

PAPER – 7 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

Attempt **all** questions.

Question 1

(a) Describe briefly the following terms:

- (i) LSI Circuit
- (ii) USB Connectors
- (iii) Touch Screen
- (iv) Layer 3 or Network Layer
- (v) Data Dictionary

(5x1 = 5 Marks)

(b) Explain each of the following:

- (i) BIOS
- (ii) Transaction Log
- (iii) Random Access
- (iv) FAT
- (v) E-mail

(5x1 = 5 Marks)

Answers

- (a) (i) **LSI Circuit** : LSI or Large Scale Integrated Circuits led to the development of the fourth generation computer. The LSI is a microchip containing thousands of small electronic components which function as a complete system.
- (ii) **USB Connectors** : USB stands for Universal Serial Bus. USB connectors provide the user with higher data transfer speeds for different USB devices like keyboard, mouse, scanner or digital camera.
- (iii) **Touch Screen** : Touch Screens are mainly used in Information – providing systems like Railway Reservation counters, stock exchanges, hotels, restaurants etc. When an invisible infrared beam 'matrix' crisscrossing the screen is pressed by finger over a function or program displayed on the screen, the infrared beam is broken at that intersection and the system is activated. The beam emanates from holes along the bottom and sides of the display unit.
- (iv) **Layer 3 or Network Layer** : Network Layer corresponds to the layer 3 of the OSI model and enables a choice of the physical route of transmission of a message packet by
- creating a virtual circuit for upper layers to make them independent of data transmission and switching.
 - establishing, maintaining, and terminating connections between the nodes.
 - ensuring proper routing of data.

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

- (v) **Data Dictionary** : Data Dictionary maintains information pertaining to structure and usage of data and meta data. Each piece of data and various synonyms of data field are determined in consultation with database users.
- (b) (i) **BIOS** : BIOS (stands for Basic Input Output System) is a small chip on the motherboard that loads the hardware settings required to load various devices like keyboards, monitors, or disk drives. It is a boot firmware program that controls the computer from the time we start it up until the operating system takes over. The BIOS also manages data flow between the computer's operating system and attached devices such as hard disk, video card, keyboard, mouse and printer.
- (ii) **Transaction Log** : Transaction Log is a file that records database modifications that consist of inserts, updates, deletes, commits, rollbacks, and database schema changes. The database engine makes use of this log to apply any changes made between the most recent checkpoint and the system failure.
- (iii) **Random Access** : Random Access pertains to the method of file organization in a storage device in which the access time of the storage device is not significantly affected by the location of the data to be accessed. It means that any item of data which is stored online can be accessed within a relatively short time (usually in part of a second).
- (iv) **FAT** : File Allocation table (FAT) is a log that records the location of each file and the status of each sector. When a file is written to a disk, the operating system checks the FAT for an open area, stores the file, and then identifies the file and its location in the FAT.
- (v) **E-mail** : E-mail is a method of composing, sending, storing and receiving messages over electronic communication systems. The term e-mail applies both to the Internet e-mail system based on the Simple Mail Transfer Protocol (SMTP) and to intranet systems allowing users within one company to e-mail each other.

Question 2

Answer the following:

- (a) *Define an Image Processing. Describe the steps involved to document imaging. Also mention any five advantages of Image Processing.* (5 Marks)
- (b) *What are Decision Support Systems? Describe various characteristics of a DSS.* (5 Marks)

Answers

- (a) **Image Processing** : Image Processing captures an electronic image of data so that it can be stored and shared. Imaging systems can capture almost anything, including keystroked or handwritten documents (such as invoices or tax returns), flowcharts, drawings, and photographs.

PAPER – 7 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

There are five steps to document imaging:

1. **Data Capture** : The most common means of converting paper documents into electronic images is to scan them. By using scanner, the text and pictures can be converted into digitized electronic code.
2. **Indexing** : Document images must be stored in a manner that facilitates their retrieval. Normally they are stored in an index. Great care is needed in designing the indexing scheme.
3. **Storage** : As large amount of space is involved in storing, the images are usually stored on an optical disk. An appropriate size optical disk should be selected.
4. **Retrieval** : Keying in any information stored in an index can retrieve documents. The index tells the system which optical disk to search and the requested information can be quickly retrieved.
5. **Output** : An exact replica of the original document is easily produced on the computer's monitor or on paper, or is transmitted electronically to another computer.

Some of the advantages of Image Processing are as follows:

- (i) **Accessibility** : Documents can be accessed and reviewed simultaneously by many people, even from remote locations.
 - (ii) **Accuracy** : Accuracy is much higher because costly and error-prone manual data-entry processes are eliminated.
 - (iii) **Capacity** : Vast amounts of data can be stored in very little space, which significantly reduces storage and office space.
 - (iv) **Cost** : When large volumes of data are stored and processed, the cost per document is quite inexpensive. As a result, the costs to input, file, retrieve, and re-file documents are reduced significantly.
 - (v) **Security** : Various levels of passwords (network, data base, files, etc.) and clearances can be assigned to restrict document access.
- (b) **Decision Support System** : Decision Support System (DSS) is a specific class of computerized information system that supports business and organizational decision-making activities. A properly designed DSS is an interactive software-based system intended to help decision maker to compile useful information from raw data, documents, personal knowledge, and/or business models to identify and solve problems and make decisions. A DSS may present information graphically and may include an expert system or artificial intelligence. DSS have also achieved broad use in accounting and auditing today.

The common characteristics of Decision Support Systems are as mentioned below :

- (i) **DSS support management decision making** – These enhance decision quality. While the system might not point to a particular decision, it is the user who ultimately makes the final choice.

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

- (ii) **DSS solve relatively unstructured problems** – The unstructured problems with lesser well-defined questions do not have easy solution procedures and therefore need some managerial judgment. Such problems can be handled and addressed with the help of appropriate DSS.
- (iii) **DSS are friendly computer interface** – A friendly computer interface is also a characteristic of a DSS. As the managers and other decision makers using DSS are not necessarily good programmers, such systems must be easy to use. The communication between the user and the DSS is made easy through nonprocedural modeling languages.
- (iv) **DSS should be able to respond quickly to the changing needs of the decision makers** – As managers must plan for future activities, they rely heavily on assumptions. Any DSS should address the decision making for a variety of assumptions. A key characteristic of many systems is that these allow users to ask what-if questions and examine the results of these questions.

Question 3

- (a) *Describe the various factors being considered in determining the best file organization for an application.* (5 Marks)
- (b) *What is meant by 'Electronic Data Interchange'? State some of its advantages.* (5 Marks)

Answers

- (a) Factors to be considered for best file organization are briefly discussed below :
 - (i) **File Volatility** : It refers to the number of additions and deletions to the file in a given period of time. A file that constantly keeps changing is a highly volatile file. An Indexed-sequential file organization will not be suitable for such files, because additions have to be placed in the overflow area and constant reorganization of the file would have to occur. Other direct access methods would be a better choice. Even the sequential file organization could be appropriate if there are no interrogation requirements.
 - (ii) **File Activity** : It is the proportion of master file records that are actually used or accessed in a given processing run. At one extreme is the real-time file where each transaction is processed immediately and hence at a time, only one master record is accessed. This situation obviously requires a direct access method. At the other extreme is a file, such as a payroll master file, where almost every record is accessed when the weekly payroll is processed. In such case, a sequentially ordered file would be more efficient.
 - (iii) **File Interrogation** : It refers to the retrieval of information from a file. When the retrieval of individual record needs to be fast to support a real-time operation such as airline reservation, then some direct organization would be required. But if requirements of data can be delayed, then all the individual requests or information can be batched and run in a single processing run with a sequential file organization.

PAPER – 7 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

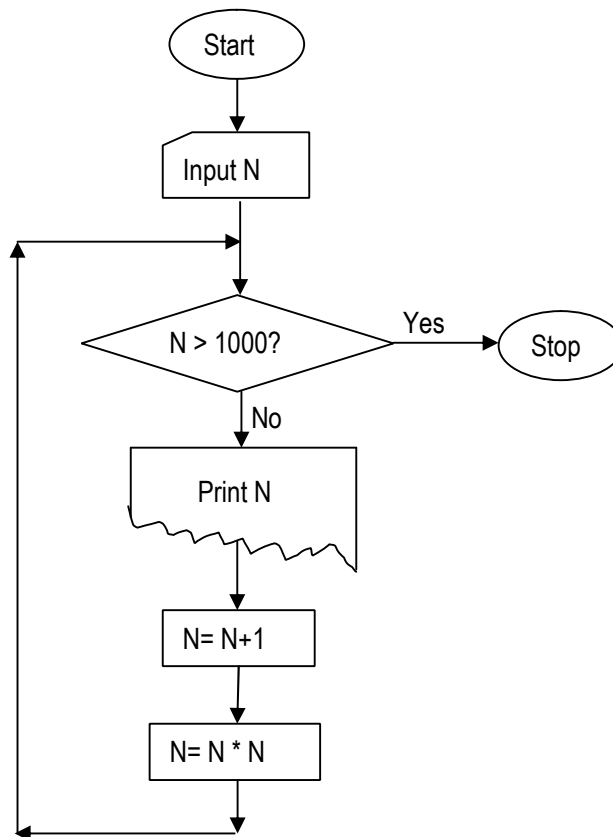
- (iv). **File Size** : Large files that require many individual references to records with immediate response, must be organized for certain direct access method. However, with small files, it may be more efficient to search sequentially or with more efficient binary search, to find an individual record.
- (b) **Electronic Data Interchange (EDI)** : EDI is the transmission, in a standard syntax, of unambiguous information of business or strategic significance between computers of independent organizations. Or simply, EDI is computer-to-computer communication using a standard data format to exchange business information electronically between independent organizations.

Advantages of Electronic Data Interchange (EDI) are as stated below :

- (i) **Issue and receive orders faster** - Since most purchasing transactions are routine, they can be handled automatically, utilizing the staff for more demanding and less routine tasks.
- (ii) **Make sales more easily** - Quotes, estimates, order entry and invoicing will proceed more smoothly and efficiently. Orders received electronically ensure that information is available immediately, so that an organization can respond faster and be more competitive.
- (iii) **Get paid sooner** - Invoices received electronically can be reconciled automatically, which means they are earmarked for fast payment. In turn, the purchase department is in a position to negotiate for better terms including faster payments.
- (iv) **Minimize capital tied up in inventory** - For manufacturing organization with a just-in-time strategy, the right balance is crucial, but every organization stands to benefit from reducing order lead times.
- (v) **Reduce letters and memos** - Letters and memos do not follow rigid rules for formatting. They can be handled by an electronic mail system.
- (vi) **Decrease enquiries** - Customers or suppliers can make direct on-line enquiries on product availability, or other non-sensitive information instead of consuming the staff's precious time.
- (vii) **Make bulk updates of catalogues and parts listings** - One can provide updates of data files, such as catalogues to customers or part listings to franchisees.

Question 4

- (a) Write the output sequence (at least first five numbers) for the given flowchart, if $N = 0$ is selected as the value for N as input. (5 Marks)
- (b) If the statement " $N = N * N$ " in the computation box of the flowchart is modified as " $N = N * (N - 1)$ ". Write the output sequence (at least first five numbers) for the flowchart with $N = 0$ as the input value for N . (5 Marks)



Answers

(a) The output sequence will be :

0 1 4 25 676

(b) The output sequence in this case will be :

0 0 0 0 0

Being in loop, the program will continue to write 0 endlessly.

Question 5

(a) Describe the Ring Network. Discuss its advantages and disadvantages. (5 Marks)

(b) Describe 'Caching Server' and 'Proxy Server'. How are they different from each other?

(5 Marks)

PAPER – 7 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

Answer

- (a) **Ring Network** : This is one of the structures for local area networks. In this topology, the network cable passes from one node to another until all nodes are connected in the form of a loop or ring. There is a direct point-to-point link between two neighboring nodes. These links are unidirectional which ensures that transmission by a node traverses the whole ring and comes back to the node, which made the transmission. Ring Network topology is particularly appropriate for organizations that require a centralized database or a centralized processing facility.

Advantages:

- (i) Ring networks offer high performance for a small number of workstations.
- (ii) These can span longer distances compared to other types of networks.
- (iii) Ring networks are easily extendable.

Disadvantages:

- (i) It is relatively expensive and difficult to install.
- (ii) Failure of one computer on the network can affect the whole network.
- (iii) It is difficult to trouble shoot a ring network. Adding or removing computers can disrupt the network.

- (b) **Caching Server** : A caching server is used to restrict number of one's own access to the Internet. Basically, a caching server sits between the client computer and the server that would normally fulfill a client's request. The caching server intercepts the request sent and maintains a library of files that have been requested in the recent past by users on the Internet. If the request is found in the library, the server returns the desired information without going out to the Internet. Thus, a caching server does not restrict information flow. Instead, it makes a copy of requested information, so that frequent requests can be served locally, rather than from the original Internet source. It provides a good means to reduce overall traffic to and from the Internet. It is also possible to connect the caching servers in a hierarchy so that if the requested information is not available locally, it can be passed to the nearby caching servers for possible availability.

Proxy server : A proxy server is designed to restrict access to information on the Internet. A proxy server can be configured to refuse to pass the request to the intended Internet server. Such a server operates on a list of rules given to it by a System Administrator. Some proxy software use list of specific forbidden sites, the others examine the content of a page pertaining to the request.

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

Difference Between the Two Servers :

Technologically, there's no substantial difference between a caching server and a proxy server. The difference comes in the desired outcome.

A caching server could be preferred when it is decided to reduce the overall amount of traffic exchanged between the network and the Internet. On the other hand, a proxy server could be preferred if we wish to restrict or prohibit the flow of certain types of information on the network.

Question 6

State with reasons which of the following statements is correct or incorrect:

- (a) *A business, even if it continually remains passive to the relevant changes in the environment, would still grow and flourish.*
- (b) *A corporate culture is always identical in all the organisations.*
- (c) *There is both opportunity and challenge in 'Change'.* (3 × 2 = 6 Marks)

Answer

- (a) **Incorrect:** Businesses function within a whole gamut of relevant environment and have to negotiate their way through it. A successful business has to identify appraise and respond to various opportunities and threats in its environment. The extent to which the business thrives depends upon the manner in which it interacts with environmental situations or constraints. A business remaining passive to changes in its environment is destined to gradually fade away into oblivion.
- (b) **Incorrect:** Every company has its own organisational culture. Each has its own business philosophy and principles, its own ways of approaching to the problems and making decisions, its own work climate, work ethics, etc. Therefore, corporate culture need not be identical in all organisations. However, every organisation over a period of time inherits and percolates down its own specific work ethos and approaches.
- (c) **Correct:** It is said that change is inevitable, especially in the context of business environment. Changes in the business environment from time to time throw up new issues before businesses. A right perspective of such new issues is to view them both as challenges and opportunities - challenge because appropriate action is called for and, opportunity because it opens up new potentials for the future plans that would lead to prosperous business.

Question 7

- (a) *Discuss the relevance of Tows Matrix in strategic planning process.* (2 Marks)
- (b) *State the points that may be considered while writing a mission statement of a Company.* (2 Marks)

PAPER – 7 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

Answer

- (a) The TOWS matrix illustrates how the external opportunities and threats facing a particular corporation can be matched with company's internal strengths and weaknesses to result in possible strategic alternatives to be competitive. It is a good way to use brainstorming and to create alternative strategies that might not otherwise be considered. It forces strategic managers to design various growth, stability or retrenchment strategies. It can be used to generate corporate as well as business strategies.

Moreover, TOWS Matrix is very useful for generating a series of alternatives that the decision makers of a company or business unit might not otherwise have considered. Nevertheless, the TOWS Matrix is only one of the many ways to generate alternative strategies.

In a way TOWS is considered to be an improvement over the SWOT. However, it is not undermining the SWOT analysis.

- (b) 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 situated companies.
- (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.
- (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 can not be mission of company.

Question 8

What are the five competitive forces in an industry as identified by Michael Porter? (10 Marks)

Answer

Five forces model of Michael Porter is a powerful and widely used tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the over all market. These five forces are:

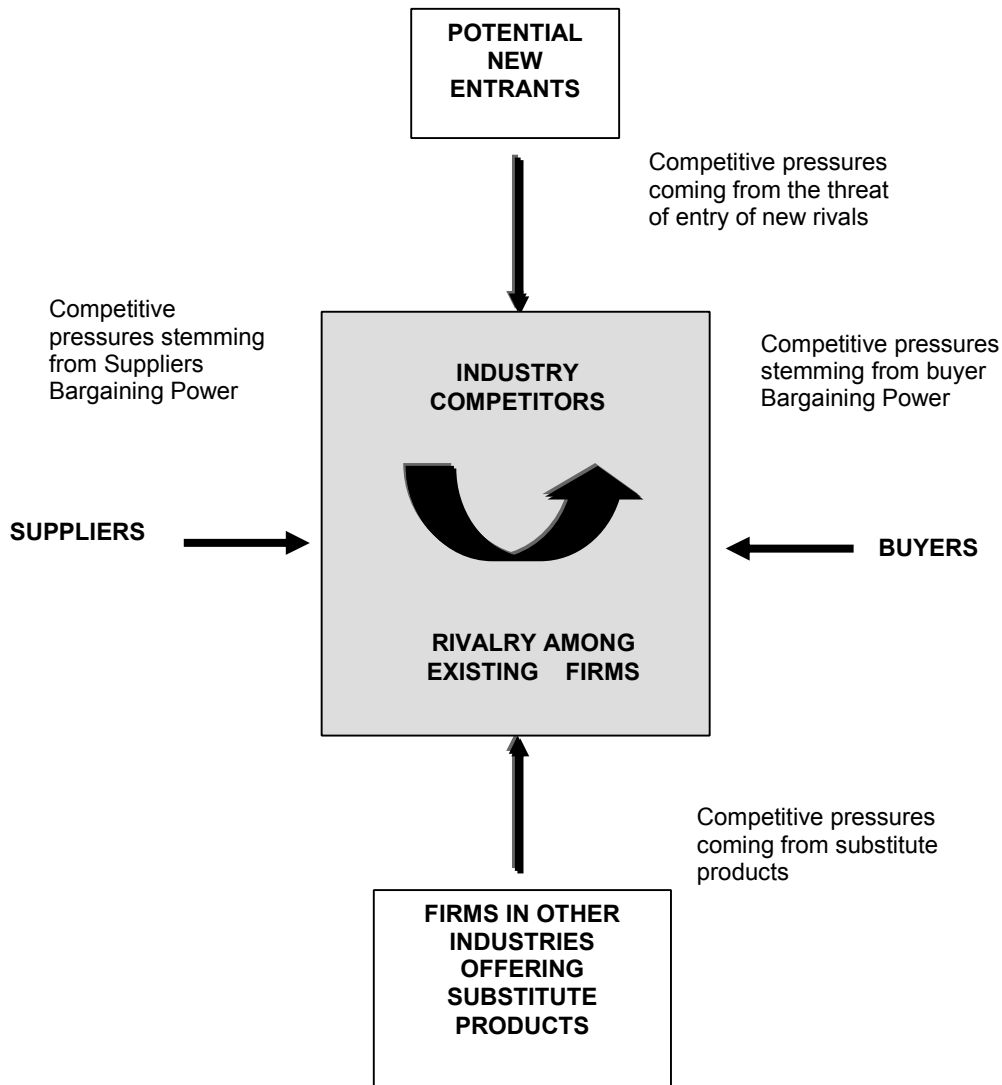
1. **Threat of new entrants:** New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

2. **Bargaining power of customers:** This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or informally and exert pressure on the producer. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.
3. **Bargaining power of suppliers:** Quite often suppliers, too, exercise considerable bargaining power over companies. The more specialised the offering from the supplier, greater is his clout. And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.
4. **Rivalry among current players:** The rivalry among existing players is quite obvious. This is what is normally understood as competition. For any player, the competitors influence strategic decisions at different strategic levels. The impact is evident more at functional level in the prices being changed, advertising, and pressures on costs, product and so on.
5. **Threats from substitutes:** Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fibre. Wherever substantial investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits in an industry.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and all such elements are governed by these forces. The collective strength of these five competitive forces determines the scope to earn attractive profits. The strength of the forces may vary from industry to industry.

PAPER – 7 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT



Question 9

What is Six Sigma? How is it different from other quality programs? Explain in brief themes of Six Sigma. (2 + 2 + 6 = 10 Marks)

Answer

Meaning of Six Sigma

Primarily Six sigma means maintenance of the desired quality in processes and end products. It means taking systemic and integrated efforts toward improving quality and reducing cost.

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

It is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones. Six sigma has its base in the concept of probability and normal distribution in statistics. Six sigma strives that 99.99966% of products manufactured are defect free.

Six sigma efforts target three main areas:

- ◆ Improving customer satisfaction
- ◆ Reducing cycle time
- ◆ Reducing defects

Six sigma and other quality programs

Six sigma is improvement over other quality programmes:

- (i) Six sigma is customer focused. It strives to provide better satisfaction to the customer owning the product.
- (ii) Six sigma is a total management commitment and philosophy of excellence, process improvement and the rule of measurement.
- (iii) Six sigma induces changes in management operations - new approaches to thinking, planning and executing to achieve results.
- (iv) Six sigma combines both leadership and grassroots energy and involvement for its success.

Six themes of six sigma

The critical elements of six sigma can be put into six themes as follows:

- ◆ **Theme one** – *genuine focus on the customer*: Companies launching six sigma often to find that how little they really understand about their customers. In six sigma, customer focus becomes the top priority. For example, the measures of six sigma performance begin with the customer. Six sigma improvements are defined by their impact on customer satisfaction and value.
- ◆ **Theme two** – *data and fact-driven management*: Six sigma takes the concept 'of "management by fact" to a new, more powerful level. Despite the attention paid in recent years to improved information systems, knowledge management, and so on, many business decisions are still being based on opinions, assumptions and gut feeling. Six sigma discipline begins by clarifying what measures are key to gauging business performance and then gathers data and analyzes key variables. Problems are effectively defined, analyzed, and resolved. Six sigma also helps managers to answer two essential questions to support data-driven decisions and solutions.

PAPER – 7 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

- ◆ What data/information is really required?
- ◆ How to use the data/information for maximum benefit?
- ◆ **Theme three** – *processes are where the action is* Designing products and services, measuring performance, improving efficiency and customer satisfaction and so on. Six sigma positions the process as the key vehicle of success. One of the most remarkable breakthroughs in Six Sigma efforts to date has been convincing leaders and managers. Process may relate to build competitive advantage in delivering value to customers.
- ◆ **Theme four** – *proactive management*: In simple terms, being proactive means acting in advance of events rather than reacting to them. In the real world, though, proactive management means making habits out of what are, too often, neglected business practices: defining ambitious goals and reviewing them frequently, setting clear priorities, focusing on problem prevention rather than fire-fighting, and questioning why we do things instead of blindly defending them.

Far from being boring or overly analytical, being truly proactive is a starting point for creativity and effective change. Six sigma, encompasses tools and practices that replace reactive habits with a dynamic, responsive, proactive style of management.
- ◆ **Theme five** – *boundaryless collaboration*: "Boundarylessness" is one of Jack Welch's mantras for business success. Years before launching six sigma, GE's chairman was working to break barriers and to improve teamwork up, down, and across organizational lines. The opportunities available through improved collaboration within companies and with vendors and customers are huge. Billions of dollars are lost every day because of disconnects and outright competition between groups that should be working for a common cause: providing value to customers.
- ◆ **Theme six** – *drive for perfection; tolerate failure*: Organizations need to make efforts to achieve perfection and yet at the same time tolerate failure. In essence, though, the two ideas are complementary. No company will get even close to six sigma without launching new ideas and approaches-which always involve some risk. Six sigma cannot be implemented by individuals who are overly cautious and are scared of making mistakes.

Question 10

Read the following case and answer the questions given at the end :

The ripple effects of the 2008 Global Economic meltdown had begun to hurt the Rupees 1,268 crore J. K. Paper Ltd. also. Like all other business houses in India, J. K. Paper Ltd. was also finding the going tough. The general trend of soaring prices and contraction in demand had started affecting the sale of J. K. Paper Ltd. products also. Its customers were focusing on correcting their inventory positions (using existing stocks of materials to keep production lines and marketing activities rolling). Consequently, they were not buying much from J. K. Paper Ltd. Even the investors did not like what they saw – J. K. Paper Ltd. stock fell from Rs.57.20

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

on 1 January, 2008 to a low of Rs.14.12 on 12 March, 2009. The company was in the midst of Economic crisis. Mr. Harshpati Singhania, Managing Director of the Company, realised that some strong measures must be taken to extricate the Company from its present crisis. To this end, Mr. Singhania held several brainstorming sessions with the top management team and finally identified the focus areas : Managing working capital flows, cutting costs and paying attention to employee productivity.

Moving away from the traditional approach one usually follows during the recessionary periods, Mr. Singhania instead of shutting down company's plants and cutting production, decided to continue to operate the Company's two plants at Gujarat and Orrisa at 100% capacity. To match sales with production, he planned to reach out to newer customers by widening Company's distribution network. He identified packaging boards to be marketed in rural areas where the meltdown had minimal effect. As the market conditions were still difficult, the company also decided to cut the prices by 2 to 3 per cent. Alongwith the price cut, its marketing thrust in rural areas ensured that the sales were not impacted much. Net sales remained flat throughout 2008-09, though the profitability of the Company suffered because of the lower margins it received from its rural thrust.

For raising capital, the Company did not approach banks and investors, rather it intensified its efforts to recover its debts from its clients. The efforts resulted in fast recovery of crores of rupees. Disputed debts were also settled expeditiously to raise more cash.

To cut costs further, the Company took steps to improve productivity and reduce its wage bill. Inefficient employees were asked to leave. No new appointments were made unless they were critically important. In addition, employees received lower increments for 2008-09; even Mr. Singhania did not take any increment.

When the global slowdown sent the international prices of the pulp, the main raw material for the paper industry, crashing from Rs.36,960 per tonne in April, 2008 to Rs.18,240 per tonne in September, 2008 the company bought enough pulp to last for about 9 months as against its policy of buying, in the normal course, pulp for about 2-3 months. According to Mr. Singhania, this decision also resulted in a huge saving.

Mr. Singhania and his senior management team also re-evaluated the organisational structure to improve efficiency in the organisation.

When all the above strategic decisions had been successfully implemented, Mr. Singhania knew that the worst for the company was over. This was also reflected in gradual increase in the quarterly profits of the company, Mr. Singhania however sounded very modest about his stewardship of the Company while appreciating his Senior management team for the great job done to ride out the slowdown.

PAPER – 7 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

Question

- (a) *Where did the recession hit J. K. Paper Ltd.?* (2 Marks)
- (b) *Explain with reasoning the corporate strategy the Company had adopted for its survival.* (2 Marks)
- (c) *What functional strategies were undertaken by the Company to overcome its crisis?* (6 Marks)
- (d) *State the basic responsibilities of a strategic leader in a business house. Explain whether or not Mr. Singhanian provided strategic leadership to the Company.* (2 + 2 = 4 Marks)
- (e) *What lessons are learnt from the experience of J. K. Paper Ltd. to ride out the economic meltdown?* (6 Marks)

Answer

- (a) The economic recession of 2008 hit J. K. Paper Ltd. primarily in three areas: (i) contraction in demand for its products due to general trend of soaring prices all over, (ii) financial crunch, and (iii) fall in its share prices.

The customers of the company were not buying much and they started focusing on correcting their inventory. This led to decrease in demand and reduction in funds for their working capital needs.

- (b) The company had followed the stability strategy to tide out the economic crisis. It decided to maintain its production at pre-melt down period. It reflected in the decision of the top management to operate its two plants in Gujarat and Orissa at 100% capacity. It also decided to widen its distribution network to counter the challenge of contraction in demand. It identified rural sector to market aggressively its packing boards. The company had rightly decided against divestment or liquidation strategies as it knew that the meltdown was only a passing phase, so the need of the hour was to 'stay afloat and then to wait for the appropriate time to plan for expansion, if needed.
- (c) The top management team of the company under the leadership of Mr. Harshpati Singhanian, Managing Director of the company decided to adopt various functional 'strategies to ride out the slowdown. After several rounds of brainstorming sessions with the top management Mr. Singhanian identified the focus areas and took initiatives on the following functional strategies:

Production Strategy: In the face of contracting demand, Mr. Singhanian took a bold decision to play a contrarian card. Instead of shutting down plants and cutting production he decided to operate the company's two plants in Gujarat and Orissa at 100% capacity. Moreover, he also took another unusual decision to buy pulp - the main raw material for the paper industry, when its prices crashed substantially, in huge quantity to build up its

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

massive stock pile to last for about 9 months as against the usual practice of buying pulp stock for about 3 months in the normal course. This resulted in a huge saving for the company.

Marketing strategy: To maintain the production and subsequent sales, the company decided to identify new customers and widen its distribution networks to reach out to new customers. The thrust was laid to push the sales of its packaging boards material to consumers in the rural areas where the effects of meltdown were minimum. Prices were reduced by 2-3% to give thrust to sales.

Financial strategy: For managing working capital, the company again took an unusual step of not approaching banks and investors. Instead the company decided a unique strategy to intensify its efforts to collect its debits from the clients. The company succeeded in collecting crores of rupees in a very short period through debt recoveries. It even decided to settle its disputed debts outside the court very expeditiously. This also fetched a good amount of cash to the company. The company also took decisions that led to cost reduction. It reduced its work force and reduces to expenditure on account of wages. It also made bulk purchase of pulp, main raw material to reduce the costs and improve

Human Resources Management Strategy: The company took steps to improve employees productivity and reduction in wage bill. The top management also gave to all its employees lower increments. Even Mr. Singhania did not accept any increment for himself. Non performing employees were asked to leave the company. New recruitment of employees was stopped unless it was critically important.

Review of Organization Structure: For the successful implementation of company's strategies to ride out the slow down, the organisational structure of the company was re-evaluated and reviewed. It was directed towards improving efficiency within the organisation.

- (d) In the company a strategic leadership is provided by its managing director who discharges his responsibility through the following well thought out strategies –
- (i) To manage the employees of all classes for effective and efficient working
 - (ii) Sustaining high performance over a time
 - (iii) Willingness to take candid, bold and, at times, unusual and contrarian decisions
 - (iv) Taking such decision making responsibilities which can not be delegated
 - (v) Effective feedback through face to face communication

When J. K. Paper Ltd. was in the midst of financial crises due to economic meltdown its Managing Director realized that it was the time to bury down the hatchets and prepare for a long haul. Like a truly effective leader, he took some

PAPER – 7 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

contrarian decisions to put company back on its track. Some of the important decisions were:

- to operate the company's plants in Gujarat and Orissa at their 100% capacity so that production remains at pre-melt down period levels.
 - to match sales with production and to overcome the effects of recession on the company's sales it was decided to widen the distribution network to reach out to new customers.
 - he also refrained from easy decision to approach banks and investors for funds to manage working capital requirements. Instead, he initiated steps for speedy recovery of debts from its clients including recovery of disputed debts through negotiated settlements. All this resulted in collecting crores of rupees in a short period.
 - he also set an example before employees by refusing to accept any increment in his own salary. Employees also accepted lower increments for 2008-09.
 - decision to buy pulp in bulk when its prices crashed so that the stock of pulp lasts for a much longer period resulting in huge savings in costs.
 - thus Mr. Singhanian provided an effective strategic leadership by taking some bold, convergent and contrarian decisions which had helped the company to come out of its crisis.
- (e) There are lessons to be learnt from any crisis. The lessons learned from the J. K. Papers can be summarized as follows:
- *Do not Panic:* There is no need to panic even if the company is facing difficult times such as contraction in demand or is facing liquidity crunch. On the contrary, one should look towards the strong points of the organization to convert threats into opportunities.
 - *Consult others:* During recession when the company is facing crisis, Managing Director of J.K. Paper Ltd. held several brainstorming sessions. The issues were discussed with the team to identify ways and means to overcome the situation. Through the process, the company identified focus areas such as managing working capital flows, cost cutting and improving employees productivity.
 - *Go to micro level:* While analyzing different aspects of the crisis, consider all relevant aspects of the business. Novel ideas may emerge in the process. Identify major areas of improvement and then break them into micro plans and decisions.

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

- *Take bold decisions:* When the situation is not as desired the company should take bold decisions for its sustainability. Identifying new markets or asking unproductive employees to leave are some of the bold decisions taken by J.K. Ltd.
- *Leaders should set an example:* The virtues reflected in the behaviour of the leaders are often imbibed by the followers. Hard work, dedication and commitment also trickle down in the organisational hierarchy. Individuals in an organisation can also accept decisions better if they are uniformly applicable. In the given case, employees can accept the low increments better as the leader has also decided to forgo increments.