STRATEGIZING YOUR COMPANY – A NEW PARADIGM FOR QUICKER STRATEGY DEVELOPMENT AND EXECUTION

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ABSTRACT

Strategy implementation is an important yet challenging task where many issues arise. The business portfolio approach – based on implemented buiness portfolios – allows to bridge the gap from strategy planning to execution in the operations. A portfolio strucure capturing the essentials of the business structure can be set up and managed than easily against to be defined performance and maintenance criteria.

Guidance trough traditional management tools

Imagine – you are a CEO of a SME company – you are in the machine industry business and you have 5000 people working for you. You recently developed a new exciting strategy; you are totally convinced you have found the profit pools for the future and the way to access them. So your challenge is to make the strategy heard and implemented, so people "live" the strategy and have the same mindset. This means alignment of the company (especially the sales and operations units) – in other words - make the people react and move along the new lines.

So your main issues are getting everybody to understand your strategy and live it, meaning all workforces should behave sustainable in a congruent manner according to your strategy, in other words: you have to strategize your company!

Guidance trough traditional management tools

So what options traditional management teaching in terms of tools and guidance is giving you? The guys from the change management and leadership front *(Doppler, Lauterburg 2002)* would tell you, you have to undertake a lot of meetings on different levels and communicate your strategy carefully. But will it be understood after it has been heard and will it lead to a change in behavior after you have been understood?

The project and initiative front will tell you: set up and manage various projects – this will solve the gap. But when the projects are over and implemented - how sustainable will the behavior be after the project roll out is finished?

BPR *(Hammer 2004)* will tell you, you have to reengineer your processes and imbed new guidelines of the strategy along the lines of the new processes. Yet the problem is - what happens with the strategy if the processes have to change quickly according to the conditions of the market?

Kaplan and Norton – the Blanced Scorecard gurus *(Kaplan Norton 2004)* - would advise you to set up an indicator or scorecard system with Strategy Maps to monitor the performance of the strategy execution progress. Right, but how are the right tools and behaviors implemented before they can be measured and controlled?

What else can you do – what other options are available?

The portfolio approach

We think it might be helpful, to implement a portfolio structure of key portfolios in your business structure and then manage those according to newly set criteria. Our basic concept is, that we cross blend the traditional techniques of strategy formulation with portfolio theory. Portfolio theory was invented/ formulated by Harry Markowitz in the fifties (*Markowitz 1952)*. For the product or Business Unit valuation the Boston Portfolio Matrix has already been around for decades in strategy planning (*Henderson 1971*). However, the portfolio approach is mostly used limited in scope and is not integrated as an overall guiding principle.

Therefore we suggest that you set up all your critical business structures as a series of managed portfolios, and additionally the definition of the performance and incentive criteria for them. On top of this a strongly interconnected team of portfolio managers, who are not only dedicated to manage their own portfolios but are interlinked together "meta portfolio management" with regularly supervisory meetings to speed up communications and sort out critical issues as quick as possible.

What do we mean by "portfolios"? Here is an example: A business portfolio can be seen basically as a list of independent items that are grouped together and get a common denominator. For example a current business portfolio may have five business units in it, where you note

down for each business unit variables (“items”) like the performance, turnover, growth rate of the business (or product lines), competition situation, legal threats and chances, turmoil situation of the environment *(Ansoff 1990),* customer satisfaction and needs, vulnerability in terms of risks and others. All the items together make the portfolio. If we look at a typical business portfolio how should it be set up and managed? The items or structure of the portfolio can be defined completely flexible and can be adapted to the needs and situation of the company.

Legend: ⟷ Structured Two Way Communication

Figure: A portfolio overview for a “living strategy” framework

Performance management and incentive criteria

As each portfolio (here: e.g. former business unit) can be set up individually with different performance management and – criteria, a portfolio – and the according manager’s performance - may be rated in terms of sustainable health, profitability and risk. The basic concept behind Markowitz’s portfolio theory was the discovery, that stock selected in a special (not correlating) way - managed together in a defined way may optimize the returns minimizing so overall risk.

If the transfer of this concept into the area of strategy development is done, these findings may be applied as a principle for portfolio management, as tasks an assigned to a portfolio. This principle may be – defined rule sets, where the portfolio owner gives its rules and targets for the portfolio return, e.g. for existing business portfolios a ROA of 15% or a certain number of qualified ideas in a given time period for an idea portfolio. This input from portfolio theory here is the notion that risk and return comes in couples: if you increase risk you increase return and vice versa. This might be true for the business portfolios in the strategy approach as well, so the “risk appetite” as well as the risk awareness has to be taken into account, if portfolio performance is measured or portfolios are managed. This is a sharp contrast to traditional strategy making, where usually the risk components in strategic planning are usually weakly or insufficiently considered *(Lavallo, Oliver 2006)*

As we say “managed portfolios” we implicitly talk about portfolio managers. What is their task?

Once the portfolio is set up, is has to be managed – usually a portfolio manager will be assigned. To his tasks belong typically the definition and planning of enhancements, environment scanning, performing actions and corrections in order to grow the portfolio further or balance its performance against targets set up. As many portfolios may exist, so may responsibilities. This can be organized in a networked structure with no or little hierarchy between the portfolio managers or more traditional in an org chart like hierarchy with superiors and subordinated portfolio managers. As business rationale says overlapping structures may cause troubles, the line responsibility may include a portfolio responsibility as well, so line management reporting can include a status report on strategic issues out of the portfolio data as well.

IT Tools: Next to this organizational view a set of IT tools to manage and structure the business portfolios might really help. The tasks of the portfolio management and the structure of the listed portfolios - with many different variables to set up and monitor - desire IT application handling. IT applications with databases yet may deliver not only operational ease in storing and maintaining strategy data, they may also deliver decision transparency, as decisions are recorded as well with indicator data. This can lead to learning and has a documentation purpose which can be used in training or audit.

Benefits of the new strategy management approach

Having set up the portfolio, tool and management structure what are the benefits for the CEO compared to a situation without that structure? In a summary, you get with this new approach:

Secrecy and Copy Protection: As traditional strategy papers come in a statement or report, they are not only easy to copy (and hard to implement, as paper has to be put into operations with many efforts) the intention and direction of the strategy is summarized and condensed, so everybody who gets access to that papers can read, understand and copy them. With out new approach – a framework of portfolios – copying isn’t so easy any more, nobody can take home portfolios, portfolio managers and criteria. This

might be especially valuable, if you are working in countries like China where intellectual property rights might be endangered *(Dietz, Lin, Yang 2005).* Even if data and managing principles are stolen, it is of no big value, as the portfolios are living and changing every day, so data will be outdated within a few days.

Speed, speed, speed: Time to market, reaction on new conditions is important in business life as studies indicate (f.e. Vesey 1992). An ongoing strategy structure with a living organization, processes, predefined (re)actions and predefined responsibilities in place helps to bring ideas or reactions to threats quicker to market. Especially the integration between different units and steps in the strategy process are much easier to set up and maintain, than with the sequential model. The new approach is speeding up the usual cycle from analysis to implementation. This can mean real money, as in some industries (e.g. Pharmaceuticals) each day later on the market means millions of dollars loss.

Control: A strategy portfolio framework in place might give more control in a volatile business environment and may even be the only solution to cope with change in a turbulent world, where the traditional sequential approach may not deliver results any longer. Success control and backtracking of decisions are made easy, as the status of the portfolios and data can be recorded in databases, delivering so not only inputs for corporate knowledge management and decision making but data for compliance audits as well.

Alignment & implicit direction: With the new approach strategic alignment is done through the structure of the portfolios itself, the performance and management criteria. We would call this implicit direction, whereas the exchange of data and information between different portfolios during a portfolio manager's alignment session are explicit and formal.

As portfolios might differ and vary widely the question arises, how a framework might align all the different portfolios to a coherent strategy. In this situation the definition of organizational structures on top of the portfolio make sense, e.g. implementation of a responsible manager and/or supervision bodies. A body makes sense where the portfolios are compared and valued against each others to get the best overall performance and risk hedging. The body may consist of portfolio managers and have regular meetings and exchange growth, profitability and vulnerability data as well as discuss changes and opportunities. Strategic alignment takes place, too when the portfolios are open to input (e.g. ideas, new projects) and can have output (e.g. share key data of their performance) and are so interlinked and connected to each other and are positioned so, that risk and return are balanced according to the risk appetite and style of the company.

Flexibility: For example a weak signal from the weak signal / business idea/ chances portfolio may be discussed and then transferred to one or more project portfolios. The beauty of this approach here is, that there is leverage and speed through the fact that one stimulus can have quick and multiple impacts to other portfolios back and forth. In traditional sequential strategy building you go usually only once though the cycle "analyses, positioning, realization, control" in sequential time consuming steps. This means usually long time delays unless something can be implemented. This approach avoids it.

Competitive advantage: Better speed, increased flexibility, increased empowerment and control as well as enhanced copy protection altogether form an interesting mix of advantages over the traditional strategy formulation and implementation approach *(e.g. formulated in Abplanalp, Lombriser 2005).* Competitors with the traditional linear or sequential approach in strategy making will suffer from a variety of problems, which we think the portfolio approach has overcome – therefore the portfolio approach has a distinct competitive advantage over the traditional approach.

Summary

In other words: Strategizing the company means bringing the strategy down from mystic heights of the boardroom to middle management and can align and empower the workforce with the right structure and tools to act according the lines that were drawn for the strategy.

Strategizing the company also means to immediately implement a strategy and make the strategy work right from the beginning, within a quick and immediate roll out. Portfolio based management overcomes and is bridging the artificial gap between operations and strategic management, as it was introduced as a concept into management f.e. by Gählweiler 1990 in the late eighties.

As performance and speed count in today's business world more than puristicly separated worlds - here strategic management decisions, hence boring operations, a divide between lower important tasks and sound artificial and aristocratic. On top of this, it may shield form realization problems and prevent management from getting a strategy executed properly *(Bossidy 2002).*

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