

# PwC Corporate Portfolio Management Study 2024

The Portfolio Management Paradox  
Too Complex to Handle yet Necessity for Bold Action  
to Survive and Thrive

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# Executive summary

Rising geopolitical tensions and divisions, the impact of climate change, techno-nationalism and populism are putting pressures on the portfolio of business units of firms. While true for most firms, these pressures are particularly salient for businesses operating in energy-intense and globally operating industries such as chemical, pharma, household appliances, or construction industries. These businesses are simultaneously affected by multiple and diverse adversities, which increases complexity in terms of navigating successfully. In market environments impacted by significant levels of VUCA, it becomes ever more challenging to develop meaningful strategic plans and keep them synchronized with the corporate portfolio.

Current market environments are characterized by unprecedented complexity, such that processing all available data and information meaningfully becomes an unrealistic illusion. Consequently, the value of planning and strategizing becomes more and more challenged. At the same time, for firms to survive and thrive in such an environment, active portfolio management with continuous reviews and the implementation of strategic measures to maintain and optimize a strategic fit is imperative. That paradoxical situation defines the challenge that modern strategy and M&A professionals have to master: Accepting limitations of complexity, but still managing the corporate portfolio in a meaningful way.

In that spirit and despite the surface level conclusion that planning becomes increasingly impossible, we find that more than ever foresight and planning are essential for creating and maintaining strategic direction. Strategic direction is about setting guardrails within which business units can be granted entrepreneurial freedom or making sure that a balanced portfolio is being developed with the right balance between resilience and preserving current cashflows, and adapting to new opportunities. The goal is to develop a strategic, ambidextrous portfolio that can balance the conflicting demands of flexibility and stability and provides a foundation to survive and thrive in VUCA environments. During our Corporate Portfolio Management Study, we conducted 23 interviews with senior strategy/portfolio management executives of 20 companies that allowed us to gain exclusive insights into the various ways of how executives navigate corporate portfolios through current market conditions and identify pathways to mitigate overwhelming complexity while at the same time pursuing an active and courageous approach to portfolio management.



# Key takeaways

- The current environment is intellectually and practically putting our textbook assumptions about corporate strategy and portfolio management to the test. Strategic planning, that seeks to achieve a fit between the organization and the environment by optimizing opportunities and mitigating risks easily exceeds the cognitive capacity of even the smartest managers under the contemporary levels of VUCA that characterize corporate environments. Corporate portfolios (the sum of business units) as well as corporate strategy are constantly challenged by unpredictable contexts and adversities making actionable and meaningful portfolio management paradoxically almost impossible, yet imperative at the same time!
- It is the inherent complexity and uncertainty that make portfolio management key to survive and thrive. Simply, operating in multiple environments with lots of high-impact change requires effective portfolio adaptation measures just to ensure survival, keeping strategy and portfolio synchronized by simultaneously making optimal use of the windows of opportunity.
- Portfolio Management requires institutionalisation and needs to be understood as an essential element of corporate strategizing. As such, modern portfolio management builds on capabilities that enable the integration of bottom-up and top-down approaches by simultaneously allowing for the dynamic and seamless interplay of several essential activities of portfolio management.
- While individual business units might understand their activities better than headquarters, it is headquarters that best understands the interplay of multiple business units, the quality of the portfolio composition, the balance between preserving and adapting or risk and opportunity, and the combined contribution to the corporate strategy. The effective institutionalisation of portfolio management enables an effective combination of bottom-up and top-down approaches to embed the 'boots on the ground' perspectives of the business units and the 'bird's-eye' perspective of the portfolio manager.
- To be able to deliver on the corporate strategy and ensure optimal strategic fit of the portfolio, best practice businesses develop capabilities and methodologies that enable the dynamic and seamless meshing of portfolio management activities that were previously considered separately and in chronological isolation, as well as the integration of bottom-up and top-down considerations. Ultimately, this means modern portfolio management is no longer a strictly chronological process with distinct activities performed by different functions and actors, but an integrated activity based on capabilities, that allow businesses to quickly tackle emergencies, navigate through uncertainties, and capture opportunities when they emerge without losing direction.
- While portfolio planning is already an intellectually challenging task, it is also concerned with the actual practicalities, such as implementation, continuous monitoring and adjustment. Organizations typically tend to resist change and may develop inertia over time; hence it is the artful responsibility of the portfolio manager to create a sense of urgency and utilize windows of opportunity. While portfolio management is organizationally still rather premature, it requires clear governance structures and objective criteria that make it possible to monitor developments, to intervene quickly or

adjust, if necessary, to avoid "management by gut feeling" and to reduce decentral sporadic acts of creativity that could undermine the corporate strategy.

- Ultimately, the study identifies pacemaker for the institutionalization of modern portfolio management and the implementation of corresponding measures. The governance and ownership structure of a business has a strong imprint on whether a business is able to institutionalize modern portfolio management and implement measures. Further, organizations need to balance carefully the autonomy granted to them and required to unfold local entrepreneurialism and the power business units gather within the portfolio. Here, a clear strategy, visionary goals, and a strong organizational purpose can act as facilitators but also hinder them.

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In summary, the VUCA environment poses significant challenges for portfolio management. It is simply too complex to consider all information, alternatives, and potential adversities that might hit organizations, making traditional approaches of strategizing impractical. Modern portfolio management is about developing capabilities that combine bottom-up and top-down approaches by simultaneously, dynamically and seamlessly integrating different activities to establish effective portfolio management. This is imperative to provide bold direction and action. Simply, to survive and thrive in a complex environment, businesses need to develop and build on modern portfolio management capabilities.

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# Introduction

Planning is essential for directing a business, but tight plans create myopia toward emerging opportunities. Chasing opportunities is key for adapting, but chasing opportunities without direction leads to a risky and directionless organization. Portfolio management is an essential element of corporate strategy, particularly relevant for multi-business firms that operate in diverse geographical markets. As such, the individual business units define the operational footprint of the corporate portfolio that needs to be aligned with and contribute to corporate strategy. This requires continuous portfolio reviews and optimization to ensure that the entire corporation develops in line with its intended strategy.

Our study finds that the common textbook strategy, consisting of information gathering, analysis, the development of various strategic options followed by the selection of the best one, is not suitable in today's business environments for two major reasons.

First, this VUCA environment has made predictions of the future less reliable if not impossible, challenging the validity of propositions about specific developments, particularly in the long run. There are of course trends and developments that allow us to navigate the situation, but there are more unknown or unsystematic risks that we cannot anticipate at all.

Second, portfolio management is about strategic options, and in the second step, selecting and building on the best strategic opportunities. However, the selection of the best opportunity would require that all strategic opportunities are synchronized and comparable at a single point in time. This is seldom possible in a VUCA environment.

**These are two crucial forces that challenge traditional corporate strategy and portfolio management approaches, as portfolio managers need to make decisions with incomplete information at hand and specify the room for manoeuvring in unpredictable contexts. This puts our understanding of corporate strategy and portfolio management intellectually to the test. Is portfolio management still contemporary in a world that becomes increasingly unpredictable?**



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Very recently, the CEO of a global sport equipment manufacturer highlighted that there is no need for strategy, management is about having good reflexes. Contrary to this, other executives in that firm are keen on understanding the direction to adjust relevant processes. Further, shareholders are keen to understand how future profits can be generated.

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Interestingly, while the concept of corporate strategy is challenged by the context, providing direction becomes ever more important. Indeed, we find that portfolio management is key to survive and thrive within complex contexts. However, modern portfolio management needs to properly understand and redefine its role to provide value: granular strategic plans are replaced by strategic guardrails providing direction, while strict control and oversight are being replaced by granting as much entrepreneurial freedom as possible to suitable business units. As such, modern portfolio management is about focusing on what just cannot be seen and done locally – a sound balance of the corporate portfolio that follows an agreed strategic direction and continuous portfolio transformation to ensure strategic fit.

To fulfil that role, portfolio management needs to be institutionalized and build on capabilities that make it neither an ad-hoc activity, nor an activity that is done for the activity's sake. Modern portfolio management capabilities enable businesses to dynamically and seamlessly integrate activities that were previously considered separately by combining bottom-up and top-down approaches. These activities involve the scanning of the market environment, understanding the operational footprint and associated capabilities, the development of corporate level strategy, portfolio review and the delineating of measures, and ultimately their implementation, to ensure continuous portfolio optimization.

This implies that modern portfolio management is neither about chronological steps, nor about just being quick, it is about developing capabilities that enable businesses to find the right balance between flexibility and stability and between acceleration and slowing down. This balance is crucial as an either-or approach is just not viable and places the organization in jeopardy.

Any focus on seeking out opportunities or being driven by reactive responses to the VUCA environment follows a so-called “adapter” approach to change and transform the business. While this approach allows organizations to explore and change themselves to achieve a strategic fit with the ever-changing environment, it can be expensive, might overstrain the business, and the top-level management might lose employee commitment – even to the point of destroying the legacy and purpose of the business. In a nutshell, the costs of adapting might eat up the margin and put firms in financial dire straits.



Likewise, focusing solely on preserving existing structures and strategies might result in blundering into the efficiency trap. While an efficiency focus might be suitable for short-term profit and shareholder-value maximisation, it might deviate attention from necessary decisions aimed at organizational effectiveness and put the firm at risk in the long run. Indeed, a focus on cost-cutting, low hanging-fruit, and quick wins has direct P&L effects glossing over substantial problems like innovation backlogs and resistance to transformation.

**Combined, a focus on either-or, or an imbalance between “preserver” and “adapter” approaches constitutes a serious risk.**

Modern portfolio management requires institutionalization and continuous reviewing and optimization based on capabilities to enable a thoughtful balance between the old (where the business comes from and what should be preserved) and the new (where the business wants to move to and the situations the business wants to adapt to) to establish strategic fit. Organizations need to consider carefully to what extent they can purposefully preserve and adapt simultaneously. This implies challenging trade-offs between our desire for planning and stability, on one hand, and the need for local entrepreneurialism on the other.

# Operating in an uncertain environment – Probing the value of strategy

## Factbox

Businesses are confronted with unprecedented volatile, uncertain, complex, and ambiguous (VUCA) environments. It is the interaction of multiple unsystematic and systematic risks that results in a poly-crisis that challenges and probes businesses across the globe. In the past, portfolio management could follow grand taxonomies like life-cycle concepts or societal and economic trends to establish an optimized portfolio delivering the corporate strategy. Today, comprehensive long-term planning cycles appear to constitute meaningless extra work, as once they are developed, the context has already changed. However, to survive and thrive, corporates need to navigate and manoeuvre through complexity, making modern portfolio management key.

## The evidence

Current market environments, geopolitical crises, and grand challenges confront executives and managers with enormous challenges. Strategy is concerned with achieving a fit between the organization and the environment by simultaneously satisfying stakeholder needs. Achieving a strategic fit, i.e. making sure the corporate portfolio can deliver the strategy, has always been a challenge for businesses that operate in multiple markets with a wide array of products and services across the globe.

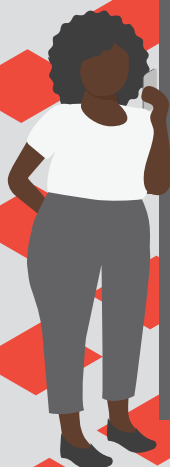
However, understanding the operational footprint is an intellectually demanding but doable activity; we have plenty of assessment tools, suitable key performance indicators, or benchmarks that enable managers to solve this side of the puzzle. When grappling with the environmental aspects, the problems besetting portfolio management turn devious. Understanding and predicting the environment is a different animal and not really possible along all dimensions and dynamics. It is the interconnectedness of the global economy and the amplifying effects of multiple interconnected crisis, that make the development of suitable plans even more challenging and successful implementation unlikely.

There are cycles that help us in predicting but also multiple issues we cannot predict. Sometimes, you think it is a minor thing, but suddenly multiple business units are facing issues.

Head of Strategy

We have businesses all over the globe. Each region develops differently and is affected by different crises. There are high-risk areas and low-risk areas, but the last years taught us, that even a low-risk region can be impacted.

Head of M&A



Even though each of the interviewed businesses was confronted with different VUCA elements, there were some communalities.

**Geopolitical tensions** are a main concern of many businesses. Understanding the scope of eventualities and preparing the organization accordingly constitute a main challenge. How can a business unit be cut-off? How can organizations globally restructure to minimize potential effects? Does a potential risk justify the costs and lost opportunities?

With the smouldering US-China conflict, a potential war in Taiwan and upcoming elections in the US, we had to decide what's right for us. As such, we left one country.

Head of M&A

The Ukraine-Russia war caught us by surprise as we have key suppliers in Ukraine. We try to support them in this difficult time, but we have plans to move on in case the worst case comes true.

Head of Strategy



**Sustainability** is key for many organizations and reducing, for example, the carbon footprint is essential. However, the road to develop a sustainable organization is long and expensive and many organizations were caught by surprise by increased interest rates and energy costs. Suddenly visionary goals have become clouded, and businesses need to find workarounds to survive and thrive. Should organizations drop their ambitious goals to preserve profits at the expense of the planet?

We are being punished for what we've been doing for generations. Suddenly, we are an unwelcome creditor and pay higher interest rates.

C-level Manager

We cannot stick to our original plan; we need a work-around. With the current energy costs, it is not a financially sustainable solution for us. In the US, the energy costs are a quarter.

Head of M&A



**Global supply security** is more than ever an issue for businesses. Global trade routes have been disrupted by geopolitical tensions, wars, natural disasters but also by relatively harmless surface-level events. Suddenly, businesses were challenged to re-organize their supply and to reduce dependencies. But do the costs outweigh the benefits? Does the organization have the leeway to change?

We cannot simply re-organize ourselves. We are globally integrated and focussed for decades on global efficiency. We cannot change this easily as our investment plans have time horizons up to 50 years.

Head of M&A

Evergreen caused far greater issues for us than Corona. Now we have issues in the Red Sea, tomorrow it might be something else. We learned from this and tried to re-organize our supply.

Head of Strategy



**A lack of young skilled workers** is a key issue experienced by most businesses, and it seems to become more and more difficult to fulfil demand. Apparently, young talent also has different expectations, and a good salary is not enough. Addressing the needs of young talent might even require a fundamental change to existing working cultures. However, can the existing business cope with the required changes? Where can talent be found?

A good salary and a parking spot are no longer sufficient; you need a fair-trade banana and lactose free milk and yoghurts. Just kidding, but the package to attract high potentials is different nowadays.

C-level Manager

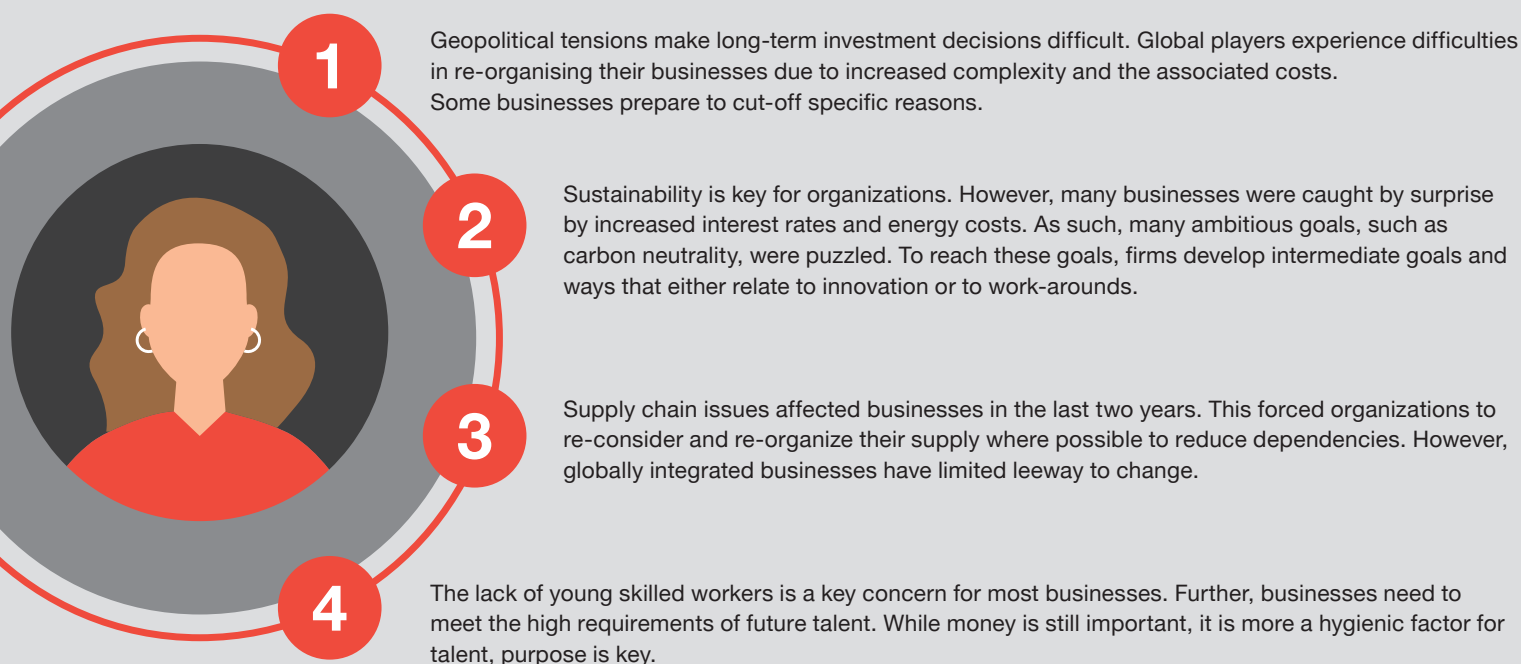
The expectations have changed. Who is willing to work for 50 to 60 hours from the office? Young people want home office or work from abroad. Our approach to control staff needs to change.

Head of Strategy



The following figure summarizes the main difficulties the interviewed organizations are experiencing currently.

Figure 1: Main complexities



These main difficulties are closely interlinked with the volatility, uncertainty, complexity, and ambiguity of the environment but also with political, environmental, social, and technological drivers. Combined, this suggests that predicting or anticipating the future is impossible and our common textbook strategy, consisting of analysis, the development of various strategic options followed by selection of the best one, is not valid (if it ever was) in today's business environments for several reasons.

First, in an VUCA environment we cannot reliably predict the future to make valid propositions about specific developments, particularly in the long run. There are of course trends and developments that allow us to navigate the situation but there are more unknown or unsystematic risks that we cannot anticipate at all.

How should we predict global developments in the next five years. There are way too many uncertainties. We focus on the things we know or where we have at least an idea of how they might develop and ignore unsystematic risks. No sense in thinking about this, we have no control over this.

Corporate M&A Manager



Second, selection of the best opportunity would require that all strategic opportunities are synchronized and comparable at a single point in time. However, this is rarely the case.

Planning would imply that we know the alternatives. This is an illusion as it would imply synchronised opportunities. This is not realistic. If there is an opportunity for an acquisition, we cannot wait for other opportunities to make comparisons, if we don't buy it, someone else might.

Head of Strategy



## Does that make planning obsolete?

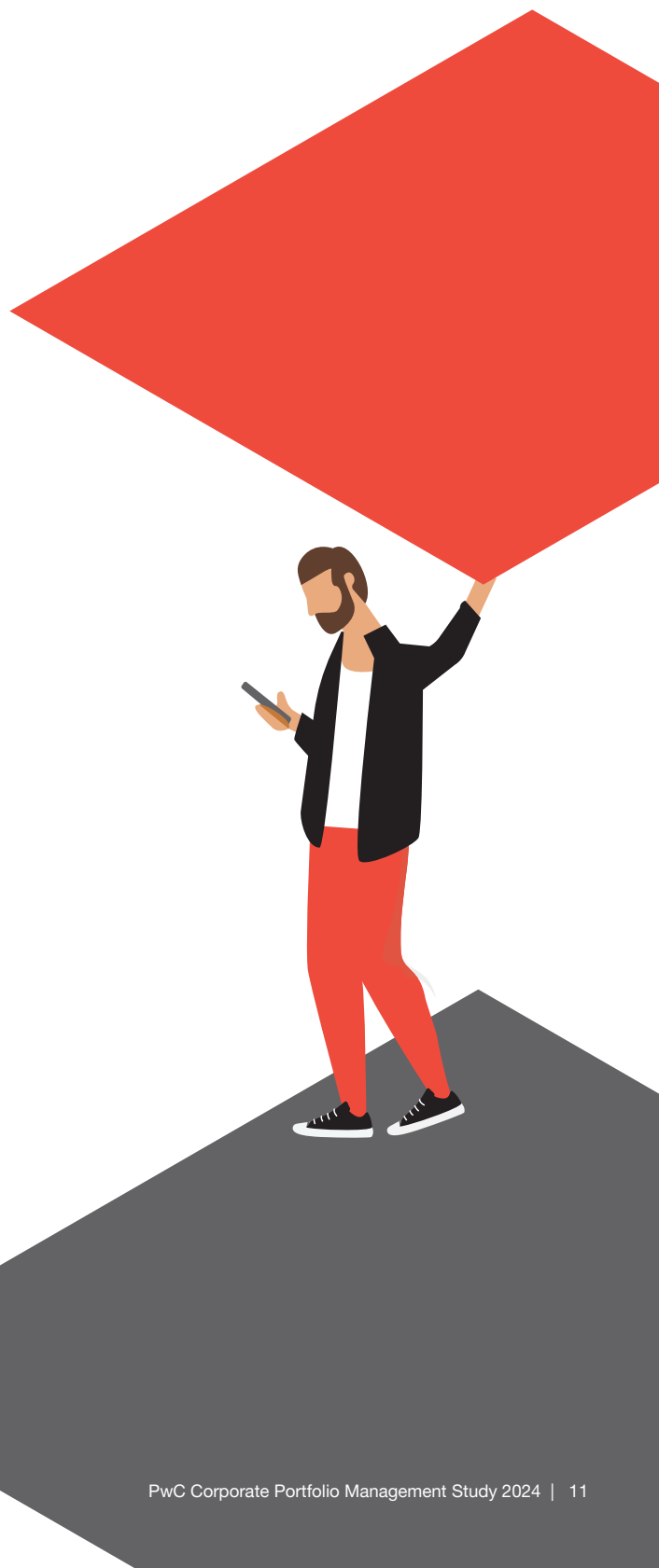
While the idea that strategy is not a written plan but a pattern in a stream of decisions is not new, for instance, the importance of emergent strategy has been known since Henry Mintzberg's (1978) early work, many organizations still try to implement formalized planning procedures. While potentially valuable in munificent and stable environments, it is a millstone around an organization's neck in a turbulent environment, slowing down necessary action. But does that mean that corporate strategy and portfolio management are obsolete? Or does it mean that we need to think about corporate strategy and portfolio management in different ways? Our study shows that planning and portfolio management are key to survive and thrive.

The importance of strategy and portfolio management becomes paramount in VUCA environments. Successful businesses need to be able to effectively react to changes in the environment. However, the ability to react effectively requires first, an understanding of VUCA in different markets and second, an understanding of the portfolio composition and the consequences of these changes on the portfolio balance. These two underlying necessities also imply that modern portfolio management requires capabilities that allow for a combination of bottom-up and top-down approaches on the one hand, and a dynamic and seamless integration of analysis, planning and implementation on the other, to develop a risk-optimized portfolio that can thrive in the future.

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It is revealing to see how organizations deal with the complexity while strategizing and enabling their organizations to manage their portfolio in a coordinated fashion. As such, as much as we could criticize planning, it is essential for businesses to have a direction. Indeed, solving the dilemma of complexity and planning does not imply an either-or decision, but requires appropriate institutionalization of corporate strategy and portfolio management, and the development of capabilities. While there is no right or wrong answer in how to institutionalise and how to develop the required capabilities, our data shows some common patterns among best practice businesses.

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# Institutionalising portfolio management – Taking charge to navigate VUCA

## Factbox

Strategy provides direction, aiming at establishing and maintaining an optimized portfolio with a balanced risk profile. Long-term—script like—plans were great in a stable and munificent environment, the challenge for businesses today is that they operate in VUCA environments. This context requires a new approach to institutionalizing portfolio management. As the environment constantly changes, modern portfolio management needs to develop capabilities and apply methodologies that allow businesses to continuously monitor the strategic fit between the portfolio of business units (operational footprint) and the strategy, and, if necessary, develop plans and actions to readjust to achieve a better, temporary strategic fit. In times of adversities, portfolio management is no longer an activity undertaken exclusively at headquarters, which takes place in chronological order. Headquarters experience two types of information asymmetries that make chronological step-by-step, top-down portfolio management inappropriate; First, local business units know the business and markets better, and second, any changes at the local level are recognized only after a time-lag at headquarters. Mitigating negative effects of information asymmetry requires the development of capabilities that enable the close interaction of portfolio management and local business units while simultaneously granting large degrees of autonomy to business units. Further, analysis, planning, and implementation require a dynamic and seamless meshing to remain reactive. As such, modern portfolio management must give business units a voice in strategizing, planning, and implementation but also direction. Simply, while the business units might understand their local business better than headquarters, it is headquarters that understand best the interplay of multiple businesses and the needs to preserve and adjust specific units for an overall optimized portfolio.

## The evidence

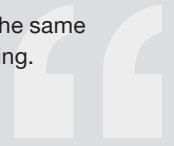
The firms we interviewed placed varying emphasis on the formal positioning of portfolio management and the formalization of planning processes, dependent on firm size or how the business is organized. Whether or not portfolio management is organized in a separate department, it is typically closely aligned with strategy on one side and its implementation through organic or M&A activities on the other side. Further, for successful institutionalization, businesses need to develop corresponding capabilities that allow them to sense and capture opportunities and to establish and maintain an optimized portfolio. Independent from the organizational set-up, we found that best practice organizations implicitly or explicitly institutionalize five activities to establish and maintain an optimized portfolio to deliver their corporate strategy: (1) Continuous bottom-up and top-down environmental scanning, (2) assessing of the operational footprint, (3) defining and adjusting the corporate strategy, (4) reviewing the portfolio in light of the corporate strategy and, ultimately, (5) adjusting either the portfolio or the implementation of strategic measures to deliver on the strategy.

While this might appear similar to classic approaches, the novelty of modern portfolio management can be seen in the dynamic and seamless meshing of these activities (this is why they were not described as steps implying a step-by-step approach), to enable effective responses to larger-scale and more frequent change, to allow for capturing ad-hoc opportunities and to give leeway to react to the unforeseen. While these five activities require different skills, tools, and methodologies, they are interrelated and only their effective integration and the combination of bottom-up and top-down approaches can result in a capability that enables actionable and powerful collective activity. To enable this, close interaction and coordinated effort of the different actors involved is needed.



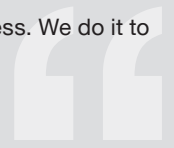
We are formally organized in different functions, but it is key that we share the same coffee machine, ultimately, we need to pull together to make things happening.

Head of Portfolio Management



We do the planning process not just because we have this formalized process. We do it to align everyone and to give everyone a voice.

Head of Strategy and Portfolio Management



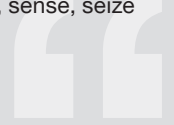
We have our annual plans that are important but always have the slack to quickly move if an opportunity arises, even if it is completely out of the original plan.

Head of Portfolio Management



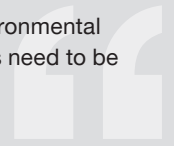
Plans are good and give direction, but we need to be open to opportunities, sense, seize and capture them when they arise.

Head of Portfolio Management



If we separate our planning from thinking about implementation, or the environmental analysis from our operational footprint, we would be lost. All those activities need to be seamless, like a clockwork.

Head of Strategy



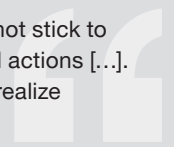
We used to have a step-by-step approach in the past but by the time we reached step XY, the conditions had already changed.

Head of Strategy



We need to be entrepreneurial, if we want to capture opportunities, we cannot stick to processes developed twenty years ago. Here, we need quick decisions and actions [...]. However, we also need stability and plans, both are needed to predict and realize synergies across the business units.

Head of Strategy



## Activity 1: Continuous bottom-up and top-down environmental scanning

Scanning the environment is about understanding and anticipating change, and identifying both emerging opportunities and risks, both essential ingredients for a successful corporate strategy. This is a challenge from a portfolio management perspective, for two reasons: First, in VUCA environments, change can happen fast and in unanticipated manner, speed, and scale. Further,

anticipating globally valid future scenarios centrally is not feasible due to the high level of ambiguity and connectedness. Second, change and adversities unfold differently in different markets, having an unpredictable range of impacts on local business units and their business models.

In a nutshell, we at headquarters sit in the audience gallery and in the best case observe or monitor how the business units perform on time. They know their markets best and understand how the environment impacts their business today and in the future.

C-level Manager

Honestly, we have limited insights into the day-to-day business of our business units. In some cases, we only recognize something is wrong when there is an extreme deviation between goal and delivery.

Strategy Manager

Our markets differ greatly, we tried to scan the environment for global trends and build all other steps on this analysis, but this failed, as the effects vary locally.

Strategy Manager



One communality among the best practice organizations we studied was that they strongly rely on local business units for continuous environmental scanning, as they acknowledge that the business units know their markets best. Environmental scanning has become a directed and coordinated activity that involves a combination of bottom-up and top-down approaches. Headquarters provide models and templates that encourage business units to reflect on their current and future market positions and to anticipate environmental changes.

We need the business units to feed information into our strategic planning. As they are doing the day-to-day business, they know their markets best.

Head of M&A

It is the information from the business units that gives us an idea of the markets and their developments. While there are some global trends we scan centrally, we need the information how change looks locally.

Head of Strategy



For all interviewed firms, environmental scanning is an essential part of the annual planning cycle. However, some businesses put emphasis on continuous environmental scanning, for example through informal or formal monthly reports or gate systems that give an alert for positive or negative deviations from plans while others rely on annual reports. The first one enables the corporate centre to quickly understand local changes and adversities to intervene if necessary. In a nutshell, in order to manage a portfolio, it is essential to understand the playing ground of the business units, that is highly dynamic and situational. Here, the corporate centre needs a strong sense of reflectiveness and the ability sense developments.

## Activity 2: Assessment of the operational footprint

Knowing local markets on an aggregated level is one important aspect, understanding the operational footprint of the portfolio the other one. It is the combination and entanglements of all business units that determine the operational footprint of the organization. However, the sum should be greater than its parts to realize positive portfolio effects. As such, it is essential to understand the underlying capabilities that enable the entire corporation to

survive and thrive as well as the need for central services. As for the latter, we found that the service provided greatly differs among the interviewed companies, ranging from providing essential services like processes and templates to the full centralization of actions. Whether an approach is suitable or not strongly depends on the context and the direction of the business.

Responsibilities for the business lie with the business units. They have the entrepreneurial responsibility. [...] We can only provide a framework or boundaries for the business units. Give them a direction and support them with processes, templates, and knowledge.

Head of Strategy

As headquarters, we provide the backbones of the business. For example, IT is something we do centrally and provide globally. This is probably the best synergy we can deliver.

Head of Strategy

We could realize global synergies much better, but we deliberately chose not to do so and accept the extra costs. Realizing more synergies would reduce our flexibility and flexibility is key to us.

Head of Strategy

We need coordinated action on global markets. This requires centralized services for all units and harmonization of processes. Ultimately, we operate in a mature industry, and we need to realize synergies to achieve scaling effects that are our competitive advantage.

Head of Portfolio Management



Regarding capabilities, one needs to distinguish: Some of these capabilities are locally embedded and bound, other capabilities enable multiple business units to develop products and services jointly and create a competitive advantage through cooperation for the individual unit as well as for the corporation as a whole.

[XX] is like the formula 1 business unit, they are the forefront of technology development. This is something we can use on a global scale in other business units.

Head of Strategy

We installed monthly informal meetings among the R&D and sales staff of different business units. They can learn from each other and we can avoid duplicities.

Head of Strategy

We are organized in geographies, but our customers are global. As such, if an existing customer requires XX [product or service], we encourage business units to work with each other.

Head of Strategy



Local capabilities can be detected and nurtured by the individual business units. However, capabilities that require multiple business units to cooperate to be effective, can only be understood by the portfolio manager at the corporate centre. While capabilities that span across the organization look great, they might create tension particularly with regards to profit and loss sharing.

It is sometimes difficult. We have this great xx [capability] but cannot really exploit it as there is strong disagreement on which business unit gets which share of the profits.

Head of Strategy

Our management accounting regulations somehow limit that organization-wide capabilities can be fully leveraged. I understand, each business unit needs to hit their targets and investing in such a capability is costly, who pays for it?

Head of Strategy



To overcome these tensions, the best practice organizations we studied, relied on a combination of bottom-up and top-down assessment, in the same vein as environmental scanning, to understand the location- and corporate-specific capabilities as well as the corresponding trade-offs.

We assess and manage our portfolio in a participatory way. That means that the business units are not just delivering numbers, but also feed in information about capabilities and the sources of competitive advantage they see locally.

Head of Strategy

We constantly foster initiatives across business units. While the results might not be visible for the individual business unit, we can see the value of these initiatives from our 'birds-eye perspective'.

Head of Strategy

We are more than the sum of the parts. Of course, it is the individual business units that define where and how we operate, but there is also value across the business units that contributes to the corporate.

Head of Strategy

There are tangible and intangible elements that jointly determine our outreach and how we operate. Only if we understand this, we can get ready for the future.

Head of Strategy

Our footprint is not just numbers; we need to understand what they [business units] do and why they perform. Understanding their intangible side is essential for us.

Head of Strategy



For assessing the operational footprint and different capabilities, most organizations rely on templates and some sort of standard to make different business units comparable and to assess the entire portfolio profile. However, this is a challenging task, given that some organizations have an enormous scope that cannot be simply captured in a few power-point slides.

We used to rely on a nice portfolio matrix and condensed all our analysis in two or three power-point slides. However, we always had the gut feeling that we are missing something, something that has been lost while organising everything among two dimensions. We now went back to word-files and a written text.

Head of Strategy

We are always confronted with the trade-off between complexity we cannot manage and simplification that ignores many aspects.

Head of Strategy



In short, understanding the operational footprint of an entire portfolio as well as the entanglements that allow the corporate to be greater than the sum of the parts is a cognitively challenging activity. Indeed, a structured understanding of the operational footprint is cornerstone for identifying potential synergetic effects, bottlenecks, and the combined risk profile of the portfolio. In further consequence, this is essential for the development or adjustment of the corporate strategy. While a 100% true and comprehensive picture might not be possible, the studied best practice organizations put great effort in establishing a close approximation of the true state of affairs.

### Activity 3: Developing and adjusting corporate strategy

The belief of being in charge and control over the entire portfolio and every business unit has significantly changed and now turned into a mere illusion. Interviewees said that to survive and thrive in VUCA environments, organizations need to develop a clear vision, associated goals and aspirations that are specific enough to provide future direction, but also flexible enough to allow organizations to quickly respond to market changes and adversities. As such, the corporate strategy needs to anticipate the future composition of the portfolio to be able to explore and exploit opportunities with an optimized risk profile. This requires

that businesses focus on effective planning and shortening their planning cycles without giving up the long-term direction. This is a key change compared to planning approaches and ideals of the past that built on the assumption of complete information, comprehensive analysis, the development of multiple options and the selection and implementation of the best one. All these fundamental assumptions are challenged in today's VUCA environment and detailed scripts are not appropriate anymore, as a single event might change everything.

Planning would imply that we know the alternatives. This is an illusion as it would imply knowing and be able to synchronise all opportunities and knowing the alternatives.

Head of M&A

The Evergreen obstruction was horrendous for us. Suddenly we experienced a shortage of supply. Our former strength, globally just-in-time to reduce stocks and costs turned fully against us. With zero slack, we were confronted with unplanned and very costly shutdowns of multiple production facilities. It took us months to reach pre-Evergreen productivity again.

Head of Strategy

This [our planning approach] worked well in the past 20 years but now, the underlying assumptions of our organization that have become so dear to us are no longer valid.

Head of M&A



To handle complexities and to be able to navigate VUCA, most companies have implicitly defined three distinct time horizons for their strategic plans that can be characterized as three distinct flight modes.

We still have a five-year plan but actually, we have a plan with resource allocation commitments for one year, a rough idea for the following two years, and for the remaining two years, in the best case, a glance into the crystal ball.

Head of Strategy

We shortened our actual planning cycles to 3 years instead of five years with more detailed planning on an annual basis. Further, we developed a “gates” solution that allows us to quickly intervene if things go wrong on one side but also to capture opportunities if they arise.

Head of M&A



Figure 2: Planning horizon



We label the annual planning cycle as “contact flight”. The corporation is moving into a direction that is fairly visible and thus predictable. This is also the time horizon for which businesses can make commitments with regards to resources and investments. Further, appropriate ‘cockpits’ (that is, monitoring, steering and management control systems) allow headquarters and portfolio management or strategy departments to quickly intervene in case things go wrong.

We make detailed plans for one year and integrate an outlook for another two years. But overly detailed plans for this stage don’t make any sense. In a year’s time, everything looks different.

Head of Strategy

We have our long-term plan, or let’s call it direction, but we specify years on an annual base for one year. This allows us to be clear with the resource commitments.

Head of Strategy



However, as plans are aligned with the local reality of the business units, most of the best practice businesses give a voice to the business units even though it is ultimately the centre that decides on resource allocation and commitment. Including business units within the planning process might even ease the implementation.

We manage our portfolio in a participatory way. That means that we develop together with the business units specific business plans that align to our overall vision. Business units have a strong voice in this as they know the markets best.

Head of Strategy

The holding determines the budgets and resource allocation.

Head of M&A

We apply an inclusive planning process not just because we have this formalized process. We do it to align everyone and to give everyone a voice.

Head of Strategy and Portfolio Management



Planning beyond one year becomes increasingly challenging in a VUCA environment. Both data availability and its interpretation become increasingly inaccurate. However, corporate strategy is about the long-term direction of the business, and it is not about tactics. As such, planning beyond one year is as essential as the 'contact flight' mode. However, long-term planning is about visionary goals that define boundaries and not detailed scripts.

We need a rough idea or a vision and somehow an idea of how to get there, otherwise, we would not be able to make mid- or long-term investments.

Head of Strategy

Our corporate strategy development, even though we do it annually, follows a consistent vision and while annual plans change, our direction remains. Let me put it this way: We have our goal and to reach this goal, we need to adjust the path but not the direction.

Head of Strategy

Our strategy 20[xx] defines our strategy and visionary goal. This determines our path without being a detailed script. That would not work anyway, detailed planning on an annual level is feasible, but not more.

Head of Strategy



Developing and adjusting corporate strategy has become more flexible compared to the past. This is an essential adjustment to survive and thrive in VUCA environments. However, a long-term vision is still relevant, otherwise, all portfolio management decisions would be determined by tactics and opportunism, resulting in a directionless and uncoordinated corporation. While the long-term direction must be clear, detailed scripts for mid-or long-term plans won't work in a VUCA environment. Detailed scripts however work for timeframes like one year.

## Activity 4: Review of the portfolio and delineating measures

The fourth step of companies that we identified in our analysis is the review of the portfolio with respect to corporate- and business-level strategies. This is an intellectually challenging activity as it requires integration of all previous steps, the environmental scanning, the operational footprint, and a specified corporate strategy, plus an estimate of future developments to be able to establish and maintain an optimized portfolio.

An optimized portfolio is about establishing and maintaining a dynamic balance between preserving and adapting or between ensuring stable cash flows on one side and developing opportunities for future cash flows on the other. Solely focussing

on preservation might stabilize the organization in the short run but it also puts future viability at stake. Similarly, it is also dangerous to solely focus on adaptation, as it triggers the risk of perpetually reinventing the firm without a clear understanding of its capabilities, which creates internal and external friction. As such, modern portfolio management requires careful reviewing, anticipation, and optimization to achieve a thoughtful dynamic balance between the old (where the business comes from and what should be preserved) and the new (where the business wants to move to and the situations the business wants to adapt to).

We need to be entrepreneurial and develop new opportunities, but we also need to ensure stable cash flows to be able to be entrepreneurial.

Head of Strategy

The time of efficiency or let me put it this way, where efficiency dominated and aligned all our actions is over. It allowed us to make good money but also made us vulnerable to unexpected changes.

C-level Manager

Innovation is always a risk, despite best planning, we cannot anticipate whether something will fly or crash. The same holds true for other bigger changes we implement. We need to be honest, we always see hockey-stick-performance developments, but they can go upwards and downwards.

C-level Manager



Achieving this balance however requires careful trade-offs, and businesses need to find ways that neither approach undermines the corporate strategy. While a temporal deviation from the balance might not be harmful, a continuous imbalance of preserving and adapting business units poses risks.

There have always been trade-offs but tensions between short- and long-term goals are now more pronounced than ever before.

Head of Portfolio Management

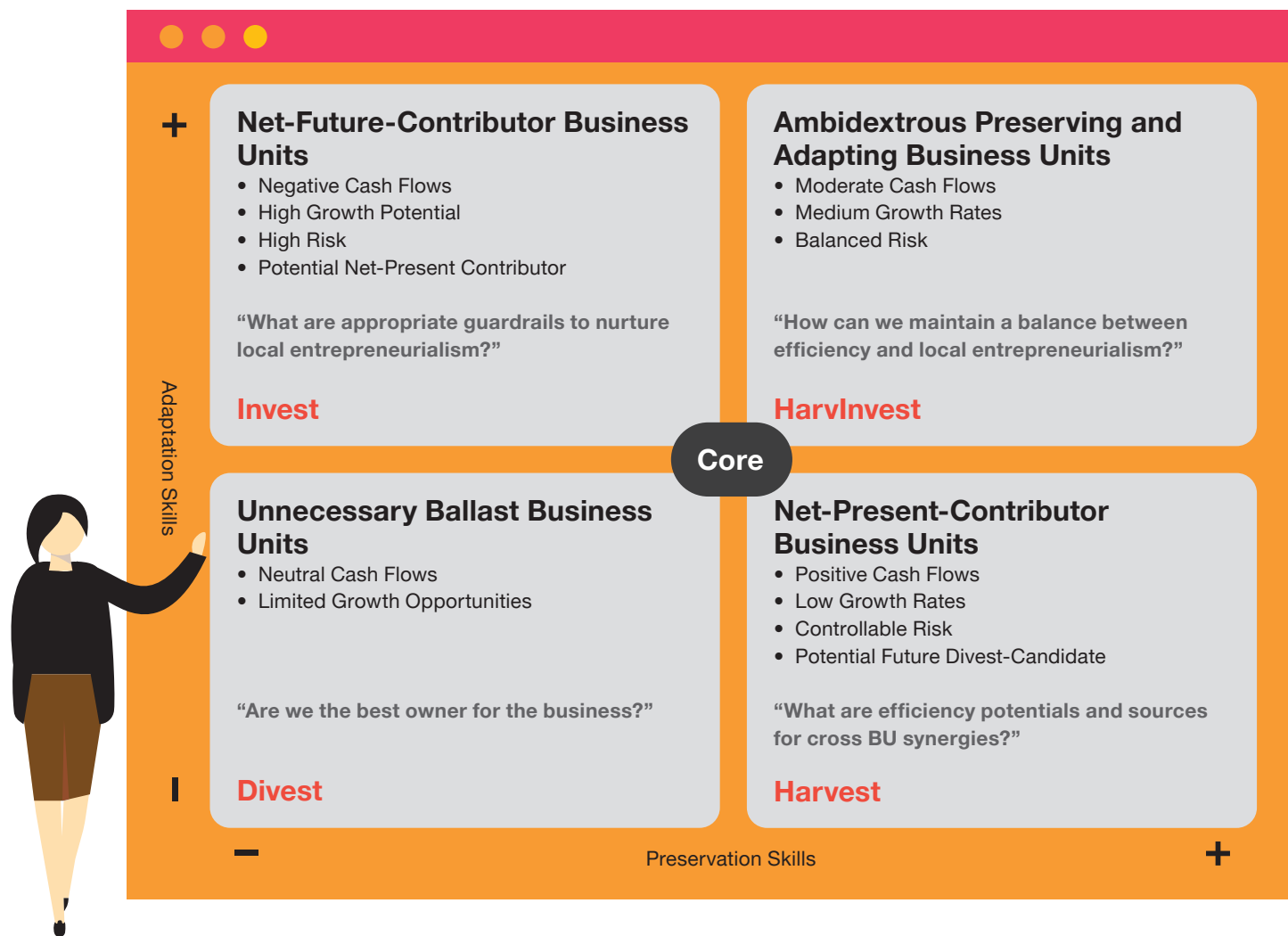
We want to become resilient and less dependent. Given some of geopolitical tensions we experience now, we decided to withdraw from [...some markets] despite the money we can make there. We now concentrate on other economies that appear to have more stable and long-term relationships with Germany.

Head of Portfolio Management



An ambidextrous portfolio requires a thoughtful balance of preservation and adaptation, indicating that they constitute orthogonal dimensions. As such, it is about composing a portfolio along the two dimensions of adaptation and preservation skills. Understanding the position of individual business units among these two dimensions, as well as their current and future entanglements, allows portfolio managers to anticipate the combined portfolio risk, ask the right strategic questions, specify suitable goals, and identify appropriate strategies around the organization's core to optimize the portfolio. When considering future developments, a portfolio organized along these two dimensions allows managers to identify white spots, or areas where the corporation is not present yet but is supposed to be present to deliver on strategy.

Figure 3: The adaptation-preservation portfolio matrix



The distinct position of business units within the adaptation-preservation portfolio matrix requires distinct approaches with regards to implementation, monitoring, and adjusting for each field within the quadrant. For example, “net future contributors” require strategic guardrails to enable local entrepreneurialism, while “net current contributors” operate on effective plans to optimize their operational footprint and their contribution to the corporate. This makes ambidextrous portfolio planning and implementation a complex and challenging task, as portfolio management needs to operate on double standards instead of managing the portfolio with a one-size-fits-all approach.

As is visible in figure 3, best practice organizations developed clear heuristics for the four different fields of the matrix. Interestingly, each of these heuristics were named by multiple interviewees.

While portfolio review has clear implications for implementation, we found that the first four steps can be seen as an intellectual challenge, while implementation itself is far more concerned with the brutal reality, where inertia but also the VUCA environment can knock even the best plans off course.

Are we the best owner for the business?

What are efficiency potentials and sources for cross-business unit synergies?

What are appropriate guardrails to nurture local entrepreneurialism?

How can we maintain a balance between efficiency and local entrepreneurialism?

Implementation is key to delivering corporate strategy. Implementing changes can relate to both organic and inorganic measures such as acquiring, carving out, or selling businesses but also strategic alliances or joint ventures. For both cases, the organizations studied highlighted the difficulties in implementing changes and how difficult it is to translate the results of an intellectually stimulating planning activity into actionable measures by maintaining flexibility. These difficulties relate to internal aspects such as the heritage or history of an organization but also to external events, that out of a sudden shuffle goals and implementation approaches.

We need to be thoughtful; we have such a long history, legacy, and pride in how we did and do things. Changing this radically would not work in our setting. There is too much familiarity in our business. I wish we could be a bit tougher from time to time during our transformation projects but that is not going to fly. We need to respect who we are and where we come from.

Head of M&A

We sometimes realize that the local management is not fully capable of keeping up with the professional standards we aim for. To mitigate potential negative effects, we usually aim for internal solutions and try to train people up. We also did more radical solutions in the past where we acquired a more professional local business and made a reverse integration.

Head of M&A

Our longstanding history and the feeling that we are still somehow a family firm encourages long-term thinking on all levels, which also slows down things, particularly when implementing changes.

Head of Strategy

We cannot change quickly, and our vision has moved into a more distant future even with the best concerted efforts. We need to develop intermediary steps and have to accept inconvenient detours that are more plannable and that allow us to stepwise get closer to our vision.

Head of Strategy

We were on a great path when implementing our strategy, and suddenly, regulatory changes caused a full stop. We anticipated some changes but never ever changes that would wipe out the feasibility of multiple business models.

Head of Strategy



While there is nothing businesses can do about external adversities such as natural catastrophes and other VUCA elements, internal resistance to change can be mitigated and more transformative change can be well prepared. Here, it is essential not to surprise stakeholders but to create strong narratives for them to create momentum. We found that multiple businesses use their history to make sense and to create momentum for change.

We have a longstanding history and a legacy. This legacy still determines our behaviour. We actively use our history to make sense for what we are doing.

Head of M&A

We understood that the transformative changes were difficult to communicate. We used our history and how we talked about our past to bring people on board. Suddenly, it all made sense for staff.

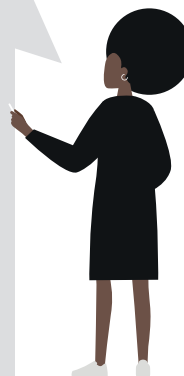
Head of Strategy

We are confronted with dramatic change now. But this is not new to us, we have experienced this for probably 10 years. This implies constant transformation and we need to continuously reinvent ourselves. We have done this in the past and will do this in the future.

Head of M&A

We have always been pro-active and were willing to take risks. Sometimes, it requires tough measures, but all know why we need to implement them.

Head of M&A



Ultimately, strategy implementation is not a purpose in and of itself, but is intended to deliver corporate strategy. As such, it is key to constantly assess the strategic fit of the entire portfolio to make sure the risk profile is adequate and the corporation delivers on the strategy. Most businesses we interviewed have specified monitoring or gateway systems and continuously compare the business unit's performance against the business unit's strategy and the contribution of all portfolio businesses against the corporate strategy.

Without constant measurement and assessment, it is a mere let-down.

Head of Portfolio Management

Assessing progress is key. Somehow if we do not do this, we are lost. We had surprises in the past and we don't want to repeat our mistakes.

Head of M&A



Interestingly, while most organizations are good at detecting major deviations, we found that they are less responsive to gradual and creeping deviations. The key to effective monitoring is the selection of appropriate indicators that combined define the best approximation of the corporate strategy. It is the quality of the selected criteria that determines the outcome. Inappropriate criteria might be misleading and put the corporate on the wrong track.

# Key takeaways

Modern portfolio management aims to ease the tensions between complexity and the need for direction to survive and thrive and typically consists of five interrelated activities that should be institutionalized: Environmental scanning, assessing the operational footprint, developing corporate strategy, reviewing the portfolio, and implementing change. While the five activities contain distinct tasks, requiring different skills and methodologies, businesses need to develop overarching capabilities that dynamically and seamlessly integrate, connect, and coordinate these activities to enable effective, aligned and collective action. Best practice organizations we interviewed aim to make each of the activities more flexible without losing quality, overarching direction and effectiveness. As such, they do not see the five activities chronologically chiselled in stone and try to optimize each one individually but focus on the overall effectiveness of the interplay of the five activities. This is important, as only effective modern portfolio management allows the corporation to remain open to better opportunities and become resilient to adversities or unexpected event. For example, most of the organizations reported that their plans consider enough leeway to proceed quickly with emerging opportunities or to revise existing plans and implement better ones, once the context has changed. As such, modern portfolio management is not about performing each step to the best of abilities and to develop and follow tight and formalized plans, it is about institutionalizing a holistic approach to portfolio management and developing associated capabilities that enable businesses to focus on visionary goals and guardrails that enable developing and maintaining a balanced portfolio.

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These capabilities manifest in tools, established and corporate-wide accepted methodologies and processes, objective criteria for the assessment of opportunities and decision-making governance that, combined, enable sound portfolio decisions resulting in a balanced portfolio. A modern portfolio management approach based on capabilities is key for mitigating paradoxical tensions and for organizations to survive and thrive in VUCA environments, as well as to navigate complexities.

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# Implementing corporate portfolio change

## Factbox

Modern portfolio management aims to develop and maintain a balanced portfolio delivering corporate strategy. While analysis and planning are a stimulating intellectual challenge, implementation is often confronted with the organizational reality, making strategic change and delivering on the corporate strategy difficult or impossible. Ultimately, modern portfolio management should align the organization on a visionary goal by implementing strategic guardrails that enable local entrepreneurialism and efficiency for corresponding business units. However, whether an organization is able to implement modern portfolio management measures and to deal with VUCA complexities or not, strongly depends on the organization. In essence, can an organization deal with complexity in a way that it not only provides adequate direction but also ensures the implementation of corresponding measures? We find several pacemakers determining the effectiveness of modern portfolio management and implementation. In detail, this refers to firm governance and ownership as well as the power position of business units that might constitute either facilitators or inhibitors for modern portfolio management and associated implementation measures. Further, a strong organisational purpose can facilitate or hinder change, and ease or trigger tensions between conflicting demands for stability and change.

## The evidence

### Firm governance and ownership

During the course of our interviews with strategy and portfolio management executives we found that firm governance and ownership have a strong impact on their ability to institutionalize modern portfolio management and to actually implement changes. While there is no best firm governance or ownership structure, we found differences between public and private firms.

### The pressures of public companies

The extent to which a business can institutionalise modern portfolio management and implement associated changes by simultaneously capture opportunities when they arise, is strongly dependent on the governance structure of an organization or on the type of ownership and the degree to which other stakeholders can influence strategic portfolio decisions. Indeed, justifying decisions that are in line with a preserving logic seems an easier task as they are less risky, less complex, and quickly provide P&L relevant outcomes compared to decisions relating to adaptation. Preserving seems particularly prevalent for public and larger companies.

We are large, and the stock market is the pacemaker we need to please. As such, finding someone taking responsibility is sometimes difficult and we spent lots of time in committees and discussions.

Head of Strategy

We need to do what we are good at. We are driven by our shareholders that expect dividends and not risky investments.

Head of Strategy

Our environment is too volatile; we need to be risk averse and focus on the cost-side. If we would start buying start-up companies in the current situation, we would lose our shareholders commitment.

Head of Strategy



Public firms usually face two major challenges. First, the stock market has often rather short-term expectations and is typically pleased by decisions that have an immediate profit and loss statement effect. Second, decision-making becomes more complex, as more managers or stakeholders become involved and accountability becomes less traceable due to an inflationary use of committees, slowing strategic decisions and implementation down. In other words, it might be more likely to end up in strategic dissent and political behaviour, eventually delaying decisions or ending up with no or bad decisions.

There are always hidden alliances, blocking ideas and change. In many cases, we discuss things that will never happen because someone centrally or locally does not like it.

Head of Strategy

It took me a while to understand that many things we do or not do are clear from the outset and all the committee meetings and discussions we have are useless, and serve in the best case as a post-hoc rationalization.

Head of Strategy



### Trade-offs and solutions for public firms

However, some of the managers interviewed are aware of the trade-offs and, in many cases, are confronted with paradoxical situations, where they would favour decisions with long-term added value at the expense of short-term performance effects. Many public companies try to ease the tensions between conflicting goals and different stakeholder and shareholder expectations, even though it is a challenging task.

We are responsible for the profits and the stock market expects that, but we also feel responsible to act in the best interest of our shareholders, and this is not necessarily what drives our share price performance in the short run.

Head of Strategy

Acting in the best interest of shareholders and other stakeholders is a complex endeavour, but it pays off. For example, employee motivations have changed, there is an issue with finding the best talent.

Head of Portfolio Management



Overall, public companies experience enormous pressure with regards to goal achievement. However, several best practice firms show that they can balance or ease tensions between preservation and adaptation. While this seems a challenging task, a broader stakeholder focus can help firms to institutionalize modern portfolio management and to balance conflicting demands. One core communality of those public firms was that they build their portfolio around the organizational purpose. A common purpose like “the highest quality matters, profits will follow” offers a strong narrative that can help organizations to create momentum for change.

## Decision-making in private firms

Contrary to public firms that must please the stock market, private companies are typically responsible towards a smaller number of owners and in many cases a specific family. We find that this has advantages and disadvantages for developing modern portfolio management capabilities and for implementing associated changes. In cases where ownership and control are in the same hands, decisions, even if they are tough, can be made quickly, with implementation measures being directed clearly. This also relates to the seizing of opportunities, as resources can be deployed rapidly.

If we have a major decision, I go to the owner, and he decides quickly.

Head of Strategy

We know that ultimately, it is the owner that decides and that we can make quick and binding decisions.

Head of M&A

We engaged in an acquisition during the peak of the Covid-19 pandemic. As we were neither allowed to meet the target at our headquarters nor at theirs (annotation: borders between the two countries were locked), we all met on a Mediterranean island where we had no travel restrictions and did the deal in two days.

Head of a Family Office



Another important aspect is that privately held firms are less driven by short-term profit and loss statement effects. Of course, KPIs matter, but these firms seem to be more patient with corresponding returns. This holds even true for rather large private firms. These firms accept the trade-offs between short- and long-term goals and live by the idea that the ultimate purpose is long-term value maximization and the survival of the business.

Overall, it seems that these firms enjoy advantages in implementing modern portfolio management measures, as results of adaptation typically require time and these firms perceive less pressure from their owners with regards to quick returns. Further, they can make decisions faster.

## The inhibiting elements of private firms

However, family businesses in particular are history dense and strongly driven by their legacy, which can be both an advantage and disadvantage when making portfolio related decisions and implementing associated changes. While legacy and history can enable change, they can also slow down or halt necessary measures.

We are a family business, with all the stereotypical advantages and disadvantages. We have a strong emphasis on this wellbeing atmosphere, and I think we should be a bit harder or tougher sometimes.

Head of M&A

We have a longstanding history and feel responsible for all our employees. That's why carve-outs or divestments are not an option, they are not part of our vocabulary.

Head of Strategy

Honestly, we are a bit slow, but we are trying to set up an appropriate planning process with shorter planning cycles. Why slow? Our owner thought until a year ago that [they] know it better.

Head of Strategy



In summary, private companies seem to be able to act quicker, align on coherent practices and pursue effective modern portfolio management easier than their public counterparts, particularly with regards to adaptation. However, our findings also show that the historic legacy of these businesses can slow down or even hinder the implementation of measures. Similarly to the spirit of optimism and the momentum of some businesses, we experienced risk-averse behaviours and in some cases, even blinkered attitudes towards the changing business reality.

Overall, the governance and ownership structure acts as a pacemaker for developing modern portfolio management capabilities and pursuing associated changes. It is the organizational context in terms of governance and ownership that impacts speed, scope, scale, and the likelihood a business can engage with modern portfolio management and implement associated changes by simultaneously capturing upcoming strategic opportunities without losing its direction. However, there is no best governance and ownership structure, it depends on how managers utilize their unique context to develop the required capabilities for modern portfolio management and to implement corresponding changes.

## Centrifugal forces and organizational purpose

A portfolio consists of multiple business units which makes corporate management a complex endeavour. It is the inherent complexity combined with strengthened local entrepreneurialism that typically triggers centrifugal forces within the portfolio, resulting in an accumulation of independent “little kingdoms”, each with an almighty principal, and a loss of control. It is the development of multiple “little kingdoms” that makes the implementation of centrally developed measures particularly

difficult, even if business units had a say in the development of the strategy. As such, successful portfolio management and associated implementation must develop an essential or critical mass or a coordination device to limit harmful centrifugal forces and to align the organization. While progress can be monitored and assessed through key performance indicators, gateway systems, etc. we find that the organizational purpose or core can constitute a coordinative device, that aligns multiple different business units and gives sense to them to facilitate changes.

Oh dear, we have our little principals in their kingdoms that feel not accountable for corporate matters and ignore directives.

Head of Corporate Portfolio Management

In some cases, we need to intervene. Sometimes, some business units become too powerful, and this is dangerous for our entire structure and might set the wrong precedence.

Head of M&A



## The quest for purpose

However, when searching for the organizational purpose, core, or basic values online, most firms display largely interchangeable comments like “we do our best for customers, employees are our most valuable resource, we are committed to innovation...”. This universal truth could make the organizational purpose, core, and values irrelevant, as they seem the same across all organizations.

Contrary to the homogeneity of statements we found online, our research results indicate that the organizational purpose or core plays a central role for reducing centrifugal forces within the portfolio and for increasing the likelihood of implementing changes within the portfolio. It is important to understand that the organizational purpose or core is not what is captured on a sheet of paper or displayed in a glossy brochure or online. Instead, organizational purpose or core develops over time and is a manifestation of the behaviour of the many and the accumulation of multiple decisions of the past.

## The facilitating nature of purpose

As such, purpose or core has its roots in the organization’s history and successful businesses mobilize their purpose or core to enable and enhance portfolio transformation and to make sense within the organization and for other stakeholders of the changes required, even if these changes are inconvenient. Several managers highlighted the importance of their organizational purpose or core for the ongoing transformation of their portfolios and the coping with the VUCA environment.

We have a longstanding history and a legacy. This legacy still determines our behaviour. We actively use our history to make sense of what we are doing, investments and divestments likewise.

Head of Strategy

We understood that the transformative changes were difficult to communicate. We used our history and how we talked about our past to bring people on board. Interestingly, that worked even for divested business units that don’t look back in anger.

Head of M&A



### Purpose – the hidden message of the past

However, an organizational purpose or core can be just as limiting as it can be facilitating when it comes to managing a portfolio and implementing changes. For example, a rigid organizational purpose or core can limit room to navigate, for example in cases of carve-outs or to capture emerging opportunities like an acquisition target. Like a drunk searching for their lost keys around a streetlight where they can see, instead of looking where they have lost them, a rigid purpose or core can result in self-inflicted limited opportunities or a resistance to adapt.

We can't change this. Even though this business unit is a millstone around our neck, we still treat them as if they were our crown jewellery.

Head of M&A

We have this XX [technological heritage] and there is enormous resistance to make changes. People say we have always done it like that, and no one is willing to make changes.

Head of M&A

Historically, the productive business units were essential for us, this was where the magic happened, where we had our secrets that constituted competitive advantages. There is no value in this anymore, but we are still expected to deal with them as if they were royalty.

Head of Strategy



Overall, our results show that the organizational purpose or core can facilitate necessary adjustments in the portfolio by giving implicit guidance for behaviours and decisions but can also limit organisations with regards to implementing changes. As such, a solid organizational purpose and core can constitute a backbone or hinder firms when navigating VUCA, ease or trigger tensions between conflicting goals, or stabilize or weaken organizations in periods flexibility is needed. To leverage its positive power, an organizational purpose or core should set boundary conditions or important gateways for portfolio management decisions and support appropriate implementation measures.

Our purpose is clear, being the best [...] possible. This informs and motivates everyone in our firm, from blue collar to white collar worker. We live this.

Head of Strategy

Our purpose and vision are clear to everyone. We all believe in this, and we live it. I think this is a key strength of our business and motivates us even in hard times.

Head of Strategy



# Key takeaways

While the governance and ownership structure of an organization helps to explain whether firms can institutionalize modern portfolio management and implement corresponding changes or not, it seems, again, that a simple answer is not possible and that it rather “depends”. Different governance forms and ownership structures can support businesses to succeed or fail with this activity. Further, modern portfolio management aims to enable local entrepreneurialism on the one hand and to leverage synergies on the other.

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However, this gives rise to centrifugal forces that make the institutionalization of modern portfolio management difficult. Our findings point towards the important role of the organizational purpose in offering guardrails for the strategic direction and portfolio management. While the purpose is a stable asset, it should not be carved in stone as it might hinder change. Far more, the purpose should be malleable enough to continuously serve, even if contexts change, to ease the paradoxical tensions between complexity and planning.

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# Contacts

## How PwC can help

If the study encouraged you to tackle your specific portfolio management challenges, kindly reach out and we are glad to assist with our dedicated experts along all relevant areas to optimize corporate portfolios and implement state of the art portfolio management governance structures.

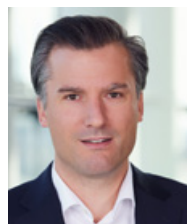
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## About PwC

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Prof. Dr. Hinrich Voss from the University  
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## About University of Bristol

The University of Bristol is the 54th best university in the world and one of the UK's top ten universities (QS 2025). According to REF, it is a top five university for research within the UK and has 13 Nobel Prize winners linked. With a strong track record in impactful research, 88% of its Business and Management research is rated as „world-leading“ or „internationally excellent“ according to the 2021 Research Excellence Framework (REF). Addressing critical issues such as globalisation, inequalities, and digital innovations, the Business School aims to influence policymakers and regulators as they navigate changing global landscapes. Situated in the heart of a vibrant and eco-friendly city renowned for its innovative spirit, the University of Bristol Business School is surrounded by SETSquared, recognised as the world's leading university business incubator (UBI Global, 2019), and many multinational corporations, including the Big Four accounting firms.