



Aalto University
School of Business

Learning diary questions

Learning diary 2: Strategic Analysis

April 4, 2024

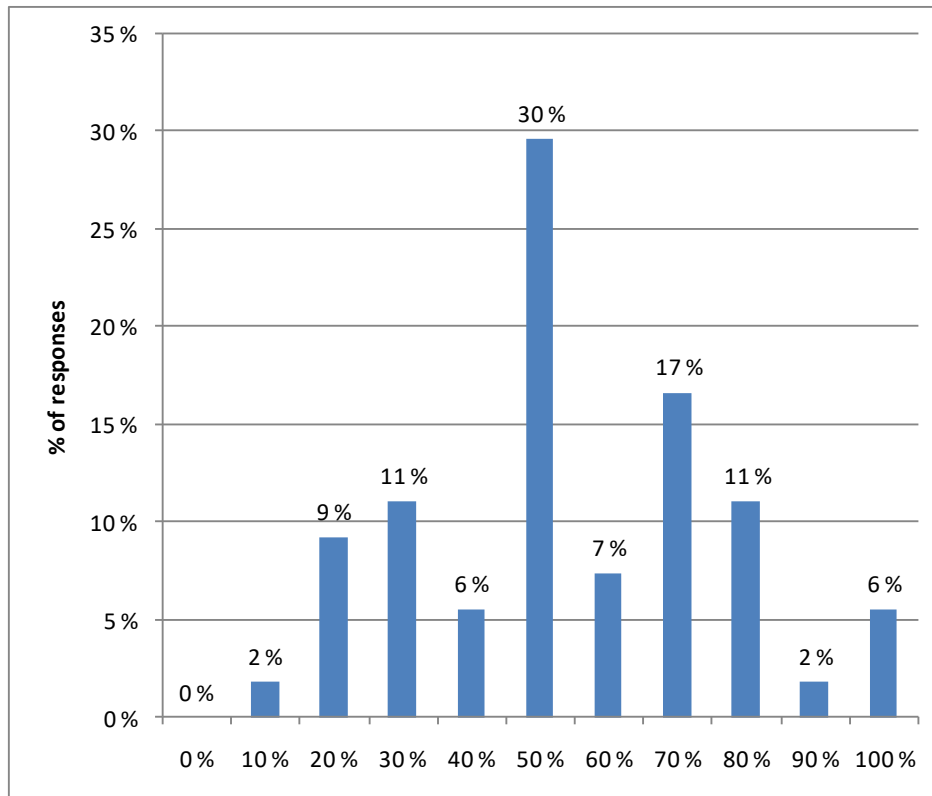
- **Q: Is there a consistent definition on what differentiates a strategic investment from a non-strategic investment?**
- A: Not really, but a commonly referred definition in this context is Alkaraan & Northcott's (2007) suggestion:
 - “Strategic investments are substantial investments that involve high levels of risk, produce outcomes that are difficult to quantify, and have a significant long-term impact on corporate performance. Typical examples include company acquisitions, and mergers, the introduction of major new product lines, the installation of new manufacturing processes, the introduction of advanced manufacturing and business technologies, and substantial shifts in production capability.”
 - It is worth to understand that a strategic investment in one company, can be perceived a non-strategic investment in another company or vice versa.

- **Q: Since the concept of strategic investments and strategic investment decisions is quite broad, what would be a real-life example of a non-strategic investment?**
- **Q: Is there a real-world example where investment decision is made based on strategic decision when financials would have shown that it should have been disapproved?**
- **Q: What is the division between financial and strategic decision-making criteria in investment decision-making in practice? This is of course a case-by-case question, but to make a rough generalization, are they both usually used in practice and which one is emphasized more and how much (50-50, 40-60, 20-80 etc)?**
- **Q: Is mixing qualitative and quantitative methods good idea in evaluating strategic investments?**

When accepted (sometimes or more often; financial return falls below the minimum financial requirements)

- “Yes, if we want to enter a new market, e.g., India. During the coming nearest years the cash flows are not sufficient, but on a longer run... It is a strategic investment.”
 - Strategic investments with a great potential in the future
- “Often top management has a strong gut feeling what we should do. We can enter new product areas and take certain risks even though the calculations may appear lousy.”
 - New product areas; managerial intuition and judgment
- “If we require an ex-ante profitability calculation, the minimum financial requirements must be achieved. Nevertheless, sometimes we do not require calculations: e.g., for major replacement investments and environmental investments.”
 - Definition of “strategic” unclear and varies between the companies

Emphasis on Financial versus Strategic Analysis in the Evaluation



- Wide variety in the emphasis on strategic versus financial analysis in the evaluation
- 30% of companies put equal weight on financial and strategic analysis
- 43% of companies put more weight on financial analysis
- 6% of companies ignore strategic analysis

Source: Kolehmainen et al. (2010) Internet survey on SID making practices in companies listed in Nordic countries, unpublished

Group work – 10 minutes

- **Q: It is often claimed that not everything is translatable to euros. But aren't every observation possible to quantify somehow? In other words, should things be measured more in euros in decision-making (to increase the level of ambition)?**
- **Q: Can it not be argued that there is inherently a financial motive behind every strategic decision with respect to for-profit organizations, so is it necessary in the research field to put too much emphasis on the distinction between strategic versus financial aspects?**
- **Q: Regarding article by Grant and Nilsson, is intuitive expertise developed only through experience or can it be effectively practiced?**

- **Q: Has there been a study combining the decision-making process related to synergies (which are valued and which are not, and why) and a follow-up section to see how much of these synergies have been realized?**
- **Q: In a highly hierarchic company who should challenge CEO views and reasoning in decision making?**
- **Q: Why is DCF still used if it does not work in the absence of perfect information and predictable environment? Why haven't companies realized that their valuation is inaccurate?**

- **Q: What role can technology play in enhancing decision support tools for strategic analysis in capital budgeting?**
- **Q: Is there a method to (systematically) search for and select analogous cases to be used in the case-based decision analysis?**
- **Q: How important is strategic thinking for accounting and finance people?**
- **Q: What prompt companies to seriously re-evaluate and change their SIDM processes?**