

# Strategy Process

## Lecture 3: Structural influences on strategy making

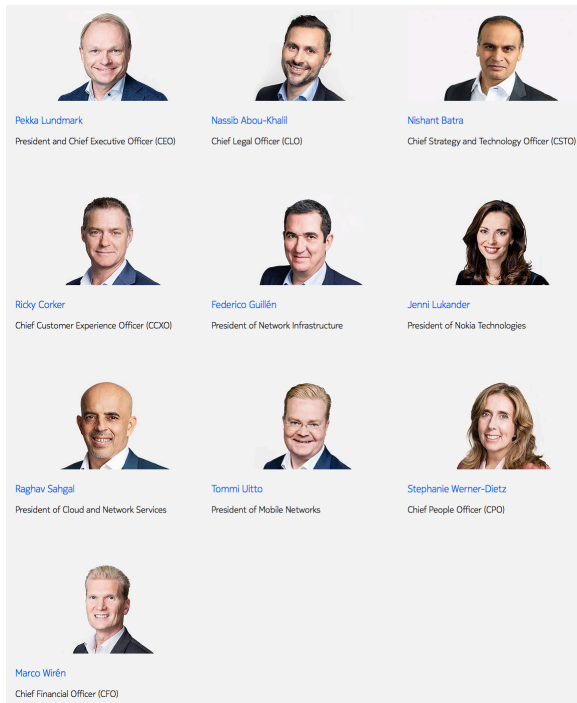


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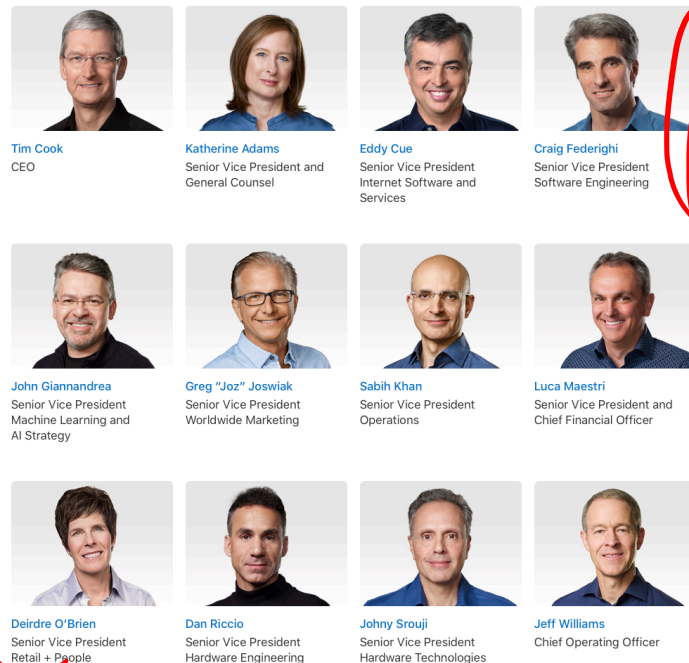
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# How does team composition influence TMT attention and perceptions?



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<https://www.nokia.com/about-us/company/leadership-and-governance/group-leadership-team/>



<https://www.apple.com/leadership/>

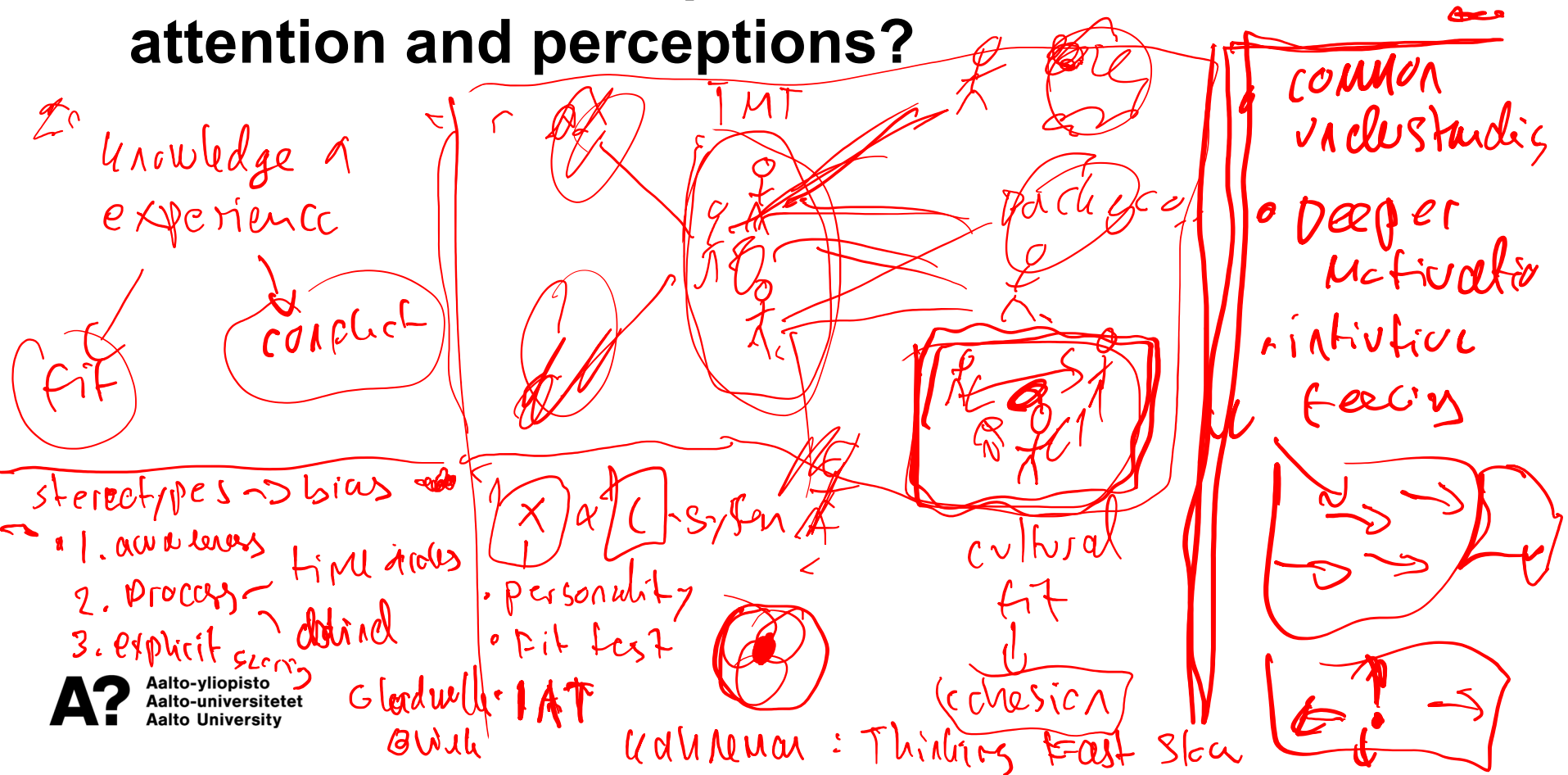
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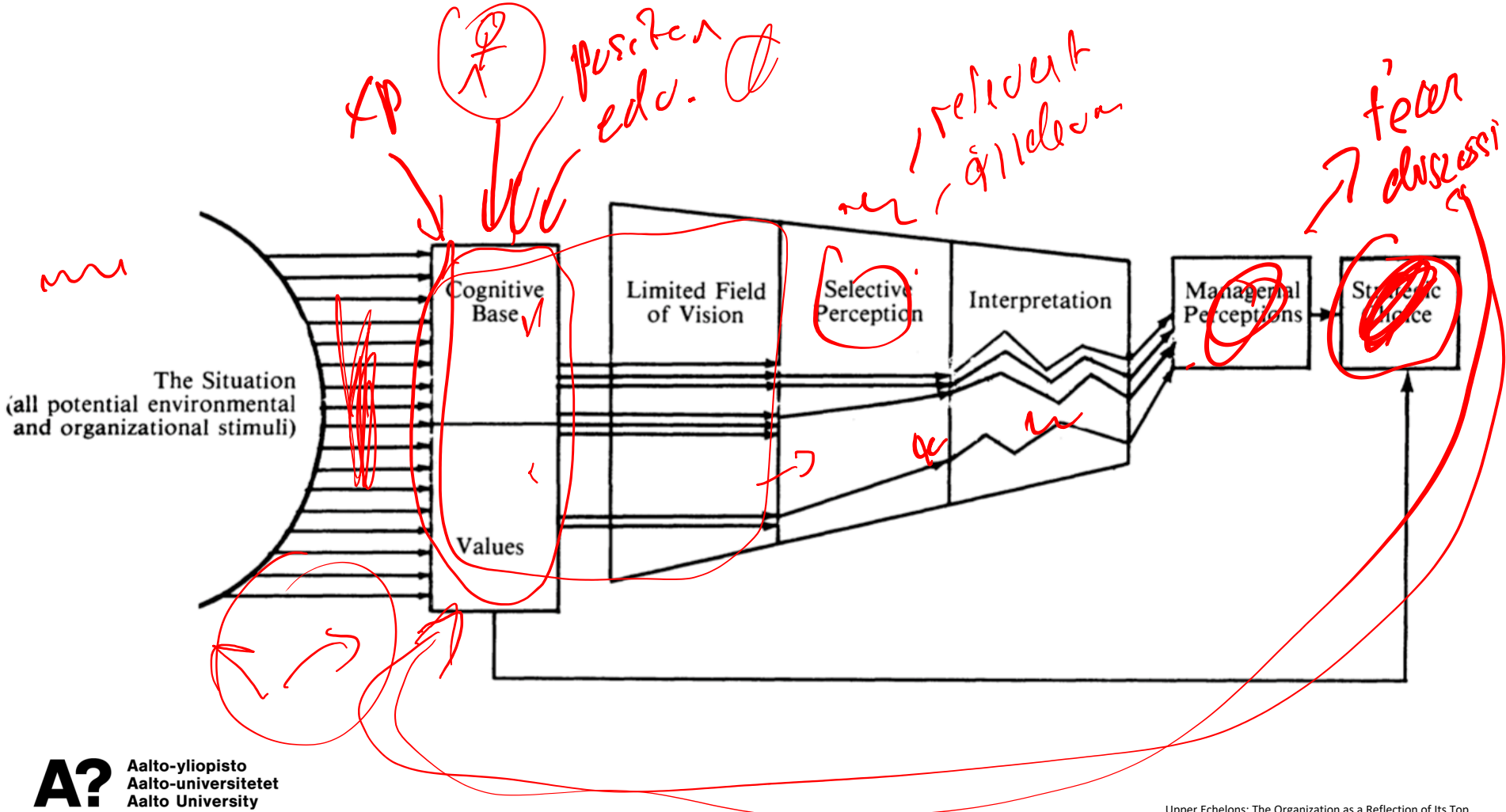
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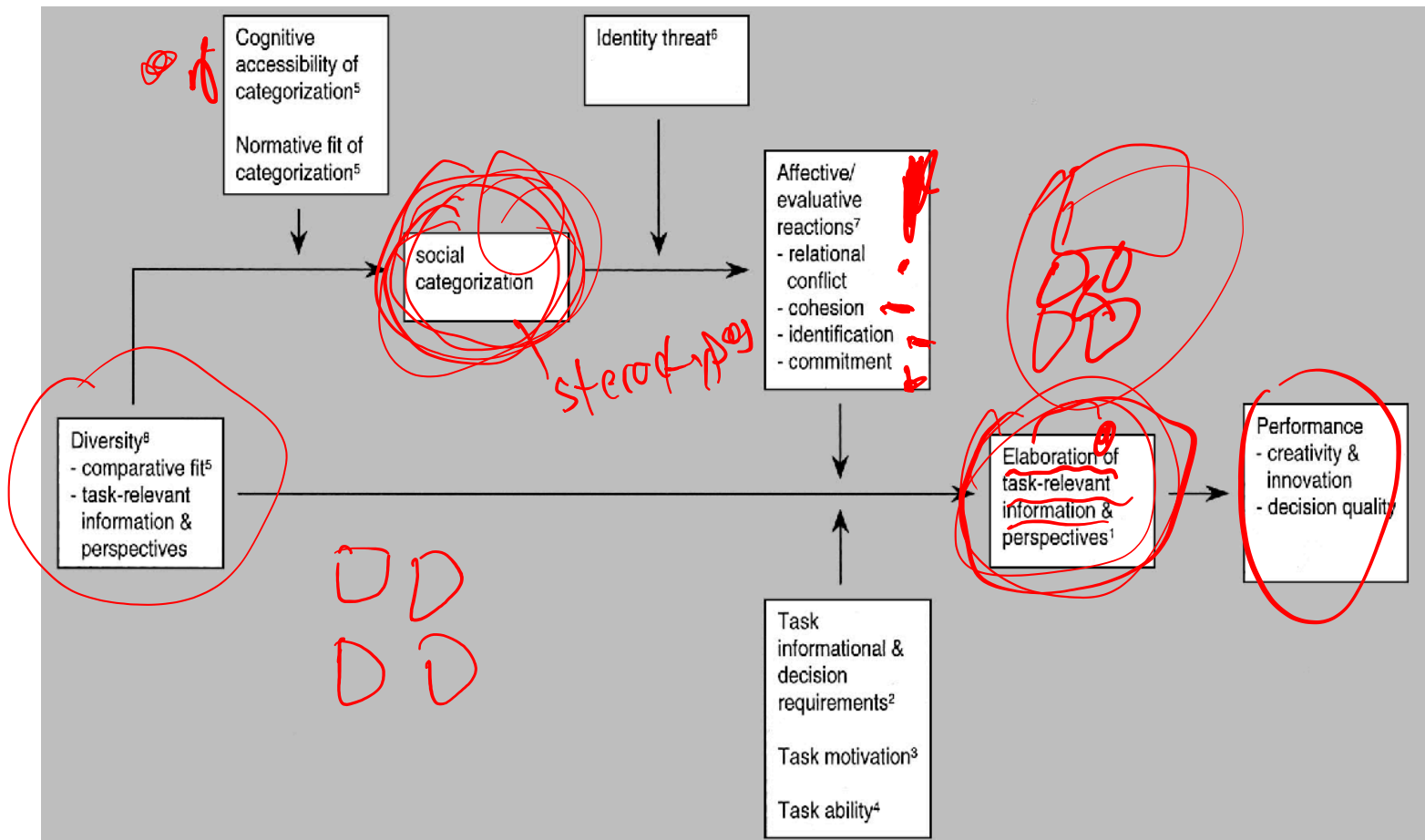
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# How does team composition influence TMT attention and perceptions?







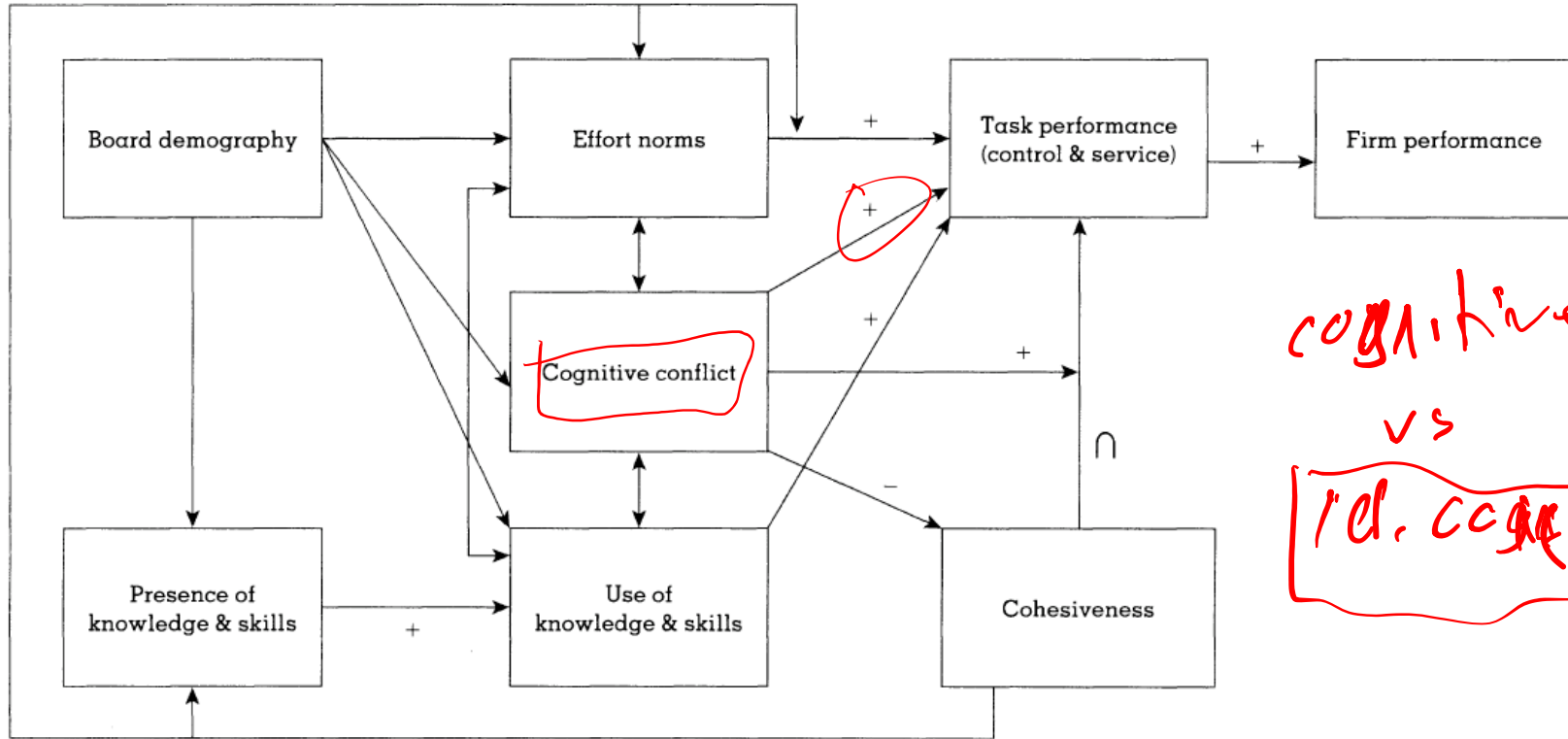


# Board Characteristics

# Board Processes

# Board-Level Outcomes

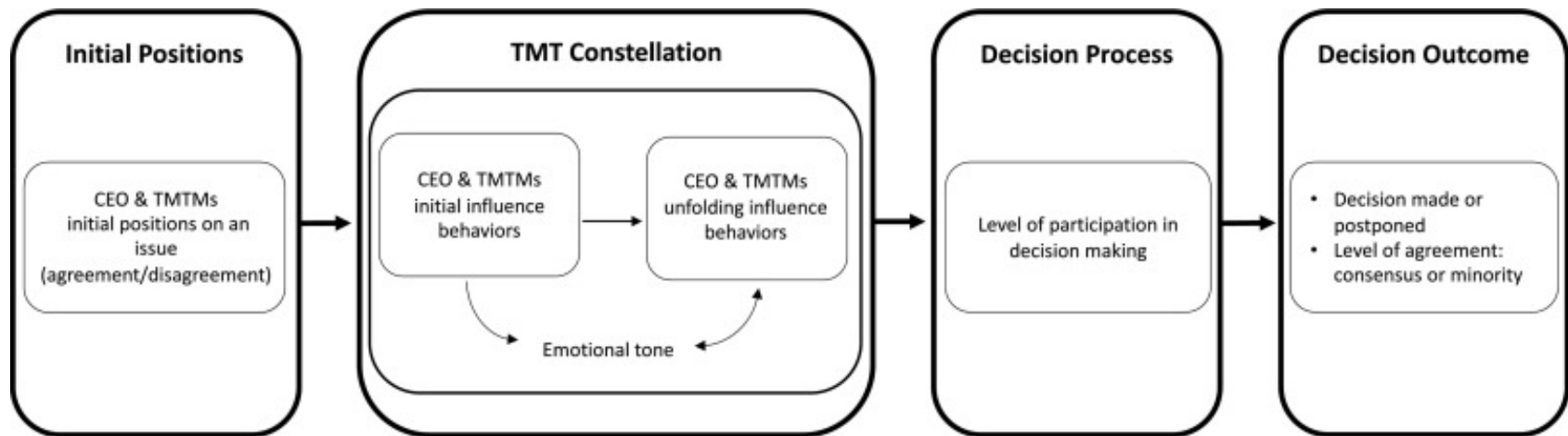
# Firm-Level Outcome



**TABLE 1**  
**The Effects of Board Demography on Board Processes**

Board Process	Job-Related Diversity	Proportion of Outsiders	Board Size	Board Tenure
Effort norms	No hypothesized relationship	Positive	Negative	No hypothesized relationship
Cognitive conflict	<u>Positive</u>	<u>Positive</u>	<u>Positive</u>	<u>Negative</u>
Presence of functional area knowledge & skills	Positive	No hypothesized relationship	Positive	No hypothesized relationship
Presence of firm-specific knowledge & skills	No hypothesized relationship	Negative	No hypothesized relationship	Positive
<u>Use of knowledge &amp; skills</u>	<u>Negative</u>	No hypothesized relationship	<u>Negative</u>	<u>Positive</u>
Cohesiveness	Negative	Negative	Negative	Positive

team  
diversity



# The Quad Model for Specifying the Ideal Monitor (Along with Possible Tests for the Presence, or Absence, of the Four Elements)

## Independence: Ability to be objective

- Is the director currently or formerly an employee of the company?
- Does the director have family or personal ties to the CEO?
- Does the director have any material business connection to the company?
- Was the director selected during the current CEO's tenure?  
If so, was the CEO on the nominating committee?
- Is the director currently a CEO of another company?



X

## Expertise: Ability to comprehend the issues at hand

- What are the director's areas and levels of formal education and certification (e.g., CPA, CFA, Ph.D.)?
- How many other public company boards has the director served on?
- What types of issues/challenges has the director faced on other boards (e.g., CEO succession, large acquisitions, etc.)?
- How much experience does the director have in the focal company's industry?



X

## Bandwidth: Ability to devote requisite time and attention

- Is the director fully employed elsewhere? If so, how demanding is that position?
- How many other boards does the director serve on? (optimal number will depend on full-time jobs elsewhere)



X

## Motivation: Eagerness to exert oneself on behalf of shareholders

- Does the director have a meaningful ownership stake in the company?
- Does the director psychologically identify with being a director?
- Does the director identify with shareholders by virtue of significant experience as an investor or venture capitalist?



High likelihood of being an effective monitor in a given domain

# How have these dynamics played out in your group assignments?

Diversity → effortful  
to understand

pos. sum goals

CROSS-understanding

full concordance

Faultlines



fake  
diversity

balanced  
diversity



- norms / Golden rules
- structure
- basic rules

rigidity

External pressure

Bad effect  
on diversity

stress

biased  
X-system

Two cultural

	1	2	3
A	x		
B		x	
C			x





JBL

10 min.  
15.00

autonomy  
↓  
in new

Eisenhardt: simple Rules

restrict  
• Formal  
• complex  
incentives

# How does organizational structure influence people's attention and perception?

st1 → roles → goal  
↳ groups → aggregation

↳ goal but people  
↳ mental models  
"context & DM"

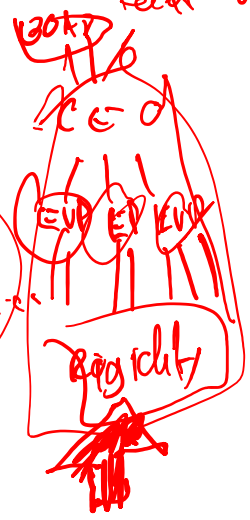
comm. interaction

centralized  
↓  
big picture

vs de-  
↓  
• local conditions

New product might need new structure

power-distance external factors  
feel vs flat



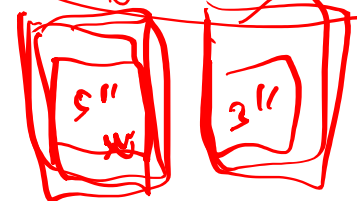
indeterminacy  
incongruence  
probs  
too many  
opinions  
views

structural  
res. power  
structure

Dep. people

existing customer process  
↓  
repeat what worked

select customer





## Observations on Structural Differentiation: Sources and Implications

Previous research has repeatedly demonstrated a link between structural autonomy and innovation (Christensen, 1997; Tushman & Anderson, 1986; Tushman & O'Reilly, 1996). The current study helps expand understanding of the forces that lead to the decision to structurally separate a new venture. The data show that outside influence shapes the choice to structurally differentiate (Proposition 3) and that structural differentiation cultivates an environment in which managers are more likely to turn their attention to the independent opportunity associated with a discontinuity (Proposition 4). And while outside influence does appear to be linked to the decision to separate a venture from its parent, there are still questions as to why some of the newspaper companies studied here incorporated such external influence, while others did not.

The study also provides a more refined view into the mechanisms by which structural autonomy helps relax routine rigidity. The data confirm that outside influence, structural independence, and opportunity orientation combine to relax routine rigidity and encourage innovation (Proposition 5).

Conversely, when the companies studied here did not access outside influence and remained integrated and focused on the threat to the parent organization, the rigidity was perpetuated. Again, note that the role of structural autonomy is consistent with existing structural arguments regarding innovation (Christensen, 1997; Tushman & O'Reilly, 1996). But

what makes the observations in this study unique is how structure was seen to be the mechanism that decouples resource and routine rigidity. The data

show that structural autonomy allows threat and opportunity cognition to have different impacts on dif-

ferent parts of an organization simultaneously—threat framing overcomes resource rigidity in the parent, while opportunity framing eases routine rigidity in the autonomous venture. Structure's decou-

pling role further reinforces the key contribution of the study: the recategorization of inertia into resource and routine rigidity.

The data show that the differentiated structures helped to create environments where motivation could be built entirely around the separate opportunity that existed for the online model. "When we simply changed our name from the newspaper name to 'the city.com' . . . it changed people's expectations of what would be on the site. This, in turn, changed how people in our online organization viewed who they were and what they were producing." The new president of the Beacon Company's new media group observed, "Now that we are separate, we own the opportunity in a way we never did when we were still with the newspaper."

Even as the concept of the opportunity was changing in the differentiated units, the parent organizations remained focused on the threat to the core business; discussions there centered on cannibalization and the inevitable path of digital media.

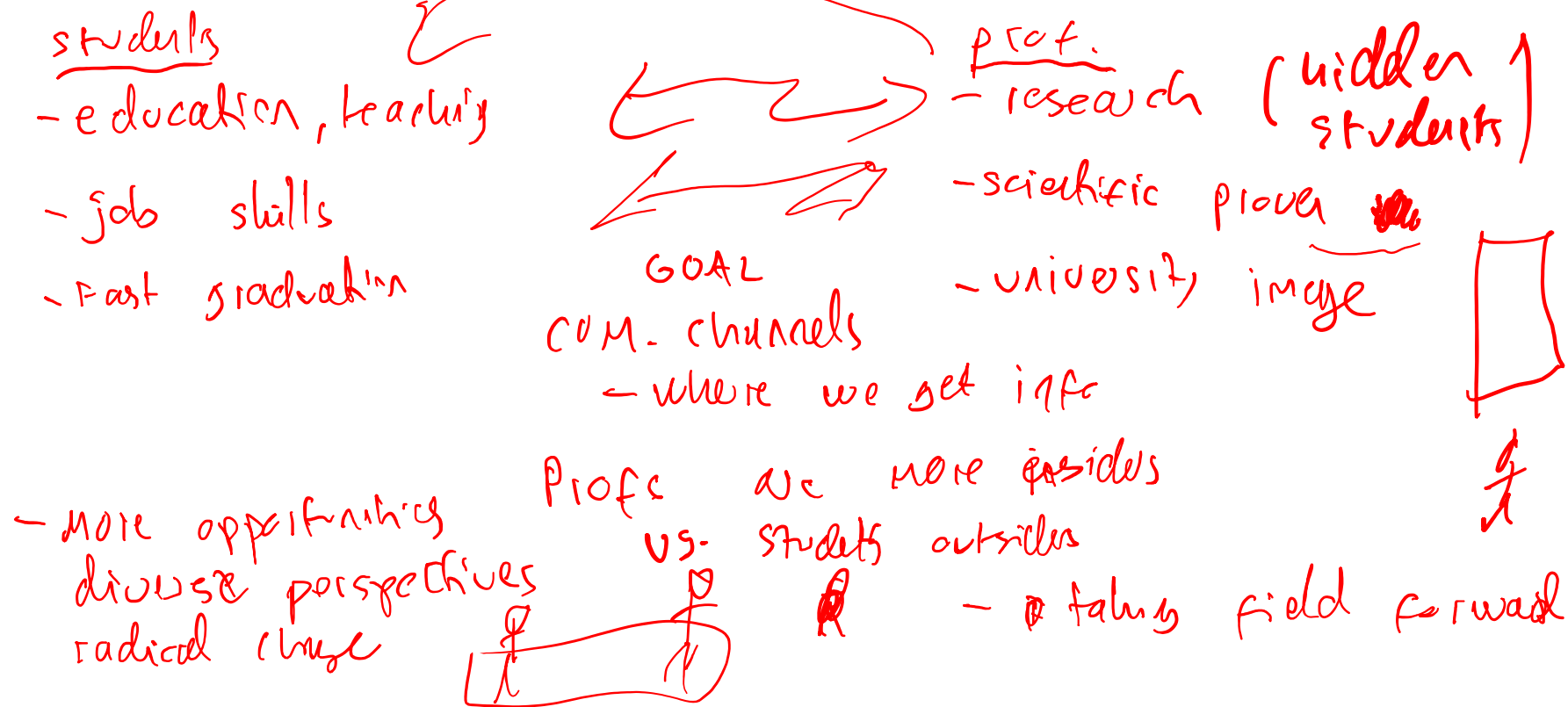
"This," cautioned one CEO, "could be the death of our entire franchise." That threat perception remained high in the newspaper organizations was a critical factor in overcoming resource rigidity, but

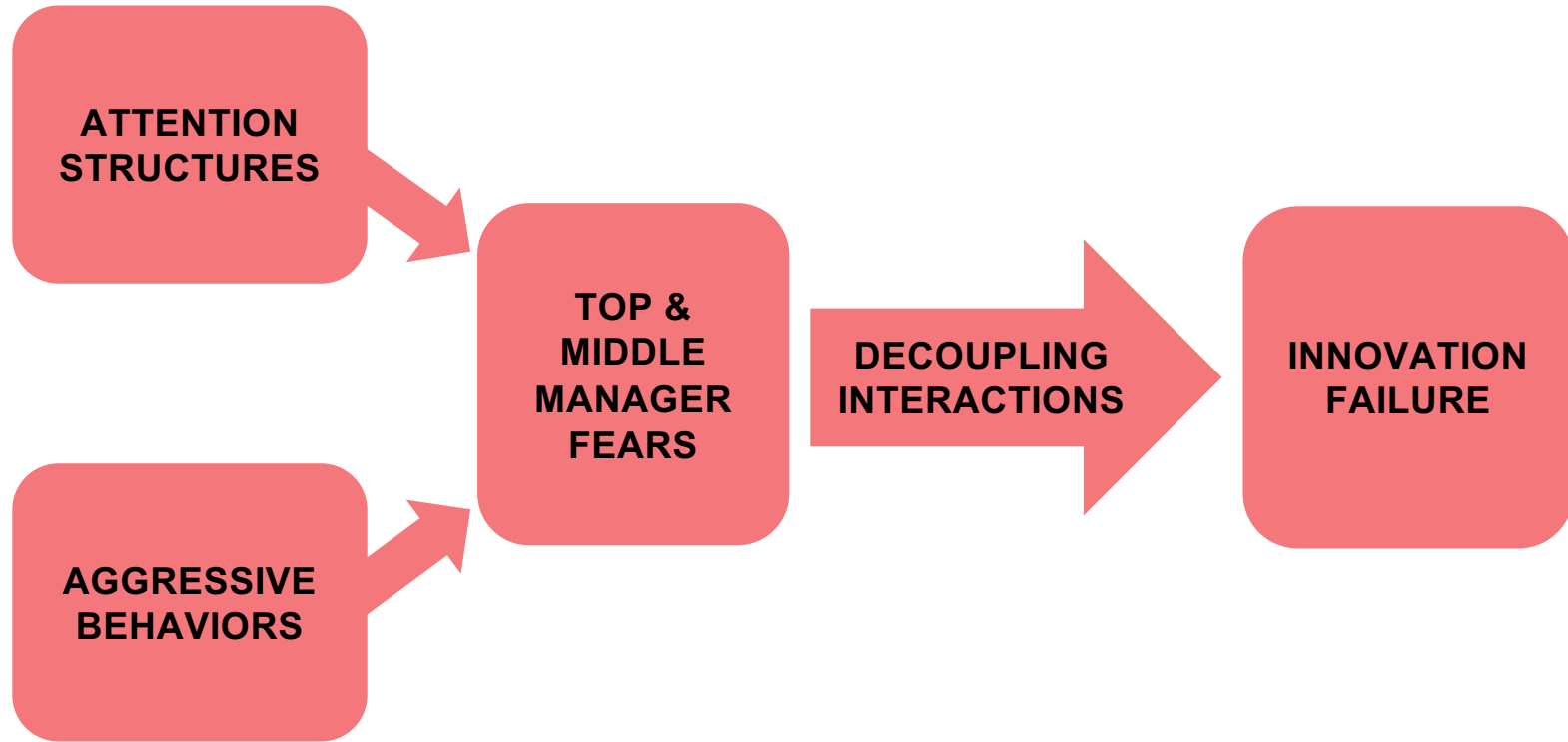
In the four sites that did not differentiate their ventures from the parent organizations, managers continued to be preoccupied with the threat to their organizations. The vice president of the *Expositor B* insisted, "We continue to see this as a way to protect classifieds, and that if we don't do it someone else will." Comparing the sites that separated with those that remained integrated reveals that opportunity perception emerged only where there was structural differentiation. Table 8 summarizes comparative data for Proposition 4.

Not only did outside influence and structural differentiation help to decouple the cognitive perceptions in the newspaper organizations from those in the online venture, but also all three of these variables were correlated with relaxed routine rigidities. This relaxation was driven largely by the effect of each of these variables on the three intermediate behaviors that increase routine rigidity.

For example, structural autonomy lowers the tendency for a parent organization to assert authority over a new venture. Structural autonomy expanded the ability of venture management to run local experiments that would not have been possible in a world of business model and product templates.

# How does structure influence students vs professors' attention and interpretations?





# In two weeks...

- o Why and how AI could help organizations overcome the challenges in strategy making identified during this course? Why?
- o What do you believe would be most challenging in actually implementing AI in strategy making? Why?
- o To answer both questions, please provide conceptual logic, company examples, and examples from your own experience (work related or not).

Conceptual logic	Company example	Own example
5	3	2
5	3	2

# Thank you!



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