J.K. SHAH®
TEST SERIES
Evaluate Learn Succeed

SUGGESTED ANSWERS

CA INTER

Test Code – JK-ITS-12

Date – 11-10-2020

Head Office: Shraddha, 3rd Floor, Near Chinai College, Andheri E, Mumbai – 69
Tel: (022) 26836666

Answers

PART – I

Division A - Multiple Choice Questions

1. **(c)** Section 66B **(2 Marks)**

2. **(b)** People Risk **(2 Marks)**

3. **(b)** Section 70 **(2 Marks)**

4. **(a)** Enterprise Risk Management **(2 Marks)**

5. **(a)** eXtensible Business Reporting Language **(2 Marks)**

6. **(d)** Informal Decision Objective **(1 Marks)**

7. **(d)** NaaS **(1 Marks)**

8. **(b)** Credit Information Bureau (India) Limited **(1 Marks)**

9. **(d)** Compensatory Control **(1 Marks)**

10. **(a)** Web Defacement **(1 Marks)**

Division B - Descriptive Questions

Q.1

(a)

This is a functional module which handles the maintaining of equipment and enables efficient planning of production and generation of maintenance schedules. Plant Maintenance (PM) application component provides you with a comprehensive software solution for all maintenance activities that are performed within a company. It supports cost-efficient maintenance methods, such as preventive maintenance, and provides comprehensive outage planning and powerful work order management.

(i) To achieve minimum breakdown and to keep the plant in good working condition at the lowest possible cost.

(ii) To keep machines and other facilities in a condition that permits them to be used at their optimum (profit making) capacity without any interruption or hindrance.

(iii) To ensure the availability of the machines, buildings and services required by other sections of the factory for the performance of their functions at optimum return on investment whether this investment be in material, machinery or personnel.

(1 Mark for each point)

(b)

(i) **UPI Apps:** Unified Payment Interface (UPI) and retail payment banks are changing the very face of banking in terms of moving most of banking to digital platforms using mobiles and apps.

- UPI is a system that powers multiple bank accounts (of participating banks), several banking services features like fund transfer, and merchant payments in a single mobile application.
- UPI or unified payment interface is a payment mode which is used to make fund transfers through the mobile app.
- User can transfer funds between two accounts using UPI apps.
- User must register for mobile banking to use UPI apps.
- User need to download a UPI app and create a UPI ID.
- There are too many good UPI apps available such as BHIM, SBI UPI app, HDFC UPI app, iMobile, PhonePe app etc.

(ii) **Immediate Payment Service (IMPS):** It is an instant interbank electronic fund transfer service through mobile phones.

- It is also being extended through other channels such as ATM, Internet Banking, etc.

(iii) Mobile Apps: BHIM (Bharat Interface for Money) is a Mobile App developed by National Payments Corporation of India (NPCI) based on UPI (Unified Payment Interface).

- It facilitates e-payments directly through banks and supports all Indian banks which use that platform.
- It is built on the Immediate Payment Service infrastructure and allows the user to instantly transfer money between the bank accounts of any two parties.
- BHIM works on all mobile devices and enables users to send or receive money to other UPI payment addresses by scanning QR code or using account number with Indian Financial Systems Code (IFSC) code or MMID (Mobile Money Identifier) Code for users who do not have a UPI-based bank account.

(iv) Mobile Wallets: It is defined as virtual wallets that stores payment card information on a mobile device.

- Mobile Wallets provide a convenient way for a user to make-in-store payments and can be used that merchants listed with the mobile wallet service providers.
- There are mobile wallets like PayTm, Freecharge, Buddy, MobiKwick etc.
- Some of these are owned by banks and some are owned by private companies.

(v) Aadhar Enabled Payment Service (AEPS): Government of India, is planning to launch this in near future.

- AEPS is an Aadhaar based digital payment mode.
- Customer needs only his or her Aadhaar number to pay to any merchant.
- AEPS allows bank to bank transactions.
- It means the money you pay will be deducted from your account and credited to the payee's account directly.
- Customers will need to link their AADHAR numbers to their bank accounts.
- APES once launched can be used at POS terminals also.

(vi) Unstructured Supplementary Service Data (USSD): A revolutionary idea, where to make payments through mobiles there is neither need for internet nor any smart phone.

- USSD banking or *99# Banking is a mobile banking based digital payment mode.

- User does not need to have a smartphone or internet connection to use USSD banking.
- S/he can easily use it with any normal feature phone.
- USSD banking is as easy as checking of mobile balance.
- S/he can use this service for many financial and non-financial operations such as checking balance, sending money, changing Mobile Banking Personal Identification number (MPIN) and getting Mobile Money Identifier (MMID).

(2 Marks)

Q.2

(a)

General Controls

General Controls are pervasive controls and apply to all systems components, processes, and data for a given enterprise or systems environment. General controls include, but are not limited to:

- Information Security Policy: The security policy is approved by the senior management and encompasses all areas of operations of bank and drives access to information across the enterprise and other stakeholders.
- Administration, Access, and Authentication: IT should be administered with appropriate policies and procedures clearly defining the levels of access to information and authentication of users.
- Separation of key IT functions: Secure deployment of IT requires the bank to have separate IT organization structure with clear demarcation of duties for different personnel within IT department and to ensure that there are no Segregation of duties conflicts.
- Management of Systems Acquisition and Implementation: Software solutions for CBS are either developed or acquired and implemented. Hence, process of acquisition and implementation of systems should be properly controlled.
- Change Management: IT solutions deployed and its various components must be changed in tune with changing needs as per changes in technology environment, business processes, regulatory and compliance requirements. These changes impact the live environment of banking services. Hence, change management process should be implemented to ensure smooth transition to new environments covering all key changes including hardware, software and business processes.

All changes must be properly approved by the management, before implementation.

- Backup, Recovery and Business Continuity: Heavy dependence on IT and criticality makes it imperative that resilience of banking operations should be ensured by having appropriate business continuity including backup, recovery and off-site data Centre.
- Confidentiality, Integrity and Availability of Software and data files: Security is implemented to ensure confidentiality, integrity and availability of information.

(6 Marks)

(b)

Section 13 Powers of Director to impose fine.

(1) The Director may, either of his own motion or on an application made by any authority, officer or person, make such inquiry or cause such inquiry to be made, as he thinks fit to be necessary, with regard to the obligations of the reporting entity, under this Chapter.

(1A) If at any stage of inquiry or any other proceedings before him, the Director having regard to the nature and complexity of the case, is of the opinion that it is necessary to do so, he may direct the concerned reporting entity to get its records, as may be specified, audited by an accountant from amongst a panel of accountants, maintained by the Central Government for this purpose.

(1B) The expenses of, and incidental to, any audit under sub-section (1A) shall be borne by the Central Government.

(2) If the Director, in the course of any inquiry, finds that a reporting entity or its designated director on the Board or any of its employees has failed to comply with the obligations under this Chapter, then, without prejudice to any other action that may be taken under any other provisions of this Act, he may-

(a) issue a warning in writing; or-

(b) direct such reporting entity or its designated director on the Board or any of its employees, to comply with specific instructions; or

(c) direct such reporting entity or its designated director on the Board or any of its employees, to send reports at such interval as may be prescribed on the measures it is taking; or

(d) by an order, impose a monetary penalty on such reporting entity or its designated director on the Board or any of its employees, which shall not be less than ten thousand rupees but may extend to one lakh rupees for each failure.

(3) The Director shall forward a copy of the order passed under sub- section (2) to every banking company, financial institution or intermediary or person who is a party to the proceedings under that sub-section. **(4 Marks)**

Q.3

(a)

A grid is a collection of machines, referred as nodes, and devices which form a grid as whole.

- Computation: This is the most common resource of grid computing. This contains the CPUs which perform the computation or process the given request.
- Storage: This is the second most common resource in grid. Each machine usually contains some storage and together a grid use large volume of storage resources. Storage can be memory attached to the processor or it can be secondary storage, using hard disk drives or other permanent storage media.
- Communication: This resource helps in data flow between different servers. The bandwidth available for such communications can often be a critical resource that can limit utilization of the grid.
- Software and Licenses: Software is one of the most expensive resources of grid and installing software at each server requires software and license.
- Special equipment, capabilities and architecture and policies: Grid uses different architectures, operating systems, devices and may include machines that may be designed for specific type of tasks. For example, some machines may be designated to only be used for medical research.

(6 Marks)

(b)

Fixed Assets - Risks and Controls

Fixed Assets process ensures that all the fixed assets of the enterprise are tracked for the purposes of financial accounting, preventive maintenance, and theft deterrence. Fixed assets process ensures that all fixed assets are tracked and fixed asset record maintains details of location, quantity, condition, maintenance and depreciation status.

Typical steps of fixed assets process are as follows:

1. Procuring an asset: An asset is most often entered into the accounting system; when the invoice for the asset is entered; into the accounts payable; or purchasing module of the system.

2. Registering or Adding an asset: Most of the information needed to set up the asset for depreciation is available at the time the invoice is entered. Information entered

at this stage could include; acquisition date, placed-in-service date, description, asset type, cost basis, depreciable basis etc.

3. Adjusting the Assets: Adjustments to existing asset information is often needed to be made. Events may occur that can change the depreciable basis of an asset. Further, there may be improvements or repairs made to asset that either adds value to the asset or extend its economic life.

4. Transferring the Assets: A fixed asset may be sold or transferred to another subsidiary, reporting entity, or department within the company. These may result in changes that impact the asset's depreciable basis, depreciation, or other asset data. This needs to be reflected accurately in the fixed assets management system.

5. Depreciating the Assets: Depreciation is an expense which should be periodically accounted on a company's books, and allocated to the accounting periods, to match income and expenses.

6. Disposing the Assets: When a fixed asset is, no longer in use, becomes obsolete, is beyond repair, the asset is typically disposed. Any difference between the book value, and realized value, is reported as a gain or loss.

(4 Marks)

Q.4

(a)

I. Boundary Controls: The major controls of the boundary system are the access control mechanisms that links the authentic users to the authorized resources, they are permitted to access. The boundary subsystem establishes the interface between the would-be user of a computer system and the computer itself. Major Boundary Control are as follows:

- Cryptography: It deals with programs for transforming data into cipher text that are meaningless to anyone, who does not possess the authentication to access the respective system resource or file. A cryptographic technique encrypts data (clear text) into cryptograms (cipher text) and its strength depends on the time and cost to decipher the cipher text by a cryptanalyst. Three techniques of cryptography are transposition (permute the order of characters within a set of data), substitution (replace text with a key-text) and product cipher (combination of transposition and substitution).
- Passwords: User identification by an authentication mechanism with personal characteristics like name, birth date, employee code, function,

designation or a combination of two or more of these can be used as a password boundary access control.

- Personal Identification Numbers (PIN): PIN is similar to a password assigned to a user by an institution a random number stored in its database independent to a user identification details, or a customer selected number. Hence, a PIN may be exposed to vulnerabilities while issuance or delivery, validation, transmission and storage.
- Identification Cards: Identification cards are used to store information required in an authentication process. These cards are to be controlled through the application for a card, preparation of the card, issue, use and card return or card termination phases.
- Biometric Devices: Biometric identification e.g. thumb and/or finger impression and eye retina etc. are used as boundary control techniques.

(6 Marks)

(b)

(a) Operational Risk: It is defined as a risk arising from direct or indirect loss to the bank which could be associated with inadequate or failed internal process, people and systems. Operational risk necessarily excludes business risk and strategic risk. The components of operational risk include transaction processing risk, information security risk, legal risk, compliance risk and people risk.

- 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.
- Processing risk arises because faulty reporting of important market developments to the bank management may also occur due to errors in entry of data for subsequent bank computations.
- 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.

(b) Credit Risk: It is the risk that an asset or a loan becomes irrecoverable in the case of outright default, or the risk of an unexpected delay in the servicing of a loan. Since bank and borrower usually sign a loan contract, credit risk can be considered a form of counterparty risk.

(c) Market Risk: Market risk refers to the risk of losses in the bank's trading book due to changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public

market. To manage market risk, banks deploy several highly sophisticated mathematical and statistical techniques

(d) Strategic Risk: Strategic risk, sometimes referred to as business risk, can be defined as the risk that earnings decline due to a changing business environment, for example new competitors or changing demand of customers.

(e) Compliance Risk: 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.

(4 Marks)

Q.5

(a)

Snapshot Technique:

- Examines the way transactions are processed.
- Selected transaction points are marked with a special code that triggers a snapshot i.e. takes a pictures of transactions as they move through an application system.
- The before image and after image is captured to validate the processing.
- Auditor reviews the images to ensure that the processing logic is executed properly, its authenticity, accuracy and completeness.

Key areas to focus while using snapshots are,

(i) Choosing the right location / points based on materiality of the transactions.

(ii) Deciding on the time of capture.

(iii) Reporting system design and implementation to present data in a meaningful way for the auditors to understand.

Integrated test Facility (ITF):

- A small set of fictitious entities are placed in master file. The entities may be fictitious division, department or branch office or a customer or a supplier & creates dummy transactions.
- These dummy transactions processed along with regular records.
- They don't affect actual records and employees unaware of the testing taking place.
- The transactions to be tested have to be tagged. The application Software to be programmed to recognize such transactions and invoke two updates - one for the live data and another for ITF dummy entries.

- At the end of processing, the system collects ITF records and the processing results.
- The auditor compares with expected results to verify if controls working as desired.
- In such cases the auditor has to decide what would be the method to be used to enter test data and the methodology for removal of the effects of the ITF transactions.

System Control audit review file (SCARF)

The SCARF technique involves embedding audits software modules within a host application system to provide continuous monitoring of the system's transactions. The information collected is written onto a special audit file – the SCARF master files. Auditors then examine the information contained on this file to see if some aspect of the application system needs follow-up. In many ways, the SCARF technique is like the snapshot technique along with other data collection capabilities.

Continuous & intermittent simulation (CIS):

Meaning: This is a variation of SCARF Technique. This technique can be used to trap exceptions whenever the application system uses a Database Management System (DBMS). During application system processing, CIS executes in the following way:

Working Process:

- Embeds audit modules in a data base management System.
- Once processing logic / condition programmed, CIS Module examines selected transactions. If found significant, it independently processes the data similar to parallel simulation.
- Compares the result with that of the database & if variations found, details are captured in an audit log.
- If serious discrepancies found, CIS may prevent DBMS from executing the update process.

Advantage: The advantage of CIS is that it does not require any modification to the application Software yet provides an online auditing capability.

Audit hooks.

- There are audit routines that flag suspicious transactions.
- For example, internal auditors at Insurance Company determined that their policyholder system was vulnerable to fraud every time a policyholder changed

his or her name or address and then subsequently withdrew funds from the policy. They devised a system of audit hooks to tag records with a name or address change. The internal audit department will investigate these tagged records for detecting fraud.

- When audit hooks are employed, auditors can be informed of questionable transactions as soon as they occur.
- This approach of real-time notification displays a message on the auditor's terminal.

(6 Marks)

(b)

(i)

E-commerce are covered under few other laws as these transactions are done electronically.

- Information Technology Act, 2000 (As amended 2008)
- Reserve Bank of India, 1934.

I. Information Technology Act, 2000

This law governs all internet activities in India. The law is applicable to all online transactions in India, and provides for penalties, prosecution for non-compliances. The important issues dealt in by the law includes:

- Legality of products / services being offered online.
- Data Protection
- Protecting Your Customer's Privacy Online
- Online Advertising Compliance
- Compliance with Information Technology Act, provisions.

II. Reserve Bank of India, 1934

Reserve Bank of India (RBI), from time to time frames guidelines to be followed by ecommerce / m-commerce merchants allowing online payments through various modes. The merchant needs to comply with these guidelines.

For example:

- The conversion of all Credit / Debit cards to be made CHIP based.
- An OTP / PIN for all transactions done on point of sale machines through debit / credit cards.

The compliance with capital adequacy norms for payments wallet like SBI BUDDY/ PAYTM etc.

(2 Marks)

(ii)

Risk is any event that may result in a significant deviation from a planned objective resulting in an unwanted negative consequence. The planned objective could be any aspect of an enterprise's strategic, financial, regulatory and operational processes, products or services.

Broadly, risk has the following characteristics:

- Potential loss that exists as the result of threat/vulnerability process;
- Uncertainty of loss expressed in terms of probability of such loss; and
- The probability/likelihood that a threat agent mounting a specific attack against a Particular system.

(2 Marks)

OR

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 database. This ensures not only continuity of ATM operations but also ensures that the Central database is always up-to-date.

(2 Marks)

PART – II

Division A - Multiple Choice Questions

1. **(a)** Premise control

2. **(c)** Business model

3. **(b)** False

4. **(c)** Competitive landscape

5. **(b)** Decline in the market life cycle

6. **(a)** Lower transaction costs and improved coordination are vital and achievable through vertical integration.

7. **(c)** Strengths

8. **(d)** Vision And Mission

9. **(b)** Significant

10. **(c)** Where we aspire to reach?

11. **(d)** Division by technology

12. **(d)** Very high

13. **(b)** Imitate

14. **(c)** people, process, Physical evidence

15. **(c)** Itself

Division B - Descriptive Questions

Q.6

(a)

An SBU is a group of related business, that can be taken up for strategic planning distinct from the rest of the business.

A multi business and multi product enterprise can group its various businesses into a few distinct business units each of which contains related products in a scientific way.

The purpose is to provide effective strategic planning treatment to each one of its products / business. In short, SBU is a collection of related business. They are related in different ways similar technologies or sorts of products / services similar customers with differing products / technologies.

Advantages of SBU

- Delegation of authority and responsibility
- Ease in administration of large number of divisions
- Focus on co-ordination, communication and controls
- Individual SBUs are treated as profit centres, they can react quickly to changes.
- Promotes accountability
- Creates competitive environment between divisions

(2 marks – Introduction and 3 marks for advantages)

(b)

Functional strategies refer to strategies which are formulated in the individual functional departments such as marketing, finance, production, R&D, Human resource management.

Functional strategies operate below the SBU or business level strategies. They stand at the lowest level in the hierarchy.

NEED FOR FUNCTIONAL STRATEGIES

- **Practical feasibility:** Strategies formulated at corporate level should be translated into operational plans for each functional area. Only then, the plans will be practically feasible.
- **Consistency:** Similar situations occurring in different functional areas can be handled in a consistent manner.

- **Co-ordination:** Strategic decisions are implemented by all the divisions of an organization. There should be co-ordination among divisional plans and actions.
- **Efficiency in functions:** The time spent by Functional Managers in decision-making is reduced, since plans clearly state what is to be done, and policies provide the discretionary framework within which decisions need to be taken. It improves efficiency in operations.
- **Implementation at functional level:** Strategies should be segregated into viable functional plans and policies that are compatible with each other so that strategies can be implemented by the functional managers.

Q.7

(a)

Strategic Management is defined as a dynamic process of;

- Formulation,
- Implementation,
- Evaluation, and
- Control of strategies

Stages in Strategic Management;

Crafting and executing strategy are the heart and soul of managing a business enterprise.

1. Developing a strategic vision and formulation of statement of mission, goals and objectives, First a company must determine what directional path the company should take and what changes in the company's product – market – customer – technology – focus would improve its current market position and its future prospect.

2. Environmental and organizational analysis,

This stage is the diagnostic phase of strategic analysis. It entails two types of analysis:

1. **Environmental scanning**

   External environment of a firm consists of economic, social, technological, market and other forces which affect its functioning. The firm's external environment is dynamic and uncertain.

2. **Organisational analysis**

Organisational analysis involved a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on.

3. **Formulation of strategy,**

The strategic alternatives may be designated as stability strategy, growth / expansion strategy and retrenchment strategy. A company may also follow a combination these alternatives called combination strategy.

4. **Implementation of strategy & Execution**

Implementation and execution is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. It is the most demanding and time-consuming part of the strategy-management process.

5. **Strategic evaluation and control**

The final stage of strategic management process – evaluating the company's progress, assessing the impact of new external developments, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, and/or strategy-execution methods.

[1 marks for meaning of SM and 4 marks for explaining the stages]

(b)

A firm opting for stability strategy stays with the same business, same product market posture and functions, maintaining same level of effort as at present.

Stability strategy is the one in which the organisation maintains the current size and current level of operation. If the environment is stable and the organisation is doing well then it may decide to make no changes.

Objectives of Stability strategy

- To safeguard its existing interests and strengths,
- To pursue well established and tested objectives,
- To continue in the chosen business path, (no major change in the product or
- Service line, markets, or functions)
- To maintain operational efficiency on a sustained basis,
- To optimize returns on the resources committed in the business.

Situation when it is pursued

- The environment faced is relatively stable. Expansion may be perceived as
- being threatening,
- It is less risky, involves less changes and people feel comfortable with things as they are.
- After a period of rapid expansion, consolidation is sought through stabilizing.
- It is suitable for more matured firms.

1 mark for explaining meaning of Stability Strategy and 2 marks for objectives and 2 marks for situation]

Q.8

(a)

	Vision	Mission
Meaning	A short statement that depicts the **company's aspiration** for the future position of the company.	A statement that describes the **company's objectives and its approach** to reach those objectives.
Talks about	A vision statement talks about organisation's **future**.	A mission statement talks about the **present** leading to its future.
Shows	Where we want to be?	Where we are at present?
Answer	It answers the question, "Where do we **aim to be**?"	It answers the question, "**What do we do**? What makes us different?"
Term	Long term	Short term
Purpose	To inspire	To inform
Example	Google – "to provide access to the world's information **in one click**."	Google – "to organize the world's information and make it **universally accessible and useful**."

(1 mark per point)

(b)

According to William F. Glveek, A Strategy is a unified comprehensive and integrated plan designed to assure that the Basic objectives of the enterprise are activated.

A Company Strategy consist of the combination of competitive moves and business approaches that managers employ to-

1) To please customers
2) Complete successfully and &
3) Achieve organisational objectives

Points to be considered

1) Strategy is forward looking it defines in broad terms the action which an organisation proposes to take in future.

2) Strategy is designed to move an organisation from its current position to the desired future position, without a strategy an organisation is like a ship without a rudder going around in circles.

3) Strategy is not a substitute for sound, alert and responsible management. It provides a directions and support to the management. Strategy formulation should be complemented with strategy implementation to achieve objectives.

4) Strategy can never be perfect flawless & optimal it means strategies may fail if there are loopholes in formulation or implementation. Similarly it may also fail due to changes in Environment e.g. Nokia Nano.

5) Strategy is partly proactive and partly reactive. Proactive refers to actions on the part of managers to improve the company's market position, competitive Advantage and financial performance by deciding and planning in advance e.g. electric vehicle.

However if a company's strategy is developed as a response to unanticipated developments, it is known as reactive strategy. e.g. Airtel changing its tariff rates on introduction of JIO.

6) Strategy needs to pragmatic (practical) & flexible as per the situation.

7) Strategy is not a bundle of tricks and magics it involves critical thinking and commitment of resources to action.

8) Every organisation whether it is large or small requires strategies. These organisations irrespective of their sizes face similar Business Environment and face competition. Small organisation must plan strategies for their

[1 marks for explaining meaning of strategy and 4 marks for explaining the points to be considered while crafting strategy]

Q.9

(a)

To make the changes permanent, 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.

a. Unfreezing the situation:

- Individuals or organizations shall be aware of the necessity for change and prepare people for such a change.
- Changes should not come as a surprise to the members of the organization.
- Unfreezing is the process of breaking down the old attitudes and behaviors, customs and traditions so that they start with a clean slate.
- This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organization.

b. Changing to New situation:

Behavior patterns of members of organization need to be redefined.

- Compliance: It is achieved by strictly enforcing the reward and punishment strategy for good or bad behavior. Fear of punishment, actual punishment or actual reward seems to change behavior for the better.
- Identification: Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behavior they would like to adopt and try to become like them.
- Internalization: Internalization involves some internal changing of the individual's thought processes in order to adjust to a new environment. They have given freedom to learn and adopt new behavior in order to succeed in the new set of circumstances.

c. Refreezing:

- Refreezing occurs when the new behavior becomes a normal way of life.
- The new behavior must replace the former behavior completely for successful and permanent change to take place.
- In order for the new behavior to become permanent, it must be continuously reinforced and policies should be prepared, so that this new acquired behavior does not diminish or extinguish.

Conclusion: Change process is not a one-time application but a continuous process due to dynamism and never changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

[1 mark for introduction, 1 mark for each step along with conclusion]

(b)

Cost leadership strategies means offering a product / service of the same quality at a lower per unit price than the rival firms in the same broad target market. It is a low-cost competitive strategy that aims at broad mass market. It requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Because of its lower costs, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits.

Advantages of Cost Leadership Strategies

1. **Rivalry –** Competitors are likely to avoid a price war, since the low cost firm will continue to earn profits after competitors compete away their profits and enjoy larger market share.
2. **Buyers –** Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.
3. **Suppliers –** Cost leaders are able to absorb greater price increases before it must raise price to customers.
4. **Entry barriers for the new entrants –** Low cost leaders create barriers to market entry through its continuous focus on efficiency and reducing costs.
5. **Substitutes –** Low cost leaders are more likely to lower costs to induce customers to stay with their product, invest to develop substitutes, purchase patents.
6. Cost advantage protects the firm from the adverse effect of the downward trend in the industry.

[1 mark for meaning of cost leadership strategy and 4 marks for advantages (around 5 points)]

Q.10

HRM is the art of procuring, developing and maintaining competent workforce to achieve the goals of an organization in an effective and efficient manner. It is concerned with the most effective use of people to achieve organizational and individual goals.

Internal factors which have a strong influence on employee competence

The organizational factors which have a strong influence on employee competence are-

1. **Recruitment & Selection:** The workforce will be more competent if a firm can successfully identify, attract, and select the most competent applicants. The right person should be appointed to the right job.
2. **Training and Development:** Employee's efficiency and competence will improve if they are well trained to perform their jobs properly. It improves organisations productivity and also reduces employee turnover.
3. **Performance Appraisal:** Performance deficiencies due to lack of competence if identified, can be solved through counseling, coaching or training.
4. **Remuneration:** A firm usually increase the competence of its employees by offering pay and benefit packages that are more attractive than those of their competitors. This will help the firm to attract and retain the most capable people.

[1 mark for meaning of HRM and 4 writing the factors]