Intermediate Course: Group – II **(Mock Test Paper – Series : 1)**
DATE: 20.09.2024 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER – 6A : FINANCIAL MANAGEMENT

1. **The question paper comprises two parts. Part I and Part II.**
2. **Part I comprises Case Scenario based Multiple Choice Questions (MCQs)**
3. **Part II comprises questions which require descriptive type answers.**
4. **Working note should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note. However, in answers to Questions in Part I, working notes are not required.**

PART I – CASE SCENARIO BASED MCQs (15 Marks)

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

Ans. 1 to Ans. 5:
CASE SCENARIO

1. Ans. (d)
2. Ans. (a)
3. Ans. (b)
4. Ans. (c)
5. Ans. (b)

MCQ [5 MCQ of 2 Marks Each : Total 10 Marks]

Ans. 6 to Ans. 7:
CASE SCENARIO

6. Ans. (c)
7. Ans. (a)

MCQ [2 MCQ of 2 Marks Each : Total 4 Marks]

8. Ans. (d) **}{1 M}**

PART II – DESCRIPTIVE QUESTIONS (35 Marks)

Question No. 1 is Compulsory.

Attempt any two questions out of the remaining three questions.

Answer 1:

(a) (i) Calculation of Value of 'Aman Ltd.' and 'Baman Ltd' according to MM Hypothesis

Market Value of 'Aman Ltd' (Unlevered)

$$V_u = \frac{EBIT\ (1 - t)}{K_e} = \frac{Rs.25,00,000\,(1 - 0.30)}{20\%} = \frac{Rs.17,50,000}{20\%} = Rs.\ 87,50,000$$ **}{1 M}**

Market Value of 'Baman Ltd.' (Levered)

V_l = V_u + TB
= Rs. 87,50,000 + (Rs. 1,00,00,000 × 0.30)
= Rs. 87,50,000 + Rs. 30,00,000 = Rs. 1,17,50,000 **}{1 M}**

(ii) Computation of Weighted Average Cost of Capital (WACC)

WACC of 'Aman Ltd.' = 20% (i.e. $K_e = K_o$) **}{1 M}**
WACC of 'Baman Ltd.'

	Baman Ltd. (Rs.)
EBIT	25,00,000
Interest to Debt holders	(12,00,000)
EBT	13,00,000
Taxes @ 30%	(3,90,000)
Income available to Equity Shareholders	9,10,000
Total Value of Firm	1,17,50,000
Less: Market Value of Debt	(1,00,00,000)
Market Value of Equity	17,50,000
Return on equity (Ke) = 9,10,000 / 17,50,000	0.52 }{1 M}

Computation of WACC Baman Ltd

Component of Capital	Amount	Weight	Cost of Capital	WACC
Equity	17,50,000	0.149	0.52	0.0775
Debt	1,00,00,000	0.851	0.084*	0.0715
Total	1,17,50,000			0.1490 }{1 M}

*K_d= 12% (1- 0.3) = 12% × 0.7 = 8.4%
WACC = 14.90%

Answer:

(b) (i) Financial leverage

Combined Leverage= Operating Leverage (OL) x Financial Leverage (FL) 2.8 = 1.4 x FL Or, FL = 2

Financial Leverage = 2 }{1 M}

(ii) P/V Ratio and EPS

$$\text{Operating leverage} = \frac{\text{Contribution (C)}}{\text{C - Fixed Cost (FC)}} \times 100$$

$$1.4 = \frac{C}{C - 2,04,000} \quad \text{Or, } 1.4\,(C - 2,04,000) = C$$

$$\text{Or, } 1.4\,C - 2,85,600 = C \quad \text{Or, } C = \frac{₹\ 2,85,600}{0.4} = \quad C = 7,14,000$$

$$\text{Now, P/V ratio} = \frac{\text{Contribution (C)}}{\text{Sales (S)}} \times 100 = \frac{₹\ 7,14,000}{₹\ 30,00,000} \times 100 = 23.8\%$$ }{1 M}

Therefore, P/V Ratio = 23.8%

$$\text{EPS} = \frac{\text{Profit after tax}}{\text{No. of equity shares}}$$

EBT = Sales – V – FC – Interest

= ₹ 30,00,000 – ₹ 22,86,000 – ₹ 2,04,000 – ₹ 2,55,000

= ₹ 2,55,000

PAT = EBT – Tax

= ₹ 2,55,000 – ₹ 76,500 = ₹ 1,78,500

EPS $= \frac{\text{Rs. } 1,78,500}{1,20,000} = 1.4875$ }{1 M}

(iii) Assets turnover

Assets turnover $= \frac{\text{Sales}}{\text{Total Assets}} = \frac{\text{Rs. } 30,00,000}{\text{Rs. } 33,25,000} = 0.902$ }{1 M}

0.902 < 1.5 means lower than industry turnover.

(iv) EBT zero means 100% reduction in EBT. Since combined leverage is 2.8, sales have to be dropped by 100/2.8 = 35.71%. Hence new sales will be Rs. 30,00,000 x (100 – 35.71) = Rs. 19,28,700.
Therefore, at Rs. 19,28,700 level of sales, the Earnings before Tax of the company will be equal to zero. }{1 M}

Answer:

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

$$P = \frac{D_1}{(1+K_e)^1} + \frac{D_2}{(1+K_e)^2} + \frac{D_3}{(1+K_e)^3} + \frac{D_4}{(1+K_e)^4} + \frac{D_5}{(K_e-g)} \times \frac{1}{(1+K_e)^4}$$

Where,
P = Price per share
Ke = Required rate of return on equity
g = Growth rate

$$P = \frac{₹120x1.15}{(1+0.2)^1} + \frac{₹138x1.15}{(1+0.2)^2} + \frac{₹158.7x1.15}{(1+0.2)^3} + \frac{₹182.5x1.15}{(1+0.2)^4} + \frac{₹209.88x1.05}{(0.2-0.05)^1} \times \frac{1}{(1+0.2)^4}$$

P= 115 + 110.2 + 105.6 + 101.2 + 708.51 = Rs. 1,140.51 }{4 M}

Intrinsic value of share is Rs. 1,140.51 as compared to latest market price of Rs. 3,122. Market price of a share is overpriced by Rs. 1,981.49. }{1 M}

Answer 2:
Workings:

(a) Calculation of annual cash flows

(Rs. in lakh)

Year	Sales	VC	FC	Dep.	Profit	Tax	PAT	Dep.	Cash inflow
1	172.80	103.68	36	43.75	(10.63)	-	-	43.75	33.12
2	259.20	155.52	36	43.75	23.93	3.99*	19.94	43.75	63.69
3	624.00	374.40	36	43.75	169.85	50.955	118.895	43.75	162.645
4-5	648.00	388.80	36	48.25	174.95	52.485	122.465	48.25	170.715
6-8	432.00	259.20	36	48.25	88.55	26.565	61.985	48.25	110.235

{3 M}

(b) Calculation of Depreciation:

- On initial equipment $= \frac{\text{Rs. 370 lakh - 20 lakh}}{\text{8 years}}$ = 43.75 lakh

- On additional equipment $= \frac{\text{(Rs. 25 - Rs. 2.5)lakh}}{\text{5 years}}$ = 4.5 lakh

(c) *Calculation of tax in 2nd Year:

	Rs. in lakh
Profit for the year	23.93
Less: Set off of unabsorbed depreciation in 1st year	(10.63)
Taxable profit	13.30
Tax @30%	3.99

{1 M}

(d) Calculation of Initial cash outflow

	Rs. in lakh
Cost of New Equipment	370
Add: Working Capital	40
Outflow	410

{1 M}

Calculation of NPV

(Rs. in lakh)

Year	Cash flows	PV factor @12%	PV of cash- flows	Remark
0	(410)	1.000	(410.00)	Initial equipment cost
1	33.12	0.893	29.57	
2	63.69	0.797	50.76	
3	162.645	0.712	115.80	
3	(25.00)	0.712	(17.80)	Additional equipment cost
4	170.715	0.636	108.57	
5	170.715	0.567	96.79	
6	110.235	0.507	55.89	
7	110.235	0.452	49.83	
8	110.235	0.404	44.53	
8	40.00	0.404	16.16	Release of working capital
8	22.50	0.404	9.09	Salvage value
Net Present Value			149.19	

{4 M}

Advise: Since the project has a positive NPV, therefore, it should be accepted. }{1 M}

Answer 3:

Estimation of Working Capital Needs

			Rs.
I.	Investment in Inventory		
	(i)	Raw Material Inventory = 78,000 x $\frac{4}{52}$ x Rs. 117	7,02,000 }{1 M}
	(ii)	Work-in-Process Inventory	
		Material = 78,000 x $\frac{2}{52}$ x 0.80 x 117 = 2,80,800	
		Labour and Overheads Cost (other than depreciation)	
		= 78,000 x $\frac{2}{52}$ x 0.60 x 129 = 2,32,200	5,13,000 }{1 M}

	(iii) Finished Goods Inventory (Cash Cost) $= 78{,}000 \times \frac{3}{52} \times 246$	11,07,000	}{1 M}
II.	Investment in Debtors (Cash Cost) $= 78{,}000 \times \frac{6}{52} \times 0.8 \times 246$	17,71,200	}{1 M}
III.	Cash Balance	2,50,000	}{1/2 M}
	Investment in Current Assets	43,43,200	

Current Liabilities and Deferred Payment

		Rs.	
(i)	Creditors $= 78{,}000 \times \frac{8}{52} \times 117$	14,04,000	}{1 M}
(ii)	Wages Outstanding $= 78{,}000 \times \frac{1}{52} \times 49$	73,500	}{1 M}
(iii)	Overheads outstanding (cash cost) $= 78{,}000 \times \frac{2}{52} \times 80$	2,40,000	}{1 M}
	Total Deferred Payments	17,17,500	
	Net Working Capital (Current Assets - Non-interest bearing Current Liabilities) = 43,43,200 - 17,17,500 = Rs. 26,25,700 }{$2^{1/2}$ M}		

Answer 4:

(a) (i) **Floating Rate Bonds:** These are the bonds where the interest rate is not fixed and is allowed to float depending upon the market conditions. These are ideal instruments which can be resorted to by the issuers to hedge themselves against the volatility in the interest rates. They have become more popular as a money market instrument and have been successfully issued by financial institutions like IDBI, ICICI etc. {3 M}

(ii) **Packing Credit:** Packing credit is an advance made available by banks to an exporter. Any exporter, having at hand a firm export order placed with him by his foreign buyer on an irrevocable letter of credit opened in his favour, can approach a bank for availing of packing credit. An advance so taken by an exporter is required to be liquidated within 180 days from the date of its commencement by negotiation of export bills or receipt of export proceeds in an approved manner. Thus Packing Credit is essentially a short-term advance. {3 M}

(b) On one hand when cost of 'fixed cost fund' is less than the return on investment financial leverage will help to increase return on equity and EPS. The firm will also benefit from the saving of tax on interest on debts etc. However, when cost of debt will be more than the return it will affect return of equity and EPS unfavourably and as a result firm can be under financial distress. This is why financial leverage is known as "double edged sword". {4 M}

Effect on EPS and ROE:

When, ROI > Interest - Favourable - Advantage

When, ROI < Interest - Unfavourable - Disadvantage

When, ROI = Interest - Neutral - Neither advantage nor disadvantage.

OR

(b) "Financing a business through borrowing is cheaper than using equity".

(i) Debt capital is cheaper than equity capital from the point of its cost and interest being deductible for income tax purpose, whereas no such deduction is allowed for dividends.

(ii) Issue of new equity dilutes existing control pattern while borrowing does not result in dilution of control.

(iii) In a period of rising prices, borrowing is advantageous. The fixed monetary outgo decreases in real terms as the price level increases.

(iv) Interest cost is fixed whatever is profit.

{1 M Each Point}

PAPER – 6B : STRATEGIC MANAGEMENT

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises case scenario based multiple choice questions (MCQs)
3. Part II comprises questions which require descriptive type answers.

PART I – CASE SCENARIO BASED MCQs (15 Marks)

Case Scenario
Ans. 1 to Ans. 5:

1. Ans. (b)
2. Ans. (c)
3. Ans. (c)
4. Ans. (b)
5. Ans. (a)

MCQ [5 MCQ of 2 Marks Each : Total 10 Marks]

6. Ans. (b) **{2 M Each}**
7. Ans. (c)
8. Ans. (d) **{1 M}**

PART II – DESCRIPTIVE QUESTIONS (35 Marks)
Question No. 1 is Compulsory.
Attempt any two questions out of the remaining three questions.

Answer 1:

(a) **{**Woodworld is having a product portfolio that is evidently in the decline stage.**}{1 M}** The product is being replaced with the latest designs with better quality of the product. Strategically, the company should minimize their dependence on the existing products and identi fy other avenues for the survival and growth. As a CEO of Woodworld Ltd., following can be the strategic options available with the CEO:

- Invest in new product development and switchover to the latest designs. Woodworld Ltd. also need time to invest in hiring interior designers.
- They can acquire or takeover a competitor, provided they have or are able to generate enough financial resources.
- They may also consider unrelated growth and identify other areas for expansion. This will enable Woodworld Ltd. to spread their risks.
- In longer run, they should divest the existing products. However, they may continue with the existing products in a limited manner for such time there is demand for the product.

{1 M for Each Points}

Answer:

(b) **{**Spacetek Pvt. Ltd. company has adopted Focus strategy which is one of the Michael Porter's Generic strategies.**}{1 M}** Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment. An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

Advantages of Focus Strategy

1. Premium prices can be charged by the organizations for their focused product/services.
2. Due to the tremendous expertise about the goods and services that organizations following focus strategy offer, rivals and new entrants may find it difficult to compete.

{1 M Each}

Disadvantages of Focus Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high which can cause problems.
3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

{1 M each for Any 2 Points}

Answer:

(c) (i) If HPPL and HLP join hands and form a new entity named Health N Hygiene Pharma Ltd., this strategic development would be considered a Merger growth strategy. A merger is a combination of two or more companies to form a new entity with shared ownership and control. {1 M}

(ii) If HLP is sold out to HPPL and HLP ceases to exist, this strategic deal would be categorized as an Acquisition growth strategy. An acquisition occurs when one company purchases another, resulting in the acquiring company gaining control over the acquired company's assets, operations, and intellectual property. {1 M}

(iii) Many organizations in order to achieve quick growth, expand or diversify with the use of mergers and acquisitions strategies. Merger and acquisition in simple words are defined as a process of combining two or more organizations together. There is a thin line of difference between the two terms, but the impact of combination is completely different in both the cases. {1 M}

Merger is considered to be a process when two or more organizations join together to expand their business operations. In such a case the deal gets finalized on friendly terms. Owners of pre-merged entities have right over the profits of new entity. In a merger two organizations combine to increase their strength and financial gains. {1 M}

While, when one organization takes over the other organization and controls all its business operations, it is known as acquisition. In the process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during economic recession or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner; it is more or less a forced association. {1 M}

Answer 2:

(a) In most situations, strategy-execution process includes the following principal aspects:

- Developing budgets that steer ample resources into those activities critical to strategic success.
- Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
- Ensuring that policies and operating procedures facilitate rather than impede effective execution.
- Using the best-known practices to perform core business activities and pushing for continuous improvement.

{1 M each for Any 5 Points}

- Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
- Motivating people to pursue the target objectives energetically.
- Creating a company culture and work climate conducive to successful strategy implementation and execution.
- Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

Good strategy execution involves creating strong "fits" between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organization's work climate and culture.

Answer:

(b) **{**The role of Chief Executive Officer pertains to corporate level.**}{1 M}**

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 (Top Management/Corporate Level Managers) 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.

{1 M each for Any 4 Points}

Answer 3:

(a) **{**The competitive rivalry will be a significant force in case of company of Rajiv Arya as all the rivals are similar in sizes and are manufacturing similar products. It is difficult for any single manufacturer to dominate the market. Large number of patents will make it difficult for new entrants to break into the market.**}{1 M}** **{**Further, as there are a large number of small suppliers the power that suppliers can exert will also be low.**}{1 M}**

There is no information relating to substitutes and bargaining power of customers in the information given in scenario. However, a domestic vacuum cleaner will directly compete with other options such as house maids. Availability of house maids at low cost can significantly disturb the sales of products. **{1 M}**

Further, as the products are similar customers can easily shift from one company to another. This will only enhance competitive rivalry. **{1 M}**

The competitive rivalry will be significant in Rajiv Arya's dealing industry as all rivals are similar in sizes and manufacture similar products, making it difficult for anyone manufacturer to dominates the market or gain market share. The large number of patents will make it hard for new entrants to break into the market, while the fact that Rajiv Arya buys from a large number of small suppliers suggests that supplier power is also low. Finally, there is no information relating to substitutes and bargaining power of customers in the information given in scenario. **{1 M}**

Answer:

(b) **{**The strategy in question is the growth/expansion strategy.**}{1 M}**

The Growth/Expansion strategy involves redefining the business, expanding its scope, and significantly increasing investments. This dynamic and vigorous approach is synonymous with promise and success. It entails a substantial reformulation of goals, major initiatives, and strategic moves, including investments, exploration into new products, technologies, and markets, and innovative decision-making. While promising growth, this strategy navigates the enterprise through relatively unknown and risky paths, rich with potential but also pitfalls.

Major Reasons for Adopting Growth/Expansion Strategy:

- It may become imperative when environment demands increase in pace of activity.
- Strategists may feel more satisfied with the prospects of growth from expansion; chief executives may take pride in presiding over organizations perceived to be growth-oriented.
- Expansion may lead to greater control over the market vis-a-vis competitors.
- Advantages from the experience curve and scale of operations may accrue.
- Expansion also includes intensifying, diversifying, acquiring and merging businesses.

{1 M each for Any 4 Points}

Answer 4:

(a) **{**Strategic Performance Measures (SPM) are metrics used by organizations to evaluate and track the effectiveness of their strategies in achieving strategic goals and objectives. SPM provides a framework for measuring the performance of key areas critical to the success of the organization's strategy. These measures help in assessing whether the organization is progressing towards its desired outcomes and allow for adjustments to be made to improve performance.**}{1 M}**

Types of Strategic Performance Measures

There are various types of strategic performance measures, including:

- ♦ Financial Measures: Financial measures, such as revenue growth, return on investment (ROI), and profit margins, provide an understanding of the organization's financial performance and its ability to generate profit.
- ♦ Customer Satisfaction Measures: Customer measures, such as customer satisfaction, customer retention, and customer loyalty, provide insight into the organization's ability to meet customer needs and provide high-quality products and services.
- ♦ Market Measures: Market measures, such as market share, customer acquisition, and customer referrals, provide information about the organization's competitiveness in the marketplace and its ability to attract and retain customers.
- ♦ Employee Measures: Employee measures, such as employee satisfaction, turnover rate, and employee engagement, provide insight into the organization's ability to attract and retain talented employees and create a positive work environment.
- ♦ Innovation Measures: Innovation measures, such as research and development (R&D) spending, patent applications, and new product launches, provide insight into the organization's ability to innovate and create new products and services that meet customer needs.
- ♦ Environmental Measures: Environmental measures, such as energy consumption, waste reduction, and carbon emissions, provide insight into the organization's impact on the environment and its efforts to operate in a sustainable manner.

{1 M each for Any 4 Points}

Answer:

(b) Faced with a constantly changing environment, each business unit needs to develop a marketing information system to track trends and developments, which can be categorized as an opportunity or a threat. The company has to review its strength and weakness in the background of environment's opportunities and threat, i.e., an organization's SWOT analysis.

STU is looking at playing an active role in the key projects taken up by the central government. Following are the potential opportunities and threats to STU:

Potential STU's Opportunities:

- Alliances or joint ventures with central government that expand the STU's market coverage or boost its competitive capability.
- Possibilities of working on the future projects of central government.
- Serving additional customer groups or expanding into new geographic markets.
- Utilizing existing company skills or technological know-how to enter new projects.
- Openings to take market share away from rivals.
- Openings to exploit emerging new technologies.
- Integrating forward or backward.

{$2^{1/2}$ M}

Potential STU's Threats:

- Due to COVID-19 pandemic, companies can have face the lockdown situation.
- Economic factors such as recession etc.
- Likely entry of potent new competitors.
- Technological changes/innovations in construction equipment.
- Costly new regulatory requirements.
- Growing bargaining power of suppliers.
- Vulnerability to industry driving forces.

{$2^{1/2}$ M}

OR

Answer:

(b) Strategic Management is defined as a dynamic process of formulation, implementation, evaluation, and control of strategies to realize the organization's strategic intent. Strategic intent refers to purposes for what organization strives for. Top management must define "what they want to do" and "why they want to do". "Why they want to do" represents strategic intent of the firm. Clarity in strategic intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.

Strategic intent can be understood as the philosophical base of strategic management. It implies the purposes, which an organization endeavours to achieve. It is a statement that provides a perspective of the means, which will lead the organization, reach its vision in the long run. Strategic intent gives an idea of what the organization desires to attain in future.

Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives. Strategic intent could be in the form of vision and mission statements for the organisation at the corporate level. It could be expressed as the business definition and business model at the business level of the organisation.

Strategic intent is generally stated in broad terms but when stated in precise terms it is an expression of aims to be achieved operationally i.e., goals and objectives.

{1 M}

Elements of Strategic Intent

(i) **Vision:** Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. It depicts the organisation's aspirations and provides a glimpse of what the organization would like to become in future. Every sub system of the organization is required to follow its vision.

(ii) **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 the society. It is designed to help potential shareholders and investors understand the purpose of the firm. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in the society.

(iii) **Goals and objectives:** These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan, over the particular period. However, in practice no distinction is made between goals and objectives and both terms are used interchangeably.

The vision, mission, business definition, and business model explain the philosophy of the organisation but the goals and objectives represent the results to be achieved in multiple areas of business.

While Strategic Intent is the purpose that an organisation aims to achieve, Values form the omnipresent foundation of each and every decision that the management takes. An organisation without values is like an organisation with no real intent. Let us understand a bit more about values from a business perspective.

(iv) **Values/Value System:** Values are the deep-rooted principles which guide an organisation's decisions and actions. Collins and Porras succinctly define core values as being inherent and sacrosanct; they can never be compromised, either for convenience or short-term economic gain. Values often reflect the values of the company's founders—Hewlett-Packard's celebrated "HP Way" is an example. They are the source of a company's distinctiveness and must be maintained at all costs.

{1 M each Point}

—**—