



TCS Online

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Mini Mock – Suggested Answers

Strategic Case Study – November 2021 / February 2022

Section 1

Financial Analysts' Comment

As per the Financial Analyst, starting our own data centers will increase future net operating cashflows and therefore profitability. Although having our own data center is going to be costly initially, in the long run, the costs will definitely decrease, given the existence of scale related advantages.

Further, sharing our data center with other game developing companies would open up a new revenue stream as well. However, Pixlwizz needs to closely monitor any additional operating costs that will be incurred due to this venture.

The increased cashflows would mean that Pixlwizz will be in a position to pay higher dividends, which would satisfy our shareholders. Further, the existence of additional revenue will increase profits, which would further increase the share price, thereby strengthening investor confidence.

The increased beta implies that the volatility of Pixlwizz's shares would increase. The current beta of the company stands at 0.71, which is less than 1.00. This indicates that Pixlwizz's stock is relatively low risk, when considered as part of a diversified portfolio. The increased beta (post setting up the data center), will make our stocks riskier, imposing a downward pressure on Pixlwizz's share price.

The higher beta will also increase the cost of equity. This might discourage the board from seeking equity when pursuing expansion imperatives. However, the additional risk will not be a major problem, given the probability for enhanced revenues and profitability in the future. Note that Pixlwizz's systematic risk will be combined with the specific risk, when carrying out day-to-day operations, after setting up the data center.



Director's Salaries

The Remuneration Committee should commence operations with regards to resolving the issue pertaining to directors' salaries. It is legitimate that directors seek for additional remuneration. Yet, the directors should not have a final say in the decision to increase their own salaries. Any conflict of interest will be avoided when directors' salaries are determined by the Remuneration Committee of Pixlwizz, which comprises of Non-Executive Directors.

Alternatively, the board members might feel that they are overburdened with work. Setting up a data center may have made board responsibilities more complex and challenging. Thus, the Remuneration Committee should compare salaries with other comparable (ideally game developing) companies in order to establish the best rate of pay.

It should also be noted that remuneration paid to executive directors should encourage strategic success of Pixlwizz. To attract and retain executive directors who are skilled and competent, Pixlwizz needs to make sure that they are well remunerated. However, the salaries should not be excessive, which could lead to shareholders seeing the directors as greedy individuals, operating out of mere self-interest.

If the directors feel that their workload has increased significantly, the Nomination Committee should consider a board restructuring. If the board members cannot cope with their responsibilities, then at least an additional board appointment should be made.

Further, increasing salaries in relation to increased workload could come to a point where the board members are overstretched and they will not be willing to do anything about it, since they might fear a salary reduction when their workloads are reduced to original limits.



Strategy

As a starting point, Pixlwizz should aim to identify the stakeholders whom it will have to deal with in order to address this criticism.

Pixlwizz should consider how best to deal with the environmentalists, who have high interest in sustainability issues but who have relatively little power of their own. They could, however, harness the power of other stakeholders such as the government.

There is little point in negotiating directly with the environmentalists themselves because they are unlikely to withdraw their complaints about the industry under any circumstances. Indeed, any direct engagement with environmentalists or any of the other lobbyists could simply generate additional adverse publicity.

Pixlwizz should aim to engage directly with these environmentalists through media. Pixlwizz should aim to offer its own perspective of any point raised by environmentalists in order to ensure that the public recognize that Pixlwizz is not necessarily as guilty as suggested of harming the environment.

Pixlwizz should also engage directly with the government. The government has a great deal of power, and it appears that their level of interest is high in this instance, according to the information which appears on the article. The law would clearly not apply to Pixlwizz alone; many others in the industry would be left in a position where their costs would increase. Thus, prices of peripherals such as consoles and gaming devices will rise, at the same time, harming the relationship between us and customers.

There may be ways in which Pixlwizz could make sufficient changes to enable the government to argue that the proposed change in the law is unnecessary. The government could then claim to have taken steps to reduce the problem, enabling it to avoid losing the votes of consumers whose spending power will otherwise be impaired.



Pixlwizz should aim to work with hardware manufacturers, with a view to arguing that it would be necessary for them to relocate, in the event that the proposed law was passed. Other manufacturers will have a high interest and if they work together, should have some power to resist the proposed law.

At the very least, Pixlwizz should be able to count on support from these hardware manufacturers, who would lose this line of revenue. Care should be taken to ensure that the tone of any lobbying is managed carefully to avoid creating the impression that the government is being bullied. The focus should be on protecting the livelihoods of employees and the investment of shareholders.

Further, Pixlwizz should attempt to address the root cause of the criticism. Ideally, it should carry out its own internal investigation to figure out whether the facts which appeared on the magazine is true. If that is the case, Pixlwizz should accept their fault publicly, and inform customers of the steps it will take to reduce the carbon footprint in the future. The information should be publicized on our website as well.

I hope that this information would satisfy your need. Please contact me if you need any further explanations.

Best Regards,
Senior Finance Manager



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Section 2

Strategic Options

Pixlwizz could do nothing at this early stage. It may be that the concerns expressed by the Head of IT security are unfounded. The report by the Head of IT Security raises some alarming possibilities, but there is no direct evidence that the attempt to compromise users had been effective. Doing nothing could create the strategic advantages of avoiding an unnecessary controversy over Pixlwizz's online security. For example, the main target for a thief would be the three-digit security number and it would be extremely foolish for users to have provided that information.

Pixlwizz could contact the major credit card companies and warn them that some of their customers' card details could have been hacked. That would have the strategic advantage of demonstrating a proactive response to the threat, while minimizing the public exposure. Unfortunately, data protection rules would prevent Pixlwizz from releasing the identities of the users whose accounts have been reviewed since this scare began. Pixlwizz would really have to seek the permission of users to share data with designated third parties in response to security threats. Ideally, that should be part of the company's standard terms of business so that permission does not have to be sought.

Pixlwizz could suspend all services until IT Security has had the opportunity to investigate and resolve the events that it is investigating. The strategic advantage of doing so would be that this would be a decisive response that would have the added benefit of preventing any further losses of data until the threat of hacks can be evaluated and eliminated.



Users might be impressed that Pixlwizz is prepared to lose revenue even though there is no way of knowing whether the attack could ever be repeated. The downtime would also make it easier to upgrade the defenses against the repetition of such cyberattacks.

Pixlwizz could make a public admission that warns users that their accounts might have been compromised. This is a strategic decision because of the impact that such an admission might have for Pixlwizz's reputation and the attitude of its users.

To be effective, Pixlwizz would have to issue a full press release and make an explicit post on social media, because the hackers could have interfered with the emails and mobile phone numbers in Pixlwizz's files. Also, time is very much of the essence if the hackers are planning to abuse the customers' credit cards.

The recommended option should fulfil two objectives: it should be an immediate and effective response to the threat of losses and it should maintain Pixlwizz's reputation. The public admission will achieve both of those objectives.

It will minimise future losses by alerting users to contact their card providers immediately. It will also serve as a warning to all users that they should be suspicious of any requests for such details that they may receive in the future. A public admission could also be phrased in such a way as to imply that Pixlwizz is concerned with the welfare of its users and that it is acting to address problems.



Objectives

The Head of IT should be asked to reach a tentative conclusion about the cause of this incident by early afternoon so that the Board can decide what action to take, if any, over the service to be offered during the evening rush hour. It should be made clear that this is a crucial deadline and should indicate the questions to which the Board requires answers. The Head of IT should also be given a clear indication of whether the Board would prefer a tentative answer to no response, if a question cannot be answered with certainty.

The Board also needs to know how long it will take for IT Security to identify the users who have been targeted and the specific data that has been compromised. Users will wish to know immediately whether they need to take action to prevent losses, such as cancelling their credit cards. If that information cannot be released immediately then the next best thing would be for Pixlwizz's Board to make an announcement as to when the facts will be made available. The Head of IT Security will then have to ensure that Pixlwizz's credibility is not further affected by failing to meet any such deadline.

The Head of IT should be asked to prepare a credible report as to the nature of the attack and the methods used by the perpetrators. Specific criteria should be set for the standard of evidence that the Head of IT Security should meet in collating and interpreting the facts. Ideally, the report should be supported by evidence that meets the standards required for criminal prosecutions in case the perpetrators are ever caught and brought to trial.

Finally, the Head of IT Security should be tasked with preparing a plan for preventing a recurrence that stands up to scrutiny by an independent expert or consultant. The quality of the plan will be evaluated on the basis of its ability to offer a proportionate and cost-effective response to each of the weaknesses. The Head of IT Security should be prepared to accept responsibility for the plan, even if he delegated elements of its preparation to members of his staff.



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Best Regards,

Senior Finance Manager



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