Test Series: April, 2022

MOCK TEST PAPER - II

INTERMEDIATE GROUP – II

PAPER – 7: ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT SECTION – A:

Enterprise Information Systems

ANSWERS

Part I: Multiple Choice Questions

1. **(c)** Boundary Control
2. **(d)** Error and Exception Reporting
3. **(a)** e-Shop
4. **(a)** (i)-(III),(ii)-(IV),(iii)-(I),(iv)-(II)
5. **(b)** Information independence
6. **(c)** (i) – (III), (ii) – (IV), (iii) – (I), (iv) – (II)
7. **(d)** (i) – (II), (ii) – (IV), (iii) – (I), (iv) – (III)
8. **(a)** (i), (ii), (v)
9. **(b)** (i) - IV, (ii) - I, (iii) - III, (iv) – II
10. **(b)** (ii) - (III), (iii) – (II), (i) – (I)

Part II: Descriptive Questions

1. **(a)** The modes of remittance of funds adopted by banks are as follows:

- **Demand Drafts:** These are issued by one branch of the bank and are payable by another branch of the Bank or, in case, there being no branch of the Bank at the place of destination, branch of another bank with which the issuing bank has necessary arrangements. The demand drafts are handed over to the applicant.
- **Mail Transfer (MT)**: In case of MT, no instrument or document guaranteeing the payment of a specific amount of money, either on demand, or at a set time, with the payer named on the document, that includes cheques, drafts, bills of exchange, credit notes etc. is handed over to the applicant. The transmission of the instrument is the responsibility of the branch. Generally, the payee of MT is an account holder of the paying branch.
- **Electronic Funds Transfer (EFT):** It is another mode of remittance which facilitates almost instantaneous transfer of funds between two centers electronically. Most of the banks have now introduced digital mode of remittance which makes remittance possible online and on mobile devices directly by the customer in a few clicks. In recent times, new modes of money transfer have replaced the traditional methods of funds transfer. These include Real Time Gross Settlement (RTGS) National Electronic Funds Transfer (NEFT) and Immediate Payment Service (IMPS).

(b) W.r.t. Security Management Control, Insurance is termed as a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. Adequate insurance must be able to replace Information Systems assets and to cover the extra costs associated with restoring normal operations.

2. **(a)** The key factors on the implementation process of Business Reporting are as follows:

- The implementation process of business reporting involves Extract, Transform, and Load (ETL) procedures in coordination with a data warehouse and then using one or more reporting tools. While reports can be distributed in print form or via email, they are typically accessed via a corporate intranet.
- All the stakeholders are communicated about mission, vision, objective and strategy of the organization and are also updated about its financial, social, and environmental performance (how they have fared against their objectives in practice).
- The implementation of reporting also involves to communication to the stake holders about governance, arrangements and risk management of the organization.

The significance of Business Reporting is as follows:

- Effective and transparent business reporting allows organizations to present a cohesive explanation of their business and helps them engage with internal and external stakeholders, including customers, employees, shareholders, creditors, and regulators.
- High-quality business reporting is at the heart of strong and sustainable organizations, financial markets, and economies, as this information is crucial for stakeholders to assess organizational performance and make informed decisions with respect to an organization's capacity to create and preserve value. Value in this context is not necessarily limited to monetary value, but can also comprise, for example, social, environmental, or wider economic value.
- As organizations fully depend on their stakeholders for sustainable success, it is in their interest to provide them with high-quality reports. For example, effective high-quality reporting reduces the risk for lenders and may lower the cost of capital.
- Many organizations are increasingly complex, and have larger economic, environmental, and social footprints. Thus, various stakeholder groups are demanding increased Environmental, Social and Global (ESG) information, as well as greater insight into how these factors affect financial performance and valuations.
- High-quality reports also promote better internal decision-making. High-quality information is integral to the successful management of the business and is one of the major drivers of sustainable organizational success.

(b) The controls necessary for all persons in the chain of e-business operations are as follows:

(i) **Users:** This is important to ensure that the genuine user is using the e-commerce/ m-commerce platform. There is potential risk if user accounts are hacked, and hackers buy products / services.

(ii) **Sellers / Buyers / Merchants:** These people need to have proper framework in place to ensure success of business. Many e-commerce businesses have lost huge amount of money as they did not have proper controls put in place. These include controls on Product and Price catalogues; Discounts and promotional schemes; Product returns and Accounting for cash received through Cash on Delivery mode of sales.

(iii) **Government:** Governments across the world and in India have few critical concerns vis-à-vis electronic transactions, namely:

a. Tax accounting of all products / services sold.

b. All products / services sold are legal. There have been instances where narcotics drugs have found to be sold and bought through electronic means.

(iv) **Network Service Providers:** They need to ensure availability and security of network. Any downtime of network can be disastrous for business.

(v) **Technology Service Providers:** These include all other service providers other than network service provider. For example, cloud computing back-ends, applications back-ends and like. They are also prone to risk of availability and security.

(vi) **Logistics Service Providers:** Success or failure of any e-commerce / m-commerce venture finally lies here. Logistics service providers are the ones who are finally responsible for timely product deliveries.

(vii). **Payment Gateways:** E-commerce vendors' business shall run only when their payment gateways are efficient, effective and foolproof.

3. (a) The Data Resource Management control activities that are involved in maintaining data integrity are as under:

(i) **Definition Controls:** These controls are placed to ensure that the database always corresponds and comply with its definition standards.

(ii) **Existence/Backup Controls:** These controls ensure the existence of the database by establishing backup and recovery procedures. Backup refers to making copies of the data so that these additional copies may be used to restore the original data after a data loss. Backup controls ensure the availability of system in the event of data loss due to unauthorized access, equipment failure or physical disaster; the organization can retrieve its files and databases. Various backup strategies like dual recording of data; periodic dumping of data; logging input transactions and changes to the data may be used.

(iii) **Access Controls:** These controls are designed to prevent unauthorized individual from viewing, retrieving, computing, or destroying the entity's data. User Access Controls are established through passwords, tokens and biometric controls; and Data Encryption controls are established by keeping the data in database in encrypted form.

(iv) **Update Controls:** These controls restrict update of the database to authorized users in two ways either by permitting only addition of data to the database or allowing users to change or delete existing data.

(v) **Concurrency Controls:** These controls provide solutions, agreed-upon schedules, and strategies to overcome the data integrity problems that may arise when two update processes access the same data item at the same time.

(vi) **Quality Controls:** These controls ensure the accuracy, completeness, and consistency of data maintained in the database. This may include traditional measures such as program validation of input data and batch controls over data in transit through the organization.

(b) The criterias that make information useful and beneficial for senior managers of Mr. Ajit are as follows:

- **Relevant -** MIS reports need to be specific to the business area they address. This is important because a report that includes unnecessary information might be ignored.
- **Timely -** Managers need to know what's happening now or in the recent past to make decisions about the future. Therefore, its utmost important that old information is not included in the MIS. An example of timely information for any report might be customer phone calls and emails going back 12 months from the current date.
- **Accurate –** It is critical that numbers add up and that dates and times are correct in the MIS report. Managers and others who rely on MIS reports can't make sound decisions with information that is wrong. Financial information is often required to be accurate to the dollar. In other cases, it may be OK to round off numbers.
- **Structured -** Information in an MIS report can be complicated. Making that information easy to follow helps management understand what the report is saying. For example-long

passages of information can be broken into more readable blocks or chunks and these chunks can be given meaningful headings.

4. **(a)** The limitations of Mobile Computing are as follows:

- **Insufficient Bandwidth:** Mobile Internet access is generally slower than direct cable connections using technologies such as General Packet Radio Service (GPRS) and Enhanced Data Rates for GSM (Global System for Mobile Communication) Evolution - (EDGE) and 3G, 4G networks. These networks are usually available within range of commercial cell phone towers. Higher speed wireless LANs are inexpensive but have very limited range.
- **Security Standards:** When working mobile, one is dependent on public networks, requiring careful use of Virtual Private Network (VPN). Security is a major concern while concerning the mobile computing standards on the fleet. One can easily attack the VPN through a huge number of networks interconnected through the line.
- **Power consumption:** When a power outlet or portable generator is not available, mobile computers must rely entirely on battery power. Combined with the compact size of many mobile devices, this often means unusually expensive batteries must be used to obtain the necessary battery life. Mobile computing should also look into Greener IT in such a way that it saves the power or increases the battery life.
- **Transmission interferences:** Weather, terrain and the range from the nearest signal point can all interfere with signal reception. Reception in tunnels, some buildings, and rural areas is often poor.
- **Potential health hazards:** People who use mobile devices while driving is often distracted from driving and are thus assumed more likely to be involved in traffic accidents. Cell phones may interfere with sensitive medical devices. There are allegations that cell phone signals may cause health problems.
- **Human interface with device:** Screens and keyboards tend to be small, which may make them hard to use. Alternate input methods such as speech or handwriting recognition require training.

(b) The description of **Section 66F of IT Act, 2000** related to Punishment for cyber terrorism is:

(1) Whoever -

(A) with intent to threaten the unity, integrity, security or sovereignty of India or to strike terror in the people or any section of the people by –

(i) denying or cause the denial of access to any person authorized to access computer resource; or

(ii) attempting to penetrate or access a computer resource without authorization or exceeding authorized access; or

(iii) introducing or causing to introduce any computer contaminant,

and by means of such conduct causes or is likely to cause death or injuries to persons or damage to or destruction of property or disrupts or knowing that it is likely to cause damage or disruption of supplies or services essential to the life of the community or adversely affect the critical information infrastructure specified under section 70; or

(B) knowingly or intentionally penetrates or accesses a computer resource without authorization or exceeding authorized access, and by means of such conduct obtains access to information, data or computer database that is restricted for reasons of the security of the State or foreign relations; or any restricted information, data or computer database, with reasons to believe that such information, data or computer database so obtained may be used to cause or likely to cause injury to the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality, or in relation to contempt of court, defamation or incitement to an offence, or to the advantage of any foreign nation, group of individuals or otherwise, commits the offence of cyber terrorism.

(2) Whoever commits or conspires to commit cyber terrorism shall be punishable with imprisonment which may extend to imprisonment for life.

5. (a) The limitations of Internal Control System are as follows:

- Management's consideration that the cost of an internal control does not exceed the expected benefits to be derived.
- The fact that most internal controls do not tend to be directed at transactions of unusual nature, the reasonable potential for human error such as – due to carelessness, distraction, mistakes of judgment and misunderstanding of instructions.
- The possibility of circumvention of internal controls through collusion with employees or with parties outside the entity.
- The possibility that a person responsible for exercising an internal control could abuse that responsibility, for example, a member of management overriding an internal control.
- Manipulations by management with respect to transactions or estimates and judgments required in the preparation of financial statements.

(b) The components of Operational risk in Core Banking Systems (CBS) are as follows.

- **Transaction Processing Risk** arises because faulty reporting of important market developments to the bank management may occur due to errors in entry of data for subsequent bank computations.
- **Information Security Risk** comprises the impacts to an organization and its stakeholders that could occur due to the threats and vulnerabilities associated with the operation and use of information systems and the environments in which those systems operate. Data breaches can cost a bank its reputation, customers can lose time and money and above all their confidential information.
- **Legal Risk** arises because of the treatment of clients, the sale of products, or business practices of a bank. There are countless examples of banks being taken to court by disgruntled corporate customers, who claim they were misled by advice given to them or business products sold. Contracts with customers may be disputed.
- **Compliance Risk** is exposure to legal penalties, financial penalty, and material loss an organization faces; when it fails to act in accordance with industry laws and regulations, internal policies or prescribed best practices.
- **People Risk** arises from lack of trained key personnel, tampering of records, unauthorized access to dealing rooms and nexus between front and back end offices.

SECTION – B: STRATEGIC MANAGEMENT

SUGGESTED ANSWERS/HINTS

1. (A)

(1)	(2)	(3)	(4)	(5)
(d)	(c)	(d)	(c)	(c)

(B) (b)

(C) (d)

(D) (c)

(E) (a)

(F) (a)

(G) (c)

2. It is advisable that divestment strategy should be adopted by X Pvt. Ltd.

In the given situation where the business of co-working spaces became unprofitable and unviable due to Global pandemic, the best option for the company is to divest the loss-making business.

Retrenchment may be done either internally or externally. Turnaround strategy is adopted in case of internal retrenchment where emphasis is laid on improving internal efficiency of the organization, while divestment strategy is adopted when a business turns unprofitable and unviable due to some external factors. In view of the above, the company should go for divestment strategy.

Further, divestment helps address issues like:

1. Persistent cash flows from loss making segment could affect other profit-making segments, which is the case in the given scenario.
2. Inability to cope from the losses, which again is uncertain due to pandemic.
3. Better investment opportunity, which could be the case if X Pvt. Ltd. can invest the money it generates from divestment.

3. (a) Yes, a business organization cannot always plan all their strategies in advance and often need to blend planned strategies with reactive strategies.

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

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

(b) Product Life Cycle (PLC) is a useful concept for guiding strategic choice. Essentially, PLC is S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift). If businesses are substituted for product, the concept of PLC could work just as well.

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high, and markets are limited. The growth in sales is at a lower rate because of lack of knowledge on the part of customers.

The second stage of PLC is growth stage. In the growth stage, the demand expands rapidly, prices fall, competition increases, and market expands. The customer has knowledge about the product and shows interest in purchasing it.

The third stage of PLC is maturity stage. In this stage, the competition gets tough, and market gets stabilised. Profit comes down because of stiff competition. At this stage organisations may work for maintaining stability.

The fourth stage of PLC is declining stage in which the sales and profits fall down sharply due to some new product replaces the existing product. So, a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.

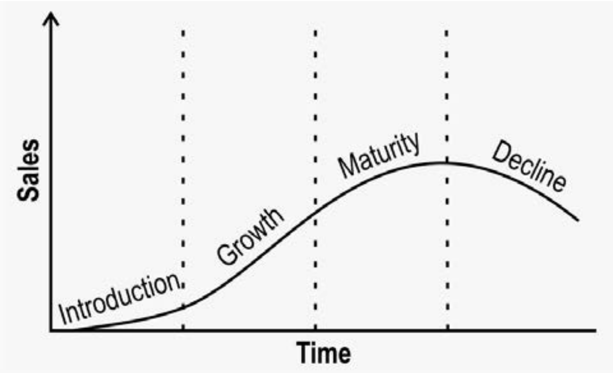

Figure: Product Life Cycle

Significance of PLC

The main advantage of PLC is that it can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

4. **(a)** Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals. Core competency as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies. An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.

(b) Ramesh is a follower of transactional leadership style that focuses on designing systems and controlling the organization's activities. Such a leader believes in using authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. Transactional leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.

On the other hand, Yashpal is follower of transformational leadership style. The style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction.

They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

5. (a) Sanya Private Limited deteriorating performance due to poor implementation of plans that is improper use of resources, undesirable tendencies of the workers, and non-conformance to norms and standards, all point towards weak controls in the organization. Implementation of plans cannot assure results unless strong and sufficient controls are put in place. The management of the company should focus diligently on developing controls especially in the identified problem areas.

The process of control has the following elements:

(a) Objectives of the business system which could be operationalized into measurable and controllable standards.

(b) A mechanism for monitoring and measuring the performance of the system.

(c) A mechanism (i) for comparing the actual results with reference to the standards (ii) for detecting deviations from standards and (iii) for learning new insights on standards themselves.

(d) A mechanism for feeding back corrective and adaptive information and instructions to the system, for effecting the desired changes to set right the system to keep it on course.

Above elements of control would ensure a proper check on improper use of resources, undesirable tendencies of the workers, and non-conformance to norms and standards and ensure a result oriented implementation of plans.

(b) Expanded Marketing Mix:

Typically, all organizations use a combination of 4 Ps in some form or the other that is product, price, place, and promotion. However, the above elements of marketing mix are not exhaustive. There are a few more elements that may form part of an organizational marketing mix strategy as follows:

1. **People**: all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.

2. **Physical evidence**: the environment in which the market offering is delivered and where the firm and customer interact.

3. **Process**: the actual procedures, mechanisms and flow of activities by which the product/ service is delivered.

6. (a) Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price insensitive.

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. Different strategies offer different degrees of differentiation. A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty.

(b) A Mission statement tells you the fundamental purpose of the organisation. It concentrates on the present. It defines the customer and the critical processes. It informs you of the desired level of performance. On the other hand, a vision statement outlines what the organisation wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. Following are the major differences between vision and mission:

1. The vision states the future direction while the mission states the ongoing activities of the organisation.

2. The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time bound. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organisation.

3. A vision statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a mission statement is more specific in terms of both the future state and the time frame. Mission describes what will be achieved if the organisation is successful.