CIMA E3 Strategic Management

Mock exam: 60 questions in 90 minutes, with an answer key and explanations

How to use this mock

- Set a timer for **90 minutes** and answer every question without notes. Write your answers in the grid on the next page.
- Mark your answers using the answer key, then read the explanation for every question you got wrong or guessed.
- The questions cover every section of the syllabus, in proportion to the GoQualified question bank for E3.
- Prefer to sit it on screen? The **Exam Sim** on **goqualified.co.uk/cima/e3/** times you, marks the paper and shows your weakest section.
- All questions are original GoQualified practice questions, not past exam questions.

Free from GoQualified. Questions start on page 3; the answer key and explanations follow them. Download the latest version from goqualified.co.uk/cima/e3/.

Your answers

1 _____	13 _____	25 _____	37 _____	49 _____
2 _____	14 _____	26 _____	38 _____	50 _____
3 _____	15 _____	27 _____	39 _____	51 _____
4 _____	16 _____	28 _____	40 _____	52 _____
5 _____	17 _____	29 _____	41 _____	53 _____
6 _____	18 _____	30 _____	42 _____	54 _____
7 _____	19 _____	31 _____	43 _____	55 _____
8 _____	20 _____	32 _____	44 _____	56 _____
9 _____	21 _____	33 _____	45 _____	57 _____
10 _____	22 _____	34 _____	46 _____	58 _____
11 _____	23 _____	35 _____	47 _____	59 _____
12 _____	24 _____	36 _____	48 _____	60 _____

Questions

Question 1

A board is evaluating a proposed strategic option that fits well with the identified opportunities in the external environment and matches the organisation's core capabilities, but requires financing far beyond what current cash flow and credit capacity can support. Using the suitability, acceptability and feasibility framework, how should this option be assessed?

A It should be approved, since suitability is the only criterion that ultimately determines whether a strategy should proceed

B It automatically fails on acceptability, since acceptability is defined purely in terms of financing constraints

C It fails on feasibility, since the resources required to implement it are not realistically available, regardless of how well it scores on suitability

D The option cannot be assessed at all unless all three criteria are evaluated using identical quantitative methods

Question 2

A proposed strategy offers an attractive financial return but is likely to provoke strong opposition from a powerful stakeholder group whose cooperation is essential to implementation. How should this be reflected in the evaluation of the strategy's acceptability?

A Acceptability is determined solely by financial return, so stakeholder reaction is irrelevant to this stage of evaluation

B Stakeholder opposition should only be considered after the strategy has already been implemented

C A strategy that is financially attractive is always acceptable regardless of the stakeholders affected

D Acceptability must weigh likely stakeholder reactions alongside risk and return, since strong opposition can undermine an attractive strategy

Question 3

A company's formally stated corporate objective is long-term shareholder value maximisation, yet its actual resource allocation decisions consistently prioritise short-term reported earnings ahead of longer-term investment. What does this pattern most likely indicate?

A Full alignment between stated objectives and strategic behaviour, since short-term earnings are always a perfect proxy for long-term shareholder value

B Evidence that shareholder value maximisation itself is an entirely inappropriate objective for any type of organisation

C Proof that resource allocation decisions have absolutely no relationship to any stated corporate objective whatsoever

D A gap between stated and revealed strategic priorities, reflecting incentives that reward short-term performance over the stated objective

Question 4

An organisation identifies a strategic option that would require deep expertise in a technical discipline it does not currently possess and cannot readily hire for within its implementation timeframe. Which element of strategic evaluation does this concern primarily engage?

A Feasibility, since it concerns whether the organisation has or can obtain the resources and capabilities the strategy requires

B Suitability, since capability gaps are only relevant to whether a strategy fits the external environment

C Acceptability, since capability gaps are assessed purely in terms of stakeholder reaction

D None of the three evaluation criteria, since capability gaps are considered separately from strategic evaluation

Question 5

An organisation operating in a highly volatile technology market insists on producing a single, fixed ten-year strategic plan with no built-in review points. What is the most significant limitation of this approach in this context?

A Longer planning horizons always produce more accurate forecasts regardless of environmental volatility
B Fixed plans are appropriate in all environments, provided they are documented in sufficient procedural detail
C A single fixed long-term plan suits high-volatility environments poorly, where scenario planning and periodic review work better than a static commitment
D Volatility in the external environment has no bearing on the appropriate length or rigidity of a strategic plan

Question 6

A proposed strategic option scores well on suitability and acceptability but only marginally on feasibility, since it would require the organisation to stretch its resources close to their limit. How should this marginal feasibility be interpreted in the overall evaluation?

A It can be entirely disregarded, since strong performance on suitability and acceptability always outweighs any feasibility concern
B It automatically disqualifies the option regardless of any possible way to close the resource gap
C It represents a genuine implementation risk to weigh against the option's other strengths, not dismiss simply because the other two criteria score well
D Feasibility concerns are only ever relevant for options that also happen to score poorly on suitability

Question 7

How do corporate-level objectives typically relate to business-unit-level and operational-level objectives within a multi-level organisation's hierarchy of objectives?

A Corporate objectives set direction; business-unit objectives translate this; operational objectives set day-to-day targets — each level should align
B All three levels of objectives are set entirely independently, with no expectation of alignment or consistency between them
C Operational-level objectives should always take precedence over corporate-level objectives whenever the two are in tension
D Business-unit-level objectives are irrelevant once corporate-level objectives have been set, since only two levels genuinely exist in practice

Question 8

How does comparing an organisation's originally intended strategy with its actually realised strategy (the pattern of decisions genuinely carried out) help identify strategic drift?

A Intended and realised strategy are always identical in every organisation, making this comparison an entirely meaningless exercise
B Only the intended strategy matters for identifying drift, since the realised strategy has no bearing on whether drift has occurred
C Comparing intended and realised strategy can only be done retrospectively after an organisation has permanently ceased operating
D A significant, unreviewed gap between intended and realised strategy over time can reveal drift, without deliberate acknowledgement or correction

Question 9

Rather than evaluating each strategic option against a single expected future environment, a board tests how each candidate option would perform across several distinct plausible future scenarios before making a final choice. What advantage does this approach offer over evaluating options against only a single anticipated future?

A It offers an advantage only when the board is already highly confident about which single future scenario is most likely to occur

B It reveals which options perform robustly across a range of plausible futures versus which are highly dependent on one specific set of assumptions proving correct, providing a more resilient basis for genuinely uncertain strategic choices

C This approach is most useful when a single, highly reliable forecast of the future is already available, since it provides an additional check on that forecast's robustness

D Testing options against multiple scenarios always leads the board to select whichever option happens to perform best in the single most likely scenario, once that scenario is identified

Question 10

What is the primary purpose of a PESTEL analysis in the context of strategic management?

A To evaluate an organisation's internal resources and capabilities in isolation from the external environment

B To calculate the precise financial return expected from one specific individual strategic option under review

C To assess only the technological factors relevant to a single, narrowly defined product line

D To systematically identify macro-environmental factors — political, economic, social, technological, environmental and legal — affecting strategic position

Question 11

A country has developed a globally competitive industry cluster supported by sophisticated domestic demand, strong related and supporting industries, intense domestic rivalry, and favourable factor conditions. Which framework does this scenario best illustrate, and what is its central insight?

A Porter's Five Forces, which assesses the attractiveness of an industry through five competitive forces

B PESTEL, which is concerned exclusively with macro-environmental scanning rather than sources of national competitive advantage

C The BCG matrix, which classifies business units according to market growth and relative market share

D Porter's Diamond, which holds that advantage arises from the interaction of these four determinants, not any single factor

Question 12

A regulator has high power over an organisation's strategic freedom but has historically shown low day-to-day interest in the organisation's specific operations, engaging only occasionally on major issues. According to Mendelow's Matrix, how should this stakeholder generally be managed, and why might this change?

A Keep satisfied through periodic, high-level engagement, but be prepared to shift to close management if the regulator's interest increases due to an emerging issue

B Ignore this stakeholder entirely, since low current interest means the organisation can safely disregard their concerns permanently

C Manage with minimal effort at all times, since power levels in Mendelow's Matrix never change once established

D Provide this stakeholder with the same level of engagement as a low-power, low-interest stakeholder

Question 13

A traditional insurer observes that a technology platform has begun bundling insurance products from multiple providers alongside financial advice, banking services and comparison tools within a single customer app. What competitive dynamic does this best illustrate, and what strategic response might it prompt?

A Traditional price-based competition, which can only be addressed by the insurer reducing its premiums to match the platform's prices

B Ecosystem-based competition — the insurer should consider participating in, not only competing against, such ecosystems

C A purely regulatory issue that has no strategic implications for the insurer's own positioning

D Evidence that digital platforms cannot succeed in heavily regulated industries such as insurance

Question 14

New environmental regulations require manufacturers in a particular sector to substantially reduce carbon emissions within five years, with significant financial penalties for non-compliance. How should this factor be incorporated into strategic analysis?

A As an irrelevant factor, since environmental regulations rarely have any financial or competitive consequence for affected industries

B As a purely short-term operational issue with no bearing on medium or long-term strategic positioning

C As a factor that only ever affects government departments and never has relevance to private manufacturers

D As a significant environmental/legal factor requiring evaluation of compliance costs, competitive advantage from early adaptation, and penalty risk for delay

Question 15

A country has developed globally leading firms in precision watchmaking, supported by generations of specialised craft skills and unusually discerning, quality-conscious domestic consumers who demand the highest standards. Within Porter's Diamond, which two determinants does this scenario most directly illustrate?

A Firm strategy/structure/rivalry and related/supporting industries only, with no relevance to factor or demand conditions

B Factor conditions (specialised craft skills) and demand conditions (sophisticated, quality-conscious domestic buyers)

C Only demand conditions, since specialised skills are not considered a factor condition under Porter's framework

D Only factor conditions, since sophisticated domestic buyers are not considered relevant to national competitive advantage

Question 16

A digital platform becomes more valuable to each user as more users join it, creating a self-reinforcing cycle that makes it increasingly difficult for new competitors to attract users away. What concept does this describe, and what strategic implication follows for a new entrant?

A Economies of scale in manufacturing, which have no particular relevance to digital platforms or user growth dynamics

B A temporary phenomenon that always disappears once a platform reaches any minimum size, with no lasting competitive implication

C A factor that only benefits new entrants, since larger user bases make it easier, not harder, for competitors to attract them away

D Network effects — a new entrant may need a niche or differentiated proposition rather than head-on competition

Question 17

A company is considering a major capital-intensive expansion just as leading economic indicators suggest an approaching recession, including rising interest rates and softening consumer confidence. How should this economic PESTEL factor influence the timing and design of the expansion strategy?

A The economic outlook should be factored into both the timing and design of the expansion, potentially favouring a delayed, phased, or more flexible approach that can adapt if the anticipated downturn materialises

B Economic conditions should be entirely disregarded when planning any capital-intensive expansion, since economic cycles have no bearing on the success of strategic investment decisions

C The company should always proceed with the full expansion exactly as originally planned regardless of any economic indicators, since economic forecasts are never sufficiently reliable to justify any adjustment

D Rising interest rates only affect the cost of borrowing and have no other relevance to strategic decision-making beyond that single narrow point

Question 18

A company operating across several countries finds that data protection, employment, and consumer protection laws differ significantly between the jurisdictions in which it operates. Under PESTEL, how should this cross-border legal complexity be incorporated into strategic analysis?

A As an irrelevant factor, since legal requirements are always identical across every country a multinational company operates in, regardless of jurisdiction

B As a purely internal operational matter with no genuine relevance to overall strategic direction or planning at board level

C As a significant legal factor requiring careful analysis of compliance requirements and risk exposure specific to each jurisdiction, since a single-jurisdiction approach may not be adequate

D As a factor only relevant to the company's most senior legal counsel, with no strategic implications requiring board-level attention or awareness

Question 19

An organisation facing a difficult strategic decision that will affect several stakeholder groups chooses to communicate openly and consistently about the situation, its reasoning, and likely trade-offs, even before a final decision has been made. What benefit might this proactive, transparent approach to stakeholder communication provide, compared with withholding information until a final decision is announced?

A Proactive communication always guarantees universal stakeholder agreement with whatever final decision is eventually made, regardless of the substance of that decision

B Withholding all information until a final decision is announced always produces better stakeholder relationships than any degree of proactive communication beforehand

C Stakeholder communication strategy has no bearing whatsoever on how stakeholders ultimately react to a difficult strategic decision, regardless of how or when it is communicated

D Proactive, transparent communication can help build trust and reduce the risk of stakeholder reactions based on rumour, speculation or incomplete information, even if the eventual decision itself remains difficult for some stakeholders to accept

Question 20

A company operates in an industry where the underlying technology is advancing so rapidly that products can become obsolete within a small number of years of launch. Under PESTEL, how should this technological pace factor influence the company's strategic planning?

A It should have no influence at all on strategic planning, since the pace of technological change in an industry is entirely unrelated to appropriate planning horizons

B The company should adopt the longest possible fixed planning horizon precisely because rapid technological change makes distant, fixed forecasts more reliable, not less

C Rapid technological obsolescence only affects companies in the technology sector itself and has no relevance to companies in other industries that use or depend on that technology

D It should prompt continuous investment in innovation and shorter planning and product-refresh cycles, recognising that a slow-moving strategic approach may leave the company vulnerable to rapid obsolescence

Question 21

A country's competitive advantage in a particular industry, once strong, has weakened over recent decades as factor conditions, demand sophistication and domestic rivalry have all evolved, while a different country's advantage in the same industry has strengthened over the same period. What does this illustrate about Porter's Diamond as an analytical framework?

A The Diamond's four determinants are dynamic and can change over time, meaning national competitive advantage in a given industry is not permanently fixed and should be periodically reassessed rather than assumed to remain constant

B Once a country has established competitive advantage in an industry through Porter's Diamond, that advantage should be expected to persist for at least several decades, regardless of how the underlying determinants evolve

C Reassessing national competitive advantage is worthwhile only when a country's industry structure changes very suddenly, rather than through the kind of gradual evolution described

D A country's competitive advantage in an industry depends primarily on factor conditions alone, with demand conditions, related industries and rivalry playing a negligible role over time

Question 22

A company with a well-established, loyal customer base launches an entirely new product category to sell to those same existing customers. Which Ansoff strategy does this represent, and what is a key risk specific to this quadrant?

A Product development — the key risk is that the new product may fail commercially or technically, despite well-understood existing customers

B Market penetration — the key risk is entering a market the company has never previously operated in

C Diversification — the key risk is that the company both lacks product knowledge and lacks any existing customer relationships

D Market development — the key risk relates entirely to currency exposure in a new overseas market

Question 23

A company achieves a temporary cost advantage through a new production technique, but competitors are quickly able to observe, understand and replicate the technique within a year. What does this scenario suggest about the durability of this particular source of advantage?

A The advantage can be made permanent simply by patenting the technique, regardless of how easily competitors could otherwise independently discover or replicate it

B Competitors require significant time and resources to replicate any observable production technique, regardless of how simple or well-documented the technique actually is

C The advantage is not sustainable on its own, since easily observable and replicable techniques are quickly imitated, eroding the competitive edge they initially provided

D Sustainability of competitive advantage depends primarily on how much the technique originally cost to develop, rather than on how easily it can be observed and replicated by competitors

Question 24

A company wants to enter a new international market but lacks local market knowledge, established distribution relationships, and understanding of local regulatory requirements. A local company has exactly these assets but lacks the product technology the entrant possesses. What strategic option would best combine their complementary strengths?

A Full acquisition of the local company, since only complete ownership can ever combine two organisations' complementary strengths

B No collaboration at all, since complementary strengths are best pursued by each company operating entirely independently

C A simple licensing arrangement with no ongoing relationship, since licensing always fully substitutes for a joint venture in this situation

D A joint venture, pooling the entrant's product technology with the local partner's market knowledge, distribution and regulatory understanding under a shared ownership structure

Question 25

A company plans to first grow sales of its existing product in its home market, then later extend that same product into new overseas markets, and only after establishing itself there consider launching new products. What does this sequencing illustrate about the practical use of Ansoff's Matrix?

A A staged roadmap, building on familiarity at each stage before taking on the next layer of unfamiliarity

B Ansoff's Matrix requires all four strategies to be pursued simultaneously from day one, with no sequencing possible

C The sequence described is invalid, since Ansoff's Matrix strictly prohibits pursuing more than one strategy across a company's lifetime

D Sequencing has no bearing on risk, since market penetration and diversification carry identical risk profiles regardless of order

Question 26

A company is evaluating market development into a new country where consumer preferences, regulatory requirements and distribution channels differ substantially from its home market, and it currently has no local expertise or established relationships there. What does this situation suggest about the true risk level of this specific market development option?

A Market development is always low risk in every case, since Ansoff's Matrix guarantees identical risk levels for all instances within the same quadrant

B The described market differences are irrelevant to risk assessment, since only the product dimension of Ansoff's Matrix affects actual risk

C This scenario should instead be classified as diversification, since any sufficiently unfamiliar market always converts a market development strategy into diversification

D Market development is often lower risk than diversification generally, but this instance carries elevated risk given the significant unfamiliarity with the new market's regulatory, cultural and distribution landscape

Question 27

Rather than competing head-on with established rivals in a crowded, highly competitive market, a company instead creates an entirely new market space by combining features and pricing in a way no existing competitor offers, rendering direct comparison difficult. What strategic concept does this illustrate, and how does it differ from Porter's generic strategies?

A Cost leadership under Porter's framework, since creating a new market space is definitionally identical to pursuing the lowest cost position within an existing industry

B Blue ocean strategy — creating uncontested new market space rather than competing within existing boundaries, unlike Porter's generic strategies which focus on competing within a defined industry

C Market penetration under Ansoff's Matrix, since entering a new market space always constitutes penetration of the company's existing market by definition

D A strategic error, since companies should always compete directly within existing, well-established market boundaries rather than attempting to create new ones

Question 28

A company holds a business unit that consumes significant management attention and capital but generates persistently poor returns and has weak prospects for improvement, with no clear strategic fit to the rest of the group. What strategic option should the board most seriously consider, and what benefit might it provide?

A Continuing indefinitely to invest heavily in the unit, since abandoning any existing business activity is always the wrong strategic choice regardless of its performance or fit

B Immediate and complete closure of the entire group, since one persistently underperforming unit necessarily indicates the whole organisation is strategically unsound

C Divestment (disposal) of the underperforming unit, which could free up management attention and capital for redeployment to better-performing or more strategically aligned parts of the business

D Ignoring the unit's performance entirely, since strategic fit and financial returns are never relevant considerations in decisions about business unit retention

Question 29

A company successfully differentiates its product and charges a premium price, but customers report that they do not perceive the differentiating features as being worth the extra cost compared with lower-priced alternatives. What does this suggest about the viability of this particular differentiation strategy?

A The differentiation strategy is automatically successful by definition, since the mere existence of distinguishing features always justifies any price premium regardless of customer perception

B Customer perception of value is entirely irrelevant to whether a differentiation strategy succeeds, since only the objective existence of distinguishing features matters

C Any company charging a premium price is, by definition, pursuing a successful differentiation strategy, regardless of whether customers value the differentiating features

D The differentiation strategy may not be viable as currently priced, since successful differentiation depends on customers perceiving sufficient added value to justify the price premium, not merely on the features existing in some objective sense

Question 30

A company with strong existing brand recognition and manufacturing capability but no prior experience in direct international distribution is evaluating market development into an overseas territory. What organisational capability gap should this evaluation specifically highlight as a key implementation consideration?

A No capability gap exists at all, since strong brand recognition and manufacturing capability alone are always fully sufficient for successful international market development

B The absence of established international distribution capability and local market knowledge, which the company would need to build, acquire or access through partnership in order to successfully execute the market development strategy

C The company should abandon the market development option entirely, since any capability gap identified in an evaluation automatically disqualifies a strategic option from further consideration

D Manufacturing capability is entirely irrelevant to evaluating any market development strategy, regardless of how directly it relates to the company's ability to supply the new market

Question 31

A board is choosing between two strategic options: Strategy X has a moderately positive expected outcome with low variability; Strategy Y has a higher expected outcome but with a wide range of possible results, including a scenario that could threaten the company's survival. How should the board's risk appetite influence this strategic choice?

A Risk appetite is irrelevant to strategic choice, since the board should always select whichever option has the mathematically higher expected outcome

B A board with a genuinely low risk appetite may rationally prefer Strategy X despite its lower expected outcome, since avoiding a survival-threatening downside can outweigh a higher average return

C Every board should always select Strategy Y, since higher expected outcomes are always preferable regardless of the potential downside

D Risk appetite only matters for operational decisions and has no legitimate role in board-level strategic choice

Question 32

An organisation has already invested heavily in a particular technology platform over several years. A new strategic option would require abandoning much of that investment in favour of a different, potentially superior technology. What consideration should the board be wary of when evaluating this choice?

A The board should always continue with the existing technology platform indefinitely, since abandoning any past investment is never justified under any circumstances

B Past investment size should be the single deciding factor, outweighing any evidence about the relative future merits of the two technology options

C The sunk cost fallacy — the size of past investment should not itself justify continuing with an inferior option; the decision should be based on the future costs and benefits of each path from this point forward

D Sunk costs should be added to the future cost estimate of the new technology option to ensure a fair comparison between the two paths

Question 33

A management team continues to pour additional resources into a clearly underperforming strategic initiative, partly because senior executives publicly championed the initiative and are reluctant to be seen abandoning something they personally advocated for. What behavioural phenomenon does this illustrate, and what governance safeguard could help mitigate it?

A Escalation of commitment, driven partly by ego and reputational concerns; independent review or a pre-agreed exit criteria/stage-gate process can help counteract the bias

B Rational strategic persistence, since continuing to fund any initiative that has already received significant investment is always the economically correct decision

C A phenomenon that only affects junior employees and never influences the judgement of senior executives

D An unavoidable and unmanageable bias with no governance mechanism capable of reducing its effect on decision-making

Question 34

Analysts studying a highly successful company struggle to pinpoint exactly which specific factor explains its sustained performance, since the company's success appears to result from a subtle, hard-to-articulate combination of culture, informal routines and tacit knowledge rather than any single identifiable practice. What concept does this illustrate, and why does it matter for sustainable competitive advantage?

A A complete absence of any genuine competitive advantage, since analysts being unable to identify a clear cause proves that no real advantage actually exists

B A sign that the company's success is entirely attributable to random chance, since any advantage that cannot be clearly explained must be coincidental rather than genuine

C Causal ambiguity — the precise source of advantage is difficult even for outside analysts to identify or understand, which itself makes it harder to imitate and more sustainable

D Perfect imitability, since any competitive advantage that is difficult to describe in words is, by definition, equally easy for competitors to copy in practice

Question 35

An organisation commits to a chosen strategic option but also develops a documented contingency plan describing specific trigger points and pre-agreed alternative actions if key assumptions prove wrong. What benefit does this approach provide compared with committing to the chosen strategy with no contingency plan at all?

A Contingency planning provides no benefit whatsoever, since a well-chosen strategy should never need any pre-planned alternative course of action under any circumstances

B Developing a contingency plan signals to the organisation that management lacks genuine confidence in the chosen strategy, which is always a purely negative signal with no other interpretation

C Contingency plans should only ever be developed after a strategy has already failed, rather than before implementation begins

D Contingency planning lets the organisation respond faster and more coherently if circumstances change, since alternative actions and their triggers have already been considered in advance

Question 36

An organisation is comparing two strategic options with similar expected financial returns, but Option X has a bounded, limited potential downside if it fails, while Option Y has an unbounded, potentially catastrophic downside that could threaten the organisation's survival if certain adverse conditions materialise. How should this asymmetry in downside risk influence the strategic choice, even with similar expected returns?

A The asymmetry only matters once the size of the potential loss under Option Y has been converted into a specific probability-weighted expected value

B Organisations should weigh the asymmetry only after first confirming that Option Y's best-case outcome exceeds Option X's best-case outcome by a wide enough margin

C The asymmetry matters significantly — many organisations would prefer Option X's bounded downside over Option Y's unbounded catastrophic risk, even at similar expected returns, since expected value misses tail-risk consequences

D The asymmetry is relevant only for publicly listed organisations subject to shareholder scrutiny, and has no bearing on privately held organisations evaluating the same two options

Question 37

A diversified group discovers that a capability developed in one business unit — for example, a sophisticated customer analytics platform — could be adapted and applied to improve performance in several of its other business units, which had each been developing similar but less advanced capabilities independently. What strategic opportunity does this situation illustrate?

A No opportunity exists, since capabilities developed in one business unit can never be usefully applied or adapted for use in any other business unit within the same group

B The group should immediately divest every business unit except the one that originally developed the capability, since only that unit's capability is a source of value

C Each business unit should continue developing its own separate, independent capability indefinitely, since sharing capabilities across business units always destroys rather than creates value

D The opportunity to leverage and transfer valuable capabilities across business units within the group, potentially avoiding duplicated development effort and accelerating capability improvement group-wide

Question 38

A management team significantly overestimates the likelihood of a particular type of strategic risk materialising, largely because a vivid, widely publicised example of a similar failure at another company was recently and extensively covered in the media, even though statistical base rates suggest the actual risk is comparatively low. What bias does this illustrate, and what practice could help counter it?

A Rational risk assessment, since a vivid, widely publicised example is always a more statistically reliable indicator of true probability than a broader base-rate dataset

B A bias that arises only when the management team has no access to any statistical base-rate data at all, and cannot occur when such data is available but simply not consulted

C A bias that can be fully corrected on a one-off basis, with no need for any ongoing practice once the specific overestimated risk has been identified and corrected once

D Availability bias — the tendency to overweight the likelihood of vivid, easily recalled events; deliberately reviewing statistical base rates and broader historical evidence, rather than relying on memorable anecdotes alone, can help counter this bias

Question 39

A management team consistently produces optimistic forecasts for new strategic initiatives that, on review of past performance, have systematically overestimated actual results across a series of projects. What bias does this pattern suggest, and what practice might help produce more realistic forecasts in future?

A A pattern that reflects the deliberate use of moderately optimistic forecasts as a way of motivating project teams, rather than any genuine forecasting bias

B A pattern that is most likely explained by each individual project encountering entirely unrelated, unforeseeable circumstances, with no common underlying cause across the series

C Optimism bias (the planning fallacy) — reviewing the track record of past forecasts and using reference-class forecasting can help calibrate expectations

D A pattern that can only be corrected by replacing the entire management team responsible for producing the forecasts, since the bias is tied to those specific individuals rather than to the forecasting process itself

Question 40

An organisation relies exclusively on comparing actual results against budget at the end of each quarter to identify strategic problems, with no mechanism for anticipating issues before they occur. What limitation of this pure feedback-control approach does this illustrate, and what complementary approach could address it?

A Feedback control is always sufficient on its own and requires no complementary approach under any circumstances

B Feedforward control is identical to feedback control, so introducing it would provide no additional benefit to the organisation

C Quarterly review frequency has no bearing on how quickly strategic problems are identified, regardless of whether feedback or feedforward control is used

D Pure feedback control only identifies problems after they occur; feedforward control anticipates deviations beforehand using leading indicators and forecasts

Question 41

A sales team, evaluated purely on the number of new contracts signed each quarter, begins signing contracts with terms unfavourable to the company simply to hit the volume target, damaging long-term profitability. What strategic control problem does this scenario illustrate?

A A sign that all performance measurement should be abandoned, since any use of measurable targets inevitably produces this exact outcome in every case

B Measurement distortion ('what gets measured gets managed') — a narrow measure incentivises behaviour satisfying the metric while undermining the broader objective

C Evidence that non-financial measures always outperform financial measures in preventing this kind of behavioural distortion

D A problem that can only occur in sales functions and has no relevance to any other part of the organisation

Question 42

A strategic control system reveals that actual performance is significantly behind the planned trajectory on a key strategic initiative. What is generally the most appropriate next step for management, before deciding on a specific corrective action?

A Immediately abandon the initiative without any further investigation, since any variance from plan automatically indicates the initiative should be cancelled

B Ignore the variance entirely provided the initiative was originally approved by the board, regardless of how far off track it now is

C Investigate the underlying cause — a flawed original plan, an implementation failure, or a genuine change in external conditions — since the response depends on which applies

D Automatically increase resource allocation to the initiative without first understanding why performance has fallen behind the planned trajectory

Question 43

A company measures the success of its innovation strategy purely by counting the number of new patents filed each year, without any assessment of whether those patents relate to commercially meaningful innovations. Employees respond by filing large numbers of low-value, incremental patents to hit the target. What does this illustrate about designing strategic control measures?

A Counting patents filed is always a perfect measure of genuine innovation strategy success, regardless of the commercial significance of the individual patents filed

B Purely quantitative measures can be gamed if they miss the qualitative dimension of what matters strategically, so measures should reflect genuine value, not just countable activity

C Employees filing large numbers of low-value patents to hit the target demonstrates that the innovation strategy itself has been highly successful

D Quantitative measures should never be used in strategic control, since only entirely qualitative judgement can ever meaningfully assess strategic performance

Question 44

An organisation's strategic control system tracks numerous detailed financial and operational metrics extensively, but has no meaningful measure at all for a stated strategic priority around building long-term customer trust, since trust is considered too difficult to quantify. What risk does this gap create for the effectiveness of the control system?

A The control system can safely omit a measure for customer trust provided its financial and operational metrics are already tracked closely enough

B The control system risks systematically underweighting a genuinely important priority simply because it's harder to measure, letting customer trust deteriorate unflagged

C Management attention will naturally still be given to customer trust even without a formal measure, since experienced managers instinctively compensate for gaps in the control system

D A qualitative, narrative-only update on customer trust at each board meeting is always sufficient to fully substitute for any quantitative or semi-quantitative measure

Question 45

A company consistently meets its own internally set strategic performance targets each year, yet its market share and relative competitive position have been steadily declining over the same period. What does this scenario suggest about relying solely on internally set targets for strategic control?

A Meeting internal targets every year is always sufficient proof that an organisation's competitive position is strong and improving, regardless of what is happening in the wider market

B External benchmarking against competitors provides no additional useful information beyond what internally set targets already capture on their own

C Declining market share while meeting internal targets is impossible in practice and indicates a fundamental error in how market share has been measured

D Internally set targets alone may fail to reveal declining relative position if targets are insufficiently ambitious; external benchmarking against competitors offers a valuable additional perspective

Question 46

How does strategic control typically differ in focus from operational control within an organisation's overall control systems?

A Strategic control and operational control are simply two different names for exactly the same set of activities and measures, with no meaningful distinction between them

B Strategic control focuses on whether the organisation's overall direction remains appropriate and is being achieved, while operational control focuses on the efficiency and effectiveness of day-to-day activities and processes

C Operational control is concerned with the organisation's overall long-term direction, while strategic control is concerned exclusively with day-to-day transactional efficiency

D Strategic control is only relevant to very large multinational organisations and has no application to smaller companies of any kind

Question 47

Why might a board establish an audit and risk committee with independent, non-executive members to oversee the integrity of strategic performance reporting, rather than relying solely on reports prepared and reviewed entirely by executive management?

A Executive management always reports strategic performance with complete objectivity, making any independent committee entirely redundant in every organisation

B Audit and risk committees are relevant only to financial statement audit and have no legitimate role in overseeing strategic performance information

C Independent oversight reduces the risk that executive self-interest or optimism bias distorts strategic performance reporting, providing the board with a more objective check before relying on the information for major decisions

D Independent committees should be avoided entirely, since their existence is always interpreted by executives as an unwarranted and purely negative signal of distrust

Question 48

A strategic control system can either provide highly accurate performance data after a substantial processing delay, or somewhat less precise estimates in near-real time. In a fast-moving competitive environment, how should management typically weigh this trade-off, and why?

A Highly accurate information should always be preferred over timely information in every context, regardless of how quickly the competitive environment is changing

B In fast-moving environments, near-real-time but slightly less precise information often has more practical value than delayed, fully accurate data — timely information supports faster corrective action

C Timeliness and accuracy are entirely unrelated considerations in strategic control, so this trade-off does not meaningfully exist in practice

D Strategic control systems should never use any estimated or approximate data under any circumstances, waiting instead for fully precise figures no matter how long the delay

Question 49

A company implements a new strategic pricing model designed to increase overall revenue, which succeeds in its stated objective, but subsequently discovers the model has also significantly damaged relationships with its most loyal long-standing customers, who were previously offered informal discretionary discounts no longer available under the new structured model. What strategic control lesson does this scenario illustrate?

A No lesson can be drawn from this scenario, since strategic decisions can never produce any consequence beyond the single specific objective they were explicitly designed to achieve

B The pricing model should be judged an unambiguous and complete success, since it achieved its single stated objective of increasing overall revenue, with no other consideration being strategically relevant

C Loyal, long-standing customer relationships are strategically irrelevant provided that overall revenue figures continue to increase in the short term as intended

D Strategic decisions can produce unintended consequences beyond their explicitly stated objective, meaning strategic control should monitor a sufficiently broad set of outcomes, not only the specific metric the decision was originally designed to improve

Question 50

A company evaluates the overall success of its strategy almost entirely through a single dominant metric — quarterly share price movement — with little weight given to any other indicator of strategic health. What risk does this narrow reliance on one dominant metric create for strategic control?

A No risk exists at all, since quarterly share price movement always perfectly captures every dimension of an organisation's genuine long-term strategic health and performance

B A single dominant metric is always superior to any broader set of strategic measures, since simplicity in measurement is invariably more valuable than comprehensiveness in every context

C Strategic control systems should never include any financial metrics whatsoever, relying instead purely and exclusively on non-financial measures in all circumstances

D Over-reliance on a single metric risks missing important strategic signals that the chosen measure does not capture, and can encourage decisions that optimise for that specific metric even at the expense of broader long-term strategic health

Question 51

A long-term strategic initiative is proceeding broadly as planned, but shows a modest, temporary shortfall against an interim milestone due to a known, well-understood, and expected short-term factor. Some board members push for an immediate, significant change of direction in response. What does good strategic control practice suggest about how to weigh this pressure for immediate corrective action?

A Good practice suggests distinguishing between a genuine strategic problem and a well-understood, expected, temporary variance, since reacting with a significant change of direction to a modest, explainable short-term shortfall risks abandoning a fundamentally sound long-term strategy prematurely

B A modest, well-understood, and expected short-term shortfall should be treated identically to a fundamental strategic problem, since any shortfall against an interim milestone carries the same signal regardless of its underlying cause

C Interim milestones are useful mainly for record-keeping purposes, and should not meaningfully influence whether the board considers changing strategic direction at any point

D Board-level concern about a shortfall should be given somewhat less weight than operational management's view, purely because operational management is closer to the day-to-day detail behind the numbers

Question 52

A company adopts an expensive new artificial intelligence platform primarily because competitors have adopted similar technology, without first clearly defining what specific strategic problem the technology is meant to solve. What risk does this approach illustrate regarding the relationship between technology and strategy?

A Adopting any technology that competitors have already adopted always guarantees an equivalent competitive benefit, regardless of strategic fit

B Technology adoption driven by imitation rather than a clear strategic purpose risks significant wasted investment, since the technology may not address the organisation's actual strategic needs or capabilities gaps

C Technology decisions should always precede and determine strategic direction, rather than being selected to serve a previously identified strategic need

D There is no risk whatsoever in this approach, since keeping pace with competitor technology adoption is always sufficient justification on its own

Question 53

A company has the technical capability to combine multiple customer data sources to build highly detailed individual profiles for marketing purposes, going beyond what customers would reasonably expect based on the company's stated privacy policy. What strategic consideration should weigh most heavily on the board's decision about whether to proceed?

A Whether such use is consistent with customer expectations, applicable data protection law, and the reputational and trust risks of using data in ways that exceed what customers were led to expect

B Whether the company has the technical capability to combine the data, since technical feasibility alone should be the sole determining factor in this decision

C Whether combining the data would be the cheapest available marketing approach, since cost is the only relevant consideration in decisions involving customer data

D Whether competitors are already engaging in similar data practices, since matching competitor behaviour is always sufficient justification regardless of legal or ethical considerations

Question 54

A company has strong internal cybersecurity controls, but suffers a significant data breach originating from a third-party supplier with access to its systems, whose own security controls were much weaker. What does this scenario illustrate about the scope of digital strategic risk?

A Third-party suppliers can never introduce any cybersecurity risk to an organisation, since only an organisation's own internal systems are ever a source of exposure

B Strong internal controls automatically guarantee complete protection against any breach, regardless of the security practices of connected third parties

C Cyber risk extends beyond an organisation's own internal controls to include its extended digital ecosystem of suppliers and partners, requiring due diligence and ongoing oversight of third-party security practices

D Supply chain cybersecurity risk is purely the supplier's legal responsibility and has no strategic implications for the company that was actually breached

Question 55

A traditional distributor finds that manufacturers are increasingly able to sell directly to end customers through their own digital platforms, bypassing the distributor's traditional role in the value chain. What strategic responses might the distributor consider in response to this disintermediation threat?

A The distributor should respond only by cutting its own prices to match the manufacturers' direct-to-consumer pricing, without making any change to the range of services it offers

B The distributor's best response is to lobby for regulation restricting manufacturers from selling directly to consumers, rather than adapting its own value proposition

C Developing new value-added services that manufacturers or customers still need (such as logistics, aggregation across multiple manufacturers, or localised support) that a single manufacturer's direct platform cannot easily replicate on its own

D The only viable response is for the distributor to acquire one of the manufacturers it currently distributes for, regardless of the cost or strategic fit of doing so

Question 56

Which leadership behaviour is most closely associated with effectively bringing an organisation's leadership 'into the digital age', as opposed to leadership approaches better suited to more stable, traditional operating environments?

A Comfort with ambiguity, experimentation and rapid iteration, alongside a willingness to make decisions with incomplete information as digital initiatives evolve

B Insistence on complete certainty and exhaustive information before any decision is made, regardless of how quickly the digital environment is changing

C Rigid adherence to a fixed hierarchical decision-making process for every digital initiative, regardless of its scale or urgency

D Complete avoidance of any delegation of decision-making authority to teams closer to fast-moving digital initiatives

Question 57

A company deploys an algorithm to make automated decisions about customer credit approval, but cannot clearly explain to affected customers or regulators why any specific decision was reached, since the model's internal logic is not readily interpretable. What strategic and governance risk does this scenario illustrate?

A No risk exists at all, since algorithms are always completely objective and therefore require no explanation, oversight or accountability whatsoever

B A lack of algorithmic transparency creates real regulatory, reputational and fairness risks, so organisations need governance to ensure decisions can be explained and challenged

C This is purely a technical IT issue with no board-level governance or strategic relevance to the organisation as a whole

D Regulators and customers are never entitled to any explanation of automated decisions that affect them, so this scenario raises no genuine compliance concern

Question 58

An organisation has become heavily dependent on a small number of digital systems for its core operations, but has not developed or tested a plan for continuing critical business functions if those systems become unavailable due to a cyber incident or major outage. What strategic vulnerability does this illustrate?

A No vulnerability exists at all, since digital systems are assumed to be permanently available and completely immune to any form of outage or disruption

B A digital resilience and business continuity gap — heavy digital dependence without a tested continuity plan leaves the organisation exposed to potentially severe operational disruption if key systems become unavailable

C Business continuity planning is only relevant to organisations in the financial services sector and has no application to organisations in other industries

D Testing a continuity plan is unnecessary once a plan has been documented, regardless of whether it has ever actually been exercised or validated in practice

Question 59

During a live cyber incident affecting customer data, the board receives conflicting initial information about the scale and severity of the breach, and pressure is mounting for an immediate public statement. What does good strategic governance practice suggest about how the board should approach its immediate response?

A The board should immediately issue a detailed public statement containing every piece of initial, unverified information available, regardless of how conflicting or unconfirmed that information currently is

B The board should ensure a proportionate, carefully coordinated response — balancing the need for timely transparency with the risk of communicating inaccurate or incomplete information before the facts are reasonably well established

C The board should refuse to communicate with any stakeholder at all until the incident has been completely resolved in full, however long that eventually takes

D Cyber incidents are purely an operational IT matter, so the board should delegate the entire response, including public communication, without any board-level involvement or oversight

Question 60

A company must choose between adopting an open industry technology standard, used by multiple competitors and partners, or developing its own proprietary standard that it would fully control but that would not be compatible with other organisations' systems. What strategic trade-off does this choice illustrate?

A There is no meaningful strategic trade-off involved, since open and proprietary technology standards always produce entirely identical practical and commercial outcomes for the adopting organisation

B A company should always choose a proprietary standard in every situation, since retaining full technical control is invariably and unconditionally the superior strategic choice regardless of context

C Adopting an open standard can support easier interoperability, partnership and industry-wide network effects, while a proprietary standard offers greater control and potential differentiation but risks isolation and higher costs for partners and customers needing to integrate with it

D A company should always choose an open industry standard in every situation, since compatibility with other organisations' systems is invariably and unconditionally more important than any other strategic consideration

Answer key

1 C	**13** B	**25** A	**37** D	**49** D
2 D	**14** D	**26** D	**38** D	**50** D
3 D	**15** B	**27** B	**39** C	**51** A
4 A	**16** D	**28** C	**40** D	**52** B
5 C	**17** A	**29** D	**41** B	**53** A
6 C	**18** C	**30** B	**42** C	**54** C
7 A	**19** D	**31** B	**43** B	**55** C
8 D	**20** D	**32** C	**44** B	**56** A
9 B	**21** A	**33** A	**45** D	**57** B
10 D	**22** A	**34** C	**46** B	**58** B
11 D	**23** C	**35** D	**47** C	**59** B
12 A	**24** D	**36** C	**48** B	**60** C

Score: count your correct answers out of 60. Then work through the explanations below.

Answers and explanations

Question 1: C It fails on feasibility, since the resources required to implement it are not realistically available, regardless of how well it scores on suitability

Feasibility asks whether the organisation has, or can realistically obtain, the resources and capabilities needed to implement a strategy. An option that fits the environment and capabilities (suitability) but cannot be financed fails specifically on feasibility, not suitability. Suitability alone does not determine whether a strategy should proceed — all three criteria (suitability, acceptability, feasibility) must be satisfied, since a strategy that fits well but cannot be resourced, or that could be resourced but produces unacceptable risk or returns, is not viable overall. Acceptability concerns stakeholder risk, return and reaction — financing constraints sit within feasibility, not acceptability. The three criteria are typically assessed using a mix of qualitative and quantitative methods appropriate to each, not a single uniform method.

Section A, Suitability, acceptability and feasibility framework · Ref A1c · e3003

Question 2: D Acceptability must weigh likely stakeholder reactions alongside risk and return, since strong opposition can undermine an attractive strategy

Acceptability in strategic evaluation explicitly covers three dimensions: risk, return, and stakeholder reactions. A strategy with an attractive return can still fail the acceptability test if it provokes opposition from a stakeholder whose cooperation is essential — the financial attractiveness does not offset the practical risk that implementation is blocked or undermined. Considering stakeholder reaction only after implementation defeats the purpose of ex-ante evaluation, since the option to reconsider or adapt the strategy would already have been lost. Financial return is one input to acceptability, not the sole determinant — a purely return-focused assessment would systematically miss exactly the kind of implementation risk described here.

Section A, Acceptability — risk, return and stakeholder reaction · Ref A1c · e3004

Question 3: D A gap between stated and revealed strategic priorities, reflecting incentives that reward short-term performance over the stated objective

When actual resource allocation systematically favours short-term earnings over the stated long-term objective, the revealed priorities (what the organisation actually does) diverge from the stated priorities (what it says it values) — often because incentive structures such as short-term bonus schemes or quarterly performance pressure reward the short-term behaviour more directly than the long-term goal. Short-term earnings are not always a reliable proxy for long-term value; the divergence here is exactly what suggests they are not functioning as one in this organisation. The scenario does not discredit shareholder value maximisation as an objective in principle — it reveals an implementation and incentive-alignment problem. Resource allocation decisions are generally strongly shaped by corporate objectives and incentives, even when — as here — the result diverges from the formally stated goal.

Section A, Corporate objectives and stakeholder alignment · Ref A1a · e3008

Question 4: A Feasibility, since it concerns whether the organisation has or can obtain the resources and capabilities the strategy requires

Feasibility is specifically concerned with whether an organisation has, or can realistically acquire, the resources and capabilities a strategy demands — a capability gap that cannot be closed within the implementation timeframe is a direct feasibility concern. Suitability instead asks whether a strategy fits the external environment and internal capabilities in strategic logic terms — capability gaps are more precisely a feasibility issue about execution capacity than a suitability issue about strategic fit. Acceptability concerns risk, return and stakeholder reaction, not resource availability. Capability and resource assessment is a core, not separate, part of strategic evaluation — it is one of the three central pillars (suitability, acceptability, feasibility) that a complete evaluation must address.

Section A, Feasibility — capability and resource gaps · Ref A1c · e3009

Question 5: C A single fixed long-term plan suits high-volatility environments poorly, where scenario planning and periodic review work better than a static commitment

In highly volatile environments, the assumptions underpinning a long fixed plan are likely to be invalidated well before the plan's horizon is reached, making rigid ten-year commitments poorly matched to the pace of change. Scenario planning and periodic review points allow the organisation to test multiple plausible futures and adjust as new information emerges, which is far better suited to volatility than a single static forecast. Longer horizons do not improve accuracy in volatile settings — if anything, uncertainty compounds over longer periods, reducing forecast reliability. Detail in documentation does not compensate for the rigidity of an undifferentiated single-path plan. Volatility is precisely the factor that should shape the appropriate planning approach and review cadence.

Section A, Strategic planning horizons and uncertainty · Ref A1e · e3011

Question 6: C It represents a genuine implementation risk to weigh against the option's other strengths, not dismiss simply because the other two criteria score well

All three evaluation criteria are meant to be considered together rather than allowing strength in two to simply override a weakness in the third. Marginal feasibility represents a genuine implementation risk — resources stretched near their limit increase the chance of execution failure, resourcing conflicts, or an inability to respond to unexpected demands during rollout — and this must be weighed explicitly against the option's suitability and acceptability strengths, potentially alongside contingency planning or phased implementation to manage the risk. Automatically disregarding a marginal feasibility score ignores real execution risk; automatically disqualifying the option ignores that resource gaps can sometimes be closed through phasing, partnership, or incremental capability building. Feasibility is relevant to every option, not only those that also score poorly elsewhere.

Section A, Trade-offs between suitability, acceptability and feasibility · Ref A1c · e3015

Question 7: A Corporate objectives set direction; business-unit objectives translate this; operational objectives set day-to-day targets — each level should align

A well-functioning hierarchy of objectives cascades from the corporate level (setting overarching strategic direction) down through business-unit level (translating that direction into more specific unit-level goals appropriate to each business's context) to the operational level (translating those goals further into day-to-day targets and activities) — with each level ideally supporting and aligning with the level above to ensure coherent strategic execution across the organisation. Setting the three levels entirely independently, with no expectation of alignment, would risk exactly the kind of strategic drift and internal inconsistency that effective strategic management seeks to avoid. Operational objectives are meant to serve and support corporate direction, not override it when tension arises — persistent tension instead signals a need to revisit and reconcile the objectives across levels. All three levels are genuinely distinct and relevant in most multi-level organisations, not merely two, since each addresses a different scope and time horizon of decision-making.

Section A, Strategic apex and hierarchy of objectives · Ref A1d · e3073

Question 8: D A significant, unreviewed gap between intended and realised strategy over time can reveal drift, without deliberate acknowledgement or correction

Comparing the originally intended strategy against the strategy actually realised through the accumulated pattern of decisions over time is a direct way of surfacing strategic drift — where the gap between the two has grown significantly without deliberate, acknowledged adjustment, this indicates the organisation has drifted from its intended path through unreviewed incremental decisions rather than a considered strategic pivot. Intended and realised strategy are frequently not identical in real organisations — some divergence through legitimate emergent adaptation is normal, but excessive, unacknowledged divergence over time is exactly the drift phenomenon this comparison is designed to reveal, making the comparison a meaningful and commonly used diagnostic tool rather than a pointless exercise. The realised strategy is central, not irrelevant, to this comparison — drift is fundamentally about the relationship between the two, not about the intended strategy viewed in isolation. This comparison is a live, ongoing management tool that can and should be performed periodically during an organisation's operation, not only after it has ceased to exist.

Section A, Strategic drift — comparing intended and realised strategy · Ref A1b · e3092

Question 9: B It reveals which options perform robustly across a range of plausible futures versus which are highly dependent on one specific set of assumptions proving correct, providing a more resilient basis for genuinely uncertain strategic choices

Testing options against several plausible future scenarios reveals which options perform robustly across a range of possible futures versus which are highly dependent on one specific set of assumptions proving correct — this is particularly valuable precisely when the future is genuinely uncertain and a single reliable forecast is not available, giving the board a more resilient basis for choice. Claiming the advantage only applies when the board is already confident about one likely future gets the rationale backwards: scenario testing is most valuable precisely when such confidence is not justified. Similarly, describing it as most useful when a single highly reliable forecast already exists misunderstands the technique's purpose, which is to manage situations where no single forecast can be relied upon with confidence. The approach does not mechanically direct the board toward whichever option wins in one 'most likely' scenario; its value lies in comparing performance across the full range of scenarios, including ones that are not judged most likely, precisely to avoid over-reliance on a single assumed future.

Section A, Strategic evaluation — the role of scenario testing across multiple options · Ref A1c · e3122

Question 10: D To systematically identify macro-environmental factors — political, economic, social, technological, environmental and legal — affecting strategic position

PESTEL provides a systematic framework for scanning the macro-environment across six categories — political, economic, social, technological, environmental and legal — to identify factors that could create opportunities or threats for the organisation's strategy. It is explicitly an external, macro-level tool, not a method for assessing internal resources and capabilities (which is the domain of tools such as resource audits or the value chain). It is a qualitative scanning framework, not a mechanism for calculating precise financial returns — that role belongs to appraisal techniques. And it is deliberately broad across all six categories, not narrowly restricted to technological factors or a single product line.

Section B, PESTEL analysis — scope and application · Ref B1a · e3016

Question 11: D Porter's Diamond, which holds that advantage arises from the interaction of these four determinants, not any single factor

Porter's Diamond identifies four interacting determinants of national competitive advantage in a given industry: factor conditions, demand conditions, related and supporting industries, and firm strategy/structure/rivalry — with intense domestic rivalry often sharpening competitiveness rather than weakening it. Its central insight is that competitive advantage emerges from the interaction of these determinants reinforcing one another, not from any single factor alone. Porter's Five Forces assesses the attractiveness of an individual industry through rivalry, the threat of new entrants and substitutes, and buyer and supplier power; it does not explain national-level competitive advantage. PESTEL is a macro-environmental scanning tool unrelated to this specific framework. The BCG matrix is a portfolio tool for classifying business units, entirely distinct from the national-advantage question posed here.

Section B, Porter's Diamond and national competitive advantage · Ref B1c · e3020

Question 12: A Keep satisfied through periodic, high-level engagement, but be prepared to shift to close management if the regulator's interest increases due to an emerging issue

Under Mendelow's Matrix, a high-power, low-interest stakeholder is typically placed in the 'keep satisfied' quadrant — engaged with periodic, high-level communication sufficient to maintain their support without overwhelming them with detail they show little current appetite for. However, stakeholder positions on the matrix are not fixed: if an emerging issue raises the regulator's interest (for example, a compliance concern or public controversy), they may move towards the 'key player' quadrant, requiring closer, more active management. Ignoring a high-power stakeholder entirely is risky regardless of current interest level, since their power to affect the organisation remains latent even when interest is low. Treating them the same as a low-power, low-interest stakeholder would under-invest in a relationship with genuine latent influence over the organisation's strategic freedom.

Section B, Stakeholder mapping using Mendelow's Matrix · Ref B1d · e3021

Question 13: B Ecosystem-based competition — the insurer should consider participating in, not only competing against, such ecosystems

This scenario describes ecosystem-based competition, where a platform aggregates multiple complementary products and services into an integrated, convenient customer experience that a single traditional provider struggles to match alone. Rather than only viewing this as a threat to compete against head-on, the insurer might consider strategic responses such as partnering with the platform to distribute its own products, developing its own ecosystem capabilities, or focusing on differentiated value the platform cannot easily replicate. This is not simply price competition — the value proposition is about integration and convenience, not price alone, so price-matching alone would not address the underlying competitive shift. It carries clear strategic implications for the insurer's positioning, not merely regulatory ones. Regulated industries have seen substantial platform and ecosystem activity in practice, contradicting the claim that platforms cannot succeed there.

Section B, Digital ecosystems and platform competition · Ref B1e · e3022

Question 14: D As a significant environmental/legal factor requiring evaluation of compliance costs, competitive advantage from early adaptation, and penalty risk for delay

A binding regulatory requirement with financial penalties is a material environmental and legal PESTEL factor requiring genuine strategic evaluation — not just of the direct compliance cost, but also of whether early adaptation could create a competitive advantage (differentiation, reputation, first-mover positioning) relative to slower-moving competitors, alongside the downside risk of penalties for those who delay. Given the substantial financial penalties described, dismissing the factor as irrelevant would be a significant misjudgement. A five-year compliance horizon with lasting financial and competitive consequences is a medium-to-long-term strategic matter, not merely a short-term operational one. The regulation explicitly targets manufacturers in the sector, making it directly relevant to private companies, not merely government bodies.

Section B, PESTEL — environmental factors and strategic response · Ref B1a · e3024

Question 15: B Factor conditions (specialised craft skills) and demand conditions (sophisticated, quality-conscious domestic buyers)

Factor conditions in Porter's Diamond include specialised, created factors such as deep craft skills built up over generations, which are far more durable sources of advantage than basic, inherited factors. Demand conditions refer to the sophistication and quality-consciousness of domestic buyers, who push local firms to innovate and improve faster than they might if serving a less demanding market — precisely the discerning consumer base described here. Specialised craft skills are squarely a factor condition, and sophisticated domestic demand is squarely a demand condition — the scenario directly illustrates both, not either in isolation, and not the other two determinants (which concern industry rivalry structure and supporting industry clusters) as the primary focus of this particular example.

Section B, National competitive advantage — factor and demand conditions · Ref B1c · e3026

Question 16: D Network effects — a new entrant may need a niche or differentiated proposition rather than head-on competition

Network effects occur when a platform's value to each user increases as more users join, creating a virtuous cycle: more users attract more users, and switching away becomes less attractive as the incumbent's network grows. This creates a strong incumbency advantage that is very difficult for a new entrant to overcome through direct, head-on competition for the same broad user base — instead, new entrants often need to target an underserved niche not well served by the incumbent, or offer a sufficiently differentiated proposition to build an initial user base despite the incumbent's advantage. This is a demand-side phenomenon about user value, distinct from manufacturing economies of scale, and it does not reliably fade once a platform reaches a minimum size — it can persist and strengthen as the network continues to grow. The advantage runs strongly in the incumbent's favour, not the new entrant's.

Section B, Network effects in digital ecosystems · Ref B1e · e3028

Question 17: A The economic outlook should be factored into both the timing and design of the expansion, potentially favouring a delayed, phased, or more flexible approach that can adapt if the anticipated downturn materialises

Leading indicators suggesting an approaching recession — rising interest rates (increasing the cost of financing the expansion) and softening consumer confidence (potentially reducing demand for the expanded output) — are directly relevant economic PESTEL factors that should influence both the timing (perhaps delaying until conditions clarify) and the design (perhaps phasing the expansion or building in greater flexibility to scale back if conditions worsen) of the strategy, rather than proceeding exactly as originally conceived without regard to the changed outlook. Disregarding economic conditions when planning a major capital-intensive investment ignores a factor with direct, material bearing on both the cost and expected return of the investment. While economic forecasts do carry inherent uncertainty, this is an argument for building flexibility into the plan, not for ignoring the signal entirely and proceeding exactly as originally designed regardless of circumstances. Rising interest rates affect both the direct cost of financing the expansion and, more broadly, overall economic activity and consumer spending capacity, giving the factor wider relevance than financing cost alone.

Section B, PESTEL — economic factors and strategic timing · Ref B1a · e3097

Question 18: C As a significant legal factor requiring careful analysis of compliance requirements and risk exposure specific to each jurisdiction, since a single-jurisdiction approach may not be adequate

Significant cross-border differences in data protection, employment, and consumer protection law represent a genuinely important legal PESTEL factor requiring careful, jurisdiction-specific analysis of compliance requirements and associated risk exposure — a single, uniform compliance approach designed around one jurisdiction's rules may be inadequate or even non-compliant when applied without adaptation across genuinely differing legal regimes, which can have material strategic and financial consequences if mismanaged. The premise that legal requirements are identical across jurisdictions directly contradicts the scenario's explicit description of significant differences between the countries in which the company operates. This is far more than a purely internal operational matter — cross-border legal complexity can materially affect market entry decisions, operating models, risk exposure and overall strategic planning, warranting genuine strategic-level, not merely operational, attention. While legal counsel plays an important technical role, cross-border legal and compliance risk of this scale and strategic significance typically warrants board-level awareness and oversight, not confinement to legal counsel alone, given its potential impact on overall strategic direction and risk exposure.

Section B, PESTEL — legal factors and cross-border compliance complexity · Ref B1a · e3123

Question 19: D Proactive, transparent communication can help build trust and reduce the risk of stakeholder reactions based on rumour, speculation or incomplete information, even if the eventual decision itself remains difficult for some stakeholders to accept

Proactive, transparent communication about a difficult situation and its reasoning — even before a final decision is reached — can help build stakeholder trust and reduce the risk that stakeholders form negative reactions based on rumour, speculation, or incomplete information filling the vacuum left by organisational silence, even though the underlying difficulty of the decision itself, and some stakeholders' ultimate dissatisfaction with the outcome, may remain regardless of how well the process is communicated. This does not guarantee universal agreement with whatever final decision is made — communication quality can improve the process and relationship even where substantive disagreement about the outcome persists, which is a more realistic characterisation than assuming transparency eliminates all stakeholder objection. There is substantial evidence and reasoning in stakeholder management practice suggesting that withholding information often damages trust and invites speculation, rather than reliably producing better relationships than a genuinely transparent approach. Stakeholder communication strategy is widely recognised as having a material bearing on how stakeholders perceive and react to strategic decisions, directly contradicting a claim of no relationship between communication approach and stakeholder reaction.

Section B, Stakeholder engagement — building trust through consistent, transparent communication · Ref B1d · e3124

Question 20: D It should prompt continuous investment in innovation and shorter planning and product-refresh cycles, recognising that a slow-moving strategic approach may leave the company vulnerable to rapid obsolescence

Operating in an industry with a rapid pace of technological obsolescence should prompt continuous investment in innovation and correspondingly shorter, more frequently revisited planning and product-refresh cycles, since a slow-moving strategic approach — built around long, infrequently revisited plans — risks leaving the company with an outdated product or capability well before a longer planning cycle would naturally prompt reconsideration. Claiming no influence on strategic planning ignores the direct and well-recognised relationship between the pace of technological change in an industry and how frequently strategic plans and product roadmaps need to be revisited to remain relevant. Adopting the longest possible fixed planning horizon in a rapidly changing technological environment would, if anything, make forecasts less reliable, not more, since more time elapses during which unanticipated technological shifts can invalidate the plan's underlying assumptions. Rapid technological obsolescence in an underlying technology can affect not only companies producing that technology directly, but also companies across other industries that depend on or incorporate it, given how widely many technologies propagate across value chains and sectors.

Section B, PESTEL — technological factors and the pace of obsolescence · Ref B1a · e3132

Question 21: A The Diamond's four determinants are dynamic and can change over time, meaning national competitive advantage in a given industry is not permanently fixed and should be periodically reassessed rather than assumed to remain constant

The scenario shows several of the Diamond's determinants (factor conditions, demand conditions and domestic rivalry) evolving and interacting differently over time in the two countries, illustrating that national competitive advantage in a given industry is dynamic rather than permanently fixed, and should be periodically reassessed rather than assumed to remain constant. Expecting an established advantage to persist for decades regardless of how the underlying determinants evolve is inconsistent with the scenario itself, which explicitly describes advantage weakening in one country as its determinants evolved. Limiting reassessment to only sudden changes overlooks that gradual, cumulative shifts in the determinants — exactly as described here — can be just as significant over time as a sudden shock, and are arguably harder to notice without periodic review. The scenario also illustrates several determinants evolving together, not factor conditions in isolation, so treating demand conditions, related industries and rivalry as negligible misrepresents the framework's central insight that advantage arises from the interaction of all four determinants.

Section B, National competitive advantage — dynamic evolution of the Diamond over time · Ref B1c · e3133

Question 22: A Product development — the key risk is that the new product may fail commercially or technically, despite well-understood existing customers

Selling a new product to the existing, familiar customer base is product development. The organisation retains its existing market knowledge and customer relationships (a source of reduced risk relative to diversification), but takes on genuine product risk — the new offering may fail to meet quality expectations, may not be technically viable, or may simply not resonate commercially, even with customers the company understands well. Market penetration would involve growing sales of an existing product to the existing market, which is not what is described. Diversification would require both a new product and a new market — here, the market (existing loyal customers) is unchanged, so the diversification-specific risk profile does not apply. Market development concerns entering new markets with existing products, and currency exposure is not the risk profile relevant to the product development scenario described.

Section C, Ansoff's Matrix — product development risk profile · Ref C1a · e3033

Question 23: C The advantage is not sustainable on its own, since easily observable and replicable techniques are quickly imitated, eroding the competitive edge they initially provided

An advantage based on an easily observed and replicated technique is inherently vulnerable to imitation, since competitors can copy it once they understand how it works, eroding the advantage it initially provided — genuine sustainability typically requires a source of advantage that is harder to imitate (tacit knowledge, causal ambiguity, or a protected resource), not simply the technique itself. Patenting can help in some cases, but a patent's protection depends on the technique being patentable and enforceable in practice; it does not automatically override the practical reality that observable techniques are often easier to work around or independently replicate than this option implies. Claiming competitors always need significant time and resources regardless of the technique's complexity ignores the scenario's own detail that this particular technique was replicated within a year — simple, easily observable techniques are often replicated faster than more complex ones, not at a uniform rate regardless of complexity. Development cost is a sunk cost from the imitator's perspective; it has no bearing on how easily a rival can observe and copy the finished technique, so it is not the primary driver of sustainability this option claims.

Section C, Sustainable competitive advantage and imitation risk · Ref C1b · e3039

Question 24: D A joint venture, pooling the entrant's product technology with the local partner's market knowledge, distribution and regulatory understanding under a shared ownership structure

A joint venture is well suited to precisely this situation: two organisations pool genuinely complementary resources and capabilities — here, product technology from the entrant and market knowledge, distribution and regulatory understanding from the local partner — under a shared ownership and governance structure, sharing both the risks and rewards of the new market entry. Full acquisition is one option but is not the only way to combine complementary strengths, and it may be neither necessary nor desirable if the entrant's goal is to access local capabilities without the cost and complexity of full ownership. Operating entirely independently would forfeit access to the local partner's valuable market knowledge and relationships that the entrant currently lacks. A simple licensing arrangement transfers rights to use technology but does not typically provide the deep operational collaboration on distribution and regulatory navigation that a joint venture structure is specifically designed to support.

Section C, Joint ventures — shared control and strategic fit · Ref C1c · e3040

Question 25: A A staged roadmap, building on familiarity at each stage before taking on the next layer of unfamiliarity

This sequencing — market penetration, then market development, before eventually considering product development (new products for markets it now knows) — reflects a common and sensible practical use of Ansoff's Matrix as a staged roadmap: building familiarity and capability at each less risky stage before taking on the next layer of unfamiliarity, rather than jumping directly into the highest-risk diversification quadrant (new products in new markets) without any accumulated experience. The Matrix does not require simultaneous pursuit of all four strategies from day one — it is a classification and planning tool that can support exactly this kind of staged, risk-managed growth path. There is no rule prohibiting a company from pursuing different strategies across its lifetime; many successful companies use exactly this staged pattern deliberately. Risk levels do differ meaningfully across quadrants — market penetration is consistently regarded as lower risk than diversification because of the difference in familiarity with products and markets, and the same logic of building familiarity before adding the next unfamiliar element is the rationale for the staged sequencing described in the scenario.

Section C, Ansoff's Matrix — sequencing growth strategies · Ref C1a · e3041

Question 26: D Market development is often lower risk than diversification generally, but this instance carries elevated risk given the significant unfamiliarity with the new market's regulatory, cultural and distribution landscape

While market development is generally characterised as carrying lower risk than diversification because the product itself remains familiar, the actual risk level within any given quadrant can vary substantially depending on the specific circumstances — here, significant differences in consumer preferences, regulatory requirements and distribution channels, combined with a complete absence of local expertise or relationships, elevate the real-world risk of this particular market development initiative well above a 'typical' or generic instance of the strategy. Ansoff's Matrix provides a useful general classification of relative risk across quadrants, but it does not guarantee identical risk for every specific instance within a quadrant — context matters. Market-side factors are just as relevant to risk as product-side factors; the framework's two axes (product and market familiarity) both drive the overall risk profile. The scenario remains market development, not diversification, since the product itself is unchanged — extreme market unfamiliarity intensifies the risk profile within that quadrant rather than reclassifying the strategy into a different quadrant altogether.

Section C, Evaluating growth options against strategic capability · Ref C1a · e3044

Question 27: B Blue ocean strategy — creating uncontested new market space rather than competing within existing boundaries, unlike Porter's generic strategies which focus on competing within a defined industry

This scenario illustrates blue ocean strategy, which advocates creating uncontested new market space through a novel combination of value elements (rather than competing head-to-head within a crowded existing market, or 'red ocean'), making direct comparison with existing competitors difficult precisely because the offering does not map neatly onto established competitive categories. This differs from Porter's generic strategies, which are fundamentally about how to compete effectively within a given, already-defined industry structure (through cost leadership, differentiation, or focus) rather than about redefining the boundaries of that structure altogether. Cost leadership is one way of competing within an existing industry structure, not synonymous with creating an entirely new market space, so the two concepts are distinct rather than definitionally identical. Ansoff's Matrix concerns product/market combinations for growth, not specifically the competitive redefinition of market space that blue ocean strategy addresses — the terms are not interchangeable. The scenario does not support a conclusion that this approach is a strategic error; rather, it illustrates a distinct and recognised strategic path that some organisations pursue successfully.

Section C, Blue ocean strategy versus competing in existing markets · Ref C1b · e3078

Question 28: C Divestment (disposal) of the underperforming unit, which could free up management attention and capital for redeployment to better-performing or more strategically aligned parts of the business

Divestment (disposal or sale) of a persistently underperforming, poorly fitting business unit is a legitimate and often value-creating strategic option, freeing up management attention currently absorbed by the unit and releasing capital that can be redeployed to better-performing or more strategically aligned parts of the business, or returned to shareholders. Continuing to invest indefinitely in a unit with persistently poor returns and weak prospects for improvement risks the sunk cost fallacy and continued value destruction, rather than reflecting sound strategic discipline. The underperformance of one unit does not necessarily indicate that the entire group is strategically unsound — closing the whole organisation would be a disproportionate response when a more targeted divestment could resolve the specific problem. Financial returns and strategic fit are precisely the central considerations that should drive retention or divestment decisions about individual business units — treating them as irrelevant would remove the very basis for sound portfolio management.

Section C, Divestment as a strategic option · Ref C1c · e3079

Question 29: D The differentiation strategy may not be viable as currently priced, since successful differentiation depends on customers perceiving sufficient added value to justify the price premium, not merely on the features existing in some objective sense

Successful differentiation depends fundamentally on customers perceiving sufficient added value in the distinguishing features to justify paying a price premium over alternatives — the mere objective existence of differentiating features is not sufficient if customers do not perceive them as valuable enough to warrant the extra cost, which is exactly the disconnect described in this scenario, suggesting the strategy as currently priced and communicated may not be commercially viable. Assuming differentiation is automatically successful simply because distinguishing features exist ignores the essential customer-perception dimension that determines whether a price premium can actually be sustained in the market. Customer perception is central, not irrelevant, to whether a differentiation strategy succeeds commercially — a feature the market does not value provides no basis for a sustainable premium, regardless of how genuinely distinctive it may be in an engineering or design sense. Charging a premium price does not, by itself, confirm a differentiation strategy is working — the scenario explicitly shows customers resisting the premium, which is a signal of strategic vulnerability rather than confirmed success.

Section C, Generic strategies — differentiation basis and price premium sustainability · Ref C1b · e3120

Question 30: B The absence of established international distribution capability and local market knowledge, which the company would need to build, acquire or access through partnership in order to successfully execute the market development strategy

The evaluation should specifically highlight the absence of established international distribution capability and local market knowledge as a key implementation consideration — while strong brand recognition and manufacturing capability provide a valuable foundation, they do not by themselves address how the product will actually reach customers and navigate the specific commercial, regulatory and cultural landscape of the new market, meaning the company would need to build this capability internally, acquire it, or access it through a partnership or joint venture arrangement to execute the strategy successfully. Assuming existing brand and manufacturing strength alone are fully sufficient overlooks this genuine and specific gap that the evaluation is meant to surface as part of a proper feasibility assessment. Identifying a capability gap during evaluation does not automatically disqualify an option — many viable strategic options require building or acquiring new capability as part of implementation, which is a normal part of pursuing growth rather than an automatic veto. Manufacturing capability remains relevant to market development, since it directly affects the company's capacity to supply the new market once distribution is established, even though it does not by itself resolve the distribution capability gap being highlighted here.

Section C, Ansoff's Matrix — evaluating a growth option against organisational strategic capability · Ref C1a · e3126

Question 31: B A board with a genuinely low risk appetite may rationally prefer Strategy X despite its lower expected outcome, since avoiding a survival-threatening downside can outweigh a higher average return

Strategic choice is not purely a matter of selecting the highest expected value option — the board's risk appetite, reflecting the organisation's willingness and capacity to bear risk, is a legitimate and important input to the decision. A board that judges the risk of a survival-threatening outcome as unacceptable, however unlikely, may rationally choose the lower-variability Strategy X despite its lower expected outcome, since preserving the organisation's ongoing existence has value that a purely expected-value calculation does not capture. Always selecting the mathematically higher expected outcome ignores the asymmetric consequences of catastrophic downside scenarios, which many boards and stakeholders would regard as unacceptable regardless of the average return. Risk appetite is a well-established and legitimate consideration in strategic decision-making at board level, not confined to operational matters.

Section D, Strategic choice criteria under uncertainty · Ref D1a · e3046

Question 32: C The sunk cost fallacy — the size of past investment should not itself justify continuing with an inferior option; the decision should be based on the future costs and benefits of each path from this point forward

The board should be wary of the sunk cost fallacy — the tendency to let the size of past, irrecoverable investment influence a forward-looking decision, when in fact only the future costs and benefits from this point forward are relevant to choosing the best path ahead. If the new technology is genuinely superior going forward, the fact that abandoning the old platform means writing off prior investment does not, by itself, justify persisting with an inferior option. Always continuing with the existing platform regardless of the evidence about future merits is exactly the sunk cost fallacy in action. Using past investment size as the single deciding factor commits the same error. Sunk costs are, by definition, costs already incurred regardless of the choice made now — they should not be added to the future cost estimate of either option, since doing so would double-count a cost that neither future path can actually change.

Section D, Strategic choice — path dependency and prior commitments · Ref D1b · e3047

Question 33: A Escalation of commitment, driven partly by ego and reputational concerns; independent review or a pre-agreed exit criteria/stage-gate process can help counteract the bias

Escalation of commitment describes the tendency to continue investing in a failing course of action, often driven by psychological factors such as ego, reputational protection, and reluctance to admit a prior decision was wrong — precisely what is described where executives who publicly championed the initiative resist abandoning it. Governance safeguards such as independent review panels not personally invested in the original decision, or pre-agreed stage-gate and exit criteria set before commitment escalates, can help counteract the bias by introducing an objective checkpoint disconnected from the emotional investment of the original decision-makers. Continuing to fund a genuinely underperforming initiative is not rational strategic persistence — the scenario explicitly notes the initiative is clearly underperforming, meaning further investment is being driven by bias rather than sound analysis. The phenomenon is well documented among senior executives specifically, not limited to junior staff, and governance mechanisms such as those described are widely used specifically because the bias, while common, is manageable through appropriate structural safeguards.

Section D, Strategic choice — escalation of commitment · Ref D1b · e3053

Question 34: C Causal ambiguity — the precise source of advantage is difficult even for outside analysts to identify or understand, which itself makes it harder to imitate and more sustainable

Causal ambiguity refers to a situation where the precise source of a firm's competitive advantage is difficult to identify or fully understand, even by outside analysts and, importantly, by competitors themselves — this ambiguity is not merely an analytical inconvenience but is itself a valuable protective mechanism, since a source of advantage that competitors cannot clearly identify is correspondingly difficult for them to replicate, contributing directly to the advantage's sustainability. Analysts' inability to pinpoint a clear, single cause does not indicate the absence of genuine advantage — the company's sustained superior performance described in the scenario is itself evidence that some real advantage exists, even though its precise source resists simple explanation. Nor does causal ambiguity imply the success is merely coincidental chance — sustained performance over time is generally inconsistent with a purely random explanation, distinguishing it from a one-off lucky outcome. The relationship between explainability and imitability runs in the opposite direction from the final option's claim: something that is hard to describe or fully understand tends to be harder, not easier, for competitors to copy, since they cannot simply reverse-engineer what they cannot clearly identify.

Section D, Strategic choice — imitability and causal ambiguity · Ref D1c · e3103

Question 35: D Contingency planning lets the organisation respond faster and more coherently if circumstances change, since alternative actions and their triggers have already been considered in advance

A documented contingency plan, with specific trigger points and pre-agreed alternative actions, allows the organisation to respond more quickly and coherently if circumstances change or key assumptions prove wrong, since the difficult thinking about what to do in various adverse scenarios has already been done calmly in advance, rather than needing to be worked out reactively and under time pressure once a problem has already materialised and options may have narrowed. Claiming contingency planning provides no benefit ignores this well-established practical advantage, particularly for strategies built on assumptions that carry genuine uncertainty. Developing contingency plans is a recognised element of prudent strategic management, not necessarily a signal of a lack of confidence — many confidently pursued strategies are nonetheless subject to contingency planning precisely because sound judgement, not doubt alone, recognises that circumstances can change unpredictably. Contingency plans are specifically intended to be developed before implementation begins, precisely so that alternative responses are ready and available if needed — waiting until after a strategy has already failed would defeat the entire purpose of contingency planning as a proactive risk-management practice.

Section D, Strategic choice — the role of contingency planning · Ref D1a · e3104

Question 36: C The asymmetry matters significantly — many organisations would prefer Option X's bounded downside over Option Y's unbounded catastrophic risk, even at similar expected returns, since expected value misses tail-risk consequences

The asymmetry matters significantly on its own terms: many organisations would rationally prefer Option X's bounded downside over Option Y's unbounded, potentially catastrophic downside even at similar expected returns, since a single expected-value figure does not fully capture how differently the two options could actually play out in a bad scenario, including outcomes that could threaten survival. Saying the asymmetry only matters once converted into a probability-weighted expected value misses the point being illustrated — expected value is exactly the kind of single-number summary that can understate tail risk, which is why relying on it alone is being questioned here. Comparing best-case outcomes is the wrong basis for weighing downside asymmetry; a large best-case difference does not offset or reduce the risk that a catastrophic downside poses to the organisation's survival. The distinction between bounded and unbounded downside risk is relevant to any organisation exposed to potential catastrophic loss, not a consideration limited to organisations with public shareholders.

Section D, Strategic choice — evaluating options with asymmetric downside risk · Ref D1a · e3127

Question 37: D The opportunity to leverage and transfer valuable capabilities across business units within the group, potentially avoiding duplicated development effort and accelerating capability improvement group-wide

This situation illustrates a genuine strategic opportunity available to diversified groups: valuable capabilities developed within one business unit can potentially be transferred, shared, or adapted for use across other units within the same group, avoiding duplicated development effort across units that had been independently building similar but less advanced versions of the same capability, and potentially accelerating capability improvement across the group as a whole — a recognised source of value creation sometimes referred to as capturing synergies from shared or transferable capabilities. Assuming capabilities can never be usefully transferred across business units within the same group ignores this well-recognised source of value that group structures can specifically enable, and which the scenario directly illustrates as available here. Divesting every other business unit is a wildly disproportionate response to discovering a transferable capability opportunity — the appropriate response is to leverage the capability across units, not to eliminate the units that could benefit from receiving it. Continuing independent development indefinitely, ignoring the identified opportunity to share the more advanced capability, would forgo the efficiency and performance-improvement benefit the scenario specifically highlights as available.

Section D, Strategic choice — leveraging complementary internal capabilities across business units · Ref D1c · e3128

Question 38: D Availability bias — the tendency to overweight the likelihood of vivid, easily recalled events; deliberately reviewing statistical base rates and broader historical evidence, rather than relying on memorable anecdotes alone, can help counter this bias

This is availability bias — the tendency to overweight the likelihood of vivid, easily recalled events, such as a recent, widely publicised failure elsewhere, relative to what statistical base rates actually indicate; deliberately reviewing base rates and broader historical evidence, rather than relying on memorable anecdotes alone, can help counter it. A vivid example is not more statistically reliable than a broader base-rate dataset — quite the opposite; a single memorable case is a poor substitute for a representative sample, which is exactly why base rates are the recommended corrective. The bias is not limited to situations where no base-rate data exists at all; it specifically describes cases (like this one) where relevant statistical evidence is available but is nonetheless outweighed in judgement by a vivid anecdote. Because the underlying cognitive tendency is a persistent feature of human judgement rather than a single identifiable error, a lasting corrective practice (systematically consulting base rates) is more effective than treating it as a one-off fix that need not be repeated.

Section D, Strategic choice — availability bias in assessing risk likelihood · Ref D1b · e3136

Question 39: C Optimism bias (the planning fallacy) — reviewing the track record of past forecasts and using reference-class forecasting can help calibrate expectations

A consistent pattern of overly optimistic forecasts across a series of different projects points to optimism bias, also known as the planning fallacy, often reinforced by overconfidence in the team's own judgement; reviewing the track record of past forecasts and using reference-class forecasting (basing estimates on the actual outcomes of similar past projects, rather than only on this project's specific assumptions) can help calibrate future expectations more realistically. Framing the pattern as a deliberate motivational tool doesn't fit a pattern identified only on review of past performance, and deliberately biasing forecasts for motivational purposes would itself be a poor forecasting and governance practice worth addressing, not a benign explanation. Attributing the pattern to unrelated, unforeseeable circumstances in each individual project is undermined by the fact that a consistent pattern across multiple different projects points to a systematic bias in how forecasts are produced, not a coincidence of unrelated one-off events. The bias is generally understood as a common cognitive tendency that can affect any forecasting process, not a trait unique to specific individuals — process-level safeguards, such as reference-class forecasting, help regardless of which individuals are involved, rather than requiring wholesale personnel change.

Section D, Strategic choice — optimism bias in forecasting strategic outcomes · Ref D1b · e3139

Question 40: D Pure feedback control only identifies problems after they occur; feedforward control anticipates deviations beforehand using leading indicators and forecasts

Pure feedback control — comparing actual results against budget or plan after the fact — only reveals problems once they have already occurred and are reflected in the results, meaning a full quarter or more may elapse before a strategic issue surfaces. Feedforward control complements this by using leading indicators, forecasts and early-warning signals to anticipate likely deviations before they fully materialise, allowing corrective action to be taken earlier and reducing the lag inherent in a purely retrospective, feedback-only approach. The two are genuinely distinct: feedback control looks backward at what has already happened, while feedforward control looks forward at what is likely to happen, and a robust strategic control system generally uses both in combination rather than relying on one exclusively. Review frequency does matter for how quickly problems are identified under feedback control specifically, but the more fundamental limitation illustrated here is the backward-looking nature of feedback control itself, which feedforward control is specifically designed to address.

Section E, Strategic control — feedback versus feedforward control · Ref E1c · e3056

Question 41: B Measurement distortion ('what gets measured gets managed') — a narrow measure incentivises behaviour satisfying the metric while undermining the broader objective

This scenario illustrates a well-recognised strategic control problem often summarised as 'what gets measured gets managed' — when a narrow performance measure (contract volume) does not fully capture the broader strategic objective (sustainable, profitable growth), employees may rationally optimise for the measured target even at the expense of the underlying goal the measure was meant to serve, since that is what is being rewarded. This does not mean measurement should be abandoned altogether — the appropriate response is typically to design more balanced measures (for example, incorporating contract profitability or quality alongside volume) rather than removing performance measurement entirely, which would create its own accountability problems. Both financial and non-financial measures are equally capable of producing this kind of distortion if narrowly designed — the issue lies in how comprehensively a measure captures the underlying objective, not in whether it is financial or non-financial. The underlying dynamic is general and can arise in any function where a narrow measure diverges from the broader goal it was intended to represent, not sales alone.

Section E, Strategic control — managing the control paradox (measurement distortion) · Ref E1b · e3058

Question 42: C Investigate the underlying cause — a flawed original plan, an implementation failure, or a genuine change in external conditions — since the response depends on which applies

Before selecting a corrective action, management should investigate the underlying cause of the variance, since the appropriate response depends heavily on which cause applies: a flawed original plan may call for revising the plan itself; an implementation failure may call for operational intervention while retaining the original plan; and a genuine change in external conditions may call for a more fundamental strategic reassessment. Jumping straight to abandonment, ignoring the variance because of prior board approval, or automatically pouring in more resources are all premature responses that skip the diagnostic step, risking either an unnecessary cancellation of a sound strategy suffering an implementation problem, a dangerous continuation of a genuinely flawed plan, or wasted additional investment poured into a fundamentally mis-designed initiative. Prior board approval does not exempt an initiative from ongoing control and review as new information about its actual performance emerges.

Section E, Strategic control — responding to control information · Ref E1c · e3059

Question 43: B Purely quantitative measures can be gamed if they miss the qualitative dimension of what matters strategically, so measures should reflect genuine value, not just countable activity

This scenario illustrates a well-recognised risk in strategic control design: purely quantitative measures that count easily observable activity (patents filed) without reference to the underlying qualitative value that activity is meant to represent (commercially meaningful innovation) can be gamed — employees rationally optimise for the measured quantity rather than the intended quality, exactly as happened here. Effective strategic control measures should be designed, where possible, to capture genuine strategic value — for example, incorporating some assessment of commercial potential or actual application of patented innovations — rather than relying on a proxy that can be satisfied without delivering the underlying strategic intent. Counting patents filed, absent any quality assessment, is demonstrably not a reliable measure of genuine innovation success, as the employees' gaming behaviour directly illustrates. The behaviour described — filing large numbers of low-value patents purely to hit a target — is the opposite of genuine strategic success; it represents measurement gaming, not a positive outcome. The appropriate lesson is to design better, more qualitatively-informed measures, not to abandon quantitative measurement altogether, since a complete absence of measurable benchmarks would create its own accountability and tracking problems.

Section E, Strategic control — the limits of purely quantitative control measures · Ref E1c · e3086

Question 44: B The control system risks systematically underweighting a genuinely important priority simply because it's harder to measure, letting customer trust deteriorate unflagged

A control system that tracks financial and operational metrics closely but has no meaningful measure for a stated strategic priority like customer trust risks systematically underweighting that priority, since attention tends to follow what is measured — trust could deteriorate significantly without this being flagged through the organisation's formal control mechanisms. Assuming close tracking of unrelated financial and operational metrics compensates for the missing trust measure conflates two different things the control system is meant to capture; strong measurement of one priority does not substitute for measurement of another. Relying on managers to instinctively compensate for a gap in the formal control system is an informal, unreliable substitute for a genuine measure, and is precisely the kind of gap a well-designed control system should not depend on. A purely qualitative, narrative update can be a useful supplement, but treating it as always fully sufficient on its own understates the value of at least some structured, comparable tracking over time, even for a priority that is inherently harder to quantify precisely.

Section E, Strategic control — the danger of measuring only what is easy to measure · Ref E1a · e3106

Question 45: D Internally set targets alone may fail to reveal declining relative position if targets are insufficiently ambitious; external benchmarking against competitors offers a valuable additional perspective

This scenario illustrates a real limitation of relying solely on internally set targets: consistently meeting one's own targets says nothing about whether those targets were sufficiently ambitious relative to what competitors are actually achieving — an organisation can meet undemanding internal goals while steadily losing ground to more ambitious or faster-improving rivals, exactly as described here. External benchmarking against competitors or industry-wide standards provides a valuable complementary perspective, revealing whether apparently satisfactory internal performance is genuinely competitive or is simply meeting a bar that has been set too low relative to the wider market. Meeting internal targets is not, by itself, sufficient proof of strong or improving competitive position — the declining market share in this exact scenario is a direct counter-example to that claim. External benchmarking clearly does add information beyond what purely internal targets capture, since it introduces an external reference point entirely absent from an internally-focused control system. Declining market share alongside met internal targets is a realistic and coherent scenario reflecting under-ambitious target-setting, not evidence of a measurement error requiring an alternative explanation.

Section E, Strategic control — using external benchmarking alongside internal targets · Ref E1c · e3108

Question 46: B Strategic control focuses on whether the organisation's overall direction remains appropriate and is being achieved, while operational control focuses on the efficiency and effectiveness of day-to-day activities and processes

Strategic control is concerned with monitoring whether the organisation's overall strategic direction remains appropriate given the evolving environment, and whether the organisation is actually progressing towards its longer-term strategic objectives, whereas operational control is concerned with the efficiency and effectiveness of day-to-day activities, processes and resource use within the existing strategic framework — the two operate at different levels and time horizons, though both are needed for overall organisational control. Treating them as simply two names for the same activities collapses a distinction that matters, since strategic questions ('are we still pursuing the right direction?') differ meaningfully from operational questions ('are we executing efficiently within our current direction?'). The roles described in the third option are reversed relative to the standard distinction — strategic control, not operational control, addresses overall long-term direction, while operational control addresses day-to-day activity. Strategic control is relevant to organisations of essentially any size that engage in deliberate strategic decision-making, not exclusively large multinationals — even small organisations benefit from periodically checking whether their strategic direction remains sound.

Section E, Strategic control — distinguishing strategic control from operational control · Ref E1b · e3110

Question 47: C Independent oversight reduces the risk that executive self-interest or optimism bias distorts strategic performance reporting, providing the board with a more objective check before relying on the information for major decisions

An independent audit and risk committee, staffed with non-executive members who do not have the same direct stake in how favourably strategic performance is portrayed, provides an objective check against the risk that executive self-interest, optimism bias, or incentive-driven reporting choices distort how strategic performance is presented to the board — since those responsible for delivering results also naturally have some interest in how those results appear, structural independence in oversight adds a valuable safeguard rather than an unnecessary formality. Assuming executive reporting is always perfectly objective ignores well-documented behavioural and incentive dynamics that can affect even well-intentioned reporting. Audit and risk committees in well-governed organisations extend beyond narrow statutory financial audit to encompass broader risk and performance oversight, including strategic performance reporting integrity. Independent oversight is a standard, expected element of good governance rather than an inherently negative signal, and can be, and generally is, framed and understood as a normal part of sound organisational practice rather than a signal of distrust in any specific individual.

Section E, Strategic control — audit committee and independent oversight of strategic risk · Ref E1c · e3111

Question 48: B In fast-moving environments, near-real-time but slightly less precise information often has more practical value than delayed, fully accurate data — timely information supports faster corrective action

In a fast-moving competitive environment, information that arrives with a substantial delay — even if highly accurate — risks being outdated by the time it becomes available, since the situation it describes may have already moved on, limiting management's ability to take timely corrective action; near-real-time but somewhat less precise estimates, by contrast, can support faster response while conditions are still relevant, often providing greater practical strategic control value in genuinely fast-changing contexts, even though the specific right balance depends on how quickly the environment is actually changing and how costly any inaccuracy in the estimate might be. Preferring accuracy over timeliness in every context regardless of the pace of change ignores that the practical value of information depends partly on whether it remains relevant and actionable by the time it is available — a trade-off this scenario is specifically designed to illustrate rather than dismiss. This is a genuine and commonly discussed trade-off in management information system design, not one that can be assumed away as non-existent. Refusing to ever use estimated data, insisting instead on full precision regardless of delay, would systematically bias the control system towards the slower, potentially less useful option in exactly the fast-moving contexts where responsiveness often matters most.

Section E, Strategic control — timeliness of information versus accuracy trade-off · Ref E1c · e3114

Question 49: D Strategic decisions can produce unintended consequences beyond their explicitly stated objective, meaning strategic control should monitor a sufficiently broad set of outcomes, not only the specific metric the decision was originally designed to improve

This scenario illustrates that strategic decisions can produce unintended consequences well beyond their explicitly stated objective — the pricing model achieved its stated revenue goal but simultaneously and unexpectedly damaged valuable long-standing customer relationships that were not the specific focus of the original design, demonstrating why strategic control should monitor a sufficiently broad set of relevant outcomes, rather than narrowly tracking only the single specific metric a decision was designed to move, in order to catch this kind of collateral effect before it compounds into a larger problem. Claiming strategic decisions can never produce consequences beyond their single explicit objective directly contradicts this scenario, which is a specific illustration of exactly such an unintended consequence occurring in practice. Judging the pricing model an unambiguous, complete success purely on the basis of its achieved revenue objective ignores the significant relationship damage also documented in the scenario — a genuinely complete evaluation needs to weigh both the intended benefit and the unintended cost together, not the intended benefit alone in isolation. Long-standing, loyal customer relationships generally carry real, if not always immediately visible, strategic value (repeat business, referrals, resilience during downturns), meaning their erosion is a strategically relevant cost that a narrowly revenue-focused view would risk overlooking entirely.

Section E, Strategic control — recognising unintended consequences of strategic decisions · Ref E1b · e3144

Question 50: D Over-reliance on a single metric risks missing important strategic signals that the chosen measure does not capture, and can encourage decisions that optimise for that specific metric even at the expense of broader long-term strategic health

Relying almost entirely on a single dominant metric such as quarterly share price movement risks missing important strategic signals that this particular measure does not capture — such as underlying operational health, customer relationships, innovation pipeline strength, or employee capability — and can encourage management decisions that optimise specifically for that one visible, closely watched metric, sometimes at the expense of the broader long-term strategic health the metric was originally meant to be a proxy for, particularly given share price's exposure to short-term market sentiment beyond the company's own control. Quarterly share price movement, while informative, is influenced by many factors beyond the company's own strategic execution (broader market sentiment, sector trends, macroeconomic conditions) and does not capture every dimension of genuine long-term strategic health, directly contradicting a claim of perfect comprehensiveness. Simplicity in measurement is not invariably superior to a more comprehensive, balanced set of measures — the balanced scorecard tradition specifically exists because a broader set of measures across multiple perspectives typically provides better strategic control than any single dominant metric, however seemingly convenient. Financial metrics remain a legitimate and important part of strategic control — the issue illustrated here is over-reliance on one specific, narrow financial metric, not the inclusion of financial measures generally, which is not the same as excluding financial measures altogether in favour of purely non-financial measures.

Section E, Strategic control — the risk of over-reliance on a single dominant metric · Ref E1c · e3148

Question 51: A Good practice suggests distinguishing between a genuine strategic problem and a well-understood, expected, temporary variance, since reacting with a significant change of direction to a modest, explainable short-term shortfall risks abandoning a fundamentally sound long-term strategy prematurely

Good practice suggests distinguishing between a genuine strategic problem and a well-understood, expected, temporary variance, since reacting with a significant change of direction to a modest, explainable short-term shortfall risks abandoning a fundamentally sound long-term strategy prematurely. Treating every shortfall identically regardless of its underlying cause ignores exactly the distinction good practice calls for — a well-explained, expected, temporary factor is a materially different signal from a shortfall pointing to a deeper structural problem, and the two warrant different responses. Interim milestones serve a genuine strategic control purpose beyond record-keeping — they are precisely how boards and management identify early whether a strategy is tracking as expected — so dismissing their influence on strategic direction understates their role. Board-level and operational management perspectives both have value in this kind of review; treating either view as automatically less relevant purely based on organisational level, rather than on the substance of the argument each is making, is not a sound basis for weighing input in a control review.

Section E, Strategic control — balancing short-term corrective pressure with long-term strategic patience · Ref E1a · e3149

Question 52: B Technology adoption driven by imitation rather than a clear strategic purpose risks significant wasted investment, since the technology may not address the organisation's actual strategic needs or capabilities gaps

Adopting technology primarily because competitors have done so, without first clarifying the specific strategic problem it is meant to solve, risks substantial wasted investment — the technology may not fit the organisation's actual needs, existing capabilities, data readiness, or customer requirements, and may simply replicate a competitor's approach without delivering an equivalent benefit given differences in context. This directly contradicts the assumption that imitative adoption automatically guarantees an equivalent competitive benefit — benefit depends on how well the technology is matched to the organisation's own specific strategic needs and its capability to exploit it, not merely on possessing the same tool as a rival. Good practice generally holds that strategic purpose should shape technology selection, not the reverse — technology should be chosen to serve a clearly identified strategic need, rather than strategy being retrofitted around whatever technology has been adopted. Keeping pace with competitors can be one relevant consideration, but it is not sufficient justification on its own without a clear strategic rationale specific to the adopting organisation.

Section F, Digital strategy — technology as an enabler versus driver of strategy · Ref F1c · e3066

Question 53: A Whether such use is consistent with customer expectations, applicable data protection law, and the reputational and trust risks of using data in ways that exceed what customers were led to expect

The central strategic consideration is whether the proposed data use aligns with customer expectations, complies with applicable data protection law (such as GDPR-type regimes), and manages the significant reputational and trust risks that arise from using data in ways customers did not reasonably anticipate based on the stated privacy policy — data ethics and privacy are strategic governance matters with real consequences for brand trust and legal exposure, not merely a technical or operational question. Technical feasibility establishes what is possible, not what is appropriate or permissible — many technically feasible uses of data would be inappropriate, illegal, or damaging to trust if pursued without regard to these broader considerations. Cost is not the primary or sole relevant consideration when customer trust, legal compliance and reputational risk are at stake. Competitor behaviour does not establish that a practice is legally compliant or ethically appropriate — matching a competitor's approach provides no defence against legal or reputational consequences if the underlying practice itself is problematic.

Section F, Digital strategy — data privacy and ethical use of data · Ref F1b · e3069

Question 54: C Cyber risk extends beyond an organisation's own internal controls to include its extended digital ecosystem of suppliers and partners, requiring due diligence and ongoing oversight of third-party security practices

This scenario demonstrates that cyber risk extends beyond an organisation's own internal controls to encompass its extended digital ecosystem — suppliers, partners and any third party with system access represent a potential attack vector, since an interconnected digital environment is only as secure as its weakest connected link. Effective strategic risk management therefore requires due diligence on third-party security practices before granting access, along with ongoing monitoring and contractual security requirements, not merely a focus on internal controls alone. The scenario is a direct counter-example to the claim that third parties introduce no risk — the breach originated precisely through such a connection. Strong internal controls do not guarantee complete protection when a connected third party provides an alternative route into the organisation's systems, undermining the idea that internal controls alone are automatically sufficient. While contractual and legal liability questions may exist between the parties, the company that suffered the breach still bears real strategic, reputational and regulatory consequences regardless of where legal responsibility for the underlying weakness ultimately sits.

Section F, Digital strategy — cyber risk and third-party/supply chain exposure · Ref F1b · e3071

Question 55: C Developing new value-added services that manufacturers or customers still need (such as logistics, aggregation across multiple manufacturers, or localised support) that a single manufacturer's direct platform cannot easily replicate on its own

Developing new value-added services — aggregation across multiple manufacturers, logistics, or localised support — that a single manufacturer's own direct platform cannot easily replicate gives the distributor a basis to remain relevant even as direct-to-consumer channels grow, repositioning rather than simply competing head-on. Cutting prices to match a manufacturer's direct pricing addresses only one dimension of competition and ignores that the distributor may still have genuine service-based advantages worth developing instead of, or alongside, price; competing purely on price against a manufacturer that has removed a layer of margin is also a structurally difficult position to sustain. Lobbying for regulatory restriction is a slow, uncertain and largely reactive strategy that does nothing to strengthen the distributor's own value proposition in the meantime, and is not guaranteed to succeed. Acquiring a manufacturer is one possible strategic option in principle, but treating it as the only viable response, regardless of cost or fit, ignores the more direct and typically lower-risk option of repositioning around genuinely valued services.

Section F, Digital strategy — competitive response to platform-based disintermediation · Ref F1a · e3087

Question 56: A Comfort with ambiguity, experimentation and rapid iteration, alongside a willingness to make decisions with incomplete information as digital initiatives evolve

Leadership suited to the pace and uncertainty of digital environments typically requires comfort with ambiguity, a willingness to experiment and iterate rapidly based on emerging evidence, and the ability to make reasonable decisions with incomplete information — since waiting for complete certainty in a fast-changing digital context often means missing the window in which a decision would have been valuable. Insisting on exhaustive information and complete certainty before deciding is often poorly suited to the pace of digital change, where conditions evolve faster than a fully certain picture can typically be assembled. Rigid, uniformly hierarchical decision-making for every digital initiative regardless of scale can slow response times in ways that are particularly costly in fast-moving digital contexts, where smaller or lower-risk decisions often benefit from faster, more distributed decision-making. Appropriately delegating decision-making authority to teams closer to fast-moving digital initiatives — rather than avoiding delegation altogether — is generally considered a hallmark of effective digital-age leadership, since central leadership often cannot process every fast-moving decision at the pace required.

Section F, Digital strategy — leadership behaviours for the digital age · Ref F1a · e3089

Question 57: B A lack of algorithmic transparency creates real regulatory, reputational and fairness risks, so organisations need governance to ensure decisions can be explained and challenged

Deploying an algorithm whose decisions cannot be adequately explained creates real and material risks: regulatory risk (many jurisdictions increasingly require explainability for automated decisions with significant effects on individuals, such as credit decisions), reputational risk (customers denied credit with no clear explanation may reasonably feel unfairly treated), and fairness risk (an unexplainable model could be encoding biased patterns that go undetected without the ability to interrogate its logic) — meaning organisations deploying such systems need governance mechanisms specifically addressing explainability, auditability and the ability to challenge or review automated decisions. The assumption that algorithms are inherently objective and therefore need no explanation or oversight is a significant and well-documented misconception — algorithms can encode and perpetuate bias present in their training data or design, which is precisely why explainability and oversight matter. This is a strategic and governance matter with real consequences for regulatory compliance, customer trust and organisational reputation, not merely a narrow technical IT concern to be resolved without board-level attention. Regulatory and customer expectations regarding explanation of automated decisions affecting individuals have become an active and growing compliance concern in many jurisdictions, directly contradicting a claim that no such entitlement or concern exists.

Section F, Digital strategy — algorithmic decision-making and accountability · Ref F1b · e3090

Question 58: B A digital resilience and business continuity gap — heavy digital dependence without a tested continuity plan leaves the organisation exposed to potentially severe operational disruption if key systems become unavailable

This scenario illustrates a genuine digital resilience and business continuity gap: heavy operational dependence on a small number of digital systems, combined with the absence of a developed and tested plan for maintaining critical functions if those systems become unavailable, leaves the organisation significantly exposed to severe operational disruption in the event of a cyber incident, technical failure, or major outage — precisely the kind of event that a well-designed and tested continuity plan is meant to prepare an organisation to withstand. No system, however well-maintained, can be assumed to be permanently available and immune to disruption — outages, cyber incidents and technical failures are recognised, realistic risks for any organisation with significant digital dependence, not a purely theoretical concern. Business continuity planning is relevant across virtually all sectors that depend on digital systems for core operations, not limited to financial services, given how broadly digital dependence has spread across industries. A documented but untested plan carries real residual risk, since gaps, outdated assumptions, or unworkable procedures often only surface when a plan is actually exercised — testing is a critical, not optional, component of genuine continuity preparedness.

Section F, Digital strategy — resilience and business continuity in a digital-dependent organisation · Ref F1b · e3118

Question 59: B The board should ensure a proportionate, carefully coordinated response — balancing the need for timely transparency with the risk of communicating inaccurate or incomplete information before the facts are reasonably well established

Good strategic governance practice during a live cyber incident with conflicting initial information suggests the board should aim for a proportionate, carefully coordinated response — balancing genuine stakeholder and regulatory expectations for timely transparency against the real risk of communicating inaccurate or incomplete information before the facts are reasonably well established, which could itself cause confusion, reputational harm, or the need for embarrassing subsequent correction. Immediately issuing a detailed public statement based on unverified, conflicting initial information risks exactly this kind of error, potentially compounding the incident's reputational impact if key facts later prove different from the initial statement. Refusing to communicate at all until the incident is completely and fully resolved ignores genuine stakeholder, customer and often regulatory expectations for timely, appropriately measured updates during an ongoing incident, which can itself damage trust and, in many jurisdictions, may also risk regulatory non-compliance with breach notification requirements. Given the strategic, reputational and often regulatory significance of a major cyber incident affecting customer data, board-level oversight and involvement in the response — including communications strategy — is generally considered appropriate governance practice, not a matter to be delegated entirely to operational IT without any board-level engagement.

Section F, Digital strategy — proportionate response to a live cyber incident (governance perspective) · Ref F1b · e3146

Question 60: C Adopting an open standard can support easier interoperability, partnership and industry-wide network effects, while a proprietary standard offers greater control and potential differentiation but risks isolation and higher costs for partners and customers needing to integrate with it

This choice illustrates a genuine and commonly faced strategic trade-off: adopting an open industry standard can support easier interoperability with partners and competitors, participation in industry-wide network effects, and potentially faster ecosystem-wide adoption, while a proprietary standard offers the company greater control over its own technology direction and the potential for meaningful differentiation, but risks isolating the company from broader industry connectivity and imposing higher integration costs or friction on partners and customers who need to work with a non-standard system. Claiming no meaningful trade-off exists ignores these genuinely different strategic consequences that open versus proprietary approaches tend to produce in practice, well documented across various technology-standard battles in different industries. Neither a blanket preference for proprietary standards in every situation, nor a blanket preference for open standards in every situation, adequately reflects the genuine context-dependent trade-offs involved — the right choice depends on factors such as the value of interoperability in the specific industry, the company's relative market power, and how much genuine differentiation value the proprietary approach could realistically capture and sustain in that particular competitive context.

Section F, Digital strategy — the strategic implications of open versus proprietary technology standards · Ref F1c · e3147