



Workbook

**Subject – Enterprise Information Systems
and Strategic Management**

Download our Application



Follow us on:



koncept_ca



**Koncept
Education**



BOTH GROUPS ₹ 17,700

BOTH GROUPS ₹ 21,240

SINGLE GROUP ₹ 8,850

SINGLE GROUP ₹ 11,800

SINGLE SUBJECT ₹ 5,900

SINGLE SUBJECT ₹ 5,900

USE CODE

AUG20

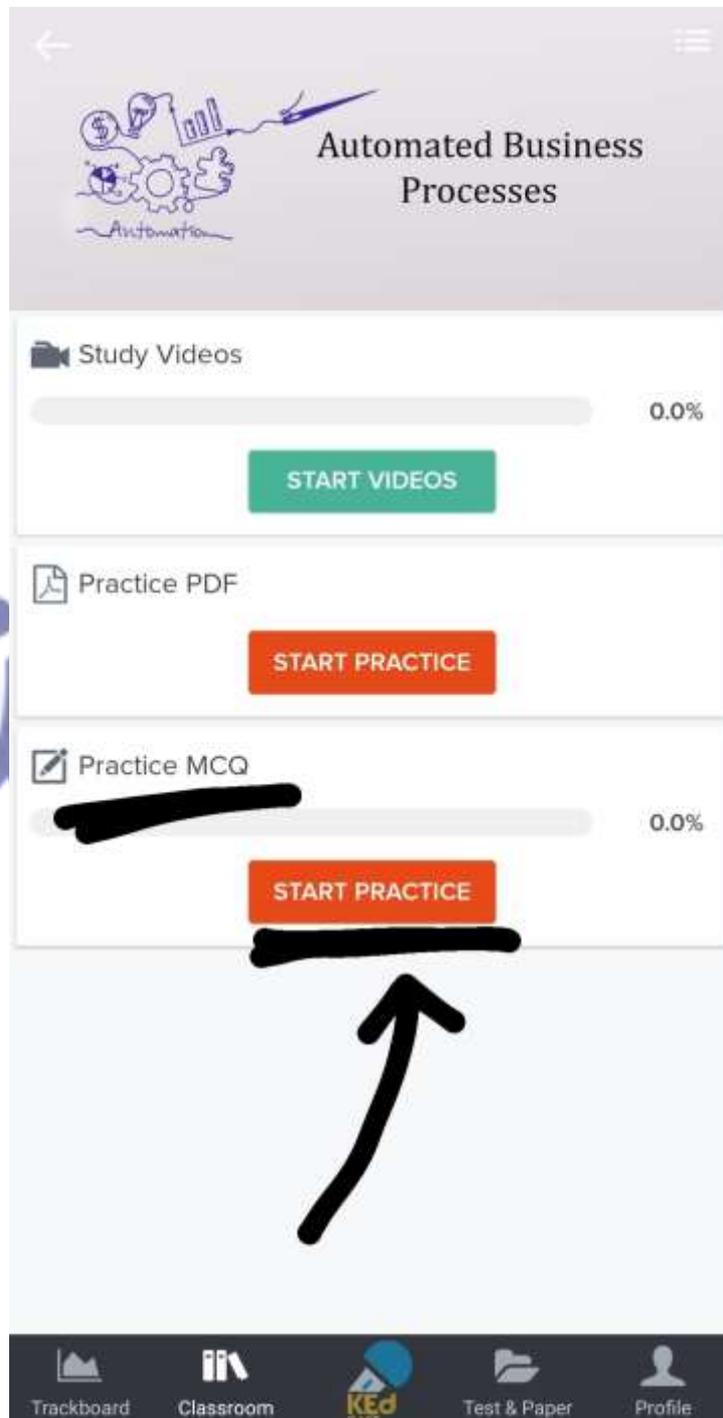
*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN AUGUST 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

USE CODE

NOV20

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN NOVEMBER 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

NOTE- MCQs are not covered in this Workbook. You can access the MCQs from your study account either on the Application or the Website.



Enterprise Information System

Chapter 1- Automated business processes

Question 1

In an organization, effective risk management involves identification of high-level risk exposures and their analysis. Discuss all the risk management strategies out of which Senior Management of an organization may choose to adopt any of the risk management strategy based on the analysis of risks.

Answer

When risks are identified and analyzed, it is not always appropriate to implement controls to counter them. Some risks may be minor, and it may not be cost-effective to implement expensive control processes for them. Risk management strategy is explained below:

- **Tolerate/Accept the risk:** One of the primary functions of management is managing risk. Some risks may be considered minor because their impact and probability of occurrence is low. In this case, consciously accepting the risk as a cost of doing business is appropriate, as well as periodically reviewing the risk to ensure its impact remains low.
- **Terminate/Eliminate the risk:** It is possible for a risk to be associated with the use of a technology, supplier, or vendor. The risk can be eliminated by replacing the technology with more robust products and by seeking more capable suppliers and vendors.
- **Transfer/Share the risk:** Risk mitigation approaches can be shared with trading partners and suppliers. A good example is outsourcing infrastructure management.

In such a case, the supplier mitigates the risks associated with managing the IT infrastructure by being more capable and having access to more highly skilled staff than the primary organization. Risk also may be mitigated by transferring the cost of realized risk to an insurance provider.

- **Treat/mitigate the risk:** Where other options have been eliminated, suitable controls must be devised and implemented to prevent the risk from manifesting itself or to minimize its effects.
- **Turn back:** Where the probability or impact of the risk is very low, then management may decide to ignore the risk.

Question 2

Though Human Resource (HR) Department plays an important role in development of any enterprise, yet it has certain risks associated at every stage of its life cycle. Describe all the risks related to Human Resource Department.

Answer

The risks associated with Human Resource Department are as given below:

- (a) Employees who have left the company continue to have system access.
- (b) Employees have system access in excess of their job requirements.
- (c) Additions to the payroll master files do not represent valid employees.
- (d) New employees are not added to the payroll master files.
- (e) Terminated employees are not removed from the payroll master files.
- (f) Employees are terminated without following statutory requirements.
- (g) Deletions from the payroll master files do not represent valid terminations.
- (h) Invalid changes are made to the payroll master files.
- (i) Changes to the payroll master files are not accurate.
- (j) Changes to the payroll master files are not processed in a timely manner.
- (k) Payroll master file data is not up to date.
- (l) Payroll is disbursed to inappropriate employees.
- (m) System access to process employee master changes has not been restricted to the authorized users.

Question 3.

"Enterprise Risk Management (ERM) does not create a risk-free environment; rather it enables management to operate more effectively in environments filled with risks". In view of this statement, explain the various benefits, which Board of Directors and Management of an entity seek to achieve by implementing the ERM process within the entity.

Answer

Following features in Enterprise Risk Management (ERM) provides enhanced capabilities to enable management to operate more effectively in environments filled with risks:

1. Align risk appetite and strategy:

Risk appetite is the degree of risk, on a broad-based level that an enterprise is willing to accept in pursuit of its goals. Management considers the entity's risk appetite first in evaluating strategic alternatives, then in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.

2. Link growth, risk, and return:

Entities accept risk as part of value creation and preservation, and they expect return commensurate with the risk. ERM provides an enhanced ability to identify and assess risks, and establish acceptable levels of risk relative to growth and return objectives.

3. Enhance risk response decisions:

ERM provides the rigor to identify and select among alternative risk responses - risk avoidance, reduction, sharing and acceptance. ERM provides methodologies and techniques for making these decisions.

4. Minimize operational surprises and losses:

Entities have enhanced capability to identify potential events, assess risk and establish responses, thereby reducing the occurrence of surprises and related costs or losses.

5. Identify and manage cross-enterprise risks:

Every entity faces a myriad of risks affecting different parts of the enterprise. Management needs to not only manage individual risks, but also understand interrelated impacts.

6. Provide integrated responses to multiple risks:

Business processes carry many inherent risks and ERM enables integrated solutions for managing the risks.

7. Seize opportunities:

Management considers potential events, rather than just risks, and by considering a full range of events, management gains an understanding of how certain events represent opportunities.

8. Rationalize capital:

More robust information on an entity's total risk allows management to more effectively assess overall capital needs and improve capital allocation.

Question 4

Explain 'Data Flow Diagram'.

Answer

Data Flow Diagrams:

Data Flow Diagrams (DFD) shows the flow of data or information from one place to another. DFDs describe the processes showing how these processes link together through data stores and how the processes relate to the users and the outside world. In other words, DFD basically provides an overview of -

- What does a system processes;
- What transformations are performed;
- What data are stored;
- What results are produced and where they flow?

Question 5

Explain Line Error Control.

Answer

Line Error Control:

Whenever data is transmitted over a communication line in a telecommunication network, an error may occur because of attenuation distortion or noise that occurs on the line. These line errors must be detected and corrected.

• Error Detection:

The errors can be detected by either using a loop (echo) check or building some form of redundancy into the message transmitted.

• Error Correction:

When line errors have been detected, they must then be corrected using either forward error correcting codes or backward error correcting codes.

Question 6

Describe the term “Internal Control System”? State its limitations as well.

Answer

Internal Control System:

Internal Control System means all the policies and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. An Internal Control System:

- facilitates the effectiveness and efficiency of operations.
- helps ensure the reliability of internal and external financial reporting.
- assists compliance with applicable laws and regulations.
- helps to safeguard the assets of the entity.

Limitations of Internal Control System are as follows:

- The fact that most internal controls do not tend to be directed at transactions of unusual nature. The potential for human error, such as, due to carelessness, distraction, mistakes of judgment and misunderstanding of instructions.
- The possibility of circumvention of internal controls through collusion with employees or with parties outside the entity.
- The possibility that a person responsible for exercising an internal control could abuse that responsibility, for example, a member of management overriding an internal control.
- Manipulations by management with respect to transactions or estimates and judgements required in the preparation of financial statements

Question 7

A travel agency ABC wishes to implement an automated Grievance Management System at its workplace to manage and handle the problems with the aim of solving them.

Determine the major benefits that will be drawn out of automating this Grievance related business process.

Answer

The major benefits that will be drawn out of automating the Grievance related business process and implementing the Grievance Management System are as follows:

Quality and Consistency:

Ensures that every action is performed identically - resulting in high quality, reliable results and stakeholders will consistently experience the same level of service.

Visibility:

Automated processes are controlled and consistently operate accurately within the defined timeline. It gives visibility of the process status to the organization.

Time-Saving:

Automation reduces the number of tasks employees would otherwise need to do manually. It frees up time to work on items that add genuine value to the business, allowing innovation and increasing employees' levels of motivation.

Improved Operational Efficiency:

Automation reduces the time it takes to achieve a task, the effort required to undertake it and the cost of completing it successfully. Automation not only ensures systems run smoothly and efficiently but that errors are eliminated and that best practices are constantly leveraged.

Governance and Reliability:

The consistency of automated processes means stakeholders can rely on business processes to operate and offer reliable processes to customers, maintaining a competitive advantage.

Reduced Turnaround Times:

Eliminate unnecessary tasks and realign process steps to optimize the flow of information throughout production, service, billing, and collection. This adjustment of processes distills operational performance and reduces the turnaround times for both staff and external customers.

Reduced Costs:

Manual tasks, given that they are performed one-at-a-time and at a slower rate than an automated task, will cost more. Automation allows us to accomplish more by utilizing fewer resources.

Question 8

What are the advantages and limitations of using flowcharts?

Answer

Advantages of Flowcharts

(i) Quicker grasp of relationships - The relationship between various elements of the application program/business process must be identified. The flowchart can help depict a lengthy procedure more easily than by describing it by means of written notes.

(ii) Effective Analysis - The flowchart becomes a blueprint of a system that can be broken down into detailed parts for study. Problems may be identified and new approaches may be suggested by flowcharts.

(iii) Communication - Flowcharts aid in communicating the facts of a business problem to those whose skills are needed for arriving at the solution.

(iv) Documentation - Flowcharts serve as good documentation which aid greatly in future program conversions. In the event of staff changes, they serve as training function by helping new employees in understanding the existing programs.

(v) Efficient coding - Flowcharts act as a guide during the system analysis and program preparation phase. Instructions coded in a programming language may be checked against the flowchart to ensure that no aspects are omitted.

(vi) Program Debugging - Flowcharts serve as an important tool during program debugging. They help in detecting, locating and removing mistakes.

(vii) Efficient program maintenance - The maintenance of operating programs is facilitated by flowcharts. The charts help the programmer to concentrate attention on that part of the information flow which is to be modified.

(viii) Identifying Responsibilities - Specific business processes can be clearly identified to functional departments thereby establishing responsibility of the process owner.

(ix) Establishing Controls - Business process conflicts and risks can be easily identified for recommending suitable controls.

Limitations of Flowchart

(i) Complex logic - Flowchart becomes complex and clumsy where the problem logic is complex. The essentials of what is done can easily be lost in the technical details of how it is done.

(ii) Modification - If modifications to a flowchart are required, it may require complete re-drawing.

(iii) Reproduction - Reproduction of flowcharts is often a problem because the symbols used in flowcharts cannot be typed.

(iv) The link between conditions and actions – Sometimes it becomes difficult to establish the linkage between various conditions and the actions to be taken thereupon for a condition.

(v) Standardization – Program flowcharts, although easy to follow, are not such a natural way of expressing procedures as writing in English, nor are they easily translated into the Programming language.



BOTH GROUPS ₹ 17,700

SINGLE GROUP ₹ 8,850

SINGLE SUBJECT ₹ 5,900

USE CODE

AUG20

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN AUGUST 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

Chapter 2 - Financial and Accounting Systems

Question 1

ERP implementation is the difficult task as the organization which is in the process of implementing ERP should keep abreast of latest technological development. Describe the different risks associated with technology while implementing ERP.

Answer

Various risks associated with technology while implementing ERP are as following:

- **Software Functionality:** ERP systems offer a myriad of features and functions,

however, not all organizations require those many features. Implementing all the functionality and features just for the sake of it can be disastrous for an organization.

- **Technological Obsolescence:** With the advent of more efficient technologies every day, the ERP system also becomes obsolete as time goes on.

- **Enhancement and Upgrades:** ERP Systems are not upgraded and kept up-to-date.

Patches and upgrades are not installed and the tools are underutilised.

- **Application Portfolio Management:** These processes focus on the selection of new business applications and the projects required delivering them.

Question 2

Discuss the different ways in which Database Administrator (DBA) can store the data of ABC enterprise implementing Accounting Information System (AIS).

Answer

In Accounting Information System, the data is stored in following two ways:

A. Master Data: Master data is relatively permanent data that is not expected to change again and again. It may change, but not again and again. In accounting systems, there may be following type of master data.

- **Accounting Master Data –** This includes names of ledgers, groups, cost centers, accounting voucher types, etc. E.g. Capital Ledger is created once and not expected to change frequently.

- **Inventory Master Data** – This includes stock items, stock groups, godowns, inventory voucher types, etc. Stock item is something which is bought and sold for business purpose, trading goods. For a person running a medicine shop, all types of medicines shall be stock items for him/her.
- **Payroll Master Data** – Payroll is a system for calculation of salary and recording of transactions relating to employees. Master data in case of payroll can be names of employees, group of employees, salary structure, pay heads, etc. These data are not expected to change frequently.
- **Statutory Master Data** – This is a master data relating to statute/law. It may be different for different type of taxes. E.g. Goods and Service Tax (GST). In case of change in tax rates, forms, categories, we need to update/change our master data.

All business process modules must use common master data.

B. Non-Master Data: It is a data which is expected to change frequently, again and again and not a permanent data. E.g. Amounts recorded in each transaction shall be different every time and expected to change again and again. Date recorded in each transaction is expected to change again and again and will not be constant in all the transactions.

Question 3.

A business organization is planning to switch on to an integrated software for accounting as well as tax compliance instead of separate software for accounting and tax compliance. Being a consultant to the management of this organization, you are required to advise them on various pros and Cons of having single software for both the accounting and tax compliance.

Answer

Single software for both the Accounting and Tax Compliance must be an integrated system. Pros of having single integrated software for both the Accounting and Tax Compliance as compared to only a Tax Compliance Software are as follows:

- **More Accurate:**

As single software for both Accounting and Tax Compliance is an integrated system, hence accounting data and tax compliance data shall always be same and there is no need to transfer data to compliance software and reconcile the data. However, in only tax compliance software, reconciliation with accounting data is needed and possibility of mismatch of data between two systems is always there.

- **Lesser Time and efforts required:**

The time required to transfer data to compliance integrated software is zero whereas it's relatively more in the separate software wherein data from accounting software need to put in for preparation of returns that may take extra time and efforts.

Cons of having such integrated software for both the Accounting and Tax Compliance as compared to only a Tax Compliance Software are as follows:

- **Less ease of software operation:**

In an integrated system, everything is connected with others and making changes at one place may affect other aspects also. However, single software is less complicated and bound to be easy.

Less features and facilities for Tax Compliance: As the integrated is system is not an exclusive system for tax compliance, it may have limited features for tax compliance. Whereas single system is an exclusive and specifically designed system for tax compliance, more features and facilities shall exist in this system.

- **More cost:**

If tax compliance feature is not available in accounting system, then to make the system integrated and getting it customized may require some amount of cost which may be higher than buying separate software. Whereas specific purpose software shall have less complications and the cost also shall be less.

Question 4

The controls for a particular business process are implemented by breaking them down into smaller components. Determine the main components of controls for the Purchase to Pay Cycle.

Answer

Given below is a list of the controls for the Purchase to Pay cycle, which is broken down to four main components:

1. Purchases:

When an employee working in a specific department (i.e., marketing, operations, sales, etc.) wants to purchase something required for carrying out the job, he/she will submit a Purchase Requisition (PR) to a manager for approval. Based on the approved PR, a Purchase Order (PO) is raised. The PO may be raised manually and then input into the computer system or raised directly by the computer system.

2. Goods Receipt:

The PO is then sent to the vendor, who will deliver the goods as per the specifications mentioned in the PO. When the goods are received at the warehouse, the receiving staff checks the delivery note, PO number etc. and acknowledges the receipt of the material. Quantity and quality are checked and any unfit items are rejected and sent back to the vendor. A Goods Receipt Note (GRN) is raised indicating the quantity received. The GRN may be raised manually and then input into the computer system or raised directly by computer system.

3. Invoice Processing:

The vendor sends the invoice to the accounts payable department who will input the details into the computer system. The vendor invoice is checked with the PO to ensure that only the goods ordered have been invoiced and at the negotiated price. Further the vendor invoice is checked with the GRN to ensure that the quantity ordered has been received.

4. Payment:

If there is no mismatch between the PO, GRN and vendor invoice; the payment is released to the vendor based on the credit period negotiated with the vendor.

Question 5

Describe Role-Based Access Control (RBAC) mechanism in ERP Systems.

Answer

Role-Based Access Control (RBAC):

In computer systems security, RBAC also referred as Role-Based Security is an approach to restricting system access to authorized users. It is used by most enterprises and can implement mandatory access control or discretionary access control. RBAC is a policy-neutral access control mechanism defined around roles and privileges. The components of RBAC such as role-permissions, user-role, and role-role relationships make it simple to perform user assignments. RBAC can be used to facilitate administration of security in large organizations with hundreds of users and thousands of permissions. Roles for staff are defined in organization and access to the system can be given according to the role assigned. E.g. a junior accountant in the accounting department is assigned a role of recording basic accounting transactions, an executive in human resource department is assigned a role of gathering data for salary calculations on monthly basis, etc.

Question 6

Define Business Reporting. Determine the factors that make Business Reporting significant.

Answer

Business Reporting is the public reporting of operating and financial data by a business enterprise, or the regular provision of information to decision-makers within an organization to support them in their work.

Reporting is a fundamental part of the larger movement towards improved business intelligence and knowledge management. Often implementation involves Extract, Transform, and Load (ETL) procedures in coordination with a data warehouse and then using one or more reporting tools. While reports can be distributed in print form or via email, they are typically accessed via a corporate intranet.

Significance of Business Reporting is as follows:

- Effective and transparent business reporting allows organizations to present a cohesive explanation of their business and helps them engage with internal and external stakeholders, including customers, employees, shareholders, creditors, and regulators.
- High-quality business reporting is at the heart of strong and sustainable organizations, financial markets, and economies, as this information is crucial for stakeholders to assess organizational performance and make informed decisions with respect to an organization's capacity to create and preserve value.
- As organizations fully depend on their stakeholders for sustainable success, it is in their interest to provide them with high-quality reports. For example, effective high-quality reporting reduces the risk for lenders and may lower the cost of capital.
- Many organizations are increasingly complex and have larger economic, environmental, and social footprints. As a result, various stakeholder groups are demanding increased Environmental, Social and Governance (ESG) information, as well as greater insight into how these factors affect financial performance and valuations.
- High-quality reports also promote better internal decision-making. High-quality information is integral to the successful management of the business, and is one of the major drivers of sustainable organizational success.

Question 7

Being an IT consultant to a Government agency PQR, identify the most common open international standard, that should be used by the agency for their standardized digital business reporting. Support the recommendation by preparing a list of its important features also.

Answer

Extensible Business Reporting Language (XBRL) is an open international standard for digital business reporting that provides a language in which reporting terms can be authoritatively defined. Those terms can be used to uniquely represent the contents of financial statements or other kinds of compliance, performance and business reports. XBRL lets reporting information move between organizations rapidly, accurately and digitally. XBRL is a standards-based way to communicate and exchange business information between business systems. These communications are defined by metadata set out in taxonomies, which capture the definition of individual reporting concepts as well as the relationships between concepts and other semantic meaning. Information being communicated or exchanged is provided within an XBRL instance.

Important features of XBRL are as follows:

Clear Definitions:

XBRL allows the creation of reusable, authoritative definitions, called taxonomies, that capture the meaning contained in all the reporting terms used in a business report, as well as the relationships between all the terms.

Testable Business Rules:

XBRL allows the creation of business rules that constrain what can be reported. Business rules can be logical or mathematical, or both and can be used, for example, these business rules can be used to stop poor quality information being sent to a regulator or third party, by being run by the preparer while the report is in draft; stop poor quality information being accepted by a regulator or third party, by being run at the point that the information is being received.

Multi-lingual Support:

XBRL allows concept definitions to be prepared in as many languages as necessary. Translations of definitions can also be added by third parties. This means that it's possible to display a range of reports in a different language to the one that they were prepared in, without any additional work. The XBRL community makes extensive use of this capability as it can automatically open up reports to different communities.

Strong Software Support:

XBRL is supported by a very wide range of software from vendors large and small, allowing a very wide range of stakeholders to work with the standard.

Question 8

What do you understand by the term "Business Intelligence"? Also, discuss its example.

Answer

Business Intelligence (BI) is a technology-driven process for analyzing data and presenting actionable information to help corporate executives, business managers, and other end users make more informed business decisions. BI encompasses a wide variety of tools, applications, and methodologies that enable organizations to collect data from internal systems and external sources, prepare it for analysis, develop and run queries against the data, and create reports, dashboards and data visualizations to make the analytical results available to corporate decision makers as well as operational workers.

The potential benefits of business intelligence programs include accelerating and improving decision making; optimizing internal business processes; increasing operational efficiency; driving new revenues; and gaining competitive advantages over business rivals. BI systems can also help companies identify market trends and spot business problems that need to be addressed.

Example of Business Intelligence use.

1. How many products sold \$ 10,000 last month in TV ad areas?
2. If inventory levels drop 10% what customers might shop elsewhere?



USE CODE

AUG20

KONCEPT EDUCATION

SINGLE SUBJECT ₹ 5,900	SINGLE GROUP ₹ 8,850	BOTH GROUPS ₹ 17,700
----------------------------------	--------------------------------	--------------------------------

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN AUGUST 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

Chapter 3 – Information system and its components

Question 1

Database Management System (DBMS) provides the facility to create and maintain a well-organised database for any enterprise. Describe the various advantages of the Database Management System used in an organization.

Answer

Major advantages of Database Management System (DBMS) are as follows:

- **Permitting Data Sharing:** One of the principle advantages of a DBMS is that the same information can be made available to different users.
- **Minimizing Data Redundancy:** In a DBMS, duplication of information or redundancy is, if not eliminated, carefully controlled or reduced i.e. there is no need to repeat the same data repeatedly. Minimizing redundancy reduces significantly the cost of storing information on storage devices.
- **Integrity can be maintained:** Data integrity is maintained by having accurate, consistent, and up-to-date data. Updates and changes to the data only must be made in one place in DBMS ensuring Integrity.
- **Program and File consistency:** Using a DBMS, file formats and programs are standardized. The level of consistency across files and programs makes it easier to manage data when multiple programmers are involved as the same rules and guidelines apply across all types of data.
- **User-friendly:** DBMS makes the data access and manipulation easier for the user. DBMS also reduces the reliance of users on computer experts to meet their data needs.
- **Improved security:** DBMS allows multiple users to access the same data resources in a controlled manner by defining the security constraints. Some sources of information should be protected or secured and only viewed by select individuals. Using passwords, DBMS can be used to restrict data access to only those who should see it.
- **Achieving program/data independence:** In a DBMS, data does not reside in applications, but database program & data are independent of each other.
- **Faster Application Development:** In the case of deployment of DBMS, application development becomes fast. The data is already therein databases, application developer has to think of only the logic required to retrieve the data in the way a user need.

Question 2

Mr. A is a System Administrator of the company who must ensure the protection of Operating System used in information system of the company. How can this purpose be achieved?

Answer

Operating System protection can be achieved using following steps.

- **Automated terminal identification:** This will help to ensure that a specified session could only be initiated from a certain location or computer terminal.
- **Terminal log-in procedures:** A log-in procedure is the first line of defence against unauthorized access as it does not provide unnecessary help or information, which could be misused by an intruder. When the user initiates the log-on process by entering user-id and password, the system compares the ID and password to a database of valid users and accordingly authorizes the log-in.
- **Access Token:** If the log on attempt is successful, the Operating System creates an access token that contains key information about the user including user -id, password, user group and privileges granted to the user. The information in the access token is used to approve all actions attempted by the user during the session.
- **Access Control List:** This list contains information that defines the access privileges for all valid users of the resource. When a user attempts to access a resource, the system compares his or her user-id and privileges contained in the access token with those contained in the access control list. If there is a match, the user is granted access.
- **Discretionary Access Control:** The system administrator usually determines; who is granted access to specific resources and maintains the access control list.

However, in distributed systems, resources may be controlled by the end-user.

Resource owners in this setting may be granted discretionary access control, which allows them to grant access privileges to other users.

- **User identification and authentication:** The users must be identified and authenticated in a fool-proof manner. Depending on risk assessment, more stringent methods like Biometric Authentication or Cryptographic means like Digital Certificates should be employed.

Password management system: An operating system could enforce selection of good passwords. Internal storage of password should use one-way hashing algorithms and the password file should not be accessible to users.

- **Use of system utilities:** System utilities are the programs that help to manage critical functions of the operating system e.g. addition or deletion of users. This utility should not be accessible to a general user. Use and access to these utilities should be strictly controlled and logged.
- **Duress alarm to safeguard users:** If users are forced to execute some instruction under threat, the system should provide a means to alert the authorities.
- **Terminal time out:** Log out the user if the terminal is inactive for a defined period.

This will prevent misuse in absence of the legitimate user.

- Limitation of connection time: Define the available time slot. Do not allow any transaction beyond this time.

Question 3

Data that is waiting to be transmitted are liable to unauthorized access called 'Asynchronous Attack'. Explain various types of Asynchronous attacks on data.

Answer

Various types of Asynchronous Attacks on data are as follows:

- **Data Leakage:**

This involves leaking information out of the computer by means of dumping files to paper or stealing computer reports and tape.

- **Subversive Attacks:**

These can provide intruders with important information about messages being transmitted and the intruder may attempt to violate the integrity of some components in the subsystem.

- **Wire-tapping:**

This involves spying on information being transmitted over telecommunication network.

- **Piggybacking:**

This is the act of following an authorized person through a secured door or electronically attaching to an authorized telecommunication link that intercepts and alters transmissions. This involves intercepting communication between the operating system and the user and modifying them or substituting new messages.

Question 4

Explain the significance of Front End and Back End in a software.

Answer

Front End of a Software:

It is part of the overall software which interacts with the user who is using the software. For example - If a user wants to have some information from the Balance Sheet; user will interact with Front End part of the software and request front end to generate the report.

Back End of a Software:

It is a part of the overall software which does not directly interact with the user, but interact with Front End only. Front End will receive the instruction from user and pass it on to the back end. Back End will process the data, generate the report and send it to the front end. Front end will then display the information to user.

Question 5

You are an Information Technology Consultant to a firm who is in the process of short listing the resources for the controls for the environmental exposures - water damage and power spikes in that firm. Prepare a checklist for same.

Answer

Power Spikes: This is caused due to a very short pulse of energy in a power line.
Controls for Environmental Exposures: Some of the major ways of protecting the installation against power spikes as follows:

1. The risk of damage due to power spikes can be reduced using Electrical Surge Protectors that are typically built into the Un-interruptible Power System (UPS).

2. Un-interruptible Power System (UPS)/Generator:

In case of a power failure, the UPS provides the back up by providing electrical power from the battery to the computer for a certain span of time. Depending on the sophistication of the UPS, electrical power supply could continue to flow for days or for just a few minutes to permit an orderly computer shutdown.

3. Voltage regulators and circuit breakers protect the hardware from temporary increase or decrease of power.

4. Emergency Power-Off Switch:

When the need arises for an immediate power shut down during situations like a computer room fire or an emergency evacuation, an emergency power off switch at the

strategic locations would serve the purpose. They should be easily accessible and yet secured from unauthorized people.

Water Damage:

Water damage to a computer installation can be the outcome of water pipes burst.

Water damage may also result from other resources such as cyclones, tornadoes, floods, etc

Controls for Environmental Exposures:

Some of the major ways of protecting the installation against water damage are as follows:

- Wherever possible have waterproof ceilings, walls, and floors;
- Ensure an adequate positive drainage system exists;
- Install alarms at strategic points within the installation;
- In flood areas have the installation above the upper floors but not at the top floor;
- Waterproofing; and
- Water leakage Alarms

Question 6

Discuss the factors that an IS Auditor need to determine while accessing the records in an access log of an organization.

Answer

The IS auditor needs to determine what events are recorded in access logs. The IS auditor needs to understand the capabilities of the system being audited and determine if the right events are being logged, or if logging is suppressed on events that should be logged.

Centralized access logs: ♦

The IS auditor should determine if the organization's access logs are aggregated or if they are stored on individual systems.

Access log protection: ♦

The auditor needs to determine if access logs can be altered, destroyed, or attacked to cause the system to stop logging events. For especially high-value and high-sensitivity environments, the IS auditor needs to determine if logs should be written to digital media that is unalterable, such as optical WORM (write once read many) media.

Access log review: ♦

The IS auditor needs to determine if there are policies, processes, or procedures regarding access log review. The auditor should determine if access log reviews take place, who performs them, how issues requiring attention are identified, and what actions are taken when necessary.

Access log retention: ♦

The IS auditor should determine how long access logs are retained by the organization and if they are back up.

Question 7

Determine the controls that are classified based on the time when they act, relative to a security incident

Answer

The controls per the time that they act, relative to a security incident can be classified as under:

• Preventive Controls:

These controls prevent errors, omissions, or security incidents from occurring. Examples include simple data-entry edits that block alphabetic characters from being entered in numeric fields, access controls that protect sensitive data/ system resources from unauthorized people, and complex and dynamic technical controls such as anti-virus software, firewalls, and intrusion prevention systems. Some examples of preventive controls can be Employing qualified personnel; Segregation of duties; Access control; Vaccination against diseases; Documentation; Prescribing appropriate books for a course; Training and retraining of staff; Authorization of transaction; Validation, edit checks in the application; Firewalls; Anti-virus software (sometimes this acts like a corrective control also), etc., and Passwords. The above list contains both of manual and computerized, preventive controls.

• Detective Controls:

These controls are designed to detect errors, omissions or malicious acts that occur and report the occurrence. In other words, Detective Controls detect errors or incidents that elude preventive controls. Detective controls can also include monitoring and analysis to uncover activities or events that exceed authorized limits or violate known patterns in data that may indicate improper manipulation. Some examples of Detective Controls are Cash counts; Bank reconciliation; Review of payroll reports; Compare transactions on reports to source documents; Monitor actual expenditures against budget; Use of automatic expenditure profiling where management gets regular reports of spending to date against profiled spend; Hash totals; Checkpoints in production jobs; Echo control in

telecommunications; Duplicate checking of calculations; Past-due accounts report; The internal audit functions; Intrusion Detection System; Cash counts and bank reconciliation, and Monitoring expenditures against budgeted amount.

- **Corrective Controls:**

Corrective controls are designed to reduce the impact or correct an error once it has been detected. Corrective controls may include the use of default dates on invoices where an operator has tried to enter the incorrect date. For example- Complete changes to IT access lists if individual's role changes is a corrective control. If an accounts clerk is transferred to the sales department as a salesman his/her access rights to the general ledger and other finance functions should be removed and he/she should be given access only to functions required to perform his sales job. Some other examples of Corrective Controls are Submit corrective journal entries after discovering an error; A Business Continuity Plan (BCP); Contingency planning; Backup procedure; Rerun procedures; Change input value to an application system, and Investigate budget variance and report violations.

Question 8

Recognize the activities that deal with the System Development Controls in an IT Setup.

Answer

The activities that deal with system development controls in IT setup are as follows:

- **System Authorization Activities:**

All systems must be properly and formally that each new system request be submitted in written form by users to systems professionals who have both the expertise and authority to evaluate and approve (or reject) the request.

- **User Specification Activities:**

Users must be actively involved in the systems development process. Regardless of the technology involved, the user can create a detailed written descriptive document of the logical needs that It should describe the user's view of the problem, not that of the systems professionals.

- **Technical Design Activities:**

The technical design activities translate the user specifications into a set of detailed technical specifications of a system that meets the user's needs. The scope of these activities includes systems analysis, general systems design, feasibility analysis, and detailed systems design.

- **Internal Auditor's Participation:**

The internal auditor plays an important role in the control of systems and should become involved at the inception of the system development process to make conceptual suggestions regarding system requirements and controls and should be continued throughout all phases of the development process and into the maintenance phase.

- **Program Testing:**

All program modules must be thoroughly tested before they are implemented. The results of the tests are then compared against predetermined results to identify programming and logic errors. For example, if a program has undergone no maintenance changes since its implementation, the test results from the audit should be identical to the original test results. Having a basis for comparison, the auditor can thus quickly verify the integrity of the program code. On the other hand, if changes have occurred, the original test data can provide evidence regarding these changes. The auditor can thus focus attention upon those areas.

- **User Test and Acceptance Procedures:**

Just before implementation, the comprising user personnel, systems professionals, and internal audit personnel system meets its stated requirements, the system is formally accepted by the user departments(s).

Question 9

As an Information Systems (IS) Auditor, you need to keep yourself up-to-date with the latest Audit tools, techniques and methodology to meet the demands of the job.

Discuss various Audit Tools that you should be aware about.

Answer

As an Information Systems (IS) Auditor, various Audit Tools that can be used to perform IS Auditing are as follows:

(i) Snapshots: Tracing a transaction in a computerized system can be performed with the help of snapshots or extended records. The snapshot software is built into the system at those points where material processing occurs which takes images of the flow of any transaction as it moves through the application. These images can be utilized to assess the authenticity, accuracy, and completeness of the processing carried out on the transaction. The main areas to dwell upon while involving such a system are to locate the snapshot points based on materiality of transactions when the snapshot will be

captured and the reporting system design and implementation to present data in a meaningful way.

(ii) Integrated Test Facility (ITF):

The ITF technique involves the creation of a dummy entity in the application system files and the processing of audit test data against the entity as a means of verifying processing authenticity, accuracy, and completeness. This test data would be included with the normal production data used as input to the application system. In such cases, the auditor must decide what would be the method to be used to enter test data and the methodology for removal of the effects of the ITF transactions.

(iii) System Control Audit Review File (SCARF):

The SCARF technique involves embedding audit software modules within a host application system to provide continuous monitoring of the system's transactions. The information collected is written onto a special audit file- the SCARF master files. Auditors then examine the information contained on this file to see if some aspect of the application system needs follow-up. In many ways, the SCARF technique is like the snapshot technique along with other data collection capabilities.

(iv) Continuous and Intermittent Simulation (CIS):

This is a variation of the SCARF continuous audit technique. This technique can be used to trap exceptions whenever the application system uses a database management system. The advantage of CIS is that it does not require modifications to the application system and yet provides an online auditing capability.

(v) Audit Hooks:

There are audit routines that flag suspicious transactions. For example, internal auditors at Insurance Company determined that their policyholder system was vulnerable to fraud every time a policyholder changed his or her name or address and then subsequently withdrew funds from the policy. They devised a system of audit hooks to tag records with a name or address change. The internal audit department will investigate these tagged records for detecting fraud. When audit hooks are employed, auditors can be informed of questionable transactions as soon as they occur. This approach of real-time notification displays a message on the auditor's terminal.

Question 10

What do you understand by Boundary Controls? Explain major Boundary Control techniques in brief.

Answer

Boundary Controls: The major controls of the boundary system are the access control mechanisms that links the authentic users to the authorized resources, they are permitted to access. The boundary subsystem establishes the interface between the would-be user of a computer system and the computer itself

Major Boundary Control are as follows:

Cryptography: It deals with programs for transforming data into ciphertext that are meaningless to anyone, who does not possess the authentication to access the respective system resource or file. A cryptographic technique encrypts data (clear text) into cryptograms (ciphertext) and its strength depends on the time and costs to decipher the ciphertext by a cryptanalyst. Three techniques of cryptography are transposition (permute the order of characters within a set of data), substitution (replace text with a key-text) and product cipher (combination of transposition and substitution).

Passwords: User identification by an authentication mechanism with personal characteristics like name, birth date, employee code, function, designation or a combination of two or more of these can be used as a password boundary access control. A few best practices followed to avoid failures in this control system are; minimum password length, avoid usage of common dictionary words, periodic change of passwords, hashing of passwords and number of entry attempts.

Personal Identification Numbers (PIN): PIN is similar to a password assigned to a user by an institution a random number stored in its database independent to a user identification details, or a customer selected number. Hence, a PIN may be exposed to vulnerabilities while issuance or delivery, validation, transmission, and storage.

Identification Cards: Identification cards are used to store information required in an authentication process. These cards are to be controlled through the application for a card, preparation of the card, issue, use, and card return or card termination phases.

Biometric Devices: Biometric identification e.g. thumb and/or finger impression, eye retina, etc. are also used as boundary control techniques.

Question 11

Mention different types of Application Software.

Answer

The different types of application software are as follows:

1. Application Suite: Has multiple applications bundled together. Related functions, features and user interfaces interact with each other. E.g. MS Office 2010 which has MS Word, MS Excel, MS Access, etc.

2. Enterprise Software: Addresses an enterprise's needs and data flow in a huge distributed environment. E.g. ERP Applications like SAP.

3. Enterprise Infrastructure Software: Provides capabilities required to support enterprise software systems. E.g. email servers, Security software.

4. Information Worker Software: Addresses individual needs required to manage and create information for individual projects within departments. E.g. Spreadsheets, CAAT (Computer Assisted Audit Tools), etc.

5. Content Access Software: Used to access contents and addresses a desire for published digital content and entertainment. E.g. Media Players, Adobe Digital, etc.

6. Educational Software: Holds contents adopted for use by students. E.g. Examination Test CDs

7. Media Development Software: Addresses individual needs to generate and print electronic media for others to consume. E.g. Desktop Publishing, Video editing, etc.



Chapter 4 - E-Commerce, M-Commerce and Emerging Technologies

Question 1

ABC university wants to conduct online exams for its different courses for which a contract is given to vendor XYZ. The vendor provides computing resources such as processing power, memory, storage, and networks to ABC university users to run their online exam application on-demand. Identify the Service Model of Cloud Computing that vendor XYZ is providing to ABC university and also describe its characteristics.

Answer

The Service Model provided by vendor XYZ to ABC university is Infrastructure as a Service (IaaS).

Characteristics of Infrastructure as a Service (IaaS) of Cloud Computing are as follows:

- **Web access to the resources:** The IaaS model enables the IT users to access infrastructure resources over the Internet. When accessing a huge computing power, the IT user need not get physical access to the servers.
- **Centralized Management:** The resources distributed across different parts are controlled from any management console that ensures effective resource management and effective resource utilization.
- **Elasticity and Dynamic Scaling:** Depending on the load, IaaS services can provide the resources and elastic services where the usage of resources can be increased or decreased according to the requirements.
- **Shared infrastructure:** IaaS follows a one-to-many delivery model and allows multiple IT users to share the same physical infrastructure and thus ensure high resource utilization.
- **Metered Services:** IaaS allows the IT users to rent the computing resources instead of buying it. The services consumed by the IT user will be measured, and the users will be charged by the IaaS providers based on the amount of usage.

Question 2

DEF is a car battery manufacturing company which intends to provide online business to its customers. Briefly explain various components involved in any e-Commerce transaction.

Answer

Various components of e-Commerce transaction are as follows:

(i) User: This may be individual/organization or anybody using the e-commerce platforms. As e-commerce, has made procurement easy and simple, just on a click of button, e-commerce vendors need to ensure that their products are not delivered to wrong users.

(ii) E-commerce Vendors: This is the organization/entity providing the user, goods/services asked for. E-commerce vendors further needs to ensure Suppliers and Supply Chain Management, Warehouse operations, Shipping and returns, e-Commerce catalogue and product display, Marketing and loyalty programs, Showroom and offline purchase, different ordering Methods, Guarantees, Privacy Policy and Security etc. for better, effective and efficient transaction.

(iii) Technology Infrastructure: The computers, servers, database, mobile apps, digital libraries, data interchange enabling the e-commerce transactions.

- Computers, Servers and Database: These are the backbone for the success of the venture. Big e-commerce organization invest huge amount of money/time in creating these systems.

- Mobile Apps: A mobile app is a software application programmed to run specifically on a mobile device. Smartphones and tablets have become a dominant form of computing, with many more smartphones being sold than personal computers.

- Digital Library: A Digital Library is a special library with a focused collection of digital objects that can include text, visual material, audio material, video material, stored as electronic media formats, along with means for organizing, storing, and retrieving the files and media contained in the library collection.

- Data Interchange: Data Interchange is an electronic communication of data.

For ensuring the correctness of data interchange between multiple players in e-commerce, business-specific protocols are being used. There are defined standards to ensure seamless/exact communication in e-commerce.

(iv) Internet/Network: This is the key to success of e-commerce transactions. Internet connectivity is important for any e-commerce transactions to go through. The faster net connectivity leads to better e-commerce. At a global level, it is linked to the countries capability to create a high-speed network.

(v) Web portal: This shall provide the interface through which an individual/organization shall perform e-commerce transactions. Web Portal is an application through which user interacts with the e-commerce vendor. The front end through which user interacts for an e-commerce transaction. These web portals can be accessed through desktops/laptops/PDA/hand-held computing devices/mobiles and now through smart TVs also.

(vi) Payment Gateway: Payment gateway represents the way e-commerce vendors collect their payments. These assures seller of receipt of payment from buyer of goods/services from e-commerce vendors. Presently numerous methods of payments

by buyers to sellers are being used, including Credit / Debit Card Payments, Online bank payments, Vendors own payment wallet, Third-Party Payment wallets, Cash on Delivery (CoD) and Unified Payments Interface (UPI).

Question 3

Discuss various application areas of 'Virtualization'.

Answer

Various application areas of Virtualization are as follows:

- **Server Consolidation:** Virtual machines are used to consolidate many physical servers into fewer servers, which in turn host virtual machines. Each physical server is reflected as a virtual machine “guest” residing on a virtual machine host system. This is also known as “Physical-to-Virtual” or ‘P2V’ transformation.
- **Disaster Recovery:** Virtual machines can be used as “hot standby” environments for physical production servers. This changes the classical “backup-and-restore” philosophy, by providing backup images that can “boot” into live virtual machines, capable of taking over workload for a production server experiencing an outage.
- **Testing and Training:** Virtualization can give root access to a virtual machine. This can be very useful such as in kernel development and operating system courses.
- **Portable Applications:** Portable applications are needed when running an application from a removable drive, without installing it on the system’s main disk drive. Virtualization can be used to encapsulate the application with a redirection layer that stores temporary files, windows registry entries and other state information in the application’s installation directory and not within the system’s permanent file system.
- **Portable Workspaces:** Recent technologies have used virtualization to create portable workspaces on devices like iPods and USB memory sticks.

Question 4

Subsequent to demonetization, one of your elderly neighbor, who was using traditional digital methods of making payments like cards, net banking etc., asked for your help to know about the various new methods of Digital Payments. Identify and explain various new methods of Digital Payments for him.

Answer

Some of the new methods of Digital Payments are as follows:

- Unified Payment Interface (UPI) Apps
- Immediate Payment Service (IMPS)
- BHIM (Bharat Interface for Money) - Mobile App
- Mobile Wallets
- Aadhar Enabled Payment Service(AEPS)
- Unstructured Supplementary Service Data(USSD)

The explanation of these Digital Payments is as follows:

(i) Unified Payment Interface (UPI): UPI is a payment mode which is used to make fund transfers through the mobile app. UPI App is a system that powers multiple bank accounts of participating banks, several banking services features like fund transfer, and merchant payments in a single mobile application. User can transfer funds between two accounts using UPI Apps. User must register for mobile banking to use UPI apps.

(ii) Immediate Payment Service (IMPS): It is an instant interbank electronic fund transfer service through mobile phones. It is also being extended through other channels such as ATM, Internet Banking, etc.

(iii) Mobile Apps: BHIM (Bharat Interface for Money) is a Mobile App developed by National Payments Corporation of India (NPCI) based on UPI (Unified Payment Interface). It facilitates e-payments directly through banks and supports all Indian banks which use that platform. It is built on the Immediate Payment Service infrastructure and allows the user to instantly transfer money between the bank accounts of any two parties. BHIM works on all mobile devices and enables users to send or receive money to other UPI payment addresses.

(iv) Mobile Wallets: It is defined as Virtual wallets that stores payment card information on a mobile device. Mobile Wallets provide a convenient way for a user to make-instore payments and can be used that merchants listed with the mobile wallet service providers. There are mobile wallets like Paytm, Freecharge, Buddy, Mobikwik etc.

Some of these are owned by banks and some are owned by private companies.

(v) Aadhar Enabled Payment Service(AEPS): AEPS is an Aadhaar based digital payment mode. Customer needs only his or her Aadhaar number to pay to any merchant. AEPS allows bank to bank transactions which means the money that you pay will be deducted from your account and credited to the payee's account directly.

Customers will need to link their AADHAR numbers to their bank accounts. APES once launched can be used at POS terminals also.

(vi) Unstructured Supplementary Service Data(USSD): A revolutionary idea, where to make payments through mobiles there is neither need for internet nor any smartphone. USSD banking or *99# Banking is a mobile banking based digital payment mode. User does not need to have a smartphone or internet connection to use USSD banking. S/he can easily use it with any normal feature phone. USSD banking is as easy as checking of mobile balance. S/he can use this service for many financial and non-financial operations such as checking balance, sending money, changing Mobile Banking Personal Identification Number (MPIN) and getting Mobile Money Identifier (MMID).

Question 5

Explain various Control Objectives of e-commerce or m-commerce

Answer

Various Control Objectives of e-Commerce or m-Commerce are as follows:

- **Prevent organizational costs of data Loss:** Data is a critical resource of an organization for its present and future process and its ability to adapt and survive in a changing environment.
- **Prevent loss from incorrect decision making:** Management and operational controls taken by managers involve detection, investigations, and correction of out-of-control processes. These high-level decisions require accurate data to make quality decision rules.
- **Prevent loss of Computer Hardware, Software, and Personnel:** These are critical resources of an organization which has a credible impact on its infrastructure and business competitiveness.
- **Prevent from high costs of computer Error:** In a computerized enterprise environment where many critical business processes are performed, a data error during entry or process would cause great damage.
- **Safeguard assets from unauthorized access:** The information system assets (hardware, software, data files, etc.) must be protected by a system of internal controls from unauthorized access.
- **Ensure data integrity:** The importance to maintain integrity of data of an organization depends on the value of information, the extent of access to the information and the value of data to the business from the perspective of the decision maker, competition and the market environment.

- **System Effectiveness Objectives:** Effectiveness of a system is evaluated by auditing the characteristics and objective of the system to meet substantial user requirements.
- **System Efficiency Objectives:** To optimize the use of various information system resources (machine time, peripherals, system software and labour) along with the impact on its computing environment.

Question 6

In an e-business environment, controls are required to be put in place at each participant's level. Discuss about the participants involved in any e-business environment

Answer

In an e-business environment, controls are necessary for all persons in the chain that include the following-

- **Users:** This is important to ensure that the genuine user is using the e-commerce/ e-commerce platform. There is risk if user accounts are hacked and hackers buy products/services.
- **Sellers / Buyers / Merchants:** These people need to proper framework in place to ensure success of business. Many e-commerce businesses have lost huge amount of money as they did not have proper controls put in place. These include controls on Product catalogs; Price catalogs; Discounts and promotional schemes; Product returns and Accounting for cash received through Cash on Delivery mode of sales.
- **Government:** Governments across the world and in India have few critical concerns vis-à-vis electronic transactions, namely Tax accounting of all products/services sold and all products/ services are sold.
- **Network Service Providers:** They need to ensure availability and security of network. Any downtime of network can be disastrous for business.
- **Technology Service Providers:** These include all other service provider other than network service provider, for example, cloud computing back-ends, applications back-ends and like. They are also prone to risk of availability and security.
- **Logistics Service Providers:** Success or failure of any e-commerce/m-commerce venture finally lies here. Logistics service providers are the ones who are finally responsible for timely product deliveries.
- **Payment Gateways:** E-commerce vendors' business shall run only when their payment gateways are efficient, effective and foolproof. Each participant needs to put in place controls in an e-commerce environment.

Question 7

Though Mobile computing is a versatile and strategic technology that increases information quality and accessibility, however, it has its own limitations. Analyze them.

Answer

Limitations of Mobile Computing are as follows:

1. Insufficient Bandwidth: Mobile Internet access is generally slower than direct cable connections using technologies such as General Packet Radio Service (GPRS) and Enhanced Data for GSM (Global System for Mobile Communication), 3G and more recently 4G networks. These networks are usually available within range of commercial cell phone towers. Higher speed wireless LANs are inexpensive but have very limited range.

2. Security Standards: When working mobile, one is dependent on public networks, requiring careful use of Virtual Private Network (VPN). Security is a major concern while concerning the mobile computing standards on the fleet. One can easily attack the VPN through a huge number of networks interconnected through the line.

3. Power consumption: When a power outlet or portable generator is not available, mobile computers must rely entirely on battery power. Combined with the compact size of many mobile devices, this often means unusually expensive batteries must be used to obtain the necessary battery life. Mobile computing should also consider Greener IT in such a way that it saves the power or increases the battery life.

4. Transmission interferences: Weather, terrain, and the range from the nearest signal point can all interfere with signal reception. Reception in tunnels, some buildings, and rural areas is often poor.

5. Potential health hazards: People who use mobile devices while driving are often distracted from driving and are thus assumed more likely to be involved in traffic accidents. Cell phones may interfere with sensitive medical devices. There are allegations that cell phone signals may cause health problems.

6. Human interface with device: Screens and keyboards tend to be small, which may make them hard to use. Alternate input methods such as speech or handwriting recognition require training.

Question 8

Discuss the concept of "Virtualization" and its application areas.

Answer

In computing, Virtualization means to create a virtual version of a device or resource, such as a server, storage device, network or even an operating system where the framework divides the resource into one or more execution environments. Virtualization refers to technologies designed to provide a layer of abstraction between computer hardware systems and the software running on them. By providing a logical view of computing resources, rather than a physical view; virtualization allows its' users to manipulate their systems' operating systems into thinking that a group of servers is a single pool of computing resources and conversely, allows its users to run multiple operating systems simultaneously on a single machine. Thus, the core concept of Virtualization lies in Partitioning, which divides a single physical server into multiple logical servers. For example - Partitioning of a hard drive is considered virtualization because one drive is partitioned in a way to create two separate hard drives. Devices, applications and human users can interact with the virtual resource as if it were a real single logical resource.

Application Areas of Virtualization are as follows:

- 1. Server Consolidation:** Virtual machines are used to consolidate many physical servers into fewer servers, which in turn host virtual machines. Each physical server is reflected as a virtual machine "guest" residing on a virtual machine host system. This is also known as "Physical-to-Virtual" or 'P2V' transformation.
- 2. Disaster Recovery:** Virtual machines can be used as "hot standby" environments for physical production servers. This changes the classical "backup-and-restore" philosophy, by providing backup images that can "boot" into live virtual machines, capable of taking over workload for a production server experiencing an outage.
- 3. Testing and Training:** Virtualization can give root access to a virtual machine. This can be very useful such as in kernel development and operating system courses.
- 4. Portable Applications:** Portable applications are needed when running an application from a removable drive, without installing it on the system's main disk drive. Virtualization can be used to encapsulate the application with a redirection layer that stores temporary files, windows registry entries and other state information in the application's installation directory and not within the system's permanent file system.
- 5. Portable Workspaces:** Recent technologies have used virtualization to create portable workspaces on devices like iPods and USB memory sticks.

Question 9

Discuss some best practices of Green Computing.

Answer

Green Computing Best Practices:

Government regulation, however well-intentioned, is only part of an overall green computing philosophy. The work habits of computer users and businesses can be modified to minimize adverse impact on the global environment. Some of such steps for Green IT include the following:

1. Develop a sustainable Green Computing plan

Involve stakeholders to include checklists, recycling policies, recommendations for the disposal of used equipment, government guidelines and recommendations for purchasing green computer equipment in organizational policies and plans;

Encourage the IT community for using the best practices and encourage them to consider green computing practices and guidelines.

On-going communication about and campus commitment to green IT best practices to produce notable results.

2. Recycle

Dispose of e-waste according to central, state and local regulations;

Discard used or unwanted electronic equipment in a convenient and environmentally responsible manner as computers emit harmful emissions;

Manufacturers must offer safe end-of-life management and recycling options when products become unusable;

3. Make environmentally sound purchase decisions

Purchase of desktop computers, notebooks, and monitors based on environmental attributes;

Provide a clear, consistent set of performance criteria for the design of products;

Recognize manufacturer efforts to reduce the environmental impact of products by reducing or eliminating environmentally sensitive materials, designing for longevity and reducing packaging materials;

4. Reduce Paper Consumption

Reduce paper consumption by use of e-mail and electronic archiving;

Use of "track changes" feature in electronic documents, rather than redline corrections on paper;

Use online marketing rather than paper-based marketing; e-mail marketing solutions that are greener, more affordable, flexible and interactive than direct mail; free and low-cost online invoicing solutions that help cut down on paper waste;

5. Conserve Energy

Use Liquid Crystal Display (LCD) monitors rather than Cathode Ray Tube (CRT) monitors;

Develop a thin-client strategy wherein thin clients are smaller, cheaper, simpler for manufacturers to build than traditional PCs or notebooks and most importantly use about half the power of a traditional desktop PC;

Use notebook computers rather than desktop computers whenever possible;

Question 10

Differentiate between different types of clouds in Cloud Computing.

Answer

(A) Private Cloud: This cloud computing environment resides within the boundaries of an organization and is used exclusively for the organization's benefits. These are also called Internal Clouds or Corporate Clouds. Private Clouds can either be private to the organization and managed by the single organization (On-Premise Private Cloud) or can be managed by third-party (Outsourced Private Cloud). They are built primarily by IT departments within enterprises, who seek to optimize utilization of infrastructure resources within the enterprise by provisioning the infrastructure with applications using the concepts of grid and virtualization.

(B) Public Cloud: The public cloud is the cloud infrastructure that is provisioned for open use by the general public. It may be owned, managed, and operated by a business, academic, or government organizations, or some combination of them. Typically, public clouds are administrated by third parties or vendors over the Internet, and the services are offered on a pay-per-use basis. These are also called Provider Clouds. Public cloud consists of users from all over the world wherein a user can simply purchase resources on an hourly basis and work with the resources which are available in the cloud provider's premises.

(C) Hybrid Cloud: This is a combination of both at least one private (internal) and at least one public (external) cloud computing environments - usually, consisting of infrastructure, platforms, and applications. The usual method of using the hybrid cloud is to have a private cloud initially, and then for additional resources, the public cloud is used. The hybrid cloud can be regarded as a private cloud extended to the public cloud and aims at utilizing the power of the public cloud by retaining the properties of the private cloud. It is typically offered in either of two ways. A vendor has a private cloud

and forms a partnership with a public cloud provider or a public cloud provider forms a partnership/franchise with a vendor that provides private cloud platforms.

(D) Community Cloud: The community cloud is the cloud infrastructure that is provisioned for exclusive use by a specific community of consumers from organizations that have shared concerns (eg. mission security requirements, policy, and compliance considerations). It may be owned, managed, and operated by one or more of the organizations in the community, a third party or some combination of them, and it may exist on or off premises. In this, a private cloud is shared between several organizations. Fig. 4.8.5 depicts Community Cloud. This model is suitable for organizations that cannot afford a private cloud and cannot rely on the public cloud either.



USE CODE

AUG20	SINGLE SUBJECT ₹ 5,900	SINGLE GROUP ₹ 8,850	BOTH GROUPS ₹ 17,700
--------------	----------------------------------	--------------------------------	--------------------------------

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN AUGUST 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

NOV20	SINGLE SUBJECT ₹ 5,900	SINGLE GROUP ₹ 11,800	BOTH GROUPS ₹ 21,240
--------------	----------------------------------	---------------------------------	--------------------------------

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN NOVEMBER 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

The logo for Koncept Education features a stylized blue icon of a person holding a book, followed by the word "KONCEPT" in a large, blue, sans-serif font, and "EDUCATION" in a smaller, blue, sans-serif font below it.

Chapter 5 – Core Banking System

Question 1

Money laundering is used by anti-social elements to make 'dirty' money appear 'clean' that affects the economy of any country. Discuss the various stages involved in the process of Money Laundering.

Answer

Stages of Money Laundering are as follows:

- i. Placement: The first stage involves the Placement of proceeds derived from illegal activities - the movement of proceeds frequently currency from the scene of the crime to a place, or into a form, less suspicious and more convenient for the criminal.
- ii. Layering: Layering involves the separation of proceeds from illegal source using complex transactions designed to obscure the audit trail and hide the proceeds. The criminals frequently use shell corporations, offshore banks or countries with loose regulation and secrecy laws for this purpose. Layering involves sending the money through various financial transactions to change its form and make it difficult to follow. Layering may consist of several banks to bank transfers or wire transfers between different accounts in different names in different countries making deposit and withdrawals to continually vary the amount of money in the accounts changing the money's currency purchasing high-value items to change the form of moneymaking it hard to trace.
- iii. Integration: Integration involves conversion of illegal proceeds into apparently legitimate business earnings through normal financial or commercial operations. Integration creates the illusion of a legitimate source for criminally derived funds and involves techniques as numerous and creative as those used by legitimate businesses.

Question 2

Internal controls must be integrated in the IT solution implemented at the bank's branches to mitigate risks. State few examples indicating the internal controls in banks.

Answer

Some examples of Internal Controls in bank's branch are as below:

- Work of one staff member is invariably supervised/ checked by another staff member, irrespective of the nature of work (Maker-Checker process).

- A system of job rotation among staff exists.
- Financial and administrative powers of each official/ position is fixed and communicated to all persons concerned.

Branch managers must send periodic confirmation to their controlling authority on compliance of the laid down systems and procedures.

- All books are to be balanced periodically. Balancing is to be confirmed by an authorized official.
- Details of lost security forms are immediately advised to controlling so that they can exercise caution.
- Fraud prone items like currency, valuables, draft forms, term deposit receipts, traveller's cheques and other such security forms are in the custody of at least two officials of the branch.

Question 3

In line with the suggestions of RBI, M/s. ABC Bank is planning to obtain ISO 27001: 2013 certification for its Information Security Management System. As an IS Auditor, you are required to prepare a sample list of Risks w.r.t. Information Security for the Bank.

Answer

A sample listing of Risks w.r.t Information Security for the Bank is as follows:

- Significant information resources may be modified inappropriately, disclosed without authorization, and/ or unavailable when needed. (e.g., they may be deleted without authorization).
- Lack of management direction and commitment to protect information assets.
- Potential Loss of confidentiality, availability, and integrity of data and system.
- User accountability is not established.
- It is easier for unauthorized users to guess the password of an authorized user and access the system and/ or data. This may result in loss of confidentiality, availability, and integrity of data and system.
- Unauthorized viewing, modification or copying of data and/ or unauthorized use, modification or denial of service in the system.

- Security breaches may go undetected.
- Inadequate preventive measure for key server and IT system in case of environmental threat like heat, humidity, fire, flood, etc.
- Unauthorized system or data access, loss and modification due to virus, worms, and Trojans.

Question 4

The deployment and implementation of Core Banking Systems should be controlled at various stages to ensure that bank's automation objectives are achieved. Determine the different stages.

Answer

The deployment and implementation of Core Banking Systems(CBS) should be controlled at various stages to ensure that banks automation objectives are achieved:

- **Planning:** Planning for implementing the CBS should be done as per strategic and business objectives of bank.
- **Approval:** The decision to implement CBS requires high investment and recurring costs and will impact how banking services are provided by the bank. Hence, the decision must be approved by the board of directors.
- **Selection:** Although there are multiple vendors of CBS, each solution has key differentiators. Hence, bank should select the right solution considering various parameters as defined by the bank to meet their specific requirements and business objectives.
- **Design and Develop/ Procure:** CBS solutions used to be earlier developed in-house by the bank. Currently, most of the CBS deployment are procured. There should be appropriate controls covering the design or development or procurement of CBS for the bank.
- **Testing:** Extensive testing must be done before the CBS is live. The testing is to be done at different phases at procurement stage to test suitability to data migration to ensure all existing data is correctly migrated and testing to confirm processing of various types of transactions of all modules produces the correct results.
- **Implementation:** CBS must be implemented as per pre-defined and agreed plan with specific project milestones to ensure successful implementation.
- **Maintenance:** CBS must be maintained as required. E.g. program bugs fixed, version changes implemented, etc.

- **Support:** CBS must be supported to ensure that it is working effectively.
- **Updation:** CBS modules must be updated based on requirements of business processes, technology updates and regulatory requirements.
- **Audit:** Audit of CBS must be done internally and externally as required to ensure that controls are working as envisaged.

Question 5

You attended an IT workshop as a CBS. You are required to provide a basic idea to the participants about Current & Savings Accounts (CASA) and primarily discuss the risks and controls that might be relevant in CASA process. Advise about the relevant risks and their counter controls

Answer

Risks and Controls around the CASA Process of Current and Savings Account (CASA) Process are as follows

Risk	Key Controls
Credit Line setup is unauthorized and not in line with the bank's policy.	The credit committee checks that the Financial Ratios, the Net-worth, the Risk factors and its corresponding mitigating factors, the Credit Line offered and the Credit amount etc. is in line with Credit Risk Policy and that the Client can be given the Credit Line.
credit line setup in CBS is unauthorized and not in line with the bank's policy.	Access rights to authorize the credit limit in case of account setup system should be restricted to authorized personnel.
Customer Master defined in CBS is not in accordance with the Pre-Disbursement Certificate.	Access rights to authorize the customer master in CBS should be restricted to authorized personnel.
Inaccurate interest/charge being calculated in CBS.	Interest on fund based facilities are automatically calculated in the CBS as per the defined rules.
Unauthorized personnel approving the CASAS transaction in CBS.	Segregation of Duties to be maintained between the initiator and authorizer of the transaction for processing transaction in CBS.
Inaccurate accounting entries generated in CBS.	Accounting entries are generated by CBS basis the facilities requested by the customer and basis defined configurations for those facilities in CBS.

Question 6

Briefly explain major components of a CBS solution.

Answer

The various components/ features of core banking are as follows:

1. Opening new accounts and customer on-boarding.
2. Managing deposits and withdrawals.
3. Transactions management from initiation to reporting.
4. Interest calculation and management.
5. Payments processing (cash, cheques/ mandates, NEFT, RTGS, IMPS etc.).
6. Loans disbursement and management.
7. Processing cash deposits and withdrawals.
8. Processing payments and cheques.
9. Processing and servicing loans.
10. Accounts management.
11. Configuring and calculating interest.
12. Customer Relationship Management (CRM) activities.
13. Setting criteria for minimum balances, interest rates, withdrawals allowed limits and so on.
14. Maintaining records for all the bank's transactions

Question 7

Explain and distinguish Internal Controls and IT controls in banks.

Answer

(a) Internal Controls in Banks

Risks are mitigated by implementing internal controls as appropriate to the business environment. These types of controls must be integrated in the IT solution implemented at the bank's branches. Some examples of internal controls in bank branch are given here:

1. Work of one staff member is invariably supervised/ checked by another staff member, irrespective of the nature of work (Maker-Checker process).
2. A system of job rotation among staff exists.
3. Financial and administrative powers of each official/ position is fixed and communicated to all persons concerned.
4. Branch managers must send periodic confirmation to their controlling authority on compliance of the laid down systems and procedures.
5. All books are to be balanced periodically. Balancing is to be confirmed by an authorized official.
6. Details of lost security forms are immediately advised to controlling so that they can exercise caution.
7. Fraud prone items like currency, valuables, draft forms, term deposit receipts, traveler's cheques, and other such security forms are in the custody of at least two officials of the branch.

(b) IT Controls in Banks

IT risks need to be mitigated by implementing the right type and level of controls in the automated environment. This is done by integrating controls into IT. Sample list of IT related controls are:

1. The system maintains a record of all log-ins and log-outs.
2. If the transaction is sought to be posted to a dormant (or inoperative) account, the processing is halted and can be proceeded with only with a supervisory password.
3. The system checks whether the amount to be withdrawn is within the drawing power.
4. The system flashes a message if the balance in alien account would fall below the lien amount after the processing of the transaction.
5. Access to the system is available only between stipulated hours and specified days only.

6. Individual users can access only specified directories and files. Users should be given access only on a “need-to-know basis” based on their role in the bank. This is applicable for internal users of the bank and customers.

7. Exception situations such as limit excess, reactivating dormant accounts, etc. can be handled only with a valid supervisory level password.

8. A user timeout is prescribed. This means that after a user logs-in and there is no activity for a predetermined time, the user is automatically logged out of the system.

9. Once the end-of-the-day process is over, the ledgers cannot be opened without a supervisory level password.

Question 8

Analyze new set of IT risks and challenges associated with the businesses and standards that the banks should consider?

Answer

The business processes and standards adopted by Banks should consider these new set of IT risks and challenges:

(i) Frequent changes or obsolescence of technology: Technology keeps on evolving and changing constantly and becomes obsolete very quickly. Hence, there is always a risk that the investment in technology solutions unless properly planned may result in loss to bank due to risk of obsolescence.

(ii) Multiplicity and complexity of systems: The core of banking services remain same but by using technology the way these banking products and services are provided changes drastically. The Technology architecture used for services could include multiple digital platforms and is quite complex. Hence, this requires the bank personnel to have personnel with requisite technology skills or the management of the bank’s technology could be outsourced to a company having the relevant skill set.

(iii) Different types of controls for different types of technologies/ systems: Deployment of Technology gives rise to new types of risks which are explained later in this chapter. These risks need to be mitigated by relevant controls as applicable to the technology/information systems deployed in the bank.

(iv) Proper alignment with business objectives and legal/ regulatory requirements: Banks must ensure that the CBS and allied systems implemented, cater to all the business objectives and needs of the bank, in addition to the legal/regulatory requirements envisaged.

(v) Dependence on vendors due to outsourcing of IT services: In a CBS environment, the bank requires staff with specialized domain skills to manage IT deployed by the bank. Hence, these services could be outsourced to vendors and there is heavy dependency on vendors and gives rise to vendor risks which should be managed by proper contracts, controls, and monitoring.

(vi) Vendor-related concentration risk: There may not one but multiple vendors providing different services. For example, network, hardware, system software and banking software services may be provided by different vendors or these services may be provided by a single vendor. Both these situations result in higher risks due to heavy dependence on vendors.

(vii) Segregation of Duties (SoD): Banks have a highly-defined organization structure with clearly defined roles, authority and responsibility. The segregation of duties as per organization structure should be clearly mapped in the CBS used by the bank. This is a high-risk area since any SoD conflicts can be a potential vulnerability for fraudulent activities. For example, if a single employee can initiate, authorize and disburse a loan the possibility of misuse cannot be ignored.

(viii) External threats leading to cyber frauds/ crime: The CBS environment provides access to customers anytime, anywhere using internet. Hence, information system which was earlier accessible only within and to the employees of the bank is now exposed as it is open to be accessed by anyone from anywhere. Making the information available is business imperative but this is also fraught with risks of increased threats from hackers and others who could access the software to commit frauds/crime.

(ix) Higher impact due to intentional or unintentional acts of internal employees: Employees in a technology environment are the weakest link in an enterprise. This is much more relevant in bank as banks deal directly with money. Hence, the employee acts done intentionally or unintentionally may compromise security of the IT environment.

(x) New social engineering techniques employed to acquire confidential credentials: Fraudsters use new social engineering techniques such as socializing with employees and extracting information which is used unauthorizedly to commit frauds. For example: extracting information about passwords from bank's staff acting as genuine customer and using it to commit frauds.

(xi) Need for governance processes to adequately manage technology and information security: Controls in CBS should be implemented from macro and business perspective and not just from function and technology perspective. As Technology, has become key enabler for bank and is implemented across the bank, senior management of bank should be involved in directing how technology is deployed in bank and approve appropriate policies. This requires a governance process to implement security as required.

(xii) Need to ensure continuity of business processes in the event of major exigencies: The high dependence on technology makes it imperative to ensure

resilience to ensure that failure does not impact banking services. Hence, a documented business continuity plan with adequate technology and information systems should be planned, implemented and monitored.



BOTH GROUPS ₹ 21,240

SINGLE GROUP ₹ 11,800

SINGLE SUBJECT ₹ 5,900

USE CODE

NOV20

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN NOVEMBER 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

STRATEGIC MANAGEMENT

Chapter 5 – Core Banking System

Question 1

Explain the difference between three levels of strategy formulation.

Answer

A typical large organization is a multidivisional organization that competes in several different businesses. It has separate self-contained divisions to manage each of these.

There are three levels of strategy in management of business - corporate, business, and functional.

The corporate level of management consists of the chief executive officer and other top-level executives. These individuals occupy the apex of decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level.

The development of strategies for individual business areas is the responsibility of the general managers in these different businesses or business level managers. A business unit is a self-contained division with its own functions - for example, finance, production, and marketing. The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on.

Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

Question 2

Health Well now is a Delhi based charitable organisation promoting healthy lifestyle amongst the office-goers. It organises free of cost programmes to encourage and guide office-goers on matters related to stress relief, yoga, exercises, healthy diet, weight management, work-life balance and so on. Many business organisations and resident

welfare associations are taking services of Health Well now in Delhi and adjoining areas and make financial contributions to its cause. The Health Well now is able to generate sufficient funds to meet its routine expenses.

How far strategic management is relevant for Health Well now? Discuss.

Answer

The concepts of strategic management are relevant for Health Well now.

Organizations can be classified as commercial and non-commercial on the basis of the interest they have. Health Well now falls in the category of a non-commercial organization. While non-commercial organizations may have objectives that are different from the commercial organizations, they need to employ the strategic management tools to efficiently use their resources, generate sufficient surpluses to meet daily expenses and achieve their objectives. In fact, many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and human relations.

The strategic management in Health Well now needs to cover aspects such as:

- (i) Generate sufficient funds for meeting its objectives.
- (ii) Efficiently reach office-goers and help them to have health in life.
- (iii) Promote itself to cover more offices, resident welfare associations.
- (iv) Have a deep collaboration with health experts, including dieticians, psychologists, fitness trainers, yoga experts.

Question 3

"Strategy is partly proactive and partly reactive." Elaborate.

Answer

Yes, strategy is partly proactive and partly reactive. In proactive strategy, organizations will analyze possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a pre-determined manner.

However, in reality, no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behavior, evolving technologies and so on.

There can be significant deviations between what was visualized and what actually happens. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides

ways and means to cope with the negative factors or take advantage of emerging opportunities

Question 4

Define Strategic Management. Also, discuss the limitations of Strategic Management.

Answer

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate.

The presence of strategic management cannot counter all hindrances and always achieve success as there are limitations attached to strategic management. These can be explained in the following lines:

- Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape up in future. The organizational estimate about its future shape may awfully go wrong and jeopardize all strategic plans. The environment affects as the organization has to deal with suppliers, customers, governments and other external factors.
- Strategic Management is a time-consuming process. Organizations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- Strategic Management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organizations with limited resources particularly when small and medium organization create strategies to compete.
- Competition is unpredictable. In a competitive scenario, where all organizations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

Question 5

How can a corporate culture be both strength and weakness of an organisation?

Answer

The most important phenomenon which often distinguishes one organization with another is its corporate culture. Corporate culture refers to a company's values, beliefs, business principles, traditions, and ways of operating an internal work environment. Every corporation has a culture that exerts powerful influences on the behavior of managers.

(i) As a strength:

Culture can facilitate communication, decision making, and control and instill cooperation and commitment. An organization's culture could be strong and cohesive when it conducts its business according to clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees and which values are shared widely across the organization.

(ii) As a weakness:

Culture, as a weakness can obstruct the smooth implementation of strategy by creating resistance to change. An organization's culture could be characterized as weak when many sub-cultures exist, few values and behavioral norms are shared and traditions are rare. In such organizations, employees do not have a sense of commitment, loyalty and sense of identity.

Question 6

Discuss any four benefits of Enterprise Risk Management (ERM).

Answer

ERM provides enhanced capability to do the following:

Align risk appetite and strategy: ♦ Risk appetite is the degree of risk, on a broad-based level that an enterprise (any type of entity) is willing to accept in pursuit of its goals. Management considers the entity's risk appetite first in evaluating strategic alternatives, then in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.

Link growth, risk and return: ♦ Entities accept risk as part of value creation and preservation, and they expect return commensurate with the risk. ERM provides an enhanced ability to identify and assess risks, and establish acceptable levels of risk relative to growth and return objectives.

Enhance risk response decisions: ♦ ERM provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing and acceptance. ERM provides methodologies and techniques for making these decisions.

Minimize operational surprises and losses: ♦ Entities have enhanced capability to identify potential events, assess risk and establish responses, thereby reducing the occurrence of surprises and related costs or losses.

Identify and manage cross-enterprise risks: ♦ Every entity faces a myriad of risks affecting different parts of the enterprise. Management needs to not only manage individual risks, but also understand interrelated impacts.

Provide integrated responses to multiple risks: ♦ Business processes carry many inherent risks, and ERM enables integrated solutions for managing the risks.

Seize opportunities: ♦ Management considers potential events, rather than just risks, and by considering a full range of events, management gains an understanding of how certain events represent opportunities.

Rationalize capital: ♦ More robust information on an entity's total risk allows management to more effectively assess overall capital needs and improve capital allocation.

Question 7

'Do Good Group' is a not-for-profit organization based in northern India working towards childcare. The group educates people towards immunization, sanitation and works in coordination with local hospitals or medical centers. Recently, a new team has taken over the management of its activities. Explain whether tools of strategic Management are relevant for the group.

Answer

The tools of strategic management process are effectively being used by a number of not-for-profit or charitable organizations. While 'Do Good Group' may have social and charitable existence, still it has to generate resources and use them wisely to achieve organizational objectives. Organisation needs to be managed strategically, irrespective whether they have profit motive. The strategic Management at 'Do Good Group' should

Essentially cover:

1. Analyzing and interpreting the strategic intent in terms of vision, mission, and objectives.
2. Generating required resources in terms of finance and manpower (volunteers, paid employees).
3. Undertaking SWOT analysis from time to time.

4. Setting goals in the area of childcare. It can be in terms of geographical coverage and number of children.
5. Analyzing the desired future position with the past and present situation.

Question 8

Do you agree with the statement that “Strategic Management concepts are of no use to Government organizations and Medical organizations”? Explain with reasons.

Answer

Organizations can be classified as commercial and non-commercial on the basis of the interest they have. typically, a government or medical organization may function without any commercial objectives. A commercial organization has profit as its main aim. We can find many organizations around us, which do not have any commercial objective of making profits. their genesis may be for social, charitable, or educational purposes.

The strategic-management process is being used effectively by countless non-profit governmental organizations. Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, por ductivity, and humane source.

compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing. especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.

USE CODE
NOV20

SINGLE SUBJECT
₹ 5,900

SINGLE GROUP
₹ 11,800

BOTH GROUPS
₹ 21,240

KONCEPT
EDUCATION

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN NOVEMBER 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

Chapter 2 - Dynamics of Competitive Strategy

Question 1

What is the purpose of SWOT analysis? Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organization?

Answer

An important component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

◆ **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.

◆ **Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it. **Opportunity:** An opportunity is a favorable condition in the organization's environment which enables it to strengthen its position.

◆ **Threat:** A threat is an unfavourable condition in the organization's environment which causes a risk for, or damage to, the organization's position.

SWOT-analysis helps managers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in a fast-changing, competitive environment. Key reasons for SWOT analyses are:

- ◆ It provides a logical framework.
- ◆ It presents a comparative account.
- ◆ It guides the strategist in strategy identification.

Question 2

Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies. Explain these four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies.

Answer

Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies. Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

i. Valuable: Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities. Finance companies build a valuable competence in financial services. In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs. Human capital is important in creating value for customers.

ii. Rare: Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

iii. Costly to imitate: Costly to imitate means such capabilities that competing firms are unable to develop easily. For example: Intel has enjoyed a first-mover advantage more than once because of its rare fast R&D cycle time capability that brought SRAM and DRAM integrated circuit technology, and brought microprocessors to market well ahead of the competitor. The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

iv. Non-substitutable: Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.

Question 3

Examine the significance of KSFs (Key Success Factors) for competitive success.

Answer

As industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the market place – the particular strategy elements, product attributes, resources, competencies, competitive capabilities and business outcomes that spell the difference between profit & loss and ultimately, between competitive success or failure. KSFs by their very nature are so important that all firms in the industry must pay close attention to them. They are the prerequisites for industry success, or, to put it in another way, KSFs are the rules that shape whether a company will be financially and competitively successful.

Question 4

What is a Strategic Group? Discuss the procedure for constructing a strategic group map.

Answer

strategic group consists of those rival firms which have similar competitive approaches and positions in the market. Companies in the same strategic group can resemble one another in any of the several ways – have comparable product-line breadth, same price/quality range, same distribution channels, same product attributes, identical technological approaches, offer similar services and technical assistance and so on.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is as follows:

1. Identify the competitive characteristics that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
2. Plot the firms on a two-variable map using pairs of these differentiating characteristics.
3. Assign firms that fall in about the same strategy space to the same strategic group.
4. Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

Question 5

Rohit Patel is having a small chemist shop in the central part of Ahmedabad. What kind of competencies Rohit can build to gain competitive advantage over online medicine sellers?

Answer

Capabilities that are valuable, rare, costly to imitate and non-substitutable are core competencies. A small chemist shop has a local presence and functions within a limited geographical area. Still, it can build its own competencies to gain competitive advantage.

Rohit Patel can build competencies in the areas of:

- (i) Developing personal and cordial relations with customers.
- (ii) Providing home delivery with no additional cost.

(iii) Developing a system of speedy delivery that can be difficult to match by online sellers. Being in central part of city, he can create a network to supply at wider locations in the city.

(iv) Having extended working hours for convenience of buyers.

(v) Providing easy credit or a system of monthly payments to the patients consuming regular medicines.

Question 6

'Value for Money' is a leading retail chain, on account of its ability to operate its business at low costs. The retail chain aims to further strengthen its top position in the retail industry. Marshal, the CEO of the retail chain is of the view that to achieve the goals they should focus on lowering the costs of procurement of products. Highlight and explain the core competence of the 'Value for Money' retail chain.

Answer

A core competence is a unique strength of an organization which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses. A core competency for a firm is whatever it does is highly beneficial to the organization.

'Value for Money' is the leader on account of its ability to keep costs low. The cost advantage that 'Value for Money' has created for itself has allowed the retailer to price goods lower than competitors. The core competency, in this case, is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low-profit margin.

Question 7

Suresh Singhania is the owner of an agri-based private company in Sangrur, Punjab. His unit is producing puree, ketchup, and sauces. While its products have significant market share in the northern part of country, the sales are on decline in last couple of years. He seeks help of a management expert who advises him to first understand the competitive landscape.

Explain the steps to be followed by Suresh Singhania to understand competitive landscape.

Answer

Steps to understand the competitive landscape

(i) Identify the competitor: The first step to understand 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 strength 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.

Question 8

Aurobindo, the pharmaceutical company wants to grow its business. Draw Ansoff's Product-Market Growth Matrix to advise them of the available options.

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix, a business can get a fair idea about how its growth depends upon its markets in new or existing products in both new and existing markets.

Ansoff's product market growth matrix is as follows:

	Existing Product	New product
Exiting Markets	Market Penetration	Product Development
New Market	Market Development	Diversification

	Ansoff's Product-Market Growth Matrix
--	---------------------------------------

Based on the matrix, Aurobindo may segregate its different products. Being in pharmaceuticals, development of new products is result of extensive research and involves huge costs. There are also social dimensions that may influence the decision of the company. It can adopt penetration, product development, market development or diversification simultaneously for its different products.

Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company. Product development is referred to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets. Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

As market conditions change over time, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

Question 9

Describe the construction of BCG matrix and discuss its utility in strategic management.

Answer

Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970s, the Boston Consulting Group developed a model for managing a portfolio of different business units or major product lines. The BCG growth-share matrix named after its developer facilitates portfolio analysis of a company has invested in diverse businesses with varying scope of profits and growth.

The BCG matrix can be used to determine what priorities should be given in the product portfolio of a business unit. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix. Two dimensions are market share and market growth rate. In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company's strength in the market.

Thus the BCG matrix depicts quadrants as shown in the following table:

BCG Matrix

Market Growth Rate	High	Stars	Question Marks
	Low	Cash Cows	Dogs
		High	Low
		Relative Market Share	

Different types of business represented by either products or SBUs can be classified for portfolio analyses through BCG matrix. They have been depicted by meaningful metaphors, namely:

(a) Stars are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential.

They represent best opportunities for expansion.

(b) Cash Cows are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.

(c) Question Marks, sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organizations to turn them stars and then to cash cows when the growth rate reduces.

(d) Dogs are low-growth, low-share businesses, and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimized by means of divestment or liquidation

The BCG matrix is useful for classification of products, SBUs, or businesses, and for selecting appropriate strategies for each type as follows.

(a) Build with the aim for long-term growth and strong future.

(b) Hold or preserve the existing market share.

(c) Harvest or maximize short-term cash flows.

(d) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

Thus BCG matrix is a powerful tool for strategic planning analysis and choice.

Chapter 3- Strategic Management Process

Question 1

What are the elements in strategic intent of organisation?

Answer

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. 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. Elements of strategic management are as follows:

(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. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in society.

(iii) Business Definition: It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices.

(iv) Business Model: Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details. Rival firms, operating in the same industry rely on the different business model due to their strategic choice.

(v) 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. However, in practice, no distinction is made between goals and objectives and both the terms are used interchangeably.

Question 2

Rohit Seth in an informal discussion with his friend shared that he has to move very cautiously in his organisation as the decisions taken by him have organisation-wide impact and involve large commitments of resources. He also said that his decisions decide the future of his organisation.

Where will you place Rohit Seth in organizational hierarchy? What are the dimensions of the decisions being taken by him?

Answer

As the decisions taken by Rohit Seth have organisation-wide impact, involves large commitments and have implication on the future, he is at the top level in organisational hierarchy. These characteristics also indicate that he is taking strategic decisions in the organisation. The major dimensions of strategic decisions are as follows:

- ◆ Strategic decisions require top-management involvement: Strategic decisions involve thinking in totality of the organization. Hence, problems calling for strategic decisions require to be considered by the top management.
- ◆ Strategic decisions involve commitment of organisational resources: For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.
- ◆ Strategic decisions necessitate consideration of factors in the firm's external environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment.
- ◆ Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm: Generally, the results of strategic implementation are seen on a long-term basis and not immediately.
- ◆ Strategic decisions are future-oriented: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- ◆ Strategic decisions usually have major multifunctional or multi-business consequences: As they involve organization in totality they affect different sections of the organization with varying degree.

Question 3

The presence of strategic management cannot counter all hindrances and always achieve success for an organization. What are the limitations attached to strategic management?

Answer

The presence of strategic management cannot counter all hindrances and always achieve success as there are limitations attached to strategic management. These can be explained in the following lines:

1. The environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape up in future. The organizational estimate about its future shape may awfully go wrong and jeopardize all strategic plans. The environment affects as the organization has to deal with suppliers, customers, governments and other external factors.
2. Strategic Management is a time-consuming process. Organizations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
3. Strategic Management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organizations with limited resources particularly when small and medium organization create strategies to compete.
4. In a competitive scenario, where all organizations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

Question 4

Shri Alok Kumar is having his own medium-size factory in Aligarh manufacturing hardware consisting handles, hinges, tower bolts and so on. He has a staff of more than 220 in his organization. One of the leading brand of Hardware seller in India is rebranding and selling the material from his factory. Shri Alok Kumar believes in close supervision and takes all major and minor decisions in the organization.

Do you think Shri Alok should take all decisions himself? What should be nature of decisions that should be taken by him?

Answer

Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals.

Decisions may be operational, i.e., which relate to general day-to-day operations. They may also be strategic in nature.

As owner-manager at the top level in the company, Shri Alok Kumar should concentrate on strategic decisions. These are higher level decisions having organization-wide implications. The major dimensions of strategic decisions are as follows:

1. Strategic decisions require top-management involvement as they involve thinking in totality of the organization.
2. Strategic decisions involve significant commitment of organizational resources.
3. Strategic decisions necessitate consideration of factors in the firm's external environment.
4. Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm.
5. Strategic decisions are future-oriented.
6. Strategic decisions usually have major multifunctional or multi-business consequences.

Question 5

To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities, create a strategy-supportive work climate, and meet or beat performance targets. Explain the principal aspects of strategy-execution process.

Answer

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

1. Developing budgets that steer ample resources into those activities critical to strategic success.
2. Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
3. Ensuring that policies and operating procedures facilitate rather than impede effective execution.
4. Using the best-known practices to perform core business activities and pushing for continuous improvement.
5. Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.

6. Motivating people to pursue the target objectives energetically.
7. Creating a company culture and work climate conducive to successful strategy implementation and execution.
8. 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.

Question 6

Briefly discuss the difference between vision and mission.

Answer

A Mission statement tells you the fundamental purpose of the organization. It concentrates on the present. It defines the customer and critical processes.

It informs you of the desired level of performance. On the other hand, a vision statement outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. Following are the major differences between vision and mission:

1. The vision states the future direction while the mission states the ongoing activities of the organization.
2. The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time-bound. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization.
3. A vision statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a mission statement is more specific in terms of both the future state and the time frame. Mission describes what will be achieved if the organization is successful.

Chapter 4- Corporate Level Strategies

Question 1

Write short note on expansion through acquisitions and mergers.

Answer

Acquisitions and mergers are basically combination strategies. Some organizations prefer to grow through mergers. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity. In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers.

When one organization takes over the other organization and controls all its business operations, it is known as acquisition. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes its 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 where the powerful organization either consumes the operation or a company in loss is forced to sell its entity.

Question 2

Organo is a large supermarket chain. It is considering the purchase of a number of farms that provides Organo with a significant amount of its fresh produce. Organo feels that by purchasing the farms, it will have greater control over its supply chain. Identify and explain the type of diversification opted by Organo?

Answer

Organo is a large supermarket chain. By opting backward integration and purchase a number of farms, it will have greater control over its supply chain. Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.

Question 3

Describe corporate culture. Elaborate the statement "Culture is a strength that can also be a weakness".

Answer

Corporate culture refers to a company's values, beliefs, business principles, traditions, way of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behavior of managers.

Culture as a strength – Culture can facilitate communication, decision making, and control and create cooperation and commitment. An organization's culture could be strong and cohesive when it conducts its business according to clear and explicit set of principles and values. The management devotes considerable time in communicating values & principles to employees and sharing them widely across the organization.

Culture as a weakness – can obstruct the smooth implementation of strategy by creating resistance to change. An organization's culture can be characterized as weak when many subcultures exist, few values and behavioral norms are shared and traditions are rare.

In such organizations, employees do not have a sense of commitment, loyalty and a sense of identity.

Question 4

XYZ Ltd. is a multi-product company, suffering from container losses since last 2 years and has accumulated heavy losses which have eroded its net worth.

What strategic option is available to the management of this sick company? Advise with reasons.

Answer

XYZ Ltd. is a sick company with accumulated losses that have eroded its net worth. The multi-product company may analyze its various products to take decisions on the viability of each. The company may consider retrenchment strategy. Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal.

Retrenchment strategy is adopted because of continuous losses and unviability and stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

Retrenchment strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies as follows:

Turnaround strategy:

If the organization chooses to transform itself into a leaner structure and focuses on ways and means to reverse the process of decline, it adopts a turnaround strategy. It may try to reduce costs, eliminate unprofitable outputs, generate revenue, improve coordination, better control, and so on.

Divestment Strategy:

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit center or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

Liquidation Strategy:

In the retrenchment strategy, the most extreme and unattractive is liquidation strategy. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure.

The management of multiproduct sick company manufacturing various items need to understand pros and cons of each strategic option. The decision will depend upon the specific circumstances of each product and management goals of the company.

Question 5

Leatherette Ltd. was started as a leather company to manufacture footwear. Currently, they are in the manufacturing of footwear for males and females. The top management desires to expand the business in leather manufacturing goods. To expand they decided to purchase more machines to manufacture leather bags for males and females.

Identify and explain the strategy opted by the top management of Leatherite Ltd.

Answer

Leatherette Ltd. is currently manufacturing footwear for males and females and its top management has decided to expand its business by manufacturing leather bags for males and females. Both the products are similar in nature within the same industry. The strategic diversification that the top management of Leatherite Ltd. has opted is concentric in nature. They were in business of manufacturing leather footwears and

now they will manufacture leather bags as well. They will be able to use existing infrastructure and distribution channel. Concentric diversification amounts to related diversification.

In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.

Question 6

Dinesh Yadav is the owner of a beverage-based private company in Sonipat, Haryana. His unit is producing fruit juices, cold drinks, soda, and lime. While its products have significant market share in the northern part of country, the sales are on decline in last couple of years. He seeks help of a management expert who advises him to first understand the competitive landscape.

Explain the steps to be followed by Dinesh Yadav to understand competitive landscape.

Answer

Steps to understand the competitive landscape:

(i) Identify the competitor: The first step to understand 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 strength 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.

Question 7

A company manufactures computers that are of low in production cost, competitive price, and quality to their competitor's product. Profits and market share are declining day by day. Shree, a senior executive realizes that drastic strategies have to be created for the survival of a company. After SWOT analysis by assessing the strengths and weaknesses, they come up with the conclusion that they cannot compete in the computers with the competitors. The management directs Shree to act quick and develop a suitable strategic plan.

Discuss the strategy which can be opted by Shree.

Answer

Shree can opt for turnaround strategy which is a highly-targeted effort to return the company to profitability and increase positive cash flows to a sufficient level. Organizations those have faced a significant crisis that has negatively affected operations require turnaround strategy. Once turnaround is successful the organization may turn to focus on growth.

Conditions for turnaround strategies

When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on.

Action plan for turnaround strategy

- Stage One – Assessment of current problems
- Stage Two – Analyze the situation and develop a strategic plan
- Stage Three – Implementing an emergency action plan
- Stage Four – Restructuring the business
- Stage Five – Returning to normal

Question 8

What are the advantages of a strategic alliance?

Answer

A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated. The advantages of strategic alliance can be broadly categorized as follows:

(a) Organizational: Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain.

(b) Economic: There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline.

(c) Strategic: Rivals can join together to cooperate instead of compete. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development.

(d) Political: Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry.

Question 9

With the global economic recession, Soft Cloth Ltd. incurred significant losses in all its previous five financial years. Currently, they are into manufacturing of cloth made of cotton, silk, polyester, rayon, lycra, and blends. Competition is also intense on account of cheap imports. The company is facing cash crunch and has not been able to pay the salaries to its employees in the current month.

Suggest a grand strategy that can be opted by Soft Cloth Ltd.

Answer

Soft Cloth Ltd. is facing internal as well as external challenges. The external environment is in economic recession and the organization is facing cash crunch. The company needs to work on retrenchment/turnaround strategy. The strategy is suitable in case of issues such as:

1. Persistent negative cash flow.
2. Uncompetitive products or services

3. Declining market share
4. Deterioration in physical facilities
5. Overstaffing, high turnover of employees, and low morale
6. Mismanagement

The company may consider to substantially reduce the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems.

Next, steps are taken to solve the problems.

These steps result in different kinds of retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts a turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.

Question 10

What is Divestment strategy? When is it adopted?

Answer

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit center or SBU. For a multiple product company, divestment could be a part of rehabilitating or restructuring plan called turnaround.

A divestment strategy may be adopted due to various reasons:

- When a turnaround has been attempted but has proved to be unsuccessful.
- A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- Persistent negative cash flows from a particular business create financial problems for the whole company.
- Severity of competition and the inability of a firm to cope with it.
- Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it.
- A better alternative may be available for investment.

Chapter 5- Business Level Strategies

Question 1

A differentiation strategy may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power. Explain.

Answer

A differentiation strategy may help to remain profitable even with: rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. Rivalry - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
2. Buyers – They do not negotiate for price as they get special features and also they have fewer options in the market.
3. Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.
4. Entrants – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
5. Substitutes – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Question 2

Eco-carry bags Ltd., a recyclable plastic bags manufacturing and trading company has seen a potential in the ever-growing awareness around hazards of plastics and the positive outlook of the society towards recycling and reusing plastics. A major concern for Eco-carry bags Ltd. are paper bags and old cloth bags. Even though they are costlier than recyclable plastic bags, irrespective, they are being welcomed positively by the consumers.

Identify and explain that competition from paper bags and old cloth bags fall under which category of Porter's Five Forces Model for Competitive Analysis?

Answer

Eco-carry bags Ltd. faces competition from paper bags and old cloth bags and falls under Threat of Substitutes force categories in Porter's Five Forces Model for Competitive Analysis. Paper and cloth bags are substitutes of recyclable plastic bags as they perform the same function as plastic bags. Substitute products are a latent source of competition in an industry. In many cases, they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.

Question 3

In line with the suggestions of RBI, M/s. ABC Bank is planning to obtain ISO 27001: 2013 certification for its Information Security Management System. As an IS Auditor, you are required to prepare a sample list of Risks w.r.t. Information Security for the Bank.

Answer

A sample listing of Risks w.r.t Information Security for the Bank is as follows:

- Significant information resources may be modified inappropriately, disclosed without authorization, and/ or unavailable when needed. (e.g., they may be deleted without authorization).
- Lack of management direction and commitment to protect information assets.
- Potential Loss of confidentiality, availability, and integrity of data and system.
- User accountability is not established.
- It is easier for unauthorized users to guess the password of an authorized user and access the system and/ or data. This may result in loss of confidentiality, availability, and integrity of data and system.
- Unauthorized viewing, modification or copying of data and/ or unauthorized use, modification or denial of service in the system.
- Security breaches may go undetected.
- Inadequate preventive measure for key server and IT system in case of environmental threat like heat, humidity, fire, flood, etc.
- Unauthorized system or data access, loss and modification due to virus, worms, and Trojans.

Question 4

Explain the term 'Cryptography'.

Answer

Cryptography:

It deals with programs for transforming data into ciphertext that are meaningless to anyone, who does not possess the authentication to access the respective system resource or file. A cryptographic technique encrypts data (clear text) into cryptograms (ciphertext) and its strength depends on the time and cost to decipher the ciphertext by a cryptanalyst. Three techniques of cryptography are Transposition (permute the order of characters within a set of data), Substitution (replace text with a key -text) and Product Cipher (combination of Transposition and Substitution).

Question 5

Explain briefly the competitive forces in any industry as identified by Michael Porter.

Answer

Five forces model of Michael Porter is a popular tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five forces as follows:

1. Threat of new entrants: New entrants place a limit on prices and affect the profitability of existing players. The new capacity and product range the new entrants bring increases competitive pressure. bigger the new entrant, the more severe the competitive effect.

2. Bargaining power of customers: The bargaining power of the buyers influences not only the prices that the producer can charge but also influence costs and investments of the producer. This force will become heavier depending on the possibilities of the buyers forming groups or cartels, particularly in case of industrial products.

3. Bargaining power of suppliers: Often suppliers can exercise considerable bargaining power. If the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, can affect industry attractiveness and profitability.

4. Rivalry among current players: The rivalry among existing players is quite obvious. This is what is normally understood as competition. The impact is evident more at

functional level in the prices being charged, advertising, and pressures on costs, product and so on.

5. Threats from substitutes: Substitute products are a latent source of competition in an industry. Substitute products offering a price advantage and/or performance improvement to the consumer can have significant impact. The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/ profitability.

Question 6

Distinguish between Forward integration and backward integration.

Answer

Forward and backward integration form part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. The firm remains vertically within the same process. While diversifying, firms opt to engage in businesses that are linked forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

Backward integration is a step towards creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lower its cost of production. On the other hand, forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organizations enter into businesses of distribution channels

Question 7

Write short notes on Advantages of Cost leadership strategy.

Answer

cost leadership strategy may help to remain profitable in the presence of rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

(i) Rivalry – Competitors are likely to avoid a price war since the low-cost firm will continue to earn profits after competitors compete away their profits.

(ii) Buyers – Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.

(iii) Suppliers – Cost leaders are able to absorb greater price increases before it must raise price to customers.

(iv) Entrants – Low-cost leaders create barriers to market entry through its continuous focus on efficiency and reducing costs.

(v) Substitutes – Low-cost leaders are more likely to lower costs to induce customers to stay with their product, invest to develop substitutes, purchase patents.

Question 8

What do you understand by cost leadership? How is it achieved?

Answer

Cost leadership is a low-cost competitive strategy that aims at broad mass market. It requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Because of its lower costs, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits. A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits.

A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts. Some risks of pursuing cost leadership are that competitors may imitate the strategy.

To achieve cost leadership, following are the actions that could be taken:

- (a) Forecast the demand of a product or service promptly.
- (b) Optimum utilization of the resources to get cost advantages.
- (c) Achieving economies of scale lead to lower per unit cost of product/service.
- (d) Standardization of products for mass production to yield lower cost per unit.
- (e) Invest in cost-saving technologies and try using advanced technology for smart working.
- (f) Resistance to differentiation until it becomes essential.

Question 9

Rahul Sharma is Managing Director of a company which is manufacturing trucks. He is worried about the entry of new businesses. What kind of barriers will help Rahul against such a threat?

Answer

A firm's profitability tends to be higher when other firms are blocked from entering the industry. New entrants can reduce industry profitability because they add new production capacity leading to increase supply of the product even at a lower price and can substantially erode existing firm's market share position. Barriers to entry represent economic forces that slow down or impede entry by other firms. Common barriers to entry include:

(i) Capital Requirements: When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry, thus enhancing the profitability of existing firms in the industry.

(ii) Economies of Scale: Many industries are characterized by economic activities driven by economies of scale. Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows.

(iii) Product Differentiation: Product differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers.

(iv) Switching Costs: To succeed in an industry, new entrant must be able to persuade existing customers of other companies to switch to its products. When such switching costs are high, buyers are often reluctant to change.

(v) Brand Identity: The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer.

(vi) Access to Distribution Channels: The unavailability of distribution channels for new entrants poses another significant entry barrier. Despite the growing power of the internet, many firms may continue to rely on their control of physical distribution channels to sustain a barrier to entry to rivals.

(vii) Possibility of Aggressive Retaliation: Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.

Chapter 6- Functional Level Strategies

Question 1

What do you mean by financial strategy of an organization? How the worth of a business is evaluated?

Answer

The financial strategies of an organization are related to several finance/ accounting concepts considered to be central to strategy implementation. These are: acquiring needed capital/sources of fund, developing projected financial statements/budgets, management/usage of funds, and evaluating the worth of a business.

Various methods for determining a business's worth can be grouped into three main approaches which are as follows:

(i) Net worth or stockholders' equity: Net worth is the total assets minus total outside liabilities of an organisation.

(ii) Future benefits to owners through net profits: These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.

(iii) Market-determined business worth: This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

Question 2

ABC Ltd is a company that has grown eleven times its size in last five years. With the increase in size the company is facing difficulty in managing things. Many a times functional level is not in sync with the corporate level. What will you like to advise to the company and why?

Answer

The higher-level corporate strategies need to be segregated into viable plans and policies that are compatible with each other and communicated down the line. The higher-level strategies need to be broken into functional strategies for implementation. These functional strategies, in form of marketing, finance, human resource, production, research, and development help in achieving the organisational objective. The reasons why functional strategies are needed can be enumerated as follows:

- ◆ Functional strategies lay down clearly what is to be done at the functional level. They provide a sense of direction to the functional staff.
- ◆ They are aimed at facilitating the implementation of corporate strategies and the business strategies formulation at the business level.
- ◆ They act as basis for controlling activities in the different functional areas of business.
- ◆ They help in bringing harmony and coordination as they are formulated to achieve major strategies.
- ◆ Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

Question 3

What steps are to be considered for implementing supply chain management in a business organization? Explain.

Answer

A key requirement for successfully implementing supply chain management system in a business organization are:

(i) Product development - Customers and suppliers must work together in the product development process. Products are developed and launched in shorter time and help organizations to remain competitive.

(ii) Procurement - requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation, and storage. Organizations coordinate with suppliers in scheduling without interruption.

(iii) Manufacturing - Flexible manufacturing process is required to respond to market changes like accommodate customization and changes in tastes and preferences. Manufacturing is done on the basis of just in time and minimum lot sizes.

(iv) Physical Distribution – Delivery of final product to customers is the last position in a marketing channel. To ensure right place at right time is important for each channel participant. So supply chain management links a marketing channel with customers.

(v) Outsourcing – is not limited to the procurement of materials and components but also includes outsourcing of services that traditionally have been provided within an organization. The company will focus on the core competency areas alone and outsource rest.

(vi) Customer Service – Organizations work with customers to determine mutually satisfying goals, establish and maintain relationships. This produces positive feelings in the organization and among customers.

(vii) Performance Measurement – Supplier capabilities and customer relationships can be corrected with a firm's performance. Performance is measured in different parameters such as costs, customer services, productivity, and quality.

Question 4

Explain the marketing mix in the context of modern marketing

Answer

Marketing mix is a set of controllable marketing variables that the firm blends to produce the response that it wants in the target market. Marketing mix consists of everything that the firm can do to influence the demand for its product. The original framework of marketing mix comprises of product, price, place, and promotion.

Modern marketing is highly promotional oriented and includes personal selling, advertising, publicity, and sales promotion.

Personal selling – involves face to face interaction of salespersons with prospective customers and provides a high degree of personal attention. It involves working with one customer at a time and hence not cost effective. The intention of oral communication is sale.

Advertising – is a non-personal, flexible and dynamic promotion method. The media for advertising are several and choice of an appropriate one is important for effectiveness of message. Sale of the product and the amount of expenditure cannot be directly measured.

Publicity – is also non-personal but no payments are made to the media. Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly. It could be through press releases, press conferences, reports, etc.

Sales promotion – includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity. Activities like discounts, contests, money refunds, exhibitions, etc. are included.

Question 5

Define the term 'Marketing'. Distinguish between social marketing and service marketing.

Answer

In general, marketing is an activity performed by business organizations. In the present day for business, it is considered to be the activities related to identifying the needs of customers and taking such actions to satisfy them in return of some consideration. The term marketing constitutes different processes, functions, exchanges and activities that create perceived value by satisfying needs of individuals.

Social marketing and service marketing are marketing strategies primarily with different orientations. Social Marketing refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group. For instance, the publicity campaign for prohibition of smoking or encouraging girl child, etc.

On the other hand, service marketing is applying the concepts, tools, and techniques, of marketing to services. Service is any activity or benefit that one party can offer to another that is essentially intangible and non-perishing. These may be from business to consumer and from business to business.

Question 6

Distinguish between Logistic Management and Supply Chain Management.

Answer

Supply chain management is an extension of logistic management. However, there are differences between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfillment of orders, inventory management and supply/demand planning. Although these activities also form part of supply chain management, the latter is much broader. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management is an integrating function of all the major business activities and business processes within and across organizations. Supply Chain Management is a systems view of the linkages in the chain consisting of different channel partners – suppliers, intermediaries, third-party service providers, and customers. Different

elements in the chain work together in a collaborative and coordinated manner. Often it is used as a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price.

Question 7

Rohit Bhargava is the Managing Director of Smooth and Simple Pvt Ltd. The company established in 2011, with 35 employees grew very fast to become an organization with 335 employees in the year 2016. With the increase in size, Rohit started facing difficulty in managing things. Many a time he finds that personnel at the functional level are not in sync with the strategies of the top. He felt that strategies need to be segregated into viable plans and policies that are compatible with each other and communicated down the line.

Why does Rohit need to segregate the strategies into functional plans? Discuss.

Answer

Rohit Bhargava needs to break higher level strategies into functional strategies for implementation.

These functional strategies, in form of Marketing, Finance, Human Resource, Production, Research, and Development help in achieving the organizational objective. The reasons why functional strategies are needed can be enumerated as follows:

- Functional strategies lay down clearly what is to be done at the functional level. They provide a sense of direction to the functional staff.
- They are aimed at facilitating the implementation of corporate strategies and the business strategies formulation at the business level.
- They act as basis for controlling activities in the different functional areas of business.
- They help in bringing harmony and coordination as they are formulated to achieve major strategies.

Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

Question 8

Explain the prominent areas where human resource manager can play a strategic role.

Answer

The prominent areas where the human resource manager can play strategic role are as follows:

(a) Providing purposeful direction: The human resource manager must be able to lead people and the organization towards the desired direction involving people right from the beginning. The most important task of an HR manager is to ensure that the objectives of an organization are internalized by everyone.

(b) Building core competency: The human resource manager has a great role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. This may be in the form of human resources, marketing capability, or technological capability.

(c) Creating competitive advantage: Creating and maintaining a competitive advantage in the globalized market is the object of any organization. There are two important ways a business can achieve a competitive advantage over the others. The first is cost leadership and second is differentiation.

(d) Facilitation of change: The human resource manager will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The HR function will be responsible for furthering the organization and devote more time to promote changes than to maintain the status quo.

(e) Managing workforce diversity: In modern organizations, management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female workers, young and old workers, educated and uneducated workers, unskilled and professional employee, etc.

(f) Empowerment of human resources: Empowerment means authorizing every member of an organization to take up his/her own destiny realizing his/her full potential. It involves giving more power to those who, at present, have little control what they do and little ability to influence the decisions being made around them.

(g) Development of works ethics and culture: Greater efforts will be needed to achieve cohesiveness because employees will have transient commitment to groups. As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide a challenge. Vibrant work culture will have to be developed in organizations to create an atmosphere of trust and encourage creative ideas.

Question 9

What are the objectives that must be kept in mind while designing a pricing strategy of a new product?

Answer

For a new product pricing strategies for entering a market needs to be designed. In pricing, a really new product at least three objectives must be kept in mind.

- i. Making the product acceptable to the customers.
- ii. Producing a reasonable margin over cost.
- iii. Achieving a market that helps in developing market share.

For a new product, an organization may either choose to skim or penetrate the market. In skimming prices are set at a very high level. The product is directed to those buyers who are relatively priced insensitive but sensitive to the novelty of the new product. For example call rates of mobile telephony were set very high initially. Even the incoming calls were charged. Since the initial offtake of the product is low, high price, in a way, helps in rationing of supply in favor of those who can afford it.

In penetration, pricing firm keeps a temptingly low price for a new product which itself is selling point. A very large number of the potential customers may be able to afford and willing to try the product.

Question 10

State the factors of human resource that have influence on employee's competence.

Answer

Human resource management has been accepted as a strategic partner in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and reward systems. The following points should be kept in mind as they can have a strong influence on employee competence:

- i. Recruitment and selection:** The workforce will be more competent if a firm can successfully identify, attract, and select highly competent applicants.
- ii. Training:** The workforce will be more competent if employees are well trained to perform their jobs properly.
- iii. Appraisal of performance:** The performance appraisal is to identify any performance deficiencies experienced by employees due to lack of competence. Such deficiencies, once identified, can often be solved through counseling, coaching or training.

iv. Compensation: A firm can usually increase the competency of its workforce by offering pay, benefits, and rewards that are not only attractive than those of their competitors but also recognizes merit.

Question 11

Discuss the major steps in implementing supply chain management system in a business organization.

Answer

Successful implementing supply management systems requires a change from managing individual functions to integrating activities into key supply chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems, and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. The partners need to link together to share information through electronic data interchange and take decisions in timely manner.

Implementing and successfully running supply chain management system will involve:

1. Product development: Customers and suppliers must work together in the product development process. Right from the start, the partners will have knowledge of all. Involving all partners will help in shortening the life cycles. Products are developed and launched in shorter time and help organizations to remain competitive.

2. Procurement: Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation, and storage. Organizations have to coordinate with suppliers in scheduling without interruptions. Suppliers are involved in planning the manufacturing process.

3. Manufacturing: Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes. Changes in the manufacturing process be made to reduce manufacturing cycle.

4. Physical distribution: Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus, supply chain management links a marketing channel with customers.

5. Outsourcing: Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been

provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced.

6. Customer services: Organizations, through interfaces with the company's production and distribution operations, develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn help in producing positive feelings in the organization and the customers.

7. Performance measurement: There is a strong relationship between the supplier, customer, and organization. Supplier capabilities and customer relationships can be correlated with firm performance. Performance is measured in different parameters such as costs, customer service, productivity, and quality.



BOTH GROUPS ₹ 17,700	BOTH GROUPS ₹ 21,240
SINGLE GROUP ₹ 8,850	SINGLE GROUP ₹ 11,800
SINGLE SUBJECT ₹ 5,900	SINGLE SUBJECT ₹ 5,900

USE CODE
AUG20

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN AUGUST 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

USE CODE
NOV20

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN NOVEMBER 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

Chapter 7- Organisation and Strategic Leadership

Question 1

What is a strategic business unit? What are its advantages?

Answer

A strategic business unit (SBU) is any part of a business organization which is treated separately for strategic management purposes. The concept of SBU is helpful in creating an SBU organizational structure. It is discrete element of the business serving product markets with readily identifiable competitors and for which strategic planning can be concluded. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests. Advantages of SBU are:

- ◆ Establishing coordination between divisions having common strategic interests.
- ◆ Facilitates strategic management and control on large and diverse organizations.
- ◆ Fixes accountabilities at the level of distinct business units.
- ◆ Allows strategic planning to be done at the most relevant level within the total enterprise.
- ◆ Makes the task of strategic review by top executives more objective and more effective.
- ◆ Helps allocate corporate resources to areas with greatest growth opportunities.

Question 2

KaAthens Ltd., a diversified business entity having business operations across the globe. The company leadership has just changed as Mr. D. Bandopadhyay handed over the pedals to his son Aditya Bandopadhyay, due to his poor health. Aditya is a highly educated with an engineering degree from IIT, Delhi. However, being very young he is not clear about his role and responsibilities.

In your view, what are the responsibilities of Aditya Bandopadhyay as CEO of the company.

Answer

Aditya Bandopadhyay, an effective strategic leader of KaAthens Ltd. must be able to deal with the diverse and cognitively complex competitive situations that are characteristic of today's competitive landscape.

A Strategic leader has several responsibilities, including the following:

- ◆ Making strategic decisions.
- ◆ Formulating policies and action plans to implement strategic decision.
- ◆ Ensuring effective communication in the organisation.
- ◆ Managing human capital (perhaps the most critical of the strategic leader's skills).
- ◆ Managing change in the organisation.
- ◆ Creating and sustaining strong corporate culture.
- ◆ Sustaining high performance over time.

Question 3

Ram and Shyam are two brothers engaged in the business of spices. Both have different approaches to management. Ram prefers the conventional and formal approach in which authority is used for explicit rewards and punishment. While, on the other hand, Shyam believes in democratic participative management approach, involving employees to give their best. Analyse the leadership style followed by Ram and Shyam.

Answer

Ram is a follower of transactional leadership style that focuses on designing systems and controlling the organization's activities. Such a leader believes in using authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. Transactional leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.

On the other hand, Shyam is a follower of transformational leadership style. The style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than

originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

Question 4

Discuss the concept of Multi Divisional Structure

Answer

Multidivisional (M-form) structure is composed of operating divisions where each division represents a separate business to which the top corporate officer delegates responsibility for day - to-day operations and business unit strategy to division managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages divisions through strategic and financial controls.

Multidivisional or M-form structure was developed in the 1920s, in response to coordination- and control-related problems in large firms. Functional departments often had difficulty dealing with distinct product lines and markets, especially in coordinating conflicting priorities among the products.

Costs were not allocated to individual products, so it was not possible to assess an individual product's profit contribution. Loss of control meant that optimal allocation of firm resources between products was difficult (if not impossible). Top managers became over-involved in solving short-run problems (such as coordination, communications, conflict resolution) and neglected long-term strategic issues. Multidivisional structure calls for:

- Creating separate divisions, each representing a distinct business
- Each division would house its functional hierarchy;
- Division managers would be given responsibility for managing day-to-day operations;
- A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semi-autonomous divisions.

Question 5

Differences between Transformational and transactional leadership.

Answer

Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation, and personal satisfaction. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

On the other hand, transactional leadership style focus more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. Transactional leaders try to build on the existing culture and enhance current practices. Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. Transactional leadership style is more suitable in settled environment, in growing or mature industries, and in organizations that are performing well.

Question 6

Define Entrepreneur. What are the characteristics of an entrepreneur?

Answer

An entrepreneur is an individual who conceives the idea of starting a new venture, takes all types of risks, not only to put the product or service into reality but also to make it an extremely demanding one. An entrepreneur is one who:

- Initiates and innovates a new concept.
- Recognises and utilizes opportunity.
- Arranges and coordinates resources such as man, material, machine, and capital.
- Faces risks and uncertainties.
- Establishes a startup company.
- Adds value to the product or service.
- Takes decisions to make the product or service a profitable one.
- Is responsible for the profits or losses of the company.

Question 7

Define corporate culture. Also, elucidate the statement "Culture is a strength that can also be a weakness".

Answer

The phenomenon which often distinguishes good organizations from bad ones could be summed up as 'corporate culture'. Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behavior of managers. Culture affects not only the way managers behave within an organization but also the decisions they make about the organization's relationships with its environment and its strategy.

"Culture is a strength that can also be a weakness". This statement can be explained by splitting it into two parts.

Culture as a strength: As a strength, culture can facilitate communication, decisionmaking & control and create cooperation & commitment. An organization's culture could be strong and cohesive when it conducts its business according to a clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees and which values are shared widely across the organization.

Culture as a weakness: As a weakness, culture may obstruct the smooth implementation of strategy by creating resistance to change. An organization's culture could be characterized as weak when many subcultures exist, few values and behavioral norms are shared and traditions are rare. In such organizations, employees do not have a sense of commitment and loyalty with the organization.

Question 8

'To coordinate more complex organizational functions, companies should abandon the simple structure in favor of the functional structure' Discuss.

Answer

Simple organizational structure is most appropriate usually in those small organizations that follow single business strategy and offer a line of products in a single geographic market. When a small organization grows, its complexities also tend to grow which necessitates the companies to abandon the simple organization structure which it has been adopting hitherto and move towards structures like functional organizational structure. A typical simple organization structure is often owner driven with small number of employees.

Functional structure groups tasks and activities by business function, such as production, marketing, finance, research and development and is generally headed by Chief Executive Officer or Managing Director. Besides being simple and inexpensive, a functional structure also promotes specialization, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making. At the same time with the passage of time and overall growth, much more complex organizational

structures exist in business world. However, dividing organization according to functional lines is invariably found at some level or the other.

Question 9

What steps would you suggest to change a company's problem culture?

Answer

Changing problem cultures is very difficult because of deeply held values and habits. It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instill ones that are more strategy-supportive.

- The first step is to diagnose which facets of the present culture are strategy supportive and which are not.
- Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.
- The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy.

The menu of culture-changing actions includes revising policies and procedures, altering incentive compensation, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

USE CODE
AUG20

SINGLE SUBJECT ₹ 5,900	SINGLE GROUP ₹ 8,850	BOTH GROUPS ₹ 17,700
----------------------------------	--------------------------------	--------------------------------

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN AUGUST 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

NOV20

SINGLE SUBJECT ₹ 5,900	SINGLE GROUP ₹ 11,800	BOTH GROUPS ₹ 21,240
----------------------------------	---------------------------------	--------------------------------

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN NOVEMBER 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

CONCEPT
EDUCATION

Chapter 8- Strategy Implementation and Control

Question 1

What is strategic control? Briefly explain the different types of strategic control?

Answer

Strategic Control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.

There are four types of strategic control:

- ◆ **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.
- ◆ **Strategic surveillance:** Strategic surveillance is unfocused. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.
- ◆ **Special alert control:** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.
- ◆ **Implementation control:** Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results.

Question 2

Kewal Kapadia is the Managing Director of KK industries located in Kanpur. In a review meeting with the head of finance, Kuldeep Khaitan he said that in the first five years of last decade the company grew between 8-10 percent every year, then the growth rate started falling and in previous year the company managed 1 percent. Kuldeep replied that the company is facing twin issues, one the strategy is not being implemented as planned; and two the results produced by the strategy are not in conformity with the intended goals.

There is mismatch between strategy formulation and implementation. Kewal disagreed and stated that he takes personal care in implementing all strategic plans.

You have been hired as a strategy consultant by the KK Industries. Advise way forward for the company to identify problem areas and correct the strategic approaches that have not been effective.

Answer

The company needs to conduct strategy audit.

A strategy audit is needed under the following conditions:

- ◆ When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.
- ◆ When the goals and objectives of the strategy are not being accomplished.
- ◆ When a major change takes place in the external environment of the organization.
- ◆ When the top management plans:

- to fine-tune the existing strategies and introduce new strategies and

- to ensure that a strategy that has worked in the past continues to be in-tune with subtle internal and external changes that may have occurred since the formulation of strategies.

Adequate and timely feedback is the cornerstone of effective strategy audit. Strategy audit can be no better than the information on which it is based.

Strategy Audit includes three basic activities:

- (i) Examining the underlying bases of a firm's strategy,
- (ii) Comparing expected results with actual results, and
- (iii) Taking corrective actions to ensure that performance conforms to plans.

Question 3

Write a short note on strategic change and explain the process of strategic change.

Answer

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.

Three steps for initiating strategic change are:

(i) Recognize the need for change – The first step is to diagnose the which facets of the present corporate culture are strategy supportive and which are not.

(ii) Create a shared vision to manage change – Objectives of both individuals and organization should coincide. There should be no conflict between them. This is possible only if the management and the organization members follow a shared vision.

(iii) Institutionalize the change – This is an action stage which requires the implementation of the changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of doing things.

Kurt Lewin proposed three stages of the change process for moving the organization from the present to the future.

(i) Unfreezing the situation – The process of unfreezing makes the individuals or organizations aware of the necessity for change and prepares them for it. The change should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering,

(ii) Changing to new situation – once unfreezing is complete and members of the organization recognize the need for change, then their behavior patterns need to be redefined as:

i. Compliance – enforcing reward and punishment strategy for good or bad behavior

ii. Identification – members are psychologically impressed to identify themselves with some given role models whose behavior they would like to adopt.

iii. Internalization - involves some internal changing of the individual's thought process. They are given the freedom to learn and adopt new behavior.

(iii) Refreezing – occurs when the new behavior becomes a normal way of life. The new behavior must replace the former behavior completely for successful and permanent change. This can be achieved by continuously reinforcing the newly acquired behavior. Change process is not a one-time application but a continuous process due to dynamism and ever-changing environment.

Question 4

Explain different types of strategic control in brief.

Answer

Strategic Control focuses on the dual questions of whether:

- (1) the strategy is being implemented as planned; and
- (2) the results produced by the strategy are those intended.

There are four types of strategic control:

(a) Premise control: A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.

(b) Strategic surveillance: Strategic surveillance is unfocused. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.

(c) Special alert control: At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.

(d) Implementation control: managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and result.

Question 5

Explain the concept and need of Strategy Audit. Why is it more difficult in present scenario?

Answer

A strategy audit is an examination and evaluation of areas affected by the operation of a strategic management process within an organization. The audit of management performance with regard to its strategies helps an organization identify problem areas and correct the strategic approaches that have not been effective.

Strategy audit is needed under the following conditions:

- (a) When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.
- (b) When the goals and objectives of the strategy are not being accomplished.
- (c) When a major change takes place in the external environment of the organization.
- (d) When the top management plans:
 - i. to fine-tune the existing strategies and introduce new strategies and
 - ii. to ensure that a strategy that has worked in the past continues to be in-tune with subtle internal and external changes that may have occurred since the formulation of strategies.

The difficulties in strategy audit can be explained in terms of following trends:

- A dramatic increase in the environment's complexity.
- The increasing difficulty of predicting the future with accuracy.
- The increasing number of variables in the environment.
- The rapid rate of obsolescence of even the best plans.
- The increase in the number of both domestic and world events affecting organizations.
- The decreasing time span for which planning can be done with any degree of certainty.

Question 6

Describe the principal aspects of strategy-execution process, which are included in most situations.

Answer

Implementation or execution is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. In most situations, strategy-execution process includes the following principal aspects:

- Developing budgets that steer ample resources into those activities that are 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.
- 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 culture and climate conducive to successful strategy implementation and execution.
- Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution

Question 7

Write a short note on Implementation Control.

Answer

Implementation control:

Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.

Strategic implementation control is not a replacement to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy. The two basic forms of implementation control are:

(i) Monitoring strategic thrusts: Monitoring strategic thrusts help managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.

(ii) Milestone Reviews: All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.

Question 8

HQ is a service company? Two years back the company hired a reputed management consultant to formulate its strategy. The consultant recommended an aggressive expansion plan. Now in an internal review meeting the company finds that many of the suggestions are not even fully considered.

Which part of strategic management process is missing in HQ?

Answer

Strategy implementation is missing in HQ. It is concerned with the managerial exercise of putting a chosen strategy into action. It deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results.

Strategic implementation is concerned with translating a strategic decision into action, which presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate systems.

It is crucial to realize the difference between the formulation and implementation because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent.

Question 9

What is Benchmarking? Explain briefly the elements involved in Benchmarking process

Answer

Benchmarking is an approach of setting goals and measuring productivity of firms based on best industry practices or against the products, services and practices of its competitors or other acknowledged leaders in the industry. It developed out of need to have information against which performance can be measured. Benchmarking helps businesses in improving performance by learning from the best practices and the processes by which they are achieved. Thus, benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking practices to achieve improvements in diverse range of management functions like product development, customer services, human resources management, etc.

The various steps in Benchmarking Process are as under:

(i) Identifying the need for benchmarking: This step will define the objectives of the benchmarking exercise. It will also involve selecting the type of benchmarking. Organizations identify realistic opportunities for improvements.

(ii) Clearly understanding existing decisions processes: The step will involve compiling information and data on performance.

(iii) Identify best processes: Within the selected framework best processes are identified. These may be within the same organization or external to them.

(iv) Comparison of own process and performance with that of others: Benchmarking process also involves comparison of performance of the organization with performance of other organization. Any deviation between the two is analyzed to make further improvements.

(v) Prepare a report and implement the steps necessary to close the performance gap: A report on benchmarking initiatives containing recommendations is prepared. Such a report also contains the action plans for implementation.

(vi) Evaluation: Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. They also periodically evaluate and reset the benchmarks in the light of changes in the conditions that impact the performance.

Question 10

What is the rationale behind Business Process Reengineering (BPR)? What steps would you recommend to implement BPR in an organization?

Answer

Business Process Reengineering (BPR) is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involves examination of the basic process itself. It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done. BPR refers to the analysis and redesign of workflows and processes both within the organization and between the organization and the external entities like suppliers, distributors, and service providers.

The orientation of redesigning efforts is basically radical. In other words, it is a total deconstruction and rethinking of business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain a quantum jump in process performance in terms of time, cost, output, quality, and responsiveness to customers.

BPR is a revolutionary redesigning of key business processes. BPR involves the following steps:

i. Determining objectives: Objectives are the desired end results of the redesign process which the management and organization attempt to realize. They will provide the required focus, direction, and motivation for the redesign process and help in building comprehensive foundation for the reengineering process.

ii. Identify customers and determine their needs: The process designers have to understand customers - their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides value addition to the customer.

iii. Study the existing processes: The study of existing processes will provide an important base for the process designers. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process. However, as discussed earlier, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.

iv. Formulate a redesign process plan: The information gained through the earlier steps is translated into an ideal redesign process. Formulation of redesign plan is the real crux of the reengineering efforts. Customer focussed redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.

v. Implement the redesigned process: It is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalize the new process.

Question 11

What is strategic change? Explain the change process proposed by Kurt Lewin that can be useful in implementing strategies?

Answer

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process and it involves a corporate strategy focused on new markets, products, services

and new ways of doing business. To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.

(a) Unfreezing the situation: The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first “unfreezing the situation” so that members would be willing and ready to accept the change.

Unfreezing is the process of breaking down the old attitudes and behaviors, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organization.

(b) Changing to New situation: Once the unfreezing process has been completed and the members of the organization recognize the need for change and have been fully prepared to accept such change, their behavior patterns need to be redefined. H.C. Kellman has proposed three methods for reassigning new patterns of behavior. These are compliance, identification, and internalization.

- **Compliance:** It is achieved by strictly enforcing the reward and punishment strategy for good or bad behavior. Fear of punishment, actual punishment or actual reward seems to change behavior for the better.
- **Identification:** Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behavior they would like to adopt and try to become like them.
- **Internalization:** Internalization involves some internal changing of the individual’s thought processes in order to adjust to a new environment. They have given freedom to learn and adopt new behavior in order to succeed in the new set of circumstances.

(c) Refreezing: Refreezing occurs when new behavior becomes a normal way of life. The new behavior must replace the former behavior completely for successful and permanent change to take place. In order for the new behavior to become permanent, it must be continuously reinforced so that this newly acquired behavior does not diminish or extinguish. Change process is not a one-time application but a continuous process due to dynamism and ever-changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.



BOTH GROUPS ₹ 17,700

BOTH GROUPS ₹ 21,240

SINGLE GROUP ₹ 8,850

SINGLE GROUP ₹ 11,800

SINGLE SUBJECT ₹ 5,900

SINGLE SUBJECT ₹ 5,900

USE CODE

AUG20

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN AUGUST 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

USE CODE

NOV20

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN NOVEMBER 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

Contact Details

Call: 9228446565

Mail: info@konceptca.com