

Chapter 1

ANSWERS TO DISCUSSION QUESTIONS

1. What do we mean by *strategy*? How is a business model different from a strategy?

The straightforward answer is the definition presented in the text: “an action a company takes to attain superior performance.” You can also point out to students that strategy involves both thinking and doing. However, a full answer to this question involves a consideration of Mintzberg’s definition of strategy as a pattern in a stream of decisions or actions. From this perspective, strategy is more than what a company intends to do; it is also what it actually does. That is to say, a company’s strategy is the product of (a) that part of its intended strategy that is actually realized and (b) its emergent strategy.

A business model is a representation of how value will be created and delivered to the customer, and where the costs will be incurred to generate the revenues. A strategy is a specific plan followed by action that ensures the consistency of revenues, and provides distinctiveness to a company’s operations and products.

2. What do you think are the sources of sustained superior profitability?

In the plainest terms, sustained superior profitability results when a company is able to increase profits, either by increasing revenues or decreasing expenses or both, and when that ability is difficult or impossible for competitors to imitate. With that in mind, it becomes clear that sustained superior profitability is most likely to occur when the advantages are intangible, such as management insight, disciplined cost cutting by employees, or a culture that nourishes creativity. Intangible resources are much more difficult to imitate than tangible ones, and thus provide a sustainable advantage. However, students should see that no firm can sustain an advantage forever. The advantage itself will tend to weaken over time and competitors will learn to imitate that advantage or develop other advantages of their own that will counteract the power of the original advantage.

3. What are the strengths of formal strategic planning? What are its weaknesses?

A formal strategic planning process results in a systematic review of all the external and internal factors that might have a bearing on the ability of the company to meet its strategic objectives. Formally identifying strengths, weaknesses, opportunities, and threats is a good way of alerting strategic managers to what needs to be done if the firm is to fulfill its strategic mission.

However, like any rational process, strategic planning is limited by the fallibility of human decisionmakers. In particular, strategic managers may fall victim to the phenomenon of groupthink and to their own cognitive biases. Thus supposedly rational decisions can turn out to be anything but rational. This hazard can be minimized, however, if the organization uses decision-making techniques such as devil’s advocacy or dialectic inquiry.

In addition, in a complex and uncertain world characterized by rapid change, strategic plans can become outdated as soon as they are made. In such circumstances, the company’s plan can become a policy straitjacket, committing it to a course of action that is no longer appropriate. Change is something that cannot be insured against. Consequently, flexible, open-ended plans are perhaps the best way of giving the company room to maneuver in response to change. Moreover, consistent vision and strategic intent are probably more

important than detailed strategic plans. The strategies that a company adopts might need to change with the times, but the vision can be more enduring.

4. Discuss the accuracy of this statement: Formal strategic planning systems are irrelevant for firms competing in high-technology industries where the pace of change is so rapid that plans are routinely made obsolete by unforeseen events.

Formal strategic planning systems are not at their best in situations with rapid and unpredictable change. Formal systems are time-consuming, and may not be able to provide answers quickly enough when time is very short. Also, formal systems depend upon detailed estimates and forecasts, which are very difficult to do well when conditions are chaotic.

Nevertheless, formal systems may still be useful in some ways, even in these challenging environments. For example, formal systems are often associated with detailed and directive plans, but they may also be used to prepare flexible, open-ended plans that are more appropriate for rapidly changing environments. Also, the activities of formal planning—gathering data, preparing forecasts, generating and considering multiple alternatives, and so on—are themselves good preparation for making strategic choices, and thus could be useful in any type of environment.

5. Pick the current or a past president of the United States and evaluate his performance against the leadership characteristics discussed in the text. On the basis of this comparison, do you think that the president was/is a good strategic leader? Why?

Answering this question calls for students to rate the president according to the six main characteristics of good strategic leaders discussed in the text. There is no right answer to this question. Students' political biases will undoubtedly color the answers they give. It is the exercise itself that is important. Only with the passage of time will a more objective judgment of a president's leadership skills be possible. For now, however, have a go at answering this question with your students; it will prove instructive.