STRATEGY IN TURBULENT TIMES

AIJA WEBINAR SERIES - PROF. CARINE PEETERS
HOW TURBULENT IS OUR ENVIRONMENT?

Turbulence = Pace of change + Disruptiveness + Unpredictability

- How fast does our environment change?
- How disruptive are the changes?
- How unpredictable are the changes?
Do lawyers operate in a turbulent environment?

Do your corporate clients operate in a turbulent environment?

Share comments in the chat box
Does your company operate in a turbulent environment?

- No: 0%
- Maybe: 12%
- Yes: 78%
What are the sources of turbulence?

- New technologies
- International competition
- Price war
- Regulatory changes
- New players / new forms of competition
- Changes in customer demands
- Competition from free content
- Budget restrictions from public authorities
- Low interest rates
Between sharks and propelling waves
THREAT AND OPPORTUNITY

<table>
<thead>
<tr>
<th>Threat</th>
<th>Opportunity</th>
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<tbody>
<tr>
<td>✓ Not big enough to resist price war</td>
<td>✓ New service models to gain market shares</td>
</tr>
<tr>
<td>✓ Margins under pressure</td>
<td>✓ New products with renewed profitability</td>
</tr>
<tr>
<td>✓ Need new profitable revenue streams</td>
<td>✓ Leverage existing assets (brand, client base...)</td>
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<tr>
<td>✓ Additional costs</td>
<td>✓ New business models can be created.</td>
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<tr>
<td>✓ Difficulty to be flexible and fast enough</td>
<td></td>
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<tr>
<td>✓ Ease of entry on the market (e.g. for instance due to technology)</td>
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<td>✓ Difficult to know how to react.</td>
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Impact from digital, % of net profit for retail bank

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<th>Potential threats</th>
<th>Potential opportunities</th>
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<tr>
<td>Innovative new offers by competitors</td>
<td>Increased revenues from innovative new offers and business models</td>
</tr>
<tr>
<td>Margin compression</td>
<td>Increased revenues from new products, distinctive digital sales, and using data to cross-sell</td>
</tr>
<tr>
<td>Increased operational risk</td>
<td>Lower operational costs from automation/digitization and transaction migration</td>
</tr>
<tr>
<td>Total</td>
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Broeders & Khanna (2015)
Strategic manoeuvring

What does it take?
Winning in turbulent markets
1. Detect early signals

Winning in turbulent markets
1. Detect early signals

- Strategic thinking as a continuous process
- Constant scan of environment
- Positive mental frames

See also Day and Schoemaker, 2005, Scanning the Periphery, Harvard Business Review.
1. Detect early signals

2. Experiment

Winning in turbulent markets
2. Experiment

- Welcome new ideas, try, and get wrong fast
- Low cost probes into the future
- Give freedom, but support experiments
Winning in turbulent markets

1. Detect early signals
2. Experiment
3. Secure resources and capabilities
3. Secure resources and capabilities

- Reallocate resources from less to most promising areas (incl. stopping failing experiments)
- Develop or acquire new capabilities
  - Leverage ecosystem: customers, suppliers, competitors...
  - Acquire or cooperate with the “attackers”
1. Detect early signals
2. Experiment
3. Secure resources and capabilities
4. Ensure speed

Winning in turbulent markets

© Vlerick Business School
4. Ensure speed

- Vision as framework for decision making
  - Shorten decision cycles
  - Delegate decision rights
- Empower people to take action
Winning in turbulent markets

1. Detect early signals
2. Experiment
3. Secure resources and capabilities
4. Ensure speed

Share your experience, concrete examples, and additional insight in the chat box
2. Experiment

1. Detect early signals

3. Secure resources and capabilities

5. Nurture buy-in

4. Ensure speed

Winning in turbulent markets
EXPERIMENT ON 76 MANAGERS

- **Company**: EuroMedia S.A is a retailer of electronic products headquartered in Germany with subsidiaries in 15 European countries.

- **Your role**: Director of all offline sales activities of the Belgian subsidiary.

- **Context**: Like many other sectors, your business is subject to intense pressure from online sales channels and pure play internet competitors.

- **Situation**: You are called into an urgent meeting with your boss, the Managing Director of EuroMedia - Belgium. He informs you about the decision to reduce significantly the number of physical retail locations and reallocate the resources towards the online side of the business.

- **Impact**: Your job is not threatened by this change as you will keep responsibility for all commercial activities taking place through the physical retail locations. But the teams will be reduced significantly.

1. **Read the scenario**
2. **Fill in the online survey**
SCENARIO 1

Average = 3
SCENARIO 2

Satisfaction
- Much more: 26
- More: 39
- Equally: 1
- Less: 1
- Much less: 0

Effort
- Much more: 34
- More: 26
- Equally: 7
- Less: 0
- Much less: 0

Commitment
- Much more: 30
- More: 30
- Equally: 6
- Less: 1
- Much less: 0
THE STRATEGIC DECISION

SCENARIO 1

The outcome of this process is a decision to operate a significant shift in the proportion of our business that will come from online versus offline channels. Concretely, the goal is that within 5 years, 50% of our revenue will come from online, and increasingly mobile, channels (versus 30% today). That means a major reduction in the number of physical retail locations, and the reallocation of resources towards online channels. We will also work towards the integration of online and offline channels.

SCENARIO 2

The outcome of this process is a decision to operate a significant shift in the proportion of our business that will come from online versus offline channels. Concretely, the goal is that within 5 years, 50% of our revenue will come from online, and increasingly mobile, channels (versus 30% today). That means a major reduction in the number of physical retail locations, and the reallocation of resources towards online channels. We will also work towards the integration of online and offline channels.
Strategy making process

⇒

Formulating, communicating, and implementing choices
A CHAIN OF POSITIVE / NEGATIVE REACTIONS

Perceived process fairness

TRUST

Satisfaction

Voluntary compliance (extra effort)

Commitment
TRUST AND PERCEIVED FAIRNESS

Scenario 1

Perceived fairness

Trust

Perceived fairness - scenario 2

Much more

More

Equally

Less

Much less

Trust - scenario 2

Much more

More

Equally

Less

Much less
THEORY OF PROCEDURAL JUSTICE

- Political philosophy (Rawls, 1971) and social psychology (Thibaut and Walker, 1975)

- Difference between fairness of an outcome ( = distributive justice) and fairness of the process to reach that outcome ( = procedural justice)
WE ARE ALL ...

DECISION MAKERS

- Trust
- Commitment
- Effort
- Compliance
- Resistance to change...

HUMAN BEINGS

- Human beings are reciprocal beings
  - If you are fair to me, I will be fair to you
  - If you are not fair, I will resist

⇒ Our behaviour vis-à-vis a strategic decision is dictated by how fair we perceive the decision process to be.
How can we design a strategy process that is perceived fair?
### PRINCIPLES OF FAIR STRATEGY PROCESS

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<td><strong>Changeability</strong></td>
<td>Assess all new information thoroughly, and if necessary, reconsider decisions</td>
<td>Show commitment to making right decisions despite uncertainty and incompleteness of information</td>
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SCENARIO 1

The strategy committee appointed by our CEO has had intense discussions...
They also met with peer executives ...
The committee submitted its conclusions last week.
In parallel, the CEO ordered a study to McKinsey&Co...
albeit not in Belgium, they have already worked on several projects for EuroMedia S.A.
The outcome of this process is a decision to...

SCENARIO 2

The executive committee launched a large scale initiative to collect input from the 15 national subsidiaries in Europe...
provided rich insight on customer preferences and internal organizational aspects...
All input received was then discussed with the country heads.
The Board also turned to McKinsey&Co to provide evidence and informed advice based on their in-depth knowledge...
The outcome of this process is a decision to...
SCENARIO 1

It was decided that the reorganization will apply to all European subsidiaries with the exception of France, Spain and Portugal.

... we all have to learn to live in a new reality, in a reality of constant changes. Agility is the new norm. And we will need to get used to it.

I believe this does not call for much more explanation... we now all need to join forces and commit the extra effort.

SCENARIO 2

It was also decided that, at least for now, the reorganization will apply to all European subsidiaries with the exception of France, Spain and Portugal.

The input we gathered revealed indeed major differences... will however continue monitoring the evolution of the market such as to adapt, and possibly align, the approach...

... summary document of the insight generated and rationale for the decision.

... presentation and discussion sessions will also be organized in the next few weeks to make sure everybody understands the transformation and what is expected.
EXPERIMENT: IMPLEMENTING THE DECISION

SCENARIO 1

you will be happy to learn that I was successful in negotiating a budget to get external help from McKinsey to support the transformation in Belgium.

Having an external, neutral, party with extensive experience in transformation programs should also help reduce the resistance the new plan will inevitably generate among the impacted teams.

... I gave them an extensive briefing already... should not need much more input I believe... They will then work very closely with you and your teams.

SCENARIO 2

I will ask my assistant to set up another meeting in the coming days to share views on the next steps and agree on the actions to take.

I look forward to your propositions.

... I want that we keep the discussion between us open so we can address questions and concerns as they arise... no doubt you will do the same with your teams.

... that will be our best weapon against the resistance we may face in the process.
Engage stakeholders in framing the issues. It shows respect and teaches people that issues may be complex and require to continuously look for better solutions.

Allow teams to explore alternative options. If a solution emerges, commitment to execute will be much improved. Listen to arguments against the solution, and be impartial when choosing.

Based on Van der Heyden & Limberg (2007)
SELF-ASSESSMENT
HOW FAIR IS YOUR COMPANY (STRATEGY) PROCESS?

1. **Inclusion**
   Are people concerned by strategic decisions invited to provide input, ask questions or raise concerns at both strategy formulation and strategy implement phases?

2. **Accuracy**
   Are strategic choices and decisions related to their implementation based on accurate information about the local context of people concerned by the decisions?

3. **Consistency**
   Are decisions related to the formulation and implementation of the strategy taken in an impartial way and applied consistently across the organization?

4. **Transparency**
   Are decisions, their rationale, and resulting expectations explained clearly to all people concerned?

5. **Changeability**
   Is the strategy process designed to learn from mistakes and revise decisions based on most recent and accurate information available?

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Wrap up
Fast, disruptive, unpredictable changes

Threats & opportunities

Strategic manoeuvring
Winning in turbulent markets

- Detect early signals
- Experiment
- Secure resources and capabilities
- Nurture buy-in
- Ensure speed

- Accuracy
- Inclusion
- Consistency
- Transparency
- Changeability
Strategy-making is an immensely complex process involving the most sophisticated, subtle, and at times subconscious of human cognitive and social processes.

— Henry Mintzberg —