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**Chapter 2: Analysing business strategy: creating value**

### Learning Objectives

The learning objectives for this chapter are to be able to:

- know the five key questions of business strategy
- identify and analyse the business strategy of an organisation
- understand and define the concepts of customer value, sustainable competitive advantage, value creation, value chain, the value proposition and the business model
- define the concept of key stakeholders and distinguish who the key stakeholders are for a particular organisation
- explain how different organisational types affect business strategy formulation
- understand how sustainability will affect business strategy choices in the future
- understand why a business strategy will evolve dynamically over time

### Multiple Choice Questions

1. The 'odd one out' among these statements is:
  - a. vision and mission
  - b. strategic intent
  - c. tactical foresight
  - d. core purpose

Answ: c

Diff: 1

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AACSB: 3. ANALYTICAL THINKING

2. The five questions (5Qs) of business strategy do NOT include:
  - a. What products and services does the company plan to produce?
  - b. What customer and geographic markets does the company plan to service?
  - c. What generic strategy must the company avoid in a differentiated market?
  - d. What position in the industry does the company plan to hold in the future?

Answ: c

Diff: 3

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AACSB: 8. APPLICATION OF KNOWLEDGE

3. The recommended ways to outperform competitors do NOT include providing a:
  - a. bigger range of products or services
  - b. better range of products or services
  - c. cheaper range of products or services
  - d. different range of products or services

Answ: a

Diff: 2

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AACSB: 8. APPLICATION OF KNOWLEDGE

4. A *vision statement* is a statement that:
- tells it like it is
  - is thorough and exhaustive
  - represents a realistic concept of the short-term position of the company
  - should be memorable and inspire employees

Answ: d

Diff: 1

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AACSB: 8. APPLICATION OF KNOWLEDGE

5. A *mission statement* is a statement that:
- should be used instead of a vision statement
  - was always different from the vision statement
  - over time, became commonly focused on mundane matters
  - operationalises the vision statement for the current business situation

Answ: d

Diff: 2

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AACSB: 8. APPLICATION OF KNOWLEDGE

6. Value is the difference between:
- what the customer pays for and deserves
  - what the 'office of fair trading' decides a customer has a right to expect
  - what the customer pays in costs and receives in benefits
  - the customer's buying price and the company's sale price

Answ: c

Diff: 2

Page: 38

AACSB: 3. ANALYTICAL THINKING

7. Tests for a good business strategy do NOT include the requirement that the strategy:
- creates value for customers
  - will confuse competitors
  - is unique compared with competitors
  - is enduring

Answ: b

Diff: 2

Page: 39, Table 2.1

AACSB: 2. ETHICAL UNDERSTANDING AND REASONING

8. According to Hubbard, Rice and Galvin, competitive advantage is:
- profit maximisation
  - making profits similar to the competitors
  - making more profits than competitors for similar activities
  - achieving bigger market share than the competitors

Answ: c

Diff: 2

Page: 40

AACSB: 7. REFLECTIVE THINKING

9. The value chain of an organisation:
- includes only those activities that are profitable
  - is determined by what competitors choose not to do
  - is the set of activities that the organisation undertakes or organises to deliver the product to the customer

- d. is determined by collaborating firms such that value-adding activities are arranged in a chain of value creation between collaborators

Answ: c

Diff: 1

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AACSB: 8. APPLICATION OF KNOWLEDGE

10. The creation of value for customers requires:
- a. a 'supply side' perspective
  - b. a 'demand side' perspective
  - c. an 'input/output' perspective
  - d. a 'reverse engineering' perspective

Answ: b

Diff: 2

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AACSB: 3. ANALYTICAL THINKING

11. The value proposition rests on the requirement that:
- a. the company can charge what it likes for its products
  - b. the customer is 'price insensitive' to the company's offering
  - c. the company's employees have their own prestige invested in its processes
  - d. the company can supply what the customers want at a price they will pay

Answ: d

Diff: 2

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AACSB: 6. DIVERSE AND MULTICULTURAL WORK ENVIRONMENTS

12. The business model of an organisation:
- a. takes the value proposition and incorporates it into a specific value chain of activities
  - b. is a process for modelling the success of the organisation's strategy
  - c. determines how the organisation will create customer value
  - d. can be difficult to identify in low-cost manufacturing firms

Answ: a

Diff: 1

Pages: 43–44

AACSB: 6. DIVERSE AND MULTICULTURAL WORK ENVIRONMENTS

13. The business strategy process has four distinct stages except:
- a. business strategy
  - b. value proposition
  - c. product development
  - d. business strategy plan
  - e. business model

Answ: c

Diff: 2

Page: 45, Figure 2.8

AACSB: 8. APPLICATION OF KNOWLEDGE

14. Typical 'stakeholders' of an organisation do not include its:
- a. employees
  - b. board of directors
  - c. suppliers
  - d. World Trade Organization

Answ: d                      Diff: 1                      Page: 45  
AACSB: 2. ETHICAL UNDERSTANDING AND REASONING

15. The function(s) of *key stakeholders* is/are to:
- a. constitute the effective corporate governance of the company
  - b. influence the major decisions the company will make
  - c. determine the current and future strategy of the company
  - d. all of the above

Answ: d                      Diff: 1                      Page: 46  
AACSB: 2. ETHICAL UNDERSTANDING AND REASONING

16. In the shareholder value/value-based management theory, management seeks to maximise:
- a. market share
  - b. value for the shareholders
  - c. their retirement benefits
  - d. prices in the marketplace

Answ: b                      Diff: 2                      Page: 46  
AACSB: 8. APPLICATION OF KNOWLEDGE

17. The behavioural theory approach of the firm:
- a. allows for the existence of a variety of stakeholders
  - b. controls the power of strategic stakeholders
  - c. simplifies the process of monitoring strategy
  - d. explains why key stakeholders' differing expectations are always in agreement

Answ: a                      Diff: 3                      Page: 46  
AACSB: 5. INTERPERSONAL RELATIONS AND TEAMWORK

18. Petris argues that public sector organisations can be divided into three types except those:
- a. concerned with profit maximisation
  - b. setting directions
  - c. transforming directions into specific policies and programs
  - d. implementing policies and programs

Answ: a                      Diff: 2                      Page: 48  
AACSB: 6. DIVERSE AND MULTICULTURAL WORK ENVIRONMENTS

19. Petris's model of the 'phases in the strategy-making process in the public sector' does NOT include:
- a. setting direction through strategic frameworks
  - b. consulting with strategic stakeholder groups to achieve working consensus
  - c. transforming strategic frameworks into policies and programs
  - d. implementing policies and programs

Answ: b                      Diff: 1                      Page: 48, Table 2.4  
AACSB: 6. DIVERSE AND MULTICULTURAL WORK ENVIRONMENTS

20. Reasons why business strategy may be misunderstood within an organisation do NOT include:
- a. employees may not be interested in the business strategy
  - b. employees may not understand the business strategy
  - c. employees may not be convinced that the business strategy is right
  - d. employees may get mixed messages from a variety of managers

Answ: c

Diff: 2

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AACSB: 7. REFLECTIVE THINKING

21. Hay and Williamson argued that for a strategy to be effectively understood and accepted:
- a. the strategy should provide *direction* in the form of a worthwhile, relevant goal
  - b. it should help work teams see the *leverage* provided by the interaction of their own tasks and initiatives occurring elsewhere in the organisation
  - c. it can be used by shop stewards as *guidance for tradeoffs* in collective bargaining deals
  - d. it *facilitates communication* by establishing a common language which everyone can use

Answ: d

Diff: 2

Pages: 55–56

AACSB: 8. APPLICATION OF KNOWLEDGE

22. One of the challenges that the emergent strategy approach identifies for planned strategy is:
- a. where possible, involve key stakeholders and managers in setting the strategy
  - b. convince the board of directors and the organisation that the emergent strategy is good
  - c. be flexible when unplanned but valuable opportunities emerge that are inconsistent with the planned direction
  - d. allow for expected problems that will undoubtedly emerge as the organisation tries to implement its plan

Answ: a

Diff: 3

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AACSB: 7. REFLECTIVE THINKING

### True/False Questions

1. Strategy refers to those decisions that have a medium- to long-term impact on the activities of the organisation.

Answ: True

Diff: 1

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AACSB: 3. ANALYTICAL THINKING

2. Strategic analysis is not concerned with the current or existing business strategy.

Answ: False

Diff: 2

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AACSB: 8. APPLICATION OF KNOWLEDGE

3. 'Does the organisation plan to grow?' is an unnecessary first question of business strategy.
- Answ: False                      Diff: 2                      Page: 35  
AACSB: 3. ANALYTICAL THINKING
4. Identifying the current business strategy of an organisation is not always easy.
- Answ: True                      Diff: 1                      Page: 37  
AACSB: 7. REFLECTIVE THINKING
5. A vision statement is a succinct statement that identifies long-term strategic purpose of the organisation.
- Answ: True                      Diff: 1                      Page: 37  
AACSB: 8. APPLICATION OF KNOWLEDGE
6. 'Value' for customers is the additional benefits that are provided by the organisation.
- Answ: False                      Diff: 2                      Page: 38  
AACSB: 8. APPLICATION OF KNOWLEDGE
7. Competitive advantage is not just making a profit.
- Answ: True                      Diff: 1                      Page: 40  
AACSB: 6. DIVERSE AND MULTICULTURAL WORK ENVIRONMENTS
8. A 'demand side' perspective refers to the overall demand for a particular product or service.
- Answ: False                      Diff: 3                      Page: 42  
AACSB: 8. APPLICATION OF KNOWLEDGE
9. According to Kim and Mauborgne, there are four utility levers.
- Answ: False                      Diff: 3                      Page: 44  
AACSB: 8. APPLICATION OF KNOWLEDGE
10. Sustainable business development does not mean the 'triple bottom line' sustainability, but economic sustainability of the business.
- Answ: True                      Diff: 2                      Page: 52  
AACSB: 2. ETHICAL UNDERSTANDING AND REASONING

## Short Answer Questions

1. Why is it difficult to identify the existing business strategy of an organisation? Discuss.

It may often difficult to identify the existing business strategy of an organisation. This is a natural consequence of the wide variety of approaches to the field. Different organisations use different terms and develop different statements (such as vision statement, mission statement, strategic intent or corporate purpose) to articulate the business strategy of the organisations. There is a huge overlap between the various statements across organisations and there appears to have disagreements between the practitioners, consultants and academics as to the definitions of the terms, or the relationship between them. Moreover, research indicates that many companies may have no formal vision or mission statement at all.

However, we can get the essence of the business strategy if the organisation is able to answer the following five questions:

1. What amount of growth and level of profitability does the organisation seek?
2. What products and services does it plan to produce?
3. What customer and geographic markets does it plan to service?
4. What generic strategy does it plan to follow to position itself uniquely against competitors?
5. What position in the industry does it plan to hold in the future?

### AACSB: 8. APPLICATION OF KNOWLEDGE

2. What are the features of a good 'vision statement'? Explain.

A vision statement is a statement that identifies the long-term strategic purpose of the organisation. It should be short and succinct. It should represent a realistic concept of the desired long-term position of the organisation and of the type of organisation the company is trying to create. It should be memorable and it should inspire employees. A vision statement should be future-oriented. It should be enduring, since it is a vision of a long-term future. It should be organisation-specific, not generic; that is, it should not be applicable to its industry rivals. It should paint a mental picture of the organisation in the future.

### AACSB: 3. ANALYTICAL THINKING

3. Who is more important for a strategic planner—shareholders or stakeholders? Comment.

Traditionally, many managers, analysts and strategists argue that the organisation is owned by the shareholders and so it should be run for the benefit of the shareholders only. This was supported by the theory of the firm, or the shareholder value theory, which assumes that shareholders are the only key stakeholders and everything should be done to maximise value for shareholders. However, the importance and role of other key stakeholders (such as employees, communities) apart from shareholders is now widely accepted. The behavioural theory assumes that a variety of stakeholders exist, with varying degrees of power, who are able to influence the strategy of the organisation. Thus, strategic

planners these days consider all the key stakeholders as opposed to only shareholders in their strategic thinking, analysis and action.

AACSB: 5. INTERPERSONAL RELATIONS AND TEAMWORK