PAPER – 7: ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT

SECTION – A: ENTERPRISE INFORMATION SYSTEMS

QUESTIONS

Multiple Choice Questions

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

A Cooperative society in Ghaziabad decides to open a bank named ABC Bank with its two branches located in Noida, Uttar Pradesh. The branches of banks are proposed to be connected to each other and all the processing and transactions being computerized with a centralized database. Further, to avoid manual working and proceed with advance technology, and at the same time to enhance functionality within branch; all the computer systems within all the departments in each branch would have connection-oriented network. The bank proposes to abide by all the regulations and compliance prevailing in India with respect to banking sector.

Mr. A is appointed as an IT - Head to carry out the Feasibility study of the proposed system and submit the report to top management of the Cooperative Society. After the report is submitted to the Top Management, following issues are raised by the management:

- There may be a conflict for some common resources in the network.
- Since the data is centrally located, it may create a possibility of access to non-relevant data by other departments.
- What would happen, if any employee intentionally destroys or alters the information residing in any of computer of any branch?
- Network security related issues between both branches of bank.

Based on the above case scenario, answer the following questions:

1. In purview of above case, under which legal provision of IT Act, 2000; the management can prove an employee guilty if (s)he intentionally destroys or alters the information residing in a computer resource of a branch?
   (a) Section 43
   (b) Section 65
   (c) Section 66 E
   (d) Section 66 C
2. Which of the following control shall be implemented in both the branches of ABC bank to suppress the risk of possibility of access to non-relevant data by other departments?
   (a) Proper training of the users with well documented manuals.

(b) Clear defining of change control procedures and holding everyone to them.

(c) Back up arrangement needs to be very strong.

(d) Access rights need to be defined very carefully and to be given on "Need to know" and "Need to do" basis only.

3. The feature of Internet banking through ABC Banks' website allows ease and convenience to its customers. Which of the following is not the limitation of Internet banking?

(a) Difficult for a non-technical person

(b) Risk of data theft

(c) Written Record not to be maintained

(d) Overspending

4. The Top management of cooperative society raised its concern over an issue related to conflict of sharing of common resources in network between its two branches. Select the terminology referring to the above concern.

(a) Resilience

(b) Contention

(c) Bandwidth

(d) Routing

5. In both branches of ABC bank, all the fixed asset acquisitions will be recorded as the control objective related to certain risk. Under which category this control objective falls?

(a) Configuration general ledger

(b) Transaction Fixed asset

(c) Master fixed asset

(d) Transaction general ledger

Descriptive Questions

Chapter 1: Automated Business Processes

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

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

© The Institute of Chartered Accountants of India

Chapter 2: Financial and Accounting Systems

8. Discuss the different ways in which Database Administrator (DBA) can store the data of ABC enterprise implementing Accounting Information System (AIS).
9. ERP implementation is the difficult task as the organization which is in the process of implementing ERP should keep abreast of latest technological development. Describe the different risks associated with technology while implementing ERP.

Chapter 3: Information Systems and Its Components

10. Mr. A is a System Administrator of the company who must ensure the protection of Operating System used in information system of the company. How can this purpose be achieved?
11. Database Management System (DBMS) provides the facility to create and maintain a well organised database for any enterprise. Describe the various advantages of Database Management System used in an organization.

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

12. DEF is a car battery manufacturing company which intends to provide online business to its customers. Briefly explain various components involved in any e-Commerce transaction.
13. ABC university wants to conduct online exams for its different courses for which a contract is given to vendor XYZ. The vendor provides computing resources such as processing power, memory, storage, and networks to ABC university users to run their online exam application on-demand. Identify the Service Model of Cloud Computing that vendor XYZ is providing to ABC university and also describe its characteristics.

Chapter 5: Core Banking Systems

14. Internal controls must be integrated in the IT solution implemented at the bank's branches to mitigate risks. State few examples indicating the internal controls in banks.
15. Money laundering is used by anti-social elements to make 'dirty' money appear 'clean' that affects the economy of any country. Discuss the various stages involved in the process of Money Laundering.

SUGGESTED ANSWERS/HINTS

<u>Multiple Choice Answers</u>

1. **(a)** Section 43

2. **(d)** Access rights need to be defined very carefully and to be given on "Need to know" and Need to do" basis only.

© The Institute of Chartered Accountants of India

3. **(c)** Written Record not to be maintained
4. **(b)** Contention
5. **(b)** Transaction general ledger

Descriptive Answers

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

7. When risks are identified and analyzed, it is not always appropriate to implement controls to counter them. Some risks may be minor, and it may not be cost effective to implement expensive control processes for them. Risk management strategy is explained below:
   - **Tolerate/Accept the risk:** One of the primary functions of management is managing risk. Some risks may be considered minor because their impact and probability of occurrence is low. In this case, consciously accepting the risk as a cost of doing business is appropriate, as well as periodically reviewing the risk to ensure its impact remains low.
   - **Terminate/Eliminate the risk:** It is possible for a risk to be associated with the use of a technology, supplier, or vendor. The risk can be eliminated by replacing the technology with more robust products and by seeking more capable suppliers and vendors.
   - **Transfer/Share the risk:** Risk mitigation approaches can be shared with trading partners and suppliers. A good example is outsourcing infrastructure management. In such a case, the supplier mitigates the risks associated with managing the IT

© The Institute of Chartered Accountants of India

infrastructure by being more capable and having access to more highly skilled staff than the primary organization. Risk also may be mitigated by transferring the cost of realized risk to an insurance provider.

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

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

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

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

All business process modules must use common master data.

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

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

- **Software Functionality:** ERP systems offer a myriad of features and functions, however, not all organizations require those many features. Implementing all the functionality and features just for the sake of it can be disastrous for an organization.

- **Technological Obsolescence:** With the advent of more efficient technologies every day, the ERP system also becomes obsolete as time goes on.
- **Enhancement and Upgrades:** ERP Systems are not upgraded and kept up-to-date. Patches and upgrades are not installed and the tools are underutilised.
- **Application Portfolio Management:** These processes focus on the selection of new business applications and the projects required delivering them.

10. Operating System protection can be achieved using following steps.

- **Automated terminal identification:** This will help to ensure that a specified session could only be initiated from a certain location or computer terminal.
- **Terminal log-in procedures:** A log-in procedure is the first line of defence against unauthorized access as it does not provide unnecessary help or information, which could be misused by an intruder. When the user initiates the log-on process by entering user-id and password, the system compares the ID and password to a database of valid users and accordingly authorizes the log-in.
- **Access Token:** If the log on attempt is successful, the Operating System creates an access token that contains key information about the user including user-id, password, user group and privileges granted to the user. The information in the access token is used to approve all actions attempted by the user during the session.
- **Access Control List:** This list contains information that defines the access privileges for all valid users of the resource. When a user attempts to access a resource, the system compasses his or her user-id and privileges contained in the access token with those contained in the access control list. If there is a match, the user is granted access.
- **Discretionary Access Control:** The system administrator usually determines; who is granted access to specific resources and maintains the access control list. However, in distributed systems, resources may be controlled by the end-user. Resource owners in this setting may be granted discretionary access control, which allows them to grant access privileges to other users.
- **User identification and authentication:** The users must be identified and authenticated in a fool-proof manner. Depending on risk assessment, more stringent methods like Biometric Authentication or Cryptographic means like Digital Certificates should be employed.

- **Password management system:** An operating system could enforce selection of good passwords. Internal storage of password should use one-way hashing algorithms and the password file should not be accessible to users.
- **Use of system utilities:** System utilities are the programs that help to manage critical functions of the operating system e.g. addition or deletion of users. This utility should not be accessible to a general user. Use and access to these utilities should be strictly controlled and logged.
- **Duress alarm to safeguard users:** If users are forced to execute some instruction under threat, the system should provide a means to alert the authorities.
- **Terminal time out:** Log out the user if the terminal is inactive for a defined period. This will prevent misuse in absence of the legitimate user.
- **Limitation of connection time:** Define the available time slot. Do not allow any transaction beyond this time.

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

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

© The Institute of Chartered Accountants of India

- **Achieving program/data independence:** In a DBMS, data does not reside in applications, but data base program & data are independent of each other.
- **Faster Application Development:** In the case of deployment of DBMS, application development becomes fast. The data is already therein databases, application developer has to think of only the logic required to retrieve the data in the way a user need.

12. Various components of e-Commerce transaction are as follows:

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

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

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

- **Computers, Servers and Database:** These are the backbone for the success of the venture. Big e-commerce organization invest huge amount of money/time in creating these systems.
- **Mobile Apps:** A mobile app is a software application programmed to run specifically on a mobile device. Smartphone's and tablets have become a dominant form of computing, with many more smartphones being sold than personal computers.
- **Digital Library:** A Digital Library is a special library with a focused collection of digital objects that can include text, visual material, audio material, video material, stored as electronic media formats, along with means for organizing, storing, and retrieving the files and media contained in the library collection.
- **Data Interchange:** Data Interchange is an electronic communication of data. For ensuring the correctness of data interchange between multiple players in e-commerce, business specific protocols are being used. There are defined standards to ensure seamless / exact communication in e-commerce.

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

© The Institute of Chartered Accountants of India

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

(vi) **Payment Gateway:** Payment gateway represents the way e-commerce vendors collects their payments. These assures seller of receipt of payment from buyer of goods/services from e-commerce vendors. Presently numerous methods of payments by buyers to sellers are being used, including Credit / Debit Card Payments, Online bank payments, Vendors own payment wallet, Third Party Payment wallets, Cash on Delivery (CoD) and Unified Payments Interface (UPI).

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

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

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

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

- Work of one staff member is invariably supervised/ checked by another staff member, irrespective of the nature of work (Maker-Checker process).
- A system of job rotation among staff exists.
- Financial and administrative powers of each official/ position is fixed and communicated to all persons concerned.

© The Institute of Chartered Accountants of India

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

15. Stages of Money Laundering are as follows:

i. **Placement:** The first stage involves the Placement of proceeds derived from illegal activities - the movement of proceeds frequently currency from the scene of the crime to a place, or into a form, less suspicious and more convenient for the criminal.

ii. **Layering:** Layering involves the separation of proceeds from illegal source using complex transactions designed to obscure the audit trail and hide the proceeds. The criminals frequently use shell corporations, offshore banks or countries with loose regulation and secrecy laws for this purpose. Layering involves sending the money through various financial transactions to change its form and make it difficult to follow. Layering may consist of several banks to bank transfers or wire transfers between different accounts in different names in different countries making deposit and withdrawals to continually vary the amount of money in the accounts changing the money's currency purchasing high value items to change the form of money-making it hard to trace.

iii. **Integration:** Integration involves conversion of illegal proceeds into apparently legitimate business earnings through normal financial or commercial operations. Integration creates the illusion of a legitimate source for criminally derived funds and involves techniques as numerous and creative as those used by legitimate businesses.

© The Institute of Chartered Accountants of India

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):

(i) Strategy is-

(a) Proactive in action

(b) Reactive in action

(c) A blend of proactive and reactive actions

(d) None of the above

(ii) 'Strategic group mapping' helps in-

(a) Identifying the strongest rival companies

(b) Identifying weakest rival companies

(c) Identifying weakest and strongest rival companies

(d) None of the above

(iii) In which phase of strategic management are annual objectives especially important?

(a) Formulation

(b) Control

(c) Evaluation

(d) Implementation

(iv) Retrenchment strategy in the organization can be explained as

(a) Reducing trenches (gaps) created between individuals.

(b) Divesting a major product line or market.

(c) Removal of employees from job through the process of reorganization.

(d) Removal of employees from job in one business to relocate them in other business.

(v) Differentiation Strategy can be achieved by following measures:

1. Match products with tastes and preferences of customers.
2. Elevate the performance of the product.
3. Rapid product innovation

Which of the above is true?

(a) (1) and (2)

(b) (1) and (3)

© The Institute of Chartered Accountants of India

(c) (2) and (3)

(d) (1), (2) and (3)

(vi) Supply chain refers to the linkages between:

(a) Suppliers

(b) Customers

(c) Manufacturers

(d) All the above

(vii) An entrepreneur is one who:

(a) Initiates and innovates a new concept.

(b) Does not recognize and utilizes opportunities.

(c) Does not want to face risks and uncertainties.

(d) None of these.

(viii) After an earnest attempt to bring in a strategic change in your organization, you the operational head of XYZ ltd, succeeded but still your organization couldn't achieve the desired competitive position in the market. Out of the following what could be the reason?

(a) Strategy Formulation

(b) Strategy Model

(c) Strategy Implementation

(d) Strategy Decision

(ix) Which of the following are responsible for formulating and developing realistic and attainable strategies?

(a) Corporate level and business level managers

(b) Corporate level and functional level managers

(c) Functional managers and business level managers

(d) Corporate level managers, business level managers and functional level managers

(x) A tool by which management identifies and evaluates the various businesses that make up a company is termed as:

(a) Value Chain Analysis

(b) Portfolio Analysis

(c) Competition Analysis

(d) Strategic Analysis

© The Institute of Chartered Accountants of India

(xi) Which one is not the element of strategic intent?

(a) Business model

(b) Vision

(c) Business definition

(d) Business standard

(xii) Vertical integration may be beneficial when

(a) Lower transaction costs and improved coordination are vital and achievable through vertical integration.

(b) Flexibility is reduced, providing a more stationary position in the competitive environment.

(c) Various segregated specializations will be combined.

(d) The minimum efficient scales of two corporations are different.

(xiii) Competitive rivalry has the most effect on the firm's ____ strategies than the firm's other strategies.

(a) Business level

(b) Corporate level

(c) Functional level

(d) All of these

(xiv) The marketing strategy which is used to reduce or shift the demand is:

(a) Enlightened Marketing

(b) Synchro-Marketing

(c) Place Marketing

(d) Demarketing

(xv) In strategic management, there are two main styles of leadership. These are transformational and:

(a) Transparent

(b) Transitional

(c) Translational

(d) Transactional

(xvi) You being the core strategist of your company, entrusted with bringing about strategic change in your company, how will you initiate "unfreezing of the situation"?

(a) Promoting new ideas throughout the organization

(b) Promoting compliance throughout the organization

© The Institute of Chartered Accountants of India

(c) Promoting change in process throughout the organization

(d) None of the above

Descriptive answers

Chapter 1-Introduction to Strategic Management

2. Health Wellnow is a Delhi based charitable organisation promoting healthy lifestyle amongst the office-goers. It organises free of cost programmes to encourage and guide office-goers on matters related to stress relief, yoga, exercises, healthy diet, weight management, work-life balance and so on. Many business organisations and resident welfare associations are taking services of Health Wellnow in Delhi and adjoining areas and make financial contributions to its cause. The Health Wellnow is able to generate sufficient funds to meet its routine expenses.

   How far strategic management is relevant for Health Wellnow? Discuss.

3. Explain the difference between three levels of strategy formulation.

Chapter 2-Dynamics of Competitive Strategy

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

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

Chapter 3-Strategic Management Process

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

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

7. What are the elements in strategic intent of organisation?

Chapter 4-Corporate Level Strategies

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

9. Write short note on expansion through acquisitions and mergers.

Chapter 5-Business Level Strategies

10. Eco-carry bags Ltd., a recyclable plastic bags manufacturing and trading company has seen a potential in the ever-growing awareness around hazards of plastics and the positive outlook of the society towards recycling and reusing plastics.

© The Institute of Chartered Accountants of India

A major concern for Eco-carry bags Ltd. are paper bags and old cloth bags. Even though they are costlier than recyclable plastic bags, irrespective, they are being welcomed positively by the consumers.

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

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

Chapter 6-Functional Level Strategies

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

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

Chapter 7-Organisation and Strategic Leadership

14. 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.

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

Chapter 8-Strategy Implementation and Control

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

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

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

© The Institute of Chartered Accountants of India

SUGGESTED ANSWERS / HINTS

Multiple Choice Questions

Answer 1

(i) (c)	(ii) (c)	(iii) (d)	(iv) (b)	(v) (d)	(vi) (d)
(vii) (a)	(viii) (c)	(ix) (d)	(x) (b)	(xi) (d)	(xii) (a)
(xiii) (a)	(xiv) (d)	(xv) (d)	(xvi) (a)		

Descriptive answers

2. The concepts of strategic management are relevant for Health Wellnow.

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

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

(i) Generate sufficient funds for meeting its objectives.

(ii) Efficiently reach office-goers and help them to have health in life.

(iii) Promote itself to cover more offices, resident welfare associations.

(iv) Have a deep collaboration with health experts, including dieticians, psychologist, fitness trainers, yoga experts.

3. A typical large organization is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three levels of strategy in management of business - corporate, business, and functional.

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

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

© The Institute of Chartered Accountants of India

translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

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

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

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

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

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

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

- **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
- **Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.

© The Institute of Chartered Accountants of India

- **Opportunity:** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
- **Threat:** A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

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

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

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

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

7. Strategic intent can be understood as the philosophical base of strategic management. It implies the purposes, which an organization endeavours to achieve. It is a statement that provides a perspective. Strategic intent gives an idea of what the organization desires to

© The Institute of Chartered Accountants of India

attain in future. Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives. Elements of strategic management are as follows:

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

(ii) **Mission:** Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in society.

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

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

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

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

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

When one organization takes over the other organization and controls all its business operations, it is known as acquisition. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the

© The Institute of Chartered Accountants of India

powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization either consumes the operation or a company in loss is forced to sell its entity.

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

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

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

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

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

© The Institute of Chartered Accountants of India

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

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

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

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

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

14. 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.

15. A strategic business unit (SBU) is any part of a business organization which is treated separately for strategic management purposes. The concept of SBU is helpful in creating an SBU organizational structure. It is discrete element of the business serving product markets with readily identifiable competitors and for which strategic planning can be concluded. It is created by adding another level of management in a divisional structure

© The Institute of Chartered Accountants of India

after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Advantages of SBU are:

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

16. The company needs to conduct strategy audit.

A strategy audit is needed under the following conditions:

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

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

Strategy Audit includes three basic activities:

(i) Examining the underlying bases of a firm's strategy,

(ii) Comparing expected results with actual results, and

(iii) Taking corrective actions to ensure that performance conforms to plans.

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

There are four types of strategic control:

- **Premise control**: A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and

© The Institute of Chartered Accountants of India

continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.

- **Strategic surveillance**: Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.
- **Special alert control:** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.
- **Implementation control:** Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results.

© The Institute of Chartered Accountants of India