MOCK TEST PAPER

INTERMEDIATE (NEW): GROUP – II

PAPER – 7: ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT

**SECTION – A: ENTERPRISE INFORMATION SYSTEMS**

ANSWERS

1. (i) **Management Processes:** Management processes measure, monitor and control activities related to business procedures and systems. Examples of management processes include internal communications, governance, strategic planning, budgeting, and infrastructure or capacity management. Management processes do not provide value directly to the customers, however, have a direct impact on the efficiency of the enterprise.

(ii) **Role Based Access Control (RBAC) in ERP System:** In computer systems security, role-based access control is an approach to restricting system access to authorized users. It is used by most enterprises and can implement mandatory access control or discretionary access control. RBAC is sometimes referred to as Role-Based Security. Role-Based-Access-Control (RBAC) is a policy neutral access control mechanism defined around roles and privileges. The components of RBAC such as role-permissions, user-role and role-role relationships make it simple to perform user assignments. RBAC can be used to facilitate administration of security in large organizations with hundreds of users and thousands of permissions.

Roles for staff are defined in organization and access to the system can be given according to the role assigned. For example - A junior accountant in accounting department is assigned a role of recording basic accounting transactions, an executive in human resource department is assigned a role of gathering data for salary calculations on monthly basis, etc.

(iii) **Virtual Memory:** Virtual Memory is an imaginary memory area supported by some operating systems (for example, Windows) in conjunction with the hardware. If a computer lacks the Random-Access Memory (RAM) needed to run a program or operation, Windows uses virtual memory to compensate. Virtual memory combines computer's RAM with temporary space on the hard disk. When RAM runs low, virtual memory moves data from RAM to a space called a paging file. Moving data to and from the paging file frees up RAM to complete its work. Thus, Virtual memory is an allocation of hard disk space to help RAM.

(iv) **Digital Library:** A Digital Library is a special library with a focused collection of digital objects that can include text, visual material, audio material, video material, stored as electronic media formats, along with means for organizing, storing, and retrieving the files and media contained in the library collection. Digital libraries can vary immensely in size and scope, and can be maintained by individuals, organizations, or affiliated with established physical library buildings or institutions, or with academic institutions. The digital content may be stored locally, or accessed remotely via computer networks. An electronic library is a type of information retrieval system.

(v) **Automated Teller Machines (ATM) Channel Server:** This server contains the details of ATM account holders. Soon after the facility of using the ATM is created by the Bank, the details of such customers are loaded on to the ATM server. When the Central Database is busy with central end-of- day activities or for any other reason, the file containing the account balance of the customer is sent to the ATM switch. Such a file is called Positive Balance File (PBF). Till the central database becomes accessible, the ATM transactions are passed and the balance available in the ATM server. Once the central database server becomes accessible, all the transactions that took place till such time as the central database became un-accessible would be updated in the central

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database. This ensures not only continuity of ATM operations but also ensures that the Central database is always up-to-date. The above process is applicable to stand alone ATMs at the Branch level. As most of the ATMs are attached to the central network, the only control is through ATM Switch.

2. **(a)** The required flowchart is given in Figure below.
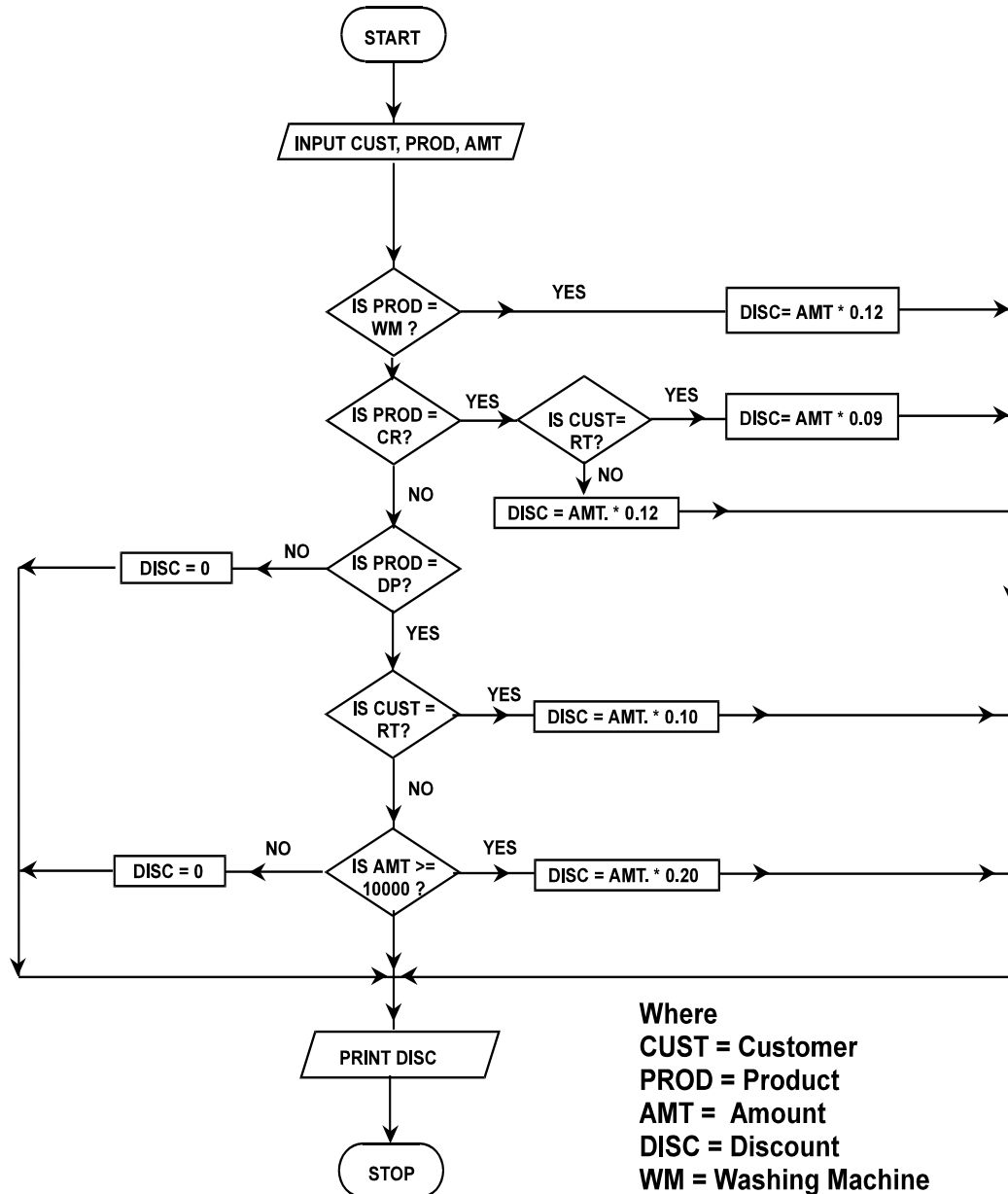
Where
CUST = Customer
PROD = Product
AMT = Amount
DISC = Discount
WM = Washing Machine
CR = Cooking Range
DP = Decorative Product
RT = Retailer

(b) **Network Access Control:** An Internet connection exposes an organization to the harmful elements of the outside world. The checklist for Network Access Controls that are required to be implemented in the organization are as follows:

- **Policy on use of network services:** An enterprise wide policy applicable to internet service requirements aligned with the business need for using the Internet services is the first step. Selection of appropriate services and approval to access them should be part of this policy.

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- **Enforced path:** Based on risk assessment, it is necessary to specify the exact path or route connecting the networks; e.g., internet access by employees will be routed through a firewall and proxy.

- **Segregation of networks:** Based on the sensitive information handling function; say a VPN connection between a branch office and the head-office, this network is to be isolated from the internet usage service

- **Network connection and routing control:** The traffic between networks should be restricted, based on identification of source and authentication access policies implemented across the enterprise network facility.

- **Security of network services:** The techniques of authentication and authorization policy should be implemented across the organization's network.

- **Firewall:** A Firewall is a system that enforces access control between two networks. To accomplish this, all traffic between the external network and the organization's Intranet must pass through the firewall that will allow only authorized traffic between the organization and the outside to pass through it. The firewall must be immune to penetrate from both outside and inside the organization. In addition to insulating the organization's network from external networks, firewalls can be used to insulate portions of the organization's Intranet from internal access also.

- **Encryption:** Encryption is the conversion of data into a secret code for storage in databases and transmission over networks. The sender uses an encryption algorithm with a key to convert the original message called the Clear text into Cipher text. This is decrypted at the receiving end. Two general approaches are used for encryption viz. private key and public key encryption.

- **Call Back Devices:** It is based on the principle that the key to network security is to keep the intruder off the Intranet rather than imposing security measure after the criminal has connected to the intranet. The call-back device requires the user to enter a password and then the system breaks the connection. If the caller is authorized, the call back device dials the caller's number to establish a new connection. This limits access only from authorized terminals or telephone numbers and prevents an intruder masquerading as a legitimate user. This also helps to avoid the call forwarding and man-in-the middle attack

3. (a) Checklist to be followed by an IS Auditor for the audit of ERP Systems are as follows:

- Does the system process according to GAAP (Generally Accepted Accounting Principles) and GAAS (Generally Accepted Auditing Standards)?
- Does it meet the needs for reporting, whether regulatory or organizational?
- Were adequate user requirements developed through meaningful interaction?
- Does the system protect confidentiality and integrity of information assets?
- Does it have controls to process only authentic, valid, accurate transactions?
- Are effective system operations and support functions provided?
- Are all system resources protected from unauthorized access and use?
- Are user privileges based on what is called 'role-based access?'
- Is there an ERP system administrator with clearly defined responsibilities?
- Is the functionality acceptable? Are user requirements met? Are users happy?
- Have workarounds or manual steps been required to meet business needs?

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- Are there adequate audit trails and monitoring of user activities?
- Can the system provide management with suitable performance data?
- Are users trained? Do they have complete and current documentation?
- Is there a problem-escalation process?

Auditing aspects in case of any ERP system can be summarized as under:

(i) Auditing of Data

- **Physical Safety** – Ensuring physical control over data.

- **Access Control** – Ensuring access to the system is given on "need to know" (a junior accountant need not view Profit & Loss Account of the business) and "need to do basis" (HR executive need not record a Purchase Order).

(ii) Auditing of Processes

- **Functional Audit -** This includes testing of different functions / features in the system and testing of the overall process or part of process in the system and its comparison with actual process. E.g. Purchase Process, Sales Process, Salary Calculation Process, Recruitment Process, etc. Auditor may check this process in the system and compare it with actual process. It is quite possible that all the aspect present in the actual process may not be integrated in the ERP system. There may be some manual intervention.

- **Input Validations -** This stands for checking of rules for input of data into the system. E.g. a transaction of cash sales on sales counter must not be recorded in a date other than today (not a future date or a back date), amount field must not be zero, stock item field shall not be empty, etc. Input validations shall change according to each data input form.

(b) Core Banking Solution (CBS) refers to a common IT solution wherein a central shared database supports the entire banking application. Business processes in all the branches of a bank update a common database in a central server located at a Data Center, which gives a consolidated view of the bank's operations. Branches function as delivery channels providing services to its customers. CBS is centralized Banking Application software that has several components which have been designed to meet the demands of the banking industry. CBS is supported by advanced technology infrastructure and has high standards of business functionality. These factors provide banks with a competitive edge. Core Banking Solution brings significant benefits such as a customer is a customer of the bank and not only of the branch. Further, the CBS is modular in structure and is capable of being implemented in stages as per requirements of the bank. A CBS software also enables integration of all third-party applications, including in-house banking software, to facilitate simple and complex business processes. Some examples of CBS software are given below. These are only illustrative and not exhaustive.

- **Finacle:** Core banking software suite developed by Infosys that provides universal banking functionality covering all modules for banks covering all banking services.

- **FinnOne:** Web-based global banking product designed to support banks and financial solution companies in dealing with assets, liabilities, core financial accounting and customer service.

- **Flexcube:** Comprehensive, integrated, interoperable, and modular solution that enables banks to manage evolving customer expectations.

- **BaNCS:** A customer-centric business model which offers simplified operations comprising loans, deposits, wealth management, digital channels and risk and compliance components.

- **bankMate:** A full-scale Banking solution which is a scalable, integrated e-banking systems that

meets the deployment requirements in traditional and non-traditional banking environments. It enables communication through any touch point to provide full access to provide complete range of banking services with anytime, anywhere paradigm.

Further, there are many CBS software developed by vendors which are used by smaller and co-operative banks. Some of the banks have also developed in-house CBS software. However, the trend is for using high-end CBS developed by vendors depending on cost-benefit analysis and needs.

4. (a) Protecting operating system access is extremely crucial and can be achieved using following steps:

- **Automated terminal identification:** This will help to ensure that a specified session could only be initiated from a certain location or computer terminal.

- **Terminal log-in procedures:** A log-in procedure is the first line of defense against unauthorized access as it does not provide unnecessary help or information, which could be misused by an intruder. When the user initiates the log-on process by entering user-id and password, the system compares the ID and password to a database of valid users and accordingly authorizes the log-in.

- **Access Token:** If the log on attempt is successful, the Operating System creates an access token that contains key information about the user including user-id, password, user group and privileges granted to the user. The information in the access token is used to approve all actions attempted by the user during the session.

- **Access Control List:** This list contains information that defines the access privileges for all valid users of the resource. When a user attempts to access a resource, the system compasses his or her user-id and privileges contained in the access token with those contained in the access control list. If there is a match, the user is granted access.

- **Discretionary Access Control:** The system administrator usually determines; who is granted access to specific resources and maintains the access control list. However, in distributed systems, resources may be controlled by the end-user. Resource owners in this setting may be granted discretionary access control, which allows them to grant access privileges to other users. For example, the controller who is owner of the general ledger grants read only privilege to the budgeting department while accounts payable manager is granted both read and write permission to the ledger.

- **User identification and authentication:** The users must be identified and authenticated in a foolproof manner. Depending on risk assessment, more stringent methods like Biometric Authentication or Cryptographic means like Digital Certificates should be employed.

- **Password management system:** An operating system could enforce selection of good passwords. Internal storage of password should use one-way hashing algorithms and the password file should not be accessible to users.

- **Use of system utilities:** System utilities are the programs that help to manage critical functions of the operating system e.g. addition or deletion of users. Obviously, this utility should not be accessible to a general user. Use and access to these utilities should be strictly controlled and logged.

- **Duress alarm to safeguard users:** If users are forced to execute some instruction under threat, the system should provide a means to alert the authorities.

- **Terminal time out:** Log out the user if the terminal is inactive for a defined period. This will prevent misuse in absence of the legitimate user.

- **Limitation of connection time:** Define the available time slot. Do not allow any transaction beyond this time. For example, no computer access after 8.00 p.m. and before 8.00 a.m. - or on a Saturday or Sunday.

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(b) Some of the application areas of Internet of Things (IoT) are as follows:

I.   All home appliances to be connected and that shall create a virtual home.

  - Home owners can keep track of all activities in house through their hand-held devices.
  - Home security CCTV is also monitored through hand held devices.

II. Office machines shall be connected through net.

  - Human resource managers shall be able to see how many people have had a cup of coffee from vending machine and how many are present.
  - How many printouts are being generated through office printer?

III. Governments can keep track of resource utilizations / extra support needed.

  - Under SWACHH mission government can tag all dustbins with IOT sensors. They (dustbins) generate a message once they are full. Being connected to wi-fi, they can intimate the cleaning supervisor of Municipal Corporation so that BIN can be emptied.

5. (a) The case is based on Sections 12 &13 of the Prevention of Money Laundering Act (PMLA), 2002 read with Rule 3 & Rule 8 of the Prevention of Money Laundering Rule (PMLR), 2002.

  (1) Every reporting entity shall maintain a record of all transactions, including information relating to cash transactions which are integrally connected to each other and which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency.

The Principal Officer of a reporting entity shall furnish the information in respect of such transactions every month to the Director (Authority appointed by the CG) by the 15th day of the succeeding month.

As per the above stated provision aggregate cash transactions (Rs. 5 lakh + Rs. 2 lakh + Rs. 3 lakh = Rs. 10 lakh) made by the Jan Seva in the month of July 2012 was Rs. 10 Lakh and not in excess to the limit prescribed. So there is no need to inform of the said transactions to the authorised authority.

(b) Internal control, no matter how effective, can provide an entity with only reasonable assurance and not absolute assurance about achieving the entity's operational, financial reporting and compliance objectives. Internal control systems are subject to certain inherent limitations, such as:

  - 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 potential for human error, such as, due to carelessness, distraction, mistakes of judgement 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 judgements required in the preparation of financial statements.

6. (a) Cloud computing model provides the facility to access shared resources and common infrastructure offering services on demand over the network to perform operations that meet changing business needs. Thus, we can say that Ms. Y is using the Cloud Computing model which allows her to use many computing resources as a service through networks, typically the Internet.

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Some of the key characteristics of Cloud Computing are as follows:

- **Elasticity and Scalability:** Cloud computing gives us the ability to expand and reduce resources according to the specific service requirement. For example, we may need many server resources for the duration of a specific task. We can then release these server resources after we complete our task.

- **Pay-per-Use:** We pay for cloud services only when we use them, either for the short term (for example, for CPU time) or for a longer duration (for example, for cloud-based storage or vault services).

- **On-demand:** Because we invoke cloud services only when we need them, they are not permanent parts of the IT infrastructure. This is a significant advantage for cloud use as opposed to internal IT services. With cloud services, there is no need to have dedicated resources waiting to be used, as is the case with internal services.

- **Resiliency:** The resiliency of a cloud service offering can completely isolate the failure of server and storage resources from cloud users. Work is migrated to a different physical resource in the cloud with or without user awareness and intervention.

- **Multi Tenancy:** Public cloud service providers often can host the cloud services for multiple users within the same infrastructure. Server and storage isolation may be physical or virtual depending upon the specific user requirements.

- **Workload Movement:** This characteristic is related to resiliency and cost considerations. Here, cloud-computing providers can migrate workloads across servers both inside the data center and across data centers (even in a different geographic area). This migration might be necessitated by cost (less expensive to run a workload in a data centre in another country based on time of day or power requirements) or efficiency considerations (for example, network bandwidth). A third reason could be regulatory considerations for certain types of workloads.

(b) A **Voucher Number** or a **Document Number** is a unique identity of any voucher/ document. A voucher may be identified or searched using its unique voucher number. The peculiarities that must be considered while allotting a voucher number to a voucher are as follows:

- Voucher number must be unique.

- Every voucher type shall have a separate numbering series

- A voucher number may have prefix or suffix or both, e.g. ICPL/2034/17-18. In this case, "ICPL" is the prefix, "17-18" is the suffix and "2034" is the actual number of the voucher.

- All vouchers must be numbered serially, i.e. 1,2,3,4,5,6 and so on.

- All vouchers are recorded in chronological order and hence voucher recorded earlier must have an earlier number, i.e. if voucher number for a payment voucher having date as 15th April 2017 is 112, voucher number for all the vouchers recorded after this date shall be more than 112 only.

MOCK TEST PAPER

INTERMEDIATE COURSE: GROUP – II

PAPER –7: ENTERPRISE INFORMATION SYSTEMS & STRATEGIC MANAGEMENT

SECTION – B: STRATEGIC MANAGEMENT

SUGGESTED ANSWERS/HINTS

1. (a) Competitive advantage is the position of a firm to maintain and sustain a favorable market position when compared to the competitors. Competitive advantage is ability to offer buyers something different and thereby providing more value for the money. It is the result of a successful strategy. This position gets translated into higher market share, higher profits when compared to those that are obtained by competitors operating in the same industry. Competitive advantage may also be in the form of low cost relationship in the industry or being unique in the industry along dimensions that are widely valued by the customers in particular and the society at large.

   (b) A strategic vision delineates organisation's aspirations for the business, providing a panoramic view of the position where the organisation is going. A strategic vision points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity. A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

   (c) In co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. Such merger include the extension of the product line or acquiring components that are required in the daily operations.

2. (a) **Incorrect:** In business, things happen that cannot be fully anticipated or planned for. When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stone wall, some kind of strategic reaction or adjustment is required.

   (b) **Correct:** Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows. A large firm that enjoys economies of scale can produce high volumes of goods at successively lower costs. This tends to discourage new entrants.

   (c) **Correct**: The human resource management helps the organization to effectively deal with the external environmental challenges. The function has been accepted as a partner in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and rewarding of personnel.

3. (a) Azad plays role as an intrapreneur who operates within the boundaries of an organisation. He is an employee of *Always Fit*, who is vested with authority of initiating creativity and innovation in the company's products, services and projects, redesigning the processes, workflows and systems.

   Azad believes in change and do not fear failure. He discovers a new idea which can benefit the whole organization by utilizing the surplus space in the stores. The job of Azad is extremely challenging. He gets recognition and reward for the success achieved.

   (b) Shreekant opt for turnaround strategy which is a highly-targeted effort to return Arena Ltd. to profitability and increase positive cash flows to a sufficient level. Organizations those have faced a significant crisis that has negatively affected operations require turnaround strategy. Once turnaround is successful the organization may turn to focus on growth.

Conditions for turnaround strategies

When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on.

Action plan for turnaround strategy

- Stage One – Assessment of current problems

- Stage Two – Analyze the situation and develop a strategic plan

- Stage Three – Implementing an emergency action plan

- Stage Four – Restructuring the business

- Stage Five – Returning to normal

(c) A tool to study the market positions of rival companies by grouping them into like positions is strategic group mapping. Grouping competitors is useful when there are many competitors such that it is not practical to examine each one in-depth. In the given scenario there are thirteen competitors. A strategic group consists of those rival firms which have similar competitive approaches and positions in the market.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is as follows:

♦ Identify the competitive characteristics that differentiate firms in the industry typical variables that are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).

♦ Plot the firms on a two-variable map using pairs of these differentiating characteristics.

♦ Assign firms that fall in about the same strategy space to the same strategic group.

♦ Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

4. (a) Importance of Strategic Management: Strategic Management is very important for the survival and growth of business organizations in dynamic business environment. Other major benefits of strategic management are as follows:

- It helps organizations to be more proactive rather than reactive in dealing with its future. It facilitates the organisations to work within vagaries of environment and remains adaptable with the turbulence or uncertain future. Therefore, they are able to control their own destiny in a better way.

- It provides better guidance to entire organization on the crucial point – what it is trying to do. Also provides framework for all major business decisions of an enterprise such a decision on businesses, products, markets, organization structures, etc.

- It facilitates to prepare the organization to face the future and act as pathfinder to various business opportunities. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.

- It serves as a corporate defence mechanism against mistakes and pitfalls. It helps organizations to avoid costly mistakes in product market choices or investments.

- Over a period of time, strategic management helps organizations to evolve certain core competencies and competitive advantages that assist in the fight for survival and growth.

(b) Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may be operational i.e., which relate to general day-to-day operations. They may also be strategic in nature. According to Jauch and Glueck "Strategic decisions encompass the definition of the business, products to be handled, markets to be served, functions to be performed and major policies needed for the organisation to execute these decisions to achieve the strategic objectives."

The major dimensions of strategic decisions are as follows:

- Strategic decisions require top-management involvement: Strategic decisions involve thinking in totality of the organization. Hence, problems calling for strategic decisions require to be considered by the top management.

- Strategic decisions involve commitment of organisational resources: For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.

- Strategic decisions 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.

- Strategic decisions 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 decisions are future oriented: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.

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

5. **(a)** It is true that evaluating the worth of a business is central to strategy implementation. There are circumstances where it is important to evaluate the actual worth of the business. These circumstances can be wide and varied. At a higher level they may include acquisition, merges or diversifiation. They may also include other situations such as fixing of share price in an issue. Acquisition, merger, retrenchment may require establishing the financial worth or cash value of a business to successfully implement such strategies.

Various methods for determining a business's worth can be grouped into three main approaches.

(i) Net worth or stockholders' equity: Net worth is the total assets minus total outside liabilities of an organisation.

(ii) Future benefits to owners through net profits: These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.

(iii) Market-determined business worth: This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

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(b) 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.

6. A strategy audit is an examination and evaluation of areas affected by the operation of a strategic management process within an organization. The audit of management performance with regard to external strategies helps an organization identify problem areas and correct the strategic approaches that have not been effective so far. It is a process for taking an objective look at the existing strategies of the organization. It involves assessing the direction of a business and comparing that to the course required to succeed in a changing environment."

Companies review their business plans and strategies on regular basis to identify weaknesses and shortcomings to enable a successful development plan. The strategy audit secures that all necessary information for the development of the company are included in the business plan and that the management supports it.

Richard Rumelt's Criteria for Strategy Audit

a. **Consistency:** A strategy should not present inconsistent goals and policies which can lead to organizational problems and conflicts. Three guidelines to identify are:

- Strategies may be inconsistent if managerial problems tend to be issue-based rather than people-based.

- If success for one organizational department means, or is interpreted to mean, failure for another department, then strategies may be inconsistent.

- If policy problems and issues continue to be brought to the top for resolution, then strategies may be inconsistent.

b. **Consonance:** Consonance refers to the need for strategists to examine *sets of trends*, as well as individual trends, in auditing strategies. A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. One difficulty in matching a firm's key internal and external factors in the formulation of strategy is that most trends are the result of interactions among other trends.

c. **Feasibility:** A strategy must neither overtax available resources nor create unsolvable sub-problems. The final broad test of strategy is its feasibility; that is, can the strategy be attempted within the physical, human, and financial resources of the enterprise? In auditing a strategy, it is important to examine whether an organization has demonstrated in the past that it possesses the abilities, competencies, skills, and talents needed to carry out a given strategy.

d. **Advantage:** A strategy must provide for the creation and/or maintenance of a competitive advantage in a selected area of activity. Competitive advantages normally are the result of superiority in one of three areas:

(1) resources, (2) skills, or (3) position.

or

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.

(i) **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.

(ii) **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.

(iii) **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 new acquired behaviour does not diminish or extinguish.

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