PAPER – 7: ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT

SECTION – A: ENTERPRISE INFORMATION SYSTEMS

QUESTIONS

Chapter 1: Automated Business Processes

1. During a job interview, an interviewer asked Mr. A to list out all the risks and their controls associated with Order-To-Cash (O2C) business process. Prepare an appropriate draft reply.

2. A bicycle shop in a city provides rental facility to its customers at different rates for different models as given below:

Model No.	Hire rate per day
Model No. 1	₹ 10
Model No. 2	₹ 9
Model No. 3	₹ 8
Model No. 4	₹ 7

To attract customers, the shopkeeper gives a discount of 15 percent to all those customers, who hire a bicycle for more than one-week period. Further to attract women customer, he gives additional discount of 10 percent irrespective of hire period. For every bicycle hired, a security deposit of ₹ 25 must be paid. Draw a flow chart to print out the details of each customer such as name of customer, bicycle model number, number of days a bicycle is hired for, hire charges, discount and total charges including deposits.

Chapter 2: Financial and Accounting Systems

3. Explain the term "Master Data" and its types.

4. On joining a Manufacturing company XYZ, you are briefed about the functioning of different modules like Financial Accounting Module, Sales and Distribution Module, Human Resource Module, Material Management Module, Production Planning Module etc. Prepare a brief description on the Material Management Module (MM) based on your understanding.

Chapter 3: Information Systems and Its Components

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

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

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

7. e-business benefits individuals, businesses, government and society at large. As a business seller, analyse the benefits that you would draw from e-business.

8. As an IT consultant, advise some tips to an aspiring e-commerce vendor so that his business can be protected from intrusion.

Chapter – 5: Core Banking Systems

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

10. Explain the Internal controls in banks?

SUGGESTED ANSWERS/HINTS

1. Risks and Controls related to the Order to Cash (O2C) business process are as follows:

Risks	Controls
The customer master file is not maintained properly and the information is not accurate.	The customer master file is maintained properly and the information is accurate.
Invalid changes are made to the customer master file.	Only valid changes are made to the customer master file.
All valid changes to the customer master file are not input and processed.	All valid changes to the customer master file are input and processed.
Changes to the customer master file are not accurate.	Changes to the customer master file are accurate.
Changes to the customer master file are not processed in a timely manner.	Changes to the customer master file are processed in a timely manner.
Customer master file data is not up-to-date and relevant.	Customer master file data is up to date and relevant.
System access to maintain customer masters has not been restricted to the authorized users.	System access to maintain customer masters has been restricted to the authorized users.

2. Abbreviations used are as follows:

HCHG: Hire Charges DAYS: No. of days a bicycle is hired for

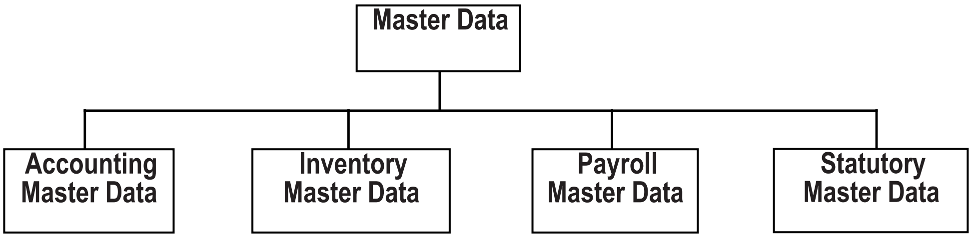
NAME: Name of customer TCHG: Total Charges

MODEL: Bicycle Model No. TDISC: Total Discount

SEX: Gender of the customer

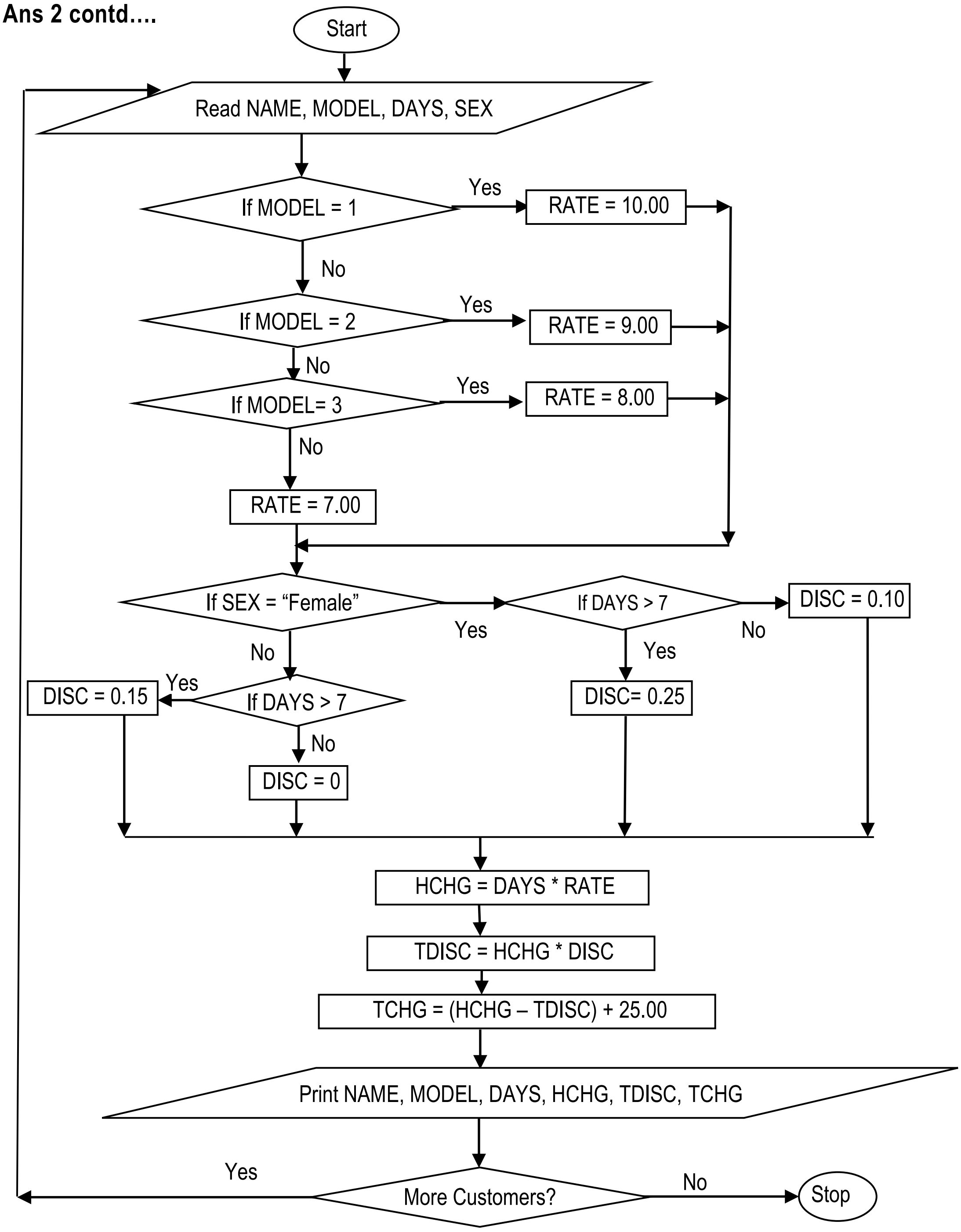
The flowchart is available on the next page.

3. **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. Similarly, all other ledgers like, sales, purchase, expenses and income ledgers are created once and not expected to change again and again. Opening balance carried forward from previous year to next year is also a part of master data and not expected to change.
- **Inventory Master Data –** This includes stock items, stock groups, godowns, inventory voucher types, etc. Stock item is something which bought and sold for business purpose, a trading goods. E.g. If a person is into the business of dealing in white goods, stock items shall be Television, Fridge, Air Conditioner, etc. 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 recoding 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. E.g. Employee created in the system will remain as it is for a longer period of time, his/her salary structure may change but not frequently, pay heads associated with his/ her salary structure will be relatively permanent.
- **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), Nature of Payments for Tax Deducted at Source (TDS), etc. This data also shall be relatively permanent. In case of change in tax rates, forms, categories, we need to update/change our master data.

Ans 2 contd….


Start
Read NAME, MODEL, DAYS, SEX
If MODEL = 1
Yes
RATE = 10.00
No
If MODEL = 2
Yes
RATE = 9.00
No
If MODEL= 3
Yes
RATE = 8.00
No
RATE = 7.00
If SEX = "Female"
Yes
If DAYS > 7
No
DISC = 0.10
Yes
DISC= 0.25
No
If DAYS > 7
Yes
DISC = 0.15
No
DISC = 0
HCHG = DAYS * RATE
TDISC = HCHG * DISC
TCHG = (HCHG – TDISC) + 25.00
Print NAME, MODEL, DAYS, HCHG, TDISC, TCHG
Yes
More Customers?
No
Stop

4. Material Management (MM) Module manages materials required, processed and produced in enterprises. Different types of procurement processes are managed with this system. Some of the popular sub-components in MM module are vendor master data, consumption based planning, purchasing, inventory management, invoice verification and so on. Material management also deals with movement of materials via other modules like logistics, Supply Chain Management, sales and delivery, warehouse management, production and planning. The overall purchase process includes the following sub-processes:

- **Purchase Requisition from Production Department –** Production department sends a request to purchase department for purchase of raw material required for production.
- **Evaluation of Requisition -** Purchase department shall evaluate the requisition with the current stock position and purchase order pending position and shall decide about accepting or rejection the requisition.
- **Asking for Quotation -** If requisition is accepted, quotations shall be asked to approve vendors for purchase of material.
- **Evaluation of quotations -** Quotations received shall be evaluated and compared.
- **Purchase Order -** This is a transaction for letting an approved vendor know what we want to purchase, how much we want to purchase, at what rate we want to purchase, by what date we want the delivery, where we want the delivery. Hence a typical purchase order shall have following information.
    - Description of **stock items** to be purchased.
    - **Quantity** of these stock items.
    - **Rate** for purchases.
    - **Due Date** by which material is to be received.
    - **Godown** where material is to be received.
- **Material Receipt -** This is a transaction of receipt of material against purchase order. This is commonly known as Material Receipt Note (MRN) or Goods Receipt Note (GRN). This transaction shall have a linking with Purchase Order. Information in Purchase Order is automatically copied to Material Receipt Voucher for saving time and efforts of user. Stock is increased after recording of this transaction.
- **Issue of material -** Material received by stores shall be issued to production department as per requirement.

- **Purchase Invoice -** This is a financial transaction. Trial balance is affected due this transaction. Material Receipt transaction does not affect trial balance. This transaction shall have a linking with Material Receipt Transaction and all the details of material received shall be copied automatically in purchase invoice. As stock is increased in Material Receipt transaction, it will not be increased again after recording of purchase invoice.
- **Payment to Vendor -** Payment shall be made to vendor based on purchase invoice recorded earlier. Payment transaction shall have a linking with purchase invoice.

5. 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 must 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).

6. 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 spend to date against profiled spend; Hash totals; Check points 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.

7. e-businesses benefits individuals, businesses, governments and society at large. As a seller, the benefits to Business / Sellers are as follows:

- **Increased Customer Base:** Since the number of people getting online is increasing, which are creating not only new customers but also retaining the old ones.

- **Recurring payments made easy:** Each business has number of operations being homogeneous. Brings in uniformity of scaled operations.
- **Instant Transaction:** The transactions of e commerce are based on real time processes. This has made possible to crack number of deals.
- **Provides a dynamic market:** Since there are several players, providing a dynamic market which enhances quality and business.
- **Reduction in costs:**
    - To buyers from increased competition in procurement as more suppliers are able to compete in an electronically open marketplace.
    - To suppliers by electronically accessing on-line databases of bid opportunities, on-line abilities to submit bids, and on-line review of rewards.
    - In overhead costs through uniformity, automation, and large-scale integration of management processes.
    - Advertising costs.
- **Efficiency improvement due to:**
    - Reduction in time to complete business transactions, particularly from delivery to payment.
    - Reduction in errors, time, for information processing by eliminating requirements for re-entering data.
    - Reduction in inventories and reduction of risk of obsolete inventories as the demand for goods and services is electronically linked through just-in- time inventory and integrated manufacturing techniques.
- **Creation of new markets:** This is done through the ability to easily and cheaply reach potential customers.
- **Easier entry into new markets:** This is especially into geographically remote markets, for enterprises regardless of size and location.
- **Better quality of goods:** As standardized specifications and competition have increased and improved variety of goods through expanded markets and the ability to produce customized goods.
- **Elimination of Time Delays:** Faster time to market as business processes are linked, thus enabling seamless processing and eliminating time delays.

8. Tips to protect any e-Commerce business from intrusion are as follows:

- **Viruses:** Check your website daily for viruses, the presence of which can result in the loss of valuable data.

- **Hackers:** Use software packages to carry out regular assessments of how vulnerable your website is to hackers.
- **Passwords:** Ensure employees change these regularly and that passwords set by former employees of your organization are defunct.
- **Regular software updates:** Your site should always be up to date with the newest versions of security software. If you fail to do this, you leave your website vulnerable to attack.
- **Sensitive data:** Consider encrypting financial information and other confidential data (using encryption software). Hackers or third parties will not be able to access encrypted data without a key. This is particularly relevant for any e-Commerce sites that use a shopping cart system.
- Know the details of your payment service provider contract.

9. The business processes and standards adapted 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 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.

10. 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:

- 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, traveler's cheques and other such security forms are in the custody of at least two officials of the branch.

SECTION – B: STRATEGIC MANAGEMENT

Brief answers

1. Briefly answer the following questions:
   (a) Define the role of corporate level managers.
   (b) Define key success factors (KSFs).
   (c) What is strategic vision?
   (d) Explain the meaning of the combination strategies.
   (e) Explain the meaning of cost leadership strategy.
   (f) Define logistics strategy.
   (g) Explain strategic business unit (SBUs).
   (h) Explain premise control.

Statement type of question (Correct / Incorrect)

2. State with reasons which of the following statements are correct/incorrect:
   (a) Control systems run parallel with strategic levels.
   (b) Competitive strategy is designed to help firms achieve competitive advantage.
   (c) For a small entrepreneur vision and mission are irrelevant.
   (d) Stability strategy is not a 'do-nothing' strategy.
   (e) Porter's five forces model considers new entrants as a significant source of competition.
   (f) Tele-shopping is an instance of direct marketing.
   (g) Strategies may require changes in organizational structure.
   (h) Benchmarking and business process reengineering are one and the same.

Short notes

3. Write short notes on the following:
   (a) Importance of strategic management.
   (b) SWOT analysis.
   (c) Essentials of a strategic vision.
   (d) Importance of corporate culture.

Differences between the two concepts

4. Distinguish between the following:
   (a) Forward integration and backward integration.
   (b) Cost leadership and differentiation strategies.

(c) Operational control and management control.

(d) Logistic management and supply chain management.

Descriptive answers

Chapter 1-Introduction to Strategic Management

5. Yummy Foods and Tasty Foods are successfully competing in the business of ready to eat snacks in Patna. Yummy has been pioneer in introducing innovative products. These products will give them good sale. However, Tasty Foods will introduce similar products in reaction to the products introduced by the Yummy Foods taking away the advantage gained by the former.

   Discuss the strategic approach of the two companies. Which is superior?

6. What benefits accrue by following a strategic approach to managing?

Chapter 2-Dynamics of Competitive Strategy

7. '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.

8. How Ansoff's Product Market Growth Matrix is a useful tool for business organizations?

Chapter 3-Strategic Management Process

9. 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.

10. 'Objectives' and 'Goals' provide meaning and sense of direction to organizational endeavour. Explain.

Chapter 4-Corporate Level Strategies

11. Vastralok Ltd., was started as a textile company to manufacture cloth. Currently, they are in the manufacturing of silk cloth. The top management desires to expand the business in the cloth manufacturing. To expand they decided to purchase more machines to manufacture cotton cloth.

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

12. What is Divestment strategy? When is it adopted?

Chapter 5-Business Level Strategies

13. Gennex is a company that designs, manufactures and sells computer hardware and software. Gennex is well known for its innovative products that has helped the company to

have advantage over its competitors. It also spends on research and development and concerned with innovative softwares. Often the unique features of their product, that are not available with their competitors helps them to gain competitive advantage. Gennex using the strategy is consistently gaining its position in the industry over its competitors.

Identify and explain the Porter's generic strategy which Gennex has opted to gain the competitive advantage.

14. Explain Porter's five forces model as to how businesses can deal with the competition.

Chapter 6-Functional Level Strategies

15. 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 organisation with 335 employees in the year 2016. With the increase in size Rohit started facing difficulty in managing things. Many a times 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.

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

Chapter 7-Organisation and Strategic Leadership

17. 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.

18. Davis and Lawrence have proposed three distinct phases to develop matrix structure. Explain.

Chapter 8-Strategy Implementation and Control

19. Swift Ltd and Quick Ltd are two companies that are in the business of light industrial machines. While Swift is the market leader the sales of Quick has been falling. In the year 2017-18 the market share of the two companies was forty per cent and five per cent respectively. During the last five years the market share of quick reduced from third to sixth position. As an immediate corrective measure top management of Quick decided to emulate the successful standards of Swift Ltd and set them as their own yardsticks. With the help of standards they intended to compare, measure and judge their performance.

    What is the strategic tool Quick Ltd is adopting? How is it implemented?

20. What is Strategy Audit? Explain briefly the criteria for strategy audit given by Richard Rumelt's.

SUGGESTED ANSWERS / HINTS

1 **(a)** Corporate-level managers participate 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.

(b) An industry's key success factors (KSFs) are those things or strategic elements that affect industry members' ability to prosper in a market place. For a business organization within an industry, it may include, cost structure, technology, distribution system and so on. It is correct to state that the KSFs help to shape whether a company will be financially and competitively successful.

(c) A strategic vision delineates organisation's aspirations for the business, providing a panoramic view of the position where the organisation is going. A strategic vision points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity.

A strategic vision is a roadmap of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

(d) Combination strategies refer to a mix of different strategies like stability; expansion, diversification or retrenchment to suit particular situations that an enterprise is facing. For instance, a strategy of diversification/acquisition may call for retrenchment in some obsolete product lines.

(e) A number of cost elements affect the relative attractiveness of generic strategies. A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead cost, and waste reduction. The low cost leadership should be such that no competitors are able to imitate so that it can result in sustainable competitive advantage to the cost leader firm.

(f) Logistics is a process that integrates the flow of supplies into, through and out of an organization to achieve a level of service that facilitate movement and availability of materials in a proper manner. When a company creates a logistics strategy, it is defining the service levels at which its logistics is smooth and is cost effective.

(g) A strategic business unit (SBU) is a unit of the company that has a separate mission and objectives which can be planned independently from other company businesses. SBU can be a company division, a product line within a division or even a single product/brand, specific group of customers or geographical location. The SBU is given the authority to make its own strategic decisions within corporate guidelines as long as it meets corporate objectives.

(h) A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational 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. It primarily involves monitoring two types of factors:

(i) Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and regulatory.

(ii) Industry factors such as competitors, suppliers, substitutes.

2 (a) **Correct:** There are three strategic levels in an organisation – corporate, business and functional. Control systems are required at all the three levels. At the top level, strategic controls are built to check whether the strategy is being implemented as planned and the results produced by the strategy are those intended. Down the hierarchy management controls and operational controls are built in the systems. Operational controls are required for day-to-day management of business.

(b) **Correct:** Competitive strategy is designed to help firms achieve competitive advantage. Having a competitive advantage is necessary for a firm to compete in the market. Competitive advantage comes from a firm's ability to perform activities more effectively than its rivals.

(c) **Incorrect:** Entrepreneur, big or small has to function within several influences from external forces. Competition in different form and different degree is present in all kind and sizes of business. Even entrepreneur with small businesses can have complicated environment. To grow and prosper they need to have clear vision and mission.

(d) **Correct:** Stability strategies are implemented by approaches wherein few functional changes are made in the products or markets. It is not a 'do nothing' strategy. It involves keeping track of new developments to ensure that the strategy continues to make sense. This strategy is typical for mature business organizations. Some small organizations will also frequently use stability as a strategic focus to maintain comfortable market or profit position.

(e) **Correct:** Porter's five forces model considers new entrants as major source of competition. The new capacity and product range that the new entrants bring in throw up 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.

(f) **Correct:** Direct marketing is done through various advertising media that interact directly with customer. Teleshopping is a form of direct marketing which operates without conventional intermediaries and employs television and other IT devices for reaching the customer. The communication between the marketer and the customer is direct through third party interfaces such as telecom or postal systems.

(g) **Correct**: Strategies may require changes in structure as the structure dictates how resources will be allocated. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, should follow strategy. Without a strategy or reasons for being, companies find it difficult to design an effective structure.

(h) **Incorrect:** Benchmarking relates to setting goals and measuring productivity based on best industry practices. The idea is to learn from the practices of competitors and others to improve the firm's performance. On the other hand, business process reengineering relates to analysis and redesign of workflows and processes both within and between the organizations.

3 (a) Strategic Management is very important for the survival and growth of business organizations in dynamic business environment. Other major benefits of strategic management are as follows:

- It helps organizations to be more proactive rather than reactive in dealing with its future. It facilitates the organisations to work within vagaries of environment and remains adaptable with the turbulence or uncertain future. Therefore, they are able to control their own destiny in a better way.
- It provides better guidance to entire organization on the crucial point – what it is trying to do. Also provides framework for all major business decisions of an enterprise such a decision on businesses, products, markets, organization structures, etc.
- It facilitates to prepare the organization to face the future and act as pathfinder to various business opportunities. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.
- It serves as a corporate defence mechanism against mistakes and pitfalls. It helps organizations to avoid costly mistakes in product market choices or investments.
- Over a period of time, strategic management helps organizations to evolve certain core competencies and competitive advantages that assist in the fight for survival and growth.

(b) SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strengths, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

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

Weakness: A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.

Opportunity: An opportunity is a favourable condition in the external environment which enables it to strengthen its position.

Threat: An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.

(c) Essentials of a strategic vision:

- The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- Forming a strategic vision is an exercise in intelligent entrepreneurship.
- A well-articulated strategic vision creates enthusiasm among the members of the organisation.
- The best-worded vision statement clearly illuminates the direction in which organization is headed.

(d) A culture where creativity, embracing change, and challenging the status quo are pervasive is very conducive to successful execution of a product innovation and technological leadership strategy. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility is very conducive to successful execution of a strategy of delivering superior customer service.

A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy. All this makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to success.

4 (a) 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 organisations enter into businesses of distribution channels.

(b) Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive.

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. Different strategies offer different degrees of differentiation. A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty.

(c) Differences between operational control and management control are as under:

(i) The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.

(ii) Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. On the other hand, the basic purpose of management control is the achievement of enterprise goals – short range and long range – in an effective and efficient manner.

(d) 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 organisations. 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.

5. Yummy foods is proactive in its approach. On the other hand Tasty Food is reactive. Proactive strategy is planned strategy whereas reactive strategy is adaptive reaction to changing circumstances. A company's strategy is typically a blend of proactive actions on the part of managers to improve the company's market position and financial performance and reactions to unanticipated developments and fresh market conditions.

If organisational resources permit, it is better to be proactive rather than reactive. Being proactive in aspects such as introducing new products will give you advantage in the mind of customers.

At the same time, crafting a strategy involves stitching together a proactive/intended strategy and then adapting first one piece and then another as circumstances surrounding the company's situation change or better options emerge-a reactive/adaptive strategy. This aspect can be accomplished by Yummy Foods.

6. The following are the benefits of strategic approach to managing:

- Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.
- Strategic management provides framework for all the major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.
- Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It help organisations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

7. 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 organisation.

'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.

8. The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a 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 in new or existing products in both new and existing markets.

Companies should always be looking to the future. Businesses that use the Ansoff matrix can determine the best strategy. The matrix can help them to decide how to do this by demonstrating their options clearly, breaking them down into four strategies, viz., *Market Penetration, Market Development, Product Development, Diversification*. Determining which of these is best for their business will depend on a number of variables including available resources, infrastructure, market position, location and budget.

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

- Developing budgets that steer ample resources into those activities critical to strategic success.
- Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
- Ensuring that policies and operating procedures facilitate rather than impede effective execution.
- Using the best-known practices to perform core business activities and pushing for continuous improvement.
- Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
- Motivating people to pursue the target objectives energetically.
- Creating a company culture and work climate conducive to successful strategy implementation and execution.
- Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

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

10. Business organization translates their vision and mission into objectives. Objectives are open-ended attributes that denote the future states or outcomes. Goals are close-ended attributes which are precise and expressed in specific terms. Thus, the goals are more specific and translate to objectives to short term perspective.

All organizations have objectives. The pursuit of objectives is an unending process such that organizations sustain themselves. They provide meaning and sense of direction to organizational endeavour. Organizational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement. They also act as benchmarks for guiding organizational activity and for evaluating how the organization is performing.

11. Vastralok Ltd. is currently manufacturing silk cloth and its top management has decided to expand its business by manufacturing cotton cloth. Both the products are similar in nature within the same industry. The strategic diversification that the top management of Vastralok Ltd. has opted is concentric in nature. They were in business of manufacturing silk and now they will manufacture cotton as well. They wil 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.

12. Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre 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.

13. According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies.

Gennex has opted differentiation strategy. Its products are designed and produced to give the customer value and quality. They are unique and serve specific customer needs that are not met by other companies in the industry. Highly differentiated and unique hardware and software enables Gennex to charge premium prices for its products hence making higher profits and maintain its competitive position in the market.

Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service.

14. To gain a deep understanding of a company's industry and competitive environment, managers do not need to gather all the information they can find and waste a lot of time digesting it. Rather, the task is much more focused. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.
- Competitive pressures associated with the threat of new entrants into the market.
- Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
- Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.
- Competitive pressures stemming from buyer bargaining power and seller-buyer Collaboration.

15. 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 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.

16. 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 price 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 off take of the product is low, high price, in a way, helps in rationing of supply in favour 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.

17. 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.

18. For development of matrix structure; Davis and Lawrence have proposed three distinct phases:

- **Cross-functional task forces:** Temporary cross-functional task forces are initially used when a new product line is being introduced. A project manager is in charge as the key horizontal link.
- **Product/brand management:** If the cross-functional task forces become more permanent, the project manager becomes a product or brand manager and a second phase begins. In this arrangement, function is still the primary organizational structure, but product or brand managers act as the integrators of semi-permanent products or brands.
- **Mature matrix:** The third and final phase of matrix development involves a true dual-authority structure. Both the functional and product structures are permanent. All employees are connected to both a vertical functional superior and a horizontal product manager.

19. The top management of Quick Ltd is doing benchmarking. The benchmarking helps an organization to get ahead of competition. A benchmark may be defined as a standard or a point of reference against which things may be compared and by which something can be measured and judged. In simple words, benchmarking is an approach of setting goals and measuring productivity based on best industry practices. In recent years, different commercial and non-commercial organizations are discovering the value of benchmarking and are applying it to improve their processes and systems.

Benchmarking processes used by different organisations lack standardization. However, common elements are as follows:

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 business processes**: This step will involve compiling information and data on performance. This will include mapping processes.

III. **Identify best processes**: Within the selected framework, best processes are identified. These may be within the same organization or external to it.

IV. **Compare own processes and performance with that of others**: While comparing gaps in performance between the organization and better performers is identified. Further, gaps in performance are analysed to seek explanations. Feasibility of making the improvements is also examined.

V. **Prepare a report and Implement the steps necessary to close the performance gap**: A report on the Benchmarking initiatives containing recommendations is prepared. Such a report includes the action plan(s) for implementation.

VI. **Evaluation**: A business organization must evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It should also periodically evaluate and reset the benchmarks in the light of changes in the conditions that impact its performance.

20. A strategy audit is an examination and evaluation of areas affected by the operation of a strategic management process within an organization.

Richard Rumelt's Criteria for Strategy Audit

a. **Consistency:** A strategy should not present inconsistent goals and policies. Organizational conflict and interdepartmental bickering are often symptoms of managerial disorder, but these problems may also be a sign of strategic inconsistency. Three guidelines help determine if organizational problems are due to inconsistencies in strategy:

- If managerial problems continue despite changes in personnel and if they tend to be issue-based rather than people-based, then strategies may be inconsistent.
- If success for one organizational department means, or is interpreted to mean, failure for another department, then strategies may be inconsistent.
- If policy problems and issues continue to be brought to the top for resolution, then strategies may be inconsistent.

b. **Consonance:** Consonance refers to the need for strategists to examine sets of trends, as well as individual trends, in auditing strategies. A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. One difficulty in matching a firm's key internal and external factors in the formulation of strategy is that most trends are the result of interactions among other trends. For example, the day-care school/centre came about as a combined result of many trends that included a rise in the average level of education, need for different education pedagogy, increase in income, inflation, and an increase in women in the workforce. Although single economic or demographic trends might appear steady for many years, there are waves of change going on at the interaction level.

c. **Feasibility:** A strategy must neither overtax available resources nor create unsolvable sub-problems. The final broad test of strategy is its feasibility; that is, can the strategy be attempted within the physical, human, and financial resources of the enterprise? The financial resources of a business are the easiest to quantify and are normally the first limitation against which strategy is audited. It is sometimes forgotten, however, that innovative approaches to financing are often possible. Devices, such as captive subsidiaries, sale-leaseback arrangements, and tying plant mortgages to long-term contracts, have all been used effectively to help win key positions in suddenly expanding industries. A less quantifiable, but actually more rigid, limitation on strategic choice is that imposed by individual and organizational capabilities. In auditing a strategy, it is important to examine whether an organization has demonstrated in the past that it possesses the abilities, competencies, skills, and talents needed to carry out a given strategy.

d. **Advantage:** A strategy must provide for the creation and/or maintenance of a competitive advantage in a selected area of activity. Competitive advantages normally are the result of superiority in one of three areas:

(1) resources, (2) skills, or (3) position.

The idea that the positioning of firm's resources that enhance their combined effectiveness is familiar to military theorists and chess players. Position can also play a crucial role in an organization's strategy. Once gained, a good position is defensible-meaning that it is so costly to capture that rivals are deterred from full-scale attacks. Positional advantage tends to be self-sustaining as long as the key internal and environmental factors that underlie it remain stable. This is why entrenched firms can be almost impossible to unseat, even if their skill levels are only average. Although not all positional advantages are associated with size, it is true that larger organizations tend to operate in markets and use procedures that turn their size into advantage, while smaller firms seek product/market positions that exploit other types of advantage. The principal characteristic of good position is that it permits the firm to obtain advantage from policies that would not similarly benefit rivals without the same position. Therefore, in auditing strategy, organizations should examine the nature of positional advantages associated with a given strategy.