

**(GI-11, GI-12+15, GI-13+14, SI-5)**

DATE: 04.07.2020

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

**EIS& SM****SECTION – A : ENTERPRISE INFORMATION SYSTEMS AND MANAGEMENT****Q. No. 1 & 2 is Compulsory,****Answer any three questions from the remaining four questions****Answer 1:**

- |     |        |   |                            |
|-----|--------|---|----------------------------|
| 1.  | Ans. c | } | {1 M Each x 15 = 15 Marks} |
| 2.  | Ans. d |   |                            |
| 3.  | Ans. a |   |                            |
| 4.  | Ans. b |   |                            |
| 5.  | Ans. b |   |                            |
| 6.  | Ans. b |   |                            |
| 7.  | Ans. d |   |                            |
| 8.  | Ans. b |   |                            |
| 9.  | Ans. c |   |                            |
| 10. | Ans. c |   |                            |
| 11. | Ans. a |   |                            |
| 12. | Ans. c |   |                            |
| 13. | Ans. a |   |                            |
| 14. | Ans. a |   |                            |
| 15. | Ans. b |   |                            |

**Answer 2:****Components of Enterprise Risk Management**

ERM consists of eight interrelated components. These are derived from the way management runs a business, and are integrated with the management process. These components are as follows:

- |   |   |
|---|---|
| <p>(i) <b>Internal Environment:</b> 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.</p> <p>(ii) <b>Objective Setting:</b> 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 entity risk appetite.</p> <p>(iii) <b>Event Identification:</b> 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 interrelationships between potential events and</p> | <p>{Any Six Point Each 1 M x 5 = 5 M}</p> |
|---|---|

- 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 risk responses that management selected, are effectively carried out.
- (vi) **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.

**Answer 3:**

- (a) Material Management (MM) Module manages materials required, processed and produced in enterprises. Different types of procurement processes are managed with this system. Some of the popular sub-components in MM module are vendor master data, consumption based planning, purchasing, inventory management, invoice verification and so on. Material management also deals with movement of materials via other modules like logistics, Supply Chain Management, sales and delivery, warehouse management, production and planning. The overall purchase process includes the following sub-processes:

- **Purchase Requisition from Production Department** - Production department sends a request to purchase department for purchase of raw material required for production.
- **Evaluation of Requisition** - Purchase department shall evaluate the requisition with the current stock position and purchase order pending position and shall decide about accepting or rejection the requisition.
- **Asking for Quotation** - If requisition is accepted, quotations shall be asked to approve vendors for purchase of material.
- **Evaluation of quotations** - Quotations received shall be evaluated and compared.
- **Purchase Order** - This is a transaction for letting an approved vendor know what we want to purchase, how much we want to purchase, at what rate we want to purchase, by what date we want the delivery, where we want the delivery. Hence a typical purchase order shall have following information.
  - Description of **stock items** to be purchased.
  - **Quantity** of these stock items.

{ 1 M }

{ 1 M for any 5 point }

- **Rate** for purchases.
  - **Due Date** by which material is to be received.
  - **Godown** where material is to be received.
- **Material Receipt** - This is a transaction of receipt of material against purchase order. This is commonly known as Material Receipt Note (MRN) or Goods Receipt Note (GRN). This transaction shall have a linking with Purchase Order. Information in Purchase Order is automatically copied to Material Receipt Voucher for saving time and effort of user. Stock is increased after recording of this transaction.
  - **Issue of material** - Material received by stores shall be issued to production department as per requirement.
  - **Purchase Invoice** - This is a financial transaction. Trial balance is affected due to this transaction. Material Receipt transaction does not affect trial balance. This transaction shall have a linking with Material Receipt Transaction and all the details of material received shall be copied automatically in purchase invoice. As stock is increased in Material Receipt transaction, it will not be increased again after recording of purchase invoice.
  - **Payment to Vendor** - Payment shall be made to vendor based on purchase invoice recorded earlier. Payment transaction shall have a linking with purchase invoice.

**Answer :****(b)** Types of Business Risks

Businesses face all kinds of risks related from serious loss of profits to even bankruptcy and are discussed below:

- ◆ **Strategic**  
Risk that would prevent an organization from accomplishing its objectives (meeting its goals).
- ◆ **Financial**  
Risk that could result in a negative financial impact to the organization (waste or loss of assets).
- ◆ **Regulatory (Compliance)**  
Risk that could expose the organization to fines and penalties from a regulatory agency due to non-compliance with laws and regulations.
- ◆ **Reputational**  
Risk that could expose the organization to negative publicity.
- ◆ **Operational**  
Risk that could prevent the organization from operating in the most effective and efficient manner or be disruptive to other operations.

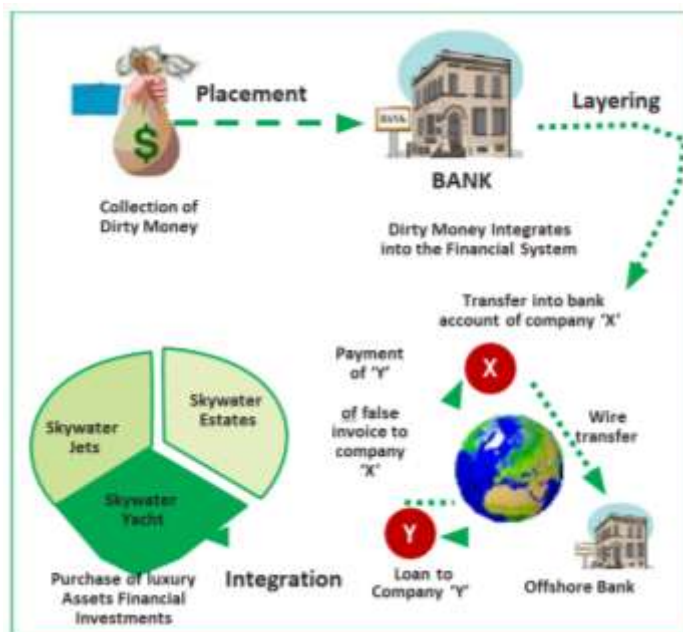
(1 M for any 4 point)

**Answer 4:****(a) Three stages of Money Laundering****1. Placement**

The first stage involves the **Placement** of proceeds derived from illegal activities.

– the movement of proceeds, frequently currency, from the scene of the crime to a place, or into a form, less suspicious and more convenient for the criminal

{1 M}



2. **Layering**

**Layering** involves the separation of proceeds from illegal source using complex transactions designed to obscure the audit trail and hide the proceeds. The criminals frequently use shell corporations, offshore banks or countries with loose regulation and secrecy laws for this purpose. Layering involves sending the money through various financial transactions to change its form and make it difficult to follow. Layering may consist of several banks to bank transfers or wire transfers between different accounts in different names in different countries making deposit and withdrawals to continually vary the amount of money in the accounts changing the money's currency purchase high value items (boats, houses cars, diamonds) to change the form of money-making it hard to trace.

{ 1 M }

3. **Integration**

**Integration** involves conversion of illegal proceeds into apparently legitimate business earnings through normal financial or commercial operations. Integration creates the illusion of a legitimate source for criminally derived funds and involves techniques as numerous and creative as those used by legitimate businesses. For e.g. false invoices for goods exported, domestic loan against a foreign deposit, purchasing of property and comingling of money in bank accounts.

{ 1 M }

III. **Anti-Money laundering (AML) using Technology**

Negative publicity, damage to reputation and loss of goodwill, legal and regulatory sanctions and adverse effect on the bottom line are all possible consequences of a bank's failure to manage the risk of money laundering. Banks face the challenge of addressing the threat of money laundering on multiple fronts as banks can be used as primary means for transfer of money across geographies. The challenge is even greater for banks using CBS as all transactions are integrated. With regulators adopting stricter regulations on banks and enhancing their enforcement efforts, banks are using special fraud and risk management software to prevent and detect fraud and integrate this as part of their internal process and daily processing and reporting.

{ 2 M }

**IV. Financing of Terrorism**

Money to fund terrorist activities moves through the global financial system via wire transfers and in and out of personal and business accounts. It can sit in the accounts of illegitimate charities and be laundered through buying and selling securities and other commodities, or purchasing and cashing out insurance policies. Although terrorist financing is a form of money laundering, it doesn't work the way conventional money laundering works. The money frequently starts out clean i.e. as a 'charitable donation' before moving to terrorist accounts. It is highly time sensitive requiring quick response. {1 M}

**Answer:****(b) Database Controls**

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**.

Major **Update 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. A non-zero balance of the suspense accounts reflects the errors to be corrected.

Major **Report 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. Any changes or errors in these tables would have an adverse effect on the organizations basic functions. Periodic monitoring of these internal tables by means of manual check or by calculating a control total is mandatory.
- **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.

**(1 M  
each 4  
point)**

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.

**Answer 5:**

(a) **Risk** is possibility of loss. The same may be result of intentional or un-intentional action by individuals. Risks associated with e-commerce transactions are high compared to general internet activities. These include the following:

- (i) **Privacy and Security:** Comes in the point of hacking. There are often issues of security and privacy due to lack of personalized digital access and knowledge.
- (ii) **Quality issues:** There are quality issues raised by customers as the original product differs from the one that was ordered.
- (iii) **Delay in goods and Hidden Costs:** When goods are ordered from another country, there are hidden costs enforced by Companies.
- (iv) **Needs Access to internet and lack of personal touch:** The e commerce requires an internet connection which is extra expensive and lacks personal touch.
- (v) **Security and credit card issues:** There is cloning possible of credit cards and debit cards which poses a security threat.
- (vi) **Infrastructure:** There is a greater need of not only digital infrastructure but also network expansion of roads and railways which remains a substantial challenge in developing countries.
- (vii) **Problem of anonymity:** There is need to identify and authenticate users in the virtual global market where anyone can sell to or buy from anyone, anything from anywhere.
- (viii) **Repudiation of contract:** There is possibility that the electronic transaction in the form of contract, sale order or purchase by the trading partner or customer maybe denied.
- (ix) **Lack of authenticity of transactions:** The electronic documents that are produced during an e-Commerce transaction may not be authentic and reliable.
- (x) **Data Loss or theft or duplication:** The data transmitted over the Internet may be lost, duplicated, tampered with or replayed.
- (xi) **Attack from hackers:** Web servers used for e-Commerce maybe vulnerable to hackers.
- (xii) **Denial of Service:** Service to customers may be denied due to non-availability of system as it may be affected by viruses, e-mail bombs and floods.
- (xiii) **Non-recognition of electronic transactions:** e-Commerce transactions, as electronic records and digital signatures may not be recognized as evidence in courts of law.
- (xiv) **Lack of audit trails:** Audit trails in e-Commerce system may be lacking and the logs may be incomplete, too voluminous or easily tampered with.
- (xv) **Problem of piracy:** Intellectual property may not be adequately protected when such property is transacted through e-Commerce.

(1 M for any 6 point)

**Answer:****(b) Components of Mobile Computing**

The key components of Mobile Computing are as follows:

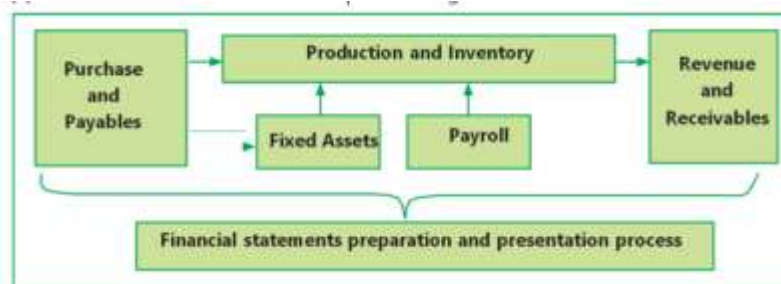
- ♦ **Mobile Communication:** This refers to the infrastructure put in place to ensure that seamless and reliable communication goes on. This would include communication properties, protocols, data formats and concrete technologies.

{1 M}

- ♦ **Mobile Hardware: Mobile Hardware** includes mobile devices or device components that receive or access the service of mobility. They would range from Portable laptops, Smart Phones, Tablet PCs, and Personal Digital Assistants (PDA) that use an existing and established network to operate on. At the back end, there are various servers like Application Servers, Database Servers and Servers with wireless support, WAP gateway, a Communications Server and/or MCSS (Mobile Communications Server Switch) or a wireless gateway embedded in wireless carrier’s network. The characteristics of mobile computing hardware are defined by the size and form factor, weight, microprocessor, primary storage, secondary storage, screen size and type, means of input, means of output, battery life, communications capabilities, expandability and durability of the device. {2 M}
- ♦ **Mobile Software: Mobile Software** is the actual programme that runs on the mobile hardware and deals with the characteristics and requirements of mobile applications. It is the operating system of that appliance and is the essential component that makes the mobile device operates. Mobile applications popularly called Apps are being developed by organizations for use by customers but these apps could represent risks, in terms of flow of data as well as personal identification risks, introduction of malware and access to personal information of mobile owner. {1 M}

**Answer 6:**

- (a) **Master Data:** As defined above, master data is relatively permanent data that is not expected to change again and again. It may change, but not again and again. In accounting systems, there may be following type of master data as shown in the Fig.



**Types of Master Data in Financial and Accounting Systems**

- (a) **Accounting Master Data** – This includes names of ledgers, groups, cost centers, accounting voucher types, etc. E.g. Capital Ledger is created once and not expected to change frequently. Similarly, all other ledgers like, sales, purchase, expenses and income ledgers are created once and not expected to change again and again. Opening balance carried forward from previous year to next year is also a part of master data and not expected to change. {2 M}
- (b) **Inventory Master Data** – This includes stock items, stock groups, godowns, inventory voucher types, etc. Stock item is something which bought and sold for business **purpose**, a trading goods. E.g. If a person is into the business of dealing in white goods, stock items shall be Television, Fridge, Air Conditioner, etc. For a person running a medicine shop, all types of medicines shall be stock items for him/her. {1 M each}
- (c) **Payroll Master Data** – Payroll is another area connecting with Accounting **Systems**. Payroll is a system for calculation of salary and recoding of transactions relating to employees. Master data in case of payroll can be names of employees, group of employees, salary structure, pay heads, etc. These data are not expected to change frequently. E.g. Employee created in

the system will remain as it is for a longer period of time, his/her salary structure may change but not frequently, pay heads associated with his/ her salary structure will be relatively permanent.

- (d) **Statutory Master Data** – This is a master data relating to statute/law. It may be different for different type of taxes. E.g. Goods and Service Tax (GST), Nature of Payments for Tax Deducted at Source (TDS), etc. This data also shall be relatively permanent. We don't have any control on this data as statutory changes are made by Government and not by us. In case of change in tax rates, forms, categories, we need to update/change our master data.

**Answer:**

- (b) **Preventive Controls:** These controls prevent errors, omissions, or security incidents from occurring. { 1 M }

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 are as follows:

Any control can be implemented in both manual and computerized environment for the same purpose. Only, the implementation methodology may differ from one environment to the other. 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. The above list contains both of manual and computerized, preventive controls. { 3 M }



## SECTION – B : STRATEGIC MANAGEMENT

Q. No. 7&amp;8 is Compulsory,

Answer any three questions from the remaining four questions

**Answer 7:**

- |     |        |              |
|-----|--------|--------------|
| 1.  | Ans. b | } {1 M Each} |
| 2.  | Ans. a |              |
| 3.  | Ans. d |              |
| 4.  | Ans. c |              |
| 5.  | Ans. b |              |
| 6.  | Ans. d |              |
| 7.  | Ans. a |              |
| 8.  | Ans. a |              |
| 9.  | Ans. b |              |
| 10. | Ans. c |              |
| 11. | Ans. a |              |
| 12. | Ans. d |              |
| 13. | Ans. c |              |
| 14. | Ans. a |              |
| 15. | Ans. a |              |

**Answer 8:**

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. } {1 M}

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. } {3 M}

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. } {1 M}

**Answer 9:**

- (a) Experience curve is similar to learning curve which explains the efficiency gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those of smaller organizations, thereby gaining a competitive cost advantage. Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production. } {3 M}
- The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition. } {2 M}

**Answer:**

**(b)** The management of internal linkages in the value chain could create competitive advantage in a number of ways:

- ♦ There may be important linkages between the primary activities. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, an assessment needs to be made whether the value added to the customer by this faster response through holding stocks is greater than the added cost. {2 M}
- ♦ It is easy to miss this issue of managing linkages between primary activities in an analysis if, for example, the organization's competences in marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost of production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers. So competence in separate activities need to be compatible. {2 M}
- ♦ The management of the linkages between a primary activity and a support activity may be the basis of a core competence. It may be key investments in systems or infrastructure which provides the basis on which the company outperforms competition. Computer-based systems have been exploited in many different types of service organization and have fundamentally transformed the customer experience. {1 M}
- ♦ Linkages between different support activities may also be the basis of core competences. For example, the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies. Many companies have failed to become competent in managing this linkage properly and have lost out competitively. {1 M}

**Answer 10:**

- (a)** Mission statement is an answer to the question "Who we are and what we do" and hence has to focus on the organisation's present capabilities, focus activities and business makeup. An organisation's mission states what customers it serves, what need it satisfies, and what type of product it offers. It is an expression of the growth ambition of the organisation. {2 M}
- A company's mission statement is typically focused on its present business scope- "who we are and what we do"; mission statements broadly describe an organizations present capabilities, customer focus activities and business makeup. The following points must be considered while writing a mission statement of a company.
- (i) To establish the special identity of the business - one that typically distinct it from other similarly positioned companies. {1 Mark for each valid point}
  - (ii) Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs. (Max. 03 Marks}
  - (iii) Good mission statements should be unique to the organisation for which they are developed.
  - (iv) The mission of a company should not be to make profit. Surpluses may be required for survival and growth, but cannot be mission of a company.

**Answer:**

- (b) Divestment Strategy: Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit center 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. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer. {2<sup>1/2</sup>M}
- Liquidation Strategy: Liquidation as a form of retrenchment strategy is considered as the most extreme and unattractive. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities a firm could pursue, and the stigma of failure. {2<sup>1/2</sup>M}

**Answer 11:**

- (a) To gain a deep understanding of a company's industry and competitive environment, managers do not need to gather all the information they can find and waste a lot of time digesting it. Rather, the task is much more focused. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:
- Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.
  - Competitive pressures associated with the threat of new entrants into the market.
  - Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
  - Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.
  - Competitive pressures stemming from buyer bargaining power and seller-buyer Collaboration.
- {1 Marks for each valid point}

**Answer:**

- (b) Production System is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and such factors. Strategies related to production system are significant as they deal with vital issues affecting the capability of the organisation to achieve its objectives. {2<sup>1/2</sup>M}
- Strategy implementation would have to take into account the production system factors as they involve decisions which are long-term in nature and influence not only the operations capability of an organisation but also its ability to implement strategies and achieve objectives. {2<sup>1/2</sup>M}

**Answer 12:**

- (a) A culture where creativity, embracing change, and challenging the status quo are pervasive is very conducive to successful execution of a product innovation and technological leadership strategy. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility is very conducive to successful execution of a strategy of delivering superior customer service. {2<sup>1/2</sup>M}
- A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy. All this makes employees feel genuinely better about their jobs and work environment and {2<sup>1/2</sup>M}

the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to success.

**Answer:**

- (b) The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process and it involves a corporate strategy focused on new markets, products, services and new ways of doing business. To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing. {1 M}
- (a) **Unfreezing the situation:** The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first "unfreezing the situation", so that members would be willing and ready to accept the change. Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organization. {1 M}
- (b) **Changing to New situation:** Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation. {2 M}
- ♦ **Compliance:** It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.
  - ♦ **Identification:** Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them.
  - ♦ **Internalization:** Internalization involves some internal changing of the individual's thought processes in order to adjust to a new environment. They have given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances.
- (c) **Refreezing:** Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. In order for the new behaviour to become permanent, it must be continuously reinforced so that this newly acquired behaviour does not diminish or extinguish. Change process is not a one time application but a continuous process due to dynamism and ever changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action. {1M}

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