Important notice

When reading these answers, please note that they are not intended to be viewed as a definitive ‘model’ answer, as in many instances there are several possible answers/approaches to a question. These answers indicate a range of appropriate content that could have been provided in answer to the questions. They may be a different length or format to the answers expected from candidates in the examination.

Examiner’s general comments

The Strategic and Operations Management paper examines both the breadth (in the compulsory Section A) and depth (in Section B) of candidates’ knowledge of the subject. It is difficult for candidates to secure a good result by picking isolated sections of the syllabus to study.

The performance at this examination session improved in both sections of the paper. Those scoring the highest marks focused on the question, dealt with the key issues that were raised, and contained references and examples to support all the points made. Some questions asked candidates specifically to use examples from their own organisation or one with which they were familiar. The focus on answering the question was also much improved over the previous session. It is important to take an analytical view of your own organisation so that you are able to use it in the examination. There were some good examples of candidates who applied course models and frameworks to organisational examples and thereby answered the questions effectively.

The answers to Question 1 were, on the whole, good. There was evidence that many candidates had read widely across the breadth of the syllabus.

Section A

1. (a) Explain the main steps in scenario planning. (4 marks)

Suggested answer

Scenario planning is not just based on a hunch. The outcome should be a limited number of logically consistent but different scenarios that can be considered alongside each other.
The main steps in drawing up scenarios are as follows:

- Identifying the key assumptions, or forces, that are to be included. This may build on the sort of PEST analysis. These assumptions should be restricted to environmental forces, rather than including the strategic action of the organisation. The number of assumptions should be kept to just a few since the complexity in drawing up scenarios rises dramatically in proportion to the number of assumptions included. This can be done by:
  - Using the forces which historically have had the greatest impact on the organisation, although the danger here is that this does not take into account the uncertainty of future change.
  - Focusing on the factors that have high potential impact – perhaps the drivers of change identified in the PEST analysis – and are uncertain.

- Building scenarios. These may be built in two ways:
  - Scenarios are constructed from the particular factors identified. This is the best approach if the number of factors is low. Different but consistent configurations of these factors might be systematically examined to build three or four scenarios.
  - If the number of factors being considered is large it may not be feasible to undertake this ‘building up’ process. Instead, the ‘tone’ of scenarios is set. For example, an optimistic future and a pessimistic future, or according to dominant themes, as in Shell.

In either case, the proponents of scenario planning argue that the allocation of probabilities to factors should be avoided; it endows the scenarios with spurious accuracy, which can be unhelpful given the purpose of the scenarios.

If factors with both high impact and high uncertainty have been used, then the scenarios must represent possible futures worthy of building into the process of planning or, used differently, strategic choice.

**Examiner’s comments**

Answers to this question were variable. Good answers focused on the process, rather than purpose, of scenario planning as required by the question. Good answers also offered examples to illustrate this. Weaker answers did not give examples or discussed scenario planning too vaguely. Some answers confused it with contingency planning.

(b) Using examples, explain what is meant by ‘capacity management’.

_Suggested answer_

In simple terms, capacity management involves matching the size of a facility with demand. This is a two-way process in which both the scale of the facility and the size of demand should be managed or, at least, influenced in the short, medium and long-term.

**Examiner's comments**

There were few very good answers to this question. Good answers contained a clear definition and provided an appropriate example. The best answers contained an outline of the process. Weaker answers took a superficial view and discussed, in general terms, an organisation’s capacity to meet its strategic objectives.
(c) Explain what is meant by ‘competitive strategy’.

Suggested answer

An important feature of the environment of any business that is not a monopoly is the existence of competition. The efficiency of the competition determines an organisation’s own survival. Business strategy seeks to alter the strength of an organisation in relation to its competitors. What counts is performance in relative terms.

Michael Porter defines strategy in similar competitive terms. Competitive strategy is ‘the taking of offensive or defensive actions to create a defendable position within an industry and a superior return on investment’. Porter identifies five competitive forces in an industry and various states the industry is in. Porter holds that the state of the industry as a whole is an important determinant of competitive success. He then gives a systematic analysis of how competitors should be identified and targeted, and suggests three generic strategies for dealing with the competition.

Examiner’s comments

The standard of answers to this question was generally good. Good answers captured the key distinction and elaborated using appropriate examples. Weaker answers made no reference to Porter or other appropriate authors.

(d) Using examples, explain how distortion may occur in the process of communication.

Suggested answer

Perfect communication, if there were such a thing, would exist when a thought or an idea is transmitted so that the mental picture perceived by the receiver was exactly the same as that envisaged by the sender. Unfortunately, most of the components in the communication model have the potential to create distortion such that the message that is decoded by the receiver is rarely the exact message that the sender intended.

For example, if the encoding is done carelessly, the message decoded by the sender will have been distorted. The message itself can also cause distortion. The poor choice of symbols and confusion in the content of the message are frequent problem areas. Of course, the channel can distort a communication if a poor one is selected or if the noise level is high. The receiver represents the final potential source for distortion. His or her prejudices, knowledge, perceptual skills, attention span and care in decoding are all factors that can result in interpreting the message differently from how the sender envisioned.

The model of richness also brings out two causes of communications failure. These result from using unmatched channels for messages. A data glut arises from a deluge of cues whereas a data deficit comes from a dearth of them.

Noise is any interruption of the normal flow of understanding between the parties. This broad definition covers more than sound noise. In a telephone conversation, for example, we may point to faults in the equipment or crossed lines. Distractions in the offices also add data for one party to filter out. How can noise be overcome? Experts often think of the quality of a transmission in terms of the signal to noise ratio. The higher this ratio, the easier it is for the receiver to pick out the message data from the background. Clearly, the ratio is improved by increasing the signal or cutting the noise.
Examiner's comments

This was a straightforward question that was not answered as well as it might in many cases. The best answers provided a clear, simple explanation of the nature of distortion and gave appropriate examples.

(e) **Define ‘empowerment’, and identify two reasons why its impact might be limited.**

(4 marks)

**Suggested answer**

Empowerment means different things depending on the context and is similar to job enrichment. It is used to describe a variety of ways of involving employees in the planning and control of their work. At one level, it gives employees increased discretion or autonomy, such as the right to decide among themselves exactly when they start, finish and take breaks. At another level, it can describe team-based working in which the team co-operates to make a better product or deliver a better service. An example is team working in which the team takes responsibility for managing itself. In rare cases, it may mean input into a firm’s tactics or strategy.

Empowerment might be limited by:

- The technology or working conditions. It would be difficult to introduce a scheme of job enrichment into mass production and assembly line working, without spending a large sum of money on re-organising working conditions and equipment.
- Jobs with a low level of skill that may be difficult to enrich.
- The willingness of subordinates. An attempt by senior managers to impose job enrichment schemes according to their own particular views about what is appropriate is unlikely to be long lasting or productive.

Empowerment may also require a significant change in managerial approach and possibly the culture of the organisation.

Examiner's comments

This question was not well answered and few candidates appeared to really understand the nature of empowerment. Good answers explained the nature of empowerment before indicating two of the above problem areas, giving examples.

(f) **Clarify, using examples, the distinction between ‘a group’ and ‘a team’.**

(4 marks)

**Suggested answer**

Groups and teams are not the same thing. A work group interacts primarily to share information and to make decisions to help each member perform within his or her area of responsibility. Work groups have no need or even opportunity to engage in collective work that requires joint effort. Their performance is merely the sum of group member’s individual contribution. There is no positive synergy that would create an overall level of performance that is greater than the sum of the inputs.

A work team generates positive synergy through co-ordinated effort. Their individual efforts result in a level of performance that is greater than the sum of those individual inputs. The diagram below illustrates the differences between work groups and work teams.
Examiner's comments

Disappointingly few candidates gave a really good answer to this question. Few secured very high marks. Common problems included confusing the characteristics of a group and a team, or not giving examples, as the question required. Good answers offered a very clear explanation of the differences between a group and a team and gave examples as required.

(g) Identify two approaches a manager might use to overcome resistance to change amongst members of his or her team.

(4 marks)

Suggested answer

There were options here for candidates, who might have approached the answer by focusing on the individual, for example, by looking at the Moss-Kanter’s framework.

Another option was for answers to look at Kotter and Schlesinger’s work. Kotter and Schlesinger suggest six tactics for use by organisations and candidates could have discussed any two from the following:

- **Education and Communication** – This is helpful where employees need help to see the logic of a change. This tactic basically assumes that the source of resistance lies in misinformation or poor communication. If employees receive the full facts and misunderstandings are cleared up, resistance will subside. This is not often the case in the early stages but once the initial ‘shock’ has passed. It works, provided that the source of resistance is inadequate communication and that management-employee relations are characterised by mutual trust and credibility. If these conditions do not exist, then this approach is unlikely to succeed.

- **Participation** – It is difficult for individuals to resist a change decision in which they participated. Before making a change, those opposed can be brought into the decision process. Assuming that the participants have the expertise to make a meaningful contribution, their involvement can reduce resistance, obtain commitment, and increase the quality of the change decision. However, against this, it can take a long time and the final solution may be poor. It will work best where there is time and the commitment of all to the final solution is vital.

- **Facilitation and Support** – Organisations can offer a range of supportive efforts to reduce resistance. When employee fear and anxiety are high, employee counselling, skills training, or a short paid leave of absence may facilitate adjustment. The drawback is that it is time consuming and expensive and offers no assurance of success. This is useful where there is time and emotions are running high.
Negotiation — Another way for the organisation to deal with potential resistance is to exchange something of value for a lessening of the resistance. For instance, if the resistance stems from a few powerful individuals, a specific reward package can be negotiated that will meet their individual needs. Negotiation as a tactic may be necessary when resistance comes from a powerful source. Yet one cannot ignore its potentially high costs and there is the risk that, once a company negotiates with one party to avoid resistance, it is open to the possibility that others in positions of power may want the same. This can be useful where there is a culture and tradition of negotiation in employee relations, perhaps where trade unions are present.

Manipulation and Coercion — Manipulation refers to covert attempts to twist and distort facts to make them appear more attractive, withholding undesirable information and creating false rumours to get employees to accept a change. If management threatens to close down a particular manufacturing plant if that plant's employees fail to accept a pay cut, and if the threat is actually untrue, management is using manipulation. Coercion is the application of direct threats or force upon the resisters. If the management really is determined to close a manufacturing plant if employees do not agree to a pay cut, then coercion would be the label attached to its change tactic. Other examples include threats of transfer, loss of promotions and so on. Manipulation and coercion are relatively inexpensive and are an easy way to use but can backfire if the targets become aware that they are being tricked or used.

Examiner's comments

This question was not answered well by many candidates who attempted it. Good answers offered a clear presentation of the options and might also have indicated the circumstances in which a particular approach would be useful.

(h) Explain the use of an 'expert system' in managing information.

Suggested answer

Expert systems collect and analyse data on some aspects of decision making and, in the light of the outcomes, offer expert advice. It is in this 'expertise' that they differ from other systems. They look to apply ideas of artificial intelligence in attempts to replicate the thinking processes that skilled workers, professionals and managers use when deciding. The notion is to apply the decision rules that, for example, a doctor uses when making a diagnosis.

They can be more reliable than doctors, for example, especially in noticing conditions of which the doctor has had little experience. For instance, many general practitioners in Europe have not seen cases of diphtheria (which has been eradicated) or malaria (which is exotic). Some success has been achieved in areas dominated by technical expertise, such as medicine, geology or mathematics. Progress in areas where interpersonal relations are important has been limited. Examples include:

- Banks which use expert systems to assess creditworthiness.
- Users without legal knowledge that can consult an expert system without having to consult a solicitor.

Examiner's comments

There were few really good answers to this question. Good answers provided a clear definition of an expert system and appropriate examples of application. Weaker answers were vague and discussed more generally 'information systems' or 'experts'.

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(i) **Explain, using examples, the role of ‘leverage’ in managing linkages in the value chain.**

**Suggested answer**

The key point is that core competences in a range of separate activities may provide competitive advantage for an organisation but, over time, may become imitated by others. Such competences are more robust and difficult to imitate if they relate to the management of linkages within the organisation’s value chain and linkages into the supply and distribution chains.

Management of these linkages provides ‘leverage’ and levels of performance which are difficult to match. Leverage is a measure of the improvement in performance achieved through the management of linkages between separate resources and activities. This could create competitive advantage in a number of ways. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. Leverage may also be gained by the ability to complement or co-ordinate the organisation’s own activities with those of suppliers, channels or customers. This could, for example, occur through vertical integration; attempting to improve performance through ownership of more parts of the value system.

**Examiner’s comments**

There were some good answers to this question. Good answers offered clear definitions of leverage and went on to relate this to the idea of managing linkages and offered appropriate examples from the study text or from the candidate’s experience.

(j) **Suggest how strategic management may vary in a voluntary organisation when compared with a professional services organisation.**

**Suggested answer**

To a greater or lesser extent, most aspects are relevant for most organisations. However, it is likely that different aspects will be more important in some contexts, and in some organisations, than in others. For example, in retailing, the need to understand customer needs and values and to consider these in relation to product and customer service is crucial; more so than it would be in a firm supplying commodity raw materials in an industrial setting. It would be wrong, therefore, to assume that all aspects of strategic management are equally important in all circumstances.

In the case of a voluntary organisation, the underlying values and ideology will be of central strategic significance. The *raison d’être* of the organisation is rooted in its values and they will have a significant impact on the development of strategy. In not-for-profit organisations such as charities, sources of funds may be diverse and emanate not from users or customers but sponsors. This may mean high levels of lobbying and difficulties in clear strategic planning.

Traditionally-based values are often of particular importance in professional service organisations where professional advice is sometimes seen as more important than revenue-earning capability. This was the case in medicine, accountancy, law and other professions. Private sector professional firms, like consultancies, may have a partnership structure in which the partners carry considerable power. In recent years, many professions have come under pressure to be more ‘professional’ in their approach, increasing their concern with competitive strategy.
**Examiner's comments**

On the whole, this question was not very well answered. Good answers made clear the specific nature of the differences between the two types of organisation. Many answers did not or only discussed the commercial imperative.

**Section B**

2. ‘...mission statements often contain so many common elements that some have questioned whether having a mission statement even creates value for a firm. Moreover, even if a mission statement does say something unique about a company, if that mission statement does not influence behaviour throughout an organization, it is unlikely to have much impact on a firm's actions’ (J.B. Barney and W.S. Hesterly, 2010).

**Critically evaluate this statement.**

(20 marks)

**Suggested answer**

There were two elements to tackle in this question. The first part of the statement questioned the value of mission statements and this needed to be explored in answers. The second element referred to the role of mission in influencing behaviour in the organisation.

Organisational mission is the foundation on which strategy is built. Missions have two principal elements. First, there is a focus on organisational purpose, as suggested by questions such as ‘What are we here to do?’ and ‘Why was this organisation established?’ Second, these purposes are shaped by values: the beliefs about the manner in which these purposes should be achieved.

Many organisations present their purposes and values in the form of a mission statement, which seeks to encapsulate the mission in a format that can be used both internally and externally. Hudson (1999) observes the process of preparing a mission statement can be valuable in seeing their power as a management tool as limited. By contrast, working on the mission and taking actions to bring together the beliefs in the organisation with its strategy can be a powerful lever for increasing the organisation’s effectiveness.

Therefore, engaging people in the process of developing the mission is perhaps a valuable way of building commitment. As such, mission statements have an **internal** and an **external** role.

Within the organisation, mission statements provide:

- **Unity of direction** – Setting a sense of direction. They focus members' attention and give an opportunity to co-ordinate effort in achieving them. Without such clarification, each manager may interpret situations differently and find it difficult to act in unison.

- **Basis of plans and decisions** – Good mission statements help in the production of good plans. They help set priorities. Some objectives may be more vital to a company's success than others. Identifying these ‘must-do’ objectives separates them from others that can be postponed if resources are unavailable.

- **Motivation** – The process of preparing a mission statement and following this with goal and objective setting encourages employees to consider, and commit themselves to, the ends of the organisation and offer the individual a sense of personal achievement.

- **Basis of Control** – Through clarifying the performance that is expected, objectives become the basis for control. They are the criteria by which comparisons between
outcomes and plans are made. Therefore, they need to be set against the backdrop of the overall mission.

In thinking about how this can impact on the way people in the organisation behave, it can be useful for staff to ask themselves (and maybe other staff members) how clear they are about what the organisation exists to do and how the commitment of staff is harnessed to its purpose. Is there a mismatch between what the organisation says it exists to do and how staff feel about this? If so, does that affect the organisation’s performance? If you are a manager, it can be stressful to be in the middle of such a mismatch, or to motivate staff if the organisation loses its sense of direction.

Beyond these internal purposes, declarations of objectives and goals are often addressed to wider audiences. They signify legitimacy to stakeholders from investors to customers and suppliers. It is intended that these interest groups then regard the organisation in a favourable light and accept its function. The Body Shop is a global business that incorporates the values of its founder, Anita Roddick. Strong, clear statements of the company's aims cover not only what business it is in but also how it wishes to carry it out and whom it prefers to recruit as employees or suppliers.

Examiner's comments

There were some good answers to this question. These offered clear engagement with both parts of the question with a clear explanation of the nature and purpose of mission and mission statements and the recognition of their limitations. The best answers linked the two parts of the statement and offered an effective summary of the argument.

3. Volar and Fly UK have just announced their intention to merge. These two European airlines plan to combine their businesses, saving £400 million in the process. Fly UK will have 55% ownership of the merged business and both brand names will continue. The aim of the merger is to improve the competitive position of the merged company by both saving money and creating the world’s third largest airline. Some critics remain unconvinced that the move will be a success.

(a) Explain the nature of mergers and acquisitions, and why they may be used as a form of strategy development.

Suggested answer

Mergers occur when organisations voluntarily come together to seek the benefits of synergy. Reasons for mergers may be similar to those for acquisitions.

A compelling reason to develop by acquisition or merger is the speed with which it allows the organisation to enter new product or market areas. In some cases, the product or market is changing so rapidly that this becomes the only way of successfully entering the market, since the process of internal development is too slow. Another reason for acquisition or merger is the lack of resources or competence to develop a strategy internally. A company may be acquired for its resource and development (R&D) expertise or its knowledge of a particular type of production system. International developments are often pursued through acquisition because of market knowledge.

There are also, as in the question scenario, financial motives for acquisitions. If the share value or price/earnings (P/E) ratio of a company is high, then a firm with a low share value or P/E ratio may be a tempting target. Indeed, this is one of the major stimuli for the more aggressively acquisitive companies. Sometimes there are reasons of cost efficiency which make acquisition look favourable. This could arise because an established company may have achieved
efficiencies that would be difficult to match quickly by internal development. The necessary innovation and organisational learning would be too slow.

The research evidence on the financial consequences of mergers is inconclusive. However, some of the findings do act as a reminder that a merger or an acquisition is not an easy or guaranteed route to improving financial performance. It may take the acquiring company some considerable time to gain any financial benefit from acquisitions. Some studies confirm the importance of non-economic factors such as previous experience of acquisitions and decisions on whether to remove or retain executives of the acquired company and the often ignored management of post-acquisition cultural issues.

(b) Consider how an understanding of organisational culture might explain the critic’s concerns about the likely success of the merger.

(12 marks)

Suggested answer

Most of us understand what is meant by organisational culture, but it is a difficult concept to define or explain precisely. Although people may not always be conscious of it, culture has a pervasive influence over their behaviour and actions. The concept of culture has developed from anthropology and there seems to be some agreement that organisational culture refers to a system of shared meaning that members hold that distinguishes the organisation from other organisations. This system of shared meaning is a set of key characteristics that the organisation values. The picture that emerges becomes the basis for the shared understanding that members have about the organisation, how things are done in it, and the way members are supposed to behave.

In the case of Volar and Fly UK, therefore, it is seems likely that the two companies may have different cultures.

At this point it would have been appropriate for candidates to use one of the frameworks (Handy, Deal and Kennedy, for example) to explain the dimensions of difference.

Culture can be a liability when the shared values are not in agreement with those that will further the organisation’s effectiveness. This is most likely to occur when the organisation is undergoing rapid change. Robbins argues that, historically, the key factors in making merger or acquisition decisions were related to financial advantages or product synergy. In recent years, cultural compatibility has become the primary concern. While a favourable financial state or product line may be the initial attraction of an acquisition candidate, whether the acquisition works seems to have more to do with how well the two organisations’ cultures match. Consultants A.T. Kearney (2003) revealed that 58 per cent of mergers failed to reach the value goals set by managers. The primary cause of failure was conflicting organisational cultures. In addition, for Volar and Fly UK, there are different national cultures in play and candidates might have referred to this and Johnson and Scholes’ cultural frames of reference.

Examiner’s comments

There were some good answers to this question, particularly for part (a). Good answers offered a clear explanation of the nature of mergers and acquisitions and demonstrated the relevance of culture to the scenario of the question. The best answers also referred to the facts of the scenario throughout and used examples where appropriate.
At a major university, a report by consultants has recently identified significant failures in the quality of service. Their analysis concluded that three factors led to this gap:

- Inadequate management commitment to service quality.
- Quality defined solely by the university and not by the students.
- Lack of standardisation or consistency in delivery.

Recommend to the organisation how key concepts associated with quality might help the leadership of the university, or of another type of organisation with which you are familiar, to improve the situation.

(20 marks)

Suggested answer

Answers could have started with a simple statement of the nature of quality. Quality may be defined as the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.

Garvin (1988) elaborates on this by arguing that any definition of quality will be based on one of five underlying approaches, which consider quality to be:

(i) Perceived – This approach is based on a view of quality as innate excellence. Quality is ‘something that you recognise when you see it’. Thus Armani can be recognised as a quality couturier; Oxbridge as the same in higher education. This reputation extends to those who have never owned, experienced or come into contact with such a product. When a service is involved, judging quality may reflect even more intangible criteria such as office location and atmosphere.

(ii) Product based – This considers those aspects of the quality of a product that can be precisely measured. Quality is seen as a measurable set of characteristics. Thus the quality of a car can be determined by its performance as measured by its top speed, its acceleration or its fuel consumption. These measures can be controversial: should we, for example, measure the quality of a school by its students’ exam results?

(iii) User based – This approach considers quality from the customers’ perspective. Thus it is based on a marketing view that customers ultimately decide on the basis of ‘fitness for use’ what quality means.

(iv) Operations based – This approach defines the quality of a product or service as conformance to a specification. In this view, quality is achieved if everything is right first time and error free. Contract suppliers of components to car manufacturers would be expected to adopt an operations-based approach.

(v) Value based – This approach modifies the user-based approach by introducing the notion of cost or price. Quality is thus considered to equate to the best value for money. Many customers will be prepared to accept a product with a lower specification if the price is low. The success of European budget airlines, such as Ryanair, stems from the fact that many travellers are quite happy to forgo the higher levels of service in exchange for cheaper seats. In higher education, it may be the cost saving from a college that is not part of the Russell group and is simply a cheaper way to gain a degree.

Clearly therefore, quality will be defined too by receivers of the services of the university as well as the university itself and this is an important point in this scenario. There are a number of ways that this question could be taken forward in answers from here. For example:

**Inadequate management commitment to service quality** – The ideas of Total Quality Management are relevant here. This is a philosophy of quality that links policy and operational practice by involving everyone in an organisation in continuously improving processes to achieve
quality that always satisfies customers’ needs. It requires management leadership though not management domination. It is also central to the EFQM model.

**Quality defined solely by the university and not by the students** – As Garvin suggests, there is clear merit in establishing the wants and needs of students (the customers) if this is to be achieved. The EFQM model refers to customer focus.

**Lack of standardisation or consistency in delivery** – Quality and process standards such as ISO900 and 9001 are designed to ensure a consistency of approach. These are important but are not by themselves enough to assure quality. Quality assurance requires systems designed to give adequate confidence that a product or service will satisfy given requirements for quality.

There are other aspects of quality that may have been mentioned but the key was that they were linked to the issues raised.

**Examiner’s comments**

There was a danger with this question that candidates might try to deliver all they know about quality which happened in some cases. The concepts needed to be chosen appropriately and related to the points raised in the consultants’ report. Good answers offered a clear application of appropriate concepts to each element raised, with suggestions about how the concept might facilitate improvement.

5. **(a) Using examples, evaluate the rational planning model as a strategic management tool.**

   (10 marks)

**Suggested answer**

The key requirements to be included in answers to this question were:

- A brief outline of the rational planning model.
- A discussion of those views in support, using the work of Ansoff, Drucker and so on.
- A discussion of the limitations of the rational planning model, perhaps citing Mintzberg’s concerns (practical failure, routine, reduced initiative, internal politics, obsession with control, and the fallacies).

**Suggested answer**

Answers to this question required at least:

- An outline of emergent strategy.
- Discussion and review of chaos/complexity, incrementalism and so on.

In each case, a discussion of how they meet the limitations of the rational planning model should have been given.

**Examiner’s comments**

This was a straightforward question in many ways, with options for candidates in the way they chose to approach it. This question elicited a wide range of answers. Good answers offered a brief outline of the rational planning model and other approaches. They moved beyond simple listing and description to critique the model with appropriate examples to illustrate. The best
answers used good references to back up their argument and recognised a full range of alternative approaches.

6. ‘Many organisations are preoccupied with ‘inside out' management. They approach, understand, and act in relation to their environment in terms that make sense from internal divisions and perspectives, or in terms of what powerful members want to do. As a result, they often end up acting in fragmented and inappropriate ways’ (Morgan, 1988).

Evaluate this statement by looking at both the significance of environmental analysis and organisational boundaries to strategy making.

(20 marks)

Suggested answer

Morgan emphasises the importance of understanding the external environment. An organisation's survival and success depends upon effective management of relationships with key stakeholders such as customers and service users, shareholders and suppliers, but this concept of interdependence extends to exploring the relationships that exist between organisations and their external environment. An organisation is part of a large and complex network of customers, suppliers, competitors and regulators. It is also subject to the vagaries of the economy, social trends and technological innovation.

Candidates might have discussed the nature of the three environments here. In practice, organisations set the boundaries between their internal and external environments in different ways. There are many examples where organisations operating in a similar sector have set their boundaries differently. For example, BMW manufactures most of its engines in-house, whereas GM (General Motors) increasingly buys them in.

The key points are that organisations have choices about where they set their boundaries; these are not fixed and may change over time.

As Morgan’s quote continues:

‘Some organisations, on the other hand, try to build from the ‘outside in', in the sense that they try and ‘embrace’ the environment holistically, and shape internal structures and processes with this wider picture in mind.'

Although a great deal of information can be generated in this way, it is of limited value if it remains merely a listing of influences. It is important that the models such as PEST are used to inform and guide analysis. It is useful to build on this by considering two important questions:

- **What are key drivers of change?** – It may be possible to identify a number of key forces likely to affect the structure of this industry or market.

- **What are the differential impacts of key environmental influences?** – PEST analysis may also help examine the differential impact of external influences on organisations, either historically or likely future impact. This approach builds on the identification of key drivers by asking to what extent such influences will affect different organisations or industries differently.

Candidates might also have looked at the concepts associated with organisational forms that have emerged in recent year such as virtual and networked organisations, as well as the 'boundaryless organisation’ characterised by GE.
Examiner’s comments

This was a question where a variety of responses were possible and credit was given for different approaches. The best answers engaged with the key concepts and used appropriate examples. It was important to avoid offering little more than a prolonged description of PEST. The best answers took a broad view of the question and drew from across the syllabus in building an answer. There were few very good answers.

The scenarios included here are entirely fictional. Any resemblance of the information in the scenarios to real persons or organisations, actual or perceived, is purely coincidental.