ANSWERS OF MODEL TEST PAPER 4

INTERMEDIATE: GROUP – II

PAPER – 6: FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A : FINANCIAL MANAGEMENT

DIVISION A

1. (c) 18.65%, 16.58%

Ke under two approaches

Calculation of Ke (Using Gordon's Model)

Ke = $\frac{D1}{Po} + g$

Share Price has grown from 150 to 301 in 5 years,

$150 (1 + g)^5 = 301.$

$(1 + g)^5 = 2.01$

Therefore, g = 15%, (From Annuity table – Re 1 after 5 years becomes ₹ 2.01 at rate of 15%)

D1 = 8 + 15% of 8 = 9.2

Po = Average of 52 weeks High price in last 5 years

Po = (185 + 210 +252 +325 +280) / 5

= 252.40

Ke = 9.2 / 252.40 + 0.15

= 18.65%

Calculation of Ke (Using CAPM)

Ke = Rf + (Rm – Rf) X Beta

= 8 + (11 x 0.78)

= 16.58%

2. (a) 17.82%

Overall Ke for the company

Approach	Cost of Equity (k)	Weight (w)	K x w
Gordon's	18.65%	0.6	11.19%
CAPM	16.58%	0.4	6.63% **Total Ke = 17.82%**

3. (b) 12%

Intrinsic Value of Debentures today is ₹ 9,740

WN 1 – Calculation of the Pattern of Future Cash flows

YR	PRINCIPAL (I)	INTEREST (II) = Coupon Rate = 9.5% (7.5% + 2%)	PV OF (I + II) @ 10%	PV OF (I + II) @ 15%
1	1,500	997.50	2270.45	2171.74
2	1,500	855	1946.28	1780.72
3	1,500	712.5	1662.28	1454.75
4	1,500	570	1413.84	1183.53
5	1,500	427.50	1196.83	958.31
6	1,500	285	1007.59	771.70
7	1,500	142.50	842.86	617.48
			10340.13	8938.23

$= 10\% + \frac{(10{,}340.13 - 9{,}740)}{(10{,}340.13 - 8{,}938.23)} \times 5\% = 12.14\% = 12\%$ (approx.)

4. (c) 16.07%, ₹ 87,75,000

Ko = Wd x Kd + We x Ke

= 0.3 X 12 + 0.7 X 17.82

= 16.07%

Purchase Consideration using M-Cap method

= 1,30,000 eq shares x 45 MPS x 1.5X

= ₹ 87,75,000

5. (d) ₹ 66,58,997

It is to be paid equally over 5 years and first instalment is to be paid immediately at Yr 0

Discount rate will be the Ko calculated as above of the company and not 15% which is Ko of Prestige Limited

Year	Amount each year	PV @ 16.07%	PV (₹)
0	17,55,000	1.0000	17,55,000
1	17,55,000	0.8615	15,11,933
2	17,55,000	0.7423	13,02,737
3	17,55,000	0.6395	11,22,323
4	17,55,000	0.5510	9,67,005
	TOTAL PV		**66,58,997**

6. (d) 19.5%

Financial Leverage (FL) indicates % impact in EPS, if EBIT is affected by 12%

FL = Combined Leverage (CL) /Operating Leverage (OL)

CL = 6.5 (Measure of total risk)

OL = 1 / Margin of Safety

Margin of Safety (MOS) = $\frac{\text{Actual Sales} - \text{B.E Sales}}{\text{Actual Sales}}$

MOS = 20 lakhs – 15 lakhs / 20 lakhs = 0.25

Therefore, OL = 1 / 0.25 = 4

So, FL = 6.5 / 4 = 1.625

So % Change in EPS = 12 x 1.625 = 19.5%

7. (c) 1:2

Item	Cost	Weight	Product
Debt	8%	W	8W
Equity	11%	1 – W	11 – 11W
			WACC = 10

Wd = 1/3 and We = 2/3 Debt Equity Ratio = 1/2

8. (c) ₹ 350 Lakhs

Value of Equity = 30 Lakhs ÷ 15% = ₹ 200 Lakhs

Value of Debt = ₹ 150 Lakhs

Value of Firm = 200 Lakhs + 150 Lakhs = ₹ 350 Lakhs

DIVISION B – Descriptive Questions

1. (a) 1. Cost of Goods Sold = Sales – Gross Profit

= ₹ 7,20,000 – 25% x ₹ 7,20,000 = ₹ 5,40,000

2. Stock Turnover = $\frac{\text{Cost of Goods Sold}}{\text{Average Stock}} = \frac{₹\ 5,40,000}{\text{Average Stock}}$ = 5 times.

Average Stock = $\frac{₹\ 5,40,000}{5}$ = ₹ 1,08,000

3. Let Opening Stock be x.

Closing Stock is ₹ 30,000 more than Opening Stock.

Closing Stock = (x + 30,000)

Average Stock $= \frac{x + x + 30,000}{2}$ = 1,08,000.

2x = 2,16,000 – 30,000

x $= \frac{1,86,000}{2}$ = 93,000 = Opening Stock.

Closing Stock = x + 30,000

= 93,000 + 30,000 = ₹ 1,23,000

4. Liquid Ratio $= \frac{\text{Liquid Assets}}{\text{Current Liabilities}} = \frac{\text{Liquid Assets}}{2,40,000}$ = 1.25.

Liquid Assets = ₹ 3,00,000

5. Current Assets = Liquid Assets + Closing Stock

= ₹ 3,00,000 + ₹ 1,23,000 = ₹ 4,23,000

(b) Calculation of slab wise Overall Cost of Capital

(i)

Project Cost	**Capital Source**	**Weights (w)**	**Cost (k)**	**w x k (%)**
Upto 5 Lakhs	Debt	0.3	10	3
	Equity	0.7	12	8.4
			Ko	**11.4**
Above 5 lakhs upto 10 lakhs	Debt	0.3	12	3.6
	Equity	0.7	13.5	9.45
			Ko	**13.05**
Above 10 lakhs upto 20 lakhs	Debt	0.3	13	3.9
	Equity	0.7	15	10.5
			Ko	**14.4**
Above 20 lakhs	Debt	0.3	14	4.2
	Equity	0.7	16	11.2
			Ko	**15.4**

Cost of Raising funds for Project I

Total Capital	**Ko(%)**	**Total Cost (in ₹)**
5,00,000	11.40	57,000
5,00,000	13.05	65,250
5,00,000	14.40	72,000
15,00,000		**1,94,250**

Overall COC (%) = Total Cost (in ₹) / Total Capital

= 1,94,250/15,00,000 * 100

= 12.95 %

Cost of Raising funds for Project II

Total Capital	Ko(%)	Total Cost (in ₹)
5,00,000	11.4	57,000
5,00,000	13.05	65,250
10,00,000	14.4	1,44,000
6,00,000	15.4	92,400
26,00,000		**3,58,650**

Overall COC (%) = 358650 / 2600000 * 100 **= 13.79%**

(ii) If any project is expected to give an after-tax return of 13%, it can be accepted only if the maximum Overall COC (%) of that project equals 13% or less, as at 13%, project would be at break-even i.e earning 13% from the project and incurring 13% COC.

So, under that scenario, Project I can be taken as its COC is 12.95% whereas Project II can't be taken as its COC is 13.79%.

Maximum Value of the Project that can be taken at 13% is approx. (Using IRR technique Interpolation)

At 15 Lakhs Ko = 12.95%

At 26 Lakhs Ko = 13.79%

By interpolation, maximum value of Project at 13% will be

15 Lakhs + {(0.05 x 11)/0.84}

= 15.6548 lakhs

(c) Income Statement

$$DFL = \frac{EBIT}{EBT} = \frac{EBT + Interest}{EBT} = \frac{EBT + 2{,}000}{EBT} = \frac{2}{1}.$$

EBT + ₹ 2000 = 2 EBT.

EBT = ₹ 2,000

EBIT = EBT + Interest = ₹ 2000 + ₹ 2000 = ₹ 4,000.

Contribution $\frac{Contribution}{EBIT} = \frac{Contribution}{4{,}000} = \frac{3}{1}$

Sales	$\frac{Contribution}{PVR} = \frac{12{,}000}{25\%}$	48,000
Less: Variable Cost	Given = 75%	(36,000)
Contribution		12,000
Less: Fixed Cost(Contribution - EBIT = ₹ 12,000 – ₹ 4,000)		(8,000)

	EBIT	4,000
Less:	Interest	(2,000)
	EBT	2,000
Less:	Tax at 30%	(600)
	EAT	1,400

2. (a)

Particulars	Result
Current liabilities	1,56,000
Total Variable expenses = Purchases & Operating Expenses	1,56,000 ÷ 60 × 360 = 9,36,000
Variable expenses % of Sales	9,36,000 ÷ 12,00,000 × 100 = 78%

Particulars	Present	Proposed
1. Sales	1 Lakh ÷ 30 × 360 = 12,00,000	12 Lakhs + 1/3rd = 16,00,000
2. Variable Cost at 78%	9,36,000	12,48,000
3. Cash Discount	12 Lakh × 50% × 1% = 6,000	16 Lakh × 80% × 2% = 25,600
4. Bad debts	12 Lakh × 1.5% = 18,000	16 Lakh × 2% = 32,000
5. Profit before Tax	2,40,000	2,94,400
6. Tax @ 30%	72,000	88,320
7. Profit after Tax	1,68,000	2,06,080
8. Opportunity Cost of Invest. in Debtors	9,36,000 × 30/360 × 70% ×15% = 8,190	12,48,000 × 20/360 × 70% × 15% = 7,280
9**. Net Benefit**	**1,59,810**	**1,98,800**

Advise: Proposed policy should be adopted since the net benefit is increased by (₹ 1,98,800 - 1,59,810) = ₹ 38,990.

(b) (i) As per **Gordon's Model**, Price per share is computed using the formula:

$$P_0 = \frac{E_1(1-b)}{K_e - br}$$

Where,

P_0 = Price per share

E_1 = Earnings per share

Payout ratio = 45/180 = 25%

b = Retention ratio; (1 - b = Pay-out ratio) = 1-0.25 = 0.75

K_e = Cost of capital

r = IRR

br = Growth rate (g)

Applying the above formula, price per share

$$P_0 = \frac{180(1-0.75)}{0.17-0.75\times0.2} = \frac{45}{0.02} = ₹\ 2{,}250$$

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

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

Where,

P = Market Price of the share.

E = Earnings per share.

D = Dividend per share.

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

r = Internal rate of return/ return on investment

Applying the above formula, price per share

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

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

3. (a) Calculation of Present value of cash inflows (PVCI)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Savings in cost due to Production Delays	-	3,50,000	3,50,000	3,50,000	3,50,000	3,50,000
Savings in Salaries	-	21,00,000	21,00,000	21,00,000	21,00,000	21,00,000
Reduction in lost sales	-	1,75,000	1,75,000	1,75,000	1,75,000	1,75,000
Gain due to timely billing	-	3,25,000	3,25,000	3,25,000	3,25,000	3,25,000
	-	29,50,000	29,50,000	29,50,000	29,50,000	29,50,000
Less:						
Salary of AI specialists	-	13,00,000	13,00,000	13,00,000	13,00,000	13,00,000
Annual Maint. & Op Cost	-	1,80,000	2,00,000	1,20,000	1,10,000	1,30,000
NPBDT	-	14,70,000	14,50,000	15,30,000	15,40,000	15,20,000
(-) Depreciation	-	9,20,000	5,52,000	3,31,200	1,98,720	1,19,232

NPBT	-	5,50,000	8,98,000	11,98,800	13,41,280	14,00,768
(-) Tax @ 25%	-	1,37,500	2,24,500	2,99,700	3,35,320	3,50,192
NPAT	-	4,12,500	6,73,500	8,99,100	10,05,960	10,50,576
(+) Depreciation	-	9,20,000	5,52,000	3,31,200	1,98,720	1,19,232
(+) Annual Maint. & Op Cost	-	1,80,000	2,00,000	1,20,000	1,10,000	1,30,000
Gross Cash Inflows	-	15,12,500	14,25,500	13,50,300	13,14,680	12,99,808
(-) Annual Maint. & Op Cost actually paid	1,80,000	2,00,000	1,20,000	1,10,000	1,30,000	-
Net Cash Inflows	-1,80,000	13,12,500	13,05,500	12,40,300	11,84,680	12,99,808
(+) Sale Value at the end of life	-	-	-	-	-	1,90,000
	-1,80,000	13,12,500	13,05,500	12,40,300	11,84,680	14,89,808
PV Factor @ 12%	1	0.8929	0.7`972	0.7118	0.6355	0.5674
PV of Cash Inflows	-1,80,000	11,71,875	10,40,737	8,82,821	7,52,886	8,45,357
Total PV of Cash Inflows	45,13,675					

Calculation of Present value of cash outflows (PVCO)

As mentioned in the question, 75% of the depreciable value will be paid at the beginning. Depreciable value means purchase price plus the installation cost.

	Year 0	Year 1
Purchase Price & Installation Cost	17,25,000	5,75,000
PV Factor @ 12%	1	0.8929
PVCO	17,25,000	5,13,418

(2) Total PVCO = 22,38,418

(3) PV of Tax on Capital Gains (Only asset in the block) - 5th Year end

Capital Gains = Sale Price (-) Closing WDV at 5th year

= 1,90,000 (-) 1,78,848

= 11,152

Tax @ 20% on above = 2230.40

PV = 2,230.40 x 0.5674 = 1,266

Net PVCI = PVCI - PV of Tax on Capital Gains

= 45,13,675 - 1,266 = 45,12,409

NPV = Net PVCI – PVCO

= 45,12,409 - 22,38,418

= 22,73,991

(II) PI = PVCI / PVCO = 45,12,409/ 22,38,418 = 2.0158

(III) ARR = Average NPAT / Initial Investment

= 8,08,327.2/23,00,000 x 100 = 35.145**%**

Note – ARR is calculated based on Initial Investment, similarly it can be calculated based on Average Investment

(b) Lintner's model has two parameters:

i. The target payout ratio,

ii. The spread at which current dividends adjust to the target.

4. (a) Normally it is considered that the trade credit does not carry any cost. However, it carries the following costs:

(i) **Price:** There is often a discount on the price that the firm undergoes when it uses trade credit, since it can take advantage of the discount only if it pays immediately. This discount can translate into a high implicit cost.

(ii) **Loss of goodwill:** If the credit is overstepped, suppliers may discriminate against delinquent customers if supplies become short. As with the effect of any loss of goodwill, it depends very much on the relative market strengths of the parties involved.

(iii) **Cost of managing:** Management of creditors involves administrative and accounting costs that would otherwise be incurred.

(iv) **Conditions:** Sometimes most of the suppliers insist that for availing the credit facility the order should be of some minimum size or even on regular basis.

(b) (i) **Fully Hedged Bonds:** In foreign bonds, the risk of currency fluctuations exists. Fully hedged bonds eliminate the risk by selling in forward markets the entire stream of principal and interest payments.

(ii) **Medium Term Notes (MTN):** Certain issuers need frequent financing through the Bond route including that of the Euro bond. However, it may be costly and ineffective to go in for frequent issues. Instead, investors can follow the MTN programme. Under this programme, several lots of bonds can be issued, all having different features e.g. different coupon rates, different currencies etc. The timing of each lot can be decided keeping in mind the future market opportunities. The entire documentation and various regulatory approvals can be taken at one point of time.

(iii) **Floating Rate Notes (FRN):** These are issued up to seven years maturity. Interest rates are adjusted to reflect the prevailing exchange rates. They provide cheaper money than foreign loans.

(iv) **Euro Commercial Papers (ECP):** ECPs are short term money market instruments. They have maturity period of less than one year. They are usually designated in US Dollars.

(c) DOL can never be between zero and one. It can be zero or less or it can be one or more.

When Sales is much higher than BEP sales, DOL will be slightly more than one. With decrease in sales, DOL will increase. At BEP, DOL will be infinite. When sales is slightly less than BEP, DOL will be negative infinite. With further reduction in sale, DOL will move towards zero. At zero sales, DOL will also be zero.

OR

The finance executive of an organisation plays an important role in the company's goals, policies, and financial success. His responsibilities include:

(a) **Financial analysis and planning:** Determining the proper amount of funds to employ in the firm, i.e. designating the size of the firm and its rate of growth.

(b) **Investment decisions:** The efficient allocation of funds to specific assets.

(c) **Financing and capital structure decisions:** Raising funds on favourable terms as possible i.e. determining the composition of liabilities.

(d) **Management of financial resources** (such as working capital).

(e) **Risk management:** Protecting assets.

ANSWERS OF MODEL TEST PAPER 4

PAPER 6B: STRATEGIC MANAGEMENT

PART I

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

1. (B) (i) (c) (ii) (c) (iii) (c)

PART II

1. (a) The HealthPlus brand of wellness supplements may have the following vision and mission:

Vision: Vision implies the blueprint of the company's future position. It describes where the organization wants to land. Mr. Arun should aim to position "HealthPlus" as India's leading wellness supplements brand. It may have the vision to be India's largest wellness supplements company that enhances health, promotes extraordinary well-being, and brings happiness to people.

Mission: Mission delineates the firm's business, its goals, and ways to reach the goals. It explains the reason for the existence of the firm in society. It is designed to help potential shareholders and investors understand the purpose of the company. Mr. Arun may identify the mission in the following lines:

- To be in the business of wellness supplements to enhance the lives of people and give them the confidence to lead a healthy life.
- To protect health by providing supplements that counteract harmful elements in the environment.
- To produce wellness supplements using natural ingredients in an environmentally sustainable manner.

(b) GreenGardens should conduct a SWOT analysis to strategically plan for future growth. This analysis will help them understand their internal strengths and weaknesses, as well as external opportunities and threats.

SWOT Analysis Grid for GreenGardens:

Strengths	**Weaknesses**
High-quality, pesticide-free produce	Limited distribution channels
Strong brand reputation for organic products	Small scale of operations
Dedicated and knowledgeable workforce	Limited marketing and sales reach
Opportunities	**Threats**
Rising demand for organic products	Unpredictable weather conditions
Potential to expand into new markets	Intense competition from larger farms

Increased consumer awareness of health and sustainability	Regulatory changes affecting organic farming

By systematically evaluating these areas, GreenGardens can leverage its strengths, address its weaknesses, capitalize on opportunities, and mitigate threats. This strategic planning will guide them toward sustainable growth and success in the organic farming industry.

(c) FreshDelight is employing a **market development strategy** to expand its market presence. This approach involves introducing their existing organic fruit juices to new markets, specifically targeting countries where the demand for organic products is on the rise. To achieve this, FreshDelight is launching targeted marketing campaigns and partnering with local distributors to effectively introduce their products to these new regions. Additionally, they are adapting their product packaging and marketing messages to align with local preferences and regulations, ensuring their offerings resonate with the new customer base. By entering these emerging markets, FreshDelight aims to increase its customer base and drive sales growth, leveraging the growing popularity of organic products.

2. (a) A workable action plan for turnaround of the textile mill would involve:

- **Stage One – Assessment of current problems**: In the first step, assess the current problems and get to the root causes and the extent of damage.
- **Stage Two – Analyze the situation and develop a strategic plan:** Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions after analyzing strengths and weaknesses in the areas of competitive position.
- **Stage Three – Implementing an emergency action plan**: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive.
- **Stage Four – Restructuring the business**: If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.
- **Stage Five – Returning to normal**: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

(b) In matrix structure, functional and product forms are combined simultaneously at the same level of the organization. Employees have two superiors, a product / project manager and a functional manager.

The “home” department - that is, engineering, manufacturing, or marketing - is usually functional and is reasonably permanent. People from these functional units are often assigned temporarily to one or more product units or projects.

The product units / projects are usually temporary and act like divisions in that they are differentiated on a product-market basis. The matrix structure may be very appropriate when organizations conclude that neither functional nor divisional forms, even when combined with horizontal linking mechanisms like strategic business units, are right for the implementation of their strategies. Matrix structure was developed to combine the stability of the functional structure with flexibility of the product form. It is very useful when the external environment (especially its technological and market aspects) is very complex and changeable.

A matrix structure is most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication. It may result in higher overhead costs due to more management positions.

The matrix structure is often found in an organization when the following three conditions exist:

1. Ideas need to be cross-fertilized across projects or products;
2. Resources are scarce; and
3. Abilities to process information and to make decisions need to be improved.

3. (a) Competitive landscape is a business analysis which identifies competitors, either direct or indirect. Competitive landscape is about identifying and understanding the competitors and at the same time, it permits the comprehension of their vision, mission, core values, niche market, strengths and weaknesses.

An in-depth investigation and analysis of a firm’s competition allows it to assess the competitors’ strengths and weaknesses in the marketplace and helps it to choose and implement effective strategies that will improve its competitive advantage.

Steps to understand the competitive landscape for building competitive advantage are:

(i) Identify the competitor: The first step to understanding the competitive landscape is to identify the competitors in the firm’s industry and have actual data about their respective market share.

(ii) Understand the competitors: Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.

(iii) **Determine the strengths of the competitors:** What are the strengths of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers? Why do customers give them their business?

(iv) **Determine the weaknesses of the competitors:** Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.

(v) **Put all of the information together:** At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthened by the firm.

(b) The role of Chief Executive Officer pertains to corporate level.

The corporate level of management consists of the Chief Executive Officer (CEO) and other top-level executives. These individuals occupy the apex of decision making within the organization.

The role of Chief Executive Officer is to:

1. oversee the development of strategies for the whole organization;
2. defining the mission and goals of the organization;
3. determining what businesses, it should be in;
4. allocating resources among the different businesses;
5. formulating, and implementing strategies that span individual businesses;
6. providing leadership for the organization;
7. ensuring that the corporate and business level strategies which company pursues are consistent with maximizing shareholders wealth; and
8. managing the divestment and acquisition process.

4. (a) Buyers of an industry's products or services can sometimes exert considerable pressure on existing firms to secure lower prices or better services. This is evident in situations where buyers enjoy a superior position than the seller of the product. This leverage is particularly evident when:

(i) Buyers have full knowledge of the sources of products and their substitutes.

(ii) They spend a lot of money on the industry's products, i.e., they are big buyers.

(iii) The industry's product is not perceived as critical to the buyer's needs and buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.

(b) According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas - competitor differentiation, customer value, and application to other markets.

- **Competitor differentiation:** The company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate. This can provide a company an edge compared to competitors. It allows the company to provide better products or services to market with no fear that competitors can copy it.
- **Customer value:** When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence. It will include all the skills needed to provide fundamental benefits. The service or the product has to have real impact on the customer as the reason to choose to purchase them. If customer has chosen the company without this impact, then competence is not a core competence.
- **Application of competencies to other markets:** Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise. Therefore, although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence, if it is not fundamental from the whole organization's point of view. Thus, a core competence is a unique set of skills and expertise, which will be used throughout the organisation to open up potential markets to be exploited.

OR

Organizations should consider the following factors when choosing strategic performance measures:

1. **Relevance:** The measure should be relevant to the organization's goals and objectives, providing actionable and meaningful information. This ensures that the performance measures are directly aligned with what the organization aims to achieve, and that the information obtained can drive improvements and strategic decisions.
2. **Data Availability:** The measure should be based on data that is readily available and can be collected and analyzed in a timely manner. This is important to ensure that the organization can efficiently gather and utilize data without significant delays or obstacles.
3. **Data Quality:** The measure should be based on high-quality data that is accurate and reliable. Accurate and reliable data are crucial

for making informed decisions and assessing the true performance of the organization.

4. **Data Timeliness:** The measure should be based on data that is current and up-to-date. Timely data allows organizations to make informed decisions quickly, enabling them to respond promptly to changes and emerging challenges.

These factors are important because they provide a framework for organizations to assess the success of their strategies, identify areas for improvement, and make informed decisions about resource allocation and strategic adjustments. Effective strategic performance measures should be relevant, meaningful, easy to understand, and regularly reviewed and updated to ensure their continued alignment with the organization's goals and objectives.