

LAPPEENRANTA UNIVERSITY OF TECHNOLOGY
School of Industrial Engineering and Management
Department of Technology Entrepreneurship

Pasi Vuorinen

LOGISTICS SERVICE PROVIDER'S STRATEGY RENEWAL

Examiners: Professor Timo Pihkala and D.Sc. Marita Rautiainen
Supervisor: M.Sc. Aki Jumppanen

ABSTRACT

Author: Pasi Vuorinen	
Title: Logistics service provider's strategy renewal	
Year: 2016	Place: Jyväskylä
Master's thesis, Lappeenranta University of Technology, School of Industrial Engineering and Management	
97 pages, 24 figures, 4 tables and 8 appendices	
Examiners: Professor Timo Pihkala and D.Sc. Marita Rautiainen	
Keywords: strategy, strategy process, strategic analyses, competitive advantage, logistics service business, strategic planning and management	
<p>This thesis studies strategy formulation. The study focuses on renewing of logistics service providers' strategy and development of strategy work. The aim for this study is to formulate a strategy, which supports the company to achieve its strategic objectives. In addition, this study aims to define how company could achieve sustainable competitive advantage.</p> <p>First, a literature review of strategy, strategy process and logistics service business is conducted. Actual empirical work is mainly done in workshops with case company management team members. The board of directors set strategic objectives and also approves strategy work results after each project phase. Integrated approach, including internal and external strategic analyses, is used to provide a comprehensive view of company's business environment and its internal strengths and weaknesses. Analyses are used for defining strategic options in a company and business level. Strategic choices are made based on how well different options are supporting to set strategic objectives.</p> <p>As a result of thesis, a documented strategy for a case company will be created. In addition, a continuous strategic planning and management process will be defined to be able to react on fast changes in company's business environment.</p>	

TIIVISTELMÄ

Tekijä: Pasi Vuorinen	
Työn nimi: Logistiikkapalveluyrityksen strategian uudistaminen	
Vuosi: 2016	Paikka: Jyväskylä
Diplomityö. Lappeenrannan Teknillinen Yliopisto, Tuotantotalouden tiedekunta 97 sivua, 24 kuvaa, 4 taulukkoa ja 8 liitettä Tarkastajat: Professori Timo Pihkala ja kauppatieteentohtori Marita Rautiainen	
Hakusanat: strategia, strategia prosessi, strategiset analyysit, kilpailuetu, logistiikkapalvelualan liiketoiminta, strateginen suunnittelu ja johtaminen	
<p>Tässä diplomityössä tutkitaan strategian määrittämistä. Tutkimus keskittyy logistiikkapalvelualan yrityksen strategian uudistamiseen ja strategiatyön kehittämiseen. Tutkimus pyrkii selvittämään miten yritys pystyy parhaiten saavuttamaan strategiset tavoitteensa. Lisäksi pyritään selvittämään miten yritys pystyy luomaan ja ylläpitämään kilpailuetua.</p> <p>Tutkimus toteutetaan tutkimalla ensin strategiaa, strategiaprosessia ja logistiikkapalvelualan liiketoimintaa kirjallisuudessa. Empiirinen osuus toteutetaan pääosin yrityksen johtoryhmän jäsenten kanssa strategiatyöpajoissa. Yrityksen hallitus asettaa strategiset tavoitteet ja myös hyväksyy projektin eri vaiheiden tulokset. Strategisissa analyyseissä otetaan huomioon sekä ulkoinen että sisäinen näkökulma, jotta saadaan kattava kuva yrityksen liiketoimintaympäristöstä sekä yrityksen vahvuuksista ja heikkouksista. Analyysejä hyödynnetään strategisten vaihtoehtojen muodostamisessa sekä yritys- että liiketoimintatasolla. Strategiset valinnat tehdään sen perustella, miten eri strategiset vaihtoehdot tukevat asetettuja strategisia tavoitteita.</p> <p>Tutkimuksen tuloksena määritellään yrityksen strategia, joka myös dokumentoidaan. Lisäksi luodaan strategisen suunnittelun ja johtamisen prosessi, joka mahdollistaa reagoinnin liiketoimintaympäristössä tapahtuviin nopeisiin muutoksiin.</p>	

FOREWORDS

I would like to use the opportunity to thank all of you at HUB who made this thesis possible. It has been a pleasure to work with you.

I would also like to say thanks to my family, my wife and daughter, for supporting and understanding.

Special thanks to all my study friends especially to Juha Huttunen and Tuula Miettinen. Hopefully our good discussions and cooperation will continue also in the future.

Jyväskylä, May 3rd 2016

Pasi Vuorinen

TABLE OF CONTENTS

1	INTRODUCTION	10
1.1	Background.....	10
1.2	Target and scope of the work	11
1.3	Research methods	12
1.4	Structure of the report.....	12
2	LOGISTICS SERVICE BUSINESS	14
2.1	Definition of logistics services	14
2.2	Logistics service providers	15
3	STRATEGY	17
3.1	Strategy definition	17
3.2	Competitive advantage	19
3.3	The main schools of strategy	20
4	STRATEGY PROCESS	23
4.1	Strategy process structure	23
4.2	Values, vision, mission and strategic objectives	26
4.3	Strategic analyses	27
4.4	Strategy formulation	35
4.5	Strategic risk analysis and scenario planning	43
4.6	Strategic planning and management.....	45
4.7	Strategy implementation.....	50
5	HUB LOGISTICS STRATEGY PROJECT.....	51

5.1	HUB logistics Oy.....	51
5.2	HUB logistics strategy project.....	54
5.3	Strategic analyses	57
5.4	Strategy formulation.....	69
5.5	Strategic planning and management.....	75
5.6	Strategy implementation.....	80
6	SUMMARY AND CONCLUSIONS.....	82
6.1	Summary.....	82
6.2	Conclusions	85
6.3	Future research ideas	87
	REFERENCES	89

APPENDICES

LIST OF FIGURES

Figure 1. Project plan for the study.	11
Figure 2. Strategy process.....	25
Figure 3. The relationships between traditional SWOT-analysis	28
Figure 4. The Four Corner Analysis.	29
Figure 5. Growth-share matrix.	31
Figure 6. The Five Forces That Shape Industry Competition	32
Figure 7. Five elements of the strategy.....	35
Figure 8. Service logic business model canvas.....	38
Figure 9. TOWS matrix.	42
Figure 10. Basic model of strategic planning.	46
Figure 11. Intended versus realized strategy.	47
Figure 12. Broadening strategic control.	47
Figure 13. Making Strategy a Continual Process.	49
Figure 14. HUB logistics' value chain.	51
Figure 15. Changes in growing middle size company.....	52
Figure 16. HUB logistics group organization.....	53
Figure 17. HUB logistics' strategy process phases.	57
Figure 18. Five forces analysis, logistics industry in Finland.	61
Figure 19. Resources as a source of competitive advantage.....	62
Figure 20. Industry volume development in EU countries.....	65
Figure 21. Strategy formulation framework	70
Figure 22. Strategic Sweet Spot.....	72
Figure 23. Framework for BSC model objective setting.	78
Figure 24. Preliminary BSC structure.	79

LIST OF TABLES

Table 1. Cost leadership versus product differentiation positioning	39
Table 2. Red Ocean versus Blue Ocean Strategy.....	41
Table 3. Analysis structure and output.	58
Table 4. HUB's service offering and business segments.....	64

LIST OF ABBREVIATIONS

HUB	HUB logistics Oy
MBV	Market based view
RBV	Resource based view
RV	Relational view
3PL	Third party logistics
4PL	Fourth party logistics
LSE	Large scale service enterprise
LSP	Logistics service provider
SME	Small and medium size enterprise
BSC	Balanced Scorecard

1 INTRODUCTION

1.1 Background

Natural development in small and middle size companies when they are growing is the need to establish more formal strategy (Crijns and Ooghe 1995). In the early phases of a company strategy is in many cases informal and is more based on entrepreneur's vision (Minzberg et al. 1998, p. 5). In different stages of company growth there are increasing number of people involved and due to this there is also a need to create more formal strategy in order to give a clear direction to company. In addition, inline with company growth in many cases there is also a need for additional funding or opening the ownership to enable future growth.

This thesis is made for HUB logistics Oy, which is a logistics service provider operating mainly in Finland. Company has grown fast in recent years and is now a remarkable player in its home market. Company development has opened company structure and the role of the original entrepreneur has changed from operational leader to the chairman of board. Company management has been opened and manager roles are now filled with professionals from different areas. However, the top management of the company is also owners with their shares. Ownership of the company also expanded as Etera, a Finnish pension insurance company, acquired a share of the company in 2014 (Törmälä 2015). This was also opening the board structure. As of today excluding entrepreneur all other board members are outside of the company. Strategy documentation can be found from 2012 onwards, however at least in some cases strategy implementation has not been systematic, even though the entrepreneur, a strong visionary, has been developing the company towards set goals successfully. Changes in the board have also reinforced company's strategy work and there are now clear responsibilities defined for each board member in strategy process (Törmälä 2015). In addition, there is also defined an annual process for strategy reviews.

1.2 Target and scope of the work

The purpose of the work is to provide a strategic plan including an implementation plan for time period 2016 – 2020 for HUB logistics Oy. The aim is to via an analytic systematic process to define strategic options and validate most feasible options for the company to reach it's strategic targets and in addition, reinforce link between strategic and operational management.

The main research questions:

- What strategic options there are and which ones are the most viable supporting to achieve strategic objectives?
- How company could achieve competitive advantage?
- Risk analysis for different options
- How to ensure strategy implementation?

HUB's fiscal year, starting from 1st of July, was defining the schedule for the study and the target is to have material available for management roadshows in different company locations by the end of May 2016. A high-level project plan for the study is presented in figure 1.

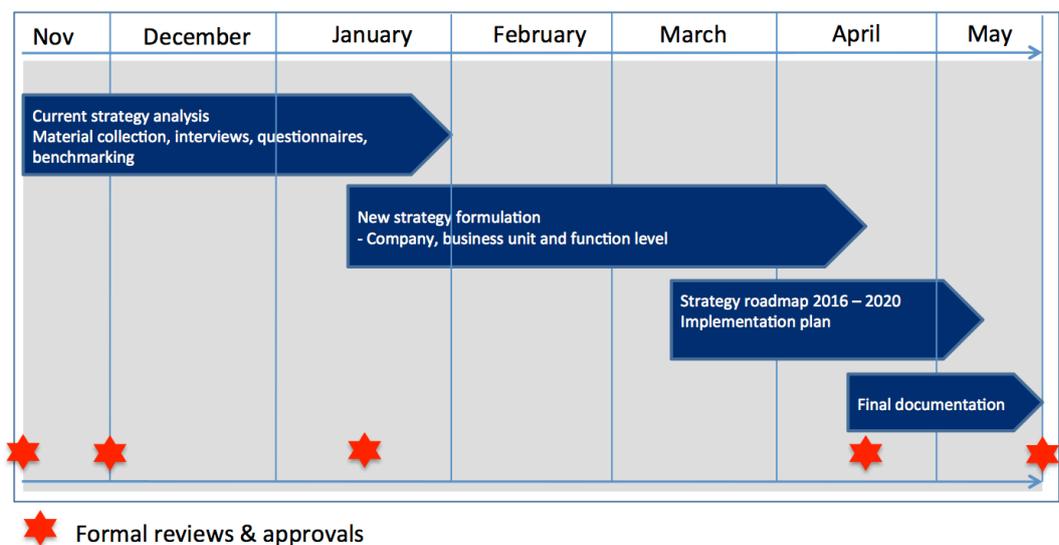


Figure 1. Project plan for the study.

After each step a milestone review with company CEO was held to ensure that work is proceeding in schedule. Also the board of directors reviewed and approved the work and giving a guidance throughout the whole project.

1.3 Research methods

In theoretical part of the study a literature review is used to provide a theoretical background for logistics service business, strategy and strategy development tools and analyses. Aim for the theory review is also to provide a clear structure for empirical part of this study.

In empirical part a project-based approach is used and work is organized according to project model with set schedules and milestone reviews. Selected approach is following design school's structure with an analytic approach (Johnson et al. 2011, p. 46). Available strategy material review is the first step of the empirical part. Interviews of top management members and board members are the next step. In order not to limit only to inside-out approach customer's perspective is taken into account by using already made questionnaires. Actual empirical work is done mainly in workshops with company management team members and also the chairman of the board is participating to workshops. The whole board of directors is also actively participating on strategy work and in each board meeting the results of workshops are presented to board for approval and additional guidance. In addition, a full day workshop with board members is included into project plan. Between workshops work is made in smaller teams and results are presented and reviewed in following workshops.

1.4 Structure of the report

This report is divided into six chapters starting with introduction with information about background, scope and limitations and research methods. Chapters from

two to four are founding a theoretical framework for the empirical work by defining logistics service business, strategy in general level, strategy structure and process and strategic analyses and development tools. Empirical part of the study is in chapter five and covering an introduction of a case company and its business environment, strategy project flow, strategic analyses and options, strategic plan with implementation plan and also risk analysis and scenario planning. Chapter six is an overall summary covering the results and conclusions of this study. Also possible future research ideas are included in this chapter.

2 LOGISTICS SERVICE BUSINESS

2.1 Definition of logistics services

“The term logistics traditionally covers operative services besides production: transportation, transshipment and warehousing” (Neubauer 2010, p. 28). However logistic services and management have developed to cover more wide range of different services to companies and also for consumers directly. “Logistics management is that part of supply chain management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customer requirements” (Council of Supply Chain Management Professionals 2009, p. 98). According to Klaus and Kille (2006, p. 32) logistics services can also include sourcing and procurement, packaging, and assembly and can cover a wider range of services in customers’ value chain. In addition, logistics service providers are offering more value-added services such as warehouse value-add, provision of materials synchronized to production and quality control (Baumgarten and Thoms 2002, p. 62, Baumgarten and Walter 2000, p. 3).

Logistics service providers (LSP) have been taken wider role in their customers’ value chain and have been transforming to network partners covering a whole supply chain network. (Neubauer 2010, p. 2). As of today LSP’s are offering extended services covering the whole supply chain with end-to-end logistics services (Pfohl 2006, p. 3).

The importance of logistics is high for the economy as large portion of companies’ expenditures is origin of logistics cost and on the other hand, logistics supports the movements of goods and services needed to have products or services in place when needed and where needed. By improving logistics efficiency improved profit or lower cost for consumers can be achieved. (Neubauer 2010, p. 1).

2.2 Logistics service providers

Typically manufacturing companies outsource transportation services, and in addition, outsourcing of other logistics services, like warehousing, has been increasing due to the development of manufacturing companies to concentrate more to their core competences in growing cost pressure. Logistics service providers have been developing their services to cover also the flows of information and knowledge in addition, to physical movements of goods. (Neubauer 2010, p. 2).

In the logistics service providers there are a large-scale (LSE) as well as a small and medium size (SME) companies. In order to grow companies in many cases need to entry in the new markets due to small size of their home markets. (Simon 1996a, p. 11). Smaller and medium size companies are known among their customers, but not widely recognized. Moving to international markets creates more visibility for these companies (Simon 2007, p. 27-28).

LSEs are typically large international transportation companies with a wide range of service offering and SMEs are companies concentrating in a smaller portion of the value chain. SMEs are for example companies specialized in transportation services or warehousing service providers. SMEs typically are local, national or regional level operators.

SMEs are providing more innovations compared to LSEs. This is mainly due to the fact that LSEs are more bureaucratic, having more complex decision making processes and are more resistant to changes. (Adams and Brock 1988, p. 72-76, 78). We can conclude that there is a room for different size players in logistics service business as LSEs can provide benefits from large scale of economics in cases it is needed and on the other hand, SMEs can provide more innovative and more tailored services in order to add more value to their customers.

According to Neubauer (2010, p. 178) logistics service providers should have a wide enough range of advanced services and not only concentrating too heavily on operative services in order to be successful. Innovations, individualization and continuous improvements to fulfill customers' needs are the characteristics of successful service providers (Neubauer 2010, p. 180). An innovative service offering is providing a better foundation for the small and middle-sized LSPs' success than providing just commodity services (Neubauer 2010, p. 221).

Logistics service providers are typically classified into two groups: third party (3PL) and fourth party (4PL) service providers. 3PLs are companies providing services logistics services requested by their customers. 3PL's customers can have several 3PLs providing different logistics services, for example a service provider for transportation and another for warehousing. 4PLs are taking a wider responsibility over their customer's value chain and managing it by outsourcing logistics services typically to several 3PLs. In both cases customer has made a logistics services outsourcing decision instead of taking care of these activities by themselves. (Neubauer 2010, p. 26). 3PLs are typically using their own tangible resources and systems and 4PLs are the owners of the operative and strategic systems and networks. (Neubauer 2010, p. 33).

Logistics industry is seen complex due to the needed integration of the whole supply chain, which requires strong interactions between people and different information system. The more complex the environment is, there is more uncertainty and risk involved. On the other hand, fast changes and uncertainty are also causing a need to be dynamic and capable to adopt unpredictable changes. (Wyternburg 2001, p.118). Adoptability to rapid changes can be seen as a possible source of competitive advantage in logistics industry. (Neubauer 2010, p. 69).

3 STRATEGY

3.1 Strategy definition

There are plenty of definitions for a strategy in the literature. According to Johnson et al. (2011) “strategy is the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment with the aim to fulfill stakeholder expectations” (Johnson et al. 2011, p. 3). Porter (1996, p. 64) is presenting that strategy is a creation of a unique and valuable position, involving a different set of activities targeting differentiation from company’s competitors. On the other hand, Porter is also pointing out that a strategy requires making trade-offs in competing by stating the need to choose what not to do, and limit the company’s offering only to selected areas. (Porter 1996, p. 69). Porter (1996, p. 74) is also defining that strategy involves creating “fit” among a company’s activities by ensuring that these are interacting and reinforcing each other. Strategy is also defined as five Ps: Plan, Pattern, Position, Perspective and Ploy (Minzberg et al. 1998, p. 9-15). “Strategy is seen as a guideline for competition” (Porter, 1998). Hambrick and Fredrickson (2005, p. 52) are defining strategy as “a central, integrated, externally orientated concept of how the business will achieve its targets”.

There is also a need to separate strategy from operational effectiveness, as a strategy is answering to questions why and what, and an operational effectiveness is defining how. Operational effectiveness is including efficiency, but not limited to that, as it refers to any practices allowing a company to utilize better its inputs by improving quality or developing new products faster. Porter makes a separation between operational effectiveness and strategy by stating that operative effectiveness is necessary, but not sufficient. He defines that strategic positioning means performing different activities compared to competitors or performing similar activities in different ways. This should be clarified to all who are working in company’s strategy process as many managers are in understanding that

competitive advantage will be achieved via operational effectiveness. (Porter 1996, p. 62 - 65).

From above we can make conclusions that in general level strategy is a long-term plan for the company, which defines how company is going to be successful in the future. On the other hand, we can assume that planned strategy might not be the same as realized strategy due to the changes to assumptions made during strategy making. (Minzberg et al. 1998, p. 12). This emphasizes the need to have a continuous strategy evaluation process in place in order to be capable to react to changes happening over the time.

Strategy should give answers to where, in which businesses and in which market areas, and how company is competing in those in order to reach its financial objectives. In addition, timeline for different strategic actions need to be defined. (Hambrick and Fredrickson 2005, p. 53).

There is also a need to understand that there are different levels of strategy. First level is a company or corporate, which is the widest scope of a strategy and views the goals of the whole company. This should include the markets in which a company is operating as well as in addition, a definition in which businesses company operating. Second level is business unit, which is relevant in cases of larger companies in order to be able to define more manageable size of units. In these cases strategies become more operational and should define ways how company is competing in different business segments. Third level is an operational level aiming at executing higher-level strategic goals. A vital element is to ensure that operational decisions are integrated to strategy. (Johnson et al. 2011, p. 7).

3.2 Competitive advantage

According to Conner (1991, p. 123) “A firm’s fundamental objective is to make money “. From strategy point of view it can be transferred to an objective for a strategy to define how company will achieve sustainable competitive advantage in selected businesses in order to get above average returns in longer term. Peteraf (1993, p. 186) defines that a sustained competitive advantage means that a company is able to gain superior profit compared to competitors over extended time. Porter (1996, p. 62) is defining that “a company can outperform rivals only if it establishes a difference that it can preserve”. This means that a company must deliver greater value to customers or create comparable value at a lower cost, or to do both (Porter 1996, p. 62). Barney (1991, p. 105) defines that “companies obtain sustained competitive advantages by implementing strategies that exploit their internal opportunities, while neutralizing threats and avoiding internal weaknesses”. According to Barney (1991, p. 102) “a company has a sustainable competitive advantage when it is implementing a value creating strategy which is not being implemented by any current or potential competitors at the same time and other companies are not capable to utilize the benefits of this strategy”.

Sustainable Competitive Advantage (Porter 1996, p. 74):

- Unique competitive position for the company
- Activities tailored to strategy
- Clear trade-offs and choices vis-à-vis competitors
- Competitive advantage arises from fit across activities
- Sustainability comes from the activity system, not the parts
- Operational effectiveness a given

Above presents only one view of the competitive advantage and there are three main schools of strategy forming an academic foundation to achieve sustainable competitive advantage. The main schools of strategy are a market-based view (MBV) by Porter (1979), a resource-based view (RBV) by Barney (1991) and the relational view (RV) (or transaction cost theory) by Williamson (1999).

3.3 The main schools of strategy

According to market based view (MBV) key success factors for rents are the selection of markets, market segments and differentiation in a product or service offering in the eyes of the customer. MBV's perspective focuses outside of the company and the key element is the position of the company in the market. A strongest position for a company is a monopoly. There needs to be barriers to prevent competitors to entry in the same market in order to be able to maintain competitive advantage. Porter (1979, p. 141) defines five forces framework to define a company's position on the market and helping companies to define a position where they can either modify the characteristics of the markets they operate or select the right markets in order to achieve sustainable periods of financial performance. According to MBV competitive advantage will be achieved via performing activities in a lower cost or with in a unique way to add value to customer (Porter 1991, p. 102).

Market based view (MBV) is mainly valid for the businesses on a mature stage where there are many competitors and a true product differentiation is limited to none. Typical industries being most of the consumer electronic, many service industries like finances or insurances and highly regulated markets like pharmacy.

According to Resource Based View (RBV) a sustained competitive advance is achieved via VRIN resources (Valuable, Rare, Imperfectly imitable, Non-substitutable) (Barney 1991, p. 112). In practice this is meaning that company competitiveness is built on its unique resources and similar resources for other companies should not exist. So the key assumption is that factor markets are imperfect causing that companies are heterogeneous. Compared to MBV, RBV perspective is focusing on inside of a company and capabilities of its resources instead of outside focus like in case of MBV.

Originally RBV was defined as a dynamic model as business environment is constantly changing (Priem et al. 2001, p. 33). The static model presented by

Barney (1991) was more used mainly due to its simpler nature. However, it has been defined that a strategy is the most important in times of change (Helfat et al. 2007, p. 1) and it can be kept natural that development of the theory was moving towards a dynamic model. Dynamic RBV is based on the idea of resource erosion meaning that resources are losing their value over the time. This is originally based on definition of asset erosion (Dierickx et al. 1989, p 1508). Practical implication in strategic point of view is that companies, who are capable to integrate, build and reconfigure internal and external resources in changing environment to create new capabilities, are capable to maintain above average returns (Teece et al. 1997, p. 516, Winter 2003, p. 994).

RBV has caused a lot of discussion and critics towards presented theory. It has been stated that any competitive advantage that is based on a particular resource will be competed away over time. If assumption of a long-term heterogeneity of the resources is not correct, the foundation of static RBV theory is not valid and focus should be moved towards a dynamic model (Eisenhardt et al. 2000 p. 1108 and Fiol 2001, p. 692).

One practical solution of RBV theory, which is widely in use in several companies, is the concept of core competences and the aim of developing those in order to improve company performance. Core competences are a unique set of skills that a company possesses and in addition, company can also have core products (Prahalad et al. 1990, p. 87). Teece et al. (1997, p. 516) are defining core competences as those competences that define company's fundamental as a core. Even though a company could not achieve sustainable competitive advantage via it's VRIN resources, of course the skills and knowhow of company resources are directly influencing company's performance and competences should be developed in each company.

Environments where RBV might apply are industries continuously developing via technology development and in cases a company has been capable to develop a product, which has superior advantages, compared to rival products. Possible

markets are consumer electronics, sport and entertainment industries and services with personal contact.

In addition, RBV the Relational view (RV) brings company's network as a resource pool compared to RBV, which defines that companies should possess valuable resources by itself. This, of course, leads to a conclusion that company success is dependent on its network partners' capability in addition, to its own capabilities. Origin of RV is a transaction theory, Williamson (1999), which presents that selection of the way of operating should be made by transaction cost it's causing. Efficiency of the network has been defined to be dependent on investments needed to specific assets, level of knowledge exchange, capability to complain complementary resources and lower overall transaction cost compared to competitors (Dyer et al. 1998, p. 663). RV has been defined to be valid in a business environment, which is changing rapidly and continuously changing its form.

4 STRATEGY PROCESS

4.1 Strategy process structure

There are several different schools of strategy process depending the angle of approach. Mintzberg et al. (1998, p. 5-7) are presenting these grouped into three groups: first group is concentrating how strategy is made and is a formal way for a strategy process, second group is with an approach of strategic behavior and third group is a combination of previous. We can assume that in cases when companies are large and or when external consultants are used, is the first group approach most common. On the other hand, a new established company's strategy process, in many cases informal, is based on entrepreneurial visionary process.

Strategy making and implementation can be organized as a project. (Johnson et al. 2011, p. 577). This can be a suitable option especially when planning large-scale changes to company's strategic direction. Mintzberg et al. (1998, p. 31) are defining that "strategy formulation should be kept simple and informal", which can be challenging as strategic decisions are complex in nature, made in situations of uncertainly, are affecting to operational decisions, are requiring integrated approach and are involving a considerable change (Johnson et al. 2011, p. 6).

For integrated approach Civichino (2012) is defining the main elements of inside-out and outside-in strategies. In inside-out strategy the key question is what company is good at making and selling, and in outside-in approach every risk can be seen as an opportunity. Of course, a company must make a decision how big risks it is willing to take. On the other hand, we can assume that at least in some cases risk taking is providing better growth possibilities for a company comparing to concentrating only on developing its internal strengths and weaknesses. (Civichino 2012, p. 15). Even though Civichino is presenting these as alternative options, integrated approach taking both in account could bring the best results.

Nevertheless, a strategy formation is organized as a project or a process, there is a need to have a clear rules and a mandate from the top management of company for those participating on a strategy work. In addition, there needs to be a defined schedule, regular reviews and communication in place. (Johnson et al. 2011, p. 577-578)

Strategy workshops are commonly used way for making strategy and in most of cases triggered by the regular strategy development (Hodgkinson et al. 2006, p. 482). Mainly these are for top managers of a company, but wider group of participants could be considered as well. In many cases workshops are arranged outside of a company and lasting a full day or two. The challenge of strategy workshops is a limited time for deeper analyses. Due to this a careful planning and preparation prior workshops is needed. (Johnson et al. 2011, p. 576, 578). General strategy workshop guidelines are as follows (Johnson et al. 2011, p. 578):

- Making an agreed list of actions
- Establishing project groups
- Circulating agreed actions in order to increase commitment
- Making visible commitment by the top management

A strategy project can be divided into five main steps and these can be used also when creating a strategy process flow (Barney & Hesterly 2006):

- 1) Vision and mission
- 2) Objectives and goals
- 3) Analyses, internal and external
- 4) Strategy formulation and strategic choices
- 5) Implementation and leadership

Ansof (1965) followed by Kamensky (2008, p. 57) are proving a more detailed structure and adding a long-term financial planning aspect to the structure (figure 2).

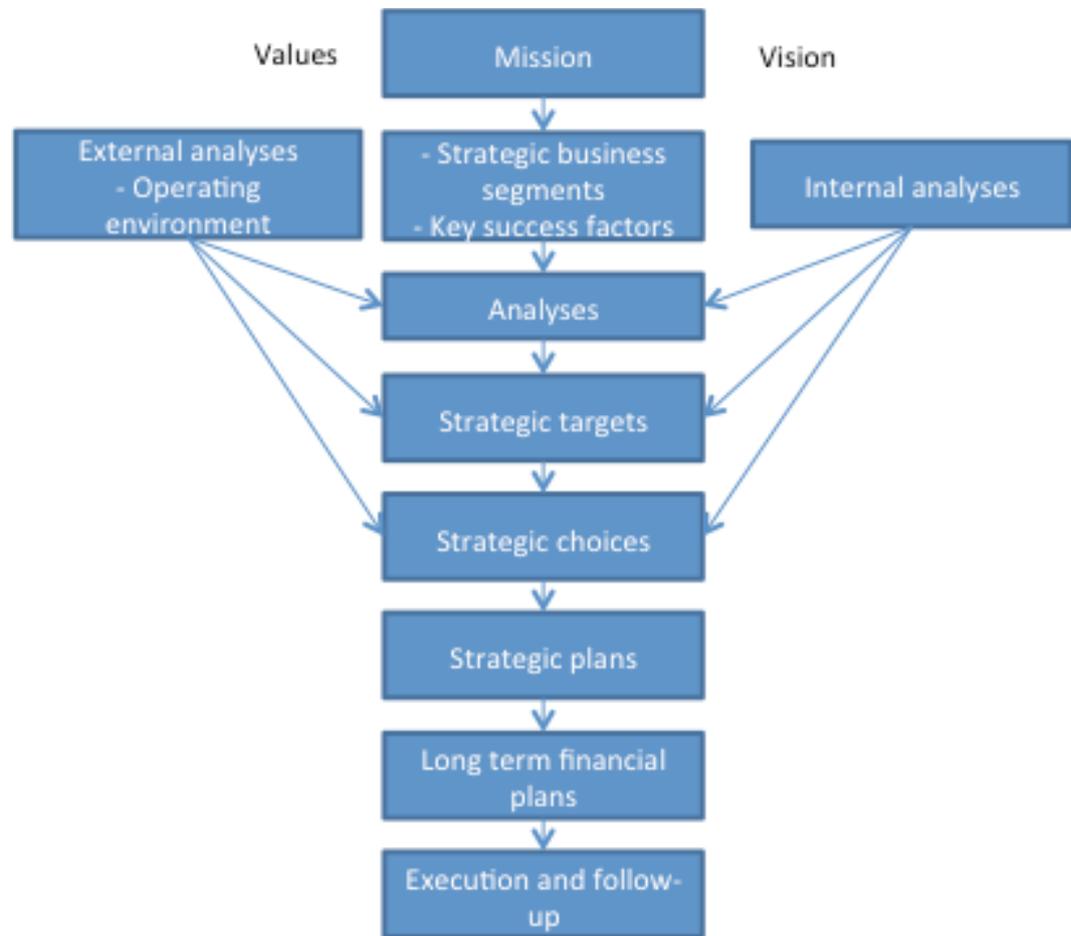


Figure 2. Strategy process. Adapted from Kamensky (2008, p. 57), originally presented by Ansoff (1965).

In both cases integrated approach, including internal and external analyses, is used. Both are also highlighting the need of continuous follow-up and evaluation.

Mission, vision, goals and strategic objectives are the starting point of strategy making. They are giving direction as well as guidelines for the whole strategy work and enough focus should be placed in these. However they aren't forming a strategy, as their role is to give a direction to all company's activities. (Hambrick and Fredrickson. 2005, p. 52). Objectives should be quantified, so that they can be measured and followed during the implementation phase. Company's capabilities should support value creation, and a vital part of strategic capability is the

statement of competitive advantage and the source of it. A long-term strategic plan should include on sufficient level needed actions in different areas defining how company will achieve its strategic objectives. Plan should include a long-term financial planning covering capital needs, cash flow and income statement. Needed human resources in addition, to financial resources should also be planned, and also ways to acquire those should be included. A business model creates a structure for the company and defines company's products or services. Of course, strategic control and management processes should be defined in order to be capable to follow-up up and ensure that strategic targets are met. (Johnson et al. 2011, p. 582).

For a strategy project as for any other project there is a need to define objectives, schedule, milestone reviews and also roles and responsibilities. A strategy project can also be divided into sub-projects in order to ensure enough focus and resources for the specific areas. Of course, a vital element of any project is a clear defined reporting procedure. (Johnson et al. 2011, p. 579). Successful project execution is also requiring top management's commitment on a strategy project, especially when keeping in mind that their focus is continuously changing depending on the changes in operative business. This emphasizes the need of continuous communication. For strategy project as for any other project appropriate resources, usually people, are needed. (Johnson et al. 2011, p. 577-578).

4.2 Values, vision, mission and strategic objectives

Role of values, vision and mission is to create a direction for a company (Hambrick and Fredrickson 2005, p. 52) and they should reinforce each other (Kamensky 2008, p. 69). Values are principles, which should guide all company personnel everyday actions and they should be independent from time and place (Kamensky 2008, p. 78). A mission statement defines the overall purpose of a company and vision statement is a description of company's desired future state (Johnson et al. 2011, p. 164). Both should be simple enough in order to be

understandable among all company stakeholders to support communication of company's core purpose (Kamensky 2008, p. 69). Even though there has not been found a strong correlation between mission statement and company's financial performance, the role of mission statement should not be underestimated in giving a clear direction for organization and creating a good foundation for strategic choices. (Desmidt et al. 2011, p. 479).

Creating values, vision and mission statements can be used for creating focus on common objectives and for reinforcing teamwork. Key issues for a successful creation process are top management commitment, communication and involvement of different level of organization. Giving an opportunity for large group for participating is improving information flow and on the other hand, increases commitment. (Mullane 2002, p. 453, 449).

Strategic objectives are typically quantified goals what company targets to achieve in long term. Typically strategic targets are financial targets like turnover growth, operating profit and return of investments. (Johnson et al. 2011, p. 164).

4.3 Strategic analyses

The purpose for strategic analyses is to identify strategic groups, market segments and critical success factors in order to be able to take advantage of available opportunities and to identify possible strategic gaps of a company (Johnson et al. 2011, p. 53). Strategic analyses can be divided into external and internal. An internal analysis is for example an organization analysis and external analyses are industry, competitor and market analyses. There are also analyses like SWOT and stakeholder analyses covering both aspects. Environmental analyses should cover the whole environment and take in account customers, competitors and suppliers and also cover the trends in the environment (Johnson et al. 2011, p. 582).

Barney (1991, p. 100) suggests that internal and external analysis can be made with a SWOT analysis. Relationships between the resource based model and the models of industry attractiveness can be seen on figure 3.

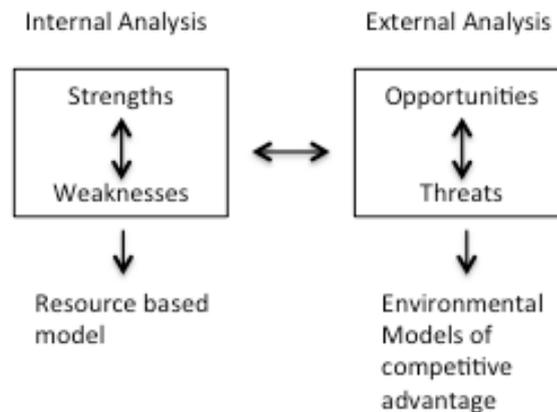


Figure 3. The relationships between traditional SWOT-analysis. Adapted from Barney (1991, p. 100).

Even though SWOT is the most common tool, strategic analyses should not be limited only to that, as we can assume that it does not provide enough broad and detailed information to have a solid understanding of company's operating environment and a company's internal capabilities.

Internal strengths can be analyzed with VRIO framework (Barney, 1997 p. 163). According to resource based view (Barney 1991) competitive advantage will be achieved via company's resources. A resource must be valuable, rare, imperfectly imitable and non-substitutable (VRIN) (Barney 1991, p. 112). In order to be a source of competitive advantage a resource must fulfill all of the criteria. Resources in this context are covering all company resources, intangible and tangible. (Johnson et al. 2011, p. 96). In addition, for analyzing a possible source of competitive advantage, VRIN model can be used as a basis for competence development and create a development plan for core competences which are valuable for a company. (Prahalad et al. 1990, p. 87). According to Barney (1997, p. 39) "Sustainable competitive advantage comes from teams more than from

individuals”. This emphasizes the need to develop relationships within an organization and leadership skills.

The four corner analysis was developed by Porter for analyzing competitors and it focuses on analyzing future goals, current strategy, assumptions and capabilities (Downey 2007, p. 9). A model of the four corner analysis is presented in figure 4.

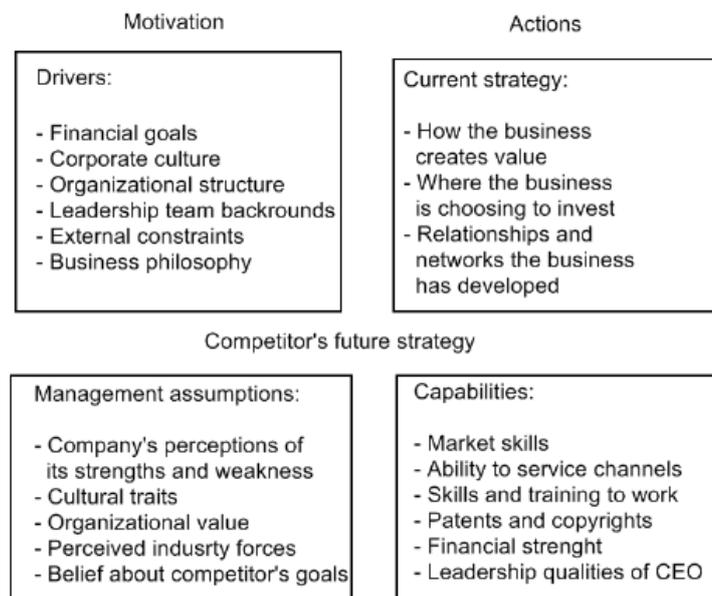


Figure 4. The Four Corner Analysis. Adapted from Downey (2007, p. 9).

Even though the four corner analysis was developed for analyzing competitors it is also providing a good framework for ensuring that the most critical internal aspects are also taken in account in strategy work. Competitors are, of course, effecting to company’s success, and their strengths, weaknesses and strategies should be taken in account in order to understand company’s position against its rivals and how to compete against them. Competitor analysis should give an answer to following questions (Wilson 1994, p. 2):

- Who are our competitors?
- What targets competitors are having?
- What are competitors’ strategies?

- How successful competitors have been in implementing their strategies?

These should be analyzed also in future perspective and a company should not be overconfident to be capable to maintain its current position in the market. The challenge in making a competitor analysis is that you need mostly to rely on available public information. Due to this, the person who is making a competitor analysis should have a wide understanding on business environment and also having the best knowledge about competitors from other sources like customers and suppliers as well. (Rothschild 1997, p. 23, 27). Company can use a competitor analysis also as a benchmarking tool to compare its own performance and product or service offering to its competitors. (Johnson et al. 2011, p. 117). A competitor analysis should include in addition, to current competitors also potential competitors and indirect competitors providing substitutes (Bergen et al. 2002, p. 160).

According to Porter (1996, p. 76) a business analysis is supporting for understanding company's strategic position in the market. The idea of the business analysis is to review what company already does and what is creating its' unique core by analyzing following areas (Porter 1996, p. 76):

- Which of company's product or service varieties are the most distinctive?
- Which of company's product or service varieties are the most profitable?
- Which of company's customers are the most satisfied?
- Which customers, channels, or purchase occasions are the most profitable?
- Which of the activities in company's value chain are different and effective?

For a business analysis a BCG growth-share matrix, which is developed by Boston Consulting group for managing company's portfolios, can be used (figure 5). The key assumption is that a company must have a portfolio of products or

services in different growth rates and different market shares in order to successful. (Minzberg at al. 1998, p. 95)

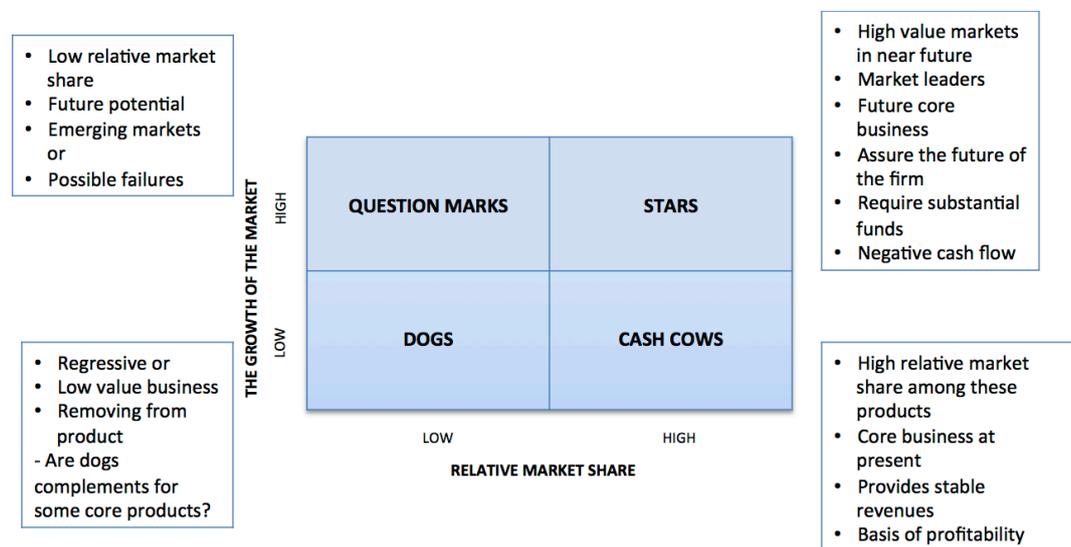


Figure 5. Growth-share matrix. Adapted from Boston Consulting Group (2015)

Matrix is diving portfolio into four different groups:

- Cash-cows – high market share, low growth
- Dogs – low market share, low growth
- Stars – high growth, high market share
- Question marks – high potential, possible future stars

The idea of the growth matrix is to help a company to allocate capital for different businesses in a systematic way in order to manage its portfolio in an efficient manner (Minzberg et al. 1998, p. 94). Boston Consulting group (2015) is pointing out the need of constantly reviewing of company's portfolio in today's fast changing business environment and they also see ability to adapt changes in business environment more dominant than originally defined market share as a predictor of a sustained performance.

For an industry analysis Porter's (2008, p. 27) five forces framework, which is originally developed for analyzing profit potential in different industries, can be

used. This can help to make a decision in which industries company should be in and in which not. In general level if forces are weak, industry is profitable and on the other hand, if forces are high, lower returns are expected for companies operating in that industry. (Porter 2008, p. 25, 26). However, a status of the industry should not be kept as static, as it changes during industry lifecycle. (Johnson et al. 2011, pp. 67). Porter (2008, p. 29) is also pointing out long enough time horizon for an analysis, typically three to five years period. And, of course, actions of competitors or new entrants to industry can change the business environment even faster. This emphasizes the need of a systematic, at least on annual basis, strategy review process. Five forces framework is presented in figure 6.

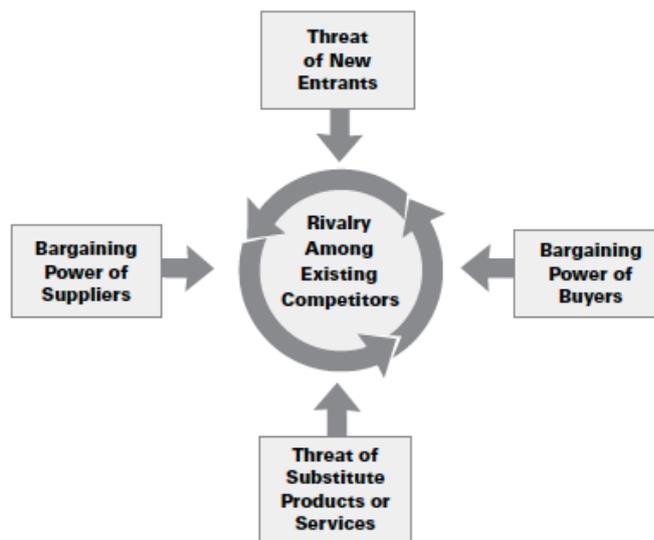


Figure 6. The Five Forces That Shape Industry Competition (Porter 2008, p. 27)

The idea of the framework is to define industry by analyzing following elements:

- Rivalry among existing competitors
- Bargaining power of suppliers
- Threat of substitute products or services
- Threat of new entrants
- Bargaining power of buyers

Rivalry among existing competitors is highest when there are about same size competitors operating in the industry. Rivalry can for example come from prices, product or service development. Suppliers can have high effect on industry profitability in cases when there are a limited number of suppliers for a specific technology and they are capable to maintain high prices. In many industries technology development can bring into market totally new products or services, which are partly or totally substituting existing products or services (Schumpeter, 1934). In industries where entry barriers are low for new entrants, meaning for example that no large-scale investment needed, a risk of increasing competition is high. On the other hand, companies having high capabilities in other industries fitting also to this industry might make their entry and change the market in industry. When there are plenty of similar product or service providers in industry, buyers bargain power is high, especially if their changing cost of changing supplier is not high. (Porter 2008, p. 29 – 32). Five forces framework can be used for positioning the company in the market either by building barriers to limit competition, or defining the position via differentiation where forces are weakest. (Porter 2008, p. 35).

There is also a need to prepare a stakeholder analysis in order to understand stakeholder's expectations in order to able to plan needed strategic actions. (Johnson et al. 2011, p. 133). Stakeholders, which are individuals or groups, who are dependent on company's capability to fulfill their needs and on the other hand, from whom company is dependent on, should be taken in account in strategic decisions. (Johnson et al. 2011, p. 132). Need to satisfy stakeholders can also be seen a constraint, not an objective due to the fact it is a must for a company to win the loyalty of stakeholders in order to stay in business. (Alexander et al. 1997, p. 44). Some strategic options might conflict with the stakeholders' expectations (Johnson et al. 2011, p. 155):

- In order to grow, short-term profitability, cash flow and pay levels may need to sacrifice.

- “Short-termism” may suit managerial career aspirations but preclude investment in long-term projects.
- When family business grows, the owners may lose control if they need to appoint professional managers.
- New developments may require additional funding through share issues or loans. In either case, financial independence may be sacrificed.
- Public ownership of share will require more openness and accountability from the management.
- Cost efficiency through capital invest can mean job losses.
- Extending into mass markets may require a decline in quality standards.
- In public services, a common conflict is between mass provision and specialist services.

A vital part of the strategy implementation is communicating new strategy also for different stakeholders. In practice this means the need to plan actions according to each stakeholder’s perspective in order to fulfill their expectations in the best possible way.

Other possible strategic analyses are for example a PESTEL and a market analysis. The PESTEL is for analyzing company’s macro-environment trends in order to evaluate a possible effect of changes in political, economic, social, technological, environmental and legal perspective. Analysis is providing understanding about environmental changes, which can be used for scenario planning for possible future outlook. (Johnson et al. 2011, p. 54 – 55). A market analysis can be divided to demand and market share analysis. It is essential to have an understanding how demand is developing in selected market areas. Of course, future demand can only be estimated. A market share analysis reveals additional market potential in selected market. (Kamensky 2008, p. 141). Market potential and trend are effecting to strategic trust of a specific market area or a segment and influencing resource allocation for each segment. Deeper analysis can be made on a portfolio level by estimating growth and product cycle separately for each business segment. (Day 1981, p. 285).

4.4 Strategy formulation

Hambrick and Fredrickson (2005, p. 54) are defining 5 key questions a strategy should give answers (figure 7). These are forming a good basis for checking a strategy structure and ensuring the coverage of strategy material during strategy formulation.

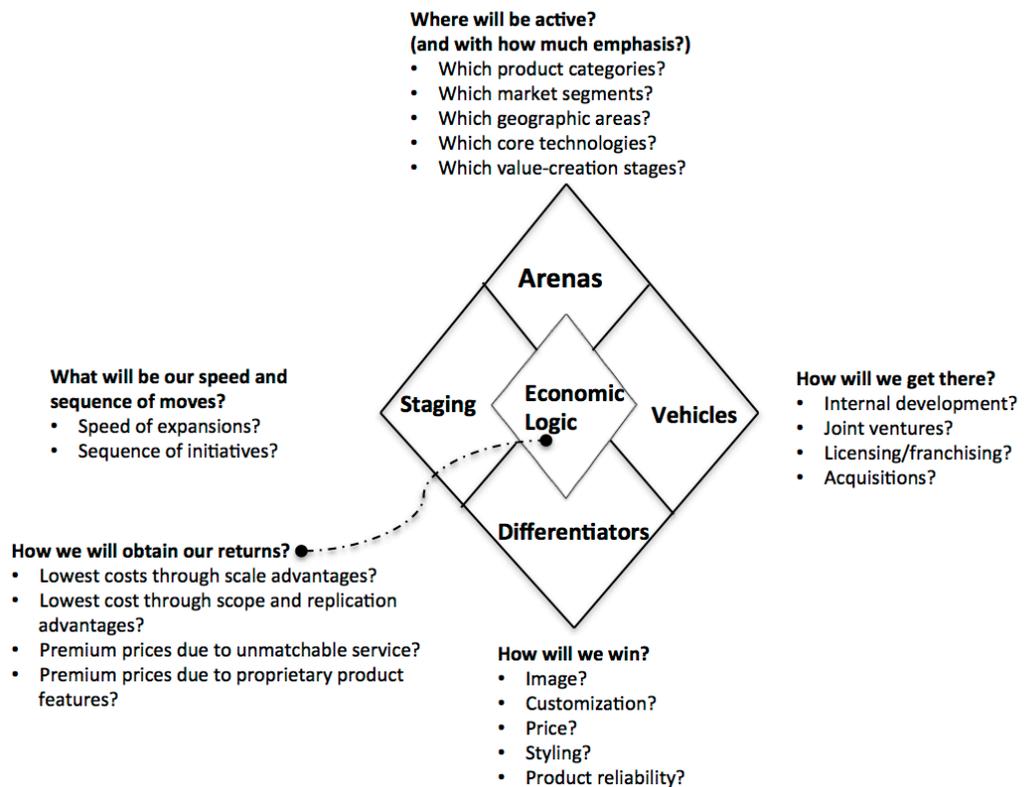


Figure 7. Five elements of the strategy. Adapted from Hambrick and Fredrickson (2005, p. 54)

The main elements of strategy according to Hambrick and Fredrickson (2005, p. 53) are:

- Arenas – Where we will be active?
- Vehicles: How we will get there?
- Differentiators: How will we in the market place?
- Staging: What will be our speed and sequence of moves?
- Economic logic: How we will obtain our returns?

In addition, to main elements of strategy there is a need to define also supporting activities, which as such are not directly a part of the strategy, but are needed in order to realize planned strategy and their nature being more operative. Hambrick and Fredrickson (2005, p. 53) are presenting typical supporting arrangements as structure, process, rewards, people, activities and functional policies and profiles.

According to Hambrick and Fredrickson (2005, p. 53) strategy should be seen as a “central integrated, externally oriented concept how company will achieve its’ objectives”. Conclusion is that there is a need to ensure company’s all operations should be in line with the strategy to avoid efforts to areas, which are not directly supporting company’s strategic objectives. This, of course, requires that everyone working in a company have a right understanding about his or her role in strategy execution.

Strategic choices include the base for the competitive strategy, strategy directions and methods for pursuing strategies. The base of the competitive strategy is how company is positioning itself compared to competitors. Strategy direction includes selecting products or services and markets the company is going to compete. Methods are the ways company is going reach its strategic targets. (Johnson et al. 2011, p. 217). All company’s activities should be in line with the overall strategy and activities should reinforce each other as competitive value should be a combination of all company’s activities (Porter 1996, p. 71).

Value creation for a customer should be taken in account when defining a base for competitive strategy. Depending on a customer, their needs may vary. According to Porter (1996, p. 66) “strategic positions can be based on customers’ need, customers’ accessibility, or the variety of a company’s product or services”. Company can define different market segments assuming that there are customers having similar needs, which are different from other parts of the market (Johnson et al. 2011, p. 77). According to Neubauer (2010, p. 158) possible value creation groups are improvements of processes, increase of quality, cost savings, increase of transparency and improved customer relationship.

In order to have an understandable and simple picture of company's current business to have a framework for decision-making about future direction of the business, a business model canvas can be used (Kilov 2002, p. 1-3). Company's business model can be a source of value creation to all stakeholders via its locus of innovation. (Amit and Zott 2000, p. 2). "The key focus is not the product or service a company offers, but how it is produced or delivered with the help of partners, suppliers and possible customers" (Picot et al. 2001, p. 225). By changing industry economics via new business model a company can create a strong competitive advantage (Margetta 2002b, p. 88). This means that there is a link between a business model and a strategy in cases a company is consciously changing its business model in order to achieve competitive advantages. In addition, a business model can be kept as a platform for executing strategy. (Neubauer 2010, p. 96).

The idea of a business model canvas is to describe a business model by building it through nine building blocks. These blocks are covering four main areas of a business: customers, offer, infrastructure and financial aspect. (Osterwalder et al. 2010, p. 15). The main purpose of the model is to create a comprehensive view of all key areas of a business in order to understand the links between different elements of a business (Osterwalder et al. 2010, p. 15). On the other hand, it is vital to understand the difference between a business model and strategy, as a business model is describing how a company operates and creates value to its stakeholders, and a strategy is the choice of the business model a company will compete in the market (Casadesus-Masanell and Ricart 2010, p. 196). A business model can also be seen as a reflection of a company's realized strategy (Casadesus-Masanell and Ricart, 2010, p. 205).

Ojasalo and Ojasalo (2015) developed from a traditional business model canvas a service logic business model especially for service providers. The service logic business model is also having nine building blocks as the original model, but it emphasizes customer's perspective and adds it to all blocks of the model. Each block of the canvas is including service provider's and as well as customer's

viewpoint. The main idea for this is to help to create a service business model, which is supporting customer's value creation by creating service from customer's perspective. (Ojasalo and Ojasalo 2015, p. 319).

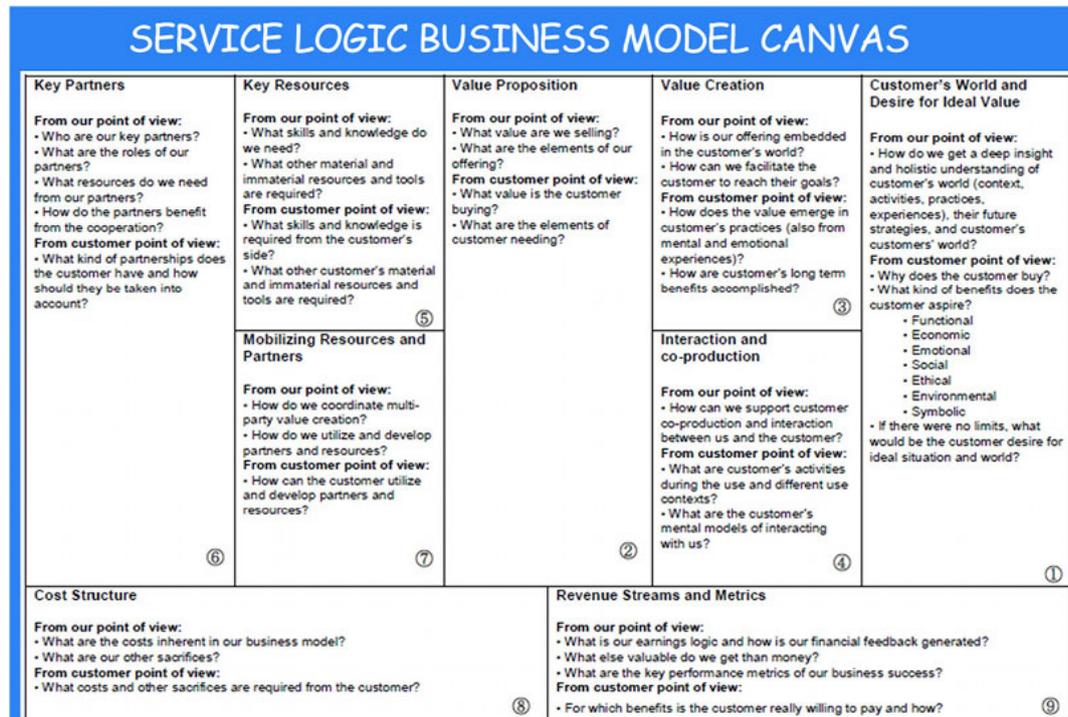


Figure 8. Service logic business model canvas. (Ojasalo and Ojasalo 2015, p. 321).

The conclusion is that the business model can be used for understanding company's current operating model when formulating strategy. However, possible changes caused by chosen strategic options and target positioning might change business model and it should be updated accordingly.

According to Porter (1996, p. 68) a sustainable strategic position requires trade-offs. A valuable position of a company will attract competitors, who are trying to imitate in order to gain the same benefits. In order to achieve a sustainable position a company must make trade-offs with other positions, meaning that a company should define clearly how it will deliver value to its customers in its unique way and a company should not confuse its customers by trying to create value with several different ways. In addition, a company should make trade-offs

when setting up its capabilities, as many capabilities are suitable for certain position, but not necessarily create value in other areas. From management perspective priorities should be made clear in the whole company to ensure that daily operations are in line with the strategic choices. Trade-offs are in generally creating the need for selecting and are limiting in purpose what a company offers. (Porter 1996, p. 69). Growth target might cause temptation to add services, adopt new customer or entering into markets, even a company has not special to offer without adopting them into strategy. This can lead to a situation that a company might lose its unique position in the market and decreasing returns. (Porter 1996, p. 19). Activity-system maps can be used to help to define company position and strategic fit of its activities (Porter 1996, p. 72).

A fundamental strategic choice is what competitive strategy will be used in market and in business unit level. Markets are defining where and in which businesses a company is operating. Bases for competitive strategy can origin from price, differentiation, a combination of these or position in the market (Johnson et al., 2011, p. 222). In table 1 is presented the difference between cost leadership and product or service differentiation approaches, which is in line with Porter's (1996, p. 62) definition of strategic position of a company.

Table 1. Cost leadership versus product differentiation positioning. Adapted from Barney and Hesterly (2012).

Cost leadership	Product differentiation
<p>Organizational structure Few layers in reporting structure Simple reporting Small corporate staff Focus on narrow business functions</p>	<p>Organizational structure Cross-divisional / cross-functional product development teams Willingness to explore new structures to exploit new opportunities Isolated pockets of intense creative efforts</p>
<p>Management control systems Tight cost control Quantitative cost goals Close supervision on all costs A cost leadership philosophy</p>	<p>Management control systems Broad decision-making guidelines Managerial freedom (guidelines) Experimentation policy</p>
<p>Compensation policies Reward for cost reduction Incentives for all employees for cost reduction</p>	<p>Compensation policies Rewards for risk-taking Rewards for creativity Multidimensional performance measurement</p>

Kim and Mauborgne (2005) presented an idea to create an uncontested market space by combining elements from cost leadership and product differentiation and making competitors irrelevant instead of competing with them. A framework for blue ocean strategy formulation is based on four actions (Kim and Mauborgne, 2005, p. 29):

- Which of the factors that the industry takes for granted should be eliminated?
- Which factors should be reduced well below the industry's standard?
- Which factors should be raised well above the industry's standard?
- Which factors should be created that the industry has new offered?

A good question is that whether the presented model is a totally new way of formulating strategies or is it only one a solution to create a unique position for a company to achieve a competitive advantage. When reviewing differences between traditional model to achieve competitive advantage either via cost leadership or via differentiation, which is called Red Ocean by Kim and Mauborgne, to blue ocean strategy the conclusion could be that Blue Ocean strategy equals close to Porter's (1996, p. 62) definition that company's competitive position can be based on a combination of differentiation and cost leadership (table 2).

Table 2. Red Ocean versus Blue Ocean Strategy. Adapted from Kim and Mauborgne (2005, p.18)

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off (either/or)	Break the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiation and low cost
Value creation or addition = added value	Value innovation = innovative value

Based on the presented model we could conclude that Blue Ocean model could be used when defining a strategic position for a company as it is at could bring new ideas how to differentiate and to create a unique position by emphasizing innovative value creation.

Also selection of the strategic business units is needed in order to be able to define ways how to compete in different businesses. Selection of the strategic business units can be made based on market-based or capabilities-based criteria. In market-based approach a selection is being made based on similar customer types meaning that different customer needs for products or services are similar. In capabilities-based criteria a selection is being made based on capabilities a company needs to fulfill different customer needs. Businesses using the same capabilities can be grouped to strategic business units. There is a need to notice that the different strategic business units do not necessarily mean a separate organization for each unit, but the ways to manage each strategic business unit needs to be defined. (Johnson et al. 2011, p. 223).

For selecting a growth path a company needs to choose whether it is targeting growth via an organic growth, via alliances or via acquisitions (Johnson et al. 2011, p. 365). Of course, a company can select any combination of these options

to achieve its growth targets. In case a company makes a strategic decision to grow via expanding its operations into new market, there is a need to define a strategic position of the subsidiary including level of local resources and capabilities (Bartlett and Ghoshal 1989, p. 107).

Strategic options can be developed by using TOWS matrix (Weihrich 1982a, p 54). The main idea of this matrix is to take information from a SWOT analysis and define strategic options from four different perspectives (figure 9):

1. Strategies that use strengths to maximize opportunities
2. Strategies that use strengths to minimize threats
3. Strategies that minimize weaknesses by taking advantage of opportunities
4. Strategies that minimize weaknesses and avoid threats

	External Opportunities (O)	External Threats (T)
Internal Strengths (S)	<p>SO "Maxi-Maxi" Strategy Strategies that use strengths to maximize opportunities.</p>	<p>ST "Maxi-Mini" Strategy Strategies that use strengths to minimize threats.</p>
Internal Weaknesses (W)	<p>WO "Mini-Maxi" Strategy Strategies that minimize weaknesses by taking advantage of opportunities.</p>	<p>WT "Mini-Mini" Strategy Strategies that minimize weaknesses and avoid threats.</p>

Figure 9. TOWS matrix. Adapted from Weihrich (1982a, p 54).

Compared to SWOT, TOWS provides more systematic framework to create strategic options. SWOT is the most commonly used tool in strategy process and

it has been criticized, as there is no prioritizing or weighting of the factors, only single level analysis without verification of statements with a data or with an analysis. There is either no clear link to implementation phase. (Hill et al. 1997, p. 51). TOWS neither has weighting of different options, so there is a need to evaluate different options separately.

We can conclude that strategic choices are forming the base of the strategy as they include the targeted position of a company, choice in which market company is going to operate and how it pursuit its growth targets. Of course, company's capabilities are playing a major role when making strategic choices and it should be validated that there are required capabilities, including financial and personnel resources, in place. In order to ensure enough focus in this phase, there should be enough time reserved.

Outcome of the strategy formulation is a long-term plan, which gives a direction for a company and defines how company will achieve its strategic targets. Each action should be scheduled by taken in account available resources. For example, a capital availability can guide a schedule of actions and, of course, other company resources should be taken in account when planning schedules for each strategic action. Strategic plan provides basis for performance targets and annual budgets. (Grant 2003, p. 498).

4.5 Strategic risk analysis and scenario planning

One part of a strategy process is analyzing risks included in strategic options and in already made strategic decisions. (Baird and Thomas 1985, p. 231). Due to uncertainly involved in strategic decisions as long term future cannot be predicted due to lack of complete information, there are often underlying risks, which may be critical from company success point of view (Mintzberg 1978, Mintzberg et al. 1976 and Ansof 1965). The institute of internal auditors is defining risk as follows: "The possibility that an event will occur, which will impact an organization's achievement of objectives". From strategy point of view, we can

conclude that strategic risks are the risks, which will directly impact on company's capabilities to achieve its strategic targets. However, risks should be prioritized and main focus should be in the areas, where the realization of risk is influencing mostly to company's capabilities to achieve its strategic targets.

Strategic risks are often related into following areas (Noy and Ellis 2003, p. 694):

- Mergers and acquisitions
- Financial investments
- Financial risk hedging
- Investments in tangible assets
- Procurement and inventory management
- Research and development
- Entering a new market
- Introducing a new product
- Product-price management
- Adopting new technologies
- Tender-price determination

Most of the above mentioned can also be kept as typical business risks.

Risk taking is often needed when targeting business success, and due to this should not be totally avoided. When having an effective risk management process, which enables to control and mitigate the risks, there are more possibilities to take advantage of existing opportunities and to have a better business success than just by trying to avoid all risks. (Merna and Merna, 2004 p. 79).

Key elements of an effective risk management are (Merna and Merna 2004, p. 80):

- Risk identification
- Risk assessment/measurement
- Understanding how the risks currently are being managed

- Reporting the risk
- Monitoring the risk
- Maintaining the risk profile

Typically risk management is an integrated part of company's quality management system (Merna and Merna 2004, p. 80). We can conclude that the best way to manage strategic risks is to ensure they're included into company's general risk management process. Of course, if company does not have a risk management process in use, it should be created at least for managing strategic risk. However, also at least business risks should be included in risk management process as those are directly linked to strategic risks.

Depending on what can be known about the future when formulating a strategy is a guiding factor for the need of different scenarios. In case future outlook in company business is clear enough, a single forecast may be enough. If there are few alternative future options foreseen, it might require more scenarios to be prepared, typically two to three. This might apply in cases when the value of company strategy is mainly dependent on competitors' actions, which cannot be foreseen at the time of strategy formulation. (Courtney et al. 1997, p. 69-71).

From above we can conclude that more uncertainties company's operating environment is having, the higher the probability of realization of risks there is, and the need for preparation of various scenarios about possible future success of a company increases.

4.6 Strategic planning and management

In order to be able to plan and implement a strategy, there needs to be a strategic planning and management processes in place. This requires involvement of persons, typically managers, who are planning, deciding and implement the strategy. Scope of the strategy is much wider than operational managers are

dealing with when solving operational problems, and requires from involved persons a capability to take an overview of the whole (Johnson et al. 2011, p. 11). Johnson et al. (2011, p. 12) are defining strategic management to cover understanding of the strategic position of a company, making strategic choices for the future and executing strategy. This definition is following a formal way to create a strategy and can vary depending on the angle of approach (Minzberg et al. 1998, p. 5 -7).

Strategic planning and management can be seen as a continuous process including following up implementation of planned strategy and also continuously monitoring of external and internal factors influencing to company's capabilities to achieve its strategic objectives. A model of strategic planning process is presented in figure 10 and is in line with presented strategy process model by Ansof (1965). This model of strategic planning is linking a long term strategic planning to medium and short term planning and can be used for linking strategic plans to operational plans.

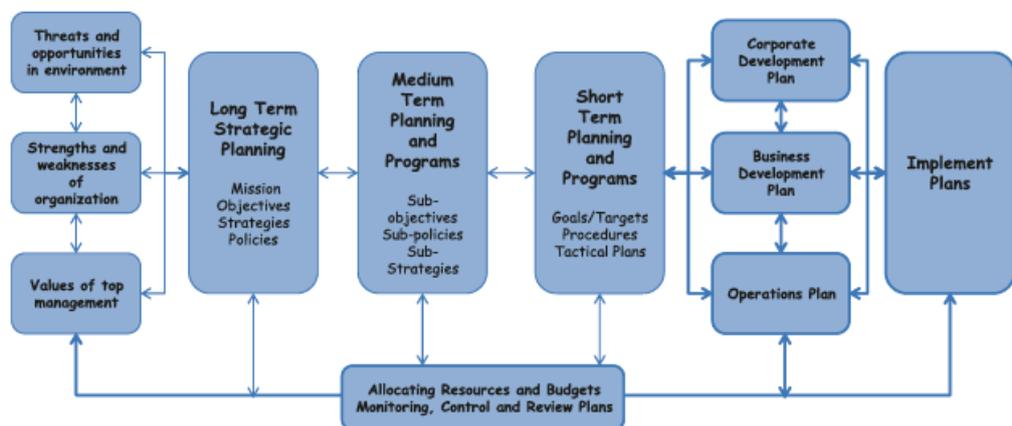


Figure 10. Basic model of strategic planning. (Gandellini et al. 2013, p. 9)

In today's fast changing environment, a probability to face the needs to adjust defined strategy can be seen high. Due to this it is essential to analyze risks involved to created strategy and also to have back up plans in place in advance in case needed. On the other hand, it emphasizes the need to have a continuous strategy evaluation in place as a part of the strategic management in a company.

Figure 11 presents the difference between deliberate, successful realization of intended strategy versus emergent strategy created or just happened when planned pattern did not realize.

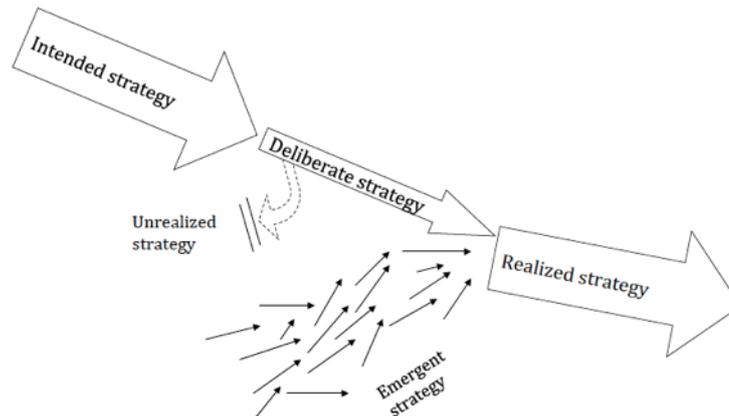


Figure 11. Intended versus realized strategy. (Mintzberg et al. 1998, p. 12)

Mintzberg et al. (1998, p. 62) are presenting a framework for broadened strategic control (figure 12). This extends strategic control and emphasizes even more the need for continuous evaluation and controlling of strategy implementation as broadening the view to include also a possible total failure of strategy.

		Intended Strategy Realized?	
		Yes	No
Realized Strategy Successful?	Yes	Deliberate success	Emergent success
	No	Failure of deliberateness	Failure of everything (try again)

Figure 12. Broadening strategic control. Adapted from Mintzberg et al. (1998, p. 62).

According to Simons (1994, p. 172) with interactive control systems managers are able to manage strategic uncertainties. The main elements of these systems are

that the managers personally involve themselves in the decision activities of their subordinates and ensure the whole organization's awareness of strategic uncertainties. Simons is also presenting ideas how to create an interactive control system:

- Ensure that system is an important and recurring agenda to discuss with subordinates
- Ensure that system is a regular focus of attention by operating managers throughout the organization
- Participate face-to-face meetings with subordinates
- Continually challenge and debate the data, assumptions, and action plans

This requires that personnel are aware of and understand the strategy. To achieve this, companies should translate strategy into understandable format to ensure that the whole personnel have the capability to support company strategy execution and also rise up issues, which might cause a need for the company to adjust its strategy. Kaplan and Norton (2001b, p. 41-42) are presenting an idea of strategy-focused organization by defining five key principles:

1. Translate the strategy to operational terms. Strategy cannot be executed if it cannot be understood.
2. Align the organization to the strategy.
3. Make the strategy everyone's everyday job
4. Make strategy a continual process
5. Mobilize change through executive leadership

In addition, to the need of understanding strategy in all levels of a company, Kaplan and Norton are emphasizing the need of having continuous strategy process in place and also supporting Simon's (1994, p. 172) idea about interactive control systems. Kaplan and Norton (2001c, p. 153, 2001a, p.92) are defining a framework for making strategy as a continual process, which is presented in figure 13.

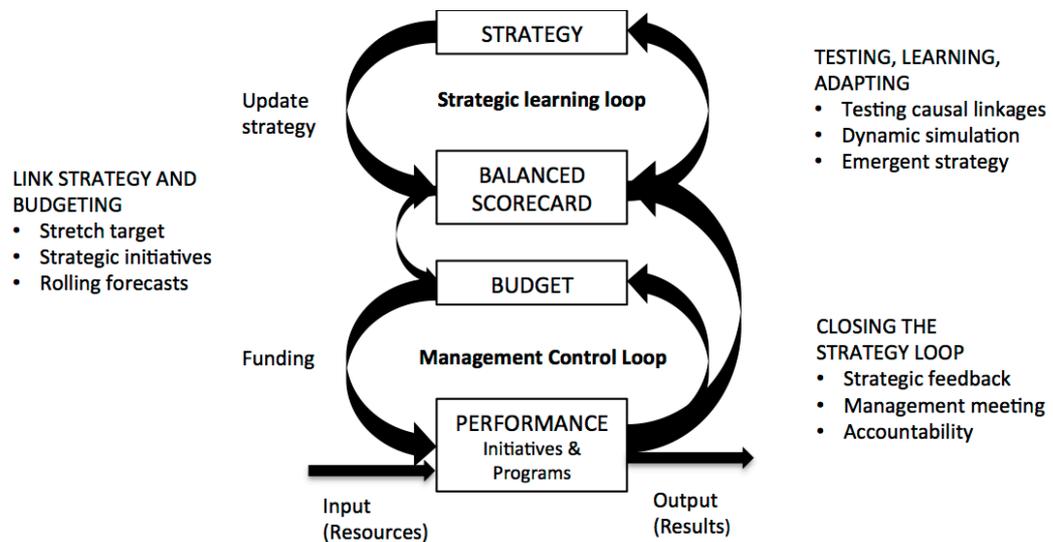


Figure 13. Making Strategy a Continual Process. Adapted from Kaplan and Norton (2001c, p. 153).

Presented process has been built around Balanced Scorecard (BSC) (Kaplan and Norton 1992) and enables linking strategic goals and budgeting (Kaplan and Norton 1996, p.78). On the other hand, objective is to follow development of the strategic targets via reporting process. This requires that strategic targets have been set and linked to operative targets. According to Kaplan and Norton (1996, p. 83). A BSC defines a strategy's cause-and-effect relationships from financial, customer, internal and learning & growth perspectives.

Setting up a performance measuring system is according to Martinez (2005, p. 18) helping to align operational performance with strategic objectives and also helping companies to improve people's satisfaction and align their behaviors towards continuous improvement. It can be concluded that a performance measuring system is a vital part of strategic management process. A BSC due to its different perspectives of different stakeholders can be a practical way to translate strategic objectives into understandable format for each group and help companies to implement their strategies and on the other hand, taking different stakeholders and their needs in account.

4.7 Strategy implementation

Implementation is, of course, a vital part of strategy process. One of the key elements of successful strategy implementation is how simple and easy it is to understand, as in cases people do not understand the strategy, most likely it will not be implemented. (Johnson et al. 2011, p. 574). Even though strategy process is complex and including, at least in most of the cases, decisions made in the time of uncertainty (Johnson et al. 2011, p. 6), it does not mean that outcome, the strategy, should be complex as well.

Bonchek (2016, p. 2) presents a strategic narrative to help communication and to define in understandable way the main purposes of a company and also how it is creating value to its customers. According to Bonchek “a strategic narrative defines who you are as a company, where you have been, where you are and where you are going”. In addition, it explains why company exists and what makes you unique.

Face-to-face communication is the most effective way to ensure right understanding of strategy, as it enables interactive communication. In order to get employees to engage in the strategy, there needs to be clear information what is the meaning of strategy in their work and what is their role in it. Of course, information needs to be memorable and should not have unnecessary details included, ensuring that everybody is capable to understand the key message. (Johnson et al. 2011, p. 574 – 575).

Of course, a successful implementation of strategy requires that a management team has a common view and is pulling in the same direction. In addition, all company’s activities should be in line with defined strategy in all levels, and company aims should have a motivating impact on people.

5 HUB LOGISTICS STRATEGY PROJECT

5.1 HUB logistics Oy

HUB logistics is offering different logistics services including material management, warehousing, outsourcing, procurement logistics, wooden packaging production, staffing and consulting services mainly for different industry sectors in Finland. It has also operations in Estonia and in Russia. Company was established in 1992 and has grown to one of the major players in its home market. Turnover in 2015 was 37 million euros and the number of employees was over 500. (HUB logistics 2015). HUB's value chain is presented in figure 14 and is following presented model of a typical scope of logistics services presented by Klaus and Kille (2006, p. 32) excluding transportation. As HUB is providing logistics services directly to its' customers and owning its' tangible assets, it can be kept as a 3PL (Neubauer 2010, p. 33).

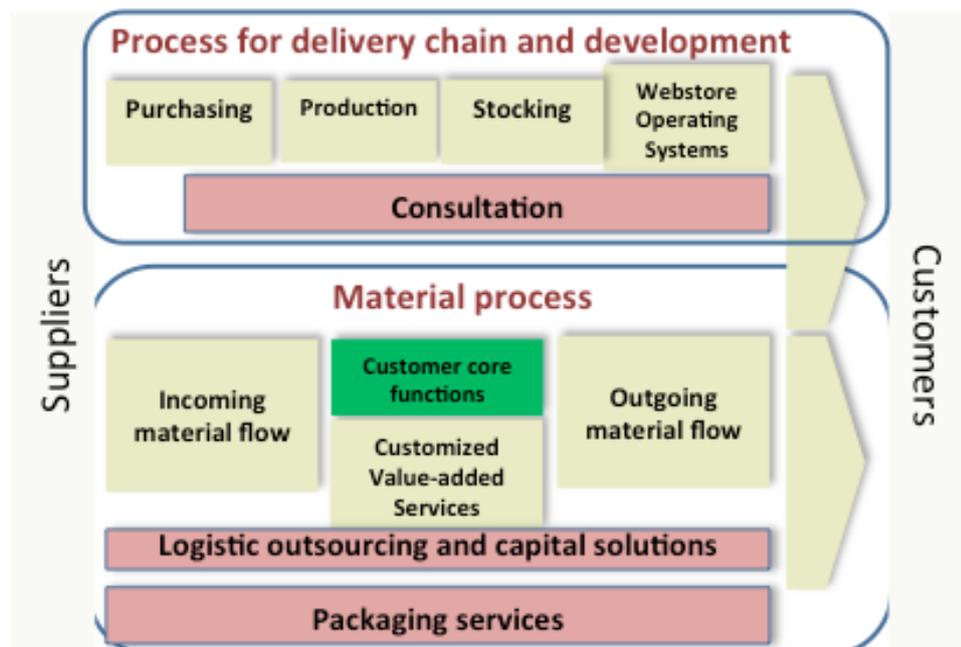


Figure 14. HUB logistics' value chain. HUB logistics (2015).

Originally HUB logistics was a family company and the entrepreneur, who established the company, was acting as a chairman of the board and also as a managing director (Törmälä 2015). The role of the entrepreneur changed in 2014 when the COO of the company was nominated as a CEO of the whole company, and the main owner was staying as a Chairman of the board. Also otherwise HUB logistics' development in past few years has followed well the framework (figure 16) presented by Crijns and Ooghe (1995) for the changes in growing middle-sized company.

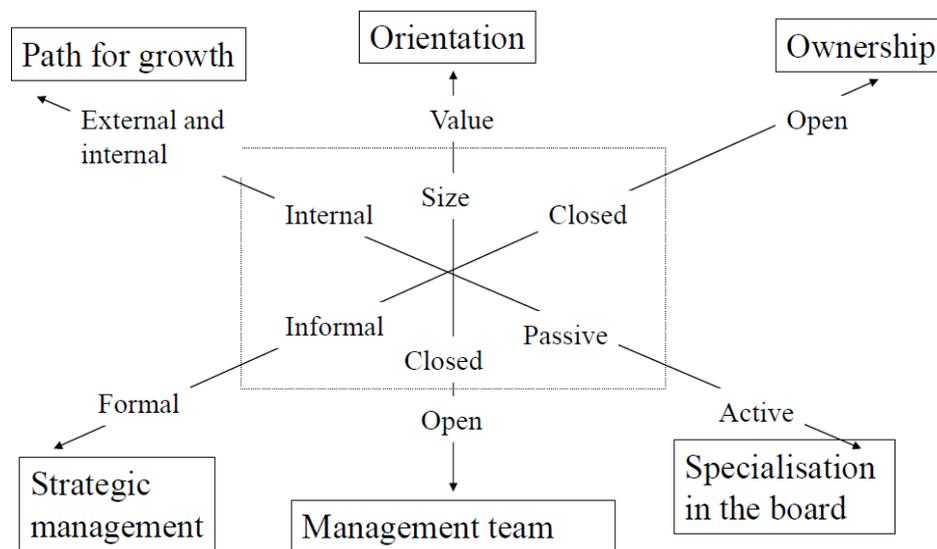


Figure 15. Changes in growing middle size company. Adapted from Crijns and Ooghe (1995)

Ownership of the company was expanded in 2014 (Jumppanen 2015) when an institutional investor, Etera, was acquiring a share of the company. Current ownership of the company is divided between the original entrepreneur, Etera and the management of the company. In practice this means that company's operative management commitment towards company's targets has been increased according to the agent theory (Jensen and Mechling 1996). In line with ownership extension there was a need to extend the board of directors with a new outside experienced members. Specialization of the board members has brought wider perspective into HUB (Törmälä 2015). Growth path is now also being extended in

to new markets, as in autumn 2015 HUB started a due diligence process for acquiring a Polish logistics company (Jumppanen 2015). In addition, HUB is also increasing its service offering in its home market, as HUB is currently building an automated logistics warehouse in Vantaa. Strategic planning and management process exist, however not on the target level, which is one of the reasons for this study (Törmälä 2015, Jumppanen 2015).

HUB's operative management responsibilities have been divided into three functions, operations, automotive and procurement. Finance, quality, HR, ITC, key account management and sales & marketing have been defined as processes covering the whole company. Organization structure is presented in figure 16.

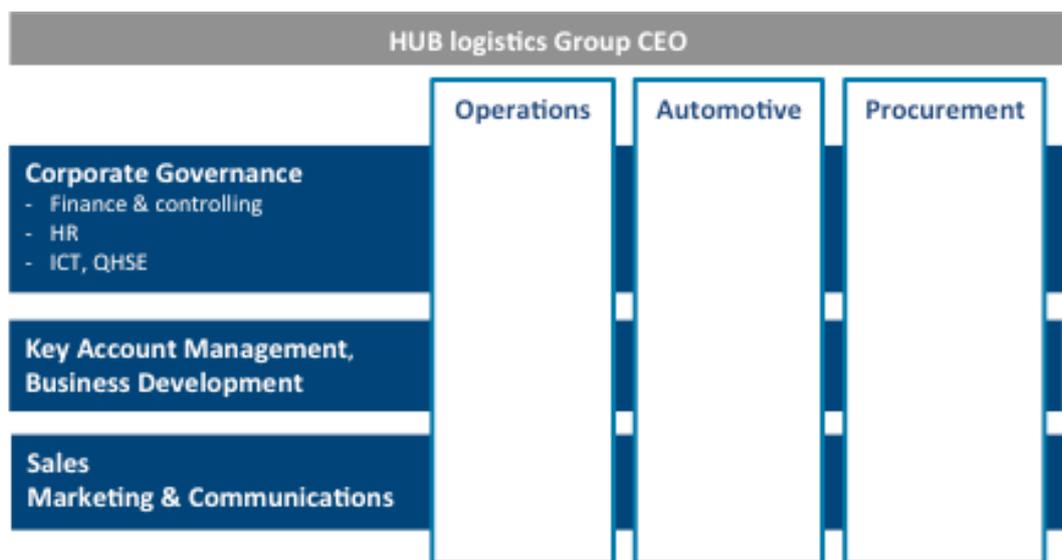


Figure 16. HUB logistics group organization. (HUB logistics 2015)

Organization setup gives an indication that company has one strategic business unit, Automotive, as it has own management in place (Johnson et al. 2011, p. 223). Also conclusion can be made that other HUB business is divided into different business areas. These assumptions are to be validated during analyzing process.

In past years HUB logistics have clearly been concentrating on growing the company size by developing new services, expanding customer base and by entering into new market segments, which is in line with overall development on SMEs to react changes in operating environment (Törmälä 2015, Jumppanen 2015, Neubauer 2010, p. 52). HUB is highlighting innovativeness in its' service offering, which can according to Neubauer (2010, p. 221) provide a better foundation for company success compared to companies which are just providing commodity services.

A good question to be answered in strategy work is that should the focus of the company now move more towards value creation instead of a heavy growth path. According to Porter (1996, p. 75) “growth targets can weaken company position as intensive growth targets may tempt to pursue into new business areas”.

In following chapters HUB's strategy process including a structure and working process is defined in details.

5.2 HUB logistics strategy project

Ansoff (1965) model of strategy process flow (figure 2, p. 25) was used as a base for strategy renewal project plan in order to have a systematic framework ensuring that all key steps will be included in the process. In overall strategy making process was following design school principles (Minzberg et al. 1998, p. 5 -7, Johnson et al. 2011, p.19) in order to have an analytic approach to support decision-making in different phases of a project.

The strategy project was divided into four main phases (figure 1) starting from analyzing phase, which was creating a foundation for the whole strategy work as covering reviews of existing strategy materials, interviews of board members and management team members, analyses with integrated approach including internal and external analyses (Ansoff, 1965). Also benchmarking of competitors was made by conducting a competitor analysis covering their business models and

strategies. Of course, as these are based on the views of HUB’s personnel and available public material, results can be kept only as an overall information supporting to understand HUB’s business environment. Customer perspective was taken in account by using information from recent studies made for HUB, VTT Alive-project (VTT 2014) and Service offering classification for logistics services (Kinnunen 2014). Both included HUB’s customers valued service characteristics prioritized. The board of directors also set strategic targets in this phase creating a foundation for the whole strategy work and a direction for next project phases.

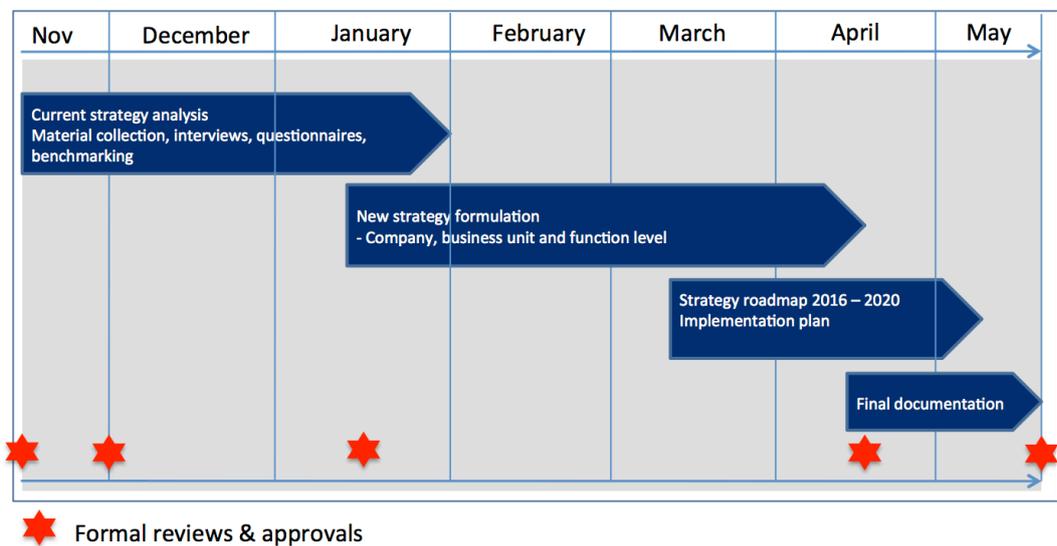


Figure 1. HUB logistics strategy project plan.

Second phase of the project was covering making the strategy for period 2016 – 2020. The actual work was divided into two main parts. First step was collecting strategic options based on analyses in earlier phase of a project and also by collecting new ones from the board of directors and management of a company. The second step of this phase was making strategic choices covering decisions in which markets and in which business areas HUB is going to operate in the future. One of the key questions being how company will achieve competitive advantage in order to achieve a level of return supporting strategic targets.

Third phase of the project was creation of strategic plan with planned schedules of strategic choices and also for supporting activities. Supporting activities are operational level improvements, which are supporting higher-level strategic targets. This phase was also including target setting for different functions of a company by using Balanced Scorecard (Kaplan and Norton 1992) approach. A BSC model was selected as already being used in operations side (Jumppanen 2016). This was also supporting to take different stakeholders needs in account in strategic actions (Alexander et al. 1997, p. 44). Also a strategic risk analysis and three different financial scenarios covering the strategic period from 2016 to 2020 were made.

The final phase of the project included an implementation plan covering also translation of HUB's new strategy into more understandable format in order to support successful communication in the implementation phase. Development of HUB's strategic planning and management was also included into this phase, as there was seen a need to reinforce strategic management process.

The actual strategy work was made with company management and board of directors in workshops. Between workshops work was made in smaller teams and workshops were used to ensure communication and understanding background for decisions. After each management workshop results were presented to the board of directors for approval. Each workshop was held outside of the company to ensure focus on strategy work. (Hodgkinson et al. 2006, p. 482, Johnson et al. 2011, p. 576, 578). The workshop structure and the outcome of each workshop is presented in appendix 1. It can be grouped into three main phases (figure 17). In following chapters each phase details are presented including the outcome of each step.

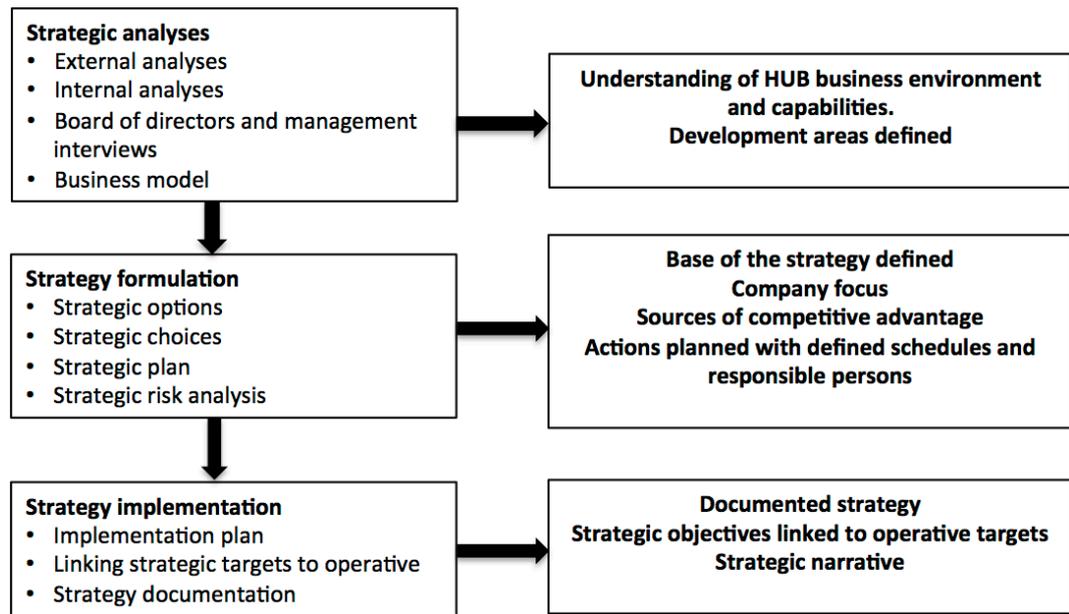


Figure 17. HUB logistics' strategy process phases.

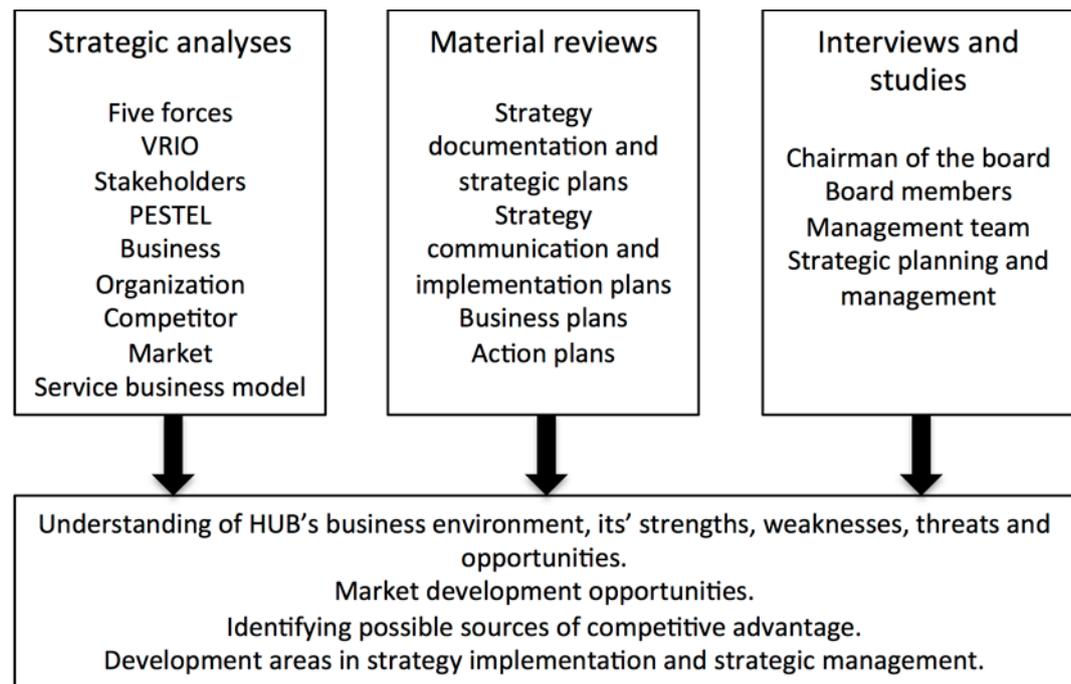
Active participation of the chairman of the board during the whole strategy project was giving a clear mandate to the strategy project. In addition, top management was fully committed and participation to workshops was active. The management team members saw the workshops an effective way to ensure information flow and also deepening everyone's understanding about strategy. After each project phase there was a formal milestone review held together with company CEO to ensure keeping the project in schedule and also for ensuring that all set targets for each phases were achieved. In overall we can conclude that HUB's strategy project was following defined strategy methodologies well (Johnson et al. 2011, p. 577-578).

5.3 Strategic analyses

Main purpose for the strategic analyses was to give a deep understanding about HUB's operating environment and current business model. Integrated approach (Ansof 1965) covering internal and external perspectives was chosen in order to have a comprehensive understanding of business opportunities and environmental effects. In addition, an objective for analyses was to define possible sources of

competitive advantage by defining HUB's position in the market from the main schools of strategy point of view. An analysis structure and targeted output is defined in table 3.

Table 3. Analysis structure and output.



Starting point of the analyzing phase was a review of existing HUB's strategy materials and business plans to deepen the understanding of HUB's business environment and earlier made strategic decisions and directions. Used evaluation criteria were Hambrick's and Fredericsson's (2005, p. 61) framework for testing the quality of strategy and Johnson's et al. (2011, p. 10) defined strategy structure. All HUB's strategy materials, business plans, board and management team meeting materials are stored from 2014 onwards in HUB's intranet and as company CEO was providing an access to HUB's intranet, it made analyzing of the materials effective and fast. On the other hand, it was also ensuring that all relevant materials were being reviewed and analyzed. Based on the findings from material review, conclusions are that there is a formal strategy material existing covering mission statement, vision and values. Also the key focus areas for HUB have been defined and in addition, sources of competitive advantage, thus it is on

very general level and do not specify the way HUB is differentiating from its competitors. SWOT has been used as a main strategic analysis tool and there have been also defined actions based on SWOT in annual business plans. Market and competitor analyses have also been done for annual business plans and business analysis is being made on monthly basis. There is no clear structure defined how strategy and operative plans are linked to support achieving strategic objectives. In addition current business plans do not define clear actions and follow-up for operational targets, which would have been conducted directly from strategic objectives. However, annual business plans and also management team weekly meetings are covering most of the strategic actions. In addition, it can be concluded that there are actions on going, which are directly origin of the strategic choices.

Company management, chairman of the board and other board members interviews were done also in this phase of the strategy project. A questionnaire is presented in appendix 2. The main purpose for interviews was to have a better understanding of HUB's business and current strategy. Mainly the same frameworks as in strategy material reviews were used as a basis of questionnaire (Hambrick and Fredericsson 2005, p. 61, Johnson et al. 2011, p. 10). In addition development ideas for strategic and operative management were collected.

In order to have an understanding of current HUB's strategic planning and management a questionnaire, adapted from Kamensky (2008, p. 134), about HUB's current strategic planning and management process for the management team members was made. Objective was to analyze how implementation and follow-up of the strategy has been arranged, as adoptability to fast changes can be seen as a possible source of competitive advantage in logistics industry (Neubauer 2010, p. 69) and on the other hand, as changes in business environment can cause the need to adjust company's strategy (Mintzberg et al. 1998, p. 12). Questionnaire and results are presented in appendix 3. Based on the results and review of strategic and operational business plans conclusion was that the link between strategy and operational management could be reinforced in order to

improve a more systematic approach of reaching strategic targets and in addition, to ensure resource availability as well as the whole organization connection to the strategy. Another development area linked to strategic planning and also pointed out in board members interviews was a more analytic approach for analyzing business environment and internal aspects as well. On the other hand, current strategic objectives were known, and according to all interviewees' comments, those are directing operations of the whole company.

An industry analysis was made in the first strategy workshop by using Porter's (2008 p. 27) five forces framework. A simplified version of made analysis is presented in figure 18. The main conclusions from the analysis were indicating that competition is tight between different service providers and on the other hand customers bargain power is high when they are selecting a new supplier or renewal of existing service contract. In addition, entry barrier for the industry for basic services, which do not have high capital requirements, was seen low making the threat of new entrants high. There were also raised expectations for further consolidation of the logistics service industry in Finland.

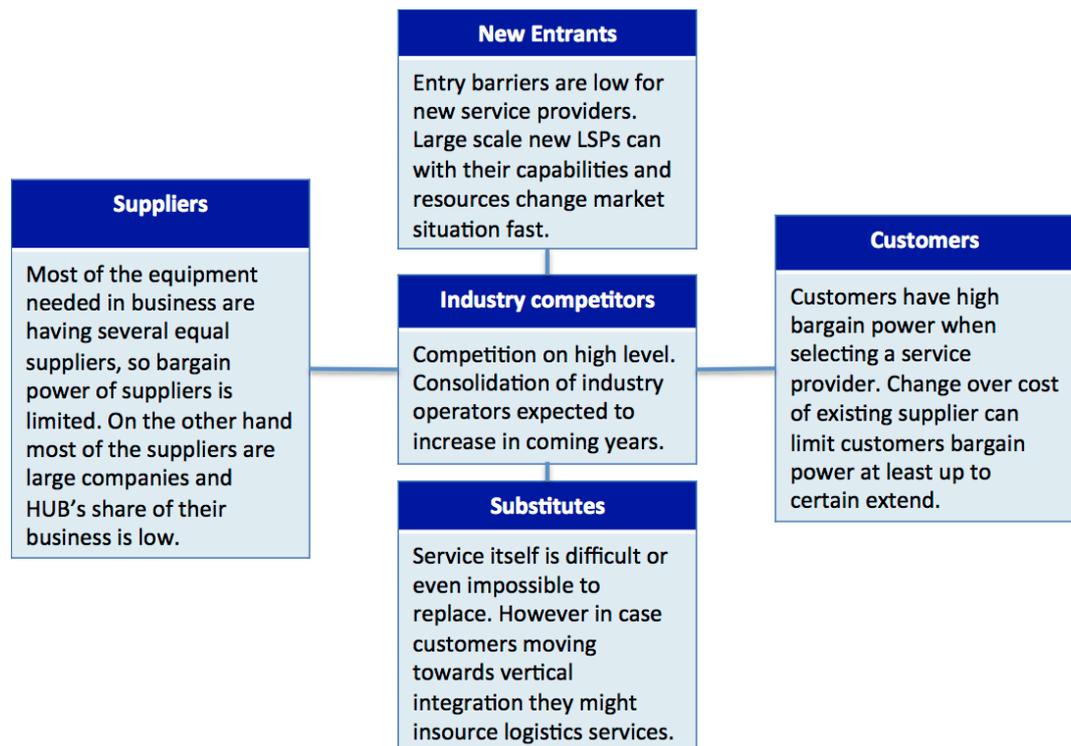


Figure 18. Five forces analysis, logistics industry in Finland.

As MBV and five forces framework are providing only an external view of a company, in second strategy workshop a VRIO (Barney 1997, p. 163) analysis was made. According to RBV, a sustainable competitive advantage will be achieved if some resources of the company are valuable, rare, inimitable and non-substitutable. Resources in this context should include all company's resources, not only human resources. Company's resources can be divided in tangible and intangible resources (Johnson et al. 2011, p. 96):

Tangible resources:

- Physical resources such as machines and buildings.
- Financial resources such as capital, cash, debtors and creditors
- Human resources

Intangible resources:

- Patents
- Brand

- Business systems
- Customer databases
- Knowledge
- Information

In addition to VRIO framework in figure 19 defined framework for intangible resources was used in order to deepen the understanding of possible additional sources of sustainable competitive advantage (Hall 1992, p. 144). The Chairman of the board also highlighted the importance of some intangible resources during the interview (Törmälä 2015). On the other hand intangible resources like brand, intellectual capital, customer databases and business systems may also be a valuable source of goodwill in case a company is being sold (Johnson et al. 2011, p. 95).

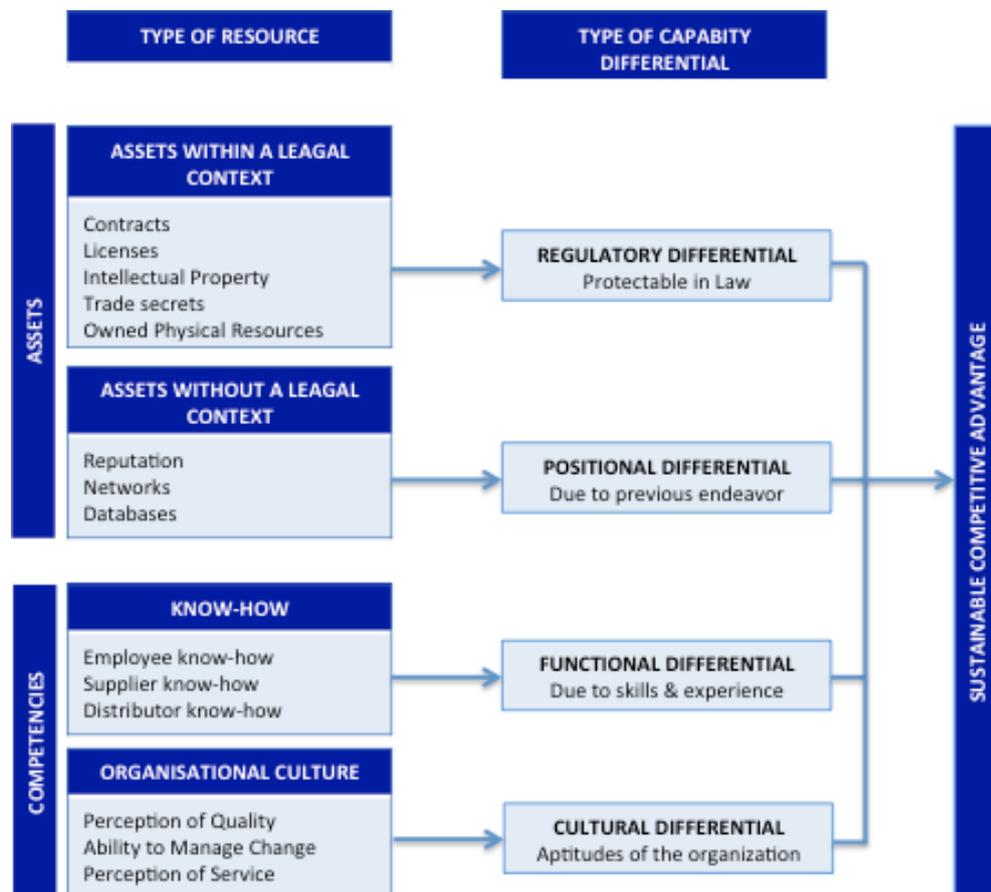


Figure 19. Resources as a source of competitive advantage. Adapted from Hall (1992, p.144).

Based on the outcome HUB logistics is having many resources fulfilling valuable definition. On the other hand, a conclusion of the management team was that none of resources is totally rare, inimitable or non-substitutable, not at least in that extend that HUB logistics could achieve sustainable competitive advantage. However the core competences (Prahalad et al. 1990, p. 87) HUB's personnel are having can provide a good basis for creation of value to HUB's customers and those could be further developed.

In the same VRIO framework HUB's network partners were also included in order to analyze possible competitive advantage against to RV (Williamson 1999). Results are indicating that network partners are valuable for HUB, however even though HUB is capable to gain lower transaction cost via it's network, it was not seen to differentiate compared to competitors' network in that extend that it could be kept as a source of competitive advantage as presented by Dryer et al. (1998, p. 663).

A PESTEL analysis was made from the political, economical, social, technological, environmental and legal perspectives according to Johnson et al. (2011, p. 56) framework to analyze HUB's operating environment in Finland. Based on made analysis possible threats for HUB are political, as recent governance actions may cause unstable labor market situation during 2016, and economical due to the modest growth rate in Finnish industry. On the other hand, tightening environmental legislation can provide new business opportunities. Technology development, especially in IT-systems and in automation, may change business environment fast and can also change logistics industry from labor intensive to capital-intensive business. Complete PESTEL-analysis is presented in appendix 4.

For deepening the understanding of HUB's current business segments and service offering a customer segment-service-matrix was created (table 4). Both existing segments and possible new ones, which could provide further growth possibilities, were included.

Table 4. HUB’s service offering and business segments.

	Technology Industry	Automotive & other vehicle industry	Healthcare Public sector	Trading ICT-sector, importers, net shop, spare parts
In-house logistics	✓	✓	✓	✓
Logistic center	✓	✗	✗	✓
Warehousing	✓	✓	✓	✓
Packaging	✓	✗	✗	✓
Procurement	✓	✗	✗	✓
ICT-solutions for data management	✓	✗	✗	✓
Resources	✓	✓	✗	✗
Consulting (logistics)	✓	✓	✓	✓

Matrix and further discussions during the workshop confirmed the earlier made assumption about HUB’s organization structure that HUB is having one strategic business unit and others can be defined as business areas.

In order to take stakeholders in account when formulating a new strategy, a stakeholder analysis was prepared as teamwork in a strategy workshop (Johnson et al. 2011, p. 133). Customers, employees, suppliers, finance providers and shareholders needs and expectations were defined and HUB’s action plan was prepared (appendix 5). It can be concluded that some of the stakeholders’ expectations are actually constraints for a company, but cannot be neglected as company must will the loyalty of its’ stakeholders as Alexander et al. (1997, p. 44) defined.

Business analysis was made to define HUB’s position in the market in two steps. The first step was to define service coverage and profitability for each service model separately in order to have understanding whether some of service models are more profitable than others. Analysis was made by using the framework presented by Porter (1996, p. 76). The second step was to create a BCG growth-share-matrix (Boston Consulting Group 2015) for further analysis of HUB’s current portfolio. Results were indicating that HUB has a service portfolio including cases for each growth-share-matrix category. Based on the analysis of

HUB's business plans, HUB is having a continuous portfolio management process in use. This is supporting HUB to have a service portfolio in different growth rates and market shares in place. And it is also helping HUB to allocate capital and other resources in a systematic way as Minzberg et al. (1998, p. 94) defined. This is supporting HUB to achieve its business targets as well as supporting directly strategic objectives.

A market analysis was made for HUB's home market and covering also potential new market areas in Europe. The main purpose of the analysis was to review market potential in the selected market areas (Kamensky 2008, p. 141). In addition, growth possibilities for different service segments were analyzed to ensure right allocation of resources between segments in strategic plan (Day 1981, p. 285). Industry volume development in EU countries is presented in figure 20.

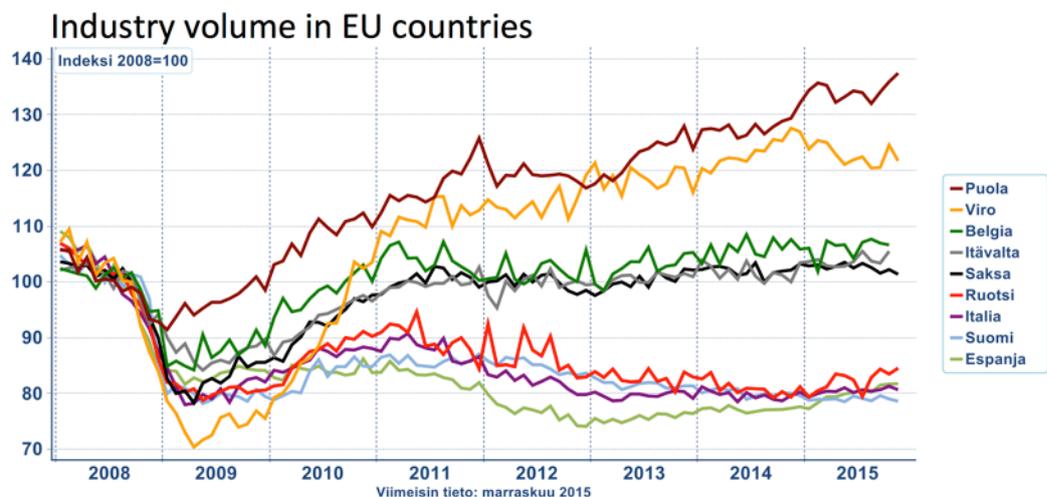


Figure 20. Industry volume development in EU countries. (Elinkeinoelämän Keskusliitto 2015).

Total logistics market size in Finland was 33 billion euros (Liikenne- ja viestintävirasto 2012, p. 20) in 2011. Outsourcing rate, transportation excluded, of logistics services in Finland is about 25 per cent and has not been growing in period from 2006 to 2012 (Liikenne- ja viestintävirasto 2012, p. 22). Compared to other EU markets outsourcing rate is about five per cent lower and on the other hand also outsourcing rate of logistics services, transportation excluded, is

growing in other EU markets (3PL study 2015, p. 14).

Even though the market analysis was not giving too favorable view in HUB's main market segment, industry in Finland, there can be seen still a lot of opportunities, as outsourcing rate in Finland is still lower compared other markets included in the study. However as outsourcing rate is not growing in Finland, acquiring of new customers can be kept challenging. An assumption was that due to modest volume growth expectations industry operators are continuing to focus cost savings, which keeps the cost pressure high towards service providers like 3PLs.

On the other hand, if the market in Finland is not growing, it most likely will have following additional consequences:

- Customers' bargain power on high level
- Competition continues tight between service providers
- Cost competitiveness is the driving force in customers' decision making when selecting a new service provider or when renewal existing service contract

Based on the industry development in recent years CET and CE markets outlook seems to continue more favorable compared to Finnish market. HUB's strategic decision to entry into Polish market via acquisition is according to market analysis providing better growth possibilities compared to its home market. In addition, as according to Simon (2007, p. 27-28) moving to international markets creates more visibility for a company, it could be assumed to strengthen HUB's position also in its' home market.

A service business model canvas (Ojasalo and Ojasalo 2015, p. 321) was used to broadening the view of HUB's current business model by taken in account internal view and also customer's perspective. In order to have understanding, which services customers are valuating, VTT-alive study (VTT 2014) and

customer questionnaires from earlier study, Service offering classification for logistics services (Kinnunen 2015), were used in addition to view of HUB's management team members. Current business model should keep as a reflection of realized strategy not as a strategy (Casadesus-Masanell and Ricart, 2010, p. 205). A vital part of the strategy formulation is to understand what customers' value, as it is needed to taken in account to be able to define critical success factors. (Johnson et al. 2011, p. 79). The service business model (Ojasalo and Ojasalo 2015) was made for HUB's largest business segment, technology industry (appendix 6).

Other business segments' characteristics were reviewed and compared to made technology industry business model canvas and following differences were defined:

- Automotive:
 - Better longer term visibility on production volumes
 - Operating model; benefit sharing/penalties
- Trading:
 - Fast volume changes increases flexible service processes
 - Centralized services
 - Own IT solutions
 - Increased liability
- Healthcare:
 - Decision making policy
 - Dependency on political decisions
 - RFQs open to all service providers
 - Legal requirements: hygiene, service levels

Main conclusions were that the same service business model is valid for all HUB's business segments. Each business segment is having its own requirements, but not requiring changing the model itself. The key issue is to understand

customer's real needs and capability to provide efficient logistics services fitting their needs and fulfilling their expectations.

A competitor analysis was made in order to define the main competitors, their strengths and their strategies. (Wilson 1994, p. 2). Rothschild (1997, p. 26) framework for competitor analysis was used as a basis of an analysis and in addition elements from Porter's four corner analysis (Downey 2007, p. 9) were adapted to broadening the view of the analysis. Competitor analysis was also used as a benchmark how different competitors are fulfilling the industry key success factors compared to HUB logistics. The competitors were classified into following categories: main competitors, other competitors and possible new competitors including possible new entrants to market and also local currently still small companies, which may also be future main competitors to HUB in the future (Bergen et al. 2002, p. 160).

The conclusions from analyzing phase were that HUB is operating in market based view environment where the main sources of a competitive advantage can be based on company's position via differentiation or cost leadership (Porter 1991, p. 102). And in ideal case both are combined. However, VRIO framework (Barney 1997, p. 163) results are highlighting the importance of HUB's own resources and also networking partners value, so these need to be taken in account when forming a strategy as fulfilling different stakeholders' needs is a necessity for a company (Alexander et al. 1997, pp. 44) and on the other hand, resource availability is in a key role in strategy implementation. Also HUB's capability to utilize and reconfigure its own and network partners capabilities in a fast changing environment, which is inline with dynamic RBV definition (Teece et al. 1997, p. 516, Winter 2003, p. 994), was seen an possible additional source of competitive advantage. Made stakeholder analysis was broadening the view of stakeholders needs and made action plan for fulfilling those is a vital element of HUB's new strategy.

HUB has in its earlier strategy defined differentiation as a source of its' competitive advantage and made strategic analyses are fully supporting this. (HUB strategy and business plan 2014). In addition the market analysis was also supporting entry into new market, Poland, as market is growing faster than HUB's home market and outsourcing rate also being higher.

5.4 Strategy formulation

This chapter presents HUB's new strategy formulation. The main objective was to review available strategic options, which are supporting HUB to achieve its strategic objectives, and select the most viable ones. In addition, target was also to define a focus to HUB. In practice this means making trade-offs and limiting HUB's offering only to selected areas as Porter (1996, p. 69) defines. Strategic choices were including selection where to compete, methods to reach HUB's targets and the base of HUB's competitive advantage in each business area. Hambrick and Fredrickson (2005, p. 54) five elements of strategy framework (figure 7, p. 35) were used as a base for the structure to ensure that all areas will be covered. In addition, the possible sources of the competitive advantage were collected in order to define how company will differentiate compared to its competitors and also HUB's target position in different markets was defined. A simplified framework for strategy formulation was created by combining Hambrick's and Fredrickson's (2005, p. 53) definition of the main elements of strategy and Johnson et al. (2011, p. 7) defined different levels of strategy (figure 21).



Figure 21. Strategy formulation framework.

HUB's existing mission, vision and values were reviewed together with the chairman of the board in a separate meeting and only minor modifications to already existing ones were made (Törmälä 2016). Based on the made study of strategic planning and management (appendix 3) vision, mission and values are well known at least by the management of the company and on the other hand, it was also commented by the management team members that current mission and vision is giving a clear direction for them.

Made strategic analyses were used to give an understanding of business environment and HUB's current position in the market compared to existing competitors and also to possible new ones. HUB's strategic objectives, defined earlier by the board of directors, and earlier made strategic decisions about company direction were taken in account when selecting the most viable strategic options.

Starting point for defining strategic options was creating a TOWS-matrix (Weihrich 1982a, p 54) based on earlier made SWOT-analysis (HUB logistics 2015). In addition, elements from a PESTEL and a competitor analysis were included into matrix. A TOWS was prepared as a teamwork in strategy workshop in order to have common understanding about available options and on the other hand to have a wider perspective and coverage of different possible areas. Based

on results HUB is having valuable capabilities, which can be utilized in the new markets and in the new possible business segments. On the other hand, defined threats may weaken HUB's position in the market. Customer needs, which were defined in service business model canvas (appendix 6), were creating a base for defining a stronger position in the market via differentiation.

Strategic options were grouped into a company, business and operational levels according to Johnson et al. (2011, p. 7) definition. Company level strategic options were including the markets HUB is already in or is going to operate, and also business segments including existing and new possible ones. Business unit level options included options directly related to each business segment, which were defined in the first strategy workshop (table 4, p. 64). Operational level options include actions, which are supporting to achieving the higher-level strategic goals. Strategic options were also weighted based on how well they are supporting company's strategic objectives. In addition, for each option a management team member was nominated as a responsible person for defining main actions and a schedule, which is in line with Hambrick's and Fredrickson's (2005, p. 53) guidelines. When schedules for each action were defined, earlier made strategic choices, a possible entry into Polish market via acquisition and the new automated logistics warehouse greenfield project, resource needs including capital and personnel resources, were taken in account in order to ensure that needed capabilities for each option in planned schedule are in place. A preliminary strategic plan was created based on defined options and implementation schedules before next management strategy workshop. According to Porter (1996, p. 19, 68) sustainable strategic position requires limiting company's offering and during the next workshop a plan was reviewed and first trade-offs, choosing which strategic options were not selected, was made.

Next step was to define the possible sources of competitive advantage for HUB, even though it was partly already included into strategic options. As concluded earlier, HUB is operating in market based business environment, where sources of competitive advantage can be based on differentiation or cost leadership or in

ideal case a combination of these (Porter's 1991, p. 102). A conclusion in strategy workshop was that HUB's strengths including its capabilities are creating a good foundation for defining HUB's position in the market. Barney's and Hesterly's (2012) cost leadership versus product differentiation and Kim's and Mauborgne's (2005) Red Ocean versus Blue Ocean frameworks were used as a basis when HUB's unique position was defined. In the first step these frameworks were used for creating a source of competitive advantage for each defined business segments. A clear objective for HUB's position was to be capable to utilize its capabilities in the area where it is meeting customers' needs and where the competitors can't operate (figure 22). According to Barney (1991, p. 102) this is providing a sustainable competitive advantage for a company.

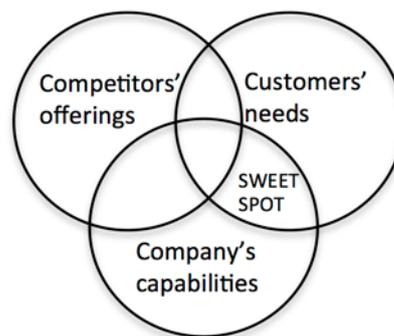


Figure 22. Strategic Sweet Spot. Adapted from Collis et al. (2008, p. 89).

Conclusion was that HUB has opportunities to utilize its strengths and capabilities in several business segments. This was also giving an indication that actually HUB's operating model could be defined via different service models instead of business segments. This, of course, does not remove the need to take customer needs in account in order to be capable to create value add to customers. A consequence of the new definition is the need to update service business models accordingly to reflect the new strategy, as a business model should define how company is competing in the market (Casadesus-Masanell and Ricart 2010, p. 196). HUB's defined strategic position is emphasizing innovativeness, which is in line with Neubauer's (2010, p. 221) definition of small and middle-sized LSP's success and also one of the key elements of the Blue Ocean model (Kim and Mauborgne 2005, p.18) is the innovative value. On the other hand, selected model

is also supported by Adams and Brock (1988, p. 72-76, 78) as according to them SME's are providing more innovations compared to LSEs. When reviewing selected position from Porter's (1991, p. 102) point of view, the conclusion is that that selected model is a combination of cost leadership and differentiation. On the other hand defined model is also covering elements from dynamic RBV (Priem et al. 2001, p. 33) as sustainability was defined to be based on HUB's capability to adopt fast changes by reconfiguring its internal and external resources to create new capabilities, which is in line with Teece et al.'s (1997, p. 516) and Winter's (2003, p. 994) definition.

In order to provide a comprehensive view of HUB's selected model an activity-system map (Porter 1996, p. 72) was created in order to ensure that all company activities are fitting to selected strategic position. In first step a draft version without trade-offs (appendix 7) was created. A starting point was an innovative service offering and key elements supporting it were added into the map. Based on comments from the management team members, an activity-system map was an effective tool supporting in defining company's strategic position. In addition it was also seen as a useful tool for communicating company's main activities and also highlighted the needed capabilities and their relationships.

As strategic objectives were also including the aim to increase company value in addition to growth targets, ideas about possible focus areas for adding company value were collected in the management and also in the board of directors' strategy workshops. Of course, profitability is an obvious element in value creation. The other selected areas were versatility and brand among others. For all selected value add areas actions were included into strategic plan.

In line with creation of a strategic plan, a long-term financial plan was made. Strategic objectives were giving clear guidelines for financial plan and on the other hand preliminary targets for different areas were set in the financial plan. In addition, based on the strategic and long-term financial plans, a risk analysis was made. Noy and Ellis (2003, p. 694) list of strategic risks were used as a base for

the risk analyze for each strategic option. Also a mitigation plan for each risk was included and prioritization was made based on probability of risk realization and its effect to company's capability to achieve its strategic objectives. A risk analysis template is presented in appendix 8. Based on made risk analysis, the highest risks were related into a possible acquisition and investments in tangible assets.

Strategic plan including already made strategic choices, defined HUB's position in the markets with the sources of competitive advantage in different service models, a long-tem financial and a risk plan were presented to the board of directors in a separate workshop for approval. Made strategic analyses and assumptions made based on those, were also reviewed and validated by the board. The outcome of the workshop was that some of the presented strategic choices were either rejected or modified according to board guidelines. Made changes required updating of the strategic plan and also the activity-system map.

The end result of this phase was a base for a new HUB's competitive strategy including a strategic plan for period 2016 – 2020. The plan is covering the key focus areas in a company, business and operative level. Focus was set separately for different markets and business segments. Also a long-term financial plan was updated and a risk analysis and mitigation plan was made. In addition, an activity-system map (appendix 7) was created in order to have a complete picture of the main focus areas and made trade-offs in order to ensure the right direction and focus for the whole organization for achieving set strategic objectives in each area. Based on defined operating model it was concluded that there is no need to change current organization model. In operative level technology development related to automation and IT-systems, financial reporting, competence development and corporate governance policies were seen the most important areas to focus in order to support defined strategy.

5.5 Strategic planning and management

This chapter is covering linking of strategic objectives to operative targets. Made study of HUB's strategic planning and management process (appendix 3) was clearly indicating development needs in this area. In addition, based on made stakeholder analysis and action plan, also stakeholder needs have to be included in order to ensure that those will be fulfilled.

Logistics industry is a dynamic fast changing and customer driven industry (Neubauer 2010, 52). Due to this, logistics service providers need to be capable to adopt unpredictable changes (Wyternburg 2001, p.118). Made analysis and interviews are confirming the validity of a dynamic fast changing business environment also in HUB's case. Based on this, it can be concluded that there is a relative high risk that the planned strategy will not be realized, due to the changes like competitors' or customers' actions, in business environment during strategy implementation. (Mintzberg et al. 1998, p. 12). This emphasizes the need to have a continuous follow-up process in place in order to ensure effective actions in cases intended strategy fails. A strategic planning and management process should be a continuous process and should cover understanding of the company's strategic position in changing environment, updating strategic choices when needed and managing strategy implementation. (Johnson et al. 2011, p. 12). A strategic planning and management process model structure should follow the same guidelines as strategy process flow (Ansof 1965) and cover the same elements.

HUB has during past few years developed its strategic planning and management. For the board members specific focus areas have been set based on their experience. The boards of directors' strategy workshops have been arranged on annual basis and also an annual schedule for strategy work has been defined. (Törmälä 2015, Jumppanen 2015). Based on the management team members and the board directors interviews there is a need for further development.

In order to have a deeper understanding of current HUB's strategic planning and management in addition to review of existing strategy materials and company annual business plans, a questionnaire for management team members was made (appendix 3). Based on the results and the review of strategic and operational annual business plans, conclusion was that the link between strategy and operational management needs to be reinforced in order to have a more systematic approach of reaching strategic targets, and in addition to ensure resource availability as well as the whole organization's connection to strategy. Existing strategy planning and management process documentation was fragmented and even though all the main elements are in place, there is not a clear description of the whole process. When reviewing HUB's current model against a basic model of strategic planning (Gandellini et al. 2013, p. 9) following development areas can be pointed out:

- Strategy based operative targets are missing or have been defined only on general level
- Resource allocation is not directly based on strategic choices
- Operative plans are mainly on very high level and are not directly supporting achieving strategic targets

There are also areas, which are fulfilling the presented model well, as the documented annual based business plan is covering an environmental analyzes and annual financial plans. In addition, long-term financial plans have been updated on annual basis. Also mission, vision and values are defined and communicated to whole personnel and also to other stakeholders.

Existing operative management process can be kept interactive (Simons 1994, p. 172) as there are weekly management team meetings and the board of directors is also having regular meetings. Both the management team and the board meetings are well documented and documents are available in HUB's intranet for persons, whose access has been granted. In management team meetings current business status covering existing customers and also ongoing actions for acquiring new

customers is being reviewed. There is also a separate management action plan including main actions with responsible persons, target schedule and current status. Strategic issues are included in agendas, however as there are no clear targets linked from strategy to operative management, follow-up of strategy implementation could be improved. In overall it can be concluded that operative management meeting structure is well defined and documented. Company's operative management is located in several locations and management meetings are being held as teleconferences. Face-to-face meetings on regular basis for example once a month could help to improve interactive control systems as Simons (1994, p. 172) defined. This is valid throughout the whole organization and should cover all leadership levels.

For developing the strategic planning and management process especially focusing on linking the strategic objectives to operative ones Balanced Scorecard model (Kaplan and Norton 1992) was selected. In addition, the model of making strategy a continual process (Kaplan and Norton 2001c, p. 153, figure 14, p. 48) was used as a base for process development. The BSC model is already in use in operative units in HUB, which was supporting the made selection (Jumppanen 2015). The BSC model, as the performance measuring systems overall, is also helping to align operational performance with strategic objectives and also is an effective tool to ensure that different stakeholder needs will be satisfied which can be kept as a must for a company in order to stay in business. (Martinez 2005, p. 18, Alexander et al. 1997, p. 44).

For defining objectives for the BSC in figure 23 presented framework was used.



Figure 23. Framework for BSC model objective setting.

The strategic long-term financial plan was creating a foundation for defining the financial objectives. In addition the shareholder's and finance providers' needs were taken in account in financial objectives. The strategic action plan supporting achieving strategic objectives was also taken in account in order to have a continuous process for ensuring successful implementation of actions in different areas. Customers' and personnel as a part of stakeholder needs based on earlier made analysis and action plan was also taken in account. Made stakeholder analysis and action plan (appendix 5) was in this context used as a base for defining objectives from stakeholder needs point of view. For final selection the main focus areas supporting achieving strategic objectives were defined (table 5) and detailed objectives for perspectives were set in a workshop.

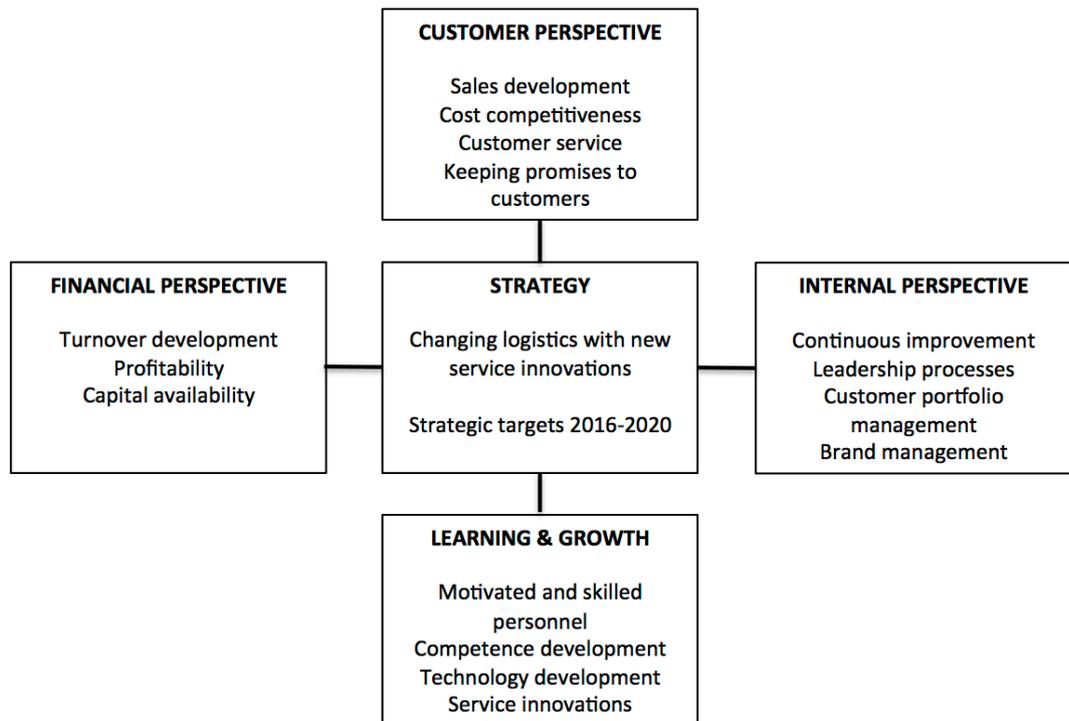


Figure 24. Preliminary BSC structure.

For each defined target a management team member level person was nominated as responsible for defining and ensuring actions for achieving the target. In addition, for each target the calculation methods and the reporting frequency and format were defined. Most of the selected targets existed already, and the main change was to define targets to cover the whole strategic period from 2016 to 2020 and on the other hand, establishing a link between strategic and operative targets.

Created BSC model is for the board of directors and the company management team level for following and ensuring successful strategy implementation. In order to ensure the whole organization's right direction towards made strategic choices and selected focus, there should as a next step to be defined and created a function level scorecards supporting each function owner with his or her team reaching set strategic targets.

5.6 Strategy implementation

Strategic plan and defined performance measuring system, BSC, linking strategic objectives to operative ones do not ensure successful strategy implementation. One vital element in strategy implementation is to translate strategy into format it is easy to understand by everyone (Johnson et al. 2011, p. 574). Based on the review of HUB's earlier strategy communication materials HUB's management has utilized face-to-face communication as presentations have been given to the whole personnel by management team members in info sessions in all HUB's locations. On the other hand, when reviewing the content of the presentation material it covered the values, vision and strategic choices in general level. (HUB logistics 2014). Even though HUB's strategy communication can be concluded to be interactive, a clear development area was raised up as communication could be focused more towards clearer information about personnel's role in strategy. (Johnson et al. 2011, p. 574 – 575). In addition, also other stakeholders should be taken in account in communication, as some of the strategic choices at least in short term are conflicting with some of the stakeholders' expectations as Johnson et al. (2011, p. 155) defined.

In order to improve understanding and communication of HUB's strategy by taking the needs of different stakeholders' needs in account, Bonchek's (2016, p. 2) model of strategic narrative was utilized. The work was done together with HUB's communication manager and the idea was to define HUB's story as a company including the elements about future direction. In addition made activity-system map (appendix 7) added with selected company focus and defined sources of competitive advantage was translated into more understandable format. Especially the activity-system map was supporting in defining personnel's role in HUB's new strategy. It can be assumed more better all persons are capable to understand their roles in strategy, more successful HUB will be aligning all its activities to support achieving its strategic objectives.

All strategy materials were collected to one strategy document, HUB logistics strategy 2016 – 2020. Structure of the document was divided into four main chapters:

1. Company information
2. Operating procedures
3. Company governance policies
4. Appendices

Company information is covering HUB's history and a business description. Also definition of HUB's focus, covering the definition in which business areas and the business model, is included into this section. Operating procedures are covering the main operating procedures of the company including defined new strategic planning and management process. Company governance policies define the ownership and management structures to control all company's operations. The final part of the document, appendices, is including made strategic narrative and all made strategic analyses.

Made document can be seen as a long-term business plan for HUB. And it can be used for communicating HUB's strategy for selected stakeholders like shareholders and capital providers. In addition the clear objective for the strategy document is to support strategy implementation by ensuring that all company's activities are align towards achieving set strategic objectives.

Summary and conclusions of the study is presented in next chapter.

6 SUMMARY AND CONCLUSIONS

6.1 Summary

This study was made for HUB logistics Oy, which is a logistics service provider mainly operating in Finland. HUB is offering different logistics services including material management, warehousing, outsourcing, procurement logistics, wooden packaging production, staffing and consulting services mainly for different industry sectors in Finland. As HUB is providing logistics services directly to its' customers and owning its' tangible assets, it can be kept as a 3PL (Neubauer 2010, p. 33). The importance of logistics is high for the economy as large portion of companies' expenditures is origin of logistics cost (Neubauer 2010, p. 1). On the other hand fast changes in logistics service providers' operating environment and uncertainty are also causing the need to be a dynamic and capable to adopt unpredictable changes. (Wyternburg 2001, p.118). Adoptability to rapid changes can be seen a possible source of competitive advantage in the logistics industry (Neubauer 2010, p. 69).

The main objective for this study was to update HUB's strategy for period 2016 – 2020. A project plan was created by using Ansof (1965) model of strategy process flow (figure 2, p. 25). The strategy project was divided into four main phases (figure 1), strategic analyses, strategy formulation, strategic planning and management and implementation. Strategy formulation was following the design school principles (Minzberg et al. 1998, p. 5 -7, Johnson et al. 2011, p.19) in order to have an analytic approach to support decision-making in different phases of a project. Already made strategy work in HUB was giving a good background for understanding of HUB's business environment and on the other hand results of analyzing of existing strategy materials and additional analyzes were creating a clear focus of this study.

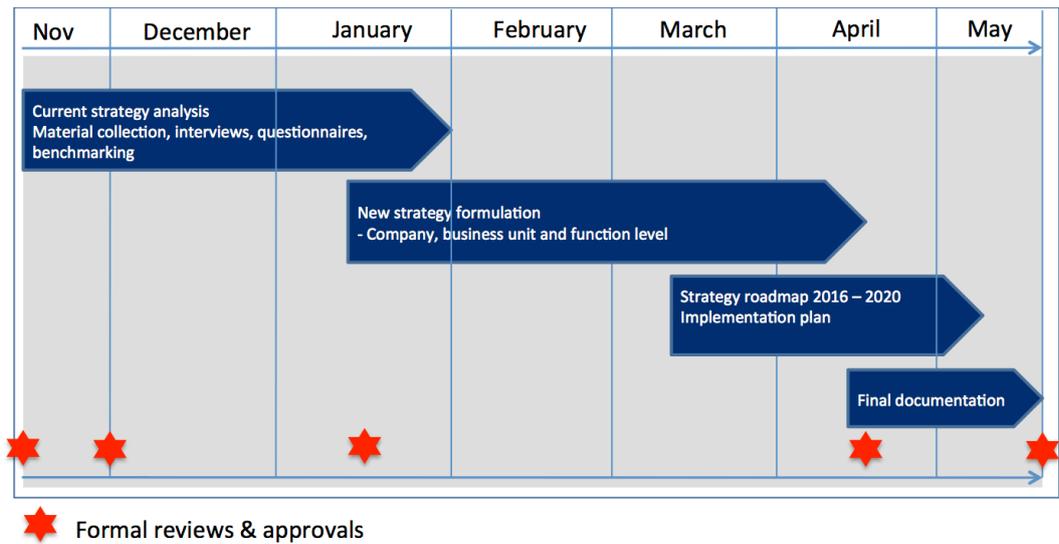


Figure 1. Project plan.

After each step a milestone review with company CEO was held to ensure that work is proceeding in schedule. All work was presented also to the board of directors for approval and additional guidance. Strategy work was made with the company management and the board of directors in workshops. Between the workshops work was made in smaller teams and workshops were used to ensure communication and understanding background for decisions. Active participation of the chairman of the board during the whole strategy project was giving a clear mandate to strategy project.

Natural development in small and middle size companies when they are growing is the need to establish more formal strategy (Crijns and Ooghe 1995) to ensure the whole organization direction and align all activities of a company to support achieving strategic targets (Porter 1996, p. 74). In the early phases of a company strategy is in many case informal and is more based on entrepreneur's vision (Minzberg et al. 1998, p. 5). Strategy should define where and how a company is going to compete to be capable to achieve its strategic objectives (Hambrick and Fredrickson 2005, p. 53). In general a strategy can be seen a long-term guideline for competition (Porter 1998). HUB has developed its strategic planning and management process and has a formal strategy, which has also been communicated to whole personnel.

Conclusions from analyzing phase were that HUB is operating in market based view environment where main sources of competitive advantage can be based on company's position via differentiation or cost leadership (Porter 1991, p. 102). HUB has in its earlier strategy defined differentiation as a source of its' competitive advantage and made strategic analyses are fully supporting this (HUB strategy and business plan 2014).

A framework for strategy formulation was created by combining Hambrick's and Fredrickson's (2005, p. 53) definition and Johnson et al. (2011, p. 7) defined different levels of strategy. Strategic analyses were used for defining strategic options in a company and business level. Strategic choices were made based on how well different options were supporting to achieve set strategic objectives. A clear objective for HUB's position was to be capable to utilize its capabilities in the area where it is meeting customers' needs and where competitors can't operate (Collis et al. 2008, p. 89). This was forming the base of competitive advantage for HUB. Defined competitive advantage is a combination of cost leadership and differentiation (Porter's 1991, p. 102). Outcome of strategy formulation phase was a documented strategic plan for period 2016 – 2020 including also a long-term financial plan with two alternative scenarios and risk analysis with a mitigation plan.

For supporting successful strategy implementation a strategic narrative based on Bonchek's (2016, p. 2) model was made to translate strategy into understandable format for all stakeholders and support communication. The strategic planning and management process was developed by adopting Kaplan's and Norton's (figure 13, p. 49) process of making strategy as a continual process in order HUB to be capable to react changes in business environment. One of the key elements of the new process is linking strategic objectives to operative targets by using Balance Scorecard (Kaplan and Norton 1992). This supports aligning the whole organization to strategy and also supporting to take stakeholders' needs in account.

6.2 Conclusions

In overall the scope of this study was quite broad and required understanding of logistics service business and the strategy structure in details. Strategy workshops are the most common way to create strategies. Based on experiences from this study, the conclusion is that workshops are really an effective way as they are a good platform for ensuring communication and on the other hand if all key persons are participating decision-making is also faster. Active participation of the chairman of the board was giving a clear mandate to whole strategy work and was also supporting keeping the set schedule for this study.

In this case strategy work was made only on the company top management level. It could be assumed that better commitment from the whole personnel could be achieved if people from different organization levels would participate. For example creating values, mission and vision as teamwork can ensure better focus from the whole organization and also reinforce communication.

A theory section of this study was giving a good framework for the whole strategy process and supported the understanding of logistics industry including possible sources of competitive advantage. Reviewing and analyzing existing HUB's strategy materials was on the other hand deepening the understanding of HUB's business environment and on the other hand it was also revealing possible development areas especially from implementation point of view.

All main schools of strategy seem to be moving towards dynamic models. A good question is how sustainable competitive advantage a company can achieve. It can be assumed that in today's fast changing world the need to adjust company's strategic direction on regular basis is a must in most of the industries. Could one of the future sources of competitive advantage actually be how fast a company is able to adopt the changes in its business environment to maintain its position on the markets?

Logistics industry is defined as a fast changing and a good question is that how long-term strategic plans it is reasonable to create. It could be assumed that logistics industry where entry barriers are low and customer's bargain power, at least in markets with modest growth, is high, changes in business environment can be fast and creating a need for logistics service provider create a deliberate strategy in order to reach its strategic objectives. This emphasizes the need to have the strategic and operative target linked. In addition it can be seen that a continuous strategic planning and management including systematic reviews and adoption of changes in business environment is a must.

When a company is growing the number of people involved is increasing and creating a need for a company to have a formal strategy in place mainly for two reasons, first there is a need to ensure that company resources are allocated into areas which are supporting achieving strategic objectives in the best possible way and secondly a company have to ensure that its stakeholder's needs will be taken in account in order to be successful.

The main objective for this study was to support HUB logistics to renew its strategy for period from 2016 - 2020. The main research questions were:

- What strategic options there are and which ones are the most viable supporting to achieve strategic objectives?
- How company could achieve competitive advantage?
- Risk analysis for different options
- How to ensure strategy implementation?

The most demanding part of the strategy work was the selection of strategic options including making clear trade-offs. Especially company management team members were very keen on inventing new business areas and services. This could be kept natural as they are having their business targets and, of course, more options there are more they are seeing possibilities to reach their targets. However, it can be assumed that company level strategic objectives may not be fully supported if individual level actions are defining the company directions.

This can be concluded to support the need to ensure that strategic objectives are linked to operative level targets in order to ensure right direction to whole organization.

When reviewing the results of this study against research questions, it can be concluded that all of those are covered in this study. All are also included into strategy documentation and forming a base of HUB's strategy. A good question, of course, is are these supporting HUB to achieve its strategic objectives in defined period well enough? It can be concluded that at least defined process for strategic planning and management is forming a better foundation for HUB to react to changes in its business environment than earlier. On the other hand, strategy communication and translation into a simple and understandable format, should help HUB to ensure that everyone understand their role in better way than earlier and helping HUB to align its organization towards achieving its strategic objectives.

6.3 Future research ideas

A possible research idea could be a longitudinal study about strategy implementation. It could cover an analysis how often changes in business environment are requiring a company to adjust its strategy. On the other hand it could also include a study how well Balanced Scorecard is supporting a company to achieve its strategic objectives and is it an effective tool to align the whole organization towards company's strategic targets in practice. Of course, the most important question of this study could be whether a company could achieve its strategic objectives. And if yes, were the success factors origin of the original strategy or deliberate strategy. Of course, in case strategic objectives are not met, the reasons for that could be analyzed. Possible reasons could be for example wrong assumptions made in strategy formulation phase, too optimistic strategic objectives from company's capabilities and resources point of view and also loosing company's focus due to pursuing into new unplanned areas without updating strategy.

A possible another research area could be related to company growth. Study could include analyses whether companies are capable to achieve better overall results via organic growth or via acquisitions. Of course, growth rate can be expected to be higher in cases acquisitions are made, but on the other hand does that provide necessarily better results for example from profitability point of view could be studied. Study could cover company's home market growth and also entry into new markets as well. Study could also cover analysis of key success factors for ensuring successful acquisition process. It can be assumed that a company proceeding with acquisition, assumes that it has capabilities in place to improve target company's business results and being able via that increase the value of target company and support achieving its own objectives better way than via organic growth. Of course, company's entry strategy into new market can be based on acquisition as it could be assumed to provide a faster market entry compared to establishing a new daughter company. This perspective could be included into research as well.

REFERENCES

Adams, W., Brock, J. W. 1988. Warum Grossfirmen trage werden: Unternehmensgroesse und Effizienz. mi-Poller, Verlag Moderne Industrie. Lansberg/Lech.

Alexander, M., Campell, A. 1997. What's wrong with strategy? *Harvard Business review*. Nov-Dec, p. 42-51.

Amit, R. and Zott, C. 2000. Value Drivers of e-Commerce Business Models. INSEAD Working Paper 2000/54/ENT/SM. Revised Version of 2000/06/ENT/SM. Fontainebleau.

Ansoff, I. 1965. Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion. McGraw-Hill.

Baird, I., Thomas, H. 1985. Toward a Contingency Model of Strategic Risk Taking. *Academy of Management Review*. Vol. 10, no. 2, p. 230-243.

Baumgarten, H., Thoms, J. 2002. Trends und Strategien in der Logistik: Supply Chains im Wandel. Technical University Berlin/Bundesvereinigung Logistik. Berlin.

Baumgarten, H. and Walter, S. 2002. Trends und Strategien in der Logistik 2000+: Eine Untersuchung der Logistik in Industrie, Handel, Logistik-Dienstleistung und anderen Dienstleistungsunternehmen. Berlin.

Barlett, C., A. and Ghosnal, S. From Managing Across Borders: the Transnational Solution. Harvard Business School Publishing Corporation. P. 105-11.

Barney, J.B. 1997. Gaining and Sustaining Competitive Advantage. Addison-Wesley Publishing Company, Inc.

Barney, J.B., 1991. Firm resources and sustained competitive advantage. *Journal of Management*. 17 (1), p. 99-120.

Barney, J.B. and Hesterly, W.S. 2012. *Strategic Management and Competitive Advantage*. Pearson Prentice Hall, United States of America.

Barney, J.B. and Hesterly, W.S. 2006. *Strategic Management and Competitive Advantage: Concepts and Cases*, Pearson Education, Cranbury, NJ.

Bergen, M., Peteraf, M.A. 2002. Competitor Analysis: A Broad-Based Managerial Approach. *Managerial and Decision Economics*. Vol. 23, p. 157-169.

Boncheck, M. 2016. How to Build a Strategic Narrative. *Harvard Business Review*. March 2016, p. 1-3.

Boston Consulting Group. 2014. The Growth Share Matrix Revisited. [WWW-document]. [Referred 10.12.2015] Available: www.bcgperspectives.com.

Casadesus-Masanell, R., Ricart, J. E. 2010. From Strategy to Business Models and onto Tactics. *Long Range Planning*. Vol 43, p. 195-215.

Civichino, A. 2012. Inside out or outside in? Choose the process that suits your style. *CMA Magazine*. July/August p. 14-15.

Collis, D. M., Rukstad, M. G. 2008. Can You Say What Your Strategy Is? *Harvard Business Review*. April, p. 82-90.

Conner, K. R. 1991. A historical comparison of resource-based theory and five schools of thought within industrial organization economics: Do we have a new theory of the firm? *Journal of Management*. No. 17, p. 121-154.

Council of Supply Chain Management Professionals / Vitasek, K. 2009. Supply Chain Management Terms and Glossary. Lombard/IL.

Courtney, H., Kirkland, J., Viguerie, P. 1997. Strategy Under Uncertainty. *Harvard Business Review*. November-December.

Crijns & Ooghe. 1995. The changes in growing middle sized company.

Day, C. 1981. Strategic Market Analysis and Definition: An Integrated Approach. *Strategic Management Journal*. Vol. 2, p. 281-299.

Desmidt, S., Prinzie, A. & Decramer, A. 2011. Looking for the value of mission statements: a meta-analysis of 20 years of research. *Management Decision*. Vol. 49, no. 3, p. 468-483.

Dierickx, I., Cool, K. 1989. Asset stock accumulation and sustainability of competitive advantage. *Management Science*. Vol. 35, no 12, p. 1504-1511.

Downey, J. 2007). Strategic Analysis Tools. The Chartered Institute of Management Accountants (CIMA). (34): p. 1-15.

Dyer, J. H., Singh, H., 1998. The relational view: Cooperative strategy and sources of inter organizational competitive advantage. *The Academy of Management Review*. Vol. 23, no 4, p. 660-679.

Eisenhardt, K.M., Martin, J.A.. 2000. Dynamic capabilities: What are they? *Strategic Management Journal*. Vol. 21, p. 1105-21.

Elinkeinoelämän Keskusliitto. 2016. Teknologiateollisuus. Teollisuustuotanto ja liikevaihto. [WWW-document]. [Refferred 10.1.2016]. Available: <http://teknologiateollisuus.fi/fi/ajankohtaista/talous-tilastot/tilastot>.

Fiol, C.M., 2001. Revisiting an identity-based view of sustainable competitive advantage. *Journal of Management*. Vol. 27, p. 691-99.

Fredrickson, J.W., Hambrick, D.C. 2005. Are you sure you have a strategy. *Academy of Management Executive*. Vol. 19, No. 4, p. 51-62.

Gandellini G., Pezzi A., Venanzi D. 2013. Strategy for Action II. Strategy Formulation, Development and Control. Springer. 123 p.

Grant, R. 2003. Strategic planning in a turbulent environment. *Strategic Management Journal*. Vol. 24, p.491-517.

Hall, R. 1992. The Strategic Analysis of Intangible Resources. *Strategic Management Journal*. Vol. 13, p. 135-144.

Helfat, C.E., Finkelstein, S., Mitchell, W., Peteraf, M.A., Singh, H., Teece, D.J., Winter, S.G. 2007. Dynamic capabilities: understanding strategic change in organizations. Blackwell Publishing LTD, Singapore.

Hill, T., Westbrook, R. 1997. SWOT Analysis: It's Time for a Product Recall. *Long Range Planning*. Vol. 30, no. 1, p. 46-52.

Hodgkinson, G. P., Whittington, R., Johnson, G., Schwarz, M. 2006. The Role of Strategy Workshops in Strategy Development Process: Formality, Communication, Co-ordination and Inclusion. *Long Range Planning*. Vol. 39, p. 479-496.

HUB logistics. 2015. Presenting HUB logistics. Power point presentation. 18 p.

HUB logistics. 2014. Henkilöstön tiedotusmateriaali. Power point presentation. 23 p.

HUB logistics. 2014. Strategy and business plan. Word document. 20 p.

Jensen, M.C. and Mechling, W. H. 1996. Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. Management Readers. Oxford and New York: Oxford University Press.

Johnson, G., Scholes, K., 2011. Exploring corporate strategy, 9th edition. Pearson education limited. 620 p.

Jumppanen, Aki. 2015. CEO. HUB logistics Oy. Interview 1.12.2015.

Kamensky M. 2008. Strateginen johtaminen. Helsinki, Telentum Media Oy. 392 p.

Kaplan, R., Norton, D. 2001c. Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part II. *Accounting Horizons*. Vol. 15, No 2, p. 147-160.

Kaplan, R., Norton, D. 2001b. The strategy-focused organization. *Strategy & Leadership*. Vol. 29, no 3, p. 41-42.

Kaplan, R., Norton, D. 2001a. Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part I. *Accounting Horizons*. Vol. 15, No 1, p. 87-104.

Kaplan, R., Norton D. 1996. Using the Balanced Scorecard as a Strategic Management System. *Harvard Business Review*. January-February, p. 75-85.

Kaplan, R., Norton, D. 1992. The Balanced Scorecard: Measures that drive performance. *Harvard Business Review*. January-February, p. 71-79.

Kilov, H. 2002. *Business Models: A Guide for Business and IT*. Prentice Hall. Upper Saddle River/NJ.

Kim, W., C. and Mauborgne, R. 2005. *Blue Ocean Strategy: How to create uncontested market space and make to competition irrelevant*. Harvard Business School Publishing Corporation. 240 p.

Kinnunen, S-K. 2014. *Service offering classification for logistics services*. Master's thesis. Lappeenranta University of Technology. 101 p.

Klaus, P., Kille, C. 2006. *Die Top 100 der Logistik. Marktgroessen, Marktsegmente und Marktfuehrer in der Logistikdienstleistungswirtschaft*. Fourth edition. Deutscher Verkehrs-Verlag. Hamburg.

Langley, J., C. and Capgemini. 2015. *Third-Party Logistics Study. The State of Logistics Outsourcing*. Capgemini. 66 p.

Liikenne- ja viestintävirasto. 2012. *Logistiikkaselvitys*. 169 p.

Magretta, J. 2002b. *Why Business Models Matter*. Harvard Business Review. May 2002, p. 86-92.

Martinez, V. 2005. *What is the value of using PMS? Perspectives on Performance*. Vol. 4 No 2, p. 16-18.

Merna, A., Merna, T. 2004. *Development of a Model for Risk Management at Corporate, Strategic Business, and Project Levels*. *The Journal of Structured and Project Finance*. P. 79-85.

Mintzberg, H., Ahlstrand, B., Lampel, J. 1998. *Strategy safari*. Free Press: New York. 406 p.

Mintzberg, H. 1978. Patterns in strategy formation. *Management Science*. Vol. 24, p. 934-948.

Mintzberg, H., Raisinghani, D., Theoret, A. 1976. The structure of unstructured decision process. *Administrative Science Quarterly*. Vol. 21, p. 246-275.

Mullane, J., V. 2002. The mission statement is a strategic tool; when used properly. *Management Decision*. Vol. 40, Is. 5, p. 448-455.

Neubauer, R. M. 2010. Business models in the Area of Logistics. Leipzig Graduate School of Management. Springer Fachmedien Wiesbaden GmbH. 416 p.

Noy, E., Ellis, S. 2003. Risk: a neglected component of strategy formulation. *Journal of Managerial Psychology*. Vol. 18, is. 7, p. 691-707.

Ojasalo, J., Ojasalo, K. 2015. Adapting business model thinking to service logic: An empirical study of developing a service design tool. The Nordic School-Service Management for the future. Hanken School of Economics, Helsinki, Finland, p. 309-333.

Osterwalder, A., Pigneur, Y. 2010. Business Model Generation. New Jersey, John Wiley & Sons Inc. 278 p.

Peteraf, M.A. 1993. The cornerstones of competitive advantage: A resource based view. *Strategic Management Journal*. Vol. 14(3), p. 179-91.

Pfohl, H. C. 2006. Trends und Strategien exzellenter Logistik. Ergebnisse von Studien zum europaischen Supply Chain Management. Presentation. Stuttgart.

Picot, A., Reichwald, R., Wigand, R. T. 2001. Die grenzenlose Unternehmung: Information, Organisation und Management. Gabler. Fourth Edition. Wiesbaden.

Porter, M. E. 2008. The Five Competitive Forces That Shape Strategy. *Harvard Business Review*. Jan 2008, p. 24-41.

Porter, M.E. 1998. On competition. Harvard Business Review Book.

Porter, M. E. 1996. What is strategy? *Harvard Business Review*. November-December, p. 61-78.

Porter, M. E. 1991. Towards a Dynamic Theory of Strategy. *Strategic Management Journal*. Vol. 12, p. 95-11

Porter, M. E. 1979. How competitive forces shape strategy. *Harvard Business Review*. Vol. 57 (2), p. 137-145.

Prahalad, C.K., Hamel, G. 1990. The core competence of the corporation. *Harvard Business Review*. Vol. 86(3), p.71-91.

Priem, R.L., Butler, J.E. 2001. Is the resource-based “view” useful perspective for strategic management research? *Academy of Management Review*. Vol. 26(1), p. 22-40.

Rothschild, W. E. 1997. Competitor analysis: The missing link in strategy. *Management Review*. Vol. 68 (7), p. 22-39.

Schumpeter, J. 1934. The Theory of Economic Development, Harvard University Press, Cambridge, MA.

Simon, H. 2007. Hidden Champions des 21. Jahrhunderts: Die Erfolgsstrategien unbekannter Weltmarktfuehrer. Campus Verlag. Frankfurt/Main and New York.

Simon, H. 1996a. Hidden Champions: Lessons from 500 of the World’s Best Unknown Companies. Harvard Business School Press. Boston/MA.

Simons, R. 1994. How new top managers use control systems as levers of strategic renewal. *Strategic Management Journal*. Vol. 15, p. 169-189.

Teece, D.J., Pisano, G., Shuen, A. 1997. Dynamic capabilities and strategic management. *Strategic Management Journal*. Vol. 18(7), p. 509-33.

Törmälä, Aarno. 2015. Chairman of the board. HUB logistics Oy. Interview. 7.12.2015.

VTT. 2014. Alive-projektin yhteenveto. Pdf document. 17 p.

Williamson, O.E. 1999. Strategy research: Governance and competence perspectives. *Strategic Management Journal*. Vol. 20(12), p. 1087-108.

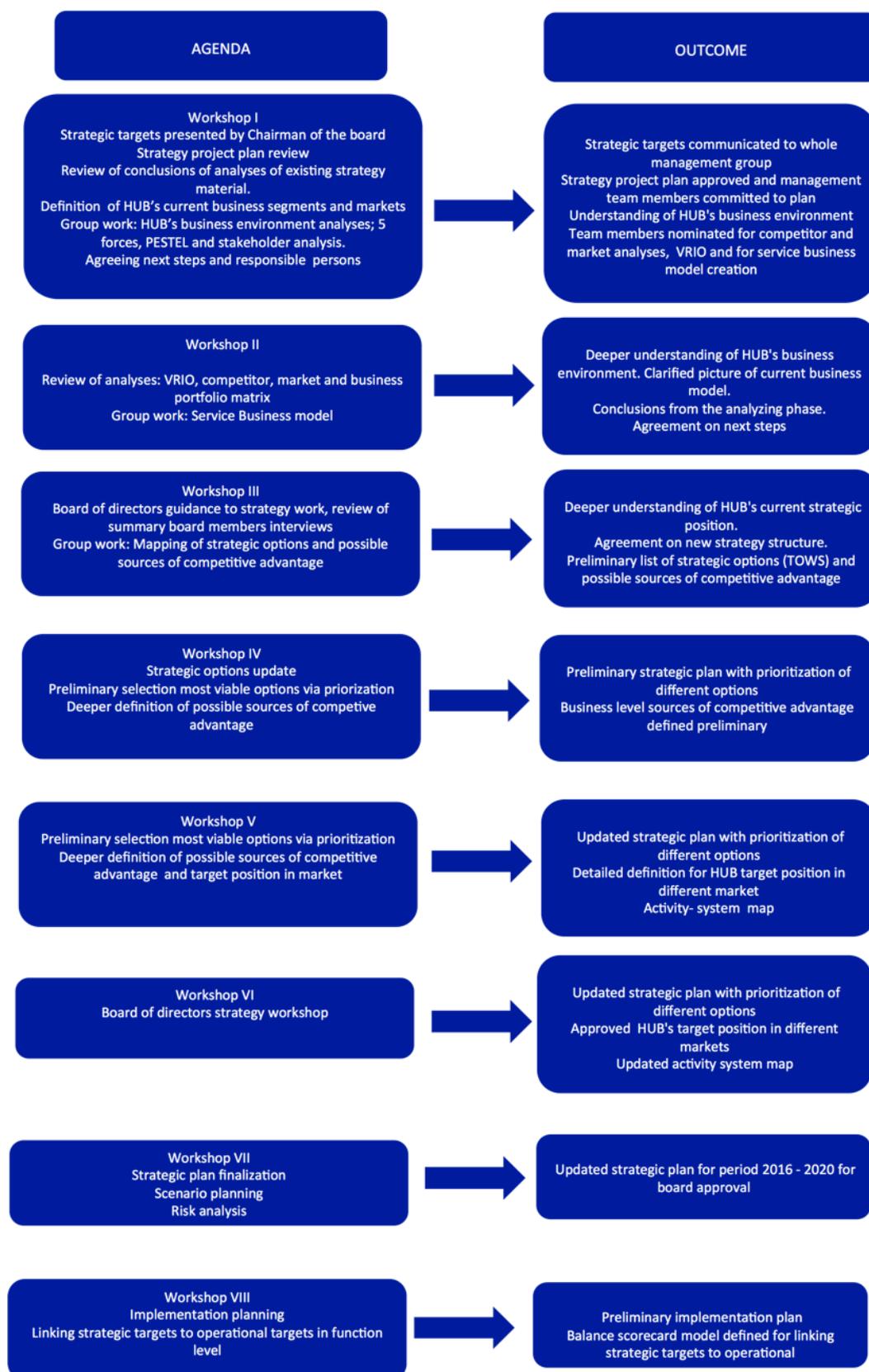
Wehrich, H. 1982a. A tool for situational analysis. *Range Planning*. Vol. 15, No. 2, p. 54-66.

Wilson, R. 1994. Competitor analysis. *Management Accounting: Magazine For Chartered Management Accountants*. Vol. 72 (4), p. 24.

Winter, S.G., 2003. Understanding dynamic capabilities. *Strategic Management Journal*. Vol. 24, p. 991-995.

Wytenburg, A. J. 2001. Bracing for the Future: Complexity and Computational Ability in the Knowledge Era. *In Emergence*. Vol. 3, Issue 2, p. 113-126.

Appendix 1. Strategy workshop structure



Appendix 2. Strategy questionnaire for board and management team members

1. HUB's strengths?
2. HUB's weaknesses?
3. HUB's strategic position?
4. Market opportunities for HUB?
5. How HUB is differentiating from its' competitors as differentiation has been defined as a source of competitive advantage in current strategy?
6. What should be the main focus areas for HUB?
7. How successful HUB has been in implementing current strategy and has HUB achieved its strategic objectives?
8. Has HUB all the resources available to pursuit its current strategy?
9. Possible development needs in strategic planning and management?
10. Possible development needs in operative management?

Appendix 3. Strategic planning and management study, adapted from Kamensky (2008, p 134)

	1 not at all	2	3	4	5 very well
1. How well your company mission, vision and values have been defined?				3,75	
2. How well the main elements of mission are guiding your company operations?				3,75	
3. We have defined strategic business areas and described business segments based on those as a basis for strategic management.			3,5		
4. Cornerstone for our strategic work is systematic analysing process including environmental and internal analyses and relationships between those?		2,75			
5. We have set right, balanced and ambitious strategic targets.				3,75	
6. Strategic targets are directing operations of the whole company.				3,75	
7. We have formed to all business segments and also for whole company strategies, which are helping us to achieve and maintain competitive advantage.				3,75	
8. We have detailed enough and concrete business and action plans conducted from strategy.			3,25		
9. We have such budgets and resource plans which enable strategy implementation.				4	
10. We have a contingency plans to ensure strategy and action plan realization.			3		
11. All key persons effecting to success of our company business are participating to strategy work.					4,5
12. Our strategy work is a systematic continuous developing process.				4	

Appendix 4. PESTEL-analysis

Political	Economical	Social	Technological	Legal
<ul style="list-style-type: none"> In general Finland has been politically stable environment. Lately development in Finland and different parties incapability to agree common goals and the ways to reach them, is causing uncertainties in labor market and lowering industry thrust to future. Planned government changes to labor laws effecting to all is increasing possibilities to have unstable labor market situation in autumn 2016. 	<ul style="list-style-type: none"> Finnish industry has not been able to recover and trend to close down manufacturing sites and transfer production to low cost countries seems to continue. Industry willingness to make investments to Finland is still on low level. Salary level development might bring additional cost to industry compared to other countries. Logistics industry is changing from labor intensive to capital intensive business inline with technology development 	<ul style="list-style-type: none"> Unemployment rate is still increasing in Finland, which causes social differences between persons. Increasing number of refugees is causing cultural challenges. Finnish population age structure is changing, which is increasing the need in the healthcare sector Development is concentrating only in some areas in Finland, There is a risk that as high educated young people are not able to get a work place in Finland and movement of skilled young persons is to be increase 	<ul style="list-style-type: none"> IT-systems development is fast More and more mobile systems being used in different solutions Development of automation technology is fast as in line with IT development Level of automation is expected to increase in industry Number of AGV and automation level in overall is expected to be increasing in material handling solutions 	<ul style="list-style-type: none"> Tightening energy saving regulations most probably increasing operating cost No major changes expected to work safety regulations as already on sufficient level Return logistics of packaging materials expected to increase due to tightening environmental regulations. In addition recycling requirements are also increasing return logistics and the need for services related to it
Environmental	<ul style="list-style-type: none"> Tightening recycling requirements are increasing the volume of return logistics of packaging materials Recycling of materials is going to be increasing and providing new business opportunities 			

Appendix 5. Stakeholder analysis

Stakeholder	Need/expectation	HUB action plan
Customers	<ul style="list-style-type: none"> Value add, cost competitiveness, cost advantage via lowered logistics cost, good service, knowhow in the logistics processes and new ideas, capability to concentrate to their core business without any concerns on logistics issues. 	<ul style="list-style-type: none"> Tailored service models according to customer needs Cost reduction via continuous improvement process In some selected cases investment made by HUB in order to provide more competitive service model and ensure future cost reduction possibilities Earlier defined elements in strategy workshop April 23rd 2015 Development of IT-systems to support more cost effective service model (increasing value add to customer)
Employees	<ul style="list-style-type: none"> Steady income, secure future outlook, training Trusts in both sides Reliable information about company future outlook and issues related to their areas of interest 	<ul style="list-style-type: none"> Good communication process through the whole company Appreciation of all employees, ensuring leadership skills for all managers and other leaders by training and continuous follow-up process Training – for all employees training based on needs on individual level in order to support company and individual needs in best possible way Building up a good company brand and image among existing employees as well in public labor market to ensure availability of skilled employees for each position
Suppliers	<ul style="list-style-type: none"> Reliable partner, long term business relationship Suppliers are expecting business growth and profitability 	<ul style="list-style-type: none"> Building up good relationships with all suppliers. Rental workforce providers most critical as basis for possibilities to increase (or decrease) production volume fast.
Finance providers	<ul style="list-style-type: none"> Ability to repay the finance including interest Security of the investment 	<ul style="list-style-type: none"> Build up reputation as a reliable partner – repay according to commitment, fulfill business plan targets
Shareholders	<ul style="list-style-type: none"> Company value growth, positive development of company turnover and profitability, steady growth 	<ul style="list-style-type: none"> Increasing company management commitment by individual rewarding system to all key managers Investments to growth – to right areas in right time Expanding in international market (e.g. Poland) Ensuring future expert and leader availability via student program (thesis workers)

Appendix 6. Service business model canvas

SERVICE BUSINESS MODEL CANVAS			
<p>Key Partners From our point of view: Customers, capital providers, suppliers of material handling equipment, labor unions, employee representatives, automation and IT-solution providers, rental labor providers, land lords of facilities. Customer's IT- solution providers due to need of integration btw systems our and customer's</p>	<p>Key Resources From our point of view: Personnel: logistics and customer service skills, cost awareness. Material handling equipment including automation equipment. IT-systems supporting operations. Facilities. From customer point of view: Understanding of logistics processes, reliable data, information about their customers needs, fluent information flow through all processes, future outlook, volumes. Our contact person should have full understanding from their business.</p>	<p>Value Proposition From our point of view: Lower logistics cost, continuous development of innovative value adding logistics processes, flexibility.</p>	<p>Value Creation From our customer's value chain. Providing better cost level and more flexible than customers' in-house operations would provide. Offering less capital needs for logistics equipment. From customer point of view: Willingness to develop logistics operations in cooperation, inquire more services to cover larger portion from their value chain. Long term cooperation.</p>
<p>Mobilizing Resources and Partners From our point of view: Agreements with transportation companies, SLAs. Component suppliers and sub-contractors. Common agreement needed between all parties to ensure effective operating model.</p>	<p>From customer point of view: World class service! Tailored, cost (fit and fulfillment of their real needs) effective solutions for logistics operations. Logistics knowhow, possibility concentrate to main business, better competitive position via lowered logistics cost, less capital needs for equipment and buildings. Flexibility, responsibility, reliability, innovativeness, service quality. Sharing of best practises. Transparency, reliable service provider. Security (IT).</p>	<p>Customer's World and Desire for ideal Value From our point of view: Quotation are not given only based on RFQ's, deeper understanding will be studied in face-to-face meeting s with customers. Decision makers will be find out in order to ensure you service offering will fulfill their real needs and expectations. Value add creation in key role in our quotation; effective solution to customer's actual problem.</p>	<p>Interaction and co-production From our point of view: Fluent information flow, ensuring the same understanding, joint development projects and targets, long-term relationships. From customer point of view: A lot of variation between customers how close cooperation they are willing to have (ref. Hub care model).</p>
<p>Cost structure From our point of view: Personnel, equipment, building and capital cost. Development cost. Project cost in case of new customer. Sales and consulting cost. Material cost for wooden packages. From customer point of view: To participate on development cost in order to share cost of achieving lower operational cost</p>	<p>Revenue Streams and Metrics From our point of view: Payment from provided services or products (packaging). Consulting and development fees as per agreement case by base. From customer point of view: Payment of agreed services or products depending on contract. Capital cost including interest.</p>		

Appendix 7. Activity-system map, preliminary

