



Pearson

Hubbard, Strategic Management, 6e

Chapter 1: What is 'strategy'?

Multiple choice: Choose the one alternative that best completes the statement or answers the question.

1. The definition of strategy provided by this textbook does NOT claim that:
 - A. strategy is about *decision making*
 - B. strategy is about *short-term* impacts of decisions
 - C. strategy is about *implementation* of decisions
 - D. strategy is about *outperforming competitors*

Difficulty: Moderate

AACSB: 7. Application of Knowledge

Learning Outcome: 1.1

Answer: B

2. Hubbard, Rice and Galvin state that the essential question in strategy is why do some organisations:
 - A. seem luckier than others
 - B. maintain their competitive edge longer than others
 - C. perform better than others
 - D. have better CEOs and employees than others

Difficulty: Basic

AACSB: 7. Application of Knowledge

Learning Outcome: 1.1

Answer: C

3. Modern strategic management is based directly on the writings of:

- A. Sun Tzu
- B. Von Clausewitz
- C. Andrews, Ansoff, Christensen, Guth and Learned
- D. Michael Porter

Difficulty: Basic

AACSB: 7. Application of Knowledge

Learning Outcome: 1.2

Answer: C

4. Ansoff's model of strategy proposed in his 1965 book on corporate planning was criticised because it:

- A. is linear
- B. relies on strong market signals
- C. presumes that all strategic information is available to top management
- D. presumes that the future is closely related to the past

Difficulty: Moderate

AACSB: 3. Analytical Thinking

Learning Outcome: 1.2

Answer: B

5. In 1985 Michael Porter suggested three generic strategies:

- A. low delivered cost, differentiation and focus
- B. low price, differentiation and focus
- C. low production cost, high quality and focus
- D. low cost, differentiation and targeting

Difficulty: Basic

AACSB: 7. Application of Knowledge

Learning Outcome: 1.2

Answer: A

6. According to the knowledge-based view of strategy, which of the following is NOT considered as an important organisational resource?

- A. Operational know-how
- B. Organisational culture
- C. Financial resources
- D. Routines

Difficulty: Moderate

AACSB: 7. Application of Knowledge

Learning Outcome: 1.2

Answer: C

7. De Geus argued that the main reason most organisations did not survive for very long was that they had:

- A. limited experience
- B. poorly trained employees
- C. outdated technology
- D. a learning disability

Difficulty: Moderate

AACSB: 7. Application of Knowledge

Learning Outcome: 1.2

Answer: D

8. Stakeholder-based theories argue that organisations have a responsibility to be socially responsible and to promote the best interests of:

- A. shareholders
- B. local communities
- C. the natural environment

D. all of the above

Difficulty: Moderate

AACSB: 3. Analytical Thinking

Learning Outcome: 1.2

Answer: D

9. Differences between traditional economics and strategy do NOT include an assumption that:

- A. market equilibrium will be reached through the pricing mechanism
- B. all companies have unique information
- C. transaction costs are zero
- D. there are many competitors in most markets

Difficulty: Moderate

AACSB: 7. Application of Knowledge

Learning Outcome: 1.3

Answer: B

10. It is NOT an assumption of organisational theory that:

- A. the fundamental unit of analysis is the individual
- B. individuals have different attitudes due to environment and heredity
- C. organisational characteristics influence individual behaviour
- D. organisational goals arise from interactions between it and individuals

Difficulty: Moderate

AACSB: 7. Application of Knowledge

Learning Outcome: 1.3

Answer: D

11. In the resource-based view of strategy, the set of conditions leading to sustainable competitive advantage is that the organisation's resources are:

- A. valuable, rare, imperfectly imitable and unique
- B.invaluable, common, imperfectly imitable and difficult to substitute
- C. valuable, common, perfectly imitable and difficult to substitute
- D. valuable, rare, imperfectly imitable and easy to substitute

Difficulty: Moderate

AACSB: 7. Application of Knowledge

Learning Outcome: 1.3

Answer: A

12. As a consequence of a wide range of theories being applied to the field of strategy, we can conclude that:
- A. there is considerable overlap between different perspectives
 - B.there are significant differences in emphasis
 - C. the solutions proposed by each perspective are likely to be different
 - D. all of the above

Difficulty: Complex

AACSB: 7. Application of Knowledge

Learning Outcome: 1.3

Answer: D

13. The three levels of strategy are:
- A. functional, business, corporate
 - B.global, national, corporate
 - C. external, internal, individual
 - D. industry, corporation, divisional

Difficulty: Basic

AACSB: 7. Application of Knowledge

Learning Outcome: 1.4

Answer: A

14. The three levels of strategy are essential for:

- A. all types of organisations
- B. only large firms
- C. multi-business organisations
- D. global organisations only

Difficulty: Moderate

AACSB: 7. Application of Knowledge

Learning Outcome: 1.4

Answer: C

15. The acronym ESC in 'ESC gap analysis model' stands for:

- A. environmentally sustainable capability
- B. economics–sociology–culture
- C. environment–strategy–capacity
- D. environment–strategy–capability

Difficulty: Moderate

AACSB: 7. Application of Knowledge

Learning Outcome: 1.5

Answer: D

16. In the business strategy model proposed by Hubbard, Rice and Galvin:

- A. performance assessment comes before performance measurement
- B. performance comes before implementation
- C. implementation comes after gap analysis
- D. decision-making comes after performance

Difficulty: Basic

AACSB: 7. Application of Knowledge

Learning Outcome: 1.5

Answer: C

17. The balanced scorecard approach assesses organisational performance relative to:
- A. external consistency of business strategy
 - B. achievement of business strategy
 - C. capabilities of the organisation
 - D. expectations of the key stakeholders
 - E. all of the above

Difficulty: Complex

AACSB: 7. Application of Knowledge

Learning Outcome: 1.5

Answer: E

18. One basis for a difference in strategy in smaller countries is:
- A. access to export markets
 - B. lack of cooperation between state and federal governments
 - C. foreign capital market manipulation
 - D. political systems

Difficulty: Basic

AACSB: 5. Diverse and multicultural work environments

Learning Outcome: 1.6

Answer: D

19. Countries with small populations and small economies have many factors in common. Which of the following is one of these factors?
- A. Small, compact cars
 - B. Small government policy role
 - C. Small schools

D. Small local markets

Difficulty: Basic

AACSB: 5. Diverse and multicultural work environments

Learning Outcome: 1.6

Answer: D

20. Which of the following is the most likely factor to be unique to each country and affects the opportunities available to organisations originating in that particular country?

- A. Individual/national values
- B. Limited capital markets
- C. Central role of government
- D. Small local markets

Difficulty: Moderate

AACSB: 5. Diverse and multicultural work environments

Learning Outcome: 1.6

Answer: A

True/False Questions

21. Strategy is solely about businesses and corporations.

- A. True
- B. False

Difficulty: Moderate

AACSB: 5. Diverse and multicultural work environments

Learning Outcome: 1.1

Answer: False

22. The essential question in strategy is to maximise profitability.

- A. True

B. False

Difficulty: Basic

AACSB: 2. Ethical Understanding and Reasoning

Learning Outcome: 1.1

Answer: False

23. The first model of strategy developed at Harvard Business School proposed an exclusive role for the CEO.

A. True

B. False

Difficulty: Moderate

AACSB: 3. Analytical Thinking

Learning Outcome: 1.2

Answer: False

24. The Boston Consulting Group (BCG) developed a 2 x 2 business portfolio matrix.

A. True

B. False

Difficulty: Basic

AACSB: 3. Analytical Thinking

Learning Outcome: 1.2

Answer: False

25. Cooperative strategy envisages groups of firms competing with one another.

A. True

B. False

Difficulty: Basic

AACSB: 7. Application of Knowledge

Learning Outcome: 1.2

Answer: True

26. Sustainability is defined as development that meets the needs of current shareholders without compromising the ability to meet their needs in the future.

A. True

B. False

Difficulty: Moderate

AACSB: 2. Ethical Understanding and Reasoning

Learning Outcome 1.3

Answer: False

27. According to agency theory, organisational underperformance is due to excessive competition.

A. True

B. False

Difficulty: Basic

AACSB: 3. Analytical Thinking

Learning Outcome: 1.3

Answer: False

28. There are three levels of strategy.

A. True

B. False

Difficulty: Basic

AACSB: 3. Analytical Thinking

Learning Outcome: 1.4

Answer: True

29. All organisations must have the three levels of strategy.

A. True

B. False

Difficulty: Moderate

AACSB: 5. Diverse and multicultural work environments

Learning Outcome: 1.4

Answer: False

30. To understand and assess the business strategy properly, an understanding of the history of the organisation is necessary, including an understanding of its values.

- A. True
- B. False

Difficulty: Basic

AACSB: 7. Application of Knowledge

Learning Outcome: 1.5

Answer: True

31. Performance of an organisation is based solely on financial performance.

- A. True
- B. False

Difficulty: Moderate

AACSB: 7. Application of Knowledge

Learning Outcome: 1.5

Answer: False

32. The Chinese have a word – *guanxi* – that relates to the importance of relationships, reciprocity and connections in getting business done.

- A. True
- B. False

Difficulty: Moderate

AACSB: 5. Diverse and multicultural work environments

Learning Outcome: 1.6

Answer: True

33. One view to explain why strategy might be different in countries with smaller economies is that separate sets of values and rules for different countries or geographic regions are simply due to each being at a different stage of transition to Western capitalism.

- A. True
- B. False

Difficulty: Moderate

AACSB: 5. Diverse and multicultural work environments

Learning Outcome: 1.6

Answer: True

Short Answer Questions: Write your answer in the space provided or on a separate sheet of paper.

34. What is 'strategy'? Is it relevant to all types of organisations?

Difficulty: Moderate

AACSB: 1. Written and Oral Communication

Learning Outcome 1.1

Answer: Strategy is defined in many different ways. We define strategy as those decisions that have high medium-term to long-term impact on the activities of the organisation, including the analysis leading to the resourcing and implementation of those decisions, to create value for key stakeholders and to outperform competitors. The strategy is to assist an organisation to achieve its long-term aims. The essential question in strategy is to understand why some organisations perform better than others.

Strategy is relevant to all types of organisations regardless of their size (large and small), ownership structure (private and public) and aim (profit and not-for-profit). The development and focus of strategy will, however, vary according to organisation type. For businesses, profits and shareholders are more important than for other types of organisations, but for stakeholders, performance and beating competitors (current or potential) are important for all organisations.

35. Should strategy development be the exclusive task of the CEO? Evaluate.

Difficulty: Complex

AACSB: 1. Written and Oral Communication

Learning Outcome: 1.2

Answer: The essence of the early strategic management model developed by academics at Harvard Business School was to match the internal resources and capabilities of the organisation with the demands of the environment. According to the model, crafting the resulting organisational strategy was seen as the province of the CEO. The CEO had to evaluate the organisation's position, decide which strategy to choose and arrange for implementation of that strategy. This model was appropriate for developing strategy in a generally favourable post-World War II environment, where satisfying demand was a major theme for most organisations.

In today's increasingly uncertain business environment, strategic thinking, analysis and action are considered critical for organisational survival. Organisations currently expect that everyone

within the organisation understands the strategy. Managers at all levels are expected to have strategic skills and to be able to think strategically as part of their position, rather than having to rely solely on the CEO, strategy specialists or strategy departments for strategy development.

36. Explain the concept of ‘sustainability’. Is it relevant for only the shareholders?

Difficulty: Basic

AACSB: 1. Written and Oral Communication

Learning Outcome 1.2

Answer: Sustainability is defined as development that meets the needs of stakeholders without compromising the ability to meet their needs in the future. ‘Sustainable development’ implies that the practices of the organisation (or society) can be continued into the future without having overall negative effects on the planet.

Sustainable development considers that organisations have a responsibility to promote the best interests of all of their stakeholders, including other parties with an interest in the firm and its operations (e.g. local communities, employees and the natural environment), not just shareholders.

37. Explain how agency theory relates to an organisation’s managers.

Difficulty: Moderate

AACSB: 1. Written and Oral Communication

Learning Outcome: 1.3

Answer: Agency theory considers that the managers of the organisation are agents for the owners. It argues that managers will act opportunistically, so that controls or incentives must be established to encourage them to act in the interests of the owners – the shareholders. An agency theory approach to the common strategic issue would regard underperformance as a problem either of managers not having sufficient incentives or there being insufficient controls over managers. By providing sufficient incentives to managers, they would be expected to develop an appropriate strategy and solve the lack of required capabilities.

38. Briefly explain the three levels of strategy.

Difficulty: Moderate

AACSB: 1. Written and Oral Communication

Learning Outcome: 1.4

Answer: There are three levels of strategy: corporate, business and functional. Corporate strategy deals with issues related to the portfolio mix of businesses held by a multi-business organisation/corporation. Business strategy deals with how one particular organisation positions

itself relative to its competitors to create sustainable competitive advantage within its industry. Most strategic issues exist at the business level. Functional strategy deals with how each function of the business will contribute towards achieving the business strategy that has been set. The three levels of strategy should be consistent with each other.

39. What does the analysis of the current business strategy of an organisation involve?

Difficulty: Moderate

AACSB: 1. Written and Oral Communication

Learning Outcome 1.5

Answer: The analysis of the current business strategy of an organisation involves assessing the statements of the organisation such as its vision and/or mission in order to understand which customers and markets it is targeting, what sustainable competitive advantage it is trying to create to deliver value to them and what position in the industry it is trying to achieve. The analysis also involves identifying the *key stakeholders* of the organisation and evaluating their expectations, since they are the ones who are able to influence the current and future business strategy of the organisation. To understand and assess the business strategy properly, an understanding of the history of the organisation is necessary, including an understanding of its values.

40. Why are the differences between strategies of organisations in small economy countries compared with large economy countries?

Difficulty: Moderate

AACSB: 1. Written and Oral Communication

Learning Outcome 1.6

Answer: Organisations in countries with large domestic economies can pursue strategies of economies of scale, but organisations in small economy countries are quite unlikely to find that country dominance will translate into any scale economies at the international level.

The political, economic and social infrastructure of countries clearly varies. The situation in most countries is different from that in the United States of large markets, many competitors, limited government intervention, and open and transparent capital markets, which is implicitly assumed by theories and mainstream case and business examples. This means that, in smaller countries, an emphasis on costs and economies of scale is less important and less feasible for international competition than for US companies. Focus and differentiation are more important, as is managing government relationships.