

## CHAPTER 2— STRATEGIC PLANNING

### MULTIPLE CHOICE

1. \_\_\_\_\_ is a process that helps managers identify desired outcomes and formulate feasible plans to achieve their objectives by using available resources and capabilities.

- a. Strategic planning
- b. Functional planning
- c. Operational planning
- d. Contingency planning

ANS: A

RATIONALE: Strategic planning is a process that helps managers identify desired outcomes and formulate feasible plans to achieve their objectives by using available resources and capabilities. The strategic plan must take into account that the organization and everything around it is changing.

2. Identify a benefit of strategic planning.

- a. Provides steps to increase the effective capacity of the operation to meet the requirements
- b. Provides developed steps to identify inefficiencies in the operation and production sector of an organization
- c. Provides control mechanisms to assure effective implementation of the actions at the middle or lower level of management
- d. Provides a framework and a clearly defined direction to guide decision making at all levels throughout the organization

ANS: D

RATIONALE: Strategic planning is a process that helps managers identify desired outcomes and formulate feasible plans to achieve their objectives by using available resources and capabilities. It provides a framework and a clearly defined direction to guide decision making at all levels throughout the organization.

3. \_\_\_\_\_ improves communication among management and the board of directors, shareholders, and other interested parties in an organization.

- a. Tactical planning
- b. Strategic planning
- c. Operational planning
- d. Contingency planning

ANS: B

RATIONALE: Strategic planning is a process that helps managers identify desired outcomes and formulate feasible plans to achieve their objectives by using available resources and capabilities. It improves communication among management and the board of directors, shareholders, and other interested parties in an organization.

4. Identify the type of planning used to develop multiple-year plans based on a situational analysis, competitive assessments, and external factors of the organization.

- a. Operational planning
- b. Functional planning
- c. Strategic planning
- d. Contingency planning

ANS: C

RATIONALE: Strategic planning is a process that helps managers identify desired outcomes and formulate feasible plans to achieve their objectives by using available resources and capabilities.

Organizations develop multiple-year plans based on a situational analysis, competitive assessments, consideration of factors external to the organization, and an evaluation of strategic options.

5. The \_\_\_\_\_ of an organization makes long-term decisions and has an ultimate responsibility for strategic planning.

- a. chief executive officer (CEO)
- b. chief information officer (CIO)
- c. chief financial officer (CFO)
- d. chief technical officer (CTO)

ANS: A

RATIONALE: The CEO of an organization must make long-term decisions about where the organization is headed and how it will operate, and has ultimate responsibility for strategic planning. The CEO must thoroughly understand the analysis and be heavily involved in setting high-level business objectives and defining strategies.

6. \_\_\_\_\_ strategic planning begins by identifying and analyzing key problems that face the organization, setting strategies to address those problems, and identifying projects and initiatives that are consistent with those strategies.

- a. Organic
- b. Issues-based
- c. Goals-based
- d. Contingency

ANS: B

RATIONALE: There are a variety of strategic planning approaches, including issues based, organic, and goals based. Issues-based strategic planning begins by identifying and analyzing key problems that face the organization, setting strategies to address those problems, and identifying projects and initiatives that are consistent with those strategies.

7. What is the key function of organic strategic planning?

- a. To define an organization's vision and values
- b. To identify and analyze key issues faced by an organization
- c. To perform SWOT (strengths, weaknesses, opportunities, and threats) analysis of an organization
- d. To prepare a historical perspective that summarizes an organization's development

ANS: A

RATIONALE: There are a variety of strategic planning approaches, including issues based, organic, and goals based. Organic strategic planning defines an organization's vision and values and then identifies projects and initiatives to achieve the vision while adhering to the values.

8. Which strategic planning begins by performing a situation analysis to identify an organization's strengths, weaknesses, opportunities, and threats?

- a. Issues-based strategic planning
- b. Goals-based strategic planning
- c. Organic strategic planning
- d. Contingency strategic planning

ANS: B

RATIONALE:Goals-based strategic planning begins by performing a situation analysis to identify an organization's strengths, weaknesses, opportunities, and threats.Next, management sets direction for the organizationby defining its mission, vision, values, objectives, and goals.

9. Identify the strategic planning whose major phases include analyzing the situation, setting direction, defining strategies, and deploying plan.
- Organic strategic planning
  - Issues-based strategic planning
  - Goals-based strategic planning
  - Contingency strategic planning

ANS: C

RATIONALE:Goals-based strategic planning is a multiphase strategic planning process that begins by performing a situation analysis to identify an organization's strengths, weaknesses, opportunities, and threats. Next, management sets direction for the organization by defining its mission, vision, values, objectives, and goals.The major phases in goals-based strategic planning are analyze situation, set direction, define strategies, and deploy plan.

10. Which of the following is an excellent way to begin the first phase of strategic planning?
- To track the progress of organization's goals and objectives
  - To create a set of strategies that will garner committed supporters across the organization
  - To identify and analyze key issues faced by the organization
  - To prepare a historical perspective that summarizes the organization's development

ANS: D

RATIONALE: The major phases in goals-based strategic planning are: analyze situation, set direction, define strategies, and deploy plan. All levels and business units of an organization must be involved in assessing its strengths and weaknesses. Preparing a historical perspective that summarizes the company's development is an excellent way to begin the first phase of strategic planning.

11. Which of the following models is used to assess the nature of industry competition?
- Porter's Five Forces Model
  - McKinsey 7S model
  - Pareto analysis
  - DuPont analysis

ANS: A

RATIONALE:The most frequently used model for assessing the nature of industry competition is Michael Porter's Five Forces Model. It has five fundamental factors to determine the level of competition and long-term profitability of an industry.

12. Identify a factor that determines the level of competition and long-term profitability of an industry.
- The degree of rivalry between competitors is low in industries with many equally sized competitors.
  - The threat of substitute products can increase the profitability of industry competitors.
  - The bargaining power of suppliers doesn'taffect the industry's profitability.
  - The threat of new competitors raises the level of competition.

ANS: D

RATIONALE: The threat of new competitors will raise the level of competition. Entry barriers determine the relative threat of new competitors. These barriers include the capital required to enter the industry and the cost to customers to switch to a competitor.

13. A \_\_\_\_\_ is used for the analysis of the internal assessment and external environment of the firm.

- a. SWOT matrix
- b. transpose matrix
- c. XOR matrix
- d. scalar matrix

ANS: A

RATIONALE: The analysis of the internal assessment and external environment is summarized in a strengths, weaknesses, opportunities, threats (SWOT) matrix. The SWOT matrix is a simple way to illustrate what the firm is doing well, where it can improve, what opportunities are available, and what environmental factors threaten the future of the organization.

14. Which planning requires a careful study of the external environment surrounding the organization and assessing where the organization fits within it?

- a. Operational planning
- b. Contingency planning
- c. Functional planning
- d. Strategic planning

ANS: D

RATIONALE: Strategic planning requires careful study of the external environment surrounding the organization and assessing where the organization fits within it. The analysis begins with an examination of the industry in which the organization competes: What is the size of the market? How fast is it growing or shrinking? What are the significant industry trends?

15. During which phase of goals-based strategic planning, a multitude of data is gathered about internal processes and operations, including survey data from customers and suppliers and other objective assessments of an organization?

- a. Analyze situation phase
- b. Set direction phase
- c. Define strategies phase
- d. Deploy plan phase

ANS: A

RATIONALE: During the analyze phase, a multitude of data is gathered about internal processes and operations, including survey data from customers and suppliers and other objective assessments of an organization. The collected data is analyzed to identify and assess how well the firm is meeting current objectives and goals, and how well its current strategies are working. This process identifies many of the strengths and weaknesses of the firm.

16. Which of the following phases of goals-based strategic planning defines the mission, vision, values, objectives, and goals of an organization?

- a. Situation analyzing phase
- b. Direction setting phase
- c. Strategy defining phase
- d. Plan deploying phase

ANS: B

RATIONALE: The direction setting phase of strategic planning involves defining the mission, vision, values, objectives, and goals of the organization. Determining these will enable identification of the proper strategies and projects.

17. A \_\_\_\_\_ communicates an organization's overarching aspirations to guide it through changing objectives, goals, and strategies.

- a. SWOT matrix
- b. vision/mission statement
- c. core statement
- d. periodic matrix

ANS: B

RATIONALE: A vision/mission statement communicates an organization's overarching aspirations to guide it through changing objectives, goals, and strategies. The organization's vision/mission statement forms a foundation for making decisions and taking action.

18. Which of the following statements defines an organization's fundamental purpose for existing?

- a. Mission statement
- b. Vision statement
- c. Design statement
- d. Structured statement

ANS: A

RATIONALE: The mission statement concisely defines the organization's fundamental purpose for existing. It is usually stated in a challenging manner to inspire employees, customers, and shareholders. The most effective vision/mission statements inspire and require employees to stretch to reach its goals.

19. An organization's \_\_\_\_\_ is a concise statement of what the organization intends to achieve in the future.

- a. objective
- b. mission
- c. vision
- d. logo

ANS: C

RATIONALE: An organization's vision is a concise statement of what the organization intends to achieve in the future. The most effective vision/mission statements inspire and require employees to stretch to reach its goals.

20. \_\_\_\_\_ identify a few widely accepted principles that guide how people behave and make decisions in the organization.

- a. Vision statements
- b. Mission statements
- c. Core values
- d. Goals

ANS: C

RATIONALE: Core values identify a few widely accepted principles that guide how people behave and make decisions in the organization. They help in making decisions that benefit the organization.

21. A(n) \_\_\_\_\_ is a statement of a compelling business need that an organization must meet to achieve its vision and mission.

- a. mission
- b. objective
- c. tagline
- d. logo

ANS: B

RATIONALE: The terms objective and goal are frequently used interchangeably. An objective is a statement of a compelling business need that an organization must meet to achieve its vision and mission.

22. A \_\_\_\_\_ is a specific result that must be achieved to reach an objective.

- a. tagline
- b. mission
- c. vision
- d. goal

ANS: D

RATIONALE: A goal is a specific result that must be achieved to reach an objective.

23. \_\_\_\_\_ track progress in meeting an organization's objectives and help managers determine if a specific objective is being achieved.

- a. Goals
- b. Taglines
- c. Headlines
- d. Results

ANS: A

RATIONALE: A goal is a specific result that must be achieved to reach an objective. Goals track progress in meeting an organization's objectives. They help managers determine if a specific objective is being achieved.

24. \_\_\_\_\_ may be daunting and perhaps risky, but the challenge of it grabs people in the gut and gets their juices flowing and creates tremendous forward momentum. Such goals are achieved through a breakthrough in the organization's products or services.

- a. BHAGs (Big Hairy Audacious Goals)
- b. SMART (Specific, Measurable, Achievable, Relevant, Time constrained) goals
- c. Business efficiency goals
- d. Short-term goals

ANS: A

RATIONALE: Some organizations encourage their managers to set Big Hairy Audacious Goals (BHAGs) that require a breakthrough in the organization's products or services to achieve. Such a goal "may be daunting and perhaps risky, but the challenge of it grabs people in the gut and gets their juices flowing and creates tremendous forward momentum."

25. \_\_\_\_\_ are easy to understand, easy to track, and contribute real value to the organization.
- a. Mission statements
  - b. SMART goals
  - c. Core values
  - d. Taglines

ANS: B

RATIONALE: The principal advantage of SMART goals is that they are easy to understand, are easily tracked, and contribute real value to the organization. The use of so called SMART goals has long been advocated by management consultants.

26. Which of the following goals use action verbs and have a much greater chance of being understood and accomplished?
- a. Vague goals
  - b. Specific goals
  - c. Generalized goals
  - d. Measurable goals

ANS: B

RATIONALE: Specific goals have a much greater chance of being understood and accomplished than vague goals. Specific goals use action verbs and specify who, what, when, where, and why.

27. \_\_\_\_\_ goals contains numeric or descriptive measures that define criteria such as quantity and cost so that progress toward meeting the goal can be determined.
- a. Measurable
  - b. Specific
  - c. Generalized
  - d. Vague

ANS: A

RATIONALE: Measurable goals include numeric or descriptive measures that define criteria such as quantity, quality, and cost so that progress toward meeting the goal can be determined. The principal advantage of SMART goals is that they are easy to understand, are easily tracked, and contribute real value to the organization.

28. A(n) \_\_\_\_\_ describes how an organization will achieve its vision, mission, objectives, and goals.
- a. strategy
  - b. result
  - c. operation
  - d. process

ANS: A

RATIONALE: A strategy describes how an organization will achieve its vision, mission, objectives, and goals. Selecting a specific strategy focuses and coordinates an organization's resources and activities from the top down to accomplish its mission.

29. Identify a frequently used theme by an organization in setting strategies.
- a. Decrease customer preferences
  - b. Decrease revenue
  - c. Attract and retain new customers
  - d. Increase delivery time

ANS: C

RATIONALE: Frequently used themes in setting strategies include increase revenue, attract and retain new customers, increase customer loyalty, and reduce the time required to deliver new products to market. In choosing from alternative strategies, managers should consider the long-term impact of each strategy on revenue and profit, the degree of risk involved, the amount and types of resources that will be required, and the potential competitive reaction.

30. The strategic planning process for an information technology organization and the factors that influence it depend on:

- a. how the organization is perceived by the rest of the organization.
- b. the amount of autonomy granted to the lower-level units.
- c. the leadership style and capabilities of the managers in charge of each unit.
- d. how the organization sets its strategies and objectives.

ANS: A

RATIONALE: The strategic planning process for an information technology (IT) organization and the factors that influence it depend on how the organization is perceived by the rest of the organization. An IT organization can be viewed as either a cost center/service provider, a business partner/business peer, or as a game changer.

31. When the strategic planning process of an organization is directed inward, the IT organization is viewed as a \_\_\_\_\_.

- a. cost center/service provider
- b. business partner
- c. game changer
- d. dealer

ANS: A

RATIONALE: When the strategic planning process of an organization is directed inward, the IT organization is viewed as a cost center/service provider. The strategic planning process for such an organization is typically directed inward and focused on determining how to do what it is currently doing but cheaper, faster, and better.

32. When the strategic planning process of an organization is directed outward, the IT organization is viewed as a \_\_\_\_\_.

- a. cost center provider
- b. business partner
- c. game changer
- d. service provider

ANS: C

RATIONALE: When the strategic planning process of an organization is directed outward, the IT organization is viewed as a game changer. Their strategic planning involves meeting with customers, suppliers, and leading IT consultants and vendors. In such organizations, IT is not only a means for implementing business defined objectives, but also a catalyst for achieving new business objectives unreachable without IT.

33. Which project type creates a competitive advantage that enables the organization to earn a greater than normal return on investment than its competitors?

- a. Innovation



- b. Breakthrough
- c. Enhancement
- d. Maintenance

ANS: B

RATIONALE: Breakthrough creates a competitive advantage that enables the organization to earn a greater than normal return on investment than its competitors. It has a very high risk of failure and potential business disruption.

34. Identify a project type that generates substantial new revenue or profits for the firm.

- a. Breakthrough
- b. Enhancement
- c. Maintenance
- d. Growth

ANS: D

RATIONALE: Growth is a project type that generates substantial new revenue or profits for the firm. It has a high risk of failure and potential business disruption.

35. Which project type explores the use of technology (or a new technology) in a new way?

- a. Breakthrough
- b. Mandatory
- c. Innovation
- d. Maintenance

ANS: C

RATIONALE: Innovation is a project type explores the use of technology (or a new technology) in a new way. Innovation risks can be managed by setting cost limits, establishing an end date, and defining criteria for success.

36. \_\_\_\_\_ is a project type that upgrades an existing system to provide new capabilities that meet new business needs.

- a. Enhancement
- b. Mandatory
- c. Innovation
- d. Breakthrough

ANS: A

RATIONALE: Enhancement is a project type that upgrades an existing system to provide new capabilities that meet new business needs. It makes it difficult to control cost and schedule.

37. Which of the following project types implements changes to an existing system to enable operation in a different technology environment?

- a. Enhancement
- b. Innovation
- c. Maintenance
- d. Innovation

ANS: C

RATIONALE: Maintenance is a project type that implements changes to an existing system to enable operation in a different technology environment. For example, underlying changes in hardware, operating

systems, or database managementsystems.

38. Identify a project type that meets the requirements of a legal entity or regulatory agency.

- a. Mandatory
- b. Enhancement
- c. Innovation
- d. Breakthrough

ANS: A

RATIONALE: Mandatory is a project type that is needed to meet requirements of a legal entity or regulatory agency. The risk factors associated with the mandatory project type may be difficult to define tangible benefits.

39. Identify the type of project that manages the risks involved in it by setting cost limits, establishing an end date, and defining criteria for success.

- a. Enhancement
- b. Maintenance
- c. Innovation
- d. Mandatory

ANS: C

RATIONALE: In the innovation project type, the risks involved can be managed by setting cost limits, establishing an end date, and defining criteria for success. It explores the use of technology (or a new technology) in a new way.

40. Which of the following project types involves high cost, very high risk of failure, and potential business disruption?

- a. Breakthrough
- b. Maintenance
- c. Enhancement
- d. Mandatory

ANS: A

RATIONALE: The risk factors associated with breakthrough and growth project types are high cost, very high risk of failure, and potential business disruption. It creates a competitive advantage that enables the organization to earn a greater than normal return on investment than its competitors.

41. \_\_\_\_\_ benefits can be measured directly and assigned a monetary value.

- a. Tangible
- b. Intangible
- c. Abstract
- d. Conceptual

ANS: A

RATIONALE: Tangible benefits can be measured directly and assigned a monetary value. For example, the number of staff before and after the completion of an initiative can be measured, and the monetary value is the decrease in staff costs, such as salary, benefits, and overhead.

42. Which of the following is true about intangible benefits?

- a. They can be measured directly.

- b. They cannot be measured directly.
- c. They are assigned a monetary value.
- d. They can be quantified in monetary terms.

ANS: B

RATIONALE: Intangible benefits cannot directly be measured and cannot easily be quantified in monetary terms. For example, an increase in customer satisfaction due to an initiative is important but is difficult to measure and cannot easily be converted into a monetary value.

43. Which of the following is an example of tangible benefits?
- a. Decrease in staffing costs
  - b. Customer satisfaction
  - c. Customer service
  - d. Vendor relationship

ANS: A

RATIONALE: Tangible benefits can be measured directly and assigned a monetary value. For example, the number of staff before and after the completion of an initiative can be measured, and the monetary value is the decrease in staff costs, such as salary, benefits, and overhead.

44. Identify an example of intangible benefits.
- a. Increase in salary
  - b. Increase in allowance
  - c. Increase in the number of staff
  - d. Increase in customer satisfaction

ANS: D

RATIONALE: Intangible benefits cannot directly be measured and cannot easily be quantified in monetary terms. Customer satisfaction is an example of intangible benefits.

**TRUE/FALSE:**

1. The strategic plan must take into account that the organization and everything around it is changing.

ANS: True

RATIONALE: The strategic plan must take into account that the organization and everything around it is changing. For example, change in consumers' likes and dislikes; fluctuation in the costs and availability of raw materials and labor, and variation in the degree of industry and government regulations.

2. The threat of substitute products can boost the profitability of an organization's competitors.

ANS: False

RATIONALE: The threat of substitute products can lower the profitability of industry competitors. The willingness of buyers to switch and the relative cost and performance of substitutes are key factors in this threat.

3. An effective strategy derives from maximizing a firm's strengths and opportunities and minimizing its weaknesses and threats.

ANS: True

RATIONALE: The analysis of the internal assessment and external environment is summarized into a Strengths, Weaknesses, Opportunities, Threats (SWOT) matrix. The technique is based on the assumption that an effective strategy derives from maximizing a firm's strengths and opportunities and minimizing its weaknesses and threats.

4. In an organization, the internal assessment identifies most of the opportunities and threats.

ANS: False

RATIONALE: In an organization, the internal assessment identifies most of the strengths and weaknesses, while the analysis of the external environment uncovers most of the opportunities and threats.

5. An organization's vision/mission statement forms the foundation for making decisions and taking action.

ANS: True

RATIONALE: An organization's vision/mission statement forms a foundation for making decisions and taking action. The most effective vision/mission statements inspire and require employees to stretch to reach its goals. These statements seldom change once they are formulated.

6. The goal of an organization states what must be accomplished, and the associated objectives specify how to determine whether the goal is being met.

ANS: False

RATIONALE: A goal is a specific result that must be achieved to reach an objective. In fact, several goals may be associated with a single objective. The objective states what must be accomplished, and the associated goals specify how to determine whether the objective is being met.

7. The entire burden of achieving alignment between the business and information technology (IT) is placed solely on the IT organization.

ANS: False

RATIONALE: The entire burden of achieving alignment between the business and IT cannot be placed solely on the IT organization.

8. Intangible benefits can be measured directly and assigned a monetary value.

ANS: False

RATIONALE: Tangible benefits can be measured directly and assigned a monetary value. For example, the number of staff before and after the completion of an initiative can be measured, and the monetary value is the decrease in staff costs, such as salary, benefits, and overhead.

9. Intangible benefits cannot directly be measured and cannot easily be quantified in monetary terms.

ANS: True

**RATIONALE:** Intangible benefits cannot directly be measured and cannot easily be quantified in monetary terms. For example, an increase in customer satisfaction due to an initiative is important but is difficult to measure and cannot easily be converted into a monetary value.

10. The degree of rivalry between competitors is high in industries with many equally sized competitors.

**ANS:** True

**RATIONALE:** The degree of rivalry between competitors is high in industries with many equally sized competitors.

**ESSAY:**

1. List out three benefits of strategic planning.

**Answer:** Strategic planning is a process that helps managers identify desired outcomes and formulate feasible plans to achieve their objectives by using available resources and capabilities. The following is a set of frequently cited benefits of strategic planning:

- Provides a framework and a clearly defined direction to guide decision making at all levels throughout the organization
- Ensures the most effective use is made of the organization's resources by focusing those resources on agreed-on key priorities
- Provides a set of excellent measures for judging organizational and personnel performance

2. Describe the various strategic planning approaches.

**Answer:** Strategic planning is a process that helps managers identify desired outcomes and formulate feasible plans to achieve their objectives by using available resources and capabilities. There are a variety of strategic planning approaches, including issues-based, organic, and goals-based.

- Issues-based strategic planning begins by identifying and analyzing key issues that face the organization, setting strategies to address those issues, and identifying projects and initiatives that are consistent with those strategies.
- Organic strategic planning defines the organization's vision and values and then identifies projects and initiatives to achieve the vision while adhering to the values.
- Goals-based strategic planning is a multiphase strategic planning process that begins by performing a situation analysis to identify an organization's strengths, weaknesses, opportunities, and threats.

3. List the fundamental factors from Porter's Five Forces Model that determine the level of competition and long-term profitability of an industry.

**Answer:** The most frequently used model for assessing the nature of industry competition is Michael Porter's Five Forces Model. The following fundamental factors determine the level of competition and long-term profitability of an industry:

1. The threat of new competitors will raise the level of competition.
2. The threat of substitute products can lower the profitability of industry competitors.
3. The bargaining power of buyers determines prices and long-term profitability.
4. The bargaining power of suppliers can significantly affect the industry's profitability.
5. The degree of rivalry between competitors is high in industries with many equally sized competitors or little differentiation between products.

4. Describe SWOT matrix.

Answer: The analysis of the internal assessment and external environment is summarized into a Strengths, Weaknesses, Opportunities, Threats (SWOT) matrix. The SWOT matrix is a simple way to illustrate what the firm is doing well, where it can improve, what opportunities are available, and what environmental factors threaten the future of the organization. The internal assessment identifies most of the strengths and weaknesses, while the analysis of the external environment uncovers most of the opportunities and threats. The technique is based on the assumption that an effective strategy derives from maximizing a firm's strengths and opportunities and minimizing its weaknesses and threats.

5. Distinguish between the objective and goal of an organization.

Answer: An objective is a statement of a compelling business need that an organization must meet to achieve its vision and mission. A goal is a specific result that must be achieved to reach an objective. In fact, several goals may be associated with a single objective. The objective states what must be accomplished, and the associated goals specify how to determine whether the objective is being met. Goals track progress in meeting an organization's objectives.