

**PAPER – 7: ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT**

**SECTION – A: ENTERPRISE INFORMATION SYSTEMS**

*Question No. 1 is compulsory.*

*Answer any **three** questions from the rest.*

**Question 1**

(a) *In a conventional sense, 'data' is a raw entity whereas 'information' is a processed entity. An Information System (IS) model converts data into information, so that it is meaningful to the end user. What are those steps involved in accomplishing this in an IS model?*

**(3 Marks)**

(b) *Information Systems Audit is the process of attesting objectives that focus on asset safeguarding, data integrity and management objectives that include effectiveness and efficiency. List the objectives of Information Systems audit.*

**(2 Marks)**

**Answer**

(a) The steps involved in an Information System model are as follows:

- **Input:** Data is collected from an organization or from external environments and converted into suitable format required for processing.
- **Processing:** A process is a series of steps undertaken to achieve desired outcome or goal. Information Systems are becoming more and more integrated with organizational processes, bringing more productivity and better control to those processes.
- **Output:** The system processes the data by applying the appropriate procedure on it and the information thus produced is stored for future use or communicated to user.
- **Storage:** The storage of data shall be done at the most detailed level possible. Regular backups should be stored in a geographically different locations to avoid impact on both the original data storage and the backup data storage due to any major disasters such as flooding or fires etc.
- **Feedback:** Apart from these activities, information system also needs feedback that is returned to appropriate members of the enterprises to help them to evaluate at the input stage.

(b) The objectives of Information Systems Audit are as follows:

- Improved Safeguarding of Assets
- Improved Data Integrity

- Improved System Effectiveness
- Improved System Efficiency

**Question 2**

- (a) *In the modern era, the business gets well developed by using the automation technique with a greater customer satisfaction of services and products, where customer-oriented supply chain is playing a vital role. In this context, explain the benefits of automating business processes.* **(6 Marks)**
- (b) *Many organizations are moving towards cloud based technology for storage and thus providing many benefits to the users. Explain any four reasons for cloud based applications comparing to installed applications.* **(4 Marks)**

**Answer**

- (a) The benefits of automating business processes are as follows:
- **Quality and Consistency:** The automation ensures that every action is performed identically resulting in high quality and reliable results and stakeholders will consistently experience the same level of service.
  - **Time Saving:** Automation reduces the number of tasks the employees would otherwise need to do, manually. It frees up time to work on items that add genuine value to the business, allowing innovation and increasing employees' levels of motivation.
  - **Visibility:** The automated processes are controlled, and they consistently operate accurately within the defined timeline. It gives visibility of the process status to the organization.
  - **Improved Operational Efficiency:** The automation reduces the time it takes to achieve a task, the effort required to undertake it and the cost of completing it successfully. Automation not only ensures that systems run smoothly and efficiently, but also that errors are eliminated and that best practices are constantly leveraged.
  - **Governance and Reliability:** The consistency of automated processes means stakeholders can rely on business processes to operate and offer reliable services to customers, thus, maintaining a competitive advantage.
  - **Reduced Turnaround Time:** The automation eliminates unnecessary tasks and realigns process steps to optimize the flow of information throughout production, service, billing, and collection. This adjustment of processes distils operational performance and reduces the turnaround time for both staff and external customers.
  - **Reduced Costs:** The manual tasks, given that they are performed one-at-a-time and

at a slower rate than an automated task, will cost more. The automation allows to accomplish more by utilizing fewer resources.

- (b) The reasons for Cloud based applications compared to Installed applications are as follows:

Particulars	Cloud Based Application	Installed Application
<b>Installation and Maintenance</b>	Installation on user computer is not required. Update and maintenance are defined responsibility of service provider.	As software is installed on hard disc of the user's computer, it needs to be installed on every computer one by one. This may take lot of time. Also, maintenance and updating of software may take lot of time and efforts.
<b>Accessibility</b>	As software is available through online access, to use the software a browser and an internet connection are needed. It can be used from any computer in the world. Access to the software becomes very easy. Also, it can be used 24 x 7.	As software is installed on the hard disc of the user's computer, user needs to go to the computer in which the software is installed to use the software. It cannot be used from any other computer.
<b>Mobile Application</b>	Mobile application becomes very easy as data is available 24x7. As technology evolves, mobile technology is becoming an industry norm that makes cloud-based application future oriented.	Using the software through mobile application is difficult in this case.
<b>Data Storage</b>	Data is not stored in the user's server computer. It is stored on a web server. Ownership of data is defined in Service Level Agreement (SLA). SLA defines the rights, responsibilities and authority of both service provider and service user.	Data is physically stored in the premises of the user, i.e. on the hard disc of the user's server computer. Hence user will have full control over the data.
<b>Data Security</b>	Data security is a challenge in case of cloud based application as the data is not in	As the data is in physical control of the user, user shall have the full physical control over the

	control of the user or owner of data. As time evolves; SLAs provide for details of back-up, disaster recovery alternatives being used by service provider.	data and he/she can ensure that it is not accessed without proper access.
<b>Performance</b>	Access is dependent on speed of internet. Slow internet slows access to information and may slow operations.	A well written installed application shall always be faster than web application, reason being data is picked from local server without internet.
<b>Flexibility</b>	The success of cloud-based applications is that they allow flexibility against both Capital Expenditure (CAPEX) and Operating Expense (OPEX) to the user. User can scale up operations as per need.	It shall have more flexibility and controls as compared to web application. It is very easy to write desktop applications that take advantage of the user's hardware (such as: scanners, cameras, Wi-Fi, serial ports, network ports, etc.). Installed applications have the disadvantage of higher Capital Expenditure (CAPEX) in comparison to cloud-based application.

**Question 3**

- (a) *We have been using Emails and Google Drive's applications for our personal use, which are free versions of cloud computing. However, it makes a major impact in business organizations. Nowadays, why companies are migrating their business operations to cloud computing environment? Give reasons by highlighting its advantages. (6 Marks)*
- (b) *Fixed assets process is used to ensure that the immovable assets of an enterprise are traced for financial accounting related purposes. In order to accomplish those tasks, what are the typical steps of fixed assets process to follow? (4 Marks)*

**Answer**

- (a) The advantages of Cloud Computing are as follows:
- **Achieve economies of scale:** In cloud computing; computational resources, storage, and services are shared between multiple customers. This results in achieving efficient utilization of resources and that too at reduced cost. Volume output or productivity can be increased even with fewer systems and thereby reduce the cost per unit of a project or product.

- **Reduce spending on technology infrastructure:** Data and information can be accessed with minimal upfront spending in a pay-as-you-go approach, which is based on demand. With the increased dependency of business organizations on IT, huge investment is required for acquiring IT resources. By using cloud computing, the organization can avoid purchasing hardware, software, and licensing fees. Moreover, cloud service providers are paid based on actual usage of resources, which is based on demand.
- **Globalize the workforce:** Cloud computing allows users to globalize their workforce and improve accessibility while shortening training time and new employee learning curves.
- **Streamline business processes:** Cloud Service Providers (CSPs) manage underlying infrastructure to enable organizations to focus on application development in less time with less resources.
- **Reduce capital costs:** Cloud computing users worldwide can access the cloud with Internet connection that subsequently does not require them to spend on technology infrastructure, hardware, software, or licensing fees.
- **Easy access to information/applications:** One can access information and applications as utilities anytime and anywhere, over the internet using any smart computing device.
- **Pervasive accessibility:** Data and applications can be accessed anytime, anywhere, using any smart computing device, making our life so much easier.
- **Backup and Recovery:** It is relatively much easier to backup and restore data stored in cloud. Even if one hard disk fails, data will be safe and will continue to be available automatically on another one.
- **Monitor projects more effectively:** It is feasible to confine within budgetary allocations and can be ahead of completion cycle times.
- **Less personnel training is needed:** It takes fewer people to do more work on a cloud with a minimal learning curve on hardware and software issues.
- **Minimize maintenance and licensing software:** As there is not much of non-premise computing resources, maintenance becomes simple, and updates and renewals of software systems rely on the cloud vendor or provider.
- **Load balancing:** Load balancing is defined as the process of distributing workloads across multiple servers to prevent any single server from getting overloaded and possibly breaking down. It plays an important role in maintaining the availability of

cloud-based applications to customers, business partners, and end users, thus making it more reliable.

- **Improved flexibility:** Cloud users can make fast changes in their work environment without serious issues at stake to scale services to fit their needs.

(b) Typical steps of Fixed Assets process are as follows:

- Procuring an asset:** An asset is most often entered into the accounting system when the invoice for the asset is entered into the accounts payable or purchasing module of the system.
- Registering or adding an asset:** Most of the information needed to set up the asset for depreciation is available at the time, the invoice is entered. Information entered at this stage could include acquisition date, placed-in-service date, description, asset type, cost basis, depreciable basis etc.
- Adjusting the Assets:** Adjustments to existing asset information is often needed to be made. Events may occur that can change the depreciable basis of an asset. Further, there may be improvements or repairs made to asset that either adds value to the asset or extend its economic life.
- Transferring the Assets:** A fixed asset may be sold or transferred to another subsidiary, reporting entity, or department within the company. These inter-company and intra-company transfers may result in changes that impact the asset's depreciable basis, depreciation, or other asset data. This needs to be reflected accurately in the fixed assets management system.
- Depreciating the Assets:** The decline in an asset's economic and physical value is called Depreciation. Depreciation is an expense which should be periodically accounted on a company's books, and allocated to the accounting periods, to match income and expenses. Sometimes, the revaluation of an asset, may also result in appreciation of its value.
- Disposing the Assets:** When a fixed asset is no longer in use, becomes obsolete, or is beyond repair; the asset is typically disposed. When an asset is taken out of service, depreciation cannot be charged on it. There are multiple types of disposals such as abandonments, sales, and trade-ins. Any difference between the book value and realized value is reported as a gain or loss.

#### Question 4

- (a) *ABC Bank, one of the largest public sector banks, is planning to deploy and implement Core Banking System (CBS) to all its branches. As an IT consultant, suggest the deployment and implementation of CBS at various stages to ensure that bank's automation objectives are achieved.* **(6 Marks)**

- (b) *In recent times, new modes of money transfer have replaced the traditional methods of funds transfer. Most of the banks have now introduced digital mode of remittance, called Electronic Fund Transfer (EFT) which facilitates almost instantaneous transfer of funds. Define EFT and explain its types. (4 Marks)*

**Answer**

- (a) The deployment and implementation of Core Banking System (CBS) should be controlled at various stages to ensure that banks automation objectives are achieved, are as follows:
- **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 which is scalable and where different interfaces are readily available 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 deployments are procured. There should be appropriate controls covering the design or development or procurement of CBS for the bank.
  - **Testing:** Extensive testing must be done before the CBS is live. The testing is to be done at different phases at procurement stage to test suitability to data migration to ensure all existing data is correctly migrated and testing to confirm processing of various types of transactions of all modules produces the correct results.
  - **Implementation:** CBS must be implemented as per pre-defined and agreed plan with specific project milestones to ensure successful implementation.
  - **Maintenance:** CBS must be maintained as required. For example - 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.

- (b) **Electronic Funds Transfer (EFT)** is another mode of remittance which facilitates almost instantaneous transfer of funds between two centres electronically. Most of the banks have introduced digital mode of remittance which makes remittance possible online and on mobile devices directly by the customer in a few clicks.

New modes of money transfer include the following:

- **Real Time Gross Settlement (RTGS)** is an electronic form of funds transfer where the transmission takes place on a real-time basis. In India, transfer of funds with RTGS is done for high value transactions, the minimum amount being Rs. 2 lakh. The beneficiary account receives the funds transferred, on a real-time basis.
- **National Electronic Funds Transfer (NEFT)** is a nation-wide payment system facilitating one-to-one funds transfer. Under this scheme, individuals can electronically transfer funds from any bank branch to any individual having an account with any other bank branch in the country participating in the scheme.
- **Immediate Payment Service (IMPS)** is an instant payment inter-bank electronic funds transfer system in India. IMPS offers an inter-bank electronic fund transfer service through mobile phones. Unlike NEFT and RTGS, the service is available 24x7 throughout the year including bank holidays.

#### Question 5

- (a) *Computers are used extensively to process data and to provide Information for decision making. However, uncontrolled use of computers can have a widespread impact on a society. Explain the factors influencing the need for control and audit of information systems.* **(6 Marks)**
- (b) *Today's ERP systems can cover a wide range of functions such as Human Resources, Supply Chain Management, Customer Relationship Management, Financials, etc. and integrating them into one unified database. As an IT consultant of a company, how will you influence the Management to migrate their activities to ERP system by explaining its benefits.* **(4 Marks)**

**OR**

*One of the major problems of doing online business is the question of security. Then, how do you protect your e-commerce business from intrusion?*

#### Answer

- (a) The factors influencing the need for control and audit of Information Systems are as follows:
- **Organizational costs of data loss:** Data is a critical resource of an organization for its present and future processes. If the data is accurate, its ability to adapt and survive in a changing environment increases significantly. If such data is lost, an organization can incur substantial losses.

- **Cost of incorrect decision making:** Making high-quality decisions are dependent on both – the quality of the data and quality of the decision rules that exist within computer-based information systems. While making strategic decisions, some errors may be allowed by management considering the long-run nature of strategic planning decisions whereas highly accurate data would be required while making operational control decisions by the managers. These operational controls taken by managers involve detection, investigations, and correction of the processes. Incorrect data can also have adverse impact on the other stakeholders having an interest in the organization.
  - **Costs of computer abuse:** Computer abuse is defined as any incident associated with computer technology in which the user suffered or could have suffered loss and a perpetrator by intention made or could have made gain. Unauthorized access to computer systems, malwares, unauthorized physical access to computer facilities, unauthorized copies of sensitive data, viruses, and hacking can lead to destruction of assets like hardware, software, data, information etc.
  - **Value of computer hardware, software, and personnel:** These are critical resources of an organization, which has a credible impact on its infrastructure and business competitiveness. The intentional or unintentional loss of hardware, the destructions or corruption of software, and non-availability of skilled computer professionals in some countries; an organization might be unable to continue their operations seamlessly.
  - **High costs of computer error:** In a computerized enterprise environment where many critical business processes are performed, a data error during entry or process would cause great damage. For example - small data error during an operational flight can lead to loss of human lives; an error in any financial system can make an organization liable for penalty etc.
  - **Maintenance of privacy:** Nowadays, data collected in a business process contains private information about an individual too. These data were also collected before computers but now, there are many instances in which privacy of individuals has been eroded beyond acceptable levels.
  - **Controlled evolution of computers' use:** Use of Technology and reliability of complex computer systems cannot be guaranteed and the consequences of using unreliable systems can be destructive. Governments, professional bodies, pressure groups, organizations, and individual persons all must be concerned with evaluating and monitoring how we deploy computer technology.
- (b) The benefits of an Enterprise Resource Planning (ERP) System are as follows:
- **Information integration:** The reason ERP systems are called integrated is because they possess the ability to automatically update data between related business functions and components. For example - one needs to only update the status of an

order at one place in the order-processing system and all the other components will automatically get updated.

- **Reduction of Lead-time:** The elapsed time between placing an order and receiving it is known as the Lead-time. The ERP Systems by virtue of their integrated nature with many modules like Finance, Manufacturing, Material Management Module etc.; the use of the latest technologies like EFT (Electronic Fund Transfer), EDI (Electronic Data Interchange) reduce the lead times and make it possible for the organizations to have the items at the time they are required.
- **On-time shipment:** Since the different functions involved in the timely delivery of the finished goods to the customers - purchasing, material management production, production planning, plant maintenance, sales and distribution are integrated, and the procedures are automated; the chances of errors are minimal, and the production efficiency is high. Thus, by integrating the various business functions and automating the procedures and tasks, the ERP system ensures on-time delivery of goods to the customers.
- **Reduction in Cycle Time:** The Cycle time is the time between placement of the order and delivery of the product. In an ERP System, all the data updated to the minute, is available in the centralized database and all the procedures are automated. Almost all these activities are done without human intervention. This efficiency of the ERP systems helps in reducing the cycle time.
- **Improved resource utilization:** The efficient functioning of different modules in the ERP system like manufacturing, material management, plant maintenance, sales and distribution ensures that the inventory is kept to a minimum level, the machine down time is minimum, the goods are produced only as per the demand and the finished goods are delivered to the customer in the most efficient way. Thus, the ERP systems help an organization in drastically improving the capacity and resource utilization.
- **Better customer satisfaction:** Customer satisfaction means meeting or exceeding customers' requirement for a product or service. With the help of web-enabled ERP systems, customers can place an order, track the status of the order, and make the payment while sitting at home. Since all the details of the product and the customer are available to the person at the technical support department also, the company can better support the customer.
- **Improved supplier performance:** ERP systems provide vendor management and procurement support tools designed to coordinate all aspect of the procurement process. They support an organization in its efforts to effectively negotiate, monitor and control procurement costs and schedules while assuring superior product quality. The supplier management and control processes are comprised of features that will help the organization in managing supplier relations, monitoring vendor activities, and managing supplier quality.

- **Increased flexibility:** ERP Systems help the companies to remain flexible by making the company's information available across the departmental barriers and automating most of the processes and procedures, thus enabling the company to react quickly to the changing market conditions.
- **Reduced quality costs:** Quality is defined in many different ways - excellence, conformance to specifications, fitness for use, value for the price and so on. An ERP System's central database eliminates redundant specifications and ensures that a single change to standard procedures takes effect immediately throughout the organization. It also provides tools for implementing total quality management programs within an organization.
- **Better analysis and planning capabilities:** Another advantage provided by ERP Systems is the boost to the planning functions. By enabling the comprehensive and unified management of related business functions such as production, finance, inventory management etc. and their data; it becomes possible to utilize fully many types of Decision Support Systems (DSS) and simulation functions, what-if analysis and so on; thus, enabling the decision-makers to make better and informed decisions.
- **Improved information accuracy and decision-making capability:** The three fundamental characteristics of information are Accuracy, Relevancy and Timeliness. The information needs to be accurate, relevant for the decision-maker and available to the decision-makers when she/he requires it. The strength of ERP Systems-integration and automation help in improving the information accuracy and help in better decision-making.
- **Use of latest technology:** ERP packages are adapted to utilize the latest developments in Information Technology such as open systems, client/server technology, Cloud computing, Mobile computing etc. It is this adaptation of ERP packages to the latest changes in IT that makes the flexible adaptation to changes in future development environments possible.

OR

The ways to protect any e-Commerce business from intrusion are as follows:

- **Viruses:** The business website should be checked daily for viruses, the presence of which can result in the loss of valuable data. Virus protection gains greater significance in e-commerce operations primarily because most of the users of e-commerce infrastructure are either unknown or are not under the control of business enterprise. These users have their own virus protection environment that may not be secure.
- **Hackers:** Software packages to carry out regular assessments of how vulnerable their website is to hackers.

- **Passwords:** Employees should ensure that they change their passwords regularly and that passwords set by former employees of an organization are defunct.
- **Regular software updates:** A business website should always be up to date with the newest versions of security software. If it is not done regularly, the website may become vulnerable to attack.
- **Sensitive data:** Financial information and other confidential data should be encrypted using encryption software. Hackers or third parties will not be able to access encrypted data without a key. This is particularly relevant for any e-commerce sites that use a shopping cart system.
- Know the details of your payment service providers' contract.

PAPER 7 - SECTION – B: STRATEGIC MANAGEMENT

Question paper comprises of 5 questions, Answer Question No. 6 which is compulsory and any 3 out of the remaining 4 questions.

**Question 6**

Quick N Sturdy Inc., a multinational company, is undergoing feasibility study to introduce new luxury and sports car for specific group of customers. The product is meant for customers with distinctive preferences and special requirements. The product is not a standard one and as such the target market is also narrow. Company knows that demand for the product is large enough to be profitable for the company, but small enough to be ignored by other major industry players. The company wants to position itself in the niche market with the prime consideration to offer unique features in the product for the target market.

In the given situation, identify the generic strategy as suggested by Michael Porter. Also state the advantages and disadvantages of such strategy. **(1 + 2 + 2 = 5 Marks)**

**Answer**

Quick N Sturdy Inc. has adopted **Focused Differentiation Strategy** which is one of the Michael Porter's Generic strategies. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. **Firms that compete based on uniqueness and target a narrow market are following a focused differentiation strategy.**

**Advantages of Focused Strategy**

1. Premium prices can be charged by the organisations for their focused product/services.
2. Due to the tremendous expertise in the goods and services that the organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

**Disadvantages of Focused Strategy**

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high, which can cause problems.
3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

**Question 7**

- (a) "The strategic management cannot counter all hindrances and always achieve success for an organization." Do you agree with this statement? Give arguments in support of your answer. **(1+ 4 = 5 Marks)**

- (b) *You have been appointed as a Chief Executive Officer (CEO) in a company which is facing many difficulties in proper execution of its strategy. Explain the leadership roles which you should play in pushing for good strategy execution. (5 Marks)*

**Answer**

- (a) **Yes**, it is true that the presence of strategic management cannot counter all hindrances and always achieve success for an organization. This is on account of complex multiple forces acting on business organization and limiting its success.

These limitations are on account of following factors:

- ◆ **Environment is highly complex and turbulent.** It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.
  - ◆ **Strategic management is a time-consuming process.** Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
  - ◆ **Strategic management is a costly process.** Strategic management adds a lot of expenses to an organization – particularly to small and medium organisations. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement.
  - ◆ **Competition is unpredictable.** In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.
- (b) A Chief Executive Officer (CEO) has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader. Managers have five leadership roles to play in pushing for good strategy execution:
1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles.
  2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level.
  3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities.
  4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen.

5. Pushing corrective actions to improve strategy execution and overall strategic performance.

**Question 8**

- (a) *A company started its operation in 2015 with Product Alpha. In early 2021, with intent to have its better presence in the market, the company diversifies by acquiring a company with product Beta. After sometime, it was observed that product Beta is not faring well. Aggressive competition was therein market for the product. It was also revealed that though customers are not price sensitive, but product was not keeping pace with the fast changing unique features as expected by its customers.*

*Company has tried one of the retrenchment strategies by putting efforts to improve its internal efficiency, but could not get desired results. In the situation, company is of a considered view to remain and grow in product alpha and to decouple with product Beta from its portfolio.*

*As a strategist, suggest the retrenchment strategy to be adopted by the company. Also delineate reasons why a company should adopt such strategy? (1+ 4 = 5 Marks)*

- (b) *What is cost leadership strategy? Under what circumstances an organization can gain competitive advantages from cost leadership strategy? Is there any risk in pursuing cost leadership strategy? (1+ 3 + 1 = 5 Marks)*

**Answer**

- (a) As per the facts of the case, company had tried to improve its internal efficiency. In other words, had tried turnaround strategy but could not get the desired results.

Company does not want to go for complete close down of business. Rather it wants to continue and grow in its original business i.e. product Alpha.

As a strategist, it is advisable that the company should adopt **divestment strategy**. In the given situation where the business of product Beta is not faring well and became unprofitable and unviable due to aggressive competition in the market, the best option for the company is to divest the product Beta which is loss-making business.

Retrenchment may be done either internally or externally. Turnaround strategy is adopted in case of internal retrenchment where emphasis is laid on improving internal efficiency of the organization, while divestment strategy is adopted when a business turns unprofitable and unviable due to some external factors. In view of the above, the company should go for divestment strategy.

**A divestment strategy may be adopted due to various reasons:**

1. A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
2. Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.

3. Severity of competition and the inability of a firm to cope with it may cause it to divest.
  4. It is not possible for the business to do Technological up-gradation that is required for the business to survive, a preferable option would be to divest.
  5. A better alternative may be available for investment, causing a firm to divest a part of its unprofitable business.
- (b) **Cost leadership strategy** emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. It frequently results from productivity increases and aggressive pursuit of cost reduction throughout the development, production, marketing, and distribution processes. It allows a firm to earn higher profits than its competitors.

The circumstances in which an organization can gain competitive advantages from cost leadership strategy are:

- ◆ when the market is composed of many price-sensitive buyers.
- ◆ when there are few ways to achieve product differentiation.
- ◆ when buyers do not care much about differences from brand to brand.
- ◆ when there are a large number of buyers with significant bargaining power.

The basic idea is to underprice competitors and thereby gain market share driving some of the competitors out of the market.

**Some risks of pursuing cost leadership are:**

- ◆ that competitors may imitate the strategy, therefore driving overall industry profits down
- ◆ that technological breakthroughs in the industry may make the strategy ineffective; or that buyer interests may swing to other differentiating features besides price.

#### Question 9

- (a) "The TOWS Matrix is a tool for generating strategic options/choices." Do you agree with this statement? How it can help a strategist in decision making? **(1 + 4 = 5 Marks)**
- (b) "Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives." In the light of this statement, discuss the elements of strategic intent. **(5 Marks)**

#### Answer

- (a) **Yes**, TOWS Matrix is a relatively simple tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.

**SO (Maxi-Maxi):** Aggressive strategy - SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities.

**ST (Maxi-Mini):** Conservative strategy - ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

**WO (Mini-Maxi):** Competitive strategy - The strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited to maximum.

**WT (Mini-Mini):** Defensive strategy - WT is a position that any firm will try to avoid. An organization facing external threats and internal weaknesses may have to struggle for its survival.

The matrix is outlined below:

Internal External	<b>Strengths – S</b> List Strengths	<b>Weaknesses – W</b> List Weaknesses
<b>Opportunities – O</b> List Opportunities	<b>SO Strategies</b> Use strengths to take advantage of opportunities	<b>WO Strategies</b> Overcoming weaknesses by taking advantage of opportunities
<b>Threats – T</b> List Threats	<b>ST Strategies</b> Use strengths to avoid threats	<b>WT Strategies</b> Minimize weaknesses and avoid threats

**Figure: The TOWS Matrix**

By using TOWS Matrix, a strategist can look intelligently at how he can best take advantage of the opportunities open to him, at the same time that he can minimize the impact of weaknesses and protect himself against threats. Used after detailed analysis of threats, opportunities, strength and weaknesses, it helps the strategist to consider how to use the external environment to his strategic advantage, and so he can identify some of the strategic options available to him.

- (b) Strategic intent can be understood as the philosophical base of strategic management. It implies the purposes, which an organization endeavours to achieve. It is a statement that provides a perspective. Strategic intent gives an idea of what the organization desires to attain in future. Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives.

**Elements of strategic management are as follows:**

- (i) **Vision:** Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. It depicts the organisation's aspirations and

provides a glimpse of what the organization would like to become in future. Every sub system of the organization is required to follow its vision.

- (ii) **Mission:** Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in society.
- (iii) **Business Definition:** It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices.
- (iv) **Business Model:** Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details. Rival firms, operating in the same industry rely on the different business model due to their strategic choice.
- (v) **Goals and Objectives:** These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan. However, in practice, no distinction is made between goals and objectives and both the terms are used interchangeably.

#### Question 10

- (a) *The growth rate of A & B Ltd. growth rate was around 10% per annum during the last decade. But thereafter its growth rate started falling and presently the growth rate of the company is very low around 1%. The company is facing twin problems, one the strategy is not implemented as planned; and two the results produced by the strategy are not in conformity with intended goals.*

*You being a strategy consultant, advise the tool for audit of management performance. Also explain the need of such tool and its basic activities. (1 + 2 + 2 = 5 Marks)*

- (b) *"A well designed strategic management system can fail if insufficient attention is given to the human resource dimension." Elucidate this statement. (5 Marks)*

OR

*Write short note on Strategic Business Unit (SBU).*

#### Answer

- (a) A & B Ltd. reviews its business plans and strategies on regular basis to identify weaknesses and shortcomings to enable a successful development plan. A strategy audit is an examination and evaluation of areas affected by the operation of a strategic management process within an organization. The audit of management performance with

regard to its strategies helps an organization identify problem areas and correct the strategic approaches that have not been effective.

**Strategy audit is needed under the following conditions:**

- ◆ 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:
  - (a) To fine-tune the existing strategies and introduce new strategies; and
  - (b) 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:**

1. Examining the underlying bases of a firm's strategy,
  2. Comparing expected results with actual results, and
  3. Taking corrective actions to ensure that performance conforms to plans.
- (b) A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension. Human resource problems that arise when a business implements strategies can usually be traced to one of three causes: (1) disruption of social and political structures, (2) failure to match individuals' aptitudes with implementation tasks, and (3) inadequate top management support for implementation activities.
- i. **Disruption of social and political structures:** Strategy implementation poses a threat to many managers and employees in an organization. New power and status relationships are anticipated and realized. New formal and informal groups' values, beliefs, and priorities may be largely unknown. Managers and employees may become engaged in resistance behaviour as their roles, prerogatives, and power in the firm change. Disruption of social and political structures that accompany strategy execution must be anticipated and considered during strategy formulation and managed during strategy implementation.
  - ii. **Failure to match individuals' aptitudes with implementation tasks:** A concern in matching managers with strategy is that jobs have specific and relatively static responsibilities, although people are dynamic in their personal development. Commonly used methods that match managers with strategies to be implemented

include transferring managers, developing leadership workshops, offering career development activities, promotions, job enlargement, and job enrichment.

It is surprising that so often during strategy formulation; individual values, skills, and abilities needed for successful strategy implementation are not considered. It is rare that a firm selecting new strategies or significantly altering existing strategies possesses the right line and staff personnel in the right positions for successful strategy implementation. The need to match individual aptitudes with strategy-implementation tasks should be considered in strategy choice.

- iii. **Inadequate top management support for implementation activities:** Inadequate support from strategists for implementation activities often undermines organizational success. Chief executive officers, small business owners, and government agency heads must be personally committed to strategy implementation and express this commitment in highly visible ways. Strategists' formal statements about the importance of strategic management must be consistent with actual support and rewards given for activities completed and objectives reached. Otherwise, stress created by inconsistency can cause uncertainty among managers and employees at all levels.

**OR**

SBU is a part of a large business organization that is treated separately for strategic management purposes. It is separate part of large business serving product markets with readily identifiable competitors. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Very large organizations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units. SBU structure becomes imperative in an organization with increase in number, size and diversity.

**The three most important characteristics of a SBU are:**

- It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly stand alone from the rest of the organization.
- It has its own set of competitors.
- It has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

**Benefits of SBUs:**

1. Establishing coordination between divisions having common strategic interest.
2. Facilitate strategic management and control.

3. Determine accountability at the level of distinct business units.
4. Allow strategic planning to be done at the most relevant level within the total enterprise.
5. Make the task of strategic review by top executives more objective and more effective.
6. Help to allocate resources to areas with better opportunities.

Thus, an SBU structure with its set of advantages would be most suitable for the company with the given diverse businesses having separate identifiable competitors, but a common organizational goal.