

PAPER – 7: ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT

SECTION – A: ENTERPRISE INFORMATION SYSTEMS

QUESTIONS

Multiple Choice Questions

Q. No (s) 1 to 5 are based on the Case scenario.

SureSuccess Trainers is one of the most popular training institutions nationwide. During their start in 2007, they provided physical sessions in selected cities on career counselling, mock interviews, competitive exams and group discussions to under-graduate and post-graduate students for preparation of their job placements. However, due to high success placement rate of its students, they revamped their business model and launched their mobile app in the year 2017. To meet out the expenses associated with new requirement of using mobile technology, SureSuccess Trainers had taken loan of ₹ 20 Lakh from BNC Bank.

Since then, the SureSuccess mobile app is catering to the needs of many aspirants all over India by providing them online classes through virtual mode. The app further provides various features like registering for new course, notifications, preparatory material, audios, videos etc.

During registration into a particular course, the students need to make online payments of the course through various modes - Net banking, Debit Card and Credit Card. After making payment, every student is allotted a unique user id and password to access their course through mobile app. The mobile app allows the registered students to login into the SureSuccess Trainers App from their unique user ids and join the live sessions they are enrolled in.

Since the launch of its mobile app, the SureSuccess Trainers has been utilizing specialized tools for analyzing the future trend and scope for online coaching and their current position in the coaching industry on the regular basis. They have been performing well and has lately been awarded nation-wide second rank by Corecourse Magazine. The Corecourse Magazine has awarded the rank based on the performance analysis report of various training institutions on different parameters.

Read the above case scenario and answer the following questions.

1. The SureSuccess Trainers App provides the facility to request for the change in his/her course even after registration in case a student wishes to. A registered student can generate the course change request through the app which subsequently is restricted to be approved by any authorized admin personnel of SureSuccess Trainers. Such restriction refers to which feature of Business Process Automation?
 - (a) Confidentiality
 - (b) Integrity
 - (c) Availability

- (d) Timeliness
2. Corecourse Magazine analyzed the performance of various training institutions on different parameters based on which nation-wide second ranking was awarded to SureSuccess Trainers. Which among the following technologies is utilized by Corecourse Magazine for collecting data of various institutions from internal and external sources, analyzing the data and to create a report based on the evaluated data?
- (a) Data warehouse
(b) Business Intelligence
(c) Machine Learning
(d) Data Mining
3. SureSuccess Trainers App has controls implemented at the operating system level such that each registered student has access to only his/her registered course and its relevant content. Identify which type of Operating system controls is being implemented here?
- (a) Automatic terminal identification
(b) User identification and Authentication
(c) Terminal time out
(d) Access token
4. The mode of digital payment allowed in SureSuccess Trainers App through which a student can register in any course are Net banking, Debit Card and Credit Card. Which of the following statement does not hold true for mode of payment?
- (a) Through Debit Card of BNJ bank, Mr. Bhola successfully paid ₹ 3,000 online for his desired course through SureSuccess Trainers App which led to the deduction of said amount from his bank account immediately.
- (b) If Ms. Rita has successfully paid ₹ 5,000 online for registration in a new course through SureSuccess Mobile App using her Credit Card, this implies that there should have been sufficient balance in her bank account for the transaction to get completed.
- (c) Using the Credit Card of KLU Bank, Ms. Doly paid ₹ 4,800 for the desired course in SureSuccess Mobile App and the transaction got over with charge of some fixed amount as transaction fees by the Credit Card issuer bank.
- (d) If the payment for the course has been done by Mr. Ram using his Debit Card of DLF bank, that indicates that he must be having a bank account in the DLF bank.
5. SureSuccess Trainers has approached BNC Bank for the loan of ₹ 20 Lakh. To do so, the BNC bank will undergo the process of creating a master for the institution in its loan disbursement system. After filling the loan application form, following steps are involved in the creation of masters in Loan Disbursement System.

- i. BNC bank seeks for KYC and other relevant documents from SureSuccess Trainers.
- ii. BNC Bank issues Sanction letter to SureSuccess Trainers mentioning the terms of facilities and loan amount.
- iii. The credit team of BNC Bank verifies the documents of SureSuccess Trainers in terms of its financial and credit worthiness.
- iv. The SureSuccess Trainers' account gets created in the master of BNC Bank's Loan Disbursement System.
- v. Disbursement team prepares Pre-Disbursement certificate containing the details of all the facilities and limit of ₹ 20 Lac approved for SureSuccess Trainer.

What would be the correct sequence of the process?

- (a) i,iii,ii,v,iv
- (b) iii,ii,i,iv,v
- (c) v,iv,i,ii,iii
- (d) i,ii,iii,iv,v

Descriptive Questions

Chapter 1: Automated Business Processes

6. Organizations should identify controls as per policy, procedures and its structure and configure them within IT software as used in the organization. Discuss widely the Information Technology controls that can be implemented as per risk management strategy.
7. An auditor Mr. Sohan has been given a prime responsibility to assess the suitable implementation and execution of various controls in his organization XYZ Ltd. To do so, he needs to check the controls at various levels of the computer systems. Discuss the levels at which Mr. Sohan should check the implementation of controls.

Chapter 2: Financial and Accounting Systems

8. ERP systems are expected to produce accurate, complete, and authorized information, and therefore require major security aspects that involve physical safety, input validations and access control mechanism. In light of this statement, explain the importance of Role Based Access Control in an ERP system.
9. DEF consultant is a consultancy company that provides its services to various clients on GST, Company Law, and Income Tax. At present, the company is using separate software each for accounting and tax compliance. Mr. Rajesh, IT head in the DEF consultant, suggested the management that they should rather adopt single software for accounting and tax compliance both. He prepared a supportive document highlighting the

pros and cons of Accounting and Tax compliance software over only the tax compliance software. Elaborate the content of Mr. Rajesh's document.

Chapter 3: Information Systems and Its Components

10. ABC Ltd., an automobile manufacturer intends to establish its new manufacturing unit plant at Bhuj, Gujarat. Out of many controls that need to be in place, the management has little more focus on successful implementation of Environmental controls as the Bhuj area is earthquake prone. Mr. Nanda, the auditor of ABC Ltd. conducted various physical inspections of the building at Bhuj to determine the implementation of environmental controls in the said manufacturing unit. Briefly explain his role and the activities he shall conduct to audit the Environmental Controls.
11. The processing subsystem of any application software is responsible for computing, sorting, classifying, and summarizing the data. The processor controls of the application software are responsible to reduce the expected losses from errors and irregularities associated with Central processors. Discuss these controls.

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

12. Considering the Covid situation nowadays, there has been a paradigm shift on the usage of electronic devices like servers, laptops, tablets, storage devices and various networking and communication devices like routers etc. Thus, arises the dire need to have relevant reforms to reduce the use of hazardous materials and importance of recyclability or biodegradability of these defunct products and factory waste. The said objective is achieved using Green Computing Best Practices. Elaborate some practices of these in detail.
13. Ms. Anita, a final year student of undergraduate course had to submit her project report in pdf form. She initially prepared her report in MS Word and used online software from google to edit the photos used in her assignment. Later, for final submission, she used online pdf converter to convert her word file into pdf. Identify the Cloud Computing Service Model that is being used by her and further discuss the Model's different instances.

Chapter 5: Core Banking Systems

14. In the Core Banking Systems, the central server supports the entire banking process through front-end and back-end applications and enables the users to access numerous online banking facilities 24x7. Explain various Front-end applications of Core Banking Systems.
15. BMN Bank limited has recently started its core banking operations. The Bank approached Mr. X for his advice regarding the maintenance of records as a reporting entity considering the provisions of the PMLA, 2002. What do you think shall be the probable reply of Mr. X mentioning the relevant provisions of the PMLA, 2002?

SUGGESTED ANSWERS

1. (b) Integrity
2. (b) Business Intelligence
3. (d) Access token
4. (b) If Ms. Rita has successfully paid ₹ 5,000 online for registration in a new course through SureSuccess Mobile App using her Credit Card, this implies that there should have been sufficient balance in her bank account for the transaction to get completed.
5. (a) i,iii,ii,v,iv
6. Information Technology controls can be classified as **General Controls** and **Application Controls**.

General Controls: These are macro in nature and are applicable to all applications and data resources. The Information Technology General Controls are as follows:

- Information Security Policy
- Administration, Access, and Authentication
- Separation of key IT functions
- Management of Systems Acquisition and Implementation
- Change Management
- Backup, Recovery and Business Continuity
- Proper Development and Implementation of Application Software
- Confidentiality, Integrity and Availability of Software and data files
- Incident response and management
- Monitoring of Applications and supporting servers
- Value Added areas of Service Level Agreements (SLA)
- User training and qualification of Operations personnel

Application Controls: Application Controls are controls which are specific to the application software to prevent or detect and correct errors such as payroll, accounts payable, and billing, etc. These controls are in-built in the application software to ensure accurate and reliable processing. These are designed to ensure completeness, accuracy, authorization and validity of data capture and transaction processing. Some examples of Application controls are as follows-

- Data edits (editing of data is allowed only for permissible fields);

- Separation of business functions (e.g., transaction initiation versus authorization);
- Balancing of processing totals (debit and credit of all transactions are tallied);
- Transaction logging (all transactions are identified with unique id and logged);
- Error reporting (errors in processing are reported); and
- Exception Reporting (all exceptions are reported).

7. In computer systems, the levels at which the controls shall be checked are as follows:

- (i) **Configuration:** Configuration refers to the way a software system is set up. It is the methodical process of defining options that are provided during system setup. When any software is installed, values for various parameters should be set up (configured) as per policies and business process work-flow and business process rules of the enterprise. The various modules of the enterprise such as Purchase, Sales, Inventory, Finance, User Access etc. must be configured. Configuration will define how software will function and what menu options are displayed.

Some examples of configuration are given below:

- ◆ Mapping of accounts to front end transactions like purchase and sales
- ◆ Control on parameters: Creation of Customer Type, Vendor Type, year-end process
- ◆ User activation and deactivation
- ◆ User Access & privileges - Configuration & its management
- ◆ Password Management

- (ii) **Masters:** It refer to the way various parameters are set up for all modules of software like Purchase, Sales, Inventory, and Finance etc. These drive how the software will process relevant transactions. The masters are set up first time during installation and these are changed whenever the business process rules or parameters are changed. The way masters are set up will drive the way software will process transactions of that type.

Some examples of masters are given here:

- ◆ **Vendor Master:** Credit period, vendor bank account details, etc.
- ◆ **Customer Master:** Credit limit, Bill to address, Ship to address, etc.
- ◆ **Material Master:** Material type, Material description, Unit of measure, etc.
- ◆ **Employee Master:** Employee name, designation, salary details, etc.

- (iii) **Transactions:** It refers to the actual transactions entered through menus and functions in the application software, through which all transactions for specific modules are initiated, authorized, or approved. For example: Sales transactions,

Purchase transactions, Stock transfer transactions, Journal entries and Payment transactions.

8. **Role Based Access Control (RBAC)** is an approach to restricting system access to authorized users. RBAC sometimes referred to as Role-Based Security is a policy neutral access control mechanism defined around roles and privileges that lets employees having access rights only to the information they need to do their jobs and prevent them from accessing information that doesn't pertain to them. It is used by most enterprises and can implement Mandatory Access Control (MAC) or Discretionary Access Control (DAC).

- MAC criteria are defined by the system administrator strictly enforced by the Operating System and are unable to be altered by end users. Only users or devices with the required information security clearance can access protected resources. Organizations with varying levels of data classification, like government and military institutions, typically use MAC to classify all end users.
- DAC involves physical or digital measures and is less restrictive than other access control systems as it offers individuals complete control over the resources they own. The owner of a protected system or resource sets policies defining who can access it.

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 permission to access a specific system or perform certain operation is defined as per the role assigned. For example - a junior accountant in 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.

9. The pros and cons of using single software for accounting and tax over the software with tax compliance only on various aspects are as follows:

S. No.	Particulars	Accounting & Tax Compliance Software	Only Tax Compliance Software
1	Ease of software operation	Less – as this is integrated system of accounting and tax compliance, everything connected with other and making changes at one place may affect other aspects also.	More – as this is used only for one single purpose, i.e. tax compliance, it is less complicated and bound to be easy.
2	Features and facilities	Less – as this system is not an exclusive system for tax compliance, it may have limited	More – as this is an exclusive and specifically designed system for tax

		features for tax compliance.	compliance, naturally more features and facilities shall exist in this system.
3	Time and efforts required	Less – as this is an integrated system, time required to transfer data to compliance software is zero.	More – as this is a separate software, data from accounting software need to put in this for preparation of returns. This may take extra time and efforts.
4	Accuracy	More – as this is an integrated system and hence accounting data and tax compliance data shall always be same. No need to transfer data to compliance software and reconcile the data.	Less – as there are two separate systems, reconciliation with accounting data is needed, and possibility of mismatch of data is always there.
5	Cost	More – if tax compliance feature is not available in accounting system, getting it customized may require some amount of cost which may be higher than buying separate software.	Less – as this is specific purpose software, there shall be less complications and the cost also shall be less.

- 10. Role of Auditor in Auditing Environmental Controls:** Audit of environmental controls should form a critical part of every IS audit plan. The IS auditor should satisfy not only the effectiveness of various technical controls but also the overall controls safeguarding the business against environmental risks. Audit of environmental controls requires the IS auditor to conduct physical inspections and observe practices. Auditing environmental controls requires knowledge of building mechanical and electrical systems as well as fire codes. The IS auditor needs to be able to determine if such controls are effective and if they are cost-effective.

Auditors shall conduct following activities in auditing Environmental controls:

- **Power conditioning:** The IS auditor should determine how frequently power conditioning equipment, such as UPS, line conditioners, surge protectors, or motor generators, are used, inspected and maintained and if this is performed by qualified personnel.
- **Backup power:** The IS auditor should determine if backup power is available via electric generators or UPS and how frequently they are tested. S/he should examine maintenance records to see how frequently these components are maintained and if this is done by qualified personnel.

- **Heating, Ventilation, and Air Conditioning (HVAC):** The IS auditor should determine if HVAC systems are providing adequate temperature and humidity levels, and if they are monitored. Also, the auditor should determine if HVAC systems are properly maintained and if qualified persons do this.
 - **Water detection:** The IS auditor should determine if any water detectors are used in rooms where computers are used. He or she should determine how frequently these are tested and if there are monitored.
 - **Fire detection and suppression:** The IS auditor should determine if fire detection equipment is adequate, if staff members understand their function, and if they are tested. S/he should determine how frequently fire suppression systems are inspected and tested, and if the organization has emergency evacuation plans and conducts fire drills.
 - **Cleanliness:** The IS auditor should examine data centers to see how clean they are. IT equipment air filters and the inside of some IT components should be examined to see if there is an accumulation of dust and dirt.
11. The processor controls of any application software are as follows:
- **Error Detection and Correction:** Occasionally, processors might malfunction because of design errors, manufacturing defects, damage, fatigue, electromagnetic interference, and ionizing radiation. The failure might be transient (that disappears after a short period), intermittent (that reoccurs periodically), or permanent (that does not correct with time). For the transient and intermittent errors; re-tries and re-execution might be successful, whereas for permanent errors, the processor must halt and report error.
 - **Multiple Execution States:** It is important to determine the number of and nature of the execution states enforced by the processor. This helps auditors to determine which user processes will be able to carry out unauthorized activities, such as gaining access to sensitive data maintained in memory regions assigned to the operating system or other user processes.
 - **Timing Controls:** An operating system might get stuck in an infinite loop. In the absence of any control, the program will retain use of processor and prevent other programs from undertaking their work.
 - **Component Replication:** In some cases, processor failure can result in significant losses. Redundant processors allow errors to be detected and corrected. If processor failure is permanent in multicomputer or multiprocessor architectures, the system might reconfigure itself to isolate the failed processor.

12. The details of Green Computing Practices are as follows:

(i) Develop a sustainable Green Computing plan

- Involve stakeholders to include checklists, recycling policies, recommendations for 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.
- Include power usage, reduction of paper consumption, as well as recommendations for new equipment and recycling old machines in organizational policies and plans; and
- Use cloud computing so that multiple organizations share the same computing resources thus increasing the utilization by making more efficient use of hardware resources.

(ii) Recycle

- Dispose 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; and
- Recycle computers through manufacturer's recycling services.

(iii) 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; and
- Use Server and storage virtualization that can help to improve resource utilization, reduce energy costs, and simplify maintenance.

(iv) Reduce Paper Consumption

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

- Use of “track changes” feature in electronic documents, rather than red line 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; and
- While printing documents; make sure to use both sides of the paper, recycle regularly, use smaller fonts and margins, and selectively print required pages.

(v) **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;
- Use the power-management features to turn off hard drives and displays after several minutes of inactivity;
- Power-down the CPU and all peripherals during extended periods of inactivity;
- Try to do computer-related tasks during contiguous, intensive blocks of time, leaving hardware off at other times;
- Wherever possible, the devices that can perform more than one function should be used. For example, multi-purpose printer saves energy by combining a printer, scanner, fax, and photocopier into one device.
- Power-up and power-down energy-intensive peripherals such as laser printers according to need;
- Employ alternative energy sources for computing workstations, servers, networks and data centers; and
- Adapt more of Web conferencing offers instead of travelling to meetings to go green and save energy.

13. The Cloud Computing service model used by Ms. Anita is **Software as a Service (SaaS)**. The different instances of the model are as follows:

- **Testing as a Service (TaaS)**: This provides users with software testing capabilities such as generation of test data, generation of test cases, execution of test cases and test result evaluation on a pay-per-use basis.

- **API as a Service (APIaaS):** This allows users to explore functionality of Web services such as Google Maps, Payroll processing, and credit card processing services etc.
 - **Email as a Service (EaaS):** This provides users with an integrated system of emailing, office automation, records management, migration, and integration services with archiving, spam blocking, malware protection, and compliance features.
14. Various Front-end applications of core banking systems are as follows:
- **Internet Banking** also known as Online Banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website accessed through any browser. The online banking system offers over 250+ services and facilities that give us real-time access to our bank account. We can make and receive payments to our bank accounts, open Fixed and Recurring Deposits, view account details, request a cheque book and a lot more, while you are online.
 - **Mobile Banking** is a service provided by a bank or other financial institution that allows its customers to conduct financial transactions remotely using a mobile device such as a smartphone or tablet. Unlike the related internet banking, it uses software, usually called an app, provided by the financial institution for the purpose. The app needs to be downloaded to utilize this facility. Mobile banking is usually available on a 24-hour basis.
 - **Phone Banking:** It is a functionality through which customers can execute many of the banking transactional services through Contact Centre of a bank over phone, without the need to visit a bank branch or ATM. Registration of Mobile number in account is one of the basic prerequisite to avail Phone Banking. The use of telephone banking services, however, has been declining in favor of internet banking. Account related information, Cheque Book issue request, stop payment of cheque, Opening of Fixed deposit etc. are some of the services that can be availed under Phone Banking.
 - **Branch Banking:** Core Banking Systems are the bank's centralized systems that are responsible for ensuring seamless workflow by automating the frontend and backend processes within a bank. CBS enables single view of customer data across all branches in a bank and thus facilitate information across the delivery channels. The branch confines itself to the following key functions:
 - Creating manual documents capturing data required for input into software;
 - Internal authorization;
 - Initiating Beginning-Of-Day (BOD) operations;
 - End-Of-Day (EOD) operations; and
 - Reviewing reports for control and error correction.

15. Section 12 of the Prevention of Money Laundering Act, 2002 provides for the obligation of Banking Companies, Financial Institutions and Intermediaries i.e. the reporting entity to maintain records of transactions. Mr. X should have advised BMN Bank Ltd. to maintain records in the compliance to said section.
1. Accordingly, every reporting entity shall –
 - (i) maintain a record of all transactions, including information relating to transactions covered under point (ii) below, in such manner as to enable it to reconstruct individual transactions. Here records shall be maintained for a period of five years from the date of transaction between a client and the reporting entity.
 - (ii) furnish to the Director within such time as may be prescribed, information relating to such transactions, whether attempted or executed, the nature and value of which may be prescribed;
 - (iii) Omitted
 - (iv) Omitted
 - (v) maintain record of documents evidencing identity of its clients and beneficial owners as well as account files and business correspondence relating to its clients.
 2. Every information maintained, furnished or verified, save as otherwise provided under any law for the time being in force, shall be kept confidential.
 3. The records referred to in clause (i) of sub-section (1) shall be maintained for a period of five years from the date of transaction between a client and the reporting entity.
 4. The records referred to in clause (e) of sub-section (1) shall be maintained for a period of five years after the business relationship between a client and the reporting entity has ended or the account has been closed, whichever is later.
 5. The Central Government may, by notification, exempt any reporting entity or class of reporting entities from any obligation under this Chapter.

SECTION – B: STRATEGIC MANAGEMENT**Multiple Choice Questions**

1. O-Farm, an organic farm products brand has been operating in India since 2014. It has had a decent history of business with revenue of ₹ 50 crores in the previous year and a Compound Annual Growth Rate (CAGR) of 11% year on year.

While the company operated on “Kisaan Kalyan” i.e., farmer friendly agenda since its inception, the rough times ahead seem to call for changes. The recent amendments in Agriculture laws, though indirectly related to organic farming, have posed immense threat to how the business operates. The leaders have been proactive in shifting gears and budgeted funds for shifting focus to “Upphokta Sewa”, i.e., customer orientation.

To create newer demands and position themselves against the local farming practice changes, they reached out to West Asian and African Nations for their farm inputs, just like many other small traders from their segment. Accordingly, they ordered dry fruits from Afghanistan, whole wheat from Nigeria, and citrus fruits from Turkey. This has helped them get raw inputs at cheaper than usual rates and even better contractual terms, thus, reducing input costs and thereby, passing on the surplus margins to customers.

Further, the marketing team roped in big cricket stars and many social media influencers to aware customers about the brand’s customer orientation and product benefits. But, as the focus was on minimal spending, the team smartly locked in affiliate marketing terms with the influencers and even celebrities, instead of upfront promotion fee. This also helped in saving a lot of cost initially.

With the changing environment in the Indian subcontinent around agriculture production, the team is confident with its strategic positioning. The sales have been just at the break-even bars for now, and the projected CAGR is 19% year on year, taking the sales volume to 10X in the next 4 years.

Farming has been a respected profitable business with big players as huge as oil companies. Nonetheless, it is complex, as it involves a lot of stakeholders, especially as it still remains a labour intensive industry.

Based on the above Case Scenario, answer the Multiple Choice Questions.

- (i) O-Farm’s new strategy implementation as a result of amendment of Agriculture laws by the government, resonates with which of the following statements?
- (a) Organisational operations are highly influenced by ripple effect of environmental changes.
 - (b) Organisational structure is highly influenced by ripple effect of environmental changes.

- (c) Organisational operations are not affected by the ripple effect of environmental changes.
 - (d) Organisational structure can influence the environmental changes.
- (ii) The shift of O-Farm from “Kisaan Kalyan” to “Upbhokta Sewa” is a change in?
- (a) Mission
 - (b) Vision
 - (c) Promotion
 - (d) Product
- (iii) Which of the following was the first and major advantage for O-Farm that helped them achieve Cost Leadership in the market?
- (a) Economies of Scale was achieved very early on
 - (b) Prompt forecast of product’s demand
 - (c) Becoming customer oriented
 - (d) Well negotiated purchase contracts
- (iv) O-Farm’s marketing strategy is an example of which of the following marketing strategies?
- (a) Person Marketing
 - (b) Augmented Marketing
 - (c) Enlightened Marketing
 - (d) Synchro Marketing
- (v) The brand has achieved cost leadership through multiple strategies, but it would be a constant challenge to sustain this leadership because of which of the following reasons?
- (a) Competitors would imitate its modus operandi.
 - (b) Marketing cost will be huge as volumes increase given its choice of marketing strategy.
 - (c) Change in Agriculture Laws shall disrupt its supply chain time and gain.
 - (d) Sales volume will have to outperform its own targets and even that of competitors.

2. *Drishti Care* is a not-for profit eye hospital and research centre. Which one of the following statements is likely to relate to *Drishti Care's* vision, rather than its mission statement?
- (a) *Drishti Care* places patient care before all else.
 - (b) *Drishti Care* will be the global leader in cutting edge eye surgery.
 - (c) *Drishti Care* offers the highest level of patient care throughout country.
 - (d) *Drishti Care* consultants strive to continually improve surgical techniques.
3. ABC is a marketing consultancy business. ABC's most recent corporate analysis has identified that three new businesses have recently entered its market and started aggressively targeting ABC's key client. As part of ABC's corporate analysis, these three new businesses would be a
- (a) Strength
 - (b) Opportunity
 - (c) Weakness
 - (d) Threat
4. *Trekking Poles* is a small company based in the Himalayan ranges in India. It is known in the region for its hill walking sticks. *Trekking Poles* sell specialist walking equipment in their small shop at the foot of the mountains. They do not have a website yet are able to sell their products at premium prices. Which of the following one of Porter's generic strategies best fits *Trekking Poles*?
- (a) Cost leadership
 - (b) Differentiation
 - (c) Focused cost leadership
 - (d) Focused differentiation
5. A Ltd. has recently decided to install a new IT system to improve the efficiency of its payroll function. A Ltd. believes this will reduce the cost of running the payroll system by 20%. Which one of the following levels of strategy is the above IT system most closely linked to?
- (a) Corporate level
 - (b) Functional level
 - (c) Business level
 - (d) Strategic level

6. An organisation during its strategy planning envisaged entire scenarios and created a strategy framework. But in mean time after implementation, it realised that its framework is not effective in certain unique scenarios. What is the reason for the same?
- (a) Strategy is "partly proactive and Partly reactive"
 - (b) Lack of analysis and proper planning.
 - (c) Strategy is highly reactive and highly proactive.
 - (d) Improper creation of strategic framework

Descriptive Questions

Chapter 1-Introduction to Strategic Management

7. Mr. Mehta sharing with his friend in an informal discussion that he has to move very cautiously in his organization as the decisions taken by him has organisation wide impact and involves large commitments of resources. He also said that his decisions decide the future of his organisation. Where will you place Mr. Mehta in the organizational hierarchy and explain his role in the organization.
8. Define strategic management. Also discuss the limitations of strategic management.

Chapter 2-Dynamics of Competitive Strategy

9. Ajanta & Sons Limited are manufacturers of domestic household security alarms for high income group homeowners in India. The company is currently reviewing two strategic options.

Option 1: Selling the same alarms although with different coverings to smaller and low-income group households at a lower price.

Option 2: Development of new, more sophisticated alarms and a wide range of security services (guards and surveillance) for sale to industrial clients for higher prices.

The senior management team of Ajanta & Sons Limited are keen to analyse the two options using Ansoff's matrix.

10. Core competencies provide edge to a business over its competitors.

Chapter 3-Strategic Management Process

11. How strategic decisions differ in nature from other routine decisions taken in day-to-day working of an organization? Explain.
12. Explain the principal aspects of strategy-execution process.

Chapter 4-Corporate Level Strategies

13. *Leatherite Ltd.* was started as a leather company to manufacture footwear. Currently, they are in the manufacturing of footwears for males and females. The top management desires to expand the business in the 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.*

14. Explain the term Merger and Acquisition as a growth strategy. Differentiate between both of them. State the situations in which such strategies are considered by any organization.

Chapter 5-Business Level Strategies

15. *Easy Access* is a marketing services company providing consultancy to a range of business clients. *Easy Access* and its rivals have managed to persuade the Government to require all marketing services companies to complete a time-consuming and bureaucratic registration process and to comply with an industry code of conduct. Do you think that by doing this *Easy Access* and its rivals has an advantage in some way to fight off competitors? Explain.

16. Explain in brief the various basis of differentiation strategy.

Chapter 6-Functional Level Strategies

17. State the factors of human resource that influence employee's competence.
18. Write short note on Publicity and Sales Promotion.

Chapter 7-Organisation and Strategic Leadership

19. *Bunch Pvt Ltd* is dealing in multiproduct like electronics and FMCG and are having outlets in different cities and markets across India. Due to scale of operation, it is having technical difficulty in dealing with distinct product line and markets especially in coordination and control related problems. Identify and suggest an ideal organizational structure for *Bunch Pvt Ltd* in resolving the problem?

20. How can you differentiate between transformational and transactional leaders?

Chapter 8-Strategy Implementation and Control

21. *Connect Group* was one of the leading makers of the mobile handsets till a few years ago and which went at the bottom of the heap. *Connect Group* didn't adapt to the current market trends which eventually lead to its downfall. Which would have helped *Connect Group* to change, adapt and survive? Explain the steps to initiate the change.

22. What is implementation control? Discuss its basic forms.

SUGGESTED ANSWERS

1. (i) (a) (ii) (b) (iii) (d) (iv) (c) (v) (b)
2. (b)
3. (d)
4. (d)
5. (b)
6. (a)
7. Mr. Mehta works in an organization at top level. He participates in strategic 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, formulating and implementing strategies that span individual businesses, and providing leadership for the organization.
8. 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 organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.
- ◆ **Strategic management is a time-consuming process.** Organisations 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 organisations with limited resources particularly when small and medium organisation create strategies to compete.
- ◆ **Competition is unpredictable.** In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive

responses to the strategies.

9. Selling the same alarms with different coverings to smaller and low income group households at a lower price represents *Market Development* as the same products are being sold into a new market. 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.

While the development of new and more sophisticated alarms and a wide range of security services (guards and surveillance) for sale to industrial clients for higher prices is classified as *Diversification*, because it involves a new product, being sold in a new market. 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.

10. 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. An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.

According to C.K. Prahalad and Gary Hamel, major core competencies are identified in following three areas:

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

Thus, a core competence is **a unique set of skills and expertise, which will be used throughout the organization to open up potential markets to be exploited.**

11. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations. The major dimensions of strategic decisions are given below:
 - ◆ Strategic issues require top management decisions.
 - ◆ Strategic issues involve the allocation of large amounts of company resources.
 - ◆ Strategic issues are likely to have a significant impact on the long term prosperity of the organisation.
 - ◆ Strategic issues are future oriented.
 - ◆ Strategic issues usually have major multifunctional or multi-business consequences.
 - ◆ Strategic issues necessitate consideration of factors in the organisation's external environment.

12. In most situations, strategy-execution process includes the following principal aspects:
 - ◆ Developing budgets that steer ample resources into those activities critical to strategic success.
 - ◆ Staffing the organisation 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 a company culture and work climate conducive to successful strategy implementation and execution.
 - ◆ Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organisation 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 organisational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organisation's work climate and culture.

13. *Leatherite Ltd.* is currently manufacturing footwears 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.

14. Acquisition or merger with an existing concern is an instant means of achieving expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on.

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

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

While, when one organization takes over the other organization and controls all its business operations, it is known as **acquisition**. In the process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during economic recession or during declining profit margins. In this process, one that is financially stronger and bigger establishes 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.

15. Yes, *Easy Access* and its rivals get advantage by this move. The new bureaucratic process is making it more complicated for organizations to start up and enter in *Easy Access* market, increasing barriers to entry and thereby reducing the threat of new entrants. New entrants can reduce an industry's profitability, because they add new production capacity, leading to increase in supply of the product, sometimes even at a lower price and can substantially erode existing firm's market share position. However, New entrants are always a powerful source of competition. The new capacity and product range they bring in throws up a new competitive pressure. The bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players, which is known as Price War.
16. There are several basis of differentiation, major being: Product, Pricing and Organization.
Product: Innovative products that meet customer needs can be an area where a company has an advantage over competitors. However, the pursuit of a new product offering can be costly – research and development, as well as production and marketing costs can all add to the cost of production and distribution. The payoff, however, can be great as customer's flock to be among the first to have the new product.
Pricing: It fluctuates based on its supply and demand and may also be influenced by the customer's ideal value for a product. Companies that differentiate based on product price can either determine to offer the lowest price or can attempt to establish superiority through higher prices.
Organisation: Organisational differentiation is yet another form of differentiation. Maximizing the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty can all provide additional ways for a company differentiate itself from the competition.
17. 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 counselling, 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.

18. Publicity and Sales promotion are adopted by organizations when they are undertaking promotion in the overall marketing mix.

Publicity is a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. Organizations skillfully seek to promote themselves and their product without payment. 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.

Thus, it is way of reaching customers with negligible cost. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.

Sales promotion is an omnibus term that 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, installments, kiosks, exhibitions and fairs constitute sales promotion. All these are meant to give a boost to the sales. Sales promotion done periodically may help in getting a larger market share to an organization.

19. To deal with the problems facing by the *Bunch Pvt Ltd.*, we suggest *Multi divisional structure* for the organisation. 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.

20. Difference between transformational and transactional leadership

1. Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of organization. Transactional leadership style uses the authority of its office to exchange rewards such as pay, status symbols etc.
2. Transformational leadership style may be appropriate in turbulent environment, in industries at the very start or end of their cycles, poorly performing organisations, when there is a need to inspire a company to embrace major changes. Transactional leadership style can be appropriate in static environment, in growing or mature industries and in organisations that are performing well.
3. Transformational leaders inspire employees by offering excitement, vision, intellectual stimulation and personal satisfaction. Transactional leaders prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement and non-achievement. Transactional leaders focus mainly to build on existing culture and enhance current practices.

21. *Connect Group* has to do strategic change for its survival. 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. Unless companies embrace change, they are likely to be freeze and unless companies prepare to deal with sudden, unpredictable, discontinuous, and radical change, they are likely to be extinct.

Three steps for initiating strategic change are:

- (i) **Recognise 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 organisation should coincide. There should be no conflict between them. This is possible only if the management and the organisation members follow a shared vision.
- (iii) **Institutionalise 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.

22. 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.