PAPER – 7: ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT

SECTION – A: ENTERPRISE INFORMATION SYSTEMS

*Question No. **1** is compulsory*

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

Question 1

Answer the following in brief:

(a) Explain 'Data Flow Diagram'.

(b) Define 'Data Analytics'.

(c) Explain the term 'Cryptography'.

(d) Describe the term 'Digital Library'.

(e) Define 'Proxy Server'. ***(5 x 2 = 10 Marks)***

Answer

(a) Data Flow Diagrams: Data Flow Diagrams (DFD) shows the flow of data or information from one place to another. DFDs describe the processes showing how these processes link together through data stores and how the processes relate to the users and the outside world. In other words, DFD basically provides an overview of -

- What does a system processes;
- What transformations are performed;
- What data are stored;
- What results are produced and where they flow?

(b) Data Analytics: It is the process of examining data sets to draw conclusions about the information they contain, increasingly with the aid of specialized systems and software. Data Analytics predominantly refers to an assortment of applications, from basic Business Intelligence (BI), Reporting and Online Analytical Processing (OLAP) to various forms of advanced analytics. Data Analytics technologies and techniques are widely used in commercial industries to enable organizations to make more-informed business decisions and by scientists and researchers to verify or disprove scientific models, theories and hypotheses.

(c) Cryptography: It deals with programs for transforming data into cipher text that are meaningless to anyone, who does not possess the authentication to access the respective system resource or file. A cryptographic technique encrypts data (clear text) into cryptograms (cipher text) and its strength depends on the time and cost to decipher the cipher text by a cryptanalyst. Three techniques of cryptography are Transposition (permute

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the order of characters within a set of data), Substitution (replace text with a key-text) and Product Cipher (combination of Transposition and Substitution).

(d) 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. Digital libraries can vary immensely in size and scope, and can be maintained by individuals, organizations, or affiliated with established physical library buildings or institutions, or with academic institutions. The digital content may be stored locally, or accessed remotely via computer networks. An electronic library is a type of information retrieval system.

(e) Proxy Server: A Proxy Server is a computer that offers a computer network service to allow clients to make indirect network connections to other network services. A client connects to the proxy server, and then requests a connection, file, or other resource available on a different server. The proxy provides the resource either by connecting to the specified server or by serving it from a cache. In some cases, the proxy may alter the client's request or the server's response for various purposes.

Question 2

(a) "Enterprise Risk Management (ERM) does not create a risk-free environment; rather it enables management to operate more effectively in environments filled with risks". In view of this statement, explain the various benefits, which Board of Directors and Management of an entity seek to achieve by implementing the ERM process within the entity.

(6 Marks)

(b) A business organization is planning to switch on to an integrated software for accounting as well as tax compliance instead of separate software for accounting and tax compliance. Being a consultant to the management of this organization, you are required to advise them on various Pros and Cons of having single software for both the accounting and tax compliance. ***(4 Marks)***

Answer

(a) Following features in Enterprise Risk Management (ERM) provides enhanced capabilities to enable management to operate more effectively in environments filled with risks:

- **Align risk appetite and strategy:** Risk appetite is the degree of risk, on a broad-based level that an enterprise is willing to accept in pursuit of its goals. Management considers the entity's risk appetite first in evaluating strategic alternatives, then in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.
- **Link growth, risk and return:** Entities accept risk as part of value creation and preservation, and they expect return commensurate with the risk. ERM provides an

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enhanced ability to identify and assess risks, and establish acceptable levels of risk relative to growth and return objectives.

- **Enhance risk response decisions:** ERM provides the rigor to identify and select among alternative risk responses - risk avoidance, reduction, sharing and acceptance. ERM provides methodologies and techniques for making these decisions.
- **Minimize operational surprises and losses:** Entities have enhanced capability to identify potential events, assess risk and establish responses, thereby reducing the occurrence of surprises and related costs or losses.
- **Identify and manage cross-enterprise risks:** Every entity faces a myriad of risks affecting different parts of the enterprise. Management needs to not only manage individual risks, but also understand interrelated impacts.
- **Provide integrated responses to multiple risks:** Business processes carry many inherent risks and ERM enables integrated solutions for managing the risks.
- **Seize opportunities:** Management considers potential events, rather than just risks, and by considering a full range of events, management gains an understanding of how certain events represent opportunities.
- **Rationalize capital:** More robust information on an entity's total risk allows management to more effectively assess overall capital needs and improve capital allocation.

(b) Single software for both the Accounting and Tax Compliance must be an integrated system. **Pros** of having single integrated software for both the Accounting and Tax Compliance as compared to only a Tax Compliance Software are as follows:

- **More Accurate:** As single software for both Accounting and Tax Compliance is an integrated system, hence accounting data and tax compliance data shall always be same and there is no need to transfer data to compliance software and reconcile the data. However, in only tax compliance software, reconciliation with accounting data is needed and possibility of mismatch of data between two systems is always there.
- **Lesser Time and efforts required:** The time required to transfer data to compliance integrated software is zero whereas it's relatively more in the separate software wherein data from accounting software need to put in for preparation of returns that may take extra time and efforts.

Cons of having such integrated software for both the Accounting and Tax Compliance as compared to only a Tax Compliance Software are as follows:

- **Less ease of software operation:** In an integrated system, everything is connected with other and making changes at one place may affect other aspects also. However, single software is less complicated and bound to be easy.

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- **Less features and facilities for Tax Compliance:** As the integrated is system is not an exclusive system for tax compliance, it may have limited features for tax compliance. Whereas single system is an exclusive and specifically designed system for tax compliance, more features and facilities shall exist in this system.
- **More cost:** If tax compliance feature is not available in accounting system, then to make the system integrated and getting it customized may require some amount of cost which may be higher than buying separate software. Whereas specific purpose software shall have less complications and the cost also shall be less.

Question 3

(a) 'Web Applications' are one of the two ways of using a software including financial and Accounting Software and now-a-days, the use of web applications is increasing rapidly. You, being an IT consultant, have to list out some of the advantages and disadvantages of using web applications. ***(6 Marks)***

(b) Data that is waiting to be transmitted are liable to unauthorized access called 'Asynchronous Attack'. Explain various types of Asynchronous attacks on data. ***(4 Marks)***

Answer

(a) Advantages of using Web applications are as follows:

- **Installation and Maintenance:** As software is installed on only one computer, i.e. a web server, it need not be installed on each computer. Hence, installation on user computer is not required and maintenance and updating of software becomes extremely easy.
- **Accessibility:** As software is not installed on the hard disc of user's computer and it is used through browser and internet, it can be used from any computer in the world. Access to the software becomes very easy.
- **Mobile Application:** Using mobile application becomes very easy as data is available 24 x 7.

Disadvantages of using Web applications are as follows:

- **Data Storage:** Data is not stored in the user's server computer. It is stored on a web server. Hence user will not have any control over the data.
- **Data Security:** Data security is a big challenge in case of web application as the data is not in control of the user or owner of data. It is maintained on a web server.
- **Performance:** As data is picked from web server using internet, speed of operation may be slower in web applications.
- **Flexibility:** Web applications do not even compare to the flexibility of desktop applications. If a user wants to write a web application that basically interacts with the user's hardware, installed/desktop applications are preferable.

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(b) Various types of Asynchronous Attacks on data are as follows:

- **Data Leakage:** This involves leaking information out of the computer by means of dumping files to paper or stealing computer reports and tape.
- **Subversive Attacks:** These can provide intruders with important information about messages being transmitted and the intruder may attempt to violate the integrity of some components in the subsystem.
- **Wire-tapping:** This involves spying on information being transmitted over telecommunication network.
- **Piggybacking:** This is the act of following an authorized person through a secured door or electronically attaching to an authorized telecommunication link that intercepts and alters transmissions. This involves intercepting communication between the operating system and the user and modifying them or substituting new messages.

Question 4

(a) Subsequent to demonetization, one of your elderly neighbour, who was using traditional digital methods of making payments like cards, net banking etc., asked for your help to know about the various new methods of Digital Payments. Identify and explain various new methods of Digital Payments for him. ***(6 Marks)***

(b) Explain various key aspects in-built into the architecture of a Core Banking System.

(4 Marks)

Answer

(a) Some of the new methods of Digital Payments are as follows:

- Unified Payment Interface (UPI) Apps
- Immediate Payment Service (IMPS)
- BHIM (Bharat Interface for Money) - Mobile App
- Mobile Wallets
- Aadhar Enabled Payment Service(AEPS)
- Unstructured Supplementary Service Data(USSD)

The explanation of these Digital Payments is as follows:

(i) Unified Payment Interface (UPI): UPI is a payment mode which is used to make fund transfers through the mobile app. UPI App is a system that powers multiple bank accounts of participating banks, several banking services features like fund transfer, and merchant payments in a single mobile application. User can transfer funds between two accounts using UPI Apps. User must register for mobile banking to use UPI apps.

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(ii) Immediate Payment Service (IMPS): It is an instant interbank electronic fund transfer service through mobile phones. It is also being extended through other channels such as ATM, Internet Banking, etc.

(iii) Mobile Apps: BHIM (Bharat Interface for Money) is a Mobile App developed by National Payments Corporation of India (NPCI) based on UPI (Unified Payment Interface). It facilitates e-payments directly through banks and supports all Indian banks which use that platform. It is built on the Immediate Payment Service infrastructure and allows the user to instantly transfer money between the bank accounts of any two parties. BHIM works on all mobile devices and enables users to send or receive money to other UPI payment addresses.

(iv) Mobile Wallets: It is defined as Virtual wallets that stores payment card information on a mobile device. Mobile Wallets provide a convenient way for a user to make-in-store payments and can be used that merchants listed with the mobile wallet service providers. There are mobile wallets like Paytm, Freecharge, Buddy, Mobikwik etc. Some of these are owned by banks and some are owned by private companies.

(v) Aadhar Enabled Payment Service(AEPS): AEPS is an Aadhaar based digital payment mode. Customer needs only his or her Aadhaar number to pay to any merchant. AEPS allows bank to bank transactions which means the money that you pay will be deducted from your account and credited to the payee's account directly. Customers will need to link their AADHAR numbers to their bank accounts. APES once launched can be used at POS terminals also.

(vi) Unstructured Supplementary Service Data(USSD): A revolutionary idea, where to make payments through mobiles there is neither need for internet nor any smart phone. USSD banking or *99# Banking is a mobile banking based digital payment mode. User does not need to have a smartphone or internet connection to use USSD banking. S/he can easily use it with any normal feature phone. USSD banking is as easy as checking of mobile balance. S/he can use this service for many financial and non-financial operations such as checking balance, sending money, changing Mobile Banking Personal Identification number (MPIN) and getting Mobile Money Identifier (MMID).

(b) Some key aspects in-built into the architecture of a Core Banking System (CBS) are as follows:

- **Information flow:** Facilitates information flow within the bank and improves the speed and accuracy of decision-making. It deploys systems that streamline integration and unite corporate information to create a comprehensive analytical infrastructure.
- **Customer centric**: A holistic core banking architecture enables banks to target customers with the right offers at the right time with the right channel to increase profitability.

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- **Regulatory compliance:** Compliance in case of banks is complex and expensive. CBS has built-in and regularly updated regulatory platform which will ensure compliance.
- **Resource optimization**: Optimizes utilization of information and resources of banks and lowers costs through improved asset reusability, faster turnaround times, faster processing and increased accuracy.

Question 5

(a) In line with the suggestions of RBI, M/s. ABC Bank is planning to obtain ISO 27001: 2013 certification for its Information Security Management System. As an IS Auditor, you are required to prepare a sample list of Risks w.r.t. Information Security for the Bank.

(6 Marks)

(b) Discuss various application areas of 'Virtualization'. ***(4 Marks)***

Answer

(a) Sample listing of Risks w.r.t Information Security for the Bank is as follows:

- Significant information resources may be modified inappropriately, disclosed without authorization, and/ or unavailable when needed. (e.g., they may be deleted without authorization).
- Lack of management direction and commitment to protect information assets.
- Potential Loss of confidentiality, availability and integrity of data and system.
- User accountability is not established.
- It is easier for unauthorized users to guess the password of an authorized user and access the system and/ or data. This may result in loss of confidentiality, availability and integrity of data and system.
- Unauthorized viewing, modification or copying of data and/ or unauthorized use, modification or denial of service in the system.
- Security breaches may go undetected.
- Inadequate preventive measure for key server and IT system in case of environmental threat like heat, humidity, fire, flood etc.
- Unauthorized system or data access, loss and modification due to virus, worms and Trojans.

(b) Various application areas of Virtualization are as follows:

- **Server Consolidation:** Virtual machines are used to consolidate many physical servers into fewer servers, which in turn host virtual machines. Each physical server is reflected as a virtual machine "guest" residing on a virtual machine host system. This is also known as "Physical-to-Virtual" or 'P2V' transformation.

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- **Disaster Recovery:** Virtual machines can be used as "hot standby" environments for physical production servers. This changes the classical "backup-and-restore" philosophy, by providing backup images that can "boot" into live virtual machines, capable of taking over workload for a production server experiencing an outage.
- **Testing and Training:** Virtualization can give root access to a virtual machine. This can be very useful such as in kernel development and operating system courses.
- **Portable Applications:** Portable applications are needed when running an application from a removable drive, without installing it on the system's main disk drive. Virtualization can be used to encapsulate the application with a redirection layer that stores temporary files, windows registry entries and other state information in the application's installation directory and not within the system's permanent file system.
- **Portable Workspaces:** Recent technologies have used virtualization to create portable workspaces on devices like iPods and USB memory sticks.

Question 6

(a) An operating system allows users and their applications to share and access common computer resources and execute a variety of activities. Hence, protecting operating system access is extremely crucial. Identify various steps through which protection of operating system access can be achieved. ***(8 Marks)***

(b) State the required characteristics of goals to be achieved by implementing Business Process Automation (BPA). ***(2 Marks)***

OR

Give two examples of the Risks and Control objectives for Human Resource Process at configuration level. ***(2 Marks)***

Answer

(a) Protecting Operating System Access is extremely crucial and 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 defense 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.

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- **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. In distributed systems, resources may be controlled by the end-user in which they may be granted discretionary access control, which allows them to grant access privileges to other users. For example, the controller who is owner of the general ledger grants read only privilege to the budgeting department while accounts payable manager is granted both read and write permission to the ledger.
- **User identification and authentication:** The users must be identified and authenticated in a foolproof 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. Obviously, 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. For example, no computer access after 8.00 p.m. and before 8.00 a.m. - or on a Saturday or Sunday.

(b) The required characteristics of goals to be achieved by implementing Business Process Automation (BPA) could be abbreviated as "SMART" which means:

- S - Specific
- M - Measurable
- A - Attainable
- R – Relevant
- T – Timely

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Or

(b) Risks and Control Objectives for Human Resource Process at Configuration Levels are as follows:

Risk	Control Objective
Employees who have left the company continue to have system access.	System access to be immediately removed when employees leave the company.
Employees have system access in excess of their job requirements.	Employees should be given system access based on a "need to know" basis and to perform their job function.

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PAPER – 7: ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT

SECTION –B: STRATEGIC MANAGEMENT

*Question No. **7** is compulsory*

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

Question 7

(a) List the different strategic levels in an organization. ***(2 Marks)***

(b) Present a diagrammatic representation of a Strategic Management model. ***(2 Marks)***

(c) List the advantages of Strategic Alliances. ***(2 Marks)***

(d) What do you mean by "Economies of Scale"? ***(2 Marks)***

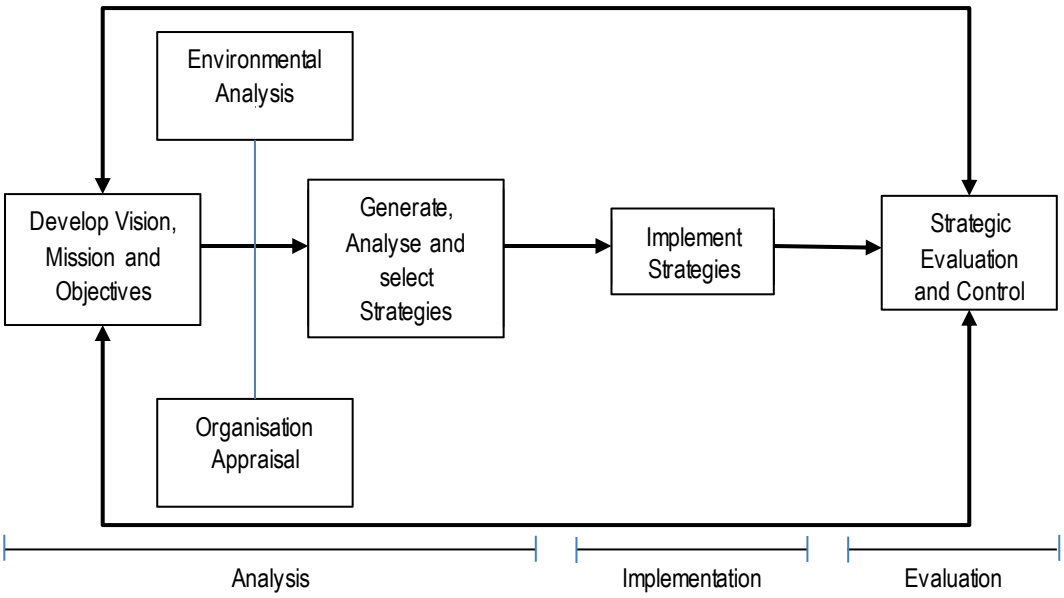
(e) Define Augmented Marketing. Give two examples. ***(2 Marks)***

Answer

(a) There are three main strategic levels in an organisation:

- Corporate level – consisting of CEO, Board of Directors and other senior executives.
- Business level – Divisional Managers and staff.
- Functional level – Functional Managers – Marketing, Finance, Production, Human Resource.

(b) Strategic Management Model



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(c) Advantages of strategic alliance are:

(i) **Organisational:** learn skills and obtain capabilities from strategic partners.

(ii) **Economic:** Sharing of costs and risks by members of alliance.

(iii) **Strategic:** Rivals can join together to cooperate rather than compete.

(iv) **Political:** Alliance with partners with political influence improve overall power position of the organisation.

(d) **Economies of scale** refer to the decline in the per unit cost of production as volume grows. A large firm that enjoys economies of scale can produce high volume of goods at lower costs. This tends to discourage new entrants.

(e) **Augmented Marketing** is provision of additional customer services and benefits built around the core and actual products that relate to introduction of hi-tech services like movies on demand, online computer repair services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

Question 8

Which of the following statements are correct and which are incorrect? Give reasons in brief for your answer.

(a) Vision is one of the key elements of Strategic Intent. ***(2 Marks)***

(b) Structure has no impact on the strategy of the organization. ***(2 Marks)***

(c) There is no distinction between Benchmarking and Business Process Reengineering. ***(2 Marks)***

(d) Acquiring of ambulance services by a hospital is an example of forward integration strategy. ***(2 Marks)***

(e) There is no such thing as backward integration. ***(2 Marks)***

Answer

(a) **Correct:** 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 organisation would like to become in future. Every sub system of the organisation is required to follow its vision.

(b) **Incorrect:** Structures are designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reason for being, it will be difficult to design an effective structure. Strategic developments may require allocation of resources and there may be a need for adapting the organisation's structure to handle new activities as well as training personnel and devising appropriate systems.

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

(d) **Incorrect**: Acquiring of ambulance services by a hospital is an example of backward integration strategy. Backward integration is a step towards creation of effective supply by entering business of input providers. Forward integration is moving forward in the value chain.

(e) **Incorrect**: Organisations may diversify into new businesses that are vertically integrated with their existing business. Backward integration firms create effective supply by entering business of input providers. This strategy is employed to expand profits and gain greater control over production.

Question 9

(a) Manoj started his telecom business in 2010. Over next five years, he gradually hired fifty people for various activities such as to keep his accounts, administration, sell his products in the market, create more customers, provide after sales service, coordinate with vendors.

Draw the organization structure Manoj should implement in his organization and name it.

(5 Marks)

(b) Sohan and Ramesh are two friends who are partners in their business of making biscuits. Sohan believe in making profits through selling more volume of products. Hence, he believes in charging lesser price to the customers. Ramesh, however of the opinion that higher price should be charged to create an image of exclusivity and for this, he proposes that the product to undergo some change.

Analyse the nature of generic strategy used by Sohan and Ramesh. ***(5 Marks)***

Answer

(a) Manoj has started a telecom business. Accounts, Administration, Marketing (customer creation, after sales service, vendor coordination) are the functional areas that are desired in the organisational structure. Further there is inherent need to have a department for the management of telecom services/ operations.

Thus, the **functional structure in the telecom business** of Manoj can be as follows:

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(b) Considering the generic strategies of Porter there are three different bases: cost leadership, differentiation and focus. Sohan and Ramesh are contemplating pricing for their product.

Sohan is trying to have a low price and high volume are thereby trying for cost leadership. Cost leadership emphasizes producing standardised products at a very low per unit cost for consumers who are price sensitive.

Ramesh desires to create perceived value for the product and charge higher prices. He is trying to adopt differentiation. Differentiation is aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price insensitive.

Question 10

(a) Describe corporate culture. Elaborate the statement "Culture is a strength that can also be a weakness". ***(5 Marks)***

(b) Explain the marketing mix in the context of modern marketing. ***(5 Marks)***

Answer

(a) Corporate culture refers to a company's values, beliefs, business principles, traditions, way of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers.

Culture as a strength – Culture can facilitate communication, decision making and control and create cooperation and commitment. An organisation's culture could be strong and

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cohesive when it conducts its business according to clear and explicit set of principles and values. The management devotes considerable time in communicating values & principles to employees and sharing them widely across the organisation.

Culture as a weakness – can obstruct the smooth implementation of strategy by creating resistance to change. An organisation's culture can be characterised as weak when many sub cultures exist, few values and behavioural norms are shared and traditions are rare. In such organisations, employees do not have a sense of commitment, loyalty and a sense of identity.

(b) Marketing mix is a set of controllable marketing variables that the firm blends to produce the response that it wants in the target market. Marketing mix consists of everything that the firm can do to influence the demand for its product. The original framework of marketing mix comprises of product, price, place and promotion.

Modern marketing is highly promotional oriented and include personal selling, advertising, publicity and sales promotion.

Personal selling – involves face to face interaction of sales persons with the prospective customers and provides a high degree of personal attention. It involves working with one customer at a time and hence not cost effective. The intention of oral communication is sale.

Advertising – is a non-personal, flexible and dynamic promotion method. The media for advertising are several and choice of an appropriate one is important for effectiveness of message. Sale of the product and the amount of expenditure cannot be directly measured.

Publicity – is also non-personal but no payments are made to the media. Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly. It could be through press releases, press conferences, reports, etc.

Sales promotion – includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity. Activities like discounts, contests, money refunds, exhibitions etc. are included.

Question 11

(a) What steps are to be considered for implementing the supply chain management in a business organization? Explain. ***(5 Marks)***

(b) "Strategy is partly proactive and partly reactive." Elaborate. ***(5 Marks)***

Answer

(a) A key requirement for successfully implementing supply chain management system in a business organisation are:

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(i) **Product development** – Customers and suppliers must work together in the product development process. Products are developed and launched in shorter time and help organisations to remain competitive.

(ii) **Procurement –** requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organisations coordinate with suppliers in scheduling without interruption.

(iii) **Manufacturing** – Flexible manufacturing process is required to respond to market changes like accommodate customisation and changes in tastes and preferences. Manufacturing is done on the basis of just in time and minimum lot sizes.

(iv) **Physical Distribution** – Delivery of final product to customers is the last position in a marketing channel. To ensure right place at right time is important for each channel participant. So supply chain management links a marketing channel with customers.

(v) **Outsourcing** – is not limited to the procurement of materials and components but also includes outsourcing of services that traditionally have been provided within an organisation. The company will focus on the core competency areas alone and outsource rest.

(vi) **Customer Service** – Organisations work with customers to determine mutually satisfying goals, establish and maintain relationships. This produces positive feelings in the organisation and among customers.

(vii) **Performance Measurement** – Supplier capabilities and customer relationships can be corrected with a firm's performance. Performance is measured in different parameters such as costs, customer services, productivity and quality.

(b) Yes, strategy is partly proactive and partly reactive. In proactive strategy, organisations will analyse possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a pre-determined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.

There can be significant deviations between what was visualised and what actually happens. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

Question 12

(a) Write a short note on strategic change and explain the process of strategic change.

(7 Marks)

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(b) Identify three aspects of impact of IT Systems on Business Process Reengineering and list three areas where it provides business value. ***(3 Marks)***

OR

Examine the significance of KSFs (Key Success Factors) for competitive success. ***(3 Marks)***

Answer

(a) The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.

Three steps for initiating strategic change are:

(i) **Recognise the need for change** – The first step is to diagnose the which facets of the present corporate culture are strategy supportive and which are not.

(ii) **Create a shared vision to manage change** – Objectives of both individuals and organisation should coincide. There should be no conflict between them. This is possible only if the management and the organisation members follow a shared vision.

(iii) **Institutionalise the change** – This is an action stage which requires the implementation of the changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of doing things.

Kurt Lewin proposed three stages of the change process for moving the organisation from the present to the future.

(i) **Unfreezing the situation** – The process of unfreezing makes the individuals or organisations aware of the necessity for change and prepares them for it. The change should not come as a surprise to the members of the organisation. Sudden and unannounced change would be socially destructive and morale lowering,

(ii) **Changing to new situation** – once unfreezing is complete and members of the organisation recognize the need for change, then their behaviour patterns need to be redefined as:

i. **Compliance** – enforcing reward and punishment strategy for good or bad behaviour

ii. **Identification** – members are psychologically impressed to identify themselves with some given role models whose behaviour they would like to adopt.

iii. **Internalisation** - involves some internal changing of the individual's thought process. They are given the freedom to learn and adopt new behaviour.

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(iii) **Refreezing** – occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change. This can be achieved by continuously reinforcing the newly acquired behaviour.

Change process is not a one-time application but a continuous process due to dynamism and ever-changing environment.

(b) Impact of IT Systems on Business Process Reengineering are identified as:

- Compression of time
- Overcoming restrictions of geography and/or distance
- Restructuring of relationships

IT initiatives, thus, provide business values in three distinct areas:

- Efficiency – by way of increased productivity
- Effectiveness – by way of better management
- Innovation – by way of improved products and services

As industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the market place – the particular strategy elements, product attributes, resources, competencies, competitive capabilities and business outcomes that spell the difference between profit & loss and ultimately, between competitive success or failure. KSFs by their very nature are so important that all firms in the industry must pay close attention to them. They are the prerequisites for industry success, or, to put it in another way, KSFs are the rules that shape whether a company will be financially and competitively successful.

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