. While this may seem a sensible way to get a technologically advanced solution, there are a number of risks related to this. It is possible that, by outsourcing, Spectrum Pakistan may find itself locked into a supply and maintenance contract that turns out to be restrictive and expensive. It is also questionable whether it is wise to outsource such a key element of F's business, as there will be no incentive for the supplier to help F to gain a competitive advantage.

Spectrum Pakistan already has the experience of developing its current website but is unlikely to have staff that is capable of upgrading it to the required level of sophistication. Although the new website will be used for 'brochuring' and marketing Spectrum Pakistan's services, this development would not be considered as part of Spectrum's core competences and therefore it is not likely to be feasible for Spectrum Pakistan to undertake itself. Spectrum Pakistan's current website was set up at the time incorporation and since then the founder partners have been busy growing the company. It is clearly more feasible for Spectrum Pakistan to outsource the development of a new website to a local specialist web design company, which is likely to be based in the same city in Pakistan.

The financial feasibility of hosting the web server is highly questionable as the investment in its own web server is likely to be very costly. Also it is unlikely that Spectrum Pakistan has the technical expertise or internal skills to develop a more sophisticated website for its current requirements and most certainly, it would not have the expertise required to host and manage a web server.

Conclusion

There are significant specific risks, both in the strategy proposed and the suggested implementation methods. Spectrum Pakistan should perform a full risk analysis and consider avoiding the most serious risks and managing the remainder. Overall, the development of a more sophisticated website would appear to be a sensible and a progressive development for Spectrum Pakistan and has clear strategic fit with the growth of the business. However, hosting website would not fit within the SAF criteria as Spectrum Pakistan does not have the required experience of suitable resources to undertake such a task

Question-8

Requirement-1 **35 Marks**

Conglomerates are large companies that are made up of independent entities that operate in multiple industries. Such form of diversity could be adopted through internal or external growth. As the scenario suggests, Glasgow Corporation via mergers and acquisitions that is external growth has expanded its size of operations working independently. Conglomerates take over totally different businesses that are producing different products for example; chemical industry taking over automobile factory signifies conglomerate growth.

Risk Management of Conglomerate:

Glasgow is a widely diversified conglomerate with subsidiaries businesses in the textile, cosmetic, pharmaceuticals and automobile companies. The biggest advantage that accrues to the company is scattering of risk over a variety of industries, making the company less dependent on any one business, subsiding any potential impact of any environmental conditions faced by one sector like the economic downturn faced by automobile sector would not disrupt the overall performance and profitability of the Glasgow corporation. Glasgow corporation profitability will somewhat remain more stable because hard times in one industry may be partially offset by good time in another. The management team of a conglomerate, having a wide array of companies in different industries can be a real boon for their bottom line. Poorly performing companies or industries can be offset by other sectors. By participating in a number of unrelated businesses, the parent corporation is able to reduce costs by using fewer resources, and by diversifying business interests, the risks inherent in operating in a single market are mitigated.

Capital Resources:

Capital resources can be invested in whatever industries offer the best profit prospects; cash from businesses with lower profit prospects can be diverted to acquiring and expanding businesses with higher growth and profit potentials. Corporate financial resources are thus employed to maximum advantage. Business risk is scattered over a variety of industries, making the company less dependent on any one business.

Corporation has access to internal capital markets, enabling more ability to grow as a whole. It can allocate capital for one of their companies, if external capital markets aren't offering as kind terms the company wants.

Retention of Employees:

The diversified structure of the company accumulates a pool of lot of experienced and multi dimensional employees that mean more skills and knowledge revolve around the signal structure that could be utilized in creating synergic effect for the corporation. Moreover, staff could be up leveled internally and newer methods, and it could instill a motivation factor amongst employees give them vast horizon to appraised their skills, thus, attracting experienced staff for longer period.

Integration of Business Division:

The Glasgow Corporation could bring up added advantage of its diversified structure by integrating its different divisions. Chemical factory is one of the core raw materials in cosmetic, pharmaceutical industries while automobile factory having expertise in truck manufacturing could serve a medium for transportation of supplies both within and outside business arena and would save costs from outside. Thus, effectively reducing cost for the whole corporation and helping it achieve economies of scale, while development of mechanism that synchronize the process flow of supplies throughout the corporation like Electronic Data Interchange and others could help automate the process and bring value to the entire chain of business. The diversification strategy will be able to cross-subsidize one product with the surplus of another. This way, company with a very diverse portfolio of products catering to different markets may potentially grow in power, and be able to withstand a prolonged period of price competition etc. When having subsidized one product for a substantial period of time, the company might possibly be able to win a monopoly, making it the only supplier in the respective market.

Moreover, Glasgow Corporation through the integrated infrastructure of business could have oversight over the affairs of different division as well as the cost advantage could help it gain bargaining power over the customers, suppliers, banks and even Government as its revenues may appraise the GDP of country.

Requirement-2 **15 Marks**

A synergy is a collective property of a task-specific organization of individuals, such that the degrees of freedom of each individual in the system are coupled, enabling the degrees of freedom of different individuals to co-regulate each other. Modern businesses thrive when using teams to organize the work. Teams have more talent and experience, more diversity of resources, and greater operating flexibility than individual performers. The superiority of group decision-making lay an edge even over the brightest individual in the group. But the exception to this rule is when the group lacks harmony or the ability to cooperate. Then decision-making quality and speed suffer.

The important difference between effective teams and ineffective ones lies in the emotional intelligence of the group. Teams have an emotional intelligence of their own. It is comprised of the emotional intelligence of individual members, plus a collective competency of the group. Everyone contributes to the overall level of emotional intelligence, and the leader has more influence. The good news is that teams can develop greater emotional intelligence and boost their performance. To be most effective, the team needs to create emotionally intelligent norms — the attitudes and behaviors that eventually become habits — that support behaviors for building trust, group identity and group efficacy. A sense of group efficacy is the belief that the team can perform well and that group members are more effective working together than apart. Group emotional intelligence is also about behaving in ways that build relationships both inside and outside the team. Building relationships strengthens the team's ability to face challenges. In order to strengthen relationships, the group must feel safe to be able to explore, embrace and ultimately to rely on emotions in work.

Greater interpersonal understanding can also be created through exercises in perspective formation. Working with a team coach can facilitate greater understanding and build trust through role-playing and other techniques. In any group, people will eventually cross lines and confrontation becomes necessary. There must be a means for doing this that is firm yet not demeaning. The team leader sets the tone for this because of the position he or she is in. Caring confrontation is an art that can be learned and taught to both leaders and members. These are the group norms that build trust and a sense of group identity for members: interpersonal understanding, perspective taking, confrontation and caring. They can be learned and developed wherever they don't exist naturally. It may take some time and attention, but they are too important to be overlooked. Teams are at the very foundation of organizational effectiveness and they won't work without mutual trust and common commitment to goals.

One of the first tasks of a team leader is to build greater team awareness. This is the job of each individual member of the team, as well, but the leader's job is to instill a sense of responsibility in individuals for the well-being of the team. Clearly the setting forth of core values and operating norms is important to ensure that a team works smoothly together. But like most things, they must be repeated again and again. When values and norms are clear, teams can go about their work even in the absence of the leader. Every company faces specific performance challenges for which teams are the most practical and powerful vehicle. The critical challenge for senior managers is how to develop emotionally intelligent teams that can deliver maximum performance. Teams have a unique potential to deliver results, and executives must foster self-managing and emotionally intelligent teams that will be effective. In doing so, top management creates the kind of environment that enables teams as well as individuals to thrive.

THE END