Strategy Process

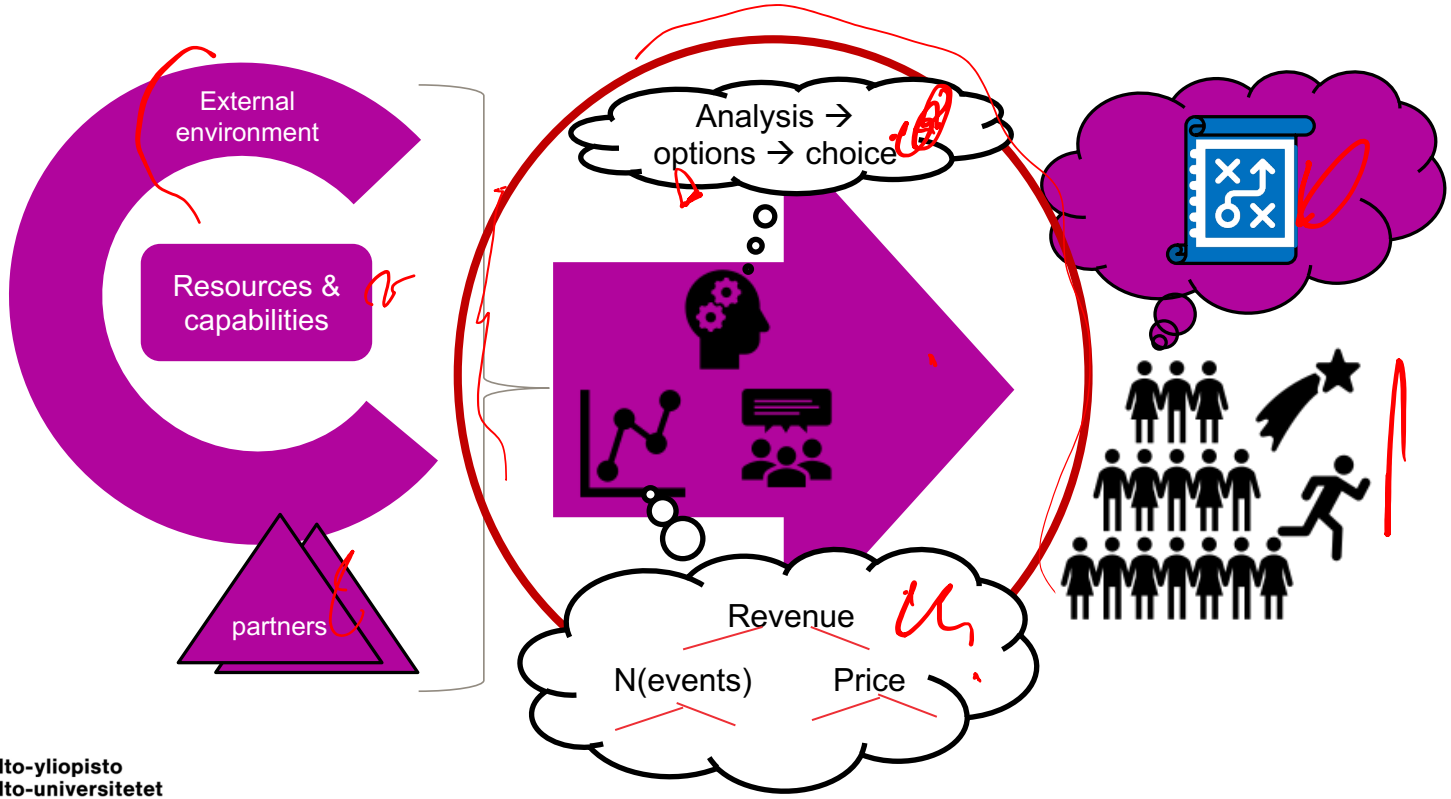
Lecture 2: Bounded rationality and process choices

Aalto-yliopisto
Aalto-universitetet
Aalto University

Timo Vuori

03/2021

Recap of first lecture



© Timo Vuori

Speak up before you feel confident!

Key concepts

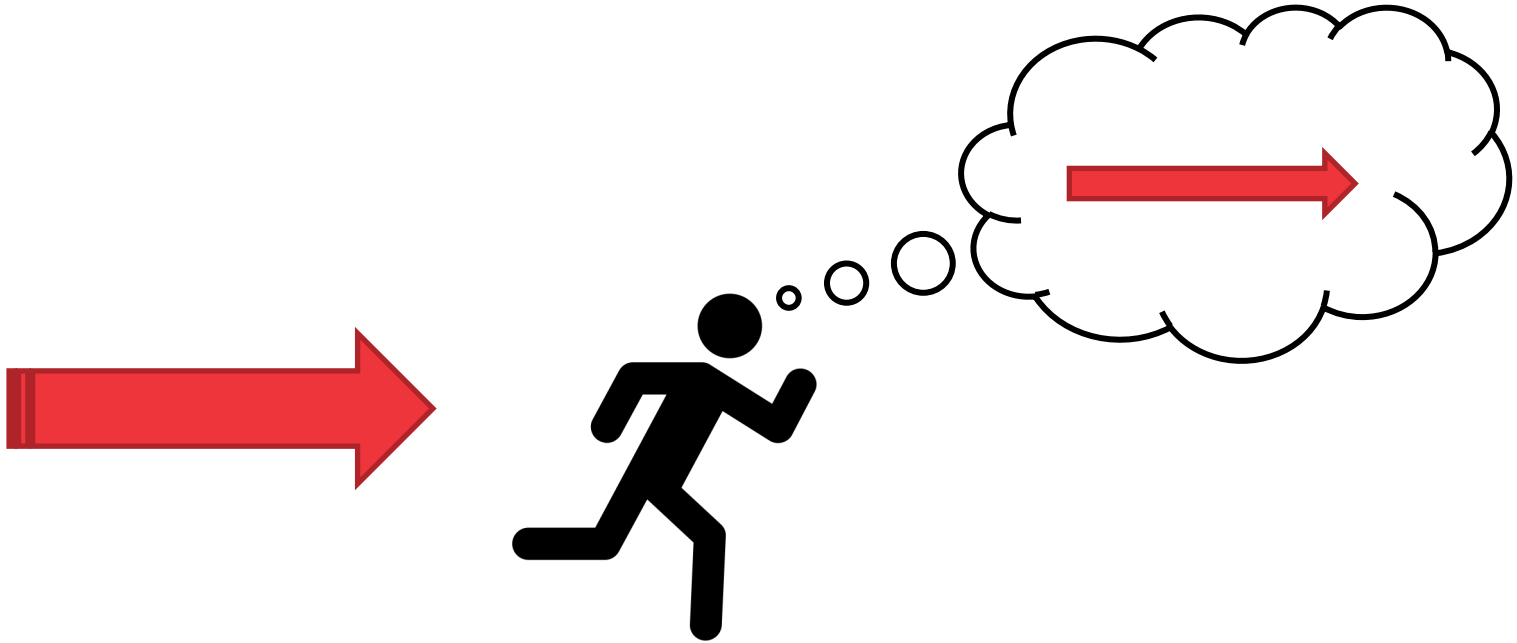
What does **bounded rationality** mean?

What does **satisficing search** mean?

Examples from your own experience?

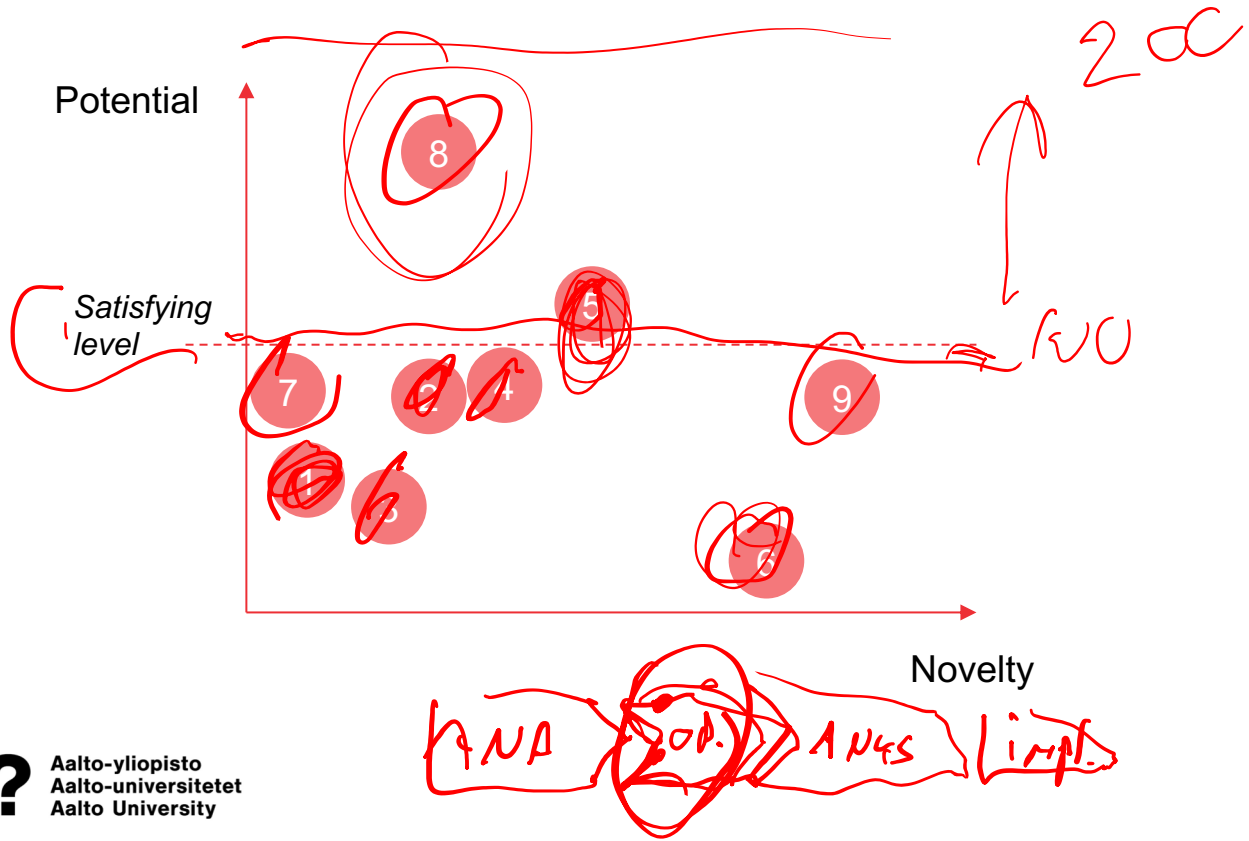
5 min in small groups

© Timo Vuori



© Timo Vuori

Options reach higher



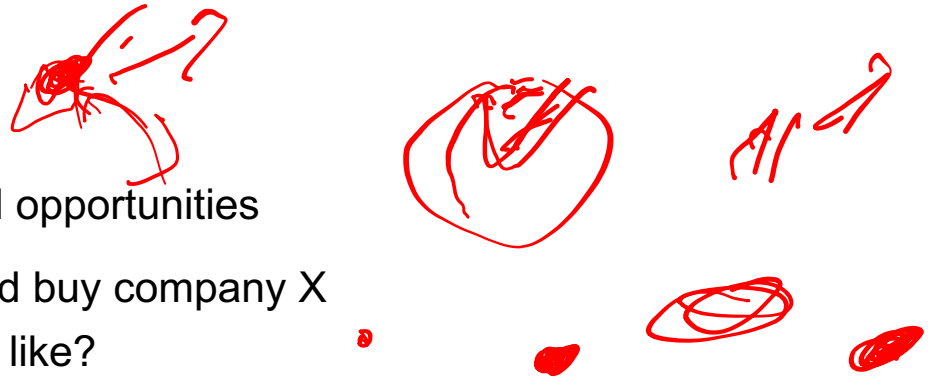
Simple rules

1. Create at least nine options before choosing
2. Spend at least three weeks to generate new options
3. Double the aspiration level (satisfying level)

Aalto-yliopisto
Aalto-universitetet
Aalto University

© Timo Vuori

Techniques for creating options



Inside-out: start from your strengths

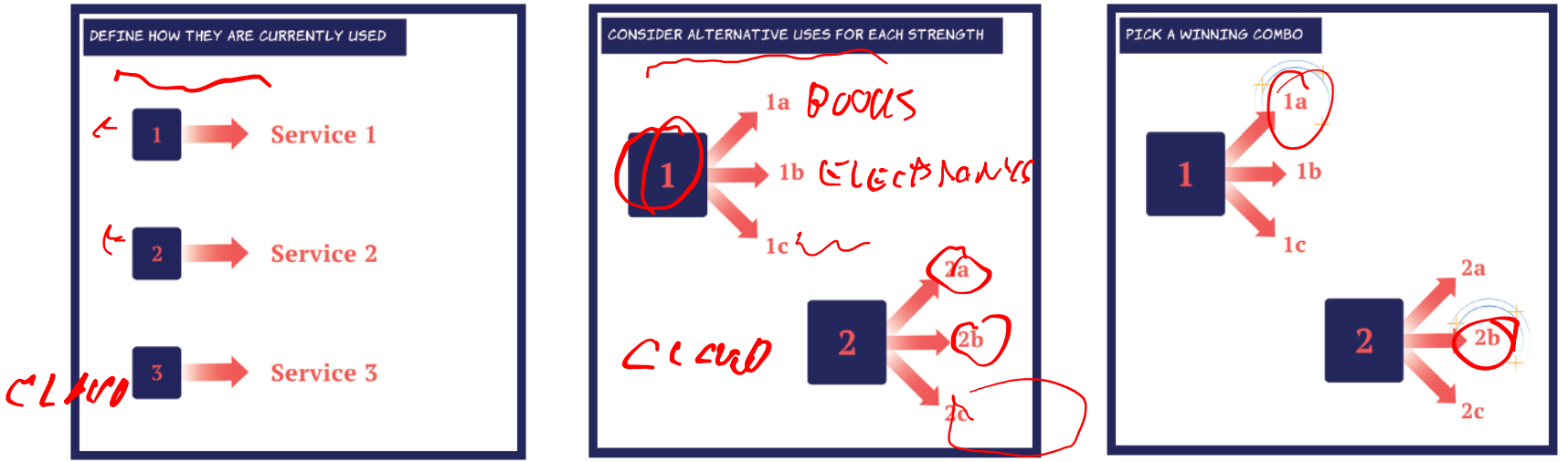
Outside-it: start from market trends and opportunities

What if we acquired: imagine you would buy company X – what would your business then look like?

Analogies: imagine you did something similar another company has done in another industry

© Timo Vuori

Inside-out out: start from your strengths

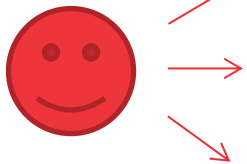


© Timo Vuori & Tero Ojanperä

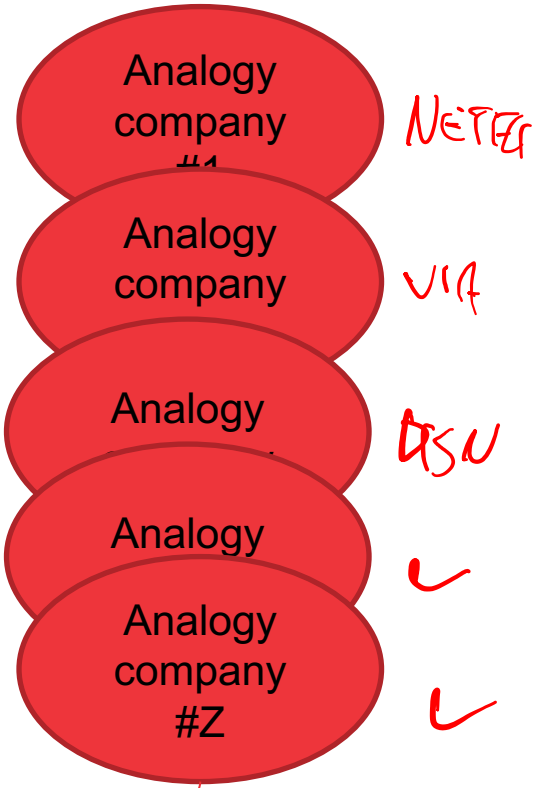
Analogies

1. Reflect what are the key forces driving or enablingchange in your current situation?

Strategic leader



2. List companies that have succeeded in analogical situations

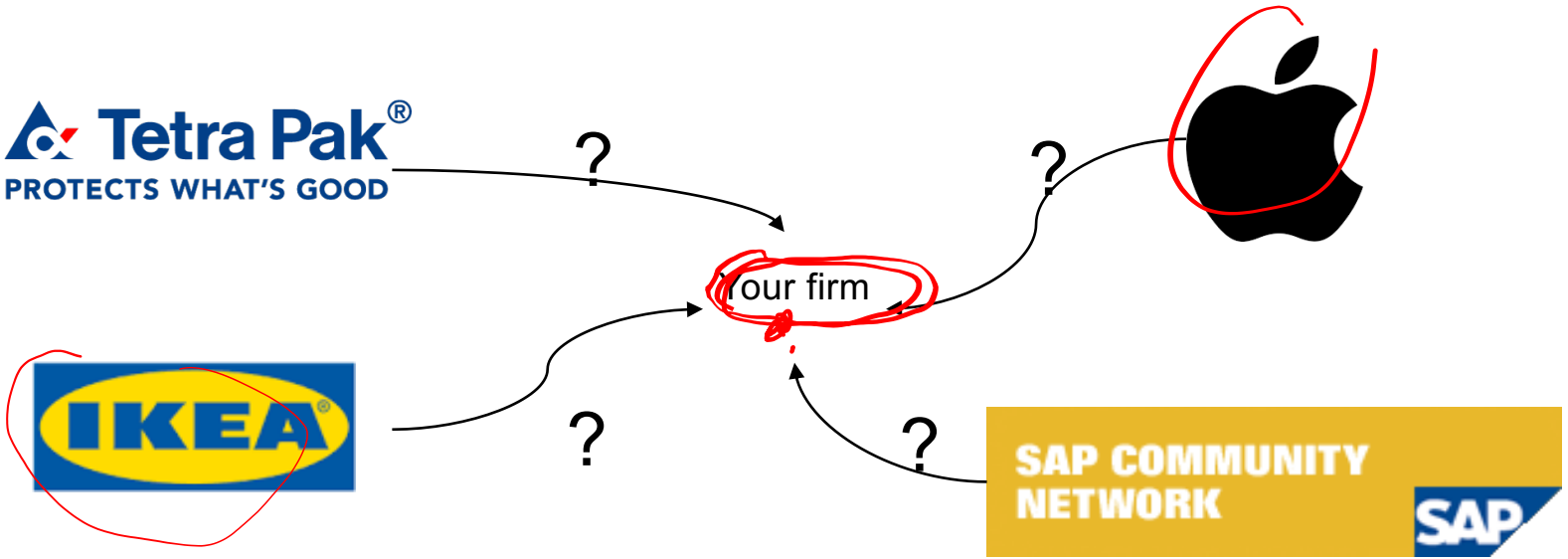


3. Think what would be the best solution from the analogies and apply it to your current situation

Aalto-yliopisto
Aalto-universitetet
Aalto University

© Timo Vuori

Analogies, continued

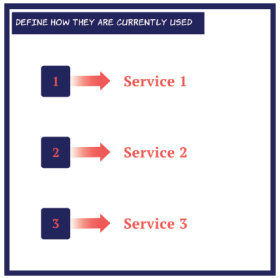


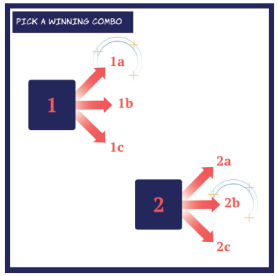
© Timo Vuori

Create strategic options for your favorite company

Inside-out

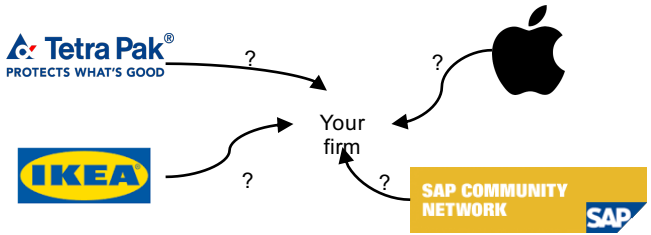
- Choose one unique-ish strength your company has
- How is your company currently leveraging the strength?
- What other value could your company generate with the strength?
- What vision could be created from that?





Analogies

- Select a company from an unrelated industry
- What is the radical move or unique business model the company has?
- What would it look like if your company did the same?
- What vision could be created from that?



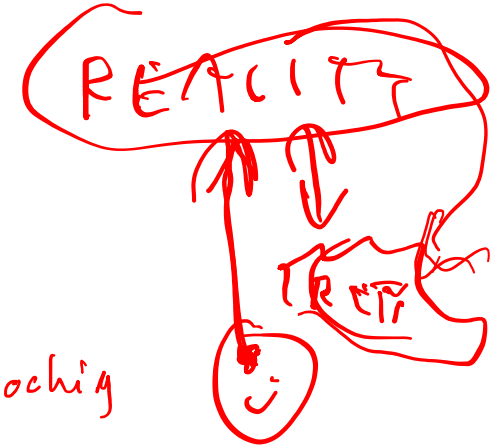
10 min in small groups

Aalto-yliopisto
Aalto-universitetet
Aalto University

© Timo Vuori & Tero Ojanperä

INTELLIGENT PLATFORMS

Key concepts, continued

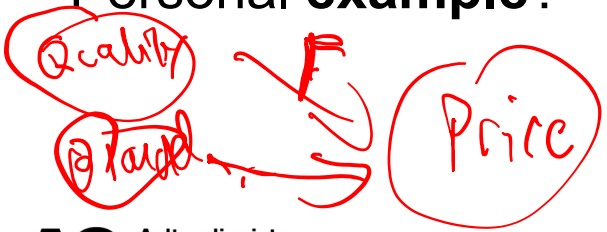


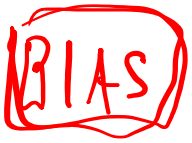
What is a **cognitive representation** in the business context?

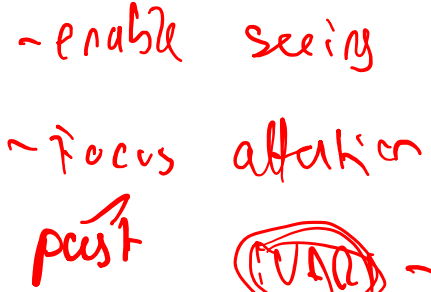
Why do we need them?

How do they **influence choices**?

Personal **example**?



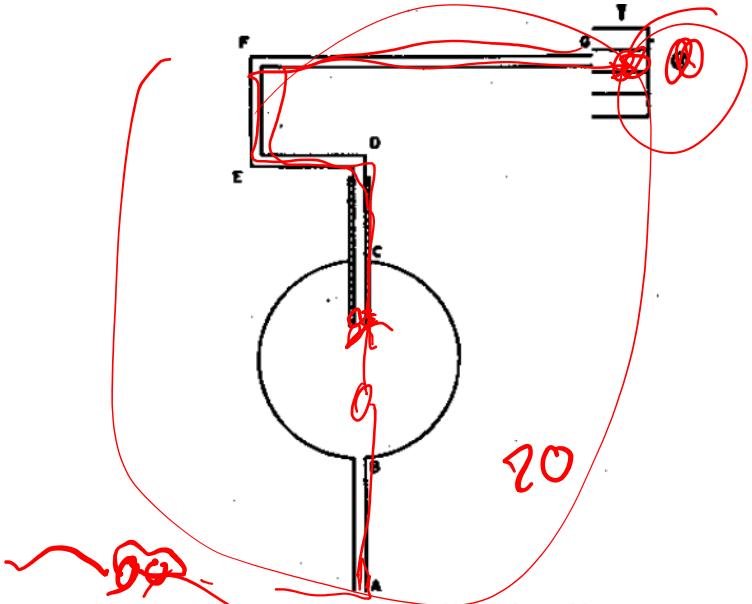




5 min in small groups

© Timo Vuori

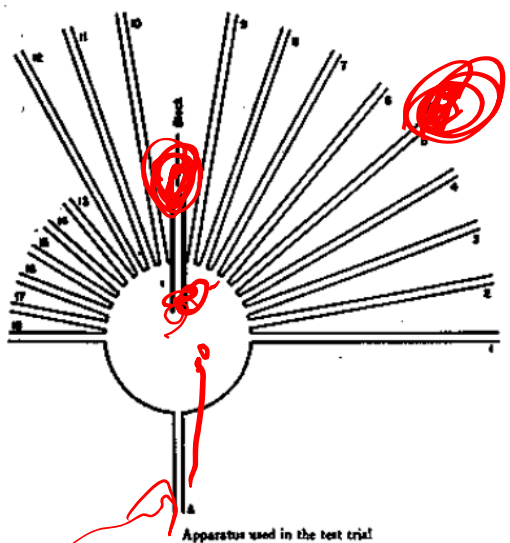
Cognitive representations



Apparatus used in preliminary training

FIG. 15

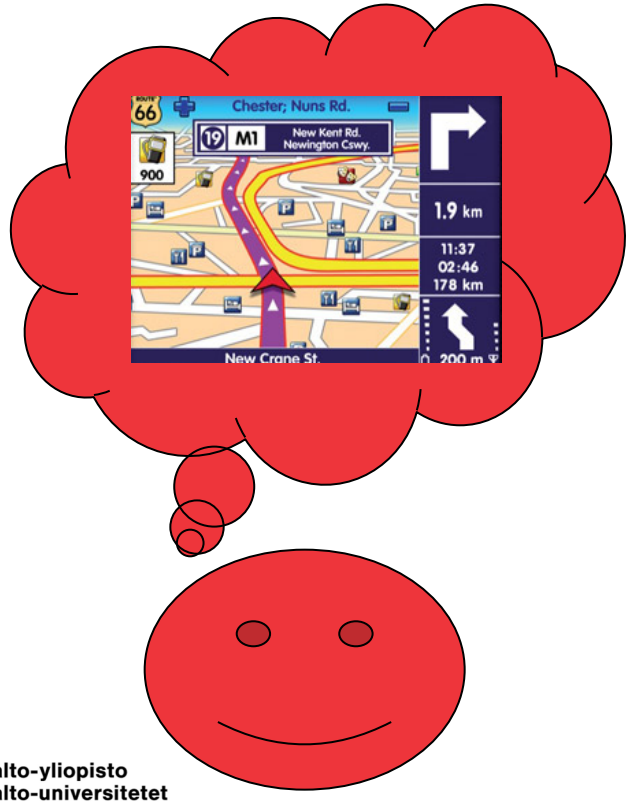
(From E. C. Tolman, B. F. Ritchie and D. Kalish, Studies in spatial learning. I. Orientation and the short-cut. *J. exp. Psychol.*, 1946, 36, p. 16.)



Apparatus used in the test trial

FIG. 16

(From E. C. Tolman, B. F. Ritchie and D. Kalish, Studies in spatial learning. I. Orientation and short-cut. *J. exp. Psychol.*, 1946, 36, p. 17.)



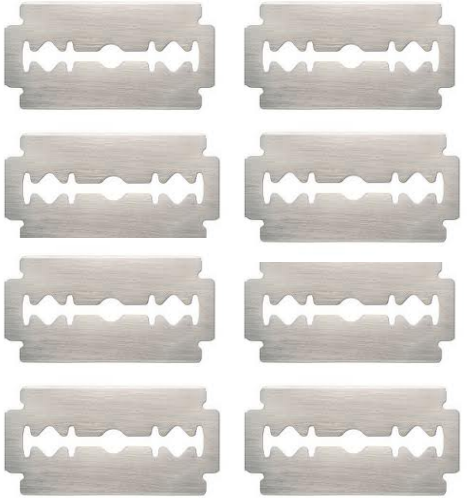
Aalto-yliopisto
Aalto-universitetet
Aalto University

© Timo Vuori

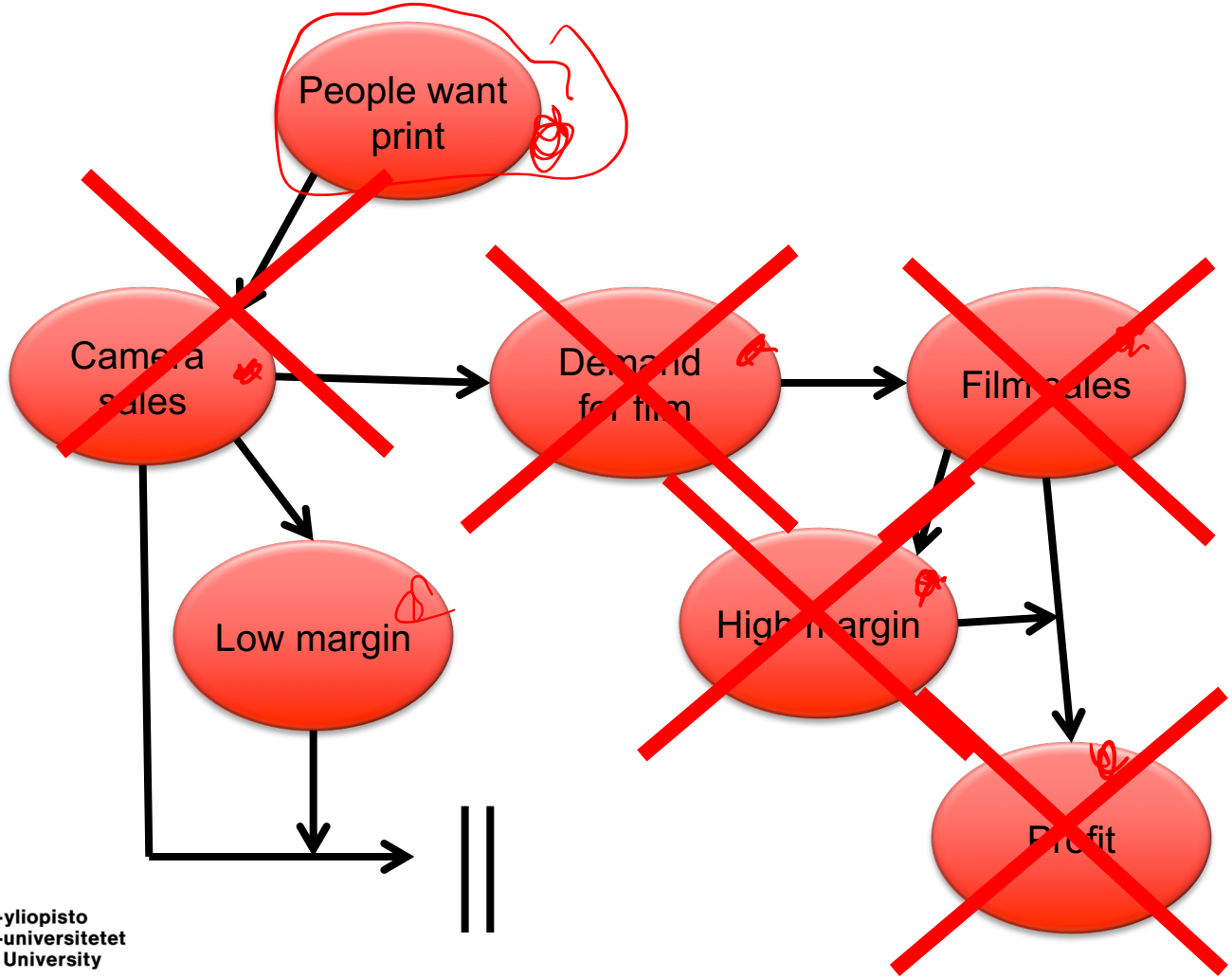
Aalto-yliopisto
Aalto-universitetet
Aalto University

© Timo Vuori

(Tripsas & Gavetti, 2000)



fICM



Aalto-yliopisto
Aalto-universitetet
Aalto University

© Timo Vuori

(Tripsas & Gavetti, 2000)

ASS-U-ME

BlackBerry
T-Mobile HotSpot
Fri, May 20
12:21
T-Mobile

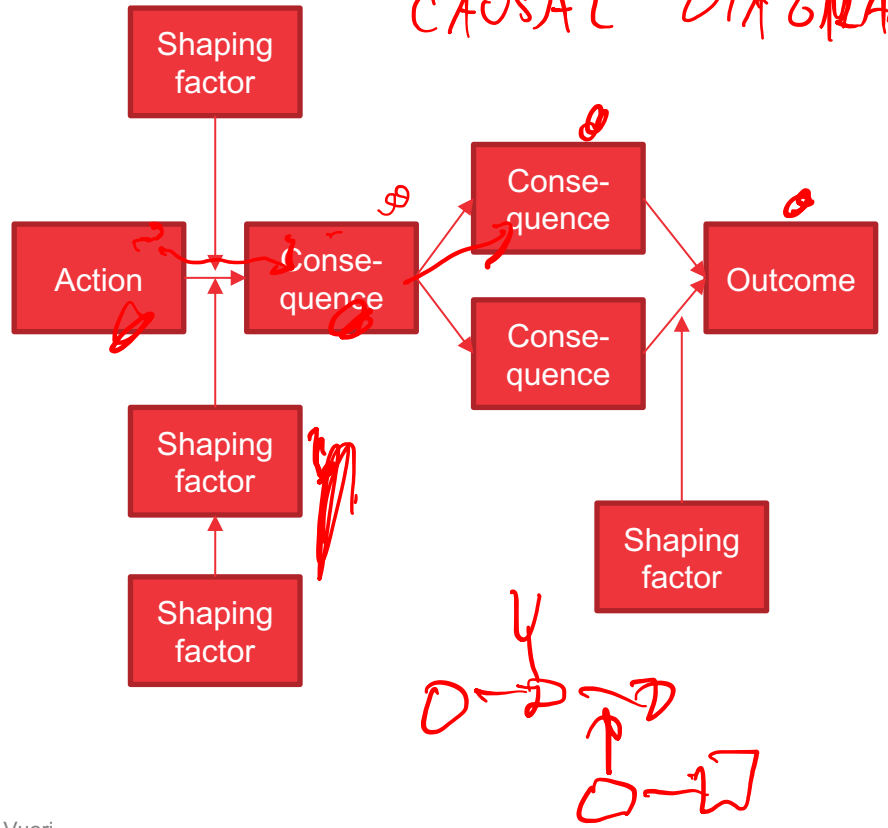
Golf TDI Clean Diesel
2009 World Car of the Year
NOT A CONCEPT CAR

STOCKMANN

Explicating your mental model

Identify key variables in your mental model

- **Actions you are going to take**
- **Immediate consequences of the actions**
- **Consequences of the consequences**
- **Ultimate outcomes**
- **Factors that shape the relationship between actions and consequences, and the factors behind them**



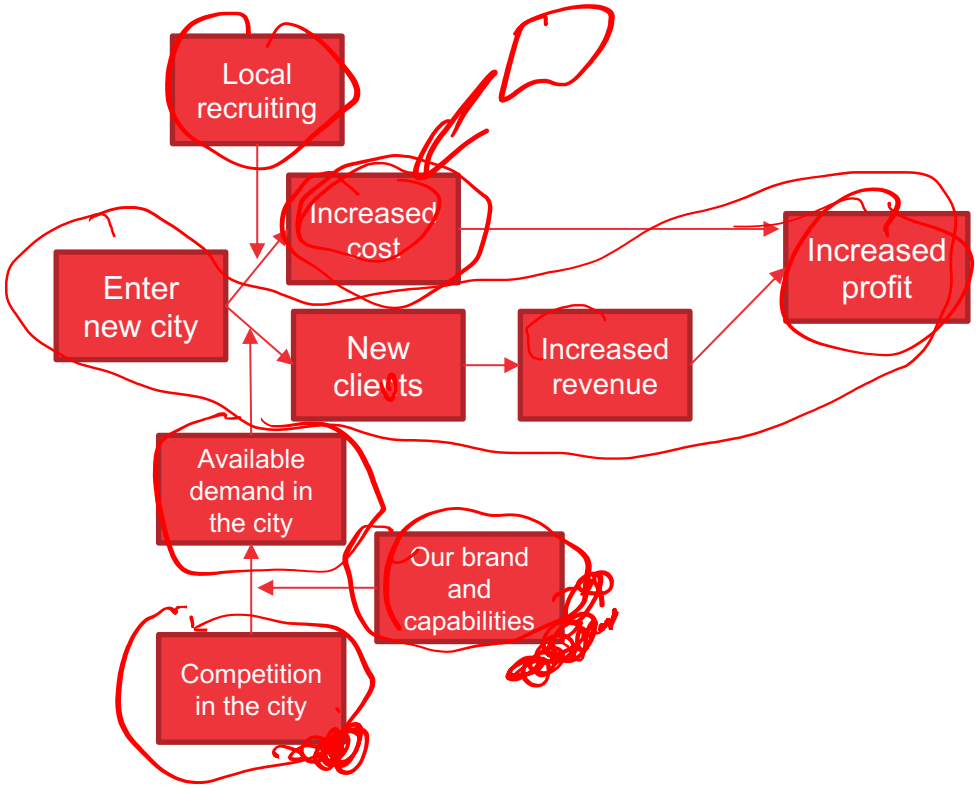
Aalto-yliopisto
Aalto-universitetet
Aalto University

© Timo Vuori

Example of mental model (1)

Identify key variables in your mental model

- **Actions you are going to take**
- **Immediate consequences of the actions**
- **Consequences of the consequences**
- **Ultimate outcomes**
- **Factors that shape the relationship between actions and consequences, and the factors behind them**



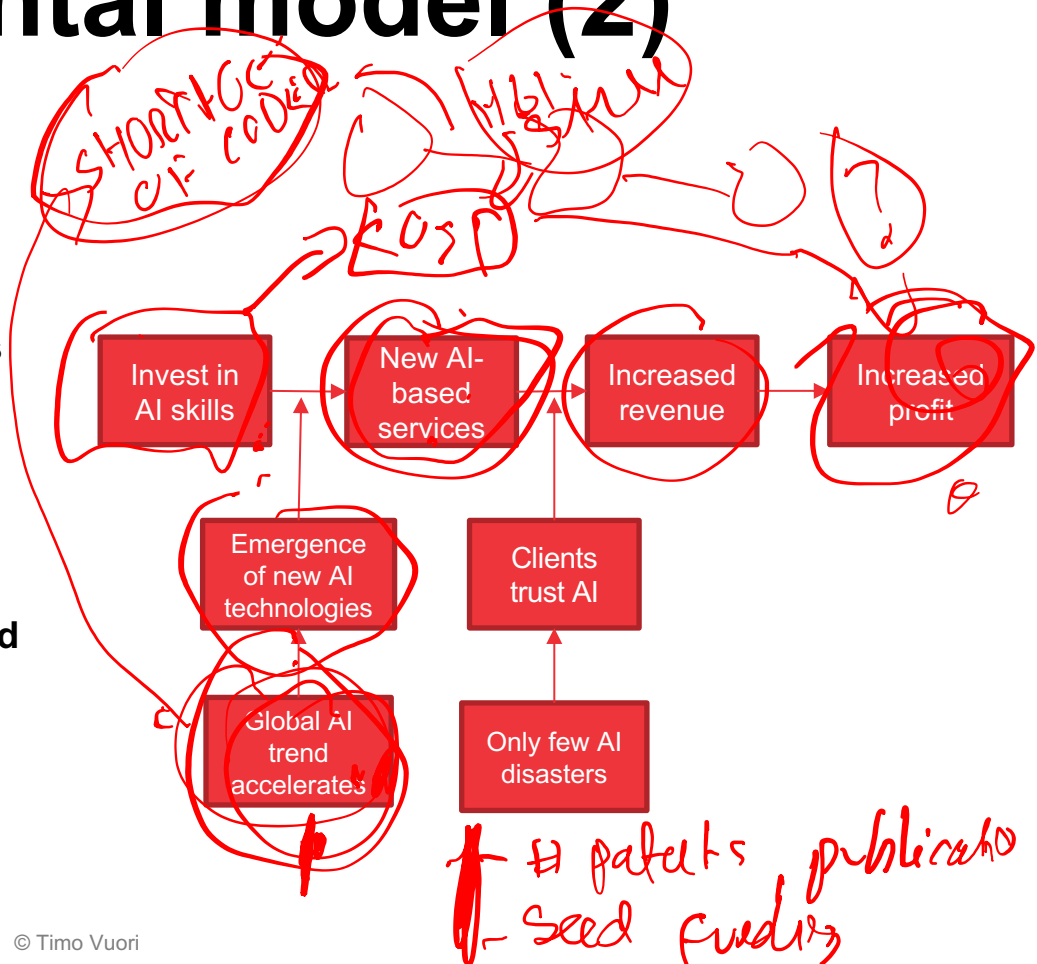
Aalto-yliopisto
Aalto-universitetet
Aalto University

© Timo Vuori

Example of mental model (2)

Identify key variables in your mental model

- **Actions you are going to take**
- **Immediate consequences of the actions**
- **Consequences of the consequences**
- **Ultimate outcomes**
- **Factors that shape the relationship between actions and consequences, and the factors behind them**



Aalto-yliopisto
Aalto-universitetet
Aalto University

© Timo Vuori

Draw mental model of your strategic option

5 min in small groups

© Timo Vuori

PreMortem exercise to identify critical assumptions

- Imagine it’s year 2030
- Your firm has gone bankrupt
- What has happened? Describe as realistic a scenario as possible
- What assumptions should you add to your mental model?

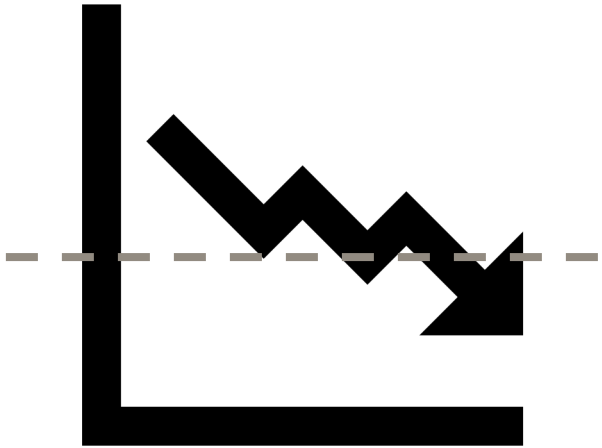
5 min in small groups

Aalto-yliopisto
Aalto-universitetet
Aalto University

© Timo Vuori

Measure your critical assumptions

- Test and validate your assumptions with data
- Identity key variables / proxies
- Identify feasible data sources
- Determine threshold values in advance
- Continuous process



Aalto-yliopisto
Aalto-universitetet
Aalto University

© Timo Vuori

Test your critical assumptions

- Not just analyzing reality passively, but also testing ideas and assumptions through pilots
  - Contextual factors shape action-outcome relationships
  - Not enough data about new things
- Measuring outcomes
- Plan what are the next steps, as a function of the outcomes
- Sufficiently high level of risk

© Timo Vuori

Measure and test your assumptions

Select two key assumptions from your mental model

How could you measure each with data?

What experiment could you create to test them?

How would you interpret the results?

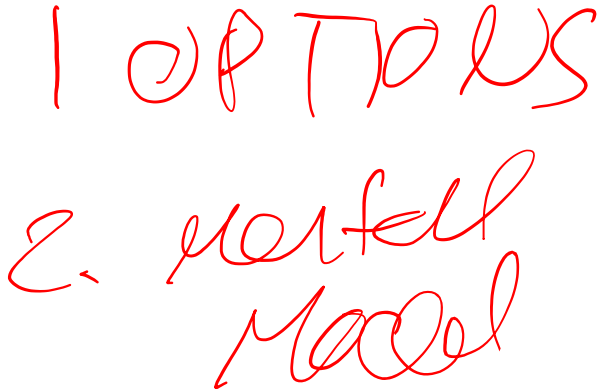
5 min in small groups

© Timo Vuori

Key concepts, continued still

Under what conditions are cognitive presentations most likely to harm organizational search?

Failure example



5 min in small groups

© Timo Vuori

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 articles 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:

- Why and how emotions can influence strategy making in organizations?
- Give an example of a situation in which your emotions have influenced your choice. Why did you experience the emotion and how did it influence you?
- What are the key elements in emotion regulation (ER)? Describe and analyze a situation in which someone has regulated your emotions.
- How should one apply emotion regulation in an organizational setting?

Grading (max 15)
Goodness of explanation (3)

Example and explanation (3)

Definition of ER (1)
Elements of ER named (2)
Example and explanation (3)

Explanation (3)

Aalto-yliopisto
Aalto-universitetet
Aalto University

Grammarly or some other app

CLARITY

© Timo Vuori

Thank you!

INTELLIGENT PLATFORMS