ONLINE FILE W3.1

Portfolio of Options

Regardless of a company's overall strategy, it is unlikely that one or two tactics will be sufficient to meet the objectives and targets laid out in a strategic plan. Instead, the various tactics should be looked at as a portfolio of options, much like a person's investment portfolio. At the very least, the "certainty of uncertainty requires organizations to simultaneously prepare for the best and the worst. In short, spread their bets" (Schoemaker, 2002).

Detailed financial models and standard decision support techniques can be used to forecast the potential quantitative impact of the various options on the targeted values as well as the forecasted values that might be obtained if none of the tactics are implemented. In this way, decisions can be made about whether to pursue the various tactics and initiatives and the degree to which they should be pursued. The evaluation process usually involves a sequence of steps (Coveney et al., 2003):

1. Weigh the suitability of each option. Suitability addresses the simple question "Why is this a good idea in the overall context of the organization?" Some of the techniques for accessing suitability include lifecycle analysis, portfolio analysis, and value-chain analysis.
2. Compare the relative merits of the suitable options, using techniques such as ranking, decision trees, and scenario planning.
3. Determine the acceptability or expected performance and risk of each of the highly ranked options. Expected performance can be determined by using various numeric tests, such as profitability analysis, cost–benefit analysis, and shareholder-value analysis, and risk can be assessed by using financial-ratio analysis, sensitivity analysis, and simulation modeling.
4. Determine whether the organization has the resources to implement an option. Funds-flow analysis, break-even analysis, and resource-deployment analysis can be used for this step.

After an organization has evaluated its options, it can go through a selection process. The basic purpose of any strategy is to add value and contribute to the competitive position of the organization over the long term. Although there is no algorithm that can be used to determine the contributions of a particular strategy option, some general criteria can be used (Coveney et al., 2003):

- ***Strategic fit.*** Does this option advance the organization's overall vision or strategy?
- ***Assumptions.*** What is the overall validity of the assumptions underlying the option?
- ***Investment.*** What resources must be invested in this initiative?
- ***Return horizon.*** When will the company receive the benefits from the project?
- ***Risk.*** What risks surround this option?
- ***Likelihood of success.*** How likely is it that you'll succeed if you pursue this option?
- ***Fit with culture.*** How well does the option fit with the company's culture?
- ***Stakeholders.*** How attractive or viable is this option with the company's stakeholders?

References

Coveney, M., D. Ganster, B. Hartlen, and D. King. (2003). *The Strategy Gap*. Hoboken, NJ: Wiley.

Schoemaker, P. (2002). *Profiting from Uncertainty*. New York: The Free Press.