

# A LIVING STRATEGY - A NEW APPROACH TO A GLOBAL STRATEGY FRAMEWORK

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*“Basically we never use the stuff that comes out of our annual planning session. We spend three days in creating this thing called a strategic plan, and then we go home and never look at it again. It’s been that way for the last 15 years.”*  
*(Senior manager in international firm, cited by Underwood, 2002)*

## ABSTRACT

*This article introduces a new framework for corporate strategy development. The new framework intends to overcome the shortcomings on the strategic planning, strategic execution and strategic communication. The article suggests setting up a series of strategic groupings which are structured and managed as portfolios of various strategic items. These strategic portfolios have different time horizons and are managed in a continuous way instead of running a periodic, yearly strategy project. An appropriate portfolio management will be structured with ongoing responsibilities and well defined processes that develop the strategy continuously, “live”, and in permanent interaction between the responsible strategy manager and the rest of the enterprise. As a result enterprises can react quicker on market inputs, will be more risk aware, and have a better performance and overall control in volatile markets.*

## 1 CURRENT PROBLEMS IN STRATEGY MAKING

Problems of business strategy development are mentioned abundantly in business literature (e.g., Roxburgh 2003, Underwood 2002, Campbell 1997, etc.). Empirical studies even show that up to half of the strategy projects struggle with implementation issues (ZHW 2005). Key issues are the psychological assumptions of managers (Lovallo, Sibony 2006/1), the separation between planning and

execution (Bossidy 2002), improper communication and organization as well as the nature of strategic planning itself, which is sequential and therefore often too time consuming to keep up with today's rapidly changing environments. We could call all these defects the psychology gap, the planning gap, the execution gap, and communication gap.

Whereas the psychology gap is a matter of awareness and transparency and seems to be a “built in” problem of human perception, we don't think a new strategy framework alone is capable to change human nature. Therefore with regard to improvements on the methodology we like to focus our discussion around the points planning, execution, and communication to capture the requirements for a new and better strategy development framework.

## The Planning Gap – Deficits Of The Linear Approach In Strategic Planning

Current strategy frameworks support mainly a sequential flow of tasks, which have to be executed one after the other: analysis (customers, competition, environment etc.) positioning, implementation and control. A typical example, representative for many others, can be found in Abplanalp, 2005, p. 47ff. This model implies that if you discover flaws in the analysis during implementation only, you will have to go through all the steps of the process again. This procedure has proven to be inflexible, time consuming and costly and typically results in neglecting change or in inadequate adjustments of the strategic plan. The sequential flow of tasks in a strategy project can therefore lead to inadequate initiatives at a time when the environment and conditions of the analysis have already changed (e.g. as a new competitor may have emerged who changed the rules of the game).

Thus, it is difficult to respond quickly to changing customer needs and market conditions in a dynamic world (IHA, 1998). This is especially critical as today most businesses find themselves in rapidly changing environments, and are inundated with confusing signals and data from competitors, customers, and partners. Yet they lack insights on the value creation within their companies (Campbell 1997, p.5). The executive committees concerned with strategy are therefore frequently split into multiple fractions, which base themselves on different sets of data. In the end, rather than deciding and, risking to take the wrong path, companies pursue no path at all (Hamel, Prahalad, 2005).

So the question arises – how can we find a better framework to shorten the time between planning and execution? As the traditional strategy development approach can be seen as a process going through a number of sequential steps, it's probably this process that needs a “Business Process Reengineering” (Hammer 1993 and 2004).

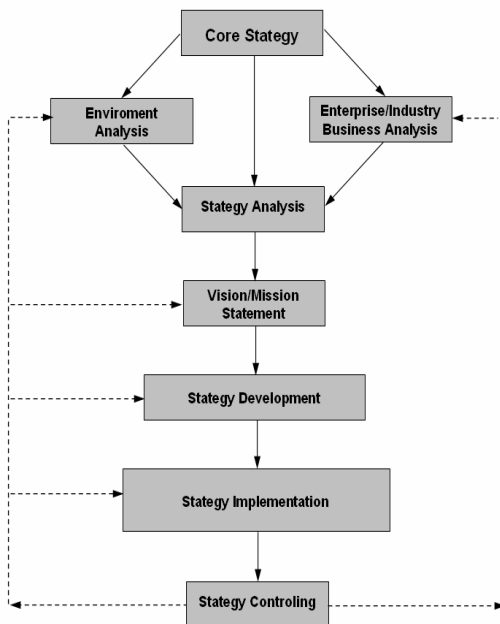


Figure 1. The typical model of the traditional western way of business strategy development e.g. Abplanalp, Peter et al. 2005)

### The Execution Gap – Focus on Analysis Alone?

Strategies can only be successful when implemented with great care. Yet empirical data shows that the majority of formally formulated strategies are not implemented on time and with the intended results. Execution obviously is a key problem (Bossidy 2002, p. 21 ff., Campbell 1997, p. 5, ZHW2005). The reasons for this may be sought either in the nature of the strategy planning exercise of the company

itself (typically an annual internal three day seminar as cited in Underwood 2002) or in the gap between the management functions and the rest of the corporation, (hierarchic decision making, Campbell, 1997, p.3).

### The Communication Gap - Lack Of Interaction Among Management And With The Rest Of The Organization

Studies show that during strategy development there often is a lack of appropriate communication among the management team and with the rest of the organization. The units then often claim that they have no directions and therefore are unable to implement the strategy correctly. Such a mechanism may well be the root cause of many strategies failing. (Campbell, 1997, p.3, Raskino, 2002).

## 2 REQUIREMENTS FOR A NEW STRATEGY FRAMEWORK

### Listening And Selecting Capabilities

Many studies indicate that disruptive technologies or procedures force companies to change their strategies in a radical way. Companies are often not capable to interpret the signals for change in due time and therefore do fail in their strategic positioning and planning (“Innovators Dilemma”, Christensen 2003).

Therefore identification and evaluation of new trends (and selecting the according skills) can help to overcome these problems. It is essential that listening to weak signals from the market, from the environment in general or from a peripheral vision system is organized as a permanent activity in the company (and not only as a once a year run of rough environmental analyses (Day, Shoemaker 2005)). Such capabilities need to be integrated carefully into a strategy development framework.

These listening and vision building skills should include especially the identification of customer requirements in today’s global market environment. Customer needs may disappear because customers change or because another competitor finds a better way to meet their requirements. Companies that will win their customer's loyalty are the ones that can provide exactly what customers want and exactly at the time when they need it.

Listening includes a global perspective as well. As in many industries a global market place has become reality (as e.g. in car manufacturing, IT, banking) and modern internet based communication tools allow easy cross border business. Therefore a new strategy framework must adapt flexibly to many cultures and countries.

## Flexibility

Flexibility is a key requirement for effective performance especially when operating conditions change at a rapid pace (as is widely discussed in management literature, *i.e.* Brown, Blackmon 2005, p. 797ff).

Flexibility means in the first place adaptability. An adaptive system is one, in which managers can quickly change direction and execution of the strategy. The strategic planning system should therefore be proactive and responsive towards the enterprise (Klimann, 2002, p. 47 ff). It may even provide a basis for purposeful experimentation during planning and execution (Murrery, Tripsas 2004, p.53 ff).

Secondly, flexibility means flexible organization structures and a cooperative culture to allow for structural change. This includes facilities, technologies, policies and processes, talent management, labor relations and provides adaptability to the environment. It means basically, that organizational units should be kept as small and as focused as possible (Boone, 2000). This should be true for the planning as well as for the execution phase.

Such a new framework should easily be extendable and adaptable to meet the individual requirements of the enterprise. If this is the case, the enterprise will be able to switch over to an alternative set-up within the shortest possible time frame (KPMG Consulting, 2000).

## Integration Of Decision Making And Execution

The core of all strategy development is finding new and sustaining existing profit pools (Gadiesh, Gilbert, 1998). This essentially means maximizing returns and lowering risks. The search for opportunities and risks and the careful and quick evaluation of those must therefore be integrated into the model framework.

*Risk:* For investments, modern investment theory says that you can fix the level of risk in a portfolio and then maximize the return this portfolio yields according to the preset level of risk. Conversely, you can attempt to fix a reasonable level of return and minimize the level of risk associated with achieving that rate of return (Siegel, 1999). This concept of risk management might prove itself useful in the business strategy context as well.

As a consequence, risk adjustment should be part of the design of a new strategy framework. Therefore suitable risk factors must be identified. The adjustments should be based on the best and latest information and be understood and cleared by the management (IHA, 1998). The output of such strategy development would then be risk adjusted strategy actions. This issue is important, as many CEO today is not even aware of the risk of his corporations risk

portfolio which goes together with their actual strategy (Felton, 2005).

*Speed:* Quick implementation of a new business potential or idea is a key success factor. A new strategy framework should support that. This means necessarily to build an organization culture that will allow removing "speed traps," resistance, and other change-related problems that are barriers to execution (Lopez, 2002). Communication between the top management and the strategy division should be enhanced to enable better implementation. It is all about listening and being heard. This implies sharing the most up-to-date research result with others, to get real impact (Boone, 2000). Interactivity is about communicating effectively and influencing the intellectual capital of the enterprise.

*Predefined actions:* Next to the cultural awareness there also might be a need for predefined actions, which can be drawn if a specific chance or risk may arise (This will include a clear mission, dedicated people, well suited tools and appropriate resources). This is discussed e.g. in Ansoff's Strategic Issue Management (Ansoff 1981). For that reason some authors even call these predefined actions within strategy development "Active Waiting" (Sull 2005). Such actions may lead to purposeful experimentation (Murrery, Tripsas 2004, p. 53 ff). This means experimentation with carefully selected actions and with the purpose of testing their usefulness with limited scope.

## 3 SOLUTION ELEMENTS

### Contributions From Markowitz' Portfolio Theory

Our basic concept for enhancing the classical strategy framework is to blend the traditional techniques of strategy formulation with portfolio theory (taken from the financial industry) and propose a new and enhanced framework.

Portfolio theory was invented / formulated by Harry Markowitz in the fifties (Markowitz 1952, 1959). Its basic principles include:

- A portfolio is built as a collection of independent items (originally assets like stock), which have each their own characteristics.
- These individual items are not correlated (yet in business they are usually highly connected).
- Risk follows return and vice versa. This leads to optimal portfolios with an "efficient frontier". This means every possible asset combination can be plotted in a risk-return space, and the collection of all such possible portfolios defines a region in this space. The line along the upper edge of this region is known as the "efficient frontier". Combinations along this line represent portfolios for which there is lowest risk for a given level of return (Markowitz, 1952, p.78ff.).

- Diversification of risk is needed.
- A portfolio of stocks grows through market exposure and trading (a business grows through sales and mergers and acquisitions).

### **The Portfolio As A Building Block For Business Strategy**

A portfolio (or a group of related business objects) can be basically seen as a list of independent items that are grouped together and get a common denominator. For example a current business portfolio may have 5 business units in it, where you may note for each business unit some variables (“items”) like performance, turnover, growth rate, competition situation, legal threats, legal chances, turmoil factors in the environment (*Ansoff, 1981*), customer needs, customer satisfaction, vulnerability in terms of risks and others. All these items together make up the "business portfolio" (or grouping) of those businesses.

The structure of this portfolio can be defined at discretion and can therefore easily be adapted to the particular needs and situation the company has. Each portfolio (here: e.g. each business unit) may then be rated in terms of their risk level and profitability (*Ansoff, 1981, p.234ff.*).

Such diverse individual portfolios will then be linked through bidirectional communication. How can such business portfolios now best be set up and managed?

*Diversification:* Diversification is a basic concept in classical portfolio theory. This means that those items (e.g. asset classes) which have a low or no correlation to each other do reduce the risk. Therefore a certain diversification is a must to hedge risk. What could that mean in a strategy development context? Only little empirical data exist yet for strategic business diversification (*i.e. Robins, Wiersema 2002*). However if we translate the concept of risk reduction by diversification to strategy development, this means that there will be an optimum number of items per portfolio and also an optimum for the total number of portfolios (*i.e. additional portfolios would then not result in better information*). This aspect still needs to be explored further through work on empirical data and practice.

*Risks and Returns:* The basic concept behind Markowitz's portfolio theory was the discovery, that stock selected in a non-correlating way and managed integrally as a portfolio in a defined way, may optimize the returns and minimize risk. If that concept of portfolio management is now transferred into the area of strategy development, it is expected that similar portfolio (and risk) management characteristics will appear, e.g. for a given business portfolio a ROA of 15% may be targeted (or alternatively e.g. a certain number of qualified ideas in a given time period for an idea portfolio).

The input from portfolio theory here is the notion that risk and return come in couples: *i.e.* if you increase risk you increase return and vice versa. As we expect that this linkage of risk and return will happen as well for strategic portfolios, the “risk appetite” as well as the risk awareness of a company have to be taken into account when developing the strategy. This is in sharp contrast to traditional strategy making, where usually in the early analysis phases the risk components are not considered sufficiently.

### **Contributions From Business Reengineering**

As stated earlier, the traditional strategy development approach can be considered as a sequential process. New requirements like speed, flexibility, executability and better awareness of the future require a different, more parallel process to develop a strategy. Process reengineering (*Hammer et al 1993, 2004*) suggests, to automate steps whenever possible, to parallelize steps, to feed status information back and forth in the process, to cut off unnecessary, non value adding steps and to focus on the results. Putting these principles into consideration we suggest that the various analyses needed during strategy development are performed in parallel (e.g. customer-, competitor-, PEST-analysis etc.), that data collection be automated as far as possible using IT and that decision making be anticipated with clear criteria and selection definitions, using predefined actions. Also feedback loops between execution and analysis or valuation shall be established.

### **Contribution From Chinese Strategy Thinking:**

Whereas the western way of thinking in strategy, as stated before, is data driven and focused on analytics, strategy thinking in China goes different ways (*Senger, 2004; Sun Tzu, 2002*). We found there many new principles not or hardly addressed in western business strategy thinking. These are e.g. the people and stakeholder orientation, initial goal setting before analytics are done, a non linear yet cyclical proceeding, predefined action templates (“Strategems”) and tactical deception techniques. We tried to integrate some of these elements into our approach.

## **4 A NEW MODEL OF CORPORATE STRATEGY DEVELOPMENT**

### **Overview**

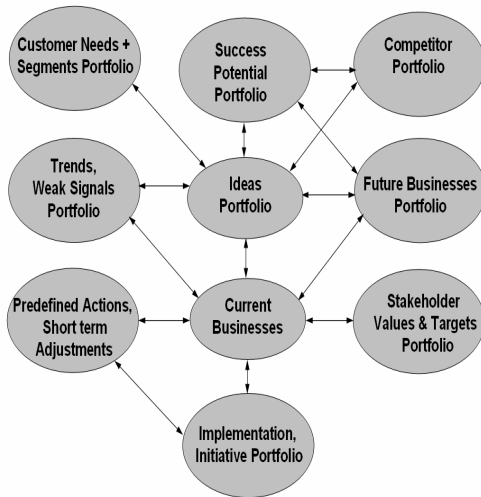
We propose that portfolio management techniques taken from the financial industry be applied to strategy development. The various aspects of strategy are grouped together and related to each other. Such interrelated

groupings are then managed using Markowitz' portfolio theory.

Our new approach on strategy allows now to perform strategy work not as a sequential initiative, but rather as a set of tasks run in parallel in an ongoing mode. This already has been suggested by McKinsey (Lowell, 2005) and others (i.e. Barnett 2005, p. 65ff). Yet the operational aspects remain somewhat unclear and focus mainly on the new initiative portfolio management, rather than carving a full blown new framework.

Taking the business reengineering and the portfolio approach together we think that the resulting new and improved model may best be described as an interlinked portfolio approach.

If the various strategy development items are regarded as managed and interconnected portfolios, a complete portfolio overview may look like shown in figure 2.



Legend:  
 ↔ = Examples of structured two way communication

Figure 2: Example: An overview of a possible portfolio structure

**Different Portfolios Describe the Structure of the New Framework**

*Trends and Weak Signal Portfolio:* As we stated in chapter 1, one big problem of traditional strategy making is, that it may become outdated very fast: at the time the

strategy is implemented, the strategy may no longer make sense, because its assumptions are already outdated. Or alternatively the planned implementation needs to be reshaped or rescaled. We therefore suggest that (at least) one portfolio should deal with weak signals. Filters then evaluate them as an input for other portfolios, which have to be adapted accordingly. This portfolio (respectively its manager) would then constantly monitor its environment, scout the relevant trends and signals, so that data and assumptions at the time of implementation (and as well during implementation) are always up to date.

*Customer needs and customer segments portfolio:* Obvious and also often hidden customer needs are the basis of current and future revenue streams. Therefore a portfolio of customers may be divided into appropriate segments and their needs and behavior have to be identified and followed carefully. It is important to understand why e.g. a disruptive change happened with regard to new customer needs, values and assumptions. Within the context of customer needs, the capabilities, systems and infrastructure needed to serve those customers must be assessed.

*Competitor Portfolio:* Next to customer needs, competitor moves shape any company's competitive position and therefore its business success ("Hypercompetition", D'Aveni, 1994). Competitor analysis therefore must be an integral part of the company's analytics. This can provide a basis to find optimal paths to competitive advantage within the complex and fast-changing business context (Pande Kiran, 2003).

*Idea and Future Potential Portfolio:* As trends, weak signals and customer needs are identified, they can lead to ideas for future success potentials. These often are viewed as "options" according to the real options theory (i.e. Barnett 2005, p.65ff). It makes sense to collect ideas and future potentials in an independent portfolio and evaluate them according to the needs of the stakeholders, the assigned portfolio managers and their coordination committees. Ideas are semi-structured and may include a rough description of the business idea, the business model and a rough forecast of their potential in financial terms (see figure 3). Today such idea collections rarely have a person assigned to them as a responsible, nor do they deal with the risks and costs of their implementation.

Idea	Item nr	Name	Growth rate	Potential in size or monetary	Risks estimated	Effort to build	Useful for BU	Valuation of own resources	Valuation of Competition	Time scale
Idea 1										
Idea 2										
Idea 3										

Figure 3. Example: Typical structure of an idea portfolio

*Success Potential Portfolio:* A success potential portfolio is situated between the ideas and the future business portfolio. It deals with, shapes and weights filtered ideas and shows future profit potentials, which are usually not shaped clearly enough to be future business units, yet they give size and dimension of the profit involved, which helps to select the right profit pools.

*Future Business Portfolio:* Future businesses are defined and planned business units, which may arise from "success potentials", yet are not yet operative. It makes sense to deal and plan with them in a strategy framework, they are "ready to implement".

*Current Business Portfolio:* Of course, every existing company has business areas and business units who are in the market and produce and sell goods and services. Their performance may go into a portfolio as well – growth rate, market share, contribution margin, quality and satisfaction data are usually recorded here. The nice advantage with the portfolio approach now is; that each existing business portfolio can periodically be "stress tested" with new weak signals.

*Predefined Action and Short Term Action Portfolio:* As speed is very important for realizing strategic opportunities, it makes sense to predefine actions or have defined competitive responses (see Underwood 2002, p. 46ff; Ansoff, 1990, p. 234ff or Ruiz, Gonzalez, Moreno 2005). The idea is that those items can be activated immediately as a strategic response to outside triggers or to weak signals (like competitor attacks or changed regulations). The more detailed these predefined action modules are set up, the quicker the company can react. They may include people, tasks, resources as well as processes.

Sometimes change requires just little adjustments – not everything that is discovered as a weak signal will end up in a large scale change project. So it makes sense, to set up next to the project or initiative portfolio a short term action portfolio where you define and track all these little tasks and actions for improvement which do not make up for a big project.

*Implementation or Project Portfolio:* Of course, detected variations from the past or new profit potentials often require organizational change. This then gives rise to change initiatives. As a common practice they are handled and steered as a project portfolio (Jenny, 2003, p. 195ff), which of course should be aligned with the strategy. In line with the fact that execution comes more and more into focus of management literature (Higgins, 2005, Bossidy, 2002), implementation and project portfolio are considered as an important part of the overall portfolio structure.

*Stakeholder Value and Strategic Targets Portfolio:* As change ability and flexibility is implemented on every portfolio and every corner of the framework, it is important,

that the whole system of changing and updating does not loose direction and that the various, independent portfolios do not move in divergent, nonaligned directions. As the stakeholders of the company (typically shareholders, the public, government and others) are setting the goals, it is important that their values and needs are known and reflected in the portfolio management process. This is also an ongoing task, as stakeholder's ideas and values may change as well as new stakeholders come in and old ones are leaving. Yet the stakeholder value portfolio can be the "Polar Star" with regard to the orientation of the whole strategy portfolio framework and it shall give direction and guidance to all other portfolios and their respective managers.

### Managed Portfolios often Require an Update of the Organization

Once a strategic grouping, a portfolio, is set up, it needs to be managed. This means that a portfolio manager must be assigned. His tasks typically include the definition and planning of enhancements, the scanning of the environment, actions in order to grow the strategic portfolio and to balance its performance against targets.

For each such portfolio defined, the responsibilities must be designed accordingly. The resulting organization is a networked structure with no or little hierarchy. To reduce organizational conflict potential, it is advisable to lay out line responsibilities according to the portfolio responsibilities, so line management reporting will include a status reporting on strategic issues derived from the portfolio data as well.

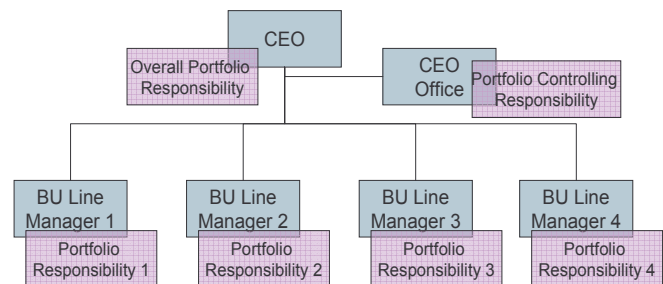


Figure 4. An organization of portfolio managers need to be assigned to the portfolios, a role which may be combined with the line responsibility

### Well Defined Processes Help To Speed up Communications And Information Flow

*Intraportfolio Management:* As items are added and deleted from the portfolio, the evaluation of items and their selection is a primary task for the portfolio manager. Like in Cybernetics there should be a target set first, and only then actions and metrics will be defined. In other words we may say the performance of the portfolio has to be properly

adjusted. Each portfolio however has individual performance goals, metrics and criteria for it (Pun, White, 2005).

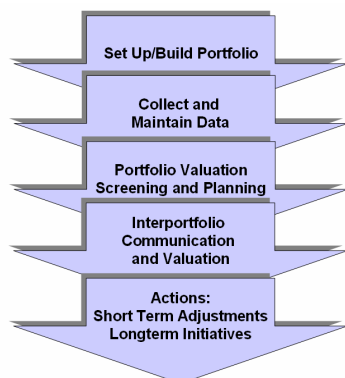


Figure 5. As each portfolio needs to be actively managed, some typical tasks have to be carried out by each assigned portfolio manager

*Interportfolio Management:* Interportfolio management enables to link the different portfolios. Important elements of such interportfolio management are: communication, system clock, speed to market, scalability and size.

**Communication:** The more portfolios are set up and monitored, the more there is the need for interportfolio management. Strategic ideas, new early warning signals or ideas not working in the market require discussion, valuation and feedback among the different portfolio managers (and their portfolios). If this communication is neglected, aspects which may influence multiple portfolios are not recognized early enough and can do harm later on.

So, communication between the portfolio managers really is important. Such communication should be done on a well defined and regular formal basis as well as ad hoc and informally, when something special occurs. Notification and decision mechanisms and meetings have to be set up and documented. This is quite different from the traditional strategy approach, where after a series of exclusive workshops a strategy paper is written and frozen for a certain period of time (Such a traditional strategy document may then rust on some shelf or be left in some secret closet with the danger of being ignored).

**System clock and speed to market:** As turbulence in the environment (Ansoff 1991, p.234ff.) may occur and the speed of change may be different in different portfolios, the triggers and the "system clock" may also vary between the portfolios. System clock means here the rhythm at which the variables of the portfolio are evaluated. E.g. in a large scale enterprise, idea portfolios are probably more often evaluated than production portfolios (existing business). The new approach allows this to happen as each portfolio

can be assigned a different clock speed in decision making (i.e. variations on the clock and timing of the decision making sessions).

**Scalability and Size:** As portfolios can be set up flexibly in structure and number, a scalable strategy approach is easy to do: When you grow, you add more portfolios. When you shrink, you downsize the number of portfolios and managers. You are a start up with no resources for strategy development? Then balance the most essential portfolios yourself on an Excel Sheet. You are a multi-business line holding in a global setting (like e.g. General Electric)? Then set up as many portfolios as you need and can handle in a clear and communicative structure and support it with a large IT system.

## 5 SPECIAL ASPECTS/ REQUIREMENTS

### Portfolio Management And Systemics

We think portfolio management in strategy development has a lot to do with a cybernetic cycle and with systemics (Ninck et. al, 2004). As in a cybernetic cycle, target values are set and measurements are done, actual values are then compared with the target values and actions are derived from the gap between them. In an analogous way the set of variables and their interdependence need to be set up and assessed before you go into operational measurements. The final goal behind all system thinking is always system stability, in economic terms this means stable returns and profitability.

### Globalization – International Aspects

Many enterprises today operate on a global basis. They have many countries and cultures involved in their business activities. Can the portfolio approach in strategy formulation cope with this diversity and can it get accepted throughout the world? We think so, as it is easy to define country and even culture specific portfolios. As the strategic portfolios are all interconnected, we even think the global portfolio structure might help a company to recognize culture specific differences, potentials as well as risks.

### Risk Management And Strategy Development

As already discussed, risk assessment is important for strategy design although it is often neglected today (Felton, 2005). Because risk indicators can be defined just as items (variables) in the portfolio structure, risk management is easy to integrate and monitor. This is a distinct advantage over the current situation, where strategy development usually is done by other organizational units than risk management and monitoring.

## A Living Documentation Versus A Fixed Strategy Report

One shortcoming of this new approach might be that this bulky strategy report on the desk does no longer exist. If the whole strategy process is transformed from a periodic strategy project into a continuous action, such a report no longer makes sense. So how then can you communicate your strategy e.g. to external stakeholders when no fixed report exists any more? As all strategic groups have a portfolio structure, an aggregated data set over many portfolios – a portfolio of portfolios – can be set up. The actual reporting data reflects then the actual strategy with all its implications. From that reporting data a snapshot report or slide set may be drawn.

A problem might emerge, if different people take such a portfolio snapshot at different times and then get different statements. We think that this can be overcome with a structured communication and with good presentation discipline (e.g. versioning). Some authors (*Kaplan, Norton 2004, Mitchell 2005*) point out that strategy maps with live data can be useful here. In many cases so called “war rooms” can be implemented, where the important data are continuously displayed and updated on a (video-) wall of a particular office, the “strategy control room”.

For this “war room” different visualization techniques can be used either with low tech methods or with high tech computer and live data support. Here strategic targets are typically shown as target figures and real time data are projected against it’s targets to show deviations. This is current practice in many complex and dynamic decision making situations like in warfare, crisis management, call centers and software development (*i.e. Daum 2003 and Shaker, Gembicki 1999*).

As log files and reports of projected and managed situations can always be stored, many of these tools allow not only to set up directions and planning but also can store the decisions been made, providing therefore hints to a learning organization as well.

Yet a portfolio of overall values and beliefs may exist over a longer period of time that may be communicated consistently and congruently. Therefore a nice side effect of this living strategy documentation is that the strategy report needs to be discussed. It is therefore engrained in the mindset of the people involved. This can form an excellent basis for strategy implementation as strategy will probably no longer be regarded as “just another report on the shelf”...



Figure 6. A Management Cockpit room (“war room”) to support efficient management team meetings (shown in Daum 2003).

## Portfolio Management And IT Tools

The structure of strategy portfolios and the tasks of portfolio management such as described (with many different variables to monitor) are calling for IT tools. IT applications using databases may deliver not only operational ease in storing and maintaining strategy data, they may also deliver decision transparency, as at the time decisions are made, decision options are regarded (and recorded) together with indicator data and are documented automatically. Such records can be used for training or auditing. This can lead to organizational learning. Moreover managing multiple portfolios from a common database assures some minimal degree of communication between the different portfolios.

## Strategic Alignment

Strategy portfolios may vary widely. This raises the question, how a strategy can be aligned when it has to integrate all these different portfolios. For that purpose a specific body makes sense where the various portfolios are compared and valued against each other to maximize overall performance and to hedge the risk. This body can consist of all portfolio managers and may have regular meetings to exchange growth, profitability and vulnerability data as well as to discuss changes in the environment and upcoming opportunities. Strategic alignment takes place when the portfolios are open for input (e.g. ideas or new projects) and on the other hand share their results (e.g., key data of their performance).

Portfolios should be positioned and connected to each other in a way, so that risk and return are balanced according to the risk appetite and style of the company. For example a weak signal from the trends and portfolio may be discussed and then transferred to one or more project portfolios. The beauty of this approach is, that there is leverage and speed through the fact that one stimulus can have quick and multiple impacts on other portfolios, back



and forth. In traditional sequential strategy building you not only have to go through the cycle “analysis, positioning, realization, control” in sequential and time consuming steps, but you have to do that in each business unit as well as on the corporate level. This usually means long time delays until something can be implemented. With our new approach such delays can be avoided.

## 6 BENEFITS OF THE NEW FRAMEWORK

A new proposed approach to strategy development and strategic management is based on the use of portfolio management methods taken from the financial industry and applied on strategy development. With this method we think to close the three initially mentioned gaps as follows:

- *Planning gap*: with the active portfolio structure, the dynamics of the portfolios, including foresight portfolios and an active portfolio management
- *Execution gap*: with the portfolio structure itself, an active portfolio management, the portfolio metrics (target to actual performance) and interportfolio communication
- *Communication gap*: with the interportfolio communication as well as the portfolio transparency with a war room like active strategy communication

The following benefits can be expected from this new framework:

- *Speed and flexibility*: A seamless strategy structure which allows for continuous and parallel strategy activities throughout the whole year helps to bring new ideas and market responses quicker into the market. Especially the integration between the different business units and the strategy process itself is much easier to set up and maintain than with the classical sequential model. Our new approach is speeding up the usual cycle from analysis to implementation. This can mean real money, as in some industries (e.g., pharmaceuticals) every day later on the market can mean a loss of millions of dollars.
- *Risk adjusted strategy*: As the different portfolios can easily be linked to risk management, financial data and performance measurement (or even be integrated there as variables), the resulting actions can already be risk adjusted from the start. In the sequential model in contrast, risk management is usually handled separately.
- *Control*: A strategy portfolio framework might give more control in a volatile business environment and may even be the only solution to cope with change in a turbulent world. In such environments, the

traditional sequential approach does no longer deliver useful results. Success control and backtracking are made easy with the new method, as the status of the portfolios and all data can be recorded and tracked in databases. This not only delivers inputs for corporate knowledge management and decision making but as well data for compliance audits.

- *Cultural Awareness*: The new approach allows implementing different national or cultural portfolios, so internationalization and globalization issues can be handled better (as country specific portfolios can be set up easily and compared to each other).

## 7 FUTURE RESEARCH – OUTLOOK

- *Proof of concept*: Up to now no practical pilot of this new concept does exist. We suggest that such a pilot based on our new framework should be set up within a company. It should be used for one or two years to verify, that the new approach works in the real world.
- *Operationalization*: This article just gives a rough overview of the new strategy framework, and many details still need to be worked out. It will be necessary that certain details and elements of the model be described more in detail and supporting templates and tools be developed, so that the model can be operationalized more easily.
- *Empirical data needed*: Next to this, we think it would be reasonable to conduct empirical studies on the topic and evaluate the results on a larger scale. It is necessary to study the advantages and disadvantages of the framework in practice. Only then the value of the approach can be maximized.

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