PAPER – 7 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

SECTION – A : INFORMATION TECHNOLOGY

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

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

Question 1

Answer the following in brief.

(a) Mention the challenges in implementing 'Business Process Automation'.

(b) Distinguish between 'Cache Memory' and 'Virtual Memory'.

(c) In what way a Switch is different from a Router in the computer networks?

(d) What are the key aspects to be considered in implementing e-commerce?

(e) Define 'On-line processing' and 'Real-time processing'.   *(5 x 2 = 10 Marks)*

Answer

(a) Some of the challenges in implementing Business Process Automation (BPA) are as follows:

  ♦ The number of interfaces with the customers is growing (e.g. phone, fax, email, sms, PDA, etc.);

  ♦ The product, service and price options have increased the complexity of the business;

  ♦ Most organizations have a whole suite of 'build and buy' systems and applications, often each with its own data format; and

  ♦ Budgets are being cut.

(b) **Cache Memory:** Cache memory in CPU is used to bridge the huge speed difference between Registers and Primary Memory. Cache memory is a smaller, faster memory, which stores copies of the data from the most frequently used main memory locations so that Processor/Registers can access it more rapidly than main memory.

  Virtual Memory: Virtual memory combines computer's Random Access Memory (RAM) with temporary space on the hard disk. When RAM runs low, virtual memory moves data from RAM to an allocated space on the hard disk to help RAM.

(c) **Switch:** Switch is a communications processor that makes connections between telecommunications circuits in a network so that a telecommunications message can reach its intended destination.

  Router: Router is a communications processor that interconnects networks based on different rules or protocols, so that a telecommunications message can be routed to its destination.

(d)	The key aspects to be considered in implementing e-commerce are as follows:

♦	Involvement of stakeholders, key trading partners, and external auditors to obtain insight into the design and deployment of e-commerce solution;

♦	Implementing appropriate policies, standards and guidelines;

♦	Performing cost benefit analysis and risk assessment to ensure value delivery;

♦	Implementing the right level of security across all layers and processes;

♦	Establishing and implementing the right level of baseline (best practice) controls;

♦	Integration of e-Commerce with the business process and the physical delivery channels;

♦	Providing adequate user training; and

♦	Performing post implementation review to ensure controls are working as envisaged.

(e)	**Online Processing:** In this, data is processed immediately while it is entered, the user usually only has to wait a short time for a response. (Example: games, word processing, booking systems). Interactive or online processing requires a user to supply an input. Interactive or online processing enables the user to input data and get the results of the processing of that data immediately.

Real-time Processing: Real time processing is a subset of interactive or online processing. Input is continuously, automatically acquired from sensors which are processed immediately in order to respond to the input in as little time as possible. The system doesn't need a user to control it. Real time processing is used in warning systems on aircraft, alarm systems in hazardous zones, burglar alarms etc.

Question 2
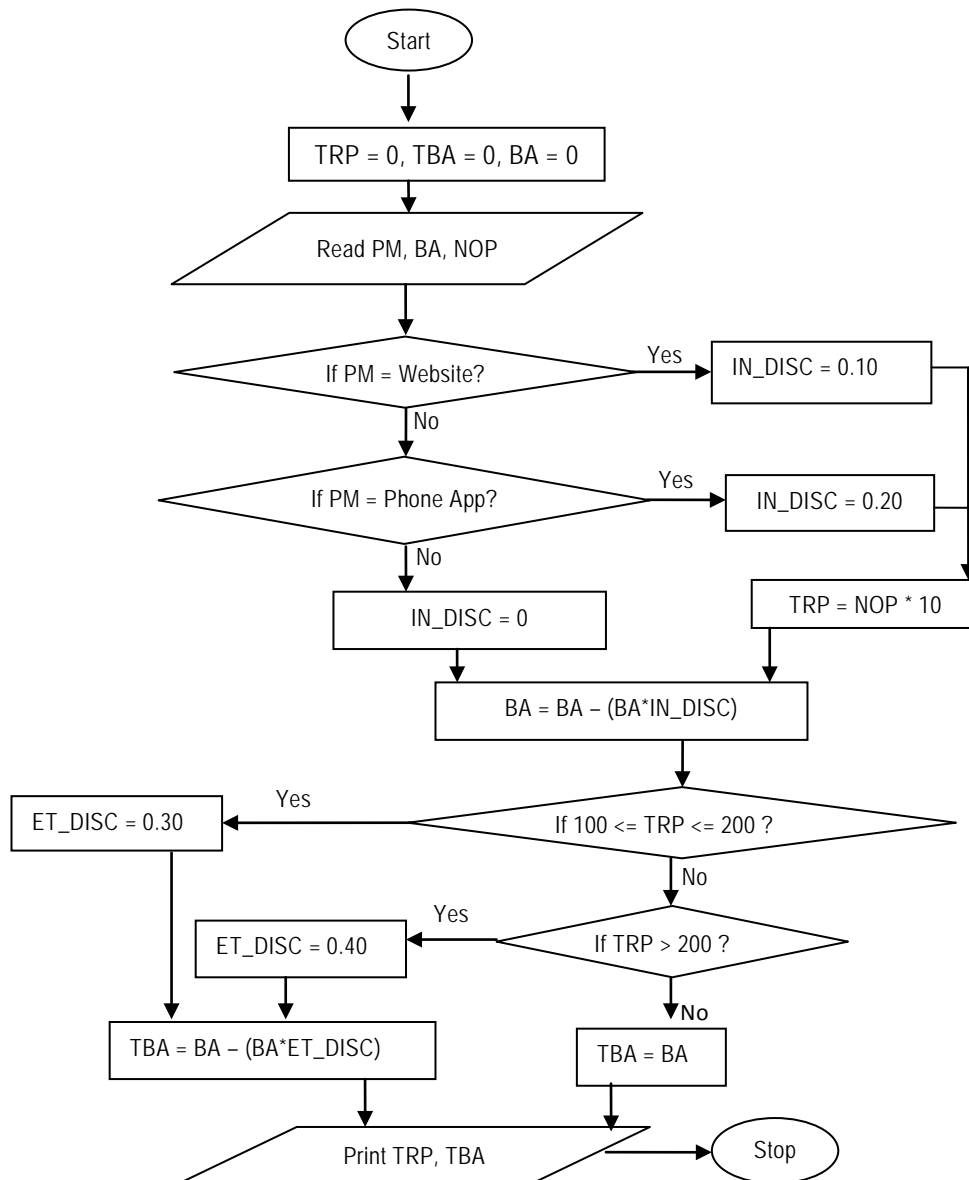
An E-commerce site has the following cash back offers.

*(i)	If the purchase mode is via website, an initial discount of 10% is given on the bill amount.*

*(ii)	If the purchase mode is via phone app. An initial discount of 20% is given on the bill amount.*

*(iii)	If done via any other purchase mode, the customer is not eligible for any discount.*

Every purchase eligible to discount is given 10 reward points.

*(a)	If the reward points are between 100 and 200 points, the customer is eligible for a further 30% discount on the bill amount after initial discount.*

*(b)	If the reward points exceed 200 points, the customer is eligible for a further 40% discount on the bill amount after initial discount.*

Taking purchase mode, bill amount and number of purchases as input draw a flowchart to calculate and display the total reward points and total bill amount payable by the customer after all the discount calculation.				*(8 Marks)*

Answer

(a) Let us define the variables first:

PM: Purchase Mode	**BA:** Bill Amount	**TBA:** Total Bill Amount
NOP: Number of Purchases	**TRP:** Total Reward Points	**IN_DISC:** Initial Discount

ET_DISC: Extra Discount on purchases eligible to Initial Discount

N: Counter (to track the number of purchases)

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Question 3

(a) *Mention briefly the different types of application software.*

(b) *What are the major advantages and disadvantages of DBMS?*   *(2 x 4 = 8 Marks)*

Answer

(a) The different types of application software are as under:

♦ **Application Suite:** Has multiple applications bundled together. Related functions, features and user interfaces interact with each other. E.g. MS Office 2010 which has MS Word, MS Excel, MS Access, etc.

♦ **Enterprise Software:** Addresses an enterprise's needs and data flow in a huge distributed environment. E.g. ERP Applications like SAP.

♦ **Enterprise Infrastructure Software:** Provides capabilities required to support enterprise software systems. E.g. email servers, Security software.

♦ **Information Worker Software:** Addresses individual needs required to manage and create information for individual projects within departments. E.g. Spreadsheets, CAAT (Computer Assisted Audit Tools) etc.

♦ **Content Access Software:** Used to access contents and addresses a desire for published digital content and entertainment. E.g. Media Players, Adobe Digital etc.

♦ **Educational Software:** Holds contents adopted for use by students. E.g. Examination Test CDs.

♦ **Media Development Software:** Addresses individual needs to generate and print electronic media for others to consume. E.g. Desktop Publishing, Video Editing etc.

(b) Major advantages of Database Management Systems (DBMS) are given as follows:

♦ **Permitting data sharing:** One of the principle advantages of a DBMS is that the same information can be made available to different users.

♦ **Minimizing Data Redundancy:** In a DBMS duplication of information or redundancy is, if not eliminated, carefully controlled or reduced i.e. there is no need to repeat the same data over and over again. Minimizing redundancy can therefore significantly reduce the cost of storing information on hard drives and other storage devices.

♦ **Integrity can be maintained:** Data integrity is maintained by having accurate, consistent, and up-to-date data. Updates and changes to the data only have to be made in one place in DBMS ensuring Integrity. The chances of making a mistake increase if the same data needs to be changed at several different places than making the change in one place.

♦ **Program and file consistency:** Using a DBMS, file formats and programs are standardized. This makes the data files easier to maintain because the same rules

and guidelines apply across all types of data. The level of consistency across files and programs also makes it easier to manage data when multiple programmers are involved.

♦ **User-friendly:** DBMS makes the data access and manipulation easier for the user. DBMS also reduce the reliance of users on computer experts to meet their data needs.

♦ **Improved security:** DBMSs allow multiple users to access the same data resources which could lead to risk to an enterprise if not controlled. Security constraints can be defined i.e. Rules can be built to give access to sensitive data. Some sources of information should be protected or secured and only viewed by select individuals. Through the use of passwords, database management systems can be used to restrict data access to only those who should see it.

♦ **Achieving program/data independence:** In a DBMS data does not reside in applications but data bases program & data are independent of each other.

♦ **Faster application development:** In the case of deployment of DBMS, application development becomes fast. The data is already therein databases, application developer has to think of only the logic required to retrieve the data in the way a user needs.

Major disadvantages of DBMS are as under:

♦ **Cost:** Implementing a DBMS system can be expensive and time-consuming, especially in large enterprises. Training requirements alone can be quite costly.

♦ **Security:** Even with safeguards in place, it may be possible for some unauthorized users to access the database. If one gets access to database then it could be an all or nothing proposition.

Question 4

(a) Mention the two categories of encryption/decryption methods. What are two basic approaches to encryption?

(b) Mention briefly the prominent characteristics of a 'Client Server' architecture.

(2 x 4 = 8 Marks)

Answer

(a) The two categories of encryption/decryption methods are: the **Secret Key Method** and the **Public Key Method**.

♦ **Secret Key Method:** In Secret key encryption/decryption method, the same key is used by both sender and the receiver. The sender uses this key and an encryption algorithm to encrypt data; the receiver uses the same key and the corresponding decryption algorithm to decrypt the data.

♦ **Public Key Method:** In Public key encryption, there are two keys: a private key which is kept by the receiver and the public key which is announced to the public.

The two basic approaches to Encryption are as follows:

♦ **Hardware Encryption:** Hardware encryption devices are available at a reasonable cost, and can support high- speed traffic. If the Internet is being used to exchange information among branch offices or development collaborators, for instance, use of such devices can ensure that all traffic between these offices is secure.

♦ **Software encryption:** Software encryption is typically employed in conjunction with specific applications. Certain electronic mail packages, for example, provide encryption and decryption for message security.

(b) Some of the prominent characteristics of Client-Server (C/S) architecture are as follows:

- **Service:** C/S provides a clean separation of function based on the idea of service. The server process is a provider of services and the client is a consumer of services.

- **Shared Resources:** A server can service many clients at the same time and regulate their access to the shared resources.

- **Transparency of Location:** C/S software usually masks the location of the server from the clients by redirecting the service calls when needed.

- **Mix-and-Match:** The ideal C/S software is independent of hardware or Operating System software platforms.

- **Scalability:** In a C/S environment, client workstations can either be added or removed and also the server load can be distributed across multiple servers.

- **Integrity:** The server code and server data is centrally managed, which results in cheaper maintenance and the guarding of shared data integrity. At the same time, the clients remain personal and independent.

Question 5

(a) What is meant by a 'Decision Support System'? Give a brief description of its components.

(b) Discuss key components of an 'Expert System'.   *(2 x 4 = 8 Marks)*

Answer

(a) A **Decision Support System (DSS)** is a computer-based information system that supports business or organizational decision-making activities. DSSs serve the management, operations, and planning levels of an organization (usually mid and higher management) and help to make decisions, which may be rapidly changing and not easily specified in advance. DSS can be either fully computerized, human or a combination of both. In other words, a properly designed DSS may be defined as an interactive

software-based system intended to help decision makers compile useful information from raw data, documents, personal knowledge, and/or business models to identify and solve problems and make decisions.

DSS has four basic components:

- **The user:** The user is usually a manager with an unstructured or semi-structured problem to solve and may be at management - level of an organization.

- **One or more databases:** Databases contain both routine and non-routine data from both internal and external sources.

- **Planning languages:** These can either be general-purpose or special-purpose allowing users to perform routine tasks and specific tasks respectively.

- **Model Base:** It is the brain of the DSS as it performs data manipulations and computations with the data provided to it by the user and the database.

(b) The key components of an Expert System are as under:

- **Knowledge Base:** A knowledge base is the computer equivalent of all the knowledge and insight that an expert or group of experts develop through years of experience in their field. This includes the data, knowledge, relationships, rules of thumb (heuristics), and decision trees used by experts to solve a particular problem. The knowledge base of expert systems encloses both realistic and heuristic knowledge.

- **Inference Engine:** This program contains the logic and reasoning mechanisms that simulate the expert logic process and deliver advice. It uses data obtained from both the knowledge base and the user to make associations and inferences, form its conclusions, and recommend a course of action.

- **User Interface:** This program allows the user to design, create, update, use and communicate with the expert system.

- **Explanation facility:** This facility provides the user with an explanation of the logic the ES used to arrive at its conclusion.

- **Database of Facts:** This holds the user's input about the current problem. The user may begin by entering as much as they know about the problem or the inference engine may prompt for details or ask whether certain conditions exist. Gradually a database of facts is built up which the inference engine will use to come to a decision. The quality and quantity of data gained from the user will influence the reliability of the decision.

Question 6

(a) *Discuss any four advantages of Cloud Computing.*

(b) *What is meant by 'controls' in BPA? What are their major objectives?   (2 x 4 = 8 Marks)*

Answer

(a) Mentioned below are some of the advantages of Cloud Computing:

- **Cost Efficient:** Cloud computing is probably the most cost efficient method to use, maintain and upgrade.

- **Almost Unlimited Storage:** Storing information in the cloud gives us almost unlimited storage capacity.

- **Backup and Recovery:** Since all the data is stored in the cloud, backing it up and restoring the same is relatively much easier than storing the same on a physical device. Furthermore, most cloud service providers are usually competent enough to handle recovery of information.

- **Automatic Software Integration:** In the cloud, software integration is usually something that occurs automatically. Not only that, cloud computing allows us to customize the options with great ease. Hence, we can handpick just those services and software applications that we think will best suit the particular enterprise.

- **Easy Access to Information:** Once we register ourselves in the cloud, we can access the information from anywhere, where there is an Internet connection.

- **Quick Deployment:** Once we opt for this method of functioning, the entire system can be fully functional in a matter of a few minutes. Of course, the amount of time taken here will depend on the exact kind of technology that we need for our business.

(b) **Controls** are defined as policies, procedures, practices and organization structure that are designed to provide reasonable assurance that business objectives are achieved and undesired events are prevented or detected and corrected.

Major control objectives are given as follows:

- **Authorization:** This ensures that all transactions are approved by responsible personnel in accordance with their specific or general authority before the transaction is recorded.

- **Completeness**: This ensures that no valid transactions have been omitted from the accounting records.

- **Accuracy:** This ensures that all valid transactions are accurate, consistent with the originating transaction data, and information is recorded in a timely manner.

- **Validity:** This ensures that all recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization.

♦ **Physical Safeguards and Security:** This ensures that access to physical assets and information systems are controlled and properly restricted to authorized personnel.

♦ **Error Handling:** This ensures that errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.

♦ **Segregation of Duties:** This ensures that duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relative to processing a transaction.

Question 7

Write short notes on any four of the following:

(a) Firewall

(b) Entity-Relationship Diagram

(c) WhatsApp Messenger

(d) MS Office Applications

(e) Core Banking System　　　　　　　　　　　　　　　　　　　　*(4 x 2 = 8 Marks)*

Answer

(a) **Firewall:** Firewall is a device that forms a barrier between a secure and an open environment when the latter environment is usually considered hostile, for example, the Internet. It acts as a system or combination of systems that enforces a boundary between more than one networks. Access controls are common form of controls encountered in the boundary subsystem by restricting the use of system resources to authorized users, limiting the actions authorized users can take with these resources and ensuring that the users obtain only authentic system resources.

(b) **Entity-Relationship Diagram:** An Entity-Relationship (ER) diagram is a data modeling technique that creates a graphical representation of the entities, and the relationships between entities, within an information system. ER diagrams repeatedly bring into play symbols to symbolize three dissimilar types of information. Boxes are commonly used to represent entities. Diamonds are normally used to represent relationships. A relationship is an association that exists between two entities.

(c) **WhatsApp Messenger:** It is a cross-platform mobile messaging application which allows us to exchange messages without having to pay for SMS. It is available for iPhone, BlackBerry, Android, Windows phone, Nokia and these phones can message each other. Because WhatsApp Messenger uses the same internet data plan that we use for e-mail and web browsing, there is no cost to message and stay in touch with friends.

(d) **MS Office Applications:** These are various office automation systems made available by Microsoft Corporation which include MS Word, MS Excel, MS PowerPoint, MS

Access, etc. Each of these software help to achieve automation of various tasks in the office. It has features such as customized ribbon, backstage view, built-in graphics toolset, enhanced security, excel spark lines, pivot for Excel, PowerPoint broadcast, Power Point compression, paste, preview and outlook conversation view.

(e) **Core Banking System (CBS):** Most banks use core banking applications to sustain their operations where CORE stands for "Centralized Online Real-time Environment". Core Banking System may be defined as the set of basic software components that manage the services provided by a bank to its customers through its branches (branch network). The various elements of core banking include Making and servicing loans; Opening new accounts; Processing cash deposits and withdrawals; Processing payments and cheques; Calculating interest; Customer Relationship Management (CRM) activities; Managing customer accounts; Establishing criteria for minimum balances, interest rates, number of withdrawals allowed and so on; Establishing interest rates; and Maintaining records for all the bank's transactions. Examples of major core banking products include Infosys' Finacle, Nucleus FinnOne etc.

SECTION –B

Question 8

(a) The environment has many different influences, but it is very difficult for the managers to make sense of these influences. Why? *(3 Marks)*

(b) Key Success Factors (KSFs) are the rules that shape whether a company will be financially and competitively successful? Do you agree with this statement? How to identify an industry's key success factors? *(3 Marks)*

(c) "A company should focus on external perspective to define its mission". Support this statement with reasons. *(3 Marks)*

(d) A Bakery starts producing pastries and other similar products. What type of diversification strategy is being following by it and why? *(3 Marks)*

(e) Explain any three prominent areas where Human Resource Manager can play a strategic role. *(3 Marks)*

Answer

(a) The environment consists of several micro and macro factors that influence business enterprises. Some of these factors may directly impact business, while others may have insignificant or far-fetched influence. In spite of best of resources and capabilities it may not be possible for managers to make sense of all these influences due to limitations of human mind at one end and diversity, uncertainly and complexity of the environment on the other hand. These can be explained as follows:

Diversity: On account of diversity listing of all conceivable environmental influences may not be possible.

Uncertainty: It is difficult to predict and understand future external influences on an organization.

Complexity: Managers, like other individuals, may tend to simplify complexity by focusing on aspects of the environment that may confirm their prior views or are historically important.

(b) An industry's key success factors (KSFs) are those things or strategic elements that affect industry members' ability to prosper in a market place. For a business organization within an industry, it may include, cost structure, technology, distribution system and so on. It is correct to state that the KSFs help to shape whether a company will be financially and competitively successful.

The answers to the following three questions help identify an industry's key success factors:

♦ On what basis do customers choose between the competing brands of sellers? What product attributes are crucial?

♦ What resources and competitive capabilities does a seller need to have to be competitively successful?

♦ What does it take for sellers to achieve a sustainable competitive advantage?

(c) A business organization is a part of overall structure of society and functions within wide external environmental factors. It draws its resources from its external environment, processes them and provides output in the form of goods and services. Therefore, it is correct to say that a business enterprise should focus on external perspective to define its mission although enterprise's internal situation cannot be delinked while doing so. Bringing an external perspective justifies the very existence of company. The mission statement is a message designed to be inclusive of the expectations of all stakeholders for the performance of an enterprise / company over the long run. Some of the questions addressed by mission statement are: Why is the firm in business? What are the economic goals? What is the operating philosophy in terms of quality, firm's image and self-concept? What are the core competencies and competitive advantages? What customers do and can a company serve? How does enterprise / company view its responsibilities to stockholders, employees, communities, environment, social issues or competitors?

(d) A bakery normally is a small organization that produces and sells flour-based food baked in an oven. Typically, a bakery produces breads, cakes, cookies, pastries, pies, etc. A bakery that is hitherto not into producing pastries starts producing them and other similar products is following concentric diversification which is basically related diversification.

In this form of diversification, the new business is linked to the existing businesses through existing systems such as processes, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. There are benefits of synergy with the current operations. The most common reasons for pursuing a concentric diversification are that opportunities in existing line of business are available.

(e) Prominent areas where the Human Resource Manager can play strategic role are as follows:

1. **Providing purposeful direction:** The human resource manager leads people and the organization towards the desired direction involving people. He can ensure harmony between organisational objectives and individual objectives.

2. **Creating competitive atmosphere:** In the present business environment, maintaining competitive position or gains is an important objective of any business. Having a highly committed and competent workforce is very important for getting a competitively advantageous position.

3. **Facilitation of change:** The human resource manager will be more concerned about furthering the organization not just maintaining it. He can devote more time to promote acceptance of change rather than maintaining the status quo.

4. **Diversion of workforce:** In a modern organization, management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female, young and old, educated and uneducated, unskilled and professional employee and so on. Motivation, maintaining morale and commitment are some of the key tasks that a HR manager can perform.

5. **Empowerment of human resources:** Empowerment involves giving more power to those who, at present, have little control on what they do and little ability to influence the decisions being made around them.

6. **Building core competency:** The human resource manager has an important role to play in developing core competency of the firm. A core competence is a unique strength of an organization which may not be shared by others. Organization of business around core competence implies leveraging the limited resources of a firm.

7. **Development of works ethics and culture:** A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people.

Question 9

(a) *State with reasons which of the following statement is correct or incorrect:*

(i) *Business Process Reengineering (BPR) means partial modification or marginal improvement in the existing work processes.*

(ii) *Portfolio analysis helps the strategists in identifying and evaluating various businesses of a company.*   *(2 x 2 = 4 Marks)*

(b) *"Supply Chain Management is conceptually wider than Logistic Management". Explain.*

(3 Marks)

Answer

(a) (i) **Incorrect:** Business Process Reengineering does not mean any partial modification or marginal improvement in the existing work processes. On the other hand, it is an approach to unusual enhancement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes. It involves forgetting how work has been done so far and deciding how best it can be done now.

(ii) **Correct:** A business portfolio is a collection of businesses and products that make up the organisation. Portfolio analysis is a tool by which management identifies and evaluates its various businesses. In portfolio analysis top management views its product lines and business units as a series of investments from which it expects returns. The best business portfolio is the one that best fits its strengths and weaknesses to the opportunities and threats in the environment. Through portfolio

analysis, organisations are able to compare its various businesses and categorize them in various strata according to their prospect.

(b) Supply chain management is an extension of logistic management. However, there are differences between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfillment of orders, inventory management, supply/demand planning. On the other hand, logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management includes more aspects apart from the logistics function. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organizations and enhances customer service.

Question 10

What is Benchmarking? Explain the various steps in Benchmarking process.   *(7 Marks)*

Answer

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. It developed out of need to have information against which performance can be measured. Benchmarking helps businesses in improving performance by learning from the best practices and the processes by which they are achieved. 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.

The various steps in Benchmarking Process are as under:

(i) **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.

(ii) **Clearly understanding existing decisions processes:** The step will involve compiling information and data on performance.

(iii) **Identify best processes:** Within the selected framework best processes are identified. These may be within the same organization or external to them.

(iv) **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.

(v) **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.

(vi) **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. They also periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.

Question 11

(a)   Identify with reasons the type of growth strategies followed in the following cases:

   (i)   A leading producer of confectionery products advertising the new uses of its product 'Chokoo Mix' aggressively.

   (ii) A company in publishing industry deciding to revise college text books.

   (iii) A renowned company in textile industry starting to manufacture PFY and PSF, critical raw materials for textiles.

   (iv) A business giant in auto manufacturing enters into edible oils, hotels, financial services and dairy businesses.   (4 Marks)

(b)   'To coordinate more complex organizational functions, companies should abandon the simple structure in favour of the functional structure' Discuss.   (3 Marks)

Answer

(a) (i)   The organisation has adopted market penetration strategy (intensification) through advertising the new uses of its product 'çhokoo mix' aggressively. Here the organisation seeks significant growth – within the current business by selling existing products in the existing markets without changing the product in a major way.

     (ii) The company has adopted product development strategy (intensification) by deciding to revise college text books. The company is already in publishing industry and must be having appropriate competencies in dealer network and acceptance amongst the student community. Revising the college text books (new product) would enable it to expand in the college text books segment (existing market).

     (iii) The company has adopted backward integration strategy (vertically integrated diversification) by starting to manufacture PFY and PSF, critical raw materials for textiles. This strategy, apart from overall growth of the organisation, ensures uninterrupted supply of critical raw materials for the present business of the firm. It will also enable the organization to retain the margins in dealing with the raw materials which otherwise would have gone to its suppliers.

     (iv) The business giant in auto manufacturing has adopted conglomerate diversification strategy by entering into edible oils, hotels, financial services and dairy businesses.

In conglomerate diversification a business enters into new businesses that may have little or no linkages with existing business. The organisation has mammoth growth ambition.

(b) Simple organizational structure is most appropriate usually in those small organisations that follow single business strategy and offer a line of products in a single geographic market. When a small organisation grows, its complexities also tend to grow which necessitates the companies to abandon the simple organisation structure which it has been adopting hitherto and move towards structures like functional organisational structure. A typical simple organization structure is often owner driven with small number of employees.

Functional structure groups tasks and activities by business function, such as production, marketing, finance, research and development and is generally headed by Chief Executive Officer or Managing Director. Besides being simple and inexpensive, a functional structure also promotes specialization, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making. At the same time with the passage of time and overall growth much more complex organisational structures exist in business world. However, dividing organization according to functional lines is invariably found at some level or the other.

Question 12

(a) *Can a business succeed in the long run by focusing only on profit as its primary objective? What are other objectives of a business?*   (4 Marks)

(b) *'Organizations sustain superior performance over a long period of time, inspite of the rapid changes taking place continually in its competitive environment if they implement strategic management successfully.' Discuss.*   (3 Marks)

Answer

(a) Business enterprises pursue multiple objectives rather than a single objective, however it is generally asserted that private enterprises are primarily motivated by the objective of profit. All other objectives are facilitative objectives and are meant to be subservient to the profit motive. However, profits cannot remain primary objective in long run. Although some profits are necessary, organizations need to pursue other objectives such as survival, stability, growth and like. These objectives also change with the changes in the environment. Organisations monitor the changes in the environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies. In general, all organizations aim for optimum utilization of resources and economy in operational costs. Some of the other important objectives of a business are as follows:

♦ **Survival:** Survival is a basic, implicit objective of most organizations. While survival is an obvious objective, it gains more value and prominence during the initial stage of the establishment of the enterprise and during general economic adversity. The

ability to survive is a function of the nature of ownership, nature of business competence of management, general and industry conditions, financial strength of the enterprise and so on.

♦   **Stability:** Another important objective of business enterprises is stability. It is a cautious, conservative objective that is often employed when things are not very conducive. It is a strategy of least resistance in a hostile external environment.

♦   **Growth:** This is a promising and popular objective which is equated with dynamism, vigor, promise and success. Enterprise growth may take one or more of the forms like increase in assets, manufacturing facilities, increase in sales volume and so on. Growth may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

♦   **Efficiency:** Business enterprises seek efficiency in rationally choosing appropriate means to achieve their goals. In a sense, efficiency is an economic version of the technical objective of productivity – designing and achieving suitable input output ratios of funds, resources, facilities and efforts. Efficiency is a very useful operational objective.

(b) Business organizations function within dynamic environment. The environment may vary from being conducive to hostile. Whatever be the conditions, implementation of strategic management is very important for the survival and growth of business organizations. Strategy implementation helps in improving the competence with which it is executed and helps organizations to sustain superior performance in following manner:

•   Strategic management helps organizations to be more proactive rather than reactive in dealing with its future.

•   It provides better guidance to entire organization on the crucial point – what it is trying to do.

•   It facilitates to prepare the organization to face the future. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.

•   It serves as a corporate defense mechanism against mistakes and pitfalls.

•   Over a period of time strategic management helps organization to evolve certain core competencies and competitive advantages.

Question 13

Distinguish between the following:

(a) *Transformational Leadership Style and Transactional Leadership Style.*   *(4 Marks)*

(b) *Micro and Macro Environment.*   *(3 Marks)*

Answer

(a) Difference between transformational and transactional leadership

1. Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of organization. Transactional leadership style uses the authority of its offices to exchange rewards such as pay, status, etc.

2. Transformational leadership style may be appropriate in turbulent environment, in industries at the very start or end of their cycles, poorly performing organisations, when there is a need to inspire a company to embrace major changes. Transactional leadership style can be appropriate in settled environment, in growing or mature industries and in organisations that are performing well.

3. Transformational leaders inspire employees by offering the excitement, vision, intellectual stimulation and personal satisfaction. Transactional leaders prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement and non-achievement. Transactional leaders focus mainly to build on existing culture and enhance current practices.

(b) The business environment consists of both the macro environment and the micro environment. Following are the differences between the two:

- The micro environment refers to the forces that are very close to the company and affect its ability to do routine functions. Macro environment refers to all forces that are part of the larger periphery and distantly affect organization and micro environment.

- Micro environment includes the company itself, its suppliers, marketing intermediaries, customer markets and competitors. Whereas macro environment includes demography, economy, natural forces, technology, politics, legal and socio-cultural.

- The elements of micro environment are specific to the said business or firm and affects it's working on short term basis. The elements of macro environment are general environment and affect the working of all the firms in an industry.

- Firm / organization has little control over the elements of macro environment. Whereas the elements of micro environment are within the organization / business / firm and can be controlled by it.

Question 14

Write short notes on the following:

(a) Strategic Decision-making   *(4 Marks)*

(b) Implementation Control   *(3 Marks)*

            OR

Situational Analysis   *(3 Marks)*

Answer

(a) Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions are routine, tactical or strategic in nature. Strategic decisions are different from other decisions that are taken at various levels of the organization during day-to-day working of the organizations. They have long term implications, steer organisation to its future path and have organisation wide implications and so on. These decisions are taken considering different internal and external factors. They are also taken with partial or no definite knowledge of different factors affecting the decision situation. Compared to routine decisions the major dimensions of strategic decisions are given below:

♦ *Strategic issues require top-management decisions*: Strategic issues involve thinking in totality of the organizations and also there is lot of risk involved. Hence, problems calling for strategic decisions require to be considered by top management.

♦ *Strategic issues involve the allocation of large amounts of company resources*: It may require huge financial investment to venture into a new area of business or the organization may require huge number of manpower with new set of skills in them.

♦ *Strategic issues are likely to have a significant impact on the long term prosperity of the firm*: Generally the results of strategic implementation are seen on a long term basis and not immediately.

♦ *Strategic issues are future oriented*: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.

♦ *Strategic issues usually have major multifunctional or multi-business consequences:* As they involve organization in totality they affect different sections of the organization with varying degree.

♦ *Strategic issues necessitate consideration of factors in the firm's external environment:* Strategic focus in organization involves orienting its internal environment to the changes of external environment.

(b) **Implementation control:** Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.

Strategic implementation control is not a replacement to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy. The two basis forms of implementation control are:

(i) **Monitoring strategic thrusts:** Monitoring strategic thrusts help managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.

(ii) **Milestone Reviews.** All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.

*OR (*Alternative/choice)

All business organisations operate in a "macro environment" shaped by influences emanating from the economy at large, population demographics, societal values and lifestyles, governmental legislation and regulation, technological factors and so on. As organisational managers scan the external environment, they must watch for potentially important environmental forces, assess their impact and influence, and adapt its direction and strategy as needed. Situational Analysis forms an essential part of any business plan. A preliminary introduction as to what to take into account when conducting a situational analysis and provide a checklist of the important factors to consider are.

- **Environmental factors:** What external and internal environmental factors are there that needs to be taken into account. This can include economic, political, demographic or sociological factors that have a bearing on the performance.

- **Opportunity and issue analysis:** What are the current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance.

- **Competitive situation:** Analyze main competitors of the organisation: Who are they, what they up to are, how they compare. What are their competitive advantages?

- **Distribution situation:** Review the distribution situation - how are the products moving through channels.

- **Product situation:** The details about current product. The details about current product may be divided into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to relate this back to core client needs.