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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) Presently, the flow of information is at an unimaginable high speed for doing any business and need of information is perceived at various levels of hierarchy. With these objectives in focus, define:

(i) Enterprise Information System

(ii) Categories of Business Processes ***(1 + 2 Marks)***

(b) What is an operating system? List any four activities performed by an operating system. ***(1 + 1 Marks)***

Answer

(a) (i) An **Enterprise Information System (EIS)** may be defined as any kind of information system which improves the functions of an enterprise business processes by integration.

Or

An **Enterprise Information System (EIS)** provides a technology platform that enables organizations to integrate and coordinate their business processes on a robust foundation.

Or

An **Enterprise Information System (EIS)** provides a single system that is central to the organization that ensures information can be shared across all functional levels and management hierarchies. It may be used to amalgamate existing applications.

(ii) Depending on the organization, industry, and nature of work; business processes are often broken up into different categories as below:

- **Operational/Primary Processes:** Operational or Primary Processes deal with the core business and value chain. These processes deliver value to the customer by helping to produce a product or service. Operational processes represent essential business activities that accomplish business objectives. For example - Order to Cash (O2C) and Purchase to Pay (P2P) cycles are associated with revenue generation.
- **Supporting/Secondary Processes:** Supporting Processes back core processes and functions within an organization. For example - Accounting,

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workplace safety and Human Resource (HR) Management that includes activities like recruitment and staffing, training and development, career development etc.

- **Management Processes:** Management Processes measure, monitor and control the activities related to business procedures and systems. Examples of management processes include internal communications, governance, strategic planning, budgeting, and infrastructure or capacity management.

(b) An **Operating System (OS)** is defined as a set of computer programs that manages computer hardware resources and acts as an interface with computer application programs.

Or

An **Operating System (OS)** is a vital component of the system software that makes the hardware usable and manage them by creating an interface between the hardware and the user.

The variety of activities that are executed by an Operating System are as follows:

- Performing hardware functions
- Provide User Interfaces
- Support Hardware Independence
- Memory Management
- Task Management
- Networking Capability
- Logical Access Security
- File management

Question 2

(a) The main business of banks is lending money to the customers. There are certain inherent risks in lending, and they cannot take more than the calculated risks whenever they lend money to their customers. List down the various risks involved and their associated controls in Loans and Advances Process in the banking system. ***(6 Marks)***

(b) The ERP system is like a human body where there are different units and each unit relates to other units. All the units must work in harmony with other units to generate the desired result. What are the important points for integration of modules with Financial and Accounting System? ***(4 Marks)***

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Answer

(a) Various risks and their associated controls in Loan and Advance process in a Banking system are as follows:

Risks	Key Controls
Credit Line setup is unauthorized and not in line with the bank's policy.	The credit committee checks that the financial ratios, the net-worth, the risk factors and its corresponding mitigating factors, the credit line offered and the credit amount etc. are in line with Credit Risk Policy and that the client can be given the Credit Line.
Credit Line setup is unauthorized and not in line with the bank's policy.	Access rights to authorize the credit limit in Loan Booking system/Core Banking System should be restricted to authorized personnel.
Masters defined for the customer are not in accordance with the re- Disbursement Certificate.	Access rights to authorize the customer master in Loan Booking system/Core Banking System (CBS) should be restricted to authorized personnel. Segregation of Duties (SoD) exists in Loan Disbursement system. The system restricts the maker having checker rights to approve the loan/facilities booked by self in Loan Disbursal System.
Credit Line setup can be breached in Loan disbursement system/CBS.	Loan Disbursement System/CBS restricts booking of loans/ facilities if the limit assigned to the customer is breached in Loan Disbursement System/CBS.
Lower rate of interest/ Commission may be charged to customer.	Loan Disbursement System/CBS restricts booking of loans/ facilities if the rate charged to the customer are not as per defined masters in system.
Facilities/Loan's granted may be unauthorized/in- appropriate.	Segregation of Duties (SoD) exists in Loan Disbursement system. The system restricts the maker having checker rights to approve the loan/facilities booked by self in loan disbursal system.
Inaccurate interest/charge being calculated in the Loan disbursal system.	Interest on fund-based loans and charges for non-fund-based loans are automatically calculated in the Loan disbursal system as per the defined masters.

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(b) Following points are important for integration of Enterprise Resource Planning (ERP) modules with Financial and Accounting System:

- Master data across all the modules must be same and must be shared with other modules where-ever required.
- Common transaction data must be shared with other modules where-ever required.
- Separate voucher types to be used for each module for easy identification of department recording it.
- Figures and transaction may flow across the department. For example - Closing stock value is taken to Trading Account as well as Balance Sheet and closing stock quantity is required by Purchase Department, Stores Department, Accounts Department, and Production Department, Similarly, salary figures are used by Human Resource Department and Accounts Department simultaneously. Hence, it is necessary to design the system accordingly.

Question 3

(a) For doing business, logical access controls play a critical role ensuring the access to system, data and programs to safeguard against unauthorized access. Towards this, explain 'Logical Access Control' and 'User Access Management Controls' for Technical Exposures'. ***(2 + 4 Marks)***

(b) In Accounting language, voucher is an evidence for a transaction. How do you interpret 'voucher' when referred to a computer? Also explain any three types of vouchers pertaining to accounting. ***(1 + 3 Marks)***

Answer

(a) Logical Access Controls

- These are the controls relating to logical access to information resources such as operating systems controls, application software boundary controls, networking controls, access to database objects, encryption controls etc.
- Logical access controls are the system-based mechanisms used to designate who or what is to have access to a specific system resource and the type of transactions and functions that are permitted.
- These controls are implemented to ensure that access to systems, data and programs is restricted to authorized users to safeguard information against unauthorized use, disclosure or modification, damage, or loss.
- The key factors considered in designing logical access controls include confidentiality and privacy requirements, authorization, authentication, and incident handling, reporting and follow-up, virus prevention and detection, firewalls, centralized security

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administration, user training and tools for monitoring compliance, intrusion testing and reporting.

Controls for technical exposure related to User Access Management are as follows:

- **User Registration:** Information about every user is documented. Some questions like why and who is the user granted the access; has the data owner approved the access, and has the user accepted the responsibility? etc. are answered. The de-registration process is also equally important.
- **Privilege management:** Access privileges are to be aligned with job requirements and responsibilities are to be minimal w.r.t their job functions. For example, an operator at the order counter shall have direct access to order processing activity of the application system. Similarly, a business analyst could be granted the access to view the report but not modify which would be done by the developer.
- **User password management:** Passwords are usually the default screening point for access to systems. Allocations, storage, revocation, and reissue of password are password management functions. Educating users is a critical component about passwords and making them responsible for their password.
- **Review of user access rights:** A user's need for accessing information changes with time and requires a periodic review of access rights to check anomalies in the user's current job profile, and the privileges granted earlier.

(b) In computer language, the word **Voucher** is a place where transactions are recorded. It is a data input form for inputting transaction data.

The vouchers pertaining to Accounting module are as follows:

Voucher Type	Uses
Contra	For recording of four types of transactions as under. a. Cash deposit in bank. b. Cash withdrawal from bank. c. Cash transfer from one location to another. d. Fund transfers from our one bank account to our own another bank account.
Payment	For recording of all types of payments. Whenever the money is going out of business by any mode (cash/bank). E.g. Payment of salary and rent.
Receipt	For recording of all types of receipts. Whenever the money is being received into business from outside by any mode (cash/bank). For example - Interest received from bank.

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Journal	For recording of all non-cash/bank transactions. For example - Depreciation, Provision, Write-off, Write-back, Discount given/received, Purchase/Sale of fixed assets on credit, etc.
Sales	For recording all types of trading sales by any mode (cash/bank/credit).
Purchase	For recording all types of trading purchase by any mode (cash/bank/credit).
Credit Note	For making changes/corrections in already recorded sales/purchase transactions.
Debit Note	For making changes/corrections in already recorded sales/purchase transactions.
Memorandum	For recording of transaction which will be in the system but will not affect the trial balance. In other words, memorandum vouchers are used to record suspense payments, receipt, sales, purchase etc. conveyance expenses.

Question 4

(a) Enterprise Risk Management (ERM) framework consists of various interrelated components that are derived from the way the management runs a business and are integrated with the management process. Explain any six components of ERM framework.

(6 Marks)

(b) E-Commerce runs through network-connected systems which can have two types of architecture, namely, two-tier and three-tier architecture. In this context, define three-tier architecture and write its advantages. ***(1 + 3 Marks)***

Answer

(a) Enterprise Risk Management (ERM) framework consists of eight interrelated components that 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

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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 channeled 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 analysed to form a basis for determining how they should be managed. 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 enables 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 both.

(b) **Three - Tier architecture** is a software design pattern and well-established software architecture having three tiers - **Presentation Tier**, **Application Tier,** and **Database Tier**. The Three-tier architecture is a client server architecture in which the functional process logic; data access and computer data storage; and user interface are maintained as independent modules on separate platforms - Application tier; Database tier; and Presentation Tier respectively.

The advantages of Three-Tier Architecture are as follows:

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- **Clear separation of user-interface-control and data presentation from application-logic:** Through this separation, more clients can have access to a wide variety of server applications. The two main advantages for client-applications are quicker development through the reuse of pre-built business-logic components and a shorter test phase.
- **Dynamic load balancing:** If bottlenecks in terms of performance occur, the server process can be moved to other servers at runtime.
- **Change management:** It is easy and faster to exchange a component on the server than to furnish numerous Personal Computers (PCs) with new program versions.

Question 5

(a) Banking is a backbone of a country's economy which keeps the wheels of economy running. The changes in the banking scenario due to moving over to Core Banking System (CBS) and IT-based operations have enabled banks to reach customers and facilitate seamless transactions with lesser dependence on physical infrastructure. In this context, write down the characteristics of Core Banking System. ***(6 Marks)***

(b) Mobile Apps are commonly used by all for doing electronic transactions. A mobile website works for all mobile devices and usually costs about same as creating a Mobile App. In this context, explain any four modules in mobile websites. ***(4 Marks)***

OR

What are the applications of Internet of Things (IOT) in the area of

(i) Smart City

(ii) Health Care

Answer

(a) The characteristics of Core Banking Systems (CBS) are as follows:

- CBS is a centralized Banking Application software that has several components which have been designed to meet the demands of the banking industry.
- CBS is supported by advanced technology infrastructure and has high standards of business functionality.
- There is a common database in a central server located at a Data Center which gives a consolidated view of the bank's operations.
- Core Banking Solution brings significant benefits such as a customer is a customer of the bank and not only of the branch.
- CBS is modular in structure and is capable of being implemented in stages as per requirements of the bank.
- All branches of bank function as delivery channels providing services to its customers.

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- A CBS software also enables integration of all third-party applications including in-house banking software to facilitate simple and complex business processes.

(b) The modules that are included in the Mobile App/Mobile websites are as follows:

- **Mobile Store Front Module** is an integral part of m-commerce apps, where all commodities and services are categorized and compiled in catalogues for customers to easily browse through the items on sale and get essential information about the products.
- **Mobile Ticketing Module** is an m-commerce app component that is closely linked to promotional side of commercial business and enables vendors to attract customers by distributing vouchers, coupons, and tickets.
- **Mobile Advertising and Marketing Module** empowers merchants to leverage m-commerce channels to manage its direct marketing campaigns, which are reported to be very effective especially when targeted at younger representatives of digital information consumers.
- **Mobile Customer Support and Information Module** is a point of reference for information about a particular retailer, its offerings, and deals. The news about the company, current discounts, shop locations and other information is either pushed to users' m-commerce apps or can be found in m-commerce app itself.
- **Mobile Banking** is inextricably linked to selling process via m-commerce apps, because no purchase can be finalized without a payment. There are various options for executing mobile payments, among which are direct mobile billing, payments via SMS, credit card payments through a familiar mobile web interface, and payments at physical Point of Sale (POS) terminals with Near Field Communication (NFC) technology.

OR

(i) **Smart City:** Smart city is a big innovation and spans a wide variety of use cases, from water distribution and traffic management to waste management and environmental monitoring. For example, many times we wait for a red traffic light in a totally absurd way, because there is no car or any person around us. With Internet of Things (IoT), these traffic lights can be connected to a circuit of cameras distributed throughout the city that identifies the level of traffic and mass movement, thus avoiding those absurd waits in areas of limited movement.

(ii) **Health Care:** Internet of Things (IoT) has various applications in healthcare which are from remote monitoring equipment to advance and smart sensors to equipment integration. It has the potential to improve how physicians deliver care and keep patients safe and healthy.

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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

Paramount group of companies is having a strong foot print in the areas of Aviation, Healthcare, Fast moving consumer goods, Home appliances and Electronic goods. Processes, Technology and Marketing capabilities are different for each business. However, each business operates among a group of rivals that produce competing products. In order to get ahead of competition and to contribute for sustained competitive advantages, company intends to improve customer services and in turn increase its market share. To achieve this, company is desirous to analyze its products, processes and service levels for each of its segments.

Company is studying various trade publications, understanding the taste and preferences of customers, meeting with suppliers and also using other relevant information available in public domain for each of its business operations. After studying as above, company wants to compare diverse range of practices and processes being followed by acknowledged leaders in the industry, measures its own productivity and identify the gaps. Instead of following bricks-and-mortar practices, company will be setting goals to be achieved for improvement in its product, processes and services, based on best practices being followed by the companies on a regular basis.

Identify the strategic tool to be used by Paramount group of companies. Also explain in brief the common elements involved in using this tool. ***(1 + 4 = 5 Marks)***

Answer

Paramount group of companies have used ***Benchmarking*** as a strategic tool. Benchmarking is an approach of setting goals and measuring productivity of firms based on best industry practices or against the products, services and practices of its competitors or other acknowledged leaders in the industry. Thus, benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking practices to achieve improvements in diverse range of management functions like product development, customer services, human resources management, etc.

Some of the common elements of benchmarking process are as under:

- **Identifying the need for benchmarking**: This step will define the objectives of the benchmarking exercise. It will also involve selecting the type of benchmarking. Organizations identify realistic opportunities for improvements.
- **Clearly understanding existing decisions processes:** The step will involve compiling information and data on performance. This will include mapping processes.
- **Identify best processes:** Within the selected framework best processes are identified. These may be within the same organization or external to it.

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- **Comparison of own process and performance with that of others:** Benchmarking process also involves comparison of performance of the organization with performance of other organization. Any deviation between the two is analysed to make further improvements.
- **Prepare a report and implement the steps necessary to close the performance gap:** A report on benchmarking initiatives containing recommendations is prepared. Such a report also contains the action plans for implementation.
- **Evaluation:** Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It also periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.

Question 7

(a) Good Health is an Association of Persons (AOP), providing awareness to downtrodden on immunization, vaccination, sanitation and other health and hygiene issues. It is a not-for-profit organization, working in coordination with hospitals, medical support centers and local administration.

You are asked to take over the organization and manage it in a better way. Identify whether the concept of strategic management is relevant in this connection? And if so, what basic activities you would perform in order to manage it efficiently?

(1 + 4 = 5 Marks)

(b) "Is it imperative to segregate top level strategies into viable functional plans and policies?" Do you agree with this statement? Support your answer with reason.

(1 + 4 = 5 Marks)

Answer

(a) The concept of strategic management process is effectively being used by a number of not-for-profit or charitable organizations. While 'Good Health' may have social and charitable existence, still it has to generate resources and use them wisely to achieve organisational objectives. Organisation needs to be managed strategically, irrespective whether they have profit motive. The strategic management at 'Good Health' should essentially cover:

- ♦ Analyzing and interpreting the strategic intent in terms of vision, mission and objectives.
- ♦ Generating required resources in terms of finance and manpower (volunteers, paid employees).
- ♦ Undertaking SWOT analysis from time to time.

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- Setting goals in the area of downtrodden. It can be in terms of geographical coverage and number of downtrodden.
- Analyzing the desired future position with the past and present situation.

(b) Yes, it is imperative to segregate the top-level strategies into viable functional plans and policies that are compatible with each other. Major strategies must be translated to lower levels to give holistic strategic direction to an organisation. Functional strategies provide details to business strategy & govern as to how key activities of the business will be managed. The reasons why functional strategies are needed can be enumerated as follows:

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

Question 8

(a) XYZ Ltd. is an automobile company that offers diversified products for all customer segments. Due to COVID-19, the changes took place in the economy forced the company to change its strategy. Being the CEO of the company, what stages will you follow for developing and executing the new strategy? ***(5 Marks)***

(b) Due to reoccurrence of various variants of Corona virus, LMN Ltd. is facing unstable environment and it has started unbundling and disintegrating its activities. It also started relying on outside vendors for performing these activities. Identify the organisation structure LMN Ltd. is shifting to. Under what circumstances this structure becomes useful? ***(1 + 4 = 5 Marks)***

Answer

(a) Today, India has become the outsourcing hub for many of the global automobile manufacturers. The auto industry comprises of four segments which are passenger vehicles, commercial vehicles, three wheelers and two wheelers. XYZ Ltd. is an automobile company that offers diversified products for all customer segments. The company has already in existence, so it has its own vision, mission and a strategy to execute for achieving its vision. While developing and executing the strategy, XYZ Ltd. might have followed the five-stage managerial process as given below:

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1. Developing a strategic vision.
2. Environmental and organisational analysis.
3. Formulation of strategy.
4. Implementing and executing the strategy.
5. Strategic evaluation and control.

But due to COVID-19, the automobile industry has faced the lockdown situation. Changes in the economy forced the XYZ Ltd. to change its existing strategy and prepare the new strategy. The changes in the environmental forces due to COVID-19 requires XYZ Ltd. to make modifications in their existing strategies and bring out new strategies. For initiating strategic change, three steps can be followed by the CEO of the company which are as under:

(i) ***Recognize the need for change***: This is the first step to diagnose facets of the corporate culture that are strategy supportive or not. This has already identified by the XYZ Ltd.

(ii) ***Create a shared vision to manage change***: Objectives and vision of both individuals and organization should coincide. The CEO of XYZ Ltd. need to constantly and consistently communicate the vision not only to inform but also to overcome resistance.

(iii) ***Institutionalize the change***: Creating and sustaining a different attitude towards change is essential to ensure that the XYZ Ltd. does not slip back into old ways of thinking or doing things. All these changes should be set up as a practice to be followed by the company and be able to transfer from one level to another as a well settled practice.

(b) LMN Ltd. is shifting into ***network structure.*** It is a newer and somewhat more radical organisational design. The network structure could be termed a "non-structure" as it virtually eliminates in-house business functions and outsource many of them. An organization organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks.

The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration. The network structure provides organization with increased flexibility and adaptability to cope with rapid technological change and shifting pattern of international trade and competition.

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Question 9

(a) "Strategy formulation and strategy implementation are intertwined and linked with each other." Elucidate this statement with suitable arguments. ***(5 Marks)***

(b) There are four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are known as core competencies. Explain. ***(5 Marks)***

Answer

(a) The strategy formulation and strategy implementation are intertwined and linked with each other. Two types of linkages exist between these two phases of strategic management. The forward linkages deal with the impact of strategy formulation on strategy implementation while the backward linkages are concerned with the impact in the opposite direction.

Forward Linkages: The different elements in strategy formulation starting with objective setting through environmental and organizational appraisal, strategic alternatives and choice to the strategic plan determine the course that an organization adopts for itself. With the formulation of new strategies, or reformulation of existing strategies, many changes have to be affected within the organization. For instance, the organizational structure has to undergo a change in the light of the requirements of the modified or new strategy. The style of leadership has to be adapted to the needs of the modified or new strategies. In this way, the formulation of strategies has forward linkages with their implementation.

Backward Linkages: Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with implementation. While dealing with strategic choice, remember that past strategic actions also determine the choice of strategy. Organizations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts. Such incremental changes, over a period of time, take the organization from where it is to where it wishes to be.

It is to be noted that while strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making, the implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making.

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

i. **Valuable:** Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities. Finance companies build a valuable competence in financial services. In addition, to make

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such competencies as financial services highly successful require placing the right people in the right jobs. Human capital is important in creating value for customers.

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

iii. **Costly to imitate:** Costly to imitate means such capabilities that competing firms are unable to develop easily.

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

Question 10

(a) ABC Steel Industries finds out that its products have reached at maturity stage and already has overcapacity. Therefore, it concentrates on maintaining operational efficiency of its plants. Identity the strategy implemented by ABC Steel Industries along with reasons. ***(1 + 4 = 5 Marks)***

(b) What do you understand by diversification? Distinguish between concentric and conglomerate diversification. ***(2 + 3 = 5 Marks)***

OR

"The bargaining power of suppliers determines an industry's attractiveness and profitability." Discuss.

Answer

(a) ABC Steel Industries has opted to implement Stability strategy. Stability strategies are intended to safeguard the existing interests and strengths of business. It involves organisations to pursue established and tested objectives, continue on the chosen path, maintain operational efficiency and so on. A stability strategy is pursued when a firm continues to serve in the same or similar markets and deals in same products and services. In stability strategy, few functional changes are made in the products or markets, however, it is not a 'do nothing' strategy. This strategy is typical for mature business organizations. Some small organizations also frequently use stability as a strategic focus to maintain comfortable market or profit position.

Major reasons for Stability strategy are:

- A product has reached the maturity stage of the product life cycle.
- The staff feels comfortable with the status quo as it involves less changes and less risks.

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- It is opted when the environment in which an organisation is operating is relatively stable.
- Where it is not advisable to expand as it may be perceived as threatening.
- After rapid expansion, a firm might want to stabilize and consolidate itself.

(b) Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. Diversification endeavours can be related or unrelated to existing businesses of the firm.

Following are the differences between the concentric diversification and conglomerate diversifications:

Concentric Diversification	Conglomerate Diversification
Meaning: It occurs when a firm adds related products or markets. **Linkage:** The new business is linked to the existing businesses through process, technology or marketing. **Reasons for pursuing:** The most common reason for pursuing a concentric diversification is that opportunities in a firm's existing line of business are available.	**Meaning:** It occurs when a firm diversifies into areas that are unrelated to its current line of business. **Linkage:** Here no such linkages exist; the new business/product is disjointed from the existing businesses/products. **Reasons for pursuing:** The common reason for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

or

Quite often, suppliers too, exercise considerable bargaining power over purchasing companies. The more specialised the offering from the supplier, greater may be its clout. Further, when the suppliers are limited in number, they may openly exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry, and therefore, an industry's attractiveness and profitability. Suppliers can influence the profitability of an industry in a number of ways. Suppliers can command bargaining power over a firm when;

(i) Their products are crucial to the buyer and substitutes are not available.

(ii) They can erect/ensure high switching costs.

(iii) They are more concentrated than their buyers. Less suppliers, more buyers.

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