

Strategy process

Environment and strategy work

September 25, 2020
Prof. Nina Granqvist

Good to meet you...

Nina Granqvist
Associate Professor of Management

- How new markets emerge around new technologies and trends?
- How technological disruptions take place?



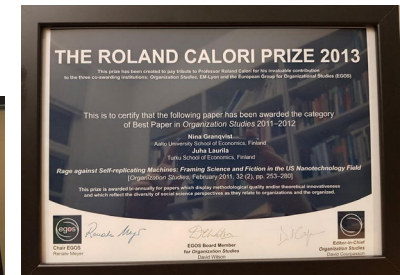
Teaching

- strategic management, technology strategy, industrial and organizational change, and renewal of established industries

Background: Consultant, business developer

A!

Aalto University
School of Business



Agenda

1. **Linking external environment and strategic sensemaking**
2. **What is environment?**
3. **What are the strategic styles suited for different environments?**
4. **Break**
5. **Disruptions: Strategizing in turbulent settings**
6. **Megatrends: An inclusive method for mapping future**

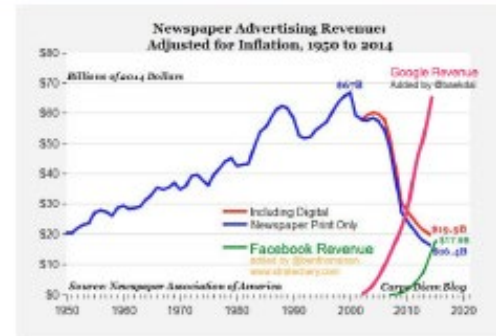


Management cognition

Last week!



Understandings as more or less accurate descriptions of the world



Understandings as different kinds of maps or stories of the world

Connections to strategic sensemaking

- **Environment as perceived and weighted differently by the various members of the company.**
- **How is environment “framed” and understood?**
- **Whose interpretations matter?**

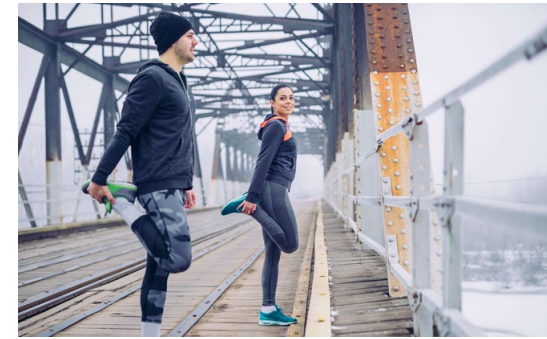
**Optimal choice
of strategy**
(world as a real and
transparent engineering
problem)

**Strategizing
around human
limitations**
(world as real, but
opaque)

**Strategy as
sensemaking**
(world as opaque and
complex outcome of
distributed actions)

**What is
“environment”?**

Warm-up: Finnair



What does "environment" consist of for this company?

How does it matter for strategy making?



What are industries – and why care??

Industry: "A population of organizations operating in the same domain as indicated by the similarity of their services or products" (Scott 2001: 83)

Industry has an important role in

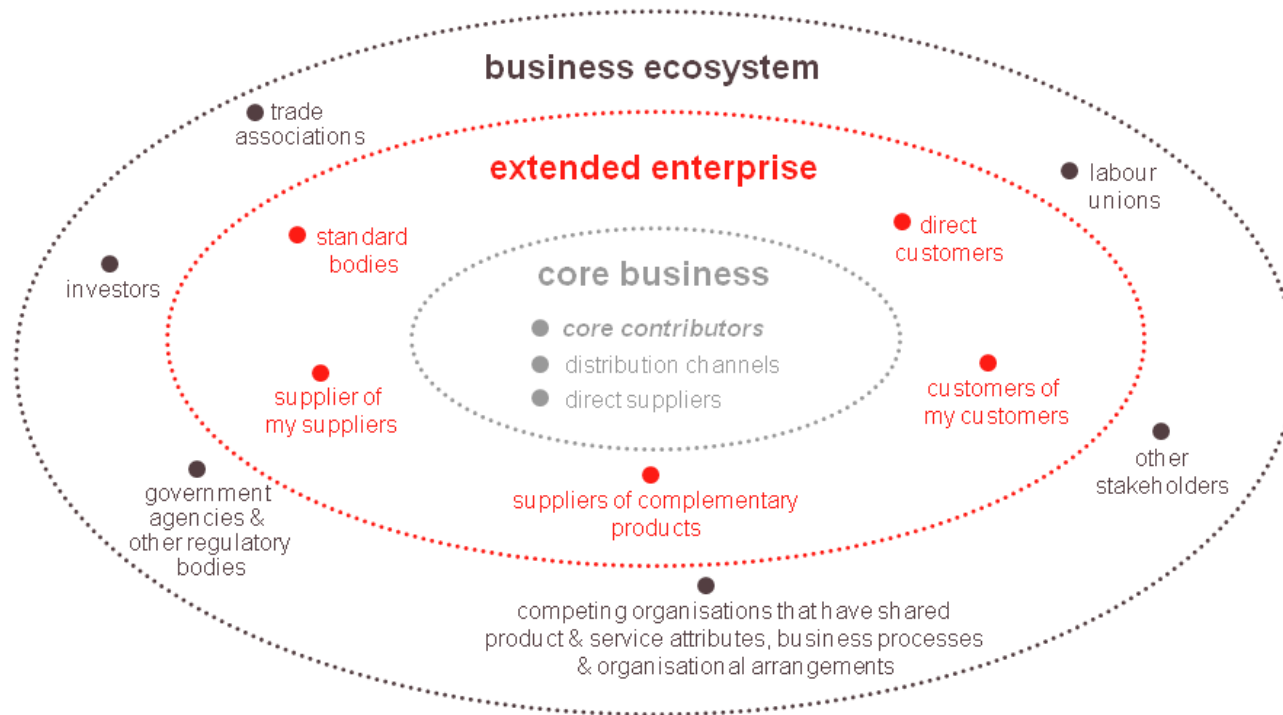
- **shaping and organizing markets (rules, regulations, "sites" of exchange, etc.)**
- **understanding on who are customers and competitors**
- **scoping which products or services matter**



Provides focus but also limits understandings and visions!

Business ecosystems

business ecosystem actors



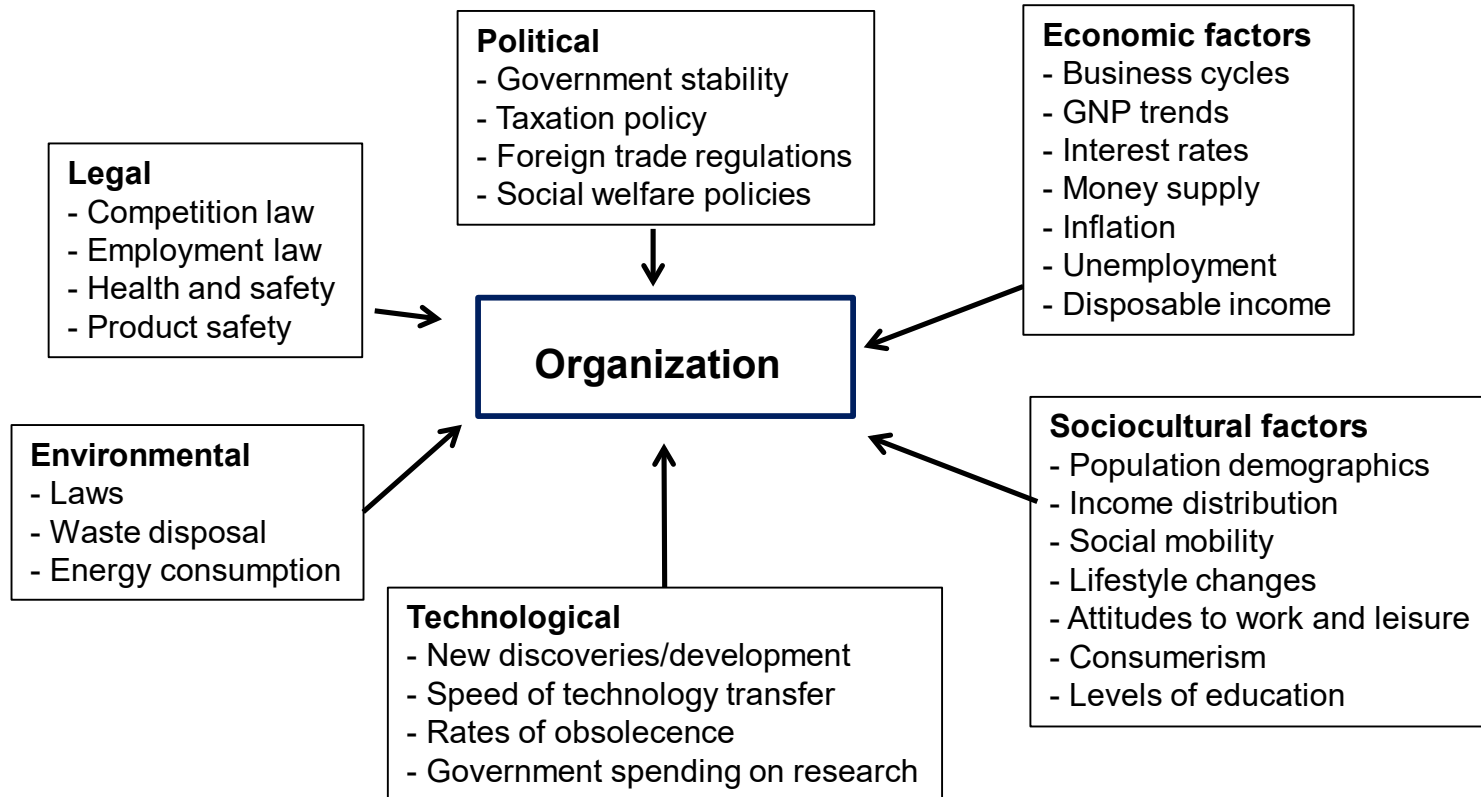
based on: James F. Moore, *death of competition*, John Wiley & Sons, USA, 1996

Geography



Organization's environment/ PESTEL

Local – regional – global?



“Culture”: Three pillars of institutions

	Regulative	Normative	Cultural-cognitive
Basis of compliance	Expedience	Social obligation	Taken-for-grantedness, shared understanding
Basis of order	Regulative rules	Binding expectations	Constitutive schema
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules, laws, sanctions	Certification, accreditation	Common beliefs, shared logics of action
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible, recognizable, culturally supported

Source: Scott (2001: 52).

Strategic styles in different environments

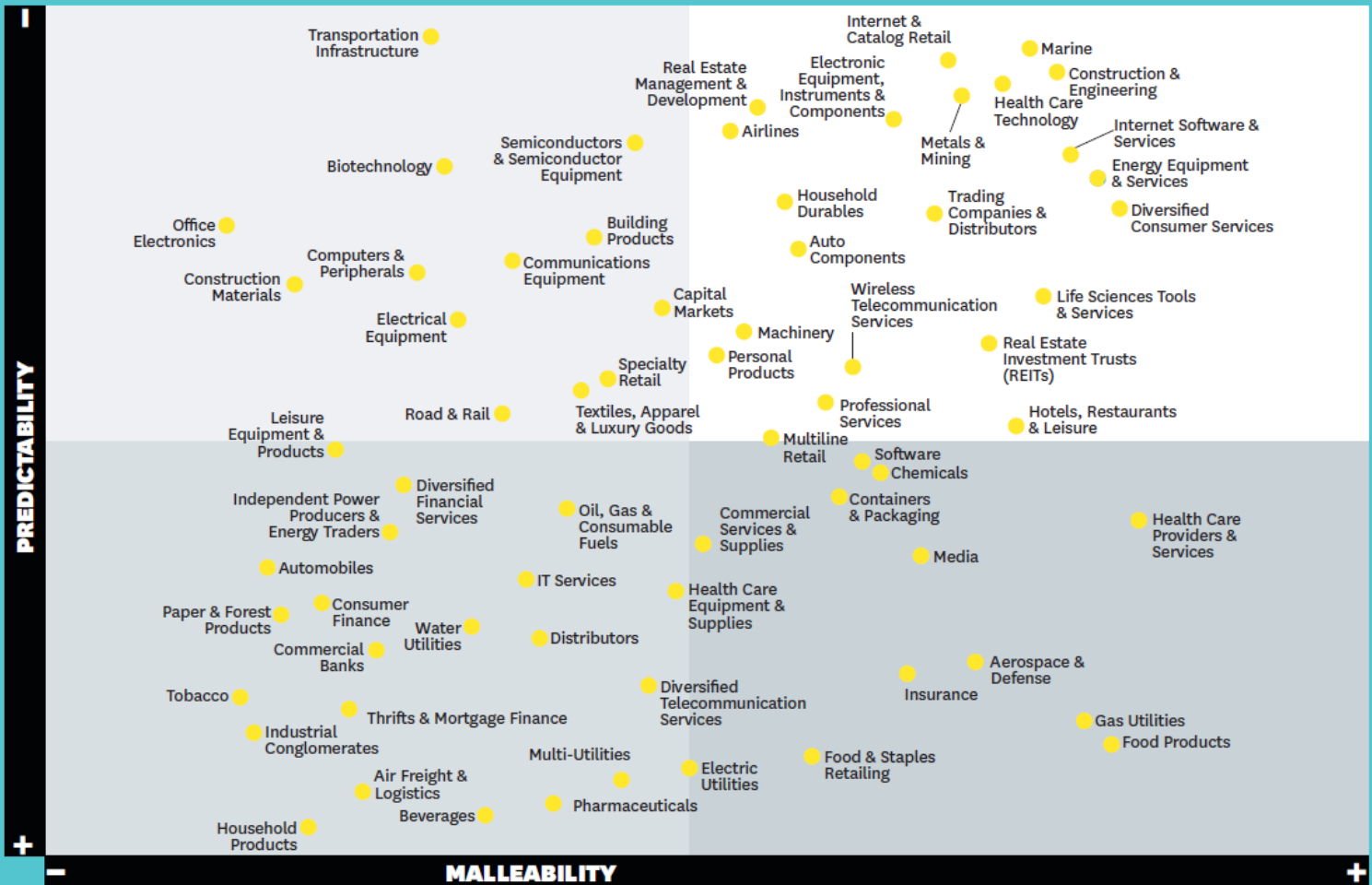
Predictability	low	<p>Adaptive</p> <p><i>E.g. fast-moving competitive markets, e.g. retail</i></p> <p>Continuous strategizing, short planning cycles, experimentation, rapid and continuous responding to data</p>	<p><i>E.g. platform economy</i></p> <p>Shaping</p> <p>Disrupting. Shaping the environment to a company's own advantage, creating the market. Community, standard and platform building</p>	
	high	<p>Long-term planning in stable markets: Five forces, blue ocean, growth-share matrix analyses</p> <p><i>E.g. banking, natural resources</i></p> <p>Classical</p>	<p>Steps to achieve a vision in stable markets:</p> <p>Creating new product categories, new business model innovations</p> <p><i>E.g. food, transport</i></p> <p>Visionary</p>	
		low	Malleability	high

ADAPTIVE

If your industry is unpredictable and you can't change it

SHAPING

If your industry is unpredictable but you can change it



CLASSICAL

If your industry is predictable but you can't change it

VISIONARY

If your industry is predictable and you can change it

Reeves et al. (2012)

SOURCE BCG ANALYSIS

29.9.2020

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Management myopia I

"It is crazy to do business in the gaming industry or manufacturing gadgets. The banking industry is stable and predictable!"

– CEO of a bank, 2013

Bias for control and continuity!



Must Win Battles

Matti Alahuhta/ Kone: ‘We formulated our new strategy and what our key development programs would be. Internally, we call them “must-win battles”’.

Focus resources on 3-5 key challenges (Must Win Battles)

A good MWB is characterized by:

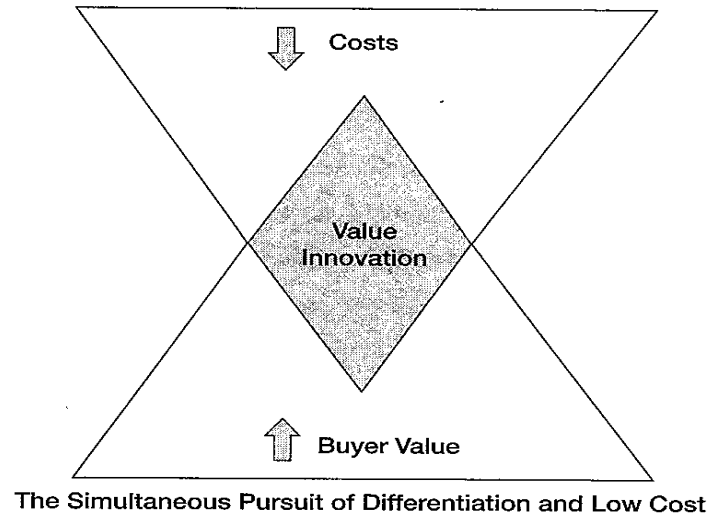
- A true change is possible
- They have a focus on the markets
- They are inspiring
- They are exact and concrete
- They can be won!



Blue Ocean Strategy

Value Innovation: The Cornerstone of Blue Ocean Strategy

Value innovation is created in the region where a company's actions favorably affect both its cost structure and its value proposition to buyers. Cost savings are made by eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered. Over time, costs are reduced further as scale economies kick in due to the high sales volumes that superior value generates.



Value innovation

The Four Actions Framework

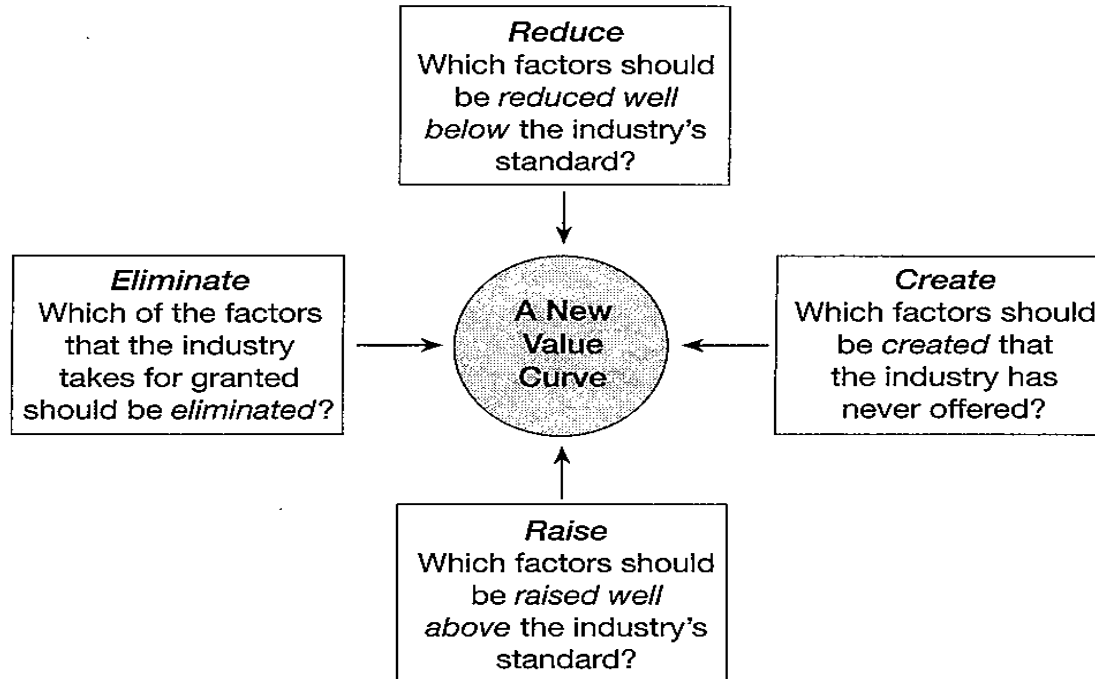
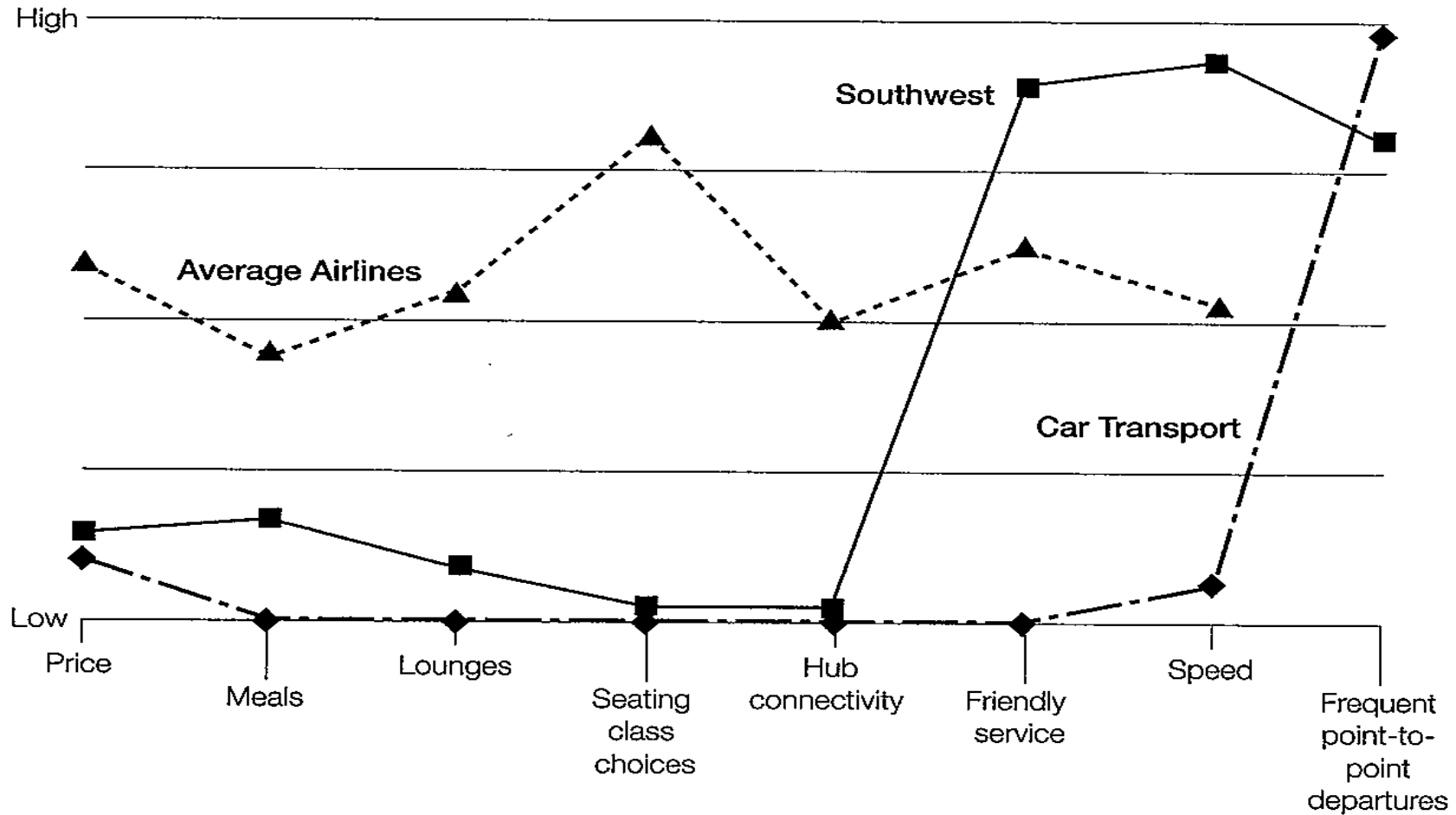


FIGURE 2-6

The Strategy Canvas of Southwest Airlines

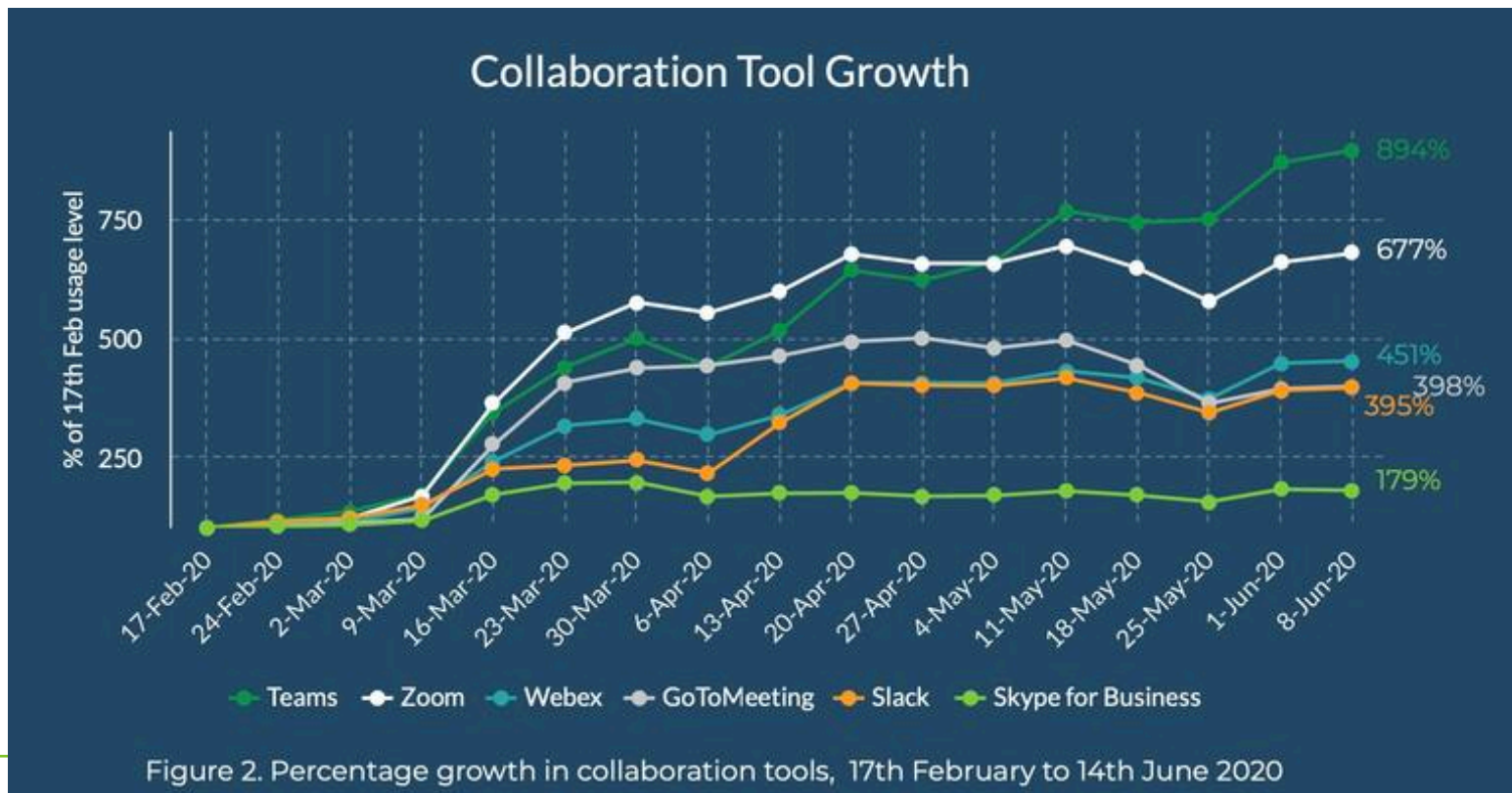


Coffee break & walkabout



Strategy making under uncertainty

COVID-19 “disruption” and distance learning – 4-MONTH GROWTH RATES!




Question

<https://www.elementsofai.com/>

How many of you have joined a MOOC?

Welcome to the Elements of AI free online course!

Join over 520,000 other people learning about the basics of AI.

Select language  English ↓

Start the course →



Are you wondering how AI might affect your job or your life?



Do you want to learn more about what AI really means — and how it's created?

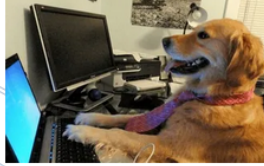


Do you want to understand how AI will develop and affect us in the coming years?

Our goal is to demystify AI

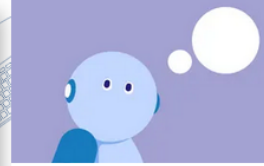
The Elements of AI is a series of free online courses created by Reaktor and the University of Helsinki. We want to encourage as broad a group of people as possible to learn what AI is, what can (and can't) be done with AI, and how to start creating AI methods. The courses combine theory with practical exercises and can be completed at your own pace.

All Courses



Java Programming I

Learn the basics of programming with the Java language. A new version of the popular Object Oriented Programming with Java course.



Elements of AI

Will robots take our jobs? How will artificial intelligence change our working life in the next 10 years? How will intelligence impact our society?



Basics of Programming MOOC @ Aalto (Multilingual) 2020

Aalto University's programming MOOC introduces you to programming and the modern Scala programming language.



Data Analysis with Python

Course gives a practical introduction to data analysis using a large number of programming exercises and a project delving into the realm of a selected field of science.



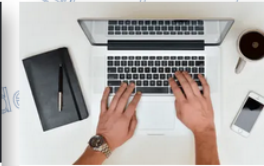
DevOps with Docker 20

Learn the basics of modern software deployment in this introductory course to Docker and docker-compose. Explore different parts of web services, such as reverse proxies, databases etc.



Introduction to Cyber Security 2020

This course of the course series will introduce the participant to the relevant issues in cyber security. This course is the first course in cyber security base course series.



Full stack open 2020

Deep dive into modern web development – learn to master React, Redux, Node.js, GraphQL and MongoDB!



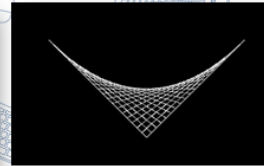
Hands-on Scientific Computing

A self-study course for practical scientific computing by Aalto University. The course focuses on what you need to know when starting computational research projects. The material is organised into a guided structure where you can determine what is relevant to you.



Big Data Platforms

This course focuses on big data platforms and on key algorithmic ideas and methods used to implement them, including key technologies used for solving challenging big data processing tasks using cloud computing.



Haskell MOOC

Welcome to the world of functional programming!



Java Programming II

Dive deeper into the mysteries of Java programming. Direct continuation from Java Programming I. Note that this course begins in the part 8 of the course material.

<https://www.mooc.fi/en>

Debate!

The operating model of many local universities is fundamentally under threat by developments in online learning.

OR

Local universities are in the best position to provide teaching be it in whatever format and will not be substantially challenged by online learning.

**15 minutes – develop three points for both claims and prepare to present.
What is your group's stance?**

What are disruptions?

- Creative disruption: Better technology or service model destroys the earlier dominant technology or operating model
 - *Makes competence obsolete and replaces leading organizations, products, services as well as alliances and ecosystems*
- Ideas and ideologies -> regulation, production, consumption and culture
- Megatrends and grand challenges as enabling change: Aging population, urbanization, climate change, migration, etc.



Management myopia II

”I cannot see that electric car would become widely accepted because there is no way petrol delivery chains can operate a business model that is based on charging car batteries. What would they do? Sell candies and coffee while people wait?”

**– CEO, gasoline distribution company,
2012**



Special attention to technology!

1980s

1990s

2000s

2010s

2020s

Mobile 1G

AMPS, NMT, TACS



Mobile 2G

D-AMPS, GSM/GPRS, cdmaOne



Mobile 3G

CDMA2000/EV-DO, WCDMA/HSPA+, TD-SCDMA



Mobile 4G LTE

LTE, LTE Advanced



Mobile 5G



N/A

<0.5 Mbps¹

63+ Mbps²

300+ Mbps³

1 Gbps

Analog Voice



Digital Voice + Simple Data



Mobile Broadband



Faster and Better



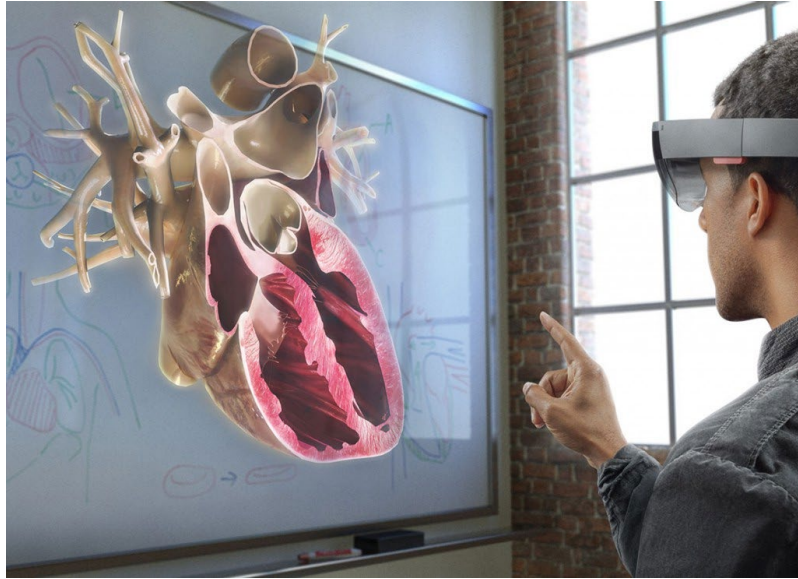
Immersive, ubiquitous



Virtual reality on-the-go

The Internet of things

Future: Augmented reality and virtual presence technologies



The Prius Approach (Furr & Snow, 2015)

What should Aalto School of Business do to address the challenge of online learning?

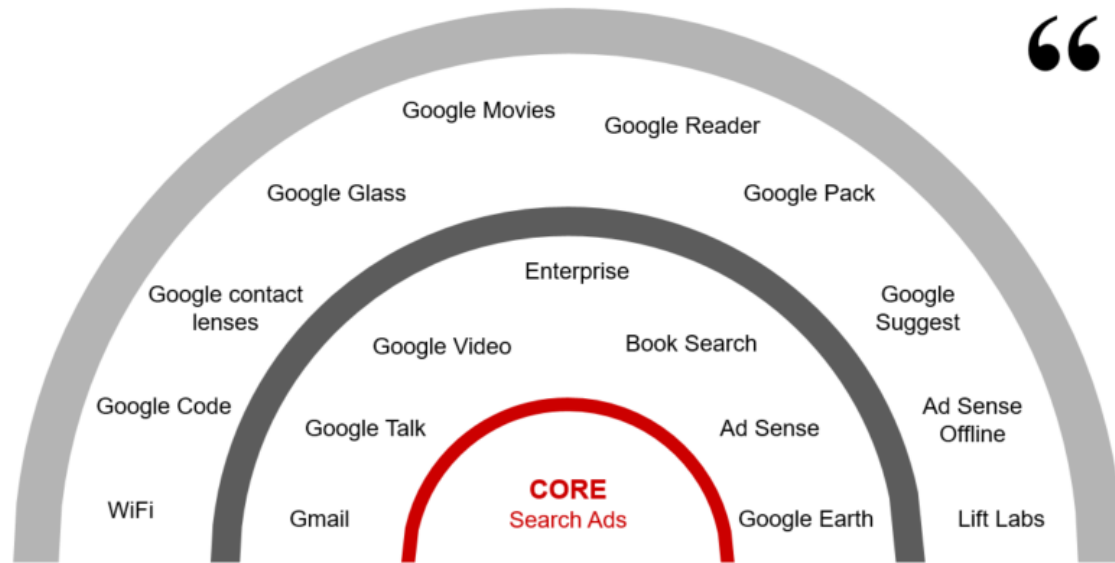
Discuss and debate!

10 minutes, develop three recommendations.

Core vs. extension vs. bets



Google applies a 70/20/10 approach



“ The test that I apply, and we do this **every day, 70/20/10** is to ask how a feature will extend the core, the adjacent, or the innovative stuff to fulfill our mission. That’s **the sort of drug that we all take**, and it works really quite well ”

Eric Schmidt, Google CEO,

70% of resources channeled to the **core business**

20% to push the **core boundaries**

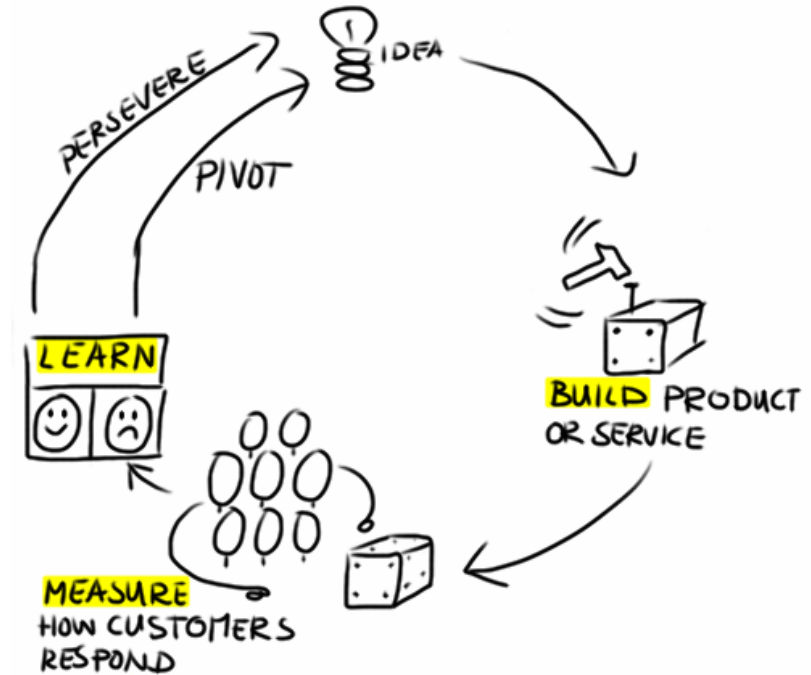
10% on highly experimental **bets**

29.9.2020

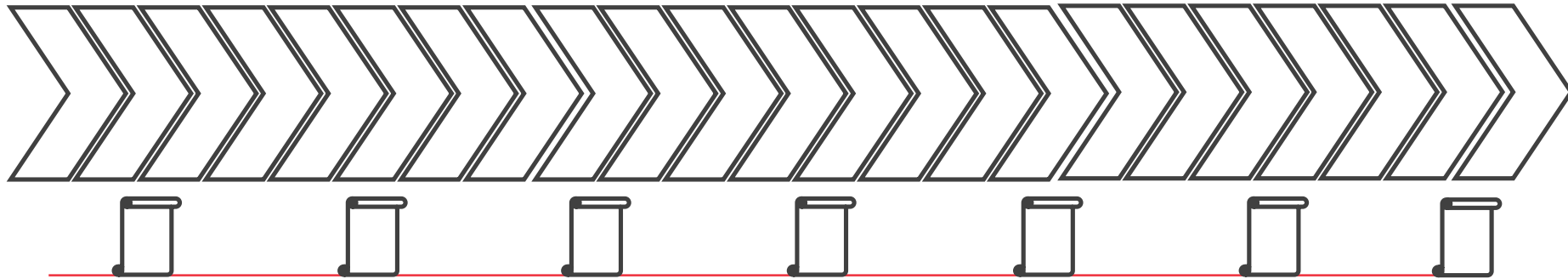
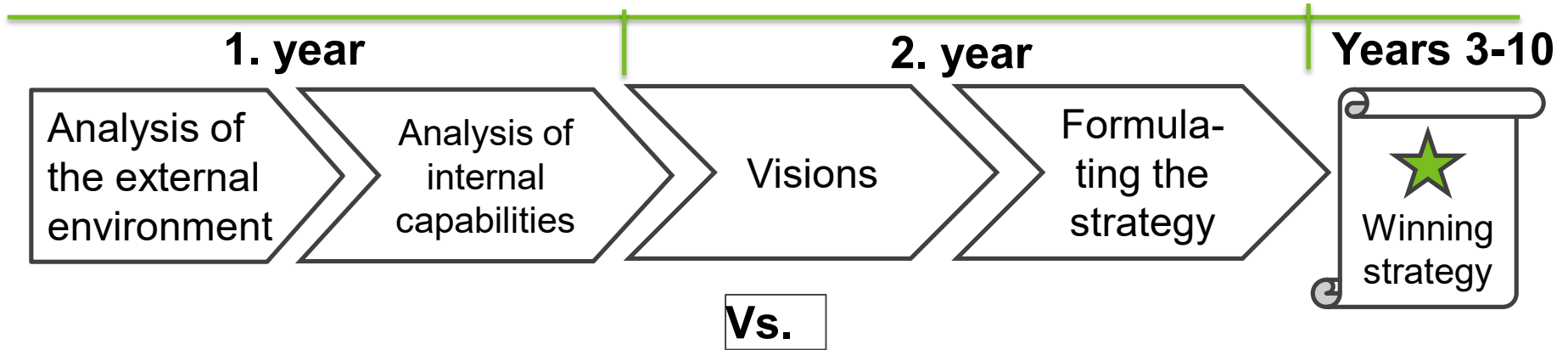
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Lean start-up

- Method or philosophy
- *"Experiment", "Fail fast", "Know your customer"*
- Minimum viable product: As much as possible information of the customers with the least possible investment in the product
- Pivoting: Even radical changing of plans and strategy



Waterfall vs. dynamic strategy process

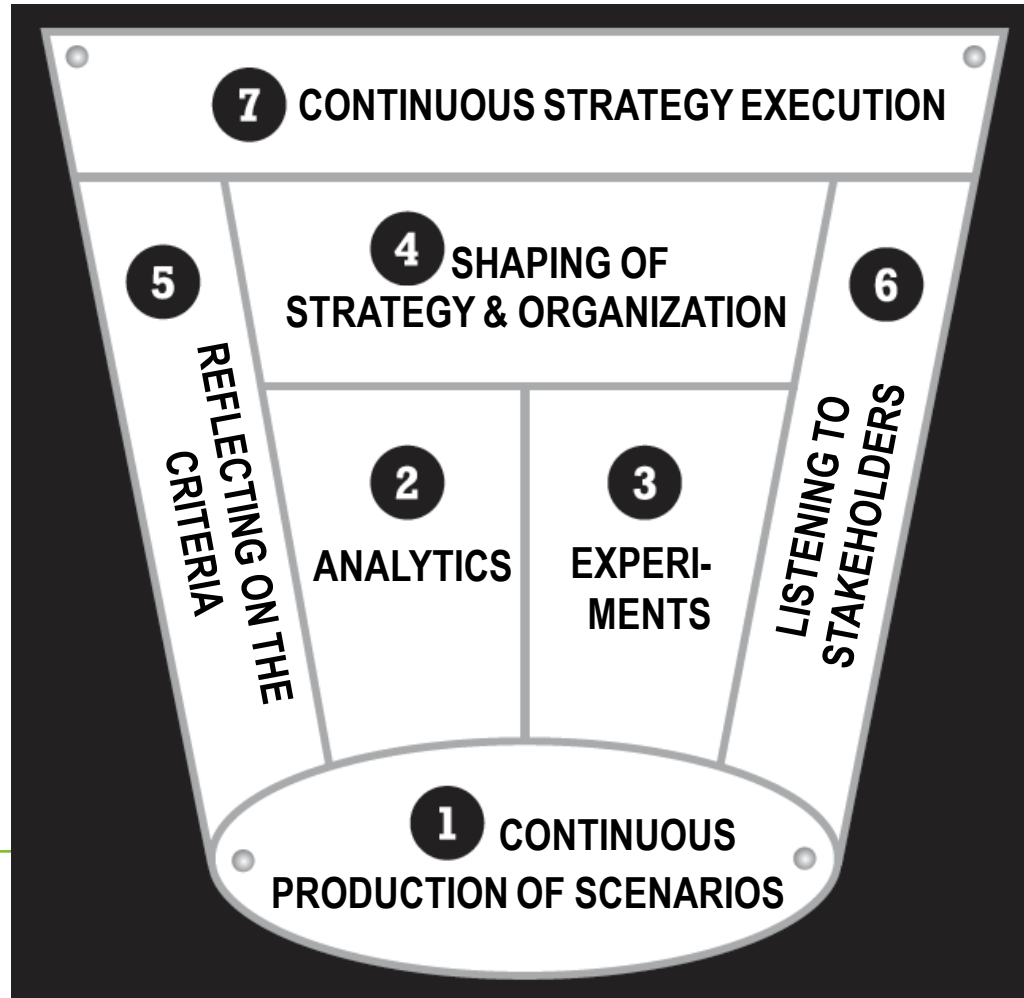


(Vuori)

Strategic agility

- **Agility**
 - Ability to address the changes in the environment without delays, instinctively
 - problem: too much waivering, lack of consistency
- **Momentum**
 - Ability to plan and direct resources to reach goals
 - Problem: success traps, following the same old operating logic
- **Agility + momentum = Strategic agility**
- **Ambidextrous organisation**
 - Controlled adaptation of the business areas, products and busines models to the changing environment

Dynamic strategy making model



Strategy tools (Bain & Company)

<https://www.bain.com/insights/topics/management-tools-and-trends/>

Figure 3

■ We focused on 25 of the most popular tools

- 1 Advanced Analytics
- 2 Agile Management*
- 3 Balanced Scorecard
- 4 Benchmarking
- 5 Business Process Reengineering
- 6 Change Management Programs
- 7 Complexity Reduction
- 8 Core Competencies
- 9 Customer Journey Analysis*
- 10 Customer Relationship Management
- 11 Customer Satisfaction Systems
- 12 Customer Segmentation
- 13 Digital Transformation
- 14 Employee Engagement Systems
- 15 Internet of Things*
- 16 Mergers and Acquisitions
- 17 Mission and Vision Statements
- 18 Organizational Time Management
- 19 Price Optimization Models
- 20 Scenario and Contingency Planning
- 21 Strategic Alliances
- 22 Strategic Planning
- 23 Supply Chain Management
- 24 Total Quality Management
- 25 Zero-Based Budgeting

*Tool added to the survey in 2017
Source: Bain Management Tools & Trends survey, 2017

Thank you for today!

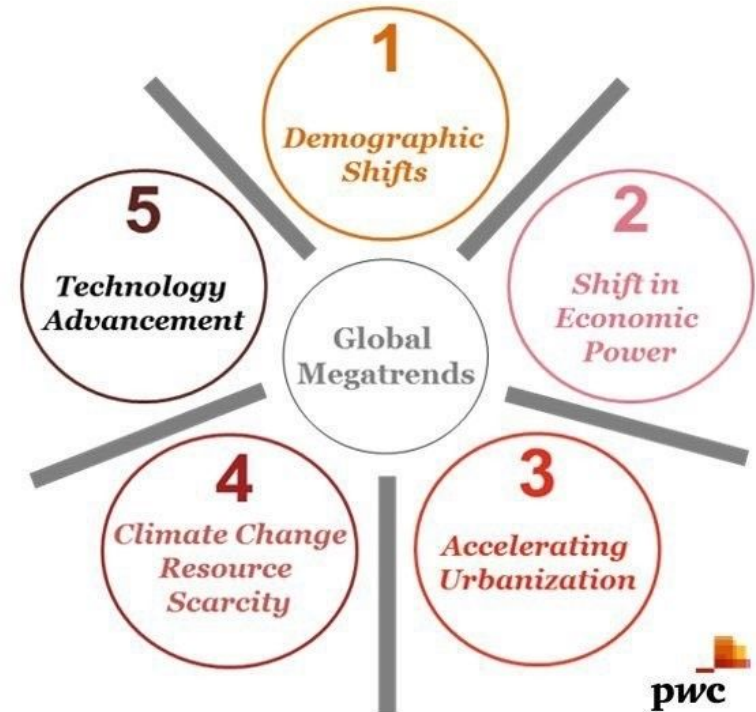
BONUS SLIDES

Mapping the future: Megatrends

What are megatrends

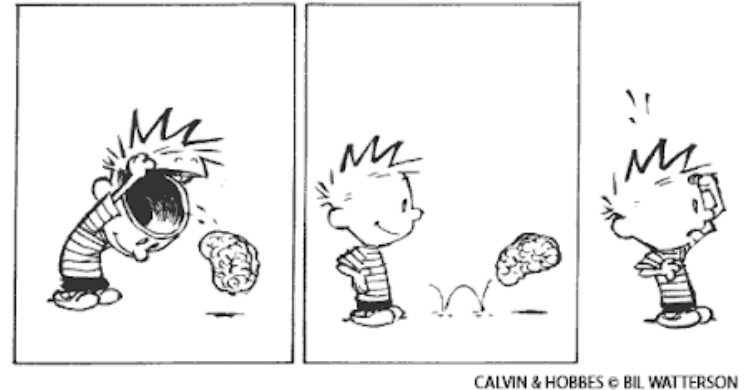
“Large-scale social, economic, political, ecological or technological changes that are typically slow to form, but which influence many other activities and views, possibly over decades.”

Some usual megatrends



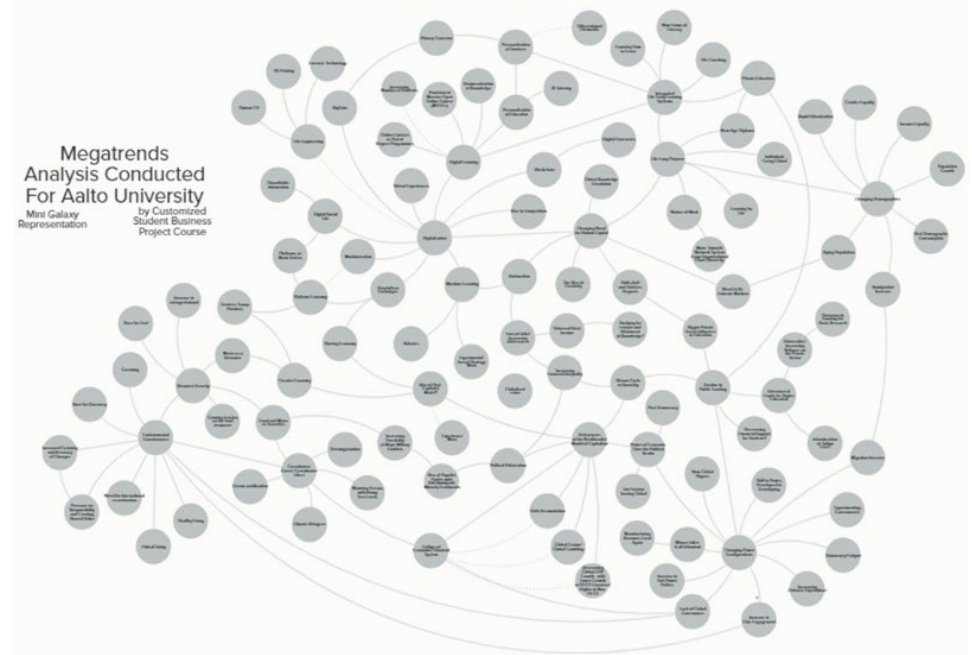
Why to map megatrends?

- **Creating an understanding of the possible futures and their impact on the business**
- **Challenging existing mindsets and cognitive models**
- **Moving from the operational, day-to-day thinking to more strategic, visionary level**
- **Forms basis for other “future-back” strategy tools such as developing scenarios**

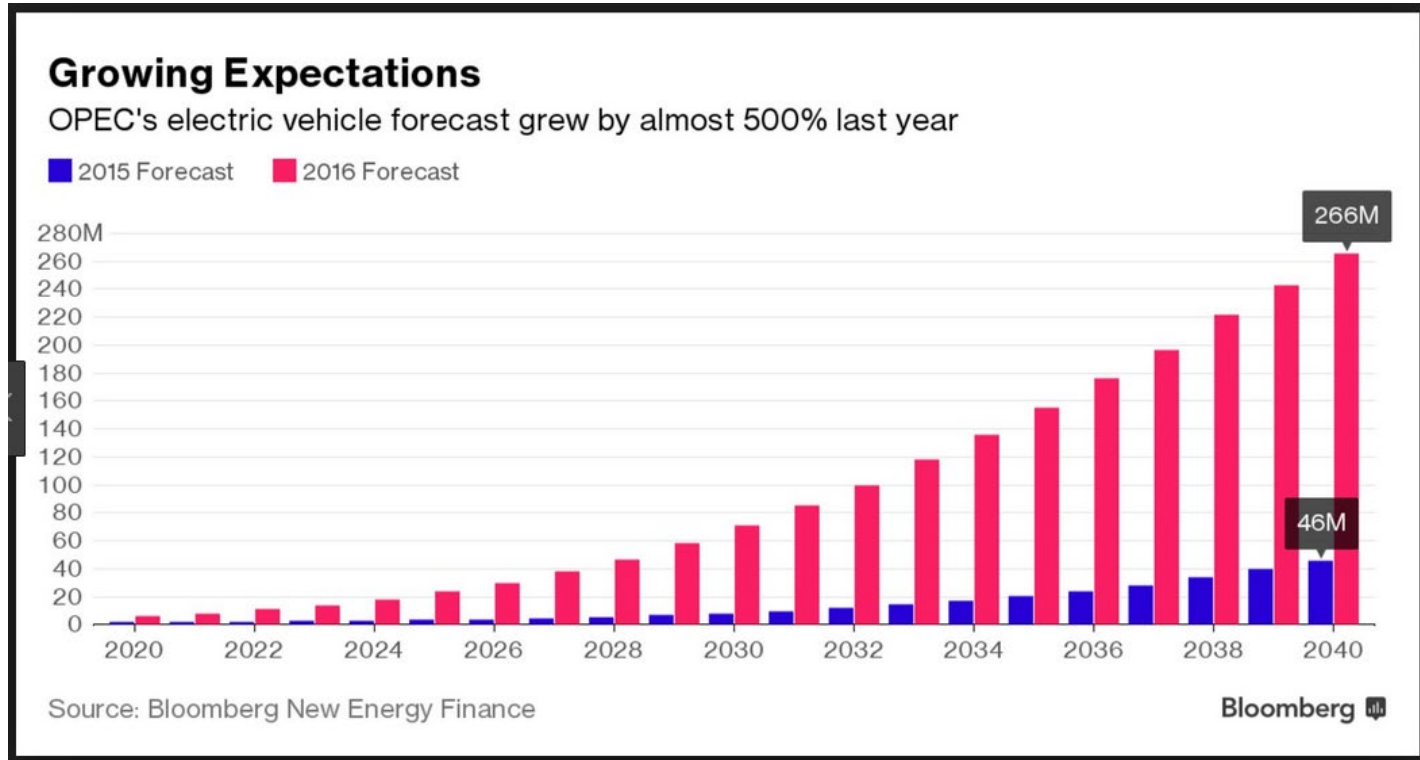


What are the challenges?

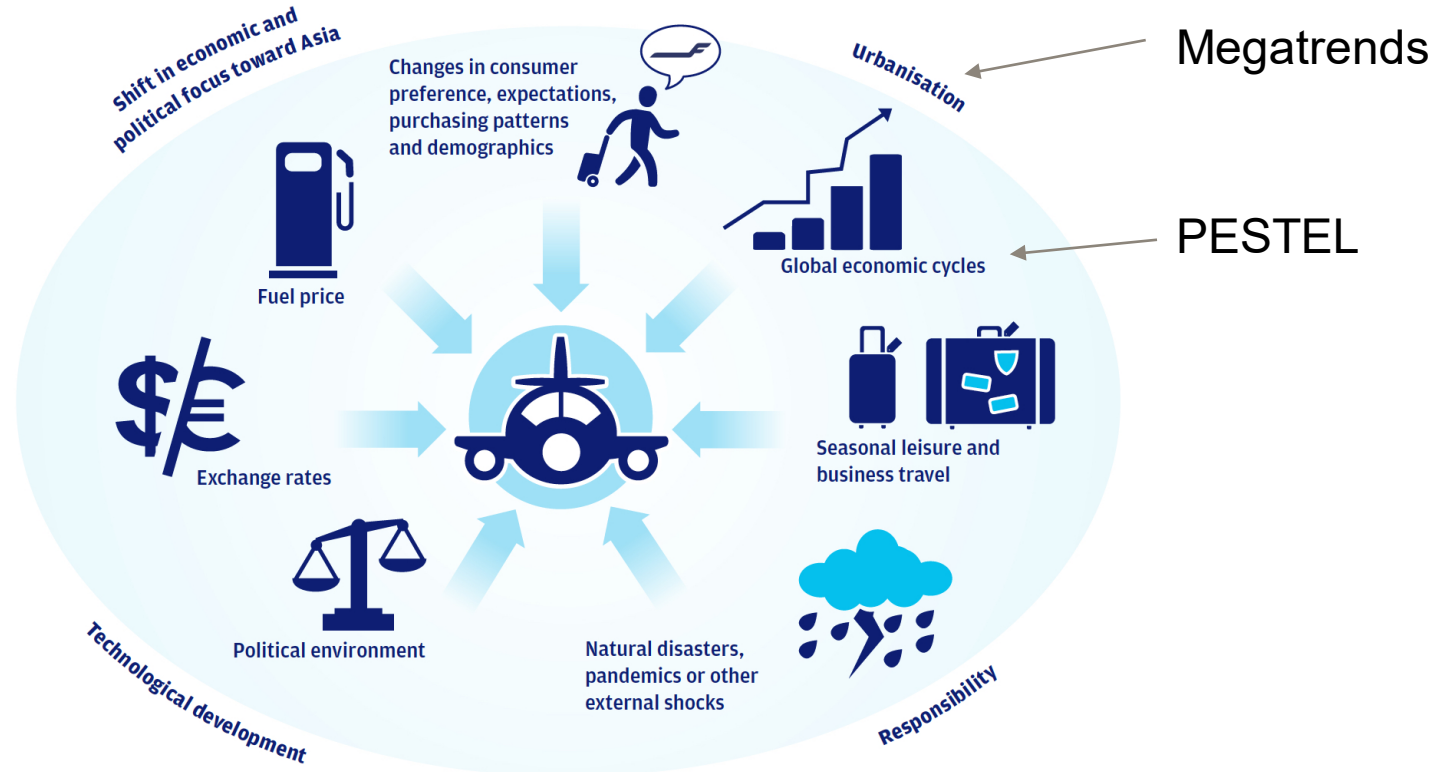
- **Megatrends are so broad, complex and often generic that they link to everything**
- **Thus, their impact on the business is difficult to grasp**
- **Not embedding the megatrends in the company strategy in any way**
- **Picking megatrends to merely justify existing strategy**



Continuous uncertainty...



Operating environment for Finnair



Grounding megatrends in corporate strategy

- **What do they mean for our business?**
- **How do the megatrends become “operational” in the industry, and for the company strategy?**
- **What are the implications for the daily activities of management and employees?**
- **Communicate!**

Megatrend	Impact on the industry and Finnair	Our response
The shift in economic and political power to Asia	<ul style="list-style-type: none"> • Traffic between Asia and Europe grows • Intense competition continues • Increased importance of understanding Asian markets 	<ul style="list-style-type: none"> • Renewal of the new generation long-haul fleet from 2015 onwards • New Asian destinations, additional flights • Increasing Finnair’s understanding of Asian markets
Urbanisation	<ul style="list-style-type: none"> • New markets are created • Intensifying competition 	<ul style="list-style-type: none"> • Good stakeholder relations • Fastest route between Asia and Europe
Technological development	<ul style="list-style-type: none"> • Increasing significance of online services and network connections • New opportunities for serving customers 	<ul style="list-style-type: none"> • Developing online services • Developing inflight entertainment systems • Developing the service experience • Unique Nordic customer experience
Sustainability	<ul style="list-style-type: none"> • Increase in regulation and reporting requirements • Increasing significance of open communication 	<ul style="list-style-type: none"> • Sustainability is an integral part of the company’s strategy. • More environmentally friendly and efficient fleet and operations • Monitoring the supply chain and collaboration in sustainability issues • Ensuring equality, accessibility and human rights in processes and product development • Participating in joint sustainability projects in the industry • Developing our reporting and stakeholder communications related to responsibility

Solution to the megatrend dilemma

The point is not to identify the right megatrends.....
....but the process of mapping them and thinking about
the corporate strategy from the “future-back”
perspective

Those who are involved in the process get the most out
of it!!

What then?

As this is not necessarily time-critical mapping,
megatrends can be an inclusive and a long-term,
recurring process supporting strategy-making in the
company

