

**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**

- (a) *Data Analytics is the process of examining data sets to draw conclusions about the information they contain, increasingly with the aid of specialized systems and software, List out any three application areas of Data Analytics in today's world.* **(3 Marks)**
- (b) *Briefly explain any two types of Mortgage loan in a Banking system.* **(2 Marks)**

**Answer**

- (a) Application Areas of Application areas of Data Analytics are as follows:
- Data Analytics initiatives support a wide variety of business uses. For example, banks and credit card companies analyse withdrawal and spending patterns to prevent fraud and identity theft.
  - E-commerce companies and marketing services providers do clickstream analysis to identify website visitors who are more likely to buy a product or service based on navigation and page-viewing patterns.
  - Mobile network operators examine customer data to forecast so they can take steps to prevent defections to business rivals; to boost customer relationship management efforts. Other companies engage in CRM analytics to segment customers for marketing campaigns and equip call centre workers with up-to-date information about callers.
  - Healthcare organizations mine patient data to evaluate the effectiveness of treatments for cancer and other diseases.
- (b) Mortgage Loan in a Banking system are as follows:
- **Home Loan:** This is a traditional mortgage where customer has an option of selecting fixed or variable rate of interest and is provided for the purchase of property.
  - **Top Up Loan:** Here the customer already has an existing loan and is applying for additional amount either for refurbishment or renovation of the house.
  - **Loans for Under Construction Property:** In case of under construction properties the loan is disbursed in tranches / parts as per construction plan.

**Question 2**

- (a) *Protecting the integrity of a database when application software acts as an interface to interact between the user and the database are called update controls and report controls. Discuss any three update controls and three report controls.* **(6 Marks)**

- (b) *After defining risk appetite, strategies are set to manage risks. Explain any four risk management strategies. (4 Marks)*

**Answer**

- (a) Major Update Controls under Database Controls are as follows:

- **Sequence Check between Transaction and Master Files:** Synchronization and the correct sequence of processing between the master file and transaction file is critical to maintain the integrity of updating, insertion or deletion of records in the master file with respect to the transaction records. If errors, in this stage are overlooked, it leads to corruption of the critical data.
- **Ensure All Records on Files are processed:** While processing, the transaction file records mapped to the respective master file, and the end-of-file of the transaction file with respect to the end-of-file of the master file is to be ensured.
- **Process multiple transactions for a single record in the correct order:** Multiple transactions can occur based on a single master record (e.g. dispatch of a product to different distribution centers). Here, the order in which transactions are processed against the product master record must be done based on a sorted transaction codes.
- **Maintain a suspense account:** When mapping between the master record to transaction record results in a mismatch due to failure in the corresponding record entry in the master record; then these transactions are maintained in a suspense account.

Major Report Controls under Database Controls are as follows:

- **Standing Data:** Application programs use many internal tables to perform various functions like gross pay calculation, billing calculation based on a price table, bank interest calculation etc. Maintaining integrity of the pay rate table, price table and interest table is critical within an organization.
- **Print-Run-to Run Control Totals:** Run-to-Run control totals help in identifying errors or irregularities like record dropped erroneously from a transaction file, wrong sequence of updating or the application software processing errors.
- **Print Suspense Account Entries:** Similar to the update controls, the suspense account entries are to be periodically monitors with the respective error file and action taken on time.
- **Existence/Recovery Controls:** The back-up and recovery strategies together encompass the controls required to restore failure in a database. Backup strategies are implemented using prior version and logs of transactions or changes to the database. Recovery strategies involve roll-forward (current state database from a previous version) or the roll-back (previous state database from the current version) methods.

(b) Various Risk Management Strategies are as follows:

- **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 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.

### Question 3

- (a) *Many organizations are implementing Enterprise Resource Planning (ERP) software, where it integrates all of the processes needed to run their business with a single system. As a System analyst briefly explain the benefits of ERP systems.* **(6 Marks)**
- (b) *Define any four constraints which are usually taken from the characteristics of grid environment and application in order to develop grid computing security architecture.* **(4 Marks)**

### Answer

(a) 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 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:** 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 the 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 and 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 the organization in drastically improving the capacity and resource utilization.
- **Better Customer Satisfaction:** Customer satisfaction means meeting or exceeding customer's requirements for a product or service. With the help of web-enabled ERP systems, customers can place the order, track the status of the order and make the payment 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 will be able to better support the customer.
- **Improved Supplier Performance:** ERP systems provide vendor management and procurement support tools designed to coordinate all aspects of the procurement process. They support the 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 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. The ERP System's central database eliminates redundant specifications and ensures that a single change to standard procedures takes effect immediately throughout the organization. The ERP systems also provide 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 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.
- (b) To develop grid computing security architecture, following constraints are taken from the characteristics of grid environment and application:
- **Single Sign-on:** A user should authenticate once and they should be able to acquire resources, use them, and release them and to communicate internally without any further authentication.
  - **Protection of Credentials:** User passwords, private keys, etc. should be protected.
  - **Interoperability with local security solutions:** Access to local resources should have local security policy at a local level. Despite of modifying every local resource there is an inter-domain security server for providing security to local resource.
  - **Exportability:** The code should be exportable i.e. they cannot use a large amount of encryption at a time. There should be a minimum communication at a time.

- **Support for secure group communication:** In a communication, there are number of processes which coordinate their activities. This coordination must be secure and for this there is no such security policy.
- **Support for multiple implementations:** There should be a security policy which should provide security to multiple sources based on public and private key cryptography.

#### Question 4

- (a) *Once the complete business of a bank is captured by technology and processes are automated in Core Banking System (CBS), the data of the bank, customer, management and staff are completely dependent on the Data Centre. From a risk assessment point of view, it is critical to ensure that the bank can impart training to its staff in the core areas of technology for efficient risk management. Explain any six common IT risks related to CBS.*

**(6 Marks)**

- (b) *Public cloud is the cloud infrastructure that is provisioned for open use by the general public. Explain any four characteristics of public cloud.*

**(4 Marks)**

#### Answer

- (a) The common IT risks related to Core Banking Systems (CBS) are as follows:

- **Ownership of Data/ process:** Data resides at the Data Centre. Establish clear ownership.
- **Authorization process:** Anybody with access to the CBS, including the customer himself, can enter data directly. What is the authorization process? If the process is not robust, it can lead to unauthorized access to the customer information.
- **Authentication procedures:** Usernames and Passwords, Personal Identification Number (PIN), One Time Password (OTP) are some of the most commonly used authentication methods. However, these may be inadequate and hence the user entering the transaction may not be determinable or traceable.
- **Several software interfaces across diverse networks:** A Data Centre can have as many as 75-100 different interfaces and application software. A data center must also contain adequate infrastructure, such as power distribution and supplemental power subsystems, including electrical switching; uninterruptable power supplies; backup generators and so on. Lapse in any of these may lead to real-time data loss.
- **Maintaining response time:** Maintaining the interfacing software and ensuring optimum response time and up time can be challenging.
- **User Identity Management:** This could be a serious issue. Some Banks may have more than 5000 users interacting with the CBS at once.

- **Access Controls:** Designing and monitoring access control is an extremely challenging task. Bank environments are subject to all types of attacks; thus, a strong access control system is a crucial part of a bank's overall security plan. Access control, however, does vary between branch networks and head office locations.
- **Incident handling procedures:** Incident handling procedures are used to address and manage the aftermath of a security breach or cyberattack. However, these at times, may not be adequate considering the need for real-time risk management.
- **Change Management:** Though Change management reduces the risk that a new system or other change will be rejected by the users; however, at the same time, it requires changes at application level and data level of the database- Master files, transaction files and reporting software.

(b) The characteristics of Public Cloud are as follows:

- **Highly Scalable:** The resources in the public cloud are large in number and the service providers make sure that all requests are granted. Hence public clouds are scalable.
- **Affordable:** The cloud is offered to the public on a pay-as-you-go basis; hence the user has to pay only for what he or she is using on a per-hour basis. And this does not involve any cost related to the deployment.
- **Less Secure:** Since it is offered by a third party and they have full control over the cloud, the public cloud is less secure out of all the other deployment models.
- **Highly Available:** It is highly available because anybody from any part of the world can access the public cloud with proper permission, and this is not possible in other models as geographical or other access restrictions might be there.
- **Stringent Service Level Agreements (SLAs):** As the service provider's business reputation and customer strength are totally dependent on the cloud services, they follow the SLAs strictly and violations are avoided.

#### Question 5

- (a) *Enterprise Risk Management (ERM) framework consists of integrated components that are derived from the way management runs a business and are integrated with the management process. Define any six components of ERM framework. (6 Marks)*
- (b) (i) *Define any two information system controls based on objectives of controls. (2 Marks)*
- (ii) *Name any four activities executed by the Operating System. (2 Marks)*

OR

*Write short note on Cryptography.*

**Answer**

(a) The components of Enterprise Resource Management (ERM) framework are as follows:

- (i) **Internal Environment:** The internal environment encompasses the tone of an organization and sets the basis for how risk is viewed and addressed by an entity's people, including risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate. Management sets a philosophy regarding risk and establishes a risk appetite. The internal environment sets the foundation for how risk and control are viewed and addressed by an entity's people. The core of any business is its people – their individual attributes, including integrity, ethical values and competence – and the environment in which they operate. They are the engine that drives the entity and the foundation on which everything rests.
- (ii) **Objective Setting:** Objectives should be set before management can identify events potentially affecting their achievement. ERM ensures that management has a process in place to set objectives and that the chosen objectives support and align with the entity's mission/vision and are consistent with the entity's risk appetite.
- (iii) **Event Identification:** Potential events that might have an impact on the entity should be identified. Event identification includes identifying factors – internal and external – that influence how potential events may affect strategy implementation and achievement of objectives. It includes distinguishing between potential events that represent risks, those representing opportunities and those that may be both. Opportunities are channelled back to management's strategy or objective-setting processes. Management identifies inter-relationships between potential events and may categorize events to create and reinforce a common risk language across the entity and form a basis for considering events from a portfolio perspective.
- (iv) **Risk Assessment:** Identified risks are analyzed to form a basis for determining how they should be managed. Risks are associated with related objectives that may be affected. Risks are assessed on both an inherent and a residual basis, and the assessment considers both risk likelihood and impact. A range of possible results may be associated with a potential event, and management needs to consider them together.
- (v) **Risk Response:** Management selects an approach or set of actions to align assessed risks with the entity's risk tolerance and risk appetite, in the context of the strategy and objectives. Personnel identify and evaluate possible responses to risks, including avoiding, accepting, reducing and sharing risk.
- (vi) **Control Activities:** Policies and procedures are established and executed to help ensure that the risk responses that management selected, are effectively carried out.
- (vii) **Information and Communication:** Relevant information is identified, captured and communicated in a form and time frame that enable people to carry out their



responsibilities. Information is needed at all levels of an entity for identifying, assessing and responding to risk. Effective communication also should occur in a broader sense, flowing down, across and up the entity. Personnel need to receive clear communications regarding their role and responsibilities.

(viii) **Monitoring:** The entire ERM process should be monitored, and modifications made as necessary. In this way, the system can react dynamically, changing as conditions warrant. Monitoring is accomplished through ongoing management activities, separate evaluations of the ERM processes or a combination of the both.

(b) (i) The Information System controls based in their objective of controls are as follows:

- **Preventive Controls:** These controls prevent errors, omissions, or security incidents from occurring. Examples include simple data-entry edits that block alphabetic characters from being entered in numeric fields, access controls that protect sensitive data/ system resources from unauthorized people, and complex and dynamic technical controls such as anti-virus software, firewalls, and intrusion prevention systems. In other words, Preventive Controls are those inputs, which are designed to prevent an error, omission or malicious act occurring. Some of the examples of preventive controls can be Employing qualified personnel; Segregation of duties; Access control; Vaccination against diseases; Documentation; Prescribing appropriate books for a course; Training and retraining of staff; Authorization of transaction; Validation, edit checks in the application; Firewalls; Anti-virus software (sometimes this acts like a corrective control also), etc., and Passwords.
- **Detective Controls:** These controls are designed to detect errors, omissions or malicious acts that occur and report the occurrence. In other words, Detective Controls detect errors or incidents that elude preventive controls. For example, a detective control may identify account numbers of inactive accounts or accounts that have been flagged for monitoring of suspicious activities. Detective controls can also include monitoring and analysis to uncover activities or events that exceed authorized limits or violate known patterns in data that may indicate improper manipulation. For sensitive electronic communications, detective controls can indicate that a message has been corrupted or the sender's secure identification cannot be authenticated. Some of the examples of Detective Controls are: Review of payroll reports; Compare transactions on reports to source documents; Monitor actual expenditures against budget; Use of automatic expenditure profiling where management gets regular reports of spend to date against profiled spend; Hash totals; Check points in production jobs; Echo control in telecommunications; Duplicate checking of calculations; Past-due accounts report; The internal audit functions; Intrusion Detection System; Cash counts and bank reconciliation and Monitoring expenditures against budgeted amount.

- **Corrective Controls:** It is desirable to correct errors, omissions, or incidents once they have been detected. They vary from simple correction of data-entry errors, to identifying and removing unauthorized users or software from systems or networks, to recovery from incidents, disruptions, or disasters. Generally, it is most efficient to prevent errors or detect them as close as possible to their source to simplify correction. These corrective processes also should be subject to preventive and detective controls, because they represent another opportunity for errors, omissions, or falsification. Corrective controls are designed to reduce the impact or correct an error once it has been detected. Corrective controls may include the use of default dates on invoices where an operator has tried to enter the incorrect date. Some of the other examples of Corrective Controls are submitting corrective journal entries after discovering an error; A Business Continuity Plan (BCP); Contingency planning; Backup procedure; Rerun procedures; Change input value to an application system; and Investigate budget variance and report violations.
- (ii) The activities executed by Operating System are as follows:
- Performing hardware functions
  - User Interfaces
  - Hardware Independence
  - Memory Management
  - Task Management
  - Networking Capability
  - Logical Access Security
  - File management

**OR**

- (ii) **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 the order of characters within a set of data), substitution (replace text with a key-text) and product cipher (combination of transposition and substitution).

## SECTION –B: STRATEGIC MANAGEMENT

Question No. 6 is compulsory

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

**Question 6**

*ABC Ltd. is a beverage manufacturing company. It chiefly manufactures soft drinks. The products are priced on the lower side which has made the company a leader in the business. Currently it is holding 35 percent market share. The R & D of company developed a formula for manufacturing sugar free beverages. On successful trial and approval by the competent authorities, company was granted to manufacture sugar free beverages. This company is the pioneer to launch sugar free beverages which are sold at a relatively higher price. This new product has been accepted widely by a class of customers. These products have proved profitable for the company. Identify the strategy employed by the company ABC Ltd. and mention what measures could be adopted by the company to achieve the employed strategy.*

**(5 Marks)**

**Answer**

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

**ABC Ltd. has opted Differentiation Strategy.** The company has invested huge amount in R & D and developed a formula for manufacturing sugar free beverages to give the customer value and quality. They are **pioneer and serve specific customer needs that are not met by other companies** in the industry. The new product has been accepted by a class of customers. **Differentiated and unique sugar free beverages** enable ABC Ltd. to charge **relatively higher** for its products hence making higher profits and maintain its competitive position in the market.

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

**Achieving Differentiation Strategy**

To achieve differentiation, following strategies are generally adopted by an organization:

1. Offer utility to the customers and match products with their tastes and preferences.
2. Elevate/Improve performance of the product.
3. Offer the high-quality product/service for buyer satisfaction.
4. Rapid product innovation to keep up with dynamic environment.

5. Taking steps for enhancing brand image and brand value.
6. Fixing product prices based on the unique features of product and buying capacity of the customer.

### Question 7

- (a) Draw 'Divisional Structure' with the help of a diagram. Also, give advantages and disadvantages of this structure in brief. **(5 Marks)**
- (b) What is strategic control? Kindly explain the statement that "premise control is a tool for systematic and continuous monitoring of the environment". **(5 Marks)**

### Answer

- (a) Divisional structure is that organizational structure which is based on extensive delegation of authority and built on division basis. The divisional structure can be organized in one of the four ways: *by geographic area, by product or service, by customer, or by process*. With a divisional structure, functional activities are performed both centrally and in each division separately.

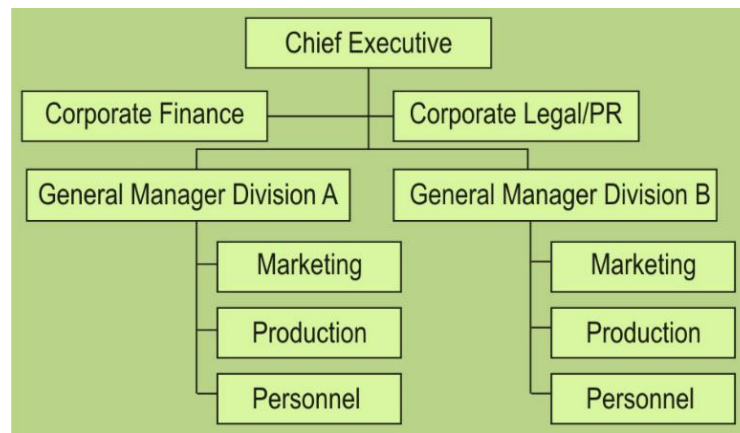


Figure: Divisional Structure

### Advantages of divisional structure

- **Accountability is clear:** Divisional managers can be held responsible for sales and profit levels. Because a divisional structure is based on extensive delegation of authority, managers and employees can easily see the results of their good or bad performances and thus their morale is high.
- **Other advantages:** It creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products to be added easily.

### Disadvantages of divisional structure

- **Higher cost:** Owing to following reasons: (i). requires qualified functional specialist at different divisions and needed centrally (at headquarters); (ii). It requires an elaborate, headquarters –driven control system.
- **Conflicts between divisional managers:** Certain regions, products, or customers may sometimes receive special treatment, and it may be difficult to maintain consistent, company-wide practices.

### (b) Strategic Control

**Strategic control is the process of evaluating** formulated and implemented strategy. It is directed towards identifying changes in the internal and external environments of the organization and making necessary adjustments accordingly.

**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.

**Yes, Premise control** is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily **involves monitoring two types of factors:**

- Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and legal-regulatory.
- Industry factors such as competitors, suppliers, substitutes.

It is neither feasible nor desirable to control all types of premises in the same manner. Different premises may require different amount of control. Thus, managers are required to select those premises that are likely to change and would severely impact the functioning of the organization and its strategy.

### Question 8

- Discuss the guidelines for selection of Research & Development expertise by an organization.* **(5 Marks)**
- Why companies should go global? Mention any five reasons.* **(5 Marks)**

### Answer

- A critical question is whether a firm should develop research and development expertise internally or outside to external agencies. **The answer to this critical question mainly depends on rate of technology progress and rate of market growth.** The following **guidelines** can be used to help make this decision:
  - ◆ **If the rate of technical progress is slow, the rate of market growth is moderate,** and there are significant barriers to possible new entrants, then **in-house R&D is the preferred solution.** The reason is that R&D, if successful, will result in a temporary

product or process monopoly that the company can exploit.

- ♦ **If technology is changing rapidly and the market is growing slowly**, then a **major effort in R&D may be very risky**, because it may lead to the development of an ultimately obsolete technology or one for which there is no market.
- ♦ **If technology is changing slowly but the market is growing quickly**, there generally is not enough time for in-house development. The prescribed approach **is to obtain R&D expertise on an exclusive or non-exclusive basis from an outside firm**.
- ♦ **If both technical progress and market growth are fast**, R&D expertise should be **obtained through acquisition** of a well-established firm in the industry.

(b) **There are several reasons why companies go global. These are discussed as follows:**

- One reason could be the **rapid shrinking of time and distance across the globe** - thanks to faster communication, speedier transportation, growing financial flows and rapid technological changes.
- It is being realized that the **domestic markets are no longer adequate and rich**. Companies globalize to take advantage of opportunities available elsewhere.
- A new product may **gradually get acceptance and grow locally and then globally**. This may initially be in form of exports and then later production facilities may begin in other countries.
- Organizations may go global **to take advantage of cheaper raw material and labour costs**.
- Companies often **set up overseas plants to reduce high transportation costs**.
- The motivation to go global in **high-tech industries** is slightly different. Companies in electronics and telecommunications must spend large sums on research and development for new products and thus may be compelled to seek **ways to improve sales volume to support high overhead expenses**.
- The companies may also go global **to take advantage of local taxation laws**.
- **To form strategic alliances to ward off economic and technological threats** and leverage their respective comparative and competitive advantages.

#### Question 9

(a) *State the factors of human resource that have a strong influence on employee competence.*

**(5 Marks)**

(b) *What is strategic vision? Describe the essentials of strategic vision.*

**(5 Marks)**

**Answer**

(a) **Human resource management** has been **accepted as a strategic partner** in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and reward systems. The **following points should be kept in mind** as they can have a strong influence on employee competence:

1. **Recruitment and selection:** The workforce will be more competent if a firm can successfully identify, attract, and select highly competent applicants.
2. **Training:** The workforce will be more competent if employees are well trained to perform their jobs properly.
3. **Appraisal of performance:** The performance appraisal is to identify any performance deficiencies experienced by employees due to lack of competence. Such deficiencies, once identified, can often be solved through counseling, coaching or training.
4. **Compensation:** A firm can usually increase the competency of its workforce by offering pay, benefits and rewards that are not only attractive than those of their competitors but also recognizes merit.

(b) **Strategic Vision**

A strategic vision is a **roadmap of a company's future** – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create. It helps the company to answer the question “**where we are to go**” and **provides a convincing rationale** for why this makes good business sense for the company.

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

**Essentials of a strategic vision**

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

**Question 10**

- (a) *"There is a need for Strategic Management for government and medical organization too."*  
Comments. **(5 Marks)**
- (b) *Briefly describe the meaning of divestment and liquidation strategy and establish difference between the two.*

OR

*Write a short note on requirement of strategy audit. What are the basic activities of strategic audit?* **(5 Marks)**

**Answer****(a) Need for strategic management for government and medical organization**

Yes, there is a need of strategic management for government and medical organizations like the commercial organizations because optimum utilization of resources in view of their scarcity, good strategy formulation and its effective implementation & proper monitoring is needed equally in both types of organizations.

Organizations can be classified as commercial and non-commercial on the basis of the interest they have. Typically, a government or medical organization may function without any commercial objectives. A commercial organization has profit as its main aim. We can find many organizations around us, which do not have any commercial objective of making profits. Their genesis may be for social, charitable, or educational purposes.

**The strategic-management process is being used effectively by countless non-profit governmental organizations.** Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and human resource.

Compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing. **Especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.**

**Government Organizations:** Central, state, municipal agencies, public sector units, department are responsible for formulating, implementing and evaluating strategies that use taxpayers' money in the most cost-effective way to provide services and programs. Therefore, strategic management concepts are required for them.

**Medical Organizations:** Modern hospitals quite often are using strategic management for creating new strategy and implementing properly for diagnosis and treatment of different diseases at lower price. Forward and Backward integration strategies are also required in hospitals for providing better services at lower cost.



- (b) **Divestment strategy** involves the **sale or liquidation of a portion of business**, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

Liquidation strategy is a retrenchment strategy considered the most extreme and unattractive strategy, which involves closing down a firm and selling its assets.

**Difference between Divestment strategy and Liquidation strategy:**

Basis of Difference	Divestment Strategy	Liquidation Strategy
<b>Meaning</b>	Divestment strategy involves <b>sale or liquidation of a portion of business</b> .	Liquidation strategy involves <b>closing down a firm and selling its business</b> .
<b>Policy option</b>	Divestment is usually a <b>part of rehabilitation or restructuring plan</b> and is adopted when a turnaround has been attempted but has proved to be unsuccessful. Option of a turnaround may even be ignored if it is obvious that divestment is the only answer.	Liquidation becomes <b>only option in case of severe and critical conditions</b> where either turnaround or divestment are not seen as solution or have been attempted but failed.
<b>Purpose</b>	Efforts are made for <b>survival</b> of the organization.	Liquidation as a form of <b>retrenchment strategy</b> is unattractive and considered as the <b>last resort</b> .
<b>Consequences</b>	Survival of organization <b>helps in retaining personnel</b> , at least to some extent.	There is <b>loss of employment and opportunities with stigma of failure</b> .

Or

**Need of Strategy Audit**

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

A strategy audit is required 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.