

Strategy Process

Lecture 1: Core elements of strategy formulation



Aalto-yliopisto
Aalto-universitetet
Aalto University

Timo Vuori

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Strategy Process

Course assistant: Niko Pronin

Professor: Timo Vuori

Course practicalities (Niko)

Official learning goals

- Understand the core elements of strategy formulation, such as analysis of the external environment, alternative creation, alternative evaluation, and choice
- Understand how process-related choices influence the quality of strategy formulation and execution and apply this knowledge to make informed choices
- Understand how psychological dynamics influence strategy formulation and execution and consider and reflect how they can improve the such psychological dynamics
- Understand how structural factors influence strategy formulation and execution and make informed choices regarding structure
- Understand how artificial intelligence and data-analytics might influence strategy formulation and execution and develop preliminary ideas of how they could be applied in practice

Timo Vuori



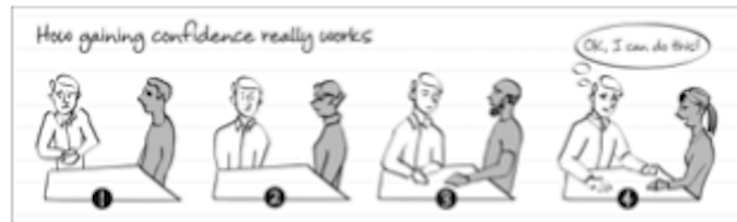
AUGUST 7



Why do companies need a strategy?



- limited res → focus, navigate, smart
- competitive adv. → define what you are doing res. allocation
- align & motivate employees, communication
- help guide everyday action
- stakeholder support

Speak up before you feel confident!





Why do companies need a strategy?

Exciting, inspiring, and energizing people

- Convincing and motivating stakeholders 
- Energizing personnel 

Reasonable actions and resource allocation

- Focus on long-term results 
- Anticipating external changes 

Compatibility and complementarity

- The actions of different parts of the organization should fit together

What is strategy?

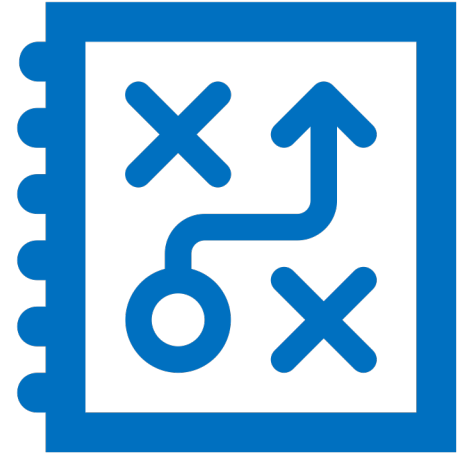
Common discussion, 5 minutes

What is strategy? (1)

Choices

- what do we (*not*) do?
- who do we serve?
- who does the things?
- In what sequence we do it?
- how do we ensure that we are able to take the actions?

The choices can be conscious or emergent



What is strategy? (2)

Communication

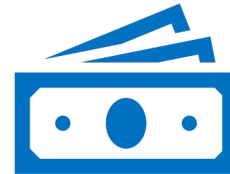
- Forming a clear, common vision and understanding

Rewarding and focusing

- Supporting effective effective execution

Learning

- Take into account how the world actually reacts to your firm actions, regardless of what you had planned



Aalto's strategy

- sust. entpr.
vs. past: w/ feedback

What is the strategy of Aalto University?

How would you improve the strategy and why?



talking how
arts fits
other activities

- education, forward looking, innov.
- Research: topics relevant & current
- collaboration & diversity

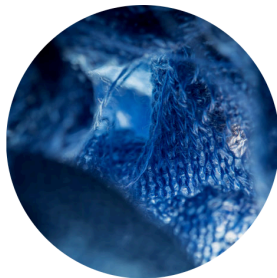
- is str. pragmatic?
- ecosystem of bit

ARTS integrated
w/ rest

10 min in small groups

Shaping a sustainable future

Aalto's future is built upon a foundation of high-quality research, education, impact and shared values: responsibility, courage and collaboration. We have adopted a living strategy tailored for a world in motion. Our purpose, values, and way of working define our long-term direction. We choose development areas and actions that best drive us towards our purpose. As a community, we proactively and continuously re-evaluate these choices.



Our purpose, values and way of working

Our long-term direction is defined by our purpose of shaping a sustainable future, our three values of responsibility, courage and collaboration, and our way of working.

→ [Read more](#)

Areas of development

Our purpose is to shape a sustainable future. We have selected specific areas of development that best drive us towards our purpose.



Research: Driving excellence

We create world-class clusters of excellence and bring complementary talent together.

Our strategy



Education: Future-led learning

We take greater societal responsibility in degree education and continuous learning with elevated student experience.

Our strategy



Impact: Inspiring ecosystem

As a community of faculty, staff, students, alumni and partners, we build an internationally prominent ecosystem.

Our strategy

Our three cross-cutting approaches

We have chosen three cross-cutting approaches in our living strategy. We apply sustainability, creativity and an entrepreneurial mindset in all of our actions.



sustainable solutions

Solutions for sustainability

We help solve grand challenges in and across our key areas.

Our strategy



radical creativity

Radical creativity

We build an outstanding creative community for new thinking.

Our strategy



entrepreneurial mindset

Entrepreneurial mindset

We foster an inspiring entrepreneurial culture.

Our strategy

Enabling our success

To enable our success, we invest in our community & people, infrastructures & campus and services & resources.

Our strategy



A living strategy for a world in motion

In our living strategy approach, our purpose, values, and way of working define our long-term direction while our choices are proactively and continuously re-evaluated.

→ [Read more](#)



Consultants' feedback on Aalto Strategy

1. Specifying key focus areas for research and education
2. Crystallising the strategy story
3. Making the operating environment analysis more explicit
4. Clarifying leadership and governance
5. Simplifying agile implementation
6. Enhancing alumni and student engagement

What should a company consider during strategy formulation?

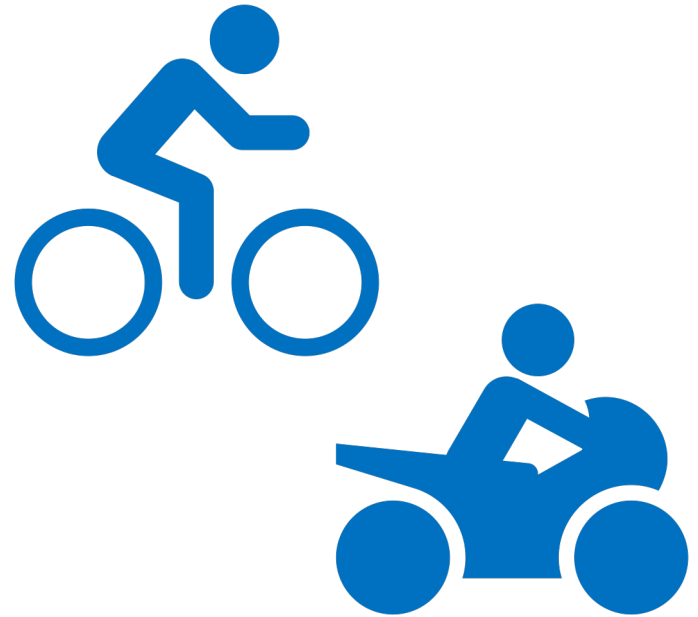
Resources and capabilities

Resources: what do we have?

Capabilities: our skills to turn resources into something valuable

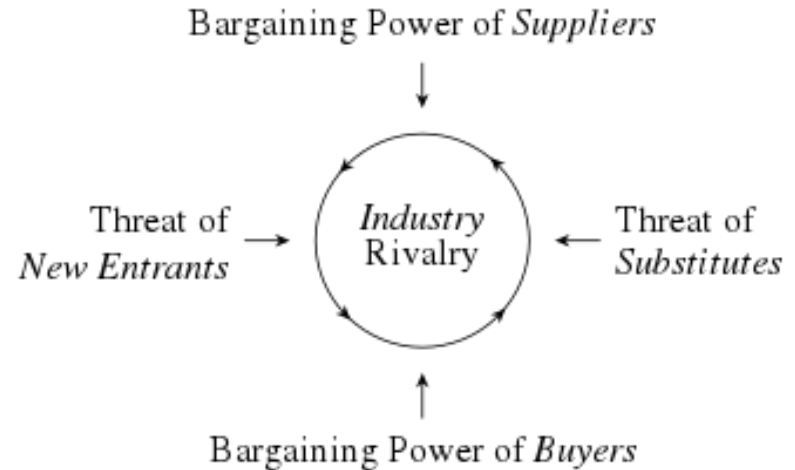
VRIN (Barney, 1986)

- Valuable
- Rare
- Inimitable
- Non-substitutable



The external environment

- Customers
- Competitors
- Legislation
- Technological trends
- Other societal issues

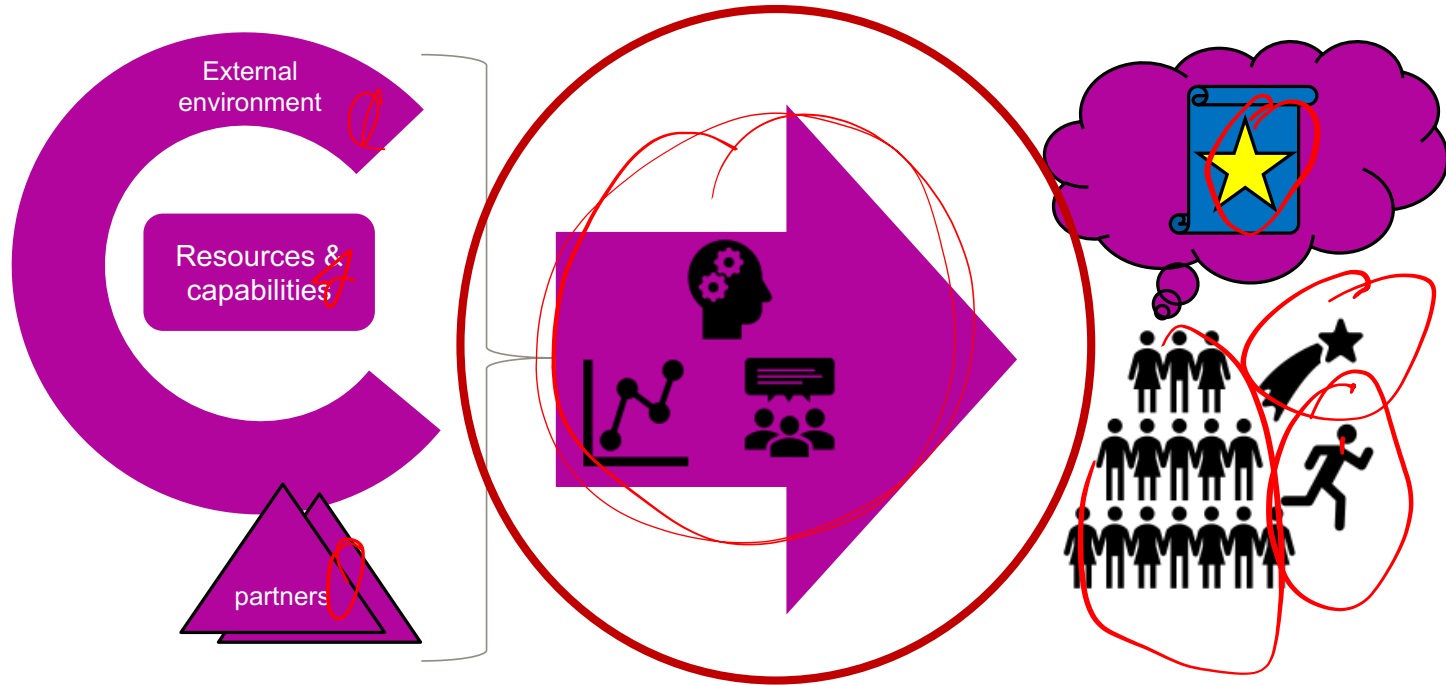


Partners and ecosystem

- Complementary resources and capabilities
- Complementary value creation in ecosystems



Strategy formulation



Strategy formulation process

What activities should be performed during strategy formulation? What happens during them?

In what sequence should they occur?

Who should perform them?



TMT

MM

consultants

2 MONTHS project

4-7 steps

10 min in small groups

1. Planning, brainstorm.
- vision, values, goal

(H)

2. Analyze resources, data
how market would
respond

(V)

Analyse
? Goals

options

① Vision & mission

② Analyze comp. & env.
(SWOT)

③ Find comp. adv. &
sweet spot

④ specifics

⑤ Quantification (KPIs,
OKR)

Strategy formulation process

Analysis of the external environment

Analysis of the internal strengths and weaknesses

Creation of strategic options (or vision)

Evaluation of the options

Choice

Implementation planning and communication

• internal communication

• role of students

ASS-U-ME



External analysis

What is the external environment for Aalto University?

How would you analyze the trends and their impact in detail?

- what data and other information would you collect?**
- where would you get it?**
- what analyses would you perform?**
- how would you infer the implications?**

Quantifying assumptions

You need to turn qualitative assumptions into numbers to analyze them better

- Impact of external trends
- Estimation of strategic outcomes

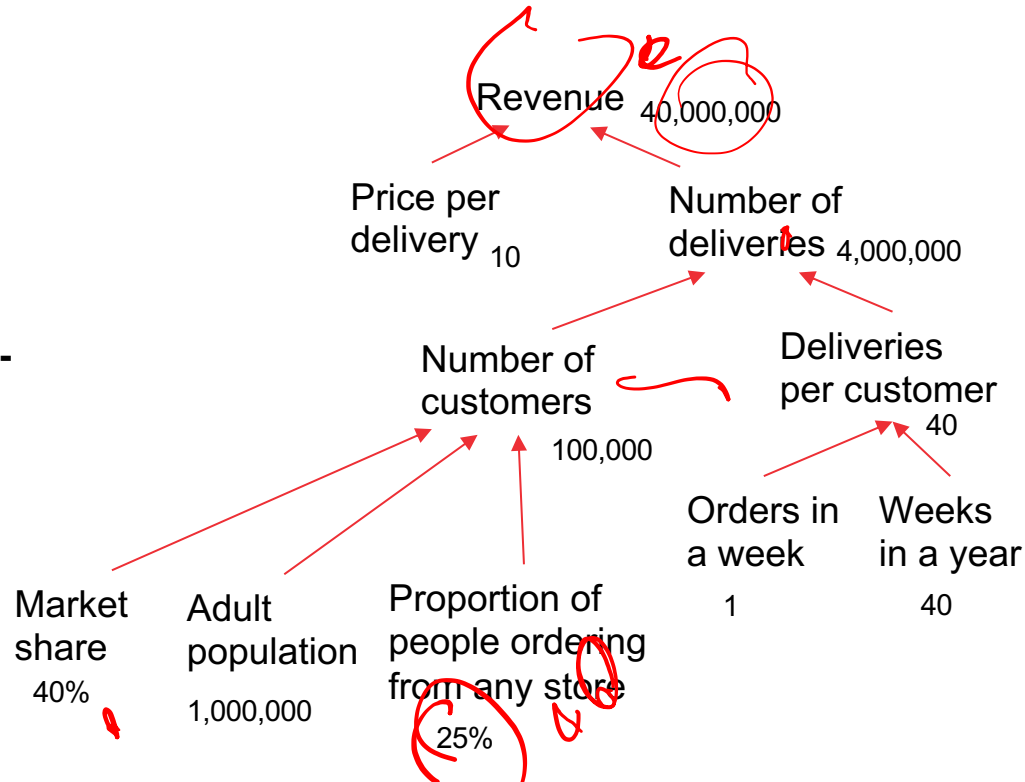


How to quantify?

What is the current annual revenue for grocery home deliveries for the S-group in the Capital region?

Steps

1. Divide the problem into components
2. Divide the components into sub-components
3. Make a reasonable guess of the sub-(sub)-components (or use data, when available)
3. Calculate “upwards”



Exercises, round 1

How many people buy a new web-camera this month in Finland?

How much has the combined revenue of all Otaniemi restaurants in March 2021 declined from March 2019?

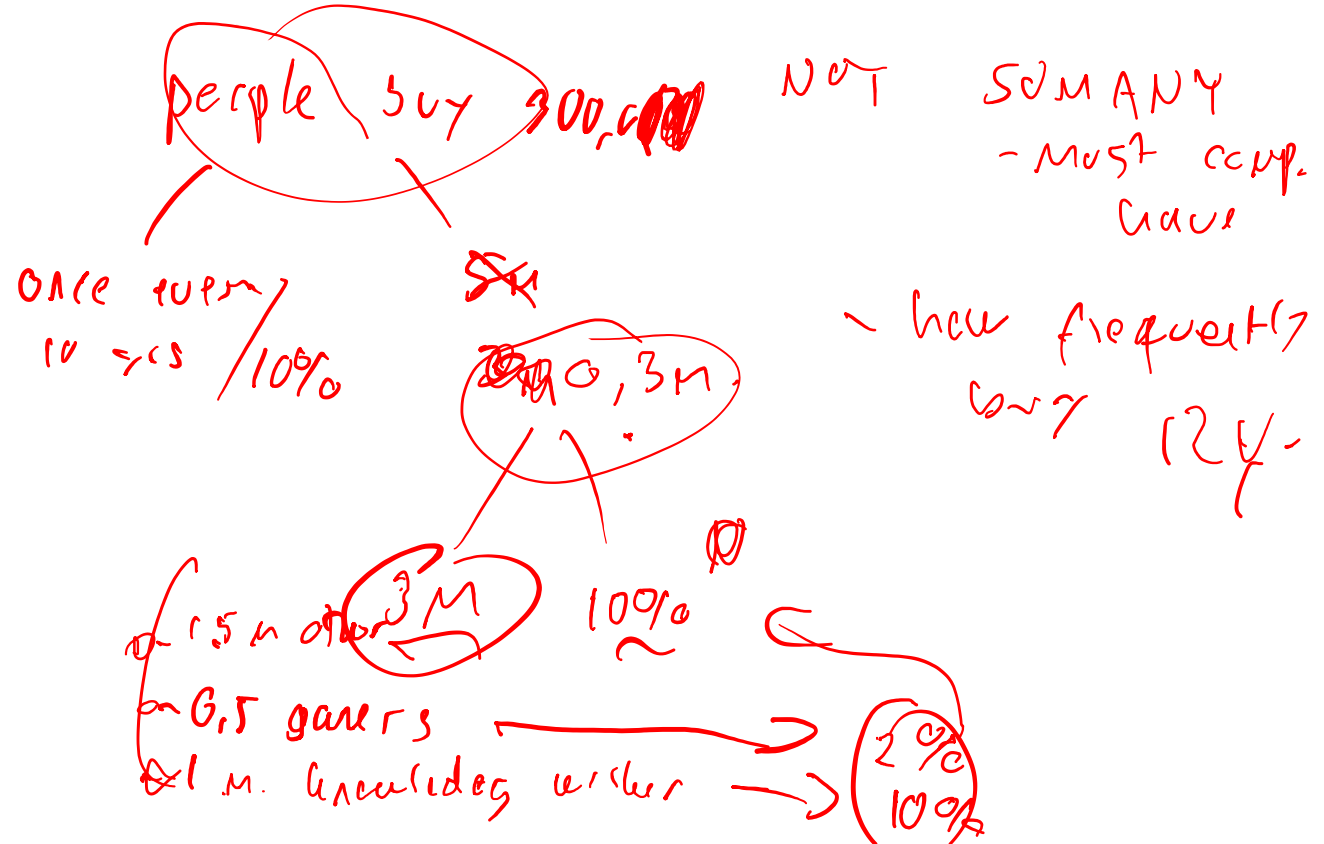
How much has the combined profit of all Otaniemi restaurants in March 2021 declined from March 2019?

1. Make the guesstimation tree
2. Guess the numbers
3. Calculate
4. If you have extra time, improve your estimate by refining the tree and finding the true numbers

Be prepared to present

10 min in small groups

How many people will buy a new web-camera this month in Finland?



How much has the combined revenue of all Otaniemi restaurants in March 2021 declined from March 2019?

- # of ops
/ today

rest
↑
2 yrs ago

- price of meal & seats



- **NUMBER OF CUSTOMERS PER DAY**

↳ # facelies

10x10

80

11-13 } 8
15 unit }

8x80 = 640

How much has the combined profit of all Otaniemi restaurants in March 2021 declined from March 2019?

Exercises, round 2

What is the market size for triathlon equipment in Finland in 2021?

How much profit would you make by building and operating a e-car charging network in Finland in 2021-2025?

How much would it cost to build an Aalto lecture hall into the moon and have 10% of Aalto students visit it annually?

1. Make the guesstimation tree
2. Guess the numbers
3. Calculate
4. If you have extra time, improve your estimate by refining the tree and finding the true numbers

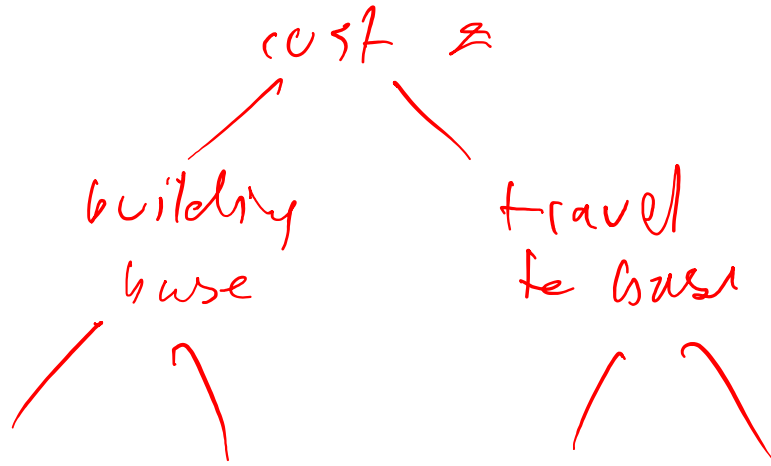
Be prepared to present

10 min in small groups

What is the market size for triathlon equipment in Finland in 2021?

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How much would it cost to build an Aalto lecture hall into the moon and have 10% of Aalto students visit it annually?



50 billion

luna base 25bn
for 4 people

11000 thousand

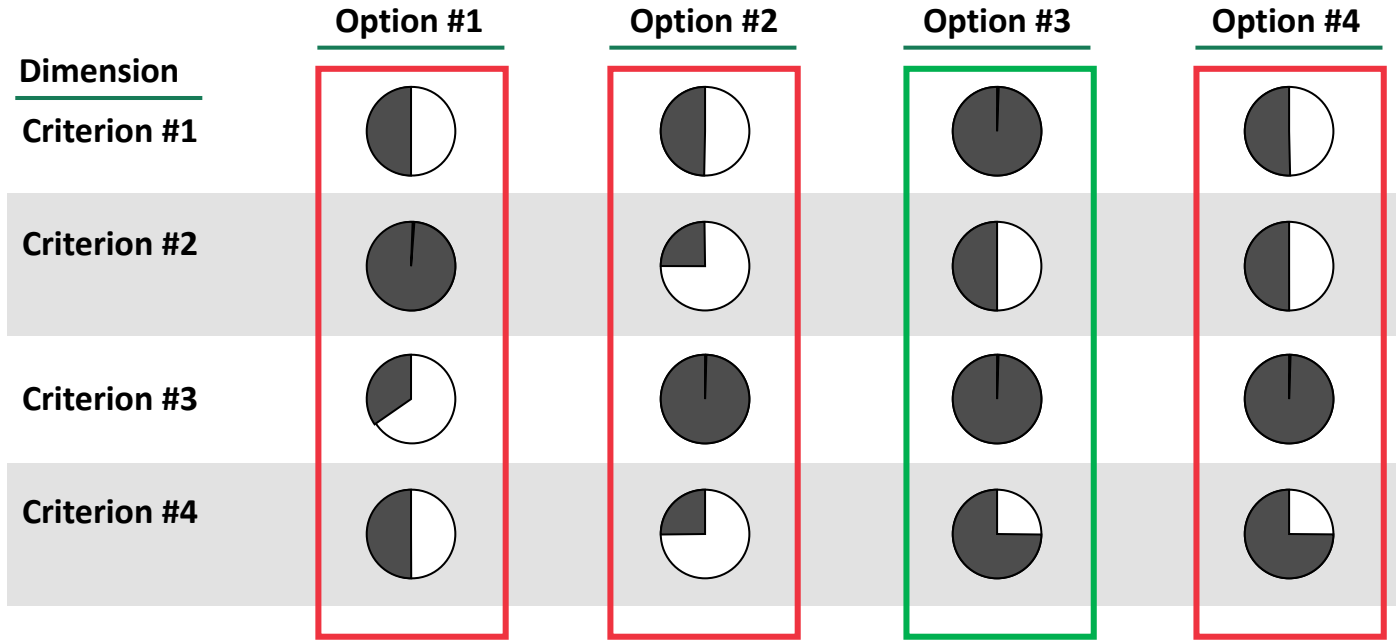
5 students per day

Criteria for the choice

What criteria?

Who defines them?

Who makes final choice?



Assignment for next week

If you want, you can return a PowerPoint presentation instead of an essay. It should have three slides and visualize the insights as much as possible

Read the article, supplemented with online research to answer the questions below. Write a submission of 600 words (excluding the references, titles and subtitles). Late submissions will encounter a point reduction of 50% from otherwise on-time submitted corresponding version.

Answer to these following questions:

- o What does **bounded rationality** mean?
- o What does **satisficing search** mean? Provide also an example from your own experience.
- o What do **cognitive representations** mean? How do they influence people's choices? Give also an example of an everyday choice in which **your own mental model** influences your choice.
- o **Why** cognitive presentations benefit organizational search compared to experiential search?
- o **Under what conditions** are cognitive presentations most likely to harm organizational search? Provide also **an example** of a company that has made a strategic mistake due to its leaders' cognitive representations.

Grading (max 15 points)

- Right vs. wrong definition (1)
- Right vs. wrong definition (1).
Relevance of example (2)
- Right vs. wrong definition (1).
Explanation of their influence (2).
Relevance of example (2).
- Goodness of explanation (2)
- Goodness of explanation (2).
Relevance of example (2).

In addition, clarity of answers is crucial and impacts the grading.