

Assurance of Learning Exercise 5F

How Risky Are Various Alternative Strategies?

Purpose

This exercise focuses on how risky various alternative strategies are for organizations to pursue. Different degrees of risk are based largely on varying degrees of *externality*, defined as movement away from present business into new markets and products. In general, the greater the degree of externality, the greater the probability of loss resulting from unexpected events. High-risk strategies generally are less attractive than low-risk strategies.

Instructions

- Step 1** On a separate sheet of paper, number vertically from 1 to 10. Think of 1 as “most risky,” 2 as “next most risky,” and so forth to 10, “least risky.”
- Step 2** Write the following strategies beside the appropriate number to indicate how risky you believe the strategy is to pursue: horizontal integration, related diversification, liquidation, forward integration, backward integration, product development, market development, market penetration, retrenchment, and unrelated diversification.
- Step 3** Grade your paper as your instructor gives you the right answers and supporting rationale. Each correct answer is worth 10 points.

Assurance of Learning Exercise 5G