Downloaded From www.scanneradda.com

# PAPER – 7: ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT

## SECTION – A: ENTERPRISE INFORMATION SYSTEMS

## QUESTIONS

**Multiple Choice Questions**

1. In an organization, there are certain risks that would prevent an organization from accomplishing its objectives and meeting its goals. These are referred as ___________ risks.

   (a) Operational

   (b) Strategic

   (c) Financial

   (d) Reputational

2. Mr. A visited an e-commerce website and placed an order for a pair of shoes. He made his payment of ₹ 2,000 through credit card and received a confirmation mail on his registered email-id. With respect to e-commerce architecture, which layer of the software is he working on?

   (a) Database Layer

   (b) Application Layer

   (c) Presentation Layer

   (d) Client Layer

3. Which of the following statement is incorrect?

   (a) A Proxy Server is a computer that offers a computer network service to allow clients to make indirect network connections to other network services.

   (b) The term Information Security refers to ensure Confidentiality, Integrity and Availability of information.

   (c) Any Application Software has primarily four gateways through which enterprise can control functioning, access and use the various menus and functions of the software - Configuration, Masters, Transactions and Reports.

   (d) Section 66-C of Information Technology Act, 2000 provides for the punishment for cheating by personation by using computer resource.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



4. An amount of ₹100/- is to be written off as same is not recovered from customer since last three years. Which voucher is best suited for the transaction?
   (a) Journal
   (b) Sales
   (c) Purchase
   (d) Contra
5. While doing a concurrent audit in a bank, Mr. X noticed that some changes have been made to advance master data files of the database. He uses an audit technique to identify such suspicious transactions. This technique shall be defined as ___________.
   (a) Continuous and Intermittent Simulation (CIS)
   (b) System Control Audit Review File (SCARF)
   (c) Audit Hook
   (d) Integrated Test Facility (ITF)

**Descriptive Questions**

**Chapter 1: Automated Business Processes**

1. A book publisher offered discount to customers based on their mode of purchase and the number of copies ordered as shown below:

| Mode of Purchase | Number of copies ordered | Discount % |
|---|---|---|
| Online | More than 5 | 20 |
| | Less than or equal to 5 | 15 |
| Offline | More than 10 | 10 |
| | Less than or equal to 10 | 5 |

   If Customer name, Customer type, Date of order placed, Number of copies ordered and unit price are input; draw a flowchart to calculate the net amount of the bill and date of purchase for each customer and print it. The above is to be carried out for 50 customers.

2. Discuss all the stages of Human Resource (HR) Life Cycle.

**Chapter 2: Financial and Accounting Systems**

3. Sales and Distribution Process that is used by organizations to support sales and distribution activities of products and services, starting from enquiry to order and then ending with delivery is one of the most important module in ERP. Determine the various activities that are involved in Sales and Distribution Process.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



4. Describe the term "Business Reporting" and why do you think there is a need of it in today's world?

**Chapter 3: Information Systems and Its Components**

5. Many organizations now recognize that data is a critical resource that must be managed properly and therefore, accordingly, centralized planning and control are implemented. Identify the various control activities involved in maintaining the integrity of the database.

6. An Internet connection exposes an organization to the harmful elements of the outside world. Prepare a list of various Network Access Controls by means of which the protection can be achieved against these harmful elements.

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

7. Discuss various Commercial Laws that govern e-Commerce/m-Commerce transactions in India.

8. The Prime Minister Office of a country X plans to establish specific infrastructure setup with its access shared amongst members of the group constituting of some selected high-profiled dignitaries and officers from different ministries. The objective of the group is to carry out certain assignments related to nation's security and integrity. Which is the most suitable choice of the cloud under Cloud Computing? Discuss its advantages and limitations as well.

**Chapter 5: Core Banking Systems**

9. "The deployment and implementation of Core Banking Systems (CBS) should be controlled at various stages to ensure that the banks automation objectives are achieved". Analyse the statement.

10. Differentiate between Internet Banking Channel Server (IBCS) and Internet Banking Application Server (IBAS) used in Core Banking Systems (CBS).

## SUGGESTED ANSWERS/HINTS

### Multiple Choice Answers

**1.** **(b)** Strategic

**2.** **(b)** Application Layer

**3.** **(d)** Section 66-C of Information Technology Act, 2000 provides for the punishment for cheating by personation by using computer resource.

**4.** **(a)** Journal

© The Institute of Chartered Accountants of India

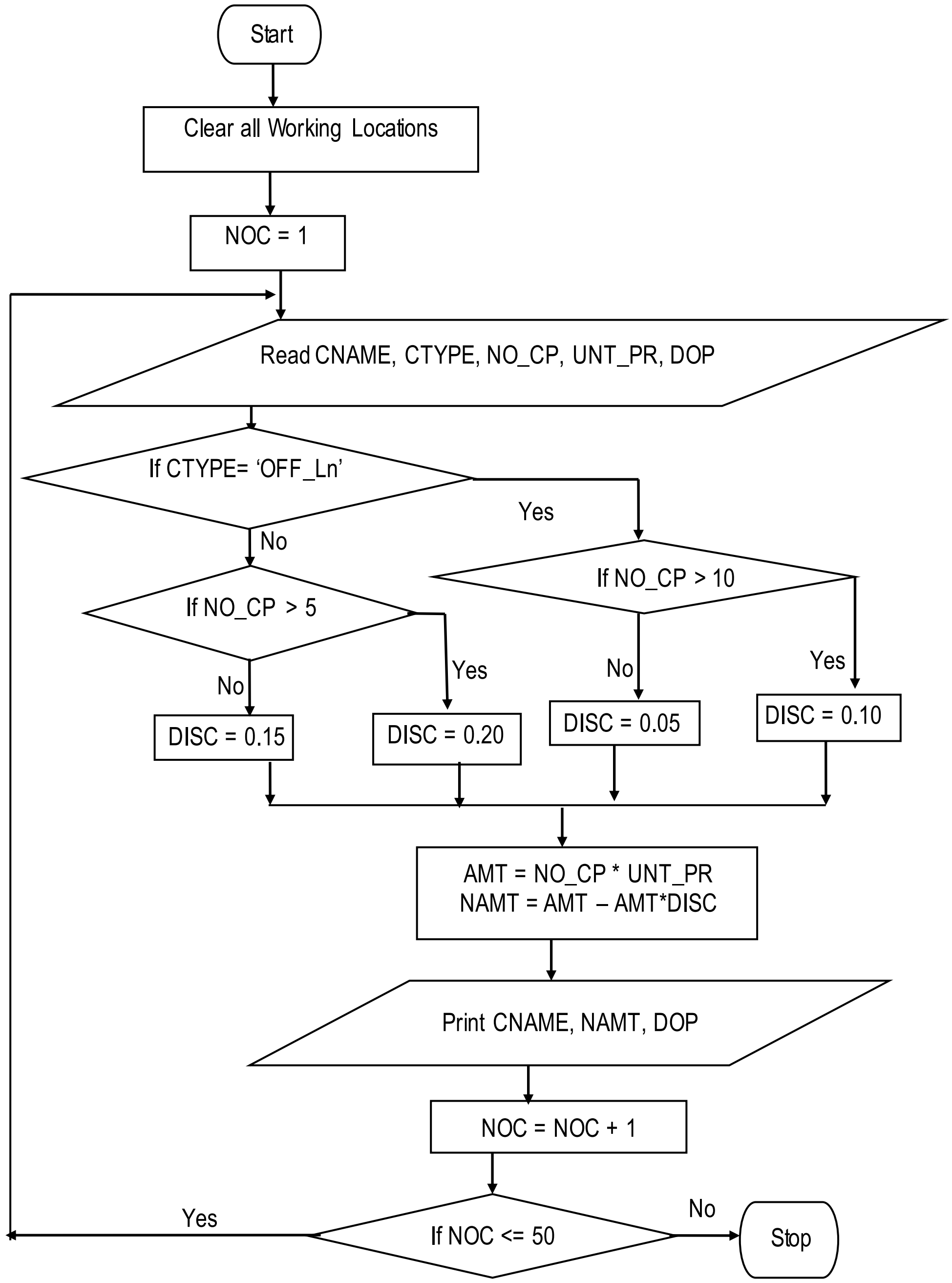
Downloaded From www.scanneradda.com



**5.** **(c)** Audit Hook

**Descriptive Answers**

1. The required flowchart is given below:




© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



Abbreviations used in the flowchart are as follows:

| | | | | | |
|---|---|---|---|---|---|
| DOP | - | Date of order placed | CNAME | - | Customer Name |
| NO_CP | - | Number of Copies | UNT_PR | - | Unit Price |
| DISC | - | Discount | AMT | - | Total Amount |
| NAMT | - | Net Amount | NOC | - | Number of Customers |
| CTYPE | - | Type of the Customer (Can either be Online or Offline[OFF_LN]) | | | |

**2.** The Human Resources (HR) Life Cycle refers to human resources management and covers all the stages of an employee's time within a specific enterprise and the role the human resources department plays at each stage. Typical stage of HR cycle includes the following:

(a) **Recruiting and On-boarding: Recruiting** is the process of hiring a new employee. The role of the human resources department in this stage is to assist in hiring. This might include placing the job ads, selecting candidates whose resumes look promising, conducting employment interviews and administering assessments such as personality profiles to choose the best applicant for the position. **On boarding** is the process of getting the successful applicant set up in the system as a new employee.

(b) **Orientation and Career Planning: Orientation** is the process by which the employee becomes a member of the company's work force through learning her new job duties, establishing relationships with co-workers and supervisors and developing a niche**. Career planning** is the stage at which the employee and her supervisors work out her long-term career goals with the company. The human resources department may make additional use of personality profile testing at this stage to help the employee determine her best career options with the company.

(c) **Career Development: Career development** opportunities are essential to keep an employee engaged with the company over time. After an employee, has established himself at the company and determined his long-term career objectives, the human resources department should try to help him meet his goals, if they're realistic. This can include professional growth and training to prepare the employee for more responsible positions with the company. The company also assesses the employee's work history and performance at this stage to determine whether he has been a successful hire.

(d) **Termination or Transition:** Some employees will leave a company through retirement after a long and successful career. Others will choose to move on to other opportunities or be laid off. Whatever the reason, all employees will eventually leave the company. The role of HR in this process is to manage the transition by ensuring that all policies and procedures are followed, carrying out an exit interview

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



if that is company policy and removing the employee from the system. These stages can be handled internally or with the help of enterprises that provide services to manage the employee life cycle.

3. The various activities that are involved in a Sales and Distribution Process are as follows:

- **Pre-Sales Activities:** This include prospecting of customers, identifying prospective customers, gathering data, contacting them and fixing appointments, showing demo, discussion, submission of quotations, etc.
- **Sales Order:** Sales order is recorded in our books after getting a confirmed purchased order from our customer. Sales order shall contain details just like purchase order. E.g. Stock Item Details, Quantity, Rate, Due Date of Delivery, Place of Delivery, etc.
- **Inventory Sourcing:** It includes making arrangements before delivery of goods, ensuring goods are ready and available for delivery.
- **Material Delivery:** Material is delivered to the customer as per sales order. All inventory details are copied from Sales Order to Material Delivery for saving user's time and efforts. This transaction shall have a linking with Sales Order. Stock balance shall be reduced on recording of this transaction.
- **Billing:** This is a transaction of raising an invoice against the delivery of material to customer. This transaction shall have a linking with Material Delivery and all the details shall be copied from it. Stock balance shall not affect again.
- **Receipt from Customer:** This is a transaction of receiving amount from customer against sales invoice and shall have a linking with sales invoice.

4. **Business Reporting** is defined as the public reporting of operating and financial data by a business enterprise, or the regular provision of information to decision-makers within an organization to support them in their work. This reporting process involves querying data sources with different logical models to produce a human readable report - for example, a computer user must query the Human Resources databases and the Capital Improvements databases to show how efficiently space is being used across an entire corporation.

   Through reporting, organizations communicate with their stakeholders about:

   - mission, vision, objectives, and strategy;
   - governance arrangements and risk management;
   - trade-offs between the shorter- and longer-term strategies; and
   - financial, social, and environmental performance (how they have fared against their objectives in practice).

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



The need of Business Reporting is for following reasons:

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

**5.** Many organizations now recognize that data is a critical resource that must be managed properly and therefore, accordingly, centralized planning and control are implemented. For data to be managed better; users must be able to share data, data must be available to users when it is needed, in the location where it is needed, and in the form in which it is needed. Careful control should be exercised over the roles by appointing senior, trustworthy persons, separating duties to the extent possible and maintaining and monitoring logs of the data administrator's and database administrator's activities.

The control activities involved in maintaining the integrity of the database is as under:

(a) **Definition Controls:** These controls are placed to ensure that the database always corresponds and comply with its definition standards.

(b) **Existence/Backup Controls:** These ensure the existence of the database by establishing backup and recovery procedures. Backup refers to making copies of the data so that these additional copies may be used to restore the original data after a data loss. Backup controls ensure the availability of system in the event of data loss due to unauthorized access, equipment failure or physical disaster; the organization can retrieve its files and databases. Various backup strategies like dual recording of data; periodic dumping of data; logging input transactions and changes to the data are used.

(c) **Access Controls:** Access controls are designed to prevent unauthorized individual from viewing, retrieving, computing or destroying the entity's data. These controls are User Access Controls through passwords, tokens and biometric Controls; and Data Encryption controls that keep the data in database in encrypted form.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



(d) **Update Controls:** These controls restrict update of the database to authorized users by either permitting only addition of data to the database or allowing users to change or delete existing data.

(e) **Concurrency Controls:** These controls provide solutions, agreed-upon schedules and strategies to overcome the data integrity problems that may arise when two update processes access the same data item at the same time.

(f) **Quality Controls:** These controls ensure the accuracy, completeness, and consistency of data maintained in the database. This may include traditional measures such as program validation of input data and batch controls over data in transit through the organization.

**6.** Various Network Access Controls by means of which the protection can be achieved against harmful elements in an organization are as follows:

- **Policy on use of network services:** An enterprise wide policy applicable to internet service requirements aligned with the business need for using the Internet services is the first step. Selection of appropriate services and approval to access them should be part of this policy.
- **Enforced path:** Based on risk assessment, it is necessary to specify the exact path or route connecting the networks; e.g., internet access by employees will be routed through a firewall and proxy.
- **Segregation of networks:** Based on the sensitive information handling function; say a Virtual Private Network (VPN) connection between a branch office and the head-office, this network is to be isolated from the internet usage service
- **Network connection and routing control:** The traffic between networks should be restricted, based on identification of source and authentication access policies implemented across the enterprise network facility.
- **Security of network services:** The techniques of authentication and authorization policy should be implemented across the organization's network.
- **Firewall:** A Firewall is a system that enforces access control between two networks. To accomplish this, all traffic between the external network and the organization's Intranet must pass through the firewall that will allow only authorized traffic between the organization and the outside to pass through it. The firewall must be immune to penetrate from both outside and inside the organization.
- **Encryption:** Encryption is the conversion of data into a secret code for storage in databases and transmission over networks. The sender uses an encryption algorithm with a key to convert the original message called the Clear text into Cipher text. This is decrypted at the receiving end.
- **Call Back Devices:** It is based on the principle that the key to network security is to keep the intruder off the Intranet rather than imposing security measure after the

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



criminal has connected to the intranet. The call- back device requires the user to enter a password and then the system breaks the connection. If the caller is authorized, the call back device dials the caller's number to establish a new connection. This limits access only from authorized terminals or telephone numbers and prevents an intruder masquerading as a legitimate user.

**7.** Following commercial laws are applicable to e-commerce and m-commerce transactions in India.

- **Income Tax Act, 1961:** Income Tax Act, has detailed provisions regarding taxation of income in India. In respect of e-commerce / m-commerce transactions; the issue of deciding place of origin transaction for tax purpose is critical.
- **Companies Act, 2013:** Companies Act, 2013, regulates the corporate sector. The law defines all regulatory aspects for companies in India. Most of the merchants in e-commerce / m-commerce business are companies, both private and public.
- **Foreign Trade (Development and Regulation) Act, 1992:** This is an act to provide for the development and regulation of foreign trade by facilitating imports into, augmenting exports from India and for matters connected therewith or incidental thereto.
- **The Factories Act, 1948:** This is an act to regulate working conditions of workers and extends to the place of storage as well as transportation. Most of the merchants in e-commerce/m-commerce business need to comply with provisions of the act.
- **The Custom Act, 1962:** This act defines import/export of goods/services from India and provides for levy of appropriate customs duty.
- **The Goods and Services Tax Act, 2017 (GST):** This Act requires each applicable business, including e-commerce/m-commerce, to upload each sales and purchase invoice on one central IT infrastructure, mandating reconciliations of transactions between business, triggering of tax credits on payments of GST, facilitating filling of e-returns, etc.
- **Indian Contract Act, 1872:** This act defines constituents of a valid contract. In case of e-commerce/m-commerce business, it becomes important to define these constituents.
- **The Competition Act, 2002:** This is a law to regulate practices that may have adverse effect on competition in India. Competition Commission have been vigilant to ensure that e-commerce/m-commerce merchants do not engage in predatory practices.
- **Foreign Exchange Management Act (FEMA 1999):** This law regulates foreign direct investments, flow of foreign exchange in India and has important implications

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



for e-commerce/m-commerce business.

- **Consumer Protection Act, 1986:** The law to protect consumer rights has been source of most of litigations for transaction done through e-commerce and m-commerce.

All laws above have same nature of applicability as in a normal commercial transaction. The fact that transactions are done electronically gives rise to issues which are unique in nature. Few of issues have been put to rest by court decisions but new issues crop up every day.

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

Advantages of Community Cloud are as follows:

- It allows establishing a low-cost private cloud.
- It allows collaborative work on the cloud.
- It allows sharing of responsibilities among the organizations.
- It has better security than the public cloud.

The **limitation of the Community Cloud** is that the autonomy of the organization is lost and some of the security features are not as good as the private cloud. It is not suitable in the cases where there is no collaboration.

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

- **Planning:** Planning for implementing the CBS should be done as per strategic and business objectives of bank.
- **Approval:** The decision to implement CBS requires high investment and recurring costs and will impact how banking services are provided by the bank. Hence, the decision must be approved by the Board of directors.
- **Selection:** Although there are multiple vendors of CBS, each solution has key differentiators. Hence, bank should select the right solution considering various parameters as defined by the bank to meet their specific requirements and business objectives.
- **Design and develop or procured:** CBS solutions used to be earlier developed in-house by the bank. Currently, most of the CBS deployment are procured. There

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



should be appropriate controls covering the design or development or procurement of CBS for the bank.

- **Testing:** Extensive testing must be done before the CBS is live. The testing is to be done at different phases at procurement stage to test suitability to data migration to ensure all existing data is correctly migrated and testing to confirm processing of various types of transactions of all modules produces the correct results.
- **Implementation:** CBS must be implemented as per pre-defined and agreed plan with specific project milestones to ensure successful implementation.
- **Maintenance:** CBS must be maintained as required. E.g. program bugs fixed, version changes implemented, etc.
- **Support:** CBS must be supported to ensure that it is working effectively.
- **Updation:** CBS modules must be updated based on requirements of business processes, technology updates and regulatory requirements.;
- **Audit:** Audit of CBS must be done internally and externally as required to ensure that controls are working as envisaged.

Fundamentally, in a CBS, all the bank's branches access applications from centralized data-centers. All transactions are routed through core systems, which are available 24x7 and accessible from anywhere, anytime and through multiple devices such as desktops, laptops, ATM, Internet, mobile phone, tablets, etc.

10. **Internet Banking Channel Server (IBCS):** IBCS (Internet Banking Channel Server) software stores the name and password of the entire internet banking customers. IBCS server also contains the details about the branch to which the customer belongs. The Internet Banking customer would first have to log into the bank's website with the user name and password.

    **Internet Banking Application Server (IBAS):** The Internet Banking Software which is stored in the IBAS (Internet Banking Application Server) authenticates the customer with the login details stored in the IBCS. Authentication process is the method by which the details provided by the customer are compared with the data already stored in the data server to make sure that the customer is genuine and has been provided with internet banking facilities.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



## SECTION – B: STRATEGIC MANAGEMENT

**Multiple Choice Questions**

1. In the questions given below select the best answer out of options (A), (B), (C), or (D):

(a) Which of the following statements correctly explain strategic management?

(i) Strategic management provides framework for major decisions.

(ii) Strategic management helps to enhance the longevity of the business.

(iii) Strategic management is an inexpensive process.

(iv) Strategic management helps organisation to be more reactive than proactive.

(A) (i) and (ii)

(B) (i), (ii) and (iii)

(C) (i), (ii) and (iv)

(D) (i), (iii) and (iv)

(b) Which of the following is not true for core competency:

A. It distinguishes a company competitively.

B. It is a source of competitive advantage.

C. It is an individual skill and separate technique.

D. It is often visible in the form of organizational functions.

(c) Statement that is typically focused on present business scope and broadly describes an organizations present capabilities, customer focus, activities, and business makeup is:

A. Vision

B. Mission

C. Strategy

D. Goals

(d) Arrange divestment, liquidation, stability and turnaround strategies in order of preference for adoption by a typical organisation.

A. Turnaround, stability, liquidation and divestment.

B. Divestment, liquidation, stability and turnaround.

C. Stability, turnaround, liquidation and divestment.

D. Stability, turnaround, divestment and liquidation.

(e) Best-cost provider strategy is related to providing customers more value for money by:

A. Highlighting low cost and low quality difference.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



B. Emphasizing low cost and better quality difference.

C. Producing high cost and low quality difference.

D. Managing high cost and low quality difference.

(f) Supply chain refers to the linkages between:

A. Suppliers

B. Logistics

C. Customers

D. All the above

(g) Which of the following is not true for SBUs

A. It is relevant for multi-product, multi-business enterprises.

B. It provides for more control at enterprise level with centralised strategic planning.

C. A SBU has its own set of competitors.

D. SBUs can be created for units at distant geographical locations.

(h) Strategy evaluation is difficult on account of following trends, except:

A. There is dramatic increase in the environment's complexity.

B. It is difficult to predict future.

C. Firms have unlimited resources.

D. Obsolescence is rapid.

(i) Acquisition of another organisation that was using your product in their manufacturing is:

A. Horizontal integrated diversification

B. Forward integrated diversification

C. Backward integrated diversification

D. conglomerate diversification

(j) Porter' cost leadership is a ____________ strategy

A. Functional level

B. Business level

C. Corporate level

D. Implementation

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



**Descriptive answers**

***Chapter 1-Introduction to Strategic Management***

2. Ramesh Sharma has fifteen stores selling consumer durables in Delhi Region. Four of these stores were opened in last three years. He believes in managing strategically and enjoyed significant sales of refrigerator, televisions, washing machines, air conditioners and like till four years back. With shift to the purchases to online strores, the sales of his stores came down to about seventy per cent in last four years.

   Analyse the position of Ramesh Sharma in light of limitations of strategic management.

3. Strategic management helps an organization to work through changes in environment to gain competitive advantage. In light of statement discuss its benefits.

***Chapter 2-Dynamics of Competitive Strategy***

4. Shridhar who is running a medium size cloth manufacturing business in Panipat wishes to understand the driving forces that trigger change. He has sought advice from you and wishes to know common driving forces.

5. Major core competencies are identified in three areas - competitor differentiation, customer value and application to other markets. Discuss.

***Chapter 3-Strategic Management Process***

6. Mr Raj has been hired as a CEO by XYZ ltd a FMCG company that has diversified into affordable cosmetics. The company intends to launch *Feelgood* brand of cosmetics. XYZ wishes to enrich the lives of people with its products that are good for skin and are produced in ecologically beneficial manner using herbal ingredients. Draft vision and mission statement that may be formulated by Raj.

7. With the help of a model explain strategic management process.

***Chapter 4-Corporate Level Strategies***

8. Pizza Galleria was India's first pizza delivery chain enjoying monopoly for several years. However, after entry of Modino and Uncle Jack it is struggling to compete. Both Modino and Uncle Jack have opened several eateries and priced the product aggressively. In last four years the chain has suffered significant losses. The chain wishes to know whether they should go for turnaround strategy. List out components of action plan for turnaround strategy.

9. What is stability strategy? What are the reasons to pursue stability strategy?

***Chapter 5-Business Level Strategies***

10. A century-old footwear company "Mota Shoes" had an image of being the footwear choice for formal occasions. In an attempt to reinvent its brand, it tied up with a foreign footwear giant "Buffrine" to manufacture and sell its Hideseek brand in the country. Putting its best foot forward, it launched extra soft, casual and relaxed footwear for young. Aiming at a brand and image makeover the "Mota Shoes" decided to price the Hide Seek products at premium.

    What kind of Michael Porter business level strategy is being used by "Mota Shoe company"? State its advantages.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



11. Buyers can exert considerable pressure on business. Do you agree? Discuss.

***Chapter 6-Functional Level Strategies***

12. A web company initially started as an online marketplace for books. From "biggest E - Bookstore," its owners wants to expand into an e commerce platform selling electronic goods. Implementation of this needs additional funds.

    What are the different sources of raising funds and their impact on the financial strategy which you as a financial manager will consider?

13. Implementing supply chain management in a business organization has several steps. Discuss.

***Chapter 7-Organisation and Strategic Leadership***

14. Jupiter Electronics Ltd. is known for its ability to come out with path-breaking products. Though the work environment at Jupiters is relaxed and casual, yet, there is a very strong commitment to deadlines. The employees believe in "work hard play hard" ethic. The organisation has moved away from formal and hierarchical set up to a more results-driven approach. Employees are committed to strategies and work towards achieving them. They guard innovations, maintain confidentiality and secrecy in their working. They are closely related to values, practices, and norms of organisations

    What aspects of an organization that are being discussed? Explain.

15. Discuss the concept of Hourglass Structure

***Chapter 8-Strategy Implementation and Control***

16. India's luxurious domestic airline *Indijet* in an attempt to retain its leadership in aviation sector has hired J S Dutta as its Chief Executive. Mr Dutta wishes to reorient company to make it a domestic discount carrier. He desires to introduce no frills business model by offering extremely low fares and improve margins by cutting down traditional amenities such as reclining seats and complimentary meals. At the same time setting the stage for a new air revolution, he wishes to brand itself as on-time airlines having proper systems in place and removing additional and wasteful activities and processes.

    What steps will you advise to Mr Dutta?

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

## SUGGESTED ANSWERS/HINTS

**1.**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **(a)** | **A** | **(b)** | **C** | **(c)** | **B** | **(d)** | **D** | **(e)** | **B** |
| **(f)** | **D** | **(g)** | **B** | **(h)** | **C** | **(i)** | **B** | **(j)** | **B** |

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



**2.** Ramesh Sharma is facing declining sales on account of large scale shift of customers to online stores. While he is using the tools of strategic management, they cannot counter all hindrances and always achieve success. There are limitations attached to strategic management as follows:

- Environment under which strategies are made is highly complex and turbulent. Entry of online stores, a new kind of competitor brought a different dimension to selling consumer durables. Online stores with their size power could control the market and offer stiff competition to traditional stores.
- Another limitation of strategic management is that it is difficult to predict how things will shape-up in future. Ramesh Sharma, although managing strategically failed to see how online stores will impact the sales.
- Although, strategic management is a time-consuming process, he should continue to manage strategically. The challenging times require more efforts on his part.
- Strategic management is costly. Ramesh Sharma may consider engaging experts to find out preferences of the customers and attune his strategies to better serve them in a customized manner. Such customized offerings may be difficult to match by the online stores.
- The stores owned by Ramesh Sharma are much smaller than online stores. It is very difficult for him to visualize how online stores will be moving strategically.

**3.** Strategic management involves developing the company's vision, environmental scanning, strategy formulation, implementation, evaluation and control. It emphasises the monitoring and evaluation of external opportunities and threats in the light of a company's strengths and weaknesses and designing strategies for the survival and growth. It helps in creation of competitive advantage to outperform the competitors and also guide the company successfully through all changes in the environment.

The major benefits of strategic management are:

- Strategic management gives a direction to the company to move ahead. It defines the goals and mission.
- It helps organisations to be proactive instead of reactive in shaping its future.
- It provides framework for all 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.
- It helps organisations to identify the available opportunities and identify ways and means to achieve them.
- It serves as a corporate defence mechanism against mistakes and pitfalls.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



- It helps to enhance the longevity of the business.
- It helps the organisation to develop certain core competencies and competitive advantages that would facilitate survival and growth.

**4.** Industry and competitive conditions of organisation change as environmental forces are in motion. The most dominant forces are called driving forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment. Analyzing driving forces has two steps: identifying what the driving forces are and assessing the impact they will have on the industry.

Many events can affect an industry powerfully enough to qualify as driving forces. Some are unique and specific to a particular industry situation, but many drivers of change fall into general category affecting different industries simultaneously. Some of the categories/examples of drivers are:

- The internet and the new e-commerce opportunities and threats it breeds in the industry.
- Increasing globalization.
- Changes in the long-term industry growth rate.
- Product innovation.
- Marketing innovation.
- Entry or exit of major forms.
- Diffusion of technical know-how across more companies and more countries.
- Changes in cost and efficiency.

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

- **Competitor differentiation:** The company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate. This can provide a company an edge compared to competitors. It allows the company to provide better products or services to market with no fear that competitors can copy it.
- **Customer value:** When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence. It will include all the skills needed to provide fundamental benefits. The service or the product has to have real impact on the customer as the reason to choose to purchase

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



them. If customer has chosen the company without this impact, then competence is not a core competence.

- **Application of competencies to other markets:** Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise. Therefore, although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence, if it is not fundamental from the whole organization's point of view. Thus, a core competence is a unique set of skills and expertise, which will be used through out the organisation to open up potential markets to be exploited.

**6.** Feelgood brand of cosmetics may have following vision and mission:

**Vision:** Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. Mr Raj should aim to position "Feelgood cosmetics" as India's beauty care company. It may have vision to be India' largest beauty care company that improves looks, give extraordinary feeling and bring happiness to people.

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

Mr Raj may identify mission in the following lines:

- To be in the business of cosmetics to enhance the lives of people, give them confidence to lead.
- To protect skin from harmful elements in environment and sun rays.
- To produce herbal cosmetics using natural ingredients.

**7.** The strategic management process can best be studied and applied using a model. Identifying an organization's vision, mission, goals and objectives, is the starting point for strategic management process. The strategic management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. Therefore, strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semi-annually.

Formulating, implementing, and evaluating strategies are the major components of the strategic management that are represented in the following model:

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



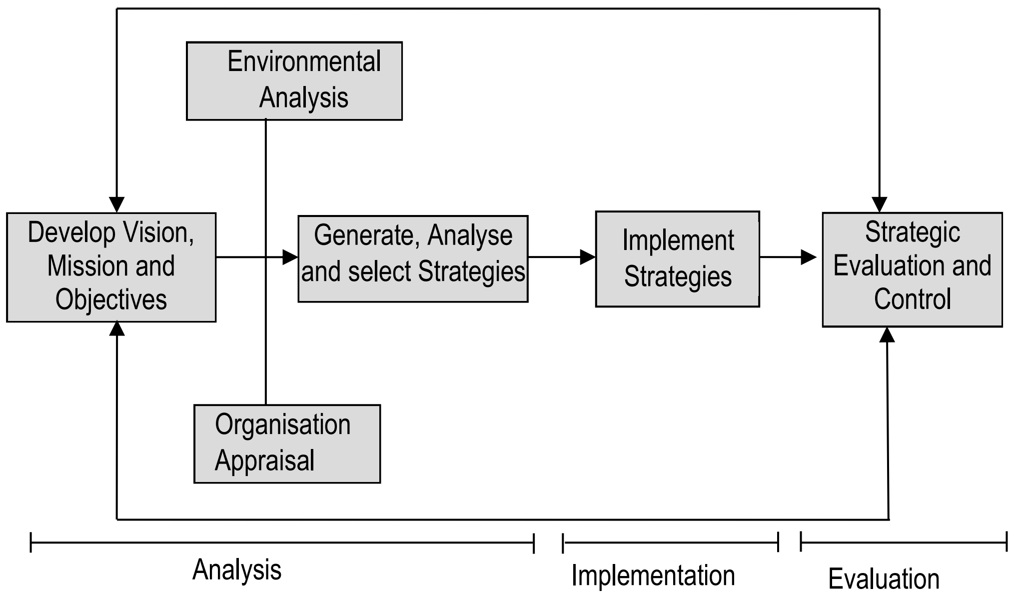



**Figure: Strategic Management Model**

The strategic management process is not as cleanly divided and neatly performed in practice. Strategists do not go through the process in lockstep fashion. Generally, there is give-and-take among hierarchical levels of an organization. Many organizations conduct formal meetings semi-annually to discuss and update the firm's vision/mission, opportunities/threats, strengths/weaknesses, strategies, objectives, policies, and performance. Creativity from participants is encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.

**8.** Pizza Chain may choose to have turnaround strategy if there are:

- Persistent negative cash flow from business.
- Uncompetitive products or services.
- Declining market share.
- Deterioration in physical facilities.
- Over-staffing, high turnover of employees, and low morale.
- Mismanagement.

For turnaround strategies to be successful, it is imperative to focus on the short and long-term financing needs as well as on strategic issues. The chain may attempt to leverage the potential Indian market by engaging a new logistics partner. It may bring innovation in food items, as well as quality and improvements in the overall dine-in and delivery experience. During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



A workable action plan for turnaround would involve:

**Stage One – Assessment of current problems**: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused.

**Stage Two – Analyze the situation and develop a strategic plan:** Before making any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan.

**Stage Three – Implementing an emergency action plan**: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.

**Stage Four – Restructuring the business**: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.

**Stage Five – Returning to normal**: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

9. One of the important goals of a business enterprise is stability - to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business. A stability strategy is pursued by a firm when:

   - It continues to serve in the same or similar markets and deals in same or similar products and services.
   - The strategic decisions focus on incremental improvement of functional performance.

   Major reasons for stability strategy are as follows:

   - A product has reached the maturity stage of the product life cycle.
   - It is less risky as it involves less changes and the staff feels comfortable with things as they are.
   - The environment faced is relatively stable.
   - Expansion may be perceived as being threatening.
   - Consolidation is sought through stabilizing after a period of rapid expansion.

**10.** Mota shoes is trying to use differentiation. This 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,

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product.

A differentiation strategy has definite advantages as it may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

i. **Rivalry:** Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.

ii. **Buyers:** They do not negotiate for price as they get special features and also they have fewer options in the market.

iii. **Suppliers:** Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.

iv. **New entrants:** Innovative features are expensive to copy. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.

v. **Substitutes:** Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

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

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

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

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

**12.** Successful strategy implementation often requires additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Being a financial manager to determine an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation. Fixed debt obligations generally must be met, regardless of circumstances. This does not mean that stock issuances are always better than debt for raising capital. If ordinary stock is issued to finance strategy implementation; ownership and control of the enterprise are diluted. This can be a serious concern in today's business environment of hostile takeovers, mergers, and acquisitions.

The major factors regarding which strategies have to be made by a financial manager are: capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and relationship with lenders, banks and financial institutions. Strategies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies. Organizations have

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



a range of alternatives regarding the sources of funds. While one company may rely on external borrowings, another may follow a policy of internal financing.

**13.** Successful implementing supply management systems requires a change from managing individual functions to integrating activities into key supply chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. Implementing and successfully running supply chain management system will involve:

**(i)** **Product development:** Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all. Involving all partners will help in shortening the life cycles.

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

**(iii)** **Manufacturing:** Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences.

**(iv)** **Physical distribution:** Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant.

**(v)** **Outsourcing:** Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services so that the company is able to focus on those activities where it has competency.

**(vi)** **Customer services:** Organizations, through interfaces with the company's production and distribution operations, develop customer relationships so as to satisfy them.

**(vii)** **Performance measurement:** Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

**14.** The scenario being referred to is culture in Jupiter Electronics. Strong culture promotes good strategy execution when there's fit and impels execution when there's negligible fit. A culture grounded in values, practices, and behavioral norms that match what is needed for good strategy execution helps energize people throughout the organization to do their jobs in a strategy-supportive manner. 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. This is very conducive to successful execution of a strategy of delivering superior customer service.

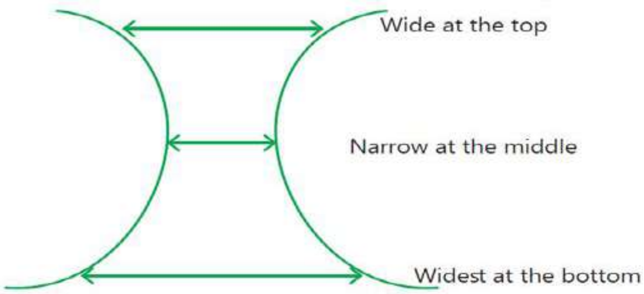
A strong strategy-supportive culture makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the organizational vision, do their jobs competently and with enthusiasm, and collaborate with others.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



**15.** Information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers with constricted middle layer. The structure has a short and narrow middle-management level. Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities. Contrary to traditional middle level managers who are often specialist, the managers in the hourglass structure are generalists and perform wide variety of tasks. They would be handling cross-functional issues emanating such as those from marketing, finance or production.




Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster.

**16.** Mr Dutta should adopt business process reengineering (BPR). It is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involves examination of the basic process itself. BPR refers to the analysis and redesign of workflows and processes both within the organization and between the organization and the external entities like suppliers, distributors, and service providers.

The orientation of redesigning efforts involves total deconstruction and rethinking of business process BPR involves the following steps:

i. **Determining objectives:** Objectives are the desired end results of the redesign process. They will provide the required focus, direction, and motivation for the redesign process and help in building a comprehensive foundation for the reengineering process.

ii. **Identify customers and determine their needs:** The process designers have to understand customers. The purpose is to redesign business process that clearly provides value addition to the customer.

iii. **Study the existing processes:** The study of existing processes will provide an important base for the process designers. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com



iv. **Formulate a redesign process plan:** Formulation of redesign plan is the real crux of the reengineering efforts. Customer focussed redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.

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

**17.** 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.

© The Institute of Chartered Accountants of India