

Strategy as Action: from Porter to Anti-Porter

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Abstract: In the post-crisis era new concepts are emerging, while some old and dysfunctional ones are being discarded. Strategy is about making series of decisions that drive corporate action under specific coupling with company's environment and context. Because decisions are actions, so the strategy itself is action, not just a description of action. In the area of traditional strategy, descriptions (information) have replaced action (knowledge), talk has replaced walk. We start from the premise that strategy is what company does, and what company does is its strategy. One cannot run a company just on descriptions and framed mission statements. The role of customers is crucial: the customer shapes strategy and triggers corporate action. Without respecting the customer there is no viable strategy. This is why we label the action-based strategic thinking as „Anti-Porter“: consumers do not want tradeoffs and so truly effective strategy cannot be rooted in Porter's tradeoffs.

Keywords: decision making; decision process; strategy; Anti-Porter; tradeoffs; tradeoffs-free; added value; sustainability; self-sustainability, competitive advantage

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1 Introduction¹

Our customer, our master.
Tomas Bata

Current economic crisis has finally brought home a long-festering message: it is self-defeating to run a company without placing customer first, second and third, letting him shape and frame company's strategic action. Customer is the final judge and arbiter of effective strategy. Customers, not corporate executives, determine if products and services add value, provide quality, are innovative or offer tradeoffs-free satisfaction.

It is close to remarkable how corporate strategists of large companies (GM, Chrysler, etc.) could bring their corporations to such a total disconnect from their customers. It is only partially their own incompetence or arrogance - inadequate strategic skills, based on dysfunctional theories and concepts also dominate their failures. They were taught the *talk* about visions and missions, the arcane vocabulary of codified descriptions of insider *cognoscenti* elites, hammering out statements and declarations for the consumption of stockholders, ignoring or forgetting their stakeholders and customers. They have not learned yet how to *walk their talk* – and already they should learn *walking*

¹ The author is most grateful for the valuable inputs and encouragement received from the students of his MBA *Human Systems Management* class, taught at IBMEC, Rio de Janeiro, in July 2009.

their walk. How do we eliminate talk and focus on the walk, i.e. how do we move not only from description to action, but mainly from action to better action – that is the purpose of this paper.

In the end, it does not matter what they say (or frame), the only thing that matters is what they do. That is true for both the producers and their customers. Strategy is what a company does, and what a company does *is* its strategy. Every company has a strategy (good or bad) as long as it is doing *something*.

A politician can talk until the entire country is seduced into admiring his “strategy” and voting for him. Yet, his actual strategy is what he does. An executive can describe what he intends to do at corporate meetings and strategic management conferences or panels, yet only what he does is his actual strategy. *Action* and *description of action* are two very different domains and only rarely the two meet. Assorted corporate mission and vision statements are *not* strategy and have little to do with strategy. They are just descriptions of intentions, desires and plans – just words substituted for action. This gap between *knowing* what to do and actually *doing* it can be excruciatingly real – and it has been widening and getting worse even since the onset of the information era.

2 Declaration-based strategies

The old strategists of the pre-information era were so effective precisely because they did not have the means and space for just talking. They had to deliver: engage in action and deliver the goods. One can also admire the action-based strategies in the animal world. Observing a pride of lions in action teaches us more about strategy through mutual coordination and action readjustment than any flashy PowerPoint presentation of symbolic descriptions.

In Figure 1 we sketch the traditional declaration-based strategy paradigm. This is actually still pursued in some companies. Such institutions spend precious years hammering out their mission and vision statements, defining, testing and measuring the goals – before encountering the ‘Cloud Line’ and the insurmountable problem of “*implementation*”.

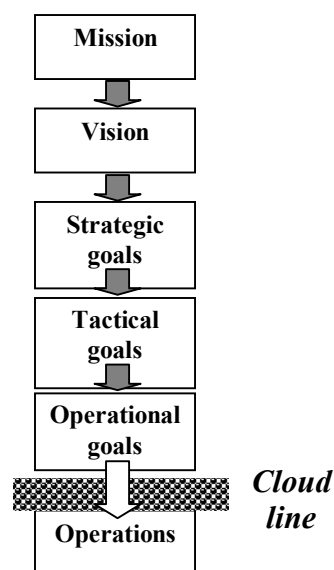


Fig. 1 Traditional Lego-paradigm and the ‘Cloud Line’

“*Mission statements are among the most blatant and common means that organizations use to substitute talk for action*” (Pfeffer, Sutton, 2000). Why is it so?

The ‘Cloud Line’ of Fig. 1 is real: those above do not see below, those below do not see above. Any such declarative strategy is hard to implement because it is not understood. Everything above the Cloud Line is just *symbolic descriptions* of the intended action. Everything below the Cloud Line is *pure action*, no descriptions. These are two distinct domains: descriptions of action and action itself.

One example of the gap between talking and doing is the now fashionable notion of sustainability. Many companies engage in what has become known as “greenwashing”— that is, focusing more on publicizing and communicating green efforts than on the efforts themselves. Letting consumers think you are *green* has become more important than being *green*. Greenwashing turns consumers to doubt, distrust and cynicism about “green” products. When companies (also academic discussion clubs and brown-bag lunch groups) proclaim their commitment to social and environmental responsibility in this clumsy or inauthentic way - the backlash turns from the expected to inevitable. Countless debates have become substitutes for sustainable action. The cause, as always, is insufficient definition of fundamental concepts and terms.

Take Porter’s overused notion of *industry*: there is no useful definition of it, just a verbal, mostly habitual linguistic label. This is understandable because *there are no such things as industries* (Jackson, 2002). Of course they merge, because they never existed in the first place (except perhaps for trade unions). In the post-crisis era it is much better to think in terms of different sets of *customers’ needs* being satisfied by specific activities of different businesses. One should not run business from the industry, producer or provider standpoint – that’s “totally too porter”, as young students say – but from the customer’s vantage point or perspective.

How does one transcribe the descriptions of action into action itself? How does one implement a strategy? The very notion of implementation is typical of the gap between doing and talking. One can hardly walk a bad talk. Once we understand that corporate strategy is about doing and not about talking, the notion of implementation becomes mute. If the strategy is what company does, then the strategy is being enacted as it emerges. What we want is changing from one form of action into a better form of action. We want to *walk the walk* in order to improve our walking.

There is clearly a gap between *knowledge* (action) and *information* (description of action). We can define knowledge as *a purposeful coordination of action* and information as *a symbolic description of action*. Other related categories, such as *data*, *wisdom* and *enlightenment*, can also be incorporated (Zeleny, 1987, 2002, 2006). As soon as we realize that knowledge *is* action, the gap becomes dissolved. All knowing is doing and all doing is knowing – no gaps. Knowledge is not information.

There was some justification for fixed mission-vision statements in the slow-changing competitive environment of the past. In rapidly changing environments of the global economy and emerging markets, particularly in the post-crisis environment, the visions of corporate novelists quickly turn into the ‘tunnel-vision trap’, distracting executives from the newly emerging opportunities and threats.

However, we cannot rely on the static SWOT (strength-weakness-opportunity-threat) analyses of the times past. Human world is not *that* simple. In a rapidly changing world, there are no strengths and weaknesses or opportunities and threats, which would provide a stable, strategic value. There is no time to describe, contemplate and re-contemplate the descriptions of SWOT. There is just enough time for effective action. In the era of globalization, digitization and deregulation (Downes, 1997), developing a coherent, evolving *pattern of action* is what striving corporations need.

We can safely dismiss the information-based strategy of the past, and move decisively towards the knowledge-based strategy of the present.

3 On the indefensible legacy of tradeoffs

Strategy is a series of interrelated decisions. We can talk about *strategic decisions*, their sequences or processes. These sequences and their purposes are marred by conflicts of tradeoffs, insufficient information, inadequate knowledge and fuzziness or ambiguity of language. In order to understand such mitigating circumstances, one has to understand what *decision making* is.

Decision making is a function aimed at resolving or dissolving the conflicts of tradeoffs. No tradeoffs → no decision making.

The implications of this definition are clear:

1. A single criterion has no tradeoffs, so there can be no decision making with a single criterion, objective or function – only the process of measurement and search.
2. Only when facing multiple, non-aggregated criteria (and their tradeoffs) we can move beyond measurement and search – towards decision making.

3. The purpose of decision-making process is either resolving (selecting or improving tradeoffs through compromise) or dissolving tradeoffs conflict by eliminating them.
4. Ultimate purpose of strategic decision making is elimination of tradeoffs and thus completing the decision-making process to the benefit of both producer and customer.

Tradeoffs are often assumed subconsciously because throughout the history (Pugh, 1977) humans rarely sought the best alternatives. Yet, human values continue to evolve from their biological origins. Elimination of tradeoffs can now be achieved through redesigning the set of available alternatives, changing its shape, topology or configuration, so that the measures used (criteria, objectives) achieve their respective optima as closely as possible. True optimality requires change, re-formulation and re-design in order to identify something better than the already “given”.

We should emphasize that tradeoffs *emerge*: they are not *a priori* natural or fixed properties of criteria, attributes or objectives. *Tradeoffs are imputed* by the set of *scarce means* (feasible set of alternatives) and its properties. It would be erroneous to treat tradeoffs as being the real properties of specific criteria, objectives or dimensions.

Tradeoffs are the properties of the means, not of criteria or objectives. Popular statements about criteria, such as “There are tradeoffs between cost and quality”, are often erroneously accepted at their face value, as facts of reality. Criteria are simply measures or “measure tapes” for evaluating (measuring) objects of reality (things, alternatives, options, or strategies). There is a fundamental difference between *measures* and *measured objects*.

There can be no tradeoffs between measures (or measure tapes). Measures of cost and quality do not produce tradeoffs, the set of evaluated (measured) choices (alternatives, options) does. It is the configuration (size, shape and structure) of the feasible set of alternatives (the measured “object”), options and strategies that produces or brings forth any tradeoffs.

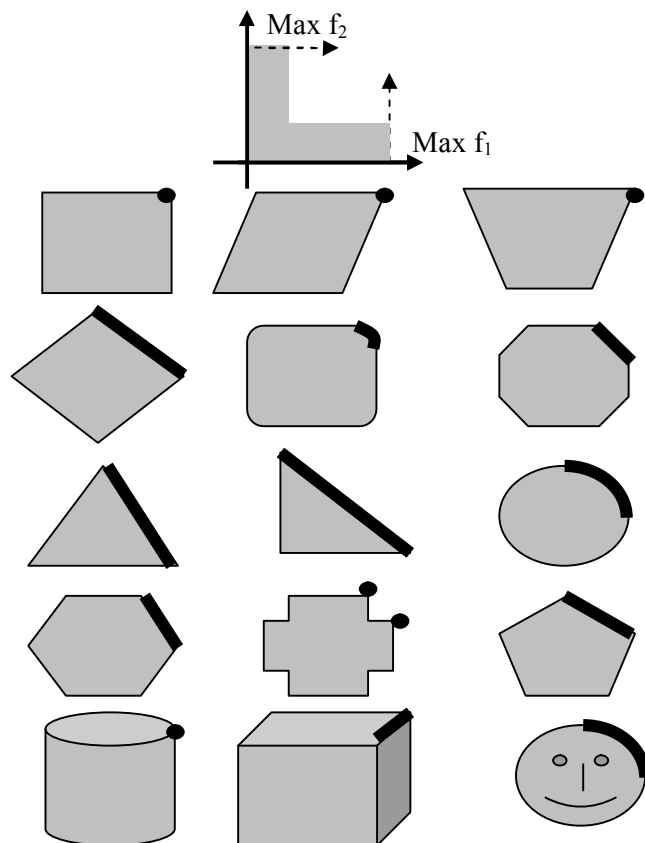


Fig. 2 Tradeoffs are functions of the feasible set

In Fig. 2 we look at two separate objectives, f_1 and f_2 , to be *both* maximized over the variable design space. The point of the picture is to show that conflicts, tradeoffs or any other form of relationship between criteria or objectives are not inner attributes of those measures, criteria or objectives, but outer attributes of the *objects they assume to measure* - in this case feasible sets, sets of constraints, system designs, design topologies, etc.

It is apparent, that the tradeoff boundary and its shapes, like the nondominated set, Pareto-optimal solutions, efficiency frontier, productivity frontier, etc., are the property of the set of options (of the objects of measurement), and not of the set of measures. This is significant because in order to truly maximize an objective function(s) one has to “optimize” the *feasible set* - all the rest is just valuation or computation.

All this is quite important for understanding strategy. While the purpose of effective, knowledge-based strategy is and should be the elimination of tradeoffs, writers like Porter insist that a strategic position is not sustainable *unless there are trade-offs*. This is in a direct contradiction of customer rationality: only customer-preferred solutions are long-term sustainable. Customers *never* prefer tradeoffs, only traditional producers do. We propose to differentiate Porter² from anti-Porter, i.e. the very opposite, if not negation, of the tradeoffs-based strategic thinking.

4 Anti-Porter

It is very important to liberate strategic thinking from Porter’s pointed anti-customer stance and infatuation with Paretian tradeoffs.³

Any company following Porter’s tradeoffs-based, anti-customer advice is exposing itself to the long-term risk of considerable proportions. What would happen if we were to take a strong *anti-Porter* stance, reversing fully such attitude towards tradeoffs and customers? Nothing; only an action-based, customer-focused strategic thinking emerges.

In a rather remarkable section (*III. A Sustainable Strategic Position Requires Trade-offs*) of his influential article (Porter, 1996)⁴; we encounter many statements about tradeoffs, some of which are worth quoting here. Especially the last quote is extraordinary, stating that eliminating tradeoffs is good, but not sustainable (The meaning of sustainability is further addressed in section 8):

But a strategic position is not sustainable unless there are trade-offs with other positions. Trade-offs occur when activities are incompatible. Simply put, a trade-off means that more of one thing necessitates less of another.

Companies that try to be all things to all customers, in contrast, risk confusion in the trenches as employees attempt to make day-to-day operating decisions without a clear framework.

In general, false trade-offs between cost and quality occur primarily when there is redundant or wasted effort, poor control or accuracy, or weak coordination. Simultaneous improvement of cost and differentiation is possible only when a company begins far behind the productivity frontier or when the frontier shifts outward. At the frontier, where companies have achieved current best practice, the trade-off between cost and differentiation is very real indeed.

² „Porter“ is our metaphor for the baggage of thoughts, ideas, concepts and practices related to a particular way of thinking on strategy, often but not exclusively associated with teachings by Michael E. Porter of Harvard. This paper clearly refers to that paradigm of thought, not a specific person.

³ The motivation for this section comes from a circus-like event „Michael Porter on Competitive Strategy“, Prague, October 23, 2007, where M. Porter (for the fee of \$2,000 per person) lectured East Europeans on “How can customers disrupt strategy”. This was a surprising “export” to the culture of Tomas Bata, whose famous “Our customer, our master” helped creating the most remarkable global-scale enterprise of the Pre-war era.

⁴ Porter, M.E. (1996) ‘What is strategy?’ *Harvard Business Review* (April), pp. 61–78.

Eliminating trade-offs is a good thing. But if there are no trade-offs companies will never achieve a sustainable advantage.

It would be useful to realize that the world has changed. In Fig. 1 we consider basic criteria of cost, quality, speed and reliability from the viewpoints of producers and customers. While global producer might still be interested in Porter, global customer is already clearly at Anti-Porter. Global customers want it all, preferably “Free, Perfect and Now”.⁵

A good example of striving for tradeoffs elimination is the increasing popularity of *mass customization*, designed to produce *individually* customized products and services at the low cost of mass production. Slowly but surely mass customization replaces traditional tradeoffs-based mass production and made-to-order but expensive customized production. The impressive progress of mass customization is enabled by the internet and rapidly maturing global consumer, summarized in Fig. 3.

<u>Global Producer</u>	<u>Global Consumer</u>
<i>Cost</i>	<i>Cost</i>
OR <i>Quality</i>	AND <i>Quality</i>
OR <i>Speed</i>	AND <i>Speed</i>
OR <i>Reliability</i>	AND <i>Reliability</i>
OR ...	AND ...

Fig. 3 Moving from Strategy “OR” toward Strategy “AND”

The shift from strategy “OR” to strategy “AND” is accelerating, facilitated by the increasingly dominant position of global consumer over global producer. The impacts of the shift are summarized in Table 1.

PORTER STRATEGY	ANTI-PORTER STRATEGY
Competition strategy	Competition/Cooperation strategy
Firm unit of competitiveness	Network of firms unit of competitiveness
Producer driven	Customer shaped
Hierarchical top-down company	Fast-moving team-based company
Static strategy	Dynamic strategy
Fixed competencies	Adaptable competencies
Complementary to existing advantage	Transforming of existing advantage
Based on tradeoffs	Eliminates tradeoffs
Strategy as declaration	Strategy as action
Strategy as unique position	Strategy as unique process
Problems of acceptance & implementation	Natural acceptance & implementation
Mechanical “Lego” of components	Organic growth of holistic strategy
Definition of industries	Industries as such do not exist
Multinational conglomerates	Networks of small companies
Sustainable strategy	Strategy for self-sustainable business

Table 1 Summary of Porter and Anti-Porter worlds

⁵ Robert Rodin, *Free, Perfect, and Now*, Free Press, 2000.

The tradeoffs of so called *production possibility frontier* come from the old idea of *Pareto efficiency*. Any solution is deemed efficient if it is impossible to move to another solution which would improve at least one criterion and make no criterion worse.

How is it possible to define economic efficiency through tradeoffs? That is, at equilibrium, one side, person or criterion can gain *only* if the other loses? Does it not encourage benefiting at the expense of others? What kind of bubble economy can such a win-lose thinking bring forth?

How can any two parties enter into a free-market transaction without *both* expecting a gain? Would anybody freely enter a transaction when one side must lose while the other gains? How could efficient allocation mean that scarce resources are being squandered through inefficiency?

The key is in a special caveat in the Pareto principle: it holds true if and only if consumer tastes, resources, and technology are *given*. Even the production possibility frontier can be drawn only if the resources are *a priori* fixed and given. Of course, they *never are* given. In the reality of free markets, individuals, firms and economies *continually* produce, purchase, consume and sell resources, incessantly creating and re-creating the conditions when *both* sides of a transaction can benefit. Although resources are often temporarily constrained, they are never given or fixed locally: their optimal composition (or portfolio) is sought through *entrepreneurial action*. The existence of tradeoffs is the sign of *inefficiency*, not efficiency (Zeleny, 2009).

This fact is apparently not commonly recognized and so in the next section we demonstrate it through a simple resource allocation problem based on linear programming. The implications for tradeoffs-free strategic decision making and economics should become evident.

5 Tradeoffs-free strategies

Let us consider a company producing two products, x and y. Due to limited resources, the company cannot produce all combinations of x and y. Different production allocations (x, y) can be evaluated with respect to a single or multiple criteria (like costs, quality, profit, added value, sales, environmental impact, speed, reliability, etc.) which cannot (and should not) be combined into a single aggregate (like “utility” function).

What is important and often neglected in economics are the underlying resources which have to be determined, purchased and organized in order to produce x and y. Such resources are surely not “given” or fixed, but are continually acquired, combined, re-combined and coordinated - the major skill of entrepreneurial and managerial effort. Such skill must be repeatedly exercised and improved, not just passively presumed as “given” competitive advantage.

Let us consider five such resources, with their technological coefficients (consumption rates per unit of x or y) and overall available quantities (the right-hand sides), as in Table 2:

Material resource	Market price \$/unit	Units needed to produce x = 1	Units needed to produce y = 1	Available units/period
1. Cotton	30	4	0	30
2. Wool	40	2	6	40
3. Silk	9.5	12	4	10.5
4. Gold thread	20	0	3	20
5. Silver lining	10	4	4	10
Profits \$/unit		400	300	

Table 2 Data summary for production example

The data of Table 2 can be transformed into algebraic form of traditional linear programming and its graphical representation can be simply displayed, analyzed and solved. The five resources become five inequality constraints, limited by available quantities:

1. $4x \leq 20$
2. $2x + 6y \leq 24$
3. $12x + 4y \leq 60$

4. $3y \leq 10.5$
5. $4x + 4y \leq 26$

Graphically displayed, these constraints form a *feasible set* of possible allocations (x, y) , as in Fig. 4. No macro strategy of producing products x and y can be usefully discussed without the micro understanding of the underlying resources and their best allocation to products.

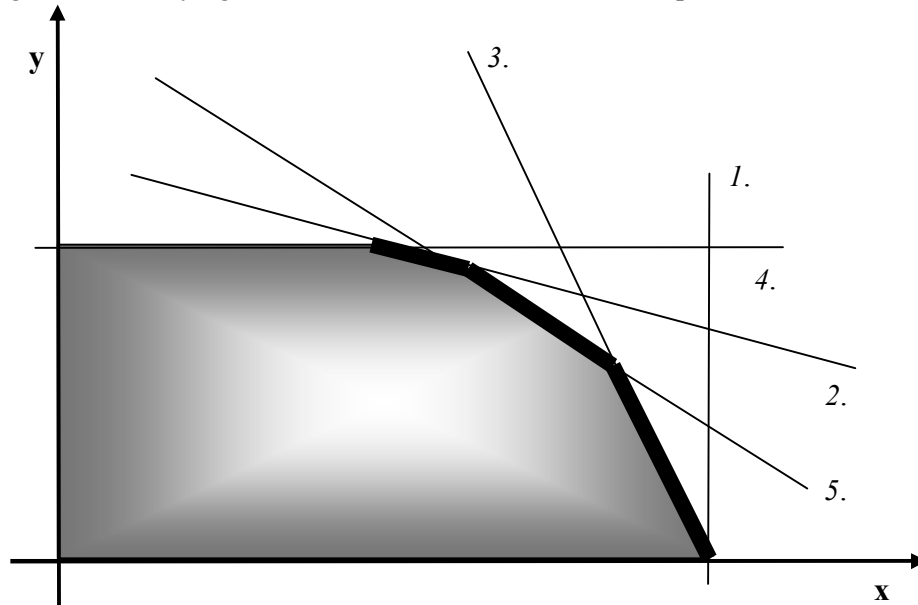


Fig. 4 Feasible set and production possibility frontier (x, y) tradeoffs

In Fig. 4, *Pareto optimality* boundary of the feasible set is traced out by heavy lines. Any change from one allocation to another that can produce more of at least one product without producing less of any other good is called a *Pareto improvement*. When no further Pareto improvements are possible we achieve Pareto-optimal allocation (heavy boundary). Specifically, so called *strong Pareto optimum* is displayed here.

Clearly, increasing x requires less of y along strong Pareto boundary. This is where Porter's obsession with tradeoffs originates. In order to preserve the assumption of Pareto optimality he has conceived *justification for tradeoffs* as a rational aspect of corporate strategy. So, the customer distaste for tradeoffs is disregarded *a priori*. Such model-morphism has plagued strategic thinking for decades.

All allocations along the boundary are *assumed* to be points of maximum productive efficiency – because the underlying resources are considered fixed. In a free market, corporate resources are *never* fixed but are continually purchased and re-purchased, configured and re-configured, optimized and optimized again. Not all Pareto optimal allocations are equally desirable and additional criteria are needed in order to facilitate choice among them.

Points *along* the boundary give rise to tradeoffs, allocations *inside* are deemed inefficient, allocations *outside* are *infeasible* for given resources: that is conventional wisdom of traditional economics. Yet, no company would or should behave that way in a free-market economy. Choosing *any* point along the boundary means that at least some resources are underutilized or wasted and gain for one can be achieved only at the loss to the other. That is not efficiency, but unsustainable waste, marginalization of customer, and violation of free market principles (like *both* parties should benefit from a transaction).

It is hardly sustainable to insist that the amount of one good (or a desirable objective) must be given up to get more of another good (or attain more of another desirable objective). That can be neither good strategy nor good business.

Let us choose a single function of *profit*, as a criterion for selecting the best, profit-maximizing allocation along the boundary, say $f_1 = 400x + 300y$. We get the following linear-programming problem:

$$\text{Max } f = 400x + 300y$$

subject to		NEW
	$4x \leq 20$	≤ 29.4
	$2x + 6y \leq 24$	≤ 14.7
	$12x + 4y \leq 60$	≤ 88
	$3y \leq 10.5$	≤ 0
	$4x + 4y \leq 26$	≤ 29.4

It is clearly unrealistic to ignore market prices of resources, as in conventional linear programming. Let us assume $p_1 = 30$, $p_2 = 40$, $p_3 = 9.5$, $p_4 = 20$ and $p_5 = 10$ be the respective market prices (\$/unit) of the five resources. So, in order to purchase the right-hand side available amounts, we had to spend \$2600.

Solving the problem, we find that $x^* = 4.25$, $y^* = 2.25$, and $f^* = 2375$ provides the optimal allocation, maximizing profits along the tradeoff boundary. Should we accept such profit-maximizing solution, recommended by economic theory and Porter tradeoffs? Of course not.

Let us spend the \$2600 for different amount of resources, as in the second column of respective resource quantities (29.4; 14.7; 88; 0; 29.4) above. If we now solve the same problem with the new quantities, obtained via *De novo programming* (Zeleny, 2005), we get $x^* = 7.3446$, $y^* = 0$ and $f^* = 2937.84$.

For the same amount of \$2600 we get much higher profits: it clearly pays to reconfigure the resources in an optimal fashion. Maximizing profits means purchasing the resources in such a way so that profits are maximized. Certainly we should not use "profit maximization" of traditional economics, i.e. maximizing a function with respect to given, obviously suboptimal, expensive and redundant (wasted) resources. Such process has little in common with profit maximization as it always achieves lower profits under *ceteris paribus*.

Tradeoffs emerge only with multiple criteria and thus decision making emerges *only* when multiple criteria are present. By multiple criteria we understand "apples and oranges", i.e. no obvious formula converting all criteria into a single metric (like utility function or any other aggregate) can exist. Without multiple criteria there is only measurement and search, no decision making. No rational strategy can exist without decision making, without considering tradeoffs. The best strategy redefines the problem and its circumstance towards eliminating tradeoffs. Strategy represents a series of decisions leading towards that goal. Any such purposeful sequence of decisions (climaxing in tradeoffs elimination) is a strategic process. Strategy is not a description of action, like mission declarations at corporate entrances. Our strategy is what we do - and what we do is our strategy.

To consider multiple criteria or objectives, let us restate our example in the following way:

$$\begin{aligned} \text{Max } f_1 &= 400x + 300y \\ \text{Max } f_2 &= 300x + 400y \end{aligned}$$

subject to		NEW
	$4x \leq 20$	≤ 16.12
	$2x + 6y \leq 24$	≤ 23.3
	$12x + 4y \leq 60$	≤ 58.52
	$3y \leq 10.5$	≤ 7.62
	$4x + 4y \leq 26$	≤ 26.28

Solving with respect to f_1 gives $x^* = 4.25$ and $y^* = 2.25$, $f_1^* = 2375$. With respect to f_2 the maximal solution is $x^* = 3.75$ and $y^* = 2.75$, with $f_2^* = 2225$. The set of Pareto optimal solutions includes two maximal solutions (extreme points) and their connecting (feasible) line defined by $4x + 4y = 26$ (see heavy boundary of Fig. 5). Total cost of resource portfolio (20, 24, 60, 10.5, 26) remains $B = \$2600$.

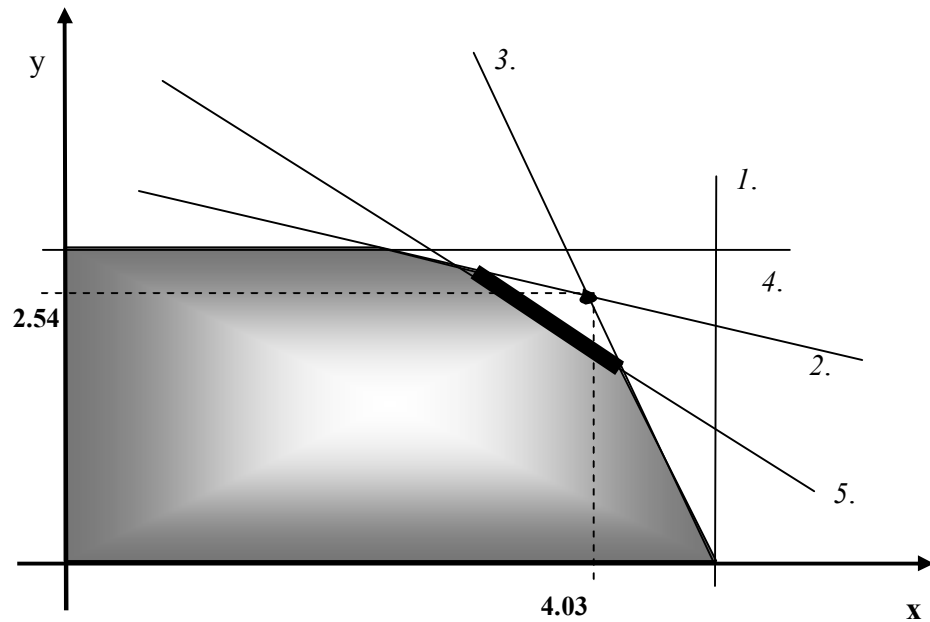


Fig. 5 Feasible set and Pareto optimal set (f_1, f_2 tradeoffs)

Observe that products (x, y) tradeoffs in Fig. 4 have been transformed into criteria (f_1, f_2) tradeoffs in Fig. 5. Which of the allocations along the heavy boundary should be selected? Which Porter tradeoff describes the best strategy? Again, none: they are all bad choices, ignore customer preferences and cannot be a foundation of rational strategy.

Observe that the customer can have either $f_1^* = 2375$ or $f_2^* = 2225$, but not both: tradeoffs are seemingly necessary, even though clearly not preferred. Yet, tradeoffs can be eliminated by simply purchasing different amounts of the five underlying resources.

Let us assume that we purchase the amounts listed in the second column of the above formulation. This NEW portfolio of resources, calculated again via *De novo programming*⁶, allows maximizing both criteria f_1 and f_2 . The optimal allocation is now $x^* = 4.03$ and $y^* = 2.54$ (see the point in Fig. 5) with $f_1^*(4.03, 2.54) = 2375$ and $f_2^*(4.03, 2.54) = 2225$. So the optimal performances f_1^* OR f_2^* have become f_1^* AND f_2^* , i.e. both maxima are achievable at the same time. Tradeoffs have been eliminated. There is not a single rational customer who would prefer tradeoff-based solution to tradeoffs-free solution.

How much do we pay for the NEW portfolio? Assuming the same prices of resources ($p_1 = 30, p_2 = 40, p_3 = 9.5, p_4 = 20, p_5 = 10$), the total cost of NEW portfolio is \$2386.74, i.e. less than the original \$2600. Better performance has been achieved at lower costs and no resources have been wasted. Even here tradeoffs have been eliminated.

Let us refer to Porter again:

In general, false trade-offs between cost and quality occur primarily when there is redundant or wasted effort, poor control or accuracy, or weak coordination.

Simultaneous improvement of cost and differentiation is possible only when a company begins far behind the productivity frontier or when the frontier shifts outward. At the frontier, where companies have achieved current best practice, the trade-off between cost and differentiation is very real indeed.

How can the tradeoff frontier indicate current best practice? In *De novo calculations*, we have moved not from “far behind the productivity frontier”, but *from the frontier outwards*, towards the “best practice” which can only mean better performance at the same or lower cost.

⁶ The meaning of *De novo* is anew, afresh, from the beginning; without consideration of previous instances, proceedings or determinations, i.e. designing the portfolio of resources anew, disregarding the „given“.

The tradeoff between cost and differentiation cannot be “very real indeed” – because there is never *any* tradeoff between cost and differentiation, i.e. between two criteria or measures. Tradeoffs are not the properties of measures but of the measured objects (like feasible sets of alternatives).

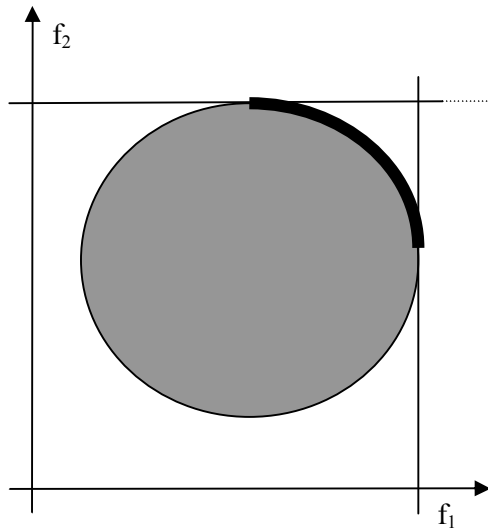


Fig. 6a Tradeoffs-based “optimization”

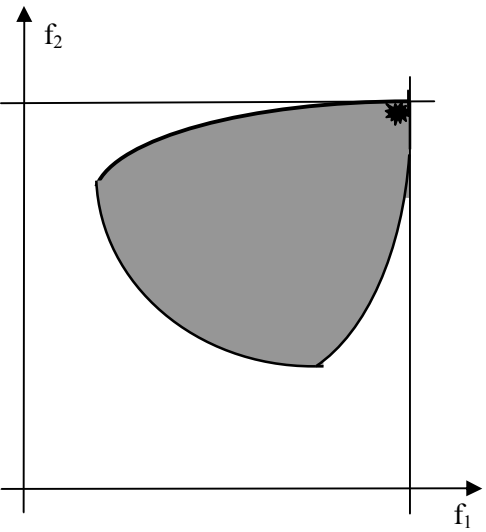


Fig. 6b Tradeoffs-free design

In Fig. 6 we can compare performance of tradeoffs-based and tradeoffs-free systems of resources. Identical levels of performances with respect to f_1 and f_2 are totally different when viewed from a strategic viewpoint. In the case of 6a these levels of performance can only be achieved separately, with forced and difficult choice along extensive tradeoffs frontier. In the case of 6b, maxima are achieved simultaneously, the choice is unambiguous for both producer and customer, and the system of resources is likely to be cheaper, less wasteful and sustainable.

Porter points out the outward shift of production possibility frontier (due to technological progress, higher productivity, better process coordination, etc.). Let us explore how both strategies perform under such shift outwards.

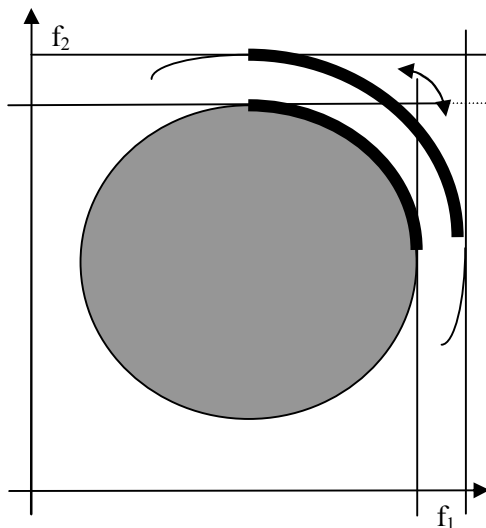


Fig. 7a Tradeoffs enlarged

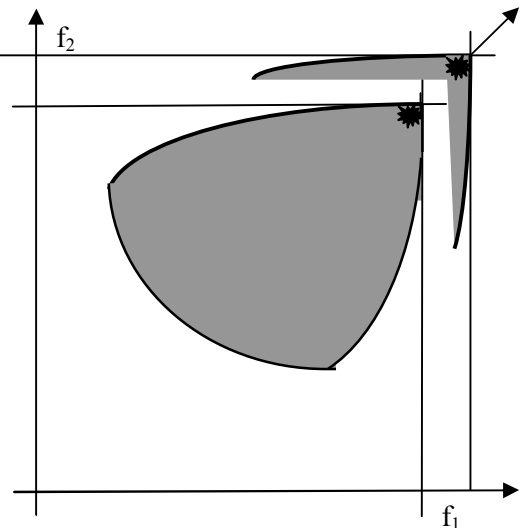


Fig. 7b Tradeoffs-free maintained

In Fig. 7, both performance levels are identical in order to make comparison effective. In case 7a the outward shift leads to an enlarged tradeoff frontier, making the choice progressively more

complex and difficult for the producer and increasingly unacceptable for the customer. Technological progress without requisite change in business model and strategic positioning is a futile exercise. Decision-making process moves laterally back-and-forth along the frontier - well known from poorly managed corporations. In case 7b the tradeoffs-free model is being preserved through the shift, providing always the best selection for both the producer and the customer. Decision-making direction is outward only, no back-and-forth waste is necessary.

Clearly, company **b** is, *ceteris paribus*, superior to company **a**; it organizes its resources in a profit-maximizing, tradeoffs-free, waste-free and sustainable fashion. Had companies like GM or Chrysler followed the strategy of Porter – i.e. ever increasing proliferation of product variety under increasingly complex tradeoffs, while ignoring the customer, wasting resources and sticking to the outdated business model – they would both go bankrupt by now, as would any other similar company following unsustainable strategies.

6 Strategy emergence process

Because all organizations do *something*, all organizations have a strategy. Staying in the same domain (the domain of *action*) is not habitual, but for developing more effective, enacted strategy it becomes necessary.

First, we have to create a detailed map of key corporate activities to find out what company *is* doing – to reveal its *actual strategy* that is already embedded in action. Remarkably, many corporations do not know what they are doing; do not know their own strategy.

Here we can turn to M. Porter and his tool of *activity map*. In Figure 8 we have adopted his Ikea example of an activity map (Porter, 1996).

Activity Map of Ikea

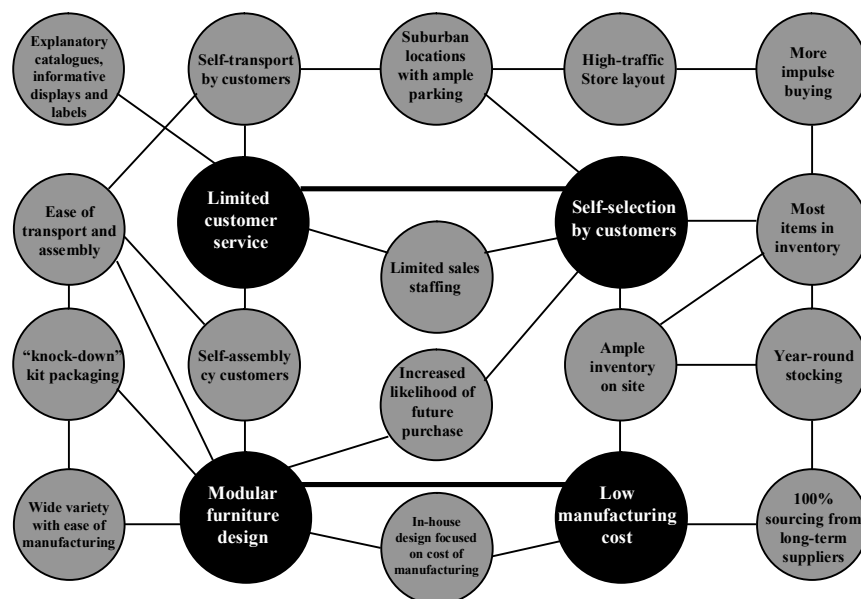


Fig. 8 Activity map according to Porter

According to Porter, strategy is the set of corporate activities. Activity Maps show a company's *strategic position*, contained in a set of customized activities. The activity map of Figure 8 represents high-order strategic themes in black circles and their corresponding activities in grey circles.

Second, after creating coherent *activity map*, one has to analyze the activities and evaluate their performance by comparing them to benchmarks of competitors, global standards or stated aspirations. First, one has to ask a series of questions, like:

- Is each activity consistent with the overall positioning – the varieties produced, the needs served and the types of customers served?

- Are there ways of strengthening how activities and groups of activities reinforce each other?
- Could changes in one activity eliminate the need for performing other activities?

Answering such and similar questions leads to changes in activities themselves, allowing reformulating and redrawing of the map. Each such change can be quickly enacted and the actual corporate strategy firmly re-established. The sequence of such *interrelated decisions*, aiming at reducing and eliminating tradeoffs, brings forth the new strategy.

The next task is *benchmarking*. One has to be careful: the purpose of benchmarking is *not* matching strategies or performances of competitors, certainly not to follow some “best practices”. One does not want to become similar or the same. The imperative of the global era is *differentiation* (Zeleny, 2006b). We want to know how the others are doing not to become like them, but to *become different*.

This is somewhat similar to the *strategic diversification* of H. I. Ansoff (1965), concentrating on the different directions in which a business might branch out or expand from where it is today. The firm is defined by the customers or markets it serves and the products or services it sells. It is *not* defined by its missions and visions.

Third, so called *value-curve maps* (Kim-Mauborgne, 1997, 1998) are produced in order to differentiate one’s activities from those of the competition. *Differentiation, not ‘catching up’ or imitation* is the key to effective competitiveness and sustainable strategy.

In Figure 9 we have such a generic value-curve map. On the horizontal axis we list criteria or attributes while on the vertical axis we record their performance levels. In concordance with Zeleny et al. (1991) we refer to the individual patterns as *profiles*. So, there can be our profile, their profile and the desired profile.

Profile Map of Environment

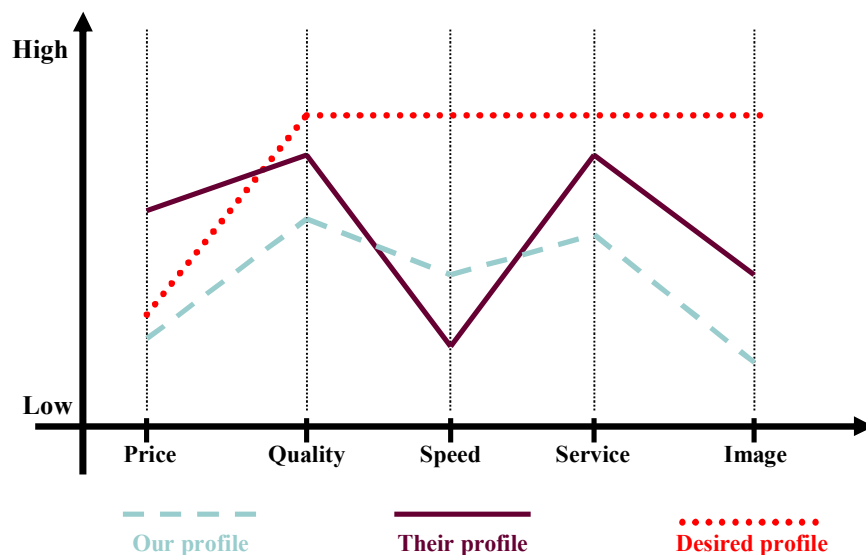


Fig. 9 Search for differentiation via value-curve map

Individual attributes or criteria correspond to Porter’s themes (black circles in Figure 8). The task of differentiation is to identify not just the performances on existing criteria, but to develop a set of new criteria (attributes or themes), which would differentiate us from the competition or standards. Once we identify such new attributes, we can develop the corresponding sets of activities (from activity maps), which have to be removed, changed or added (generated). That way we start changing the activity map and its corresponding activities in a directed and purposeful way of desired differentiation.

Fourth, we identify the activities which are to be changed, eliminated or added, thus creating a new activity map, a new strategy. Identified selected activities are changed – in order to fill the opportunity spaces revealed by value-curve maps – as being most effective for successful differentiation. The rest of action space is *conserved*.

It is important to realize that the notion of change (which activities should be changed) is best handled not through Obama-way of attacking change directly, but *indirectly*: identifying which activities should *not* be changed. Knowing what should be *conserved* in the existing strategy opens new spaces for change in the new strategy.

What is central in evolution or history is not what has changed, but what has been *conserved*. The study of change in human systems cannot be about what changes but what persists unchanged and remains conserved. So it is also with corporate strategy.

The structures change, the organization remains. That is the basic principle of *autopoiesis* (see Zeleny 1981, 2006). Some life forms disappear but living systems persist. Companies go bankrupt but business prevails. Departments are cancelled and formed but organic corporations live on. Individuals come and go but institutions maintain their identity. The conservation of system organization under the incessant churning of structures is the true contents of history. When some pattern of relations is being conserved, there is a space opened for all other relations to change. *There can be no change without conservation.*

7 Competitive advantage and added value

Strategy by itself adds no value. Only actions create value.
Finn Jackson (2004)

M. Porter often argues that strategic position or *competitive advantage* is not sustainable without tradeoffs. We have already analyzed the tradeoffs part, in the next section we turn our attention to sustainability. Before doing that, let us briefly comment on the notion of competitive advantage.

As M. Porter reminds us: “The phrases *competitive advantage* and *sustainable competitive advantage* have become commonplace.” (Porter, 1998: xvii). What is the cause of such popular appeal? Simple: the concept is never defined. The secret of business success is competitive advantage, but the guru never manages to define it in any other way than as the quality that brings success about. At the bottom of his classic strategy tome is a tautology. The circularity of Porter thinking is breathtaking (Klein, 2001).

Only the firms with [Porter’s] competitive advantage are successful. What is competitive advantage? It is a quality that brings the success about. This tautology challenges even Darwin’s famous *survival of the fittest*: Only the fittest survive. Who are the fittest? Those who survive.

Some of the most popular concepts are under-defined and based on tautologies: competitiveness as the ability to compete; decision making as choosing [deciding] among given alternatives; conflict as when two parties hold opposing [conflicting] views; knowledge as a form of information, and information as a form of knowledge [tacit; explicit]; utility maximizing choice as that which has been chosen, and so forth.

Elsewhere, there is a hint: “Competitive advantage grows fundamentally out of the value a firm is able to create for its buyers that exceeds the firm’s cost of creating it.” Competitive advantage now appears to be somehow correlated with created value - but what is this „created value“? Value added? After the comparative advantage, also competitive advantage will go its way as it boils down to nothing more than success. In fact, comparative advantage can never be a *position*: it is continually and autopoietically created, deconstructed and re-created through the activities of differential deployment of resources.

Can firm’s competitive advantage be measured by the ratio of *added value* to the firm’s gross or net output (Kay, 1993)? Rather than delving further into Porter, let us summarize the measure of added value as a measure of corporate *knowledge*.

Knowledge is measured by the value that *coordination* of effort, action or process adds to materials, technology, energy, services, information, time and other inputs used or consumed in the process. *Knowledge is measured by added value.*

In any business, value has to be added to *both* participants: the provider *and* the customer. Adding value to both is what makes the transaction free, satisfactory and sustainable. There are two kinds of value to be created: *value for the business* and *value for the customer*. Both parties must benefit: the business – in order to produce it; the customer – in order to buy it. In the global age, it is

precisely this business-customer *value competition* that is emerging as the hardest and the busiest tradeoffs battleground.

In Figure 10 we explain the creation of new value. First, the customer pays for the service or product: the *price paid*. The producer subtracts the *cost incurred*, including all direct and indirect materials and services purchased. The difference is the *added value* for the business. This added value can also be interpreted as the *value of knowledge* engaged in producing the service or product. In order to pay wages and salaries, the production process and its coordination must generate this added value. Added value is the only source of corporate wages, salaries and profits.

If the added value does not *cover* the wages and salaries, then these must be correspondingly lowered. If no value has been added, then the value of knowledge is zero and no payment can be attributed to it. Business must add enough value in order to *cover* at least its workers and managers, their salaries and wages. If even more value has been created, then *profits* can be realized, up to the price received.

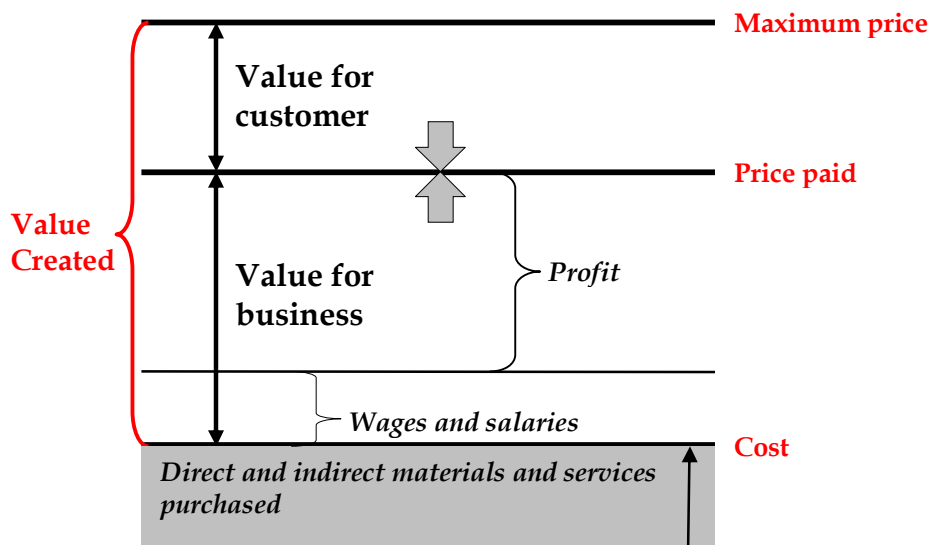


Fig. 10 Adding Value for the Customer and Business

The customer, of course, must be willing and ready to pay more for given service/product than he actually pays. The *maximum price* the customer would be willing to pay must exceed the price the producer has asked for. The difference is the *added value for customer*.

If there is no value for customer – the maximum price is lower than the price to be paid – then the customer will not buy the service or product. In a competitive market, the customer pays money only for the value received, i.e. value for customer.

The purpose of corporate strategy is eliminating tradeoffs of the *price paid*. If price is increased, value for business increases at the cost of decreasing the value for customer; if the price is decreased, value for customer increases at the cost of lowering the value for business. This tradeoff-based haggling *à la* “Turkish bazaar” is not sustainable.

The one long-term sustainable strategy is to maximize *Maximum price*: through things that generate and sustain competitive success — like reputation, trust, image, reliability and mass customization; also a good customer group, network externalities, knowledgeable and skilled employees performing corporate processes - and minimize cost *at the same time*. There is no better strategy for the producer or the customer. Elimination of tradeoffs is the best strategy.

8 Sustainability and self-sustainability

Business gurus of the past used the word *sustainability* to mean a company’s ability to increase its earnings or profits steadily, to maintain its efficient survival, or to protect its long-term competitive advantage. Such kind of technical „sustainability“ says nothing about the use of environment, resources, community, knowledge and human circumstance; it has been abandoned by business by the end of the

eighties. It was replaced by inoffensive, politically correct, conceptually empty and vaguely tautological: “Meeting the needs of the present without compromising the ability of future generations to meet their own needs.” Now we can have even more talk and less walk.

It is counterproductive to continue research and achieve some results without unambiguous and measurable concept definition. Sustainability cannot mean different things to different people. We can only recall what happened to the fields of decision making, knowledge management, technology, conflict, competitiveness and quality management which forged ahead without ever defining their essential subject of study beyond tautology or common language use.

Definition. *Sustainability is achieved through gradually reducing or eliminating tradeoffs conflict among defining dimensions of a system – either through dependency on other (sustaining) system, or through system self-reliance (self-sustainability).*

We need to address at least the following:

1. Sustainability of strategy vs. strategy for sustainability
2. Multiple-criteria nature of sustainability.
3. Tradeoffs-free purpose of sustainability
4. Sustainability vs. self-sustainability

1. *Sustainability of strategy vs. strategy for sustainability.* Sustainable strategy is not the same as sustainable business. A given strategy, say profit maximization, can be sustained for long periods of time. Yet, the business itself can be damaging its nurturing environment, becoming less and less sustainable in one or more dimensions, compensating through tradeoffs with other dimensions in order to maintain its strategy. It reduces its innovation activities, increases commercial PR stunts, frequent sales and pay installments, curbs education and training, etc. in order to sustain profit-maximizing strategy. The business collapses suddenly, unexpectedly like an avalanche, tsunami or a pile of sand when further tradeoff compensations cross the boundaries of vitality.

It is therefore necessary to focus more on enacting strategy *for* business sustainability and less on sustainability *of* strategy itself. Instead of pursuing profit maximization *per se*, a company focuses on the viability of its resources, maintaining their balance, reducing tradeoffs and waste and letting profits emerge from profit-maximizing system design, rather than from maximizing profits with *any* system. A mere long-term thriving survival is not the sign of sustainability, but of radical compensatory activities – like with some 100 years of thriving internal combustion engine. Business survival is not a right, but a hard-earned and market-tested privilege.

Achieving balance through tradeoff compensations is a false, non-sustainable balance: the weakest and most stressed dimension will ultimately give out, leading to the collapse of the entire system. Non-sustainable systems tend towards “sudden death” type of conflict resolution.

2. *Multiple-criteria nature of sustainability.* If there were systems defined by a single dimension, their sustainability would never be questioned – no other dimension could interfere or degrade its existence. Pursuing a single criterion, like profit, utility, needs or cost does not imply a single-dimensional system; the very inability to sustain such pursuit points to many defining but ignored dimensions. Sustainability is a multicriterion phenomenon. Balance or cognitive equilibrium of multiple criteria is a prerequisite for sustainability.

There are two kinds of balance - and therefore two kinds of sustainability - for any living organism, system or business: 1. *Inner* balance of system’s defining components, and 2. *Outer* balance of a system with the defining dimensions of its nurturing environment,

Inner sustainability of business requires balancing at least Customer, Innovation, Processes and Finances, i.e. CIPF. Without such non-compensatory balance business becomes unsustainable. An organism must first exist and function before it can successfully and sustainably couple with its environment.

Outer sustainability of business refers to maintaining the balance of its *nurturing environment* through resolving or eliminating tradeoff conflicts between *at least five* of its defining dimensions:

1. *Human and social:* investment in people’s skills, knowledge, education, health & nutrition, abilities, motivation and effort plus promoting the enabling infrastructure of institutions, civic

communities, cultural and national cohesion, collective and family values, traditions, respect and the sense of belonging.

2. *Economic*: securing or not endangering production of food, products, services, self-service and necessary physical assets of infrastructure, technology, buildings and means of transportation, as well as protecting free markets for adding-value businesses.
3. *Natural*: protecting and enhancing nature-produced, renewed and reproduced “inputs” of land, water, air, raw materials, biomass and organisms; controlling both renewable and non-renewable depletion, degradation, cultivation, recycling and reuse.
4. *Cultural*: preserving cultural diversity of nations, regions and local communities, protecting and enhancing cultural identity and transfer of language, traditions and customs across generations.
5. *Ethical*: preserving individual freedom from harm and deceit, institutions of trust, fairness and reliability, instilling and rewarding moral behavior and action, punishing acts harmful to four remaining ecologies.

Preserving natural environment would be ineffective if carried out at the expense of other dimensions of the *nurturing environment*. Its protection is the very foundation of sustainable business. *Ecology is good business*, but there are five interrelated ecologies, from human and social to ethical, which must be brought into non-compensatory balance. We cannot enhance business at the expense of ethical behavior, nature at the expense of economic conditions, or culture at the expense of freedom.

3. *Tradeoffs-free purpose of sustainability*. Multiple criteria imply tradeoffs and so the very notion of sustainability is weighted down by the curse of tradeoffs.

Porter insists that “Without trade-offs, there would be no need for choice and thus no need for strategy. Any good idea could and would be quickly imitated.” According to this logic, tradeoffs assure that no superior, tradeoffs-free choices (like mass customization) were available to customer, the need for [Porter] strategy can never be satiated, and tradeoffs-based competitive advantage is hard to imitate. Thus, competitive advantages are more sustainable if they are inimitable while the most valuable competitive advantages might be precisely those that cannot be identified, and therefore copied.

As we have shown in section 5, it is precisely the other way around: the easiest to copy are tradeoffs-base strategies “OR”: either cheaper or better quality or faster delivery or better reliability. The hardest to copy are those strategies that require optimal portfolio and allocation of resources in order to deliver what customer wants, i.e. strategy “AND”: both cheaper and better quality and faster delivery and better reliability. Only few companies (like e.g. Kyocera, Dell or Bata of the past) can do that and they have never been copied. If something is hard to emulate, like unique management system based on optimal organization of resources and company-specific, customer-fitted knowledge, *then* it is better sustainable, without tradeoffs.

A company should pursue its own strategic direction that embodies a larger human challenge. In every business strategy there should also be a sense of a transforming – even if at present seemingly unreachable – destination. The pursuit of *tradeoffs-free* products, services and business models provides such a destination: realistic, motivating and transforming.

4. *Sustainability vs. self-sustainability*. Recent experiments with radical governmental interventions in free-market systems have lead to realization that some businesses⁷ can be *sustained* by massive infusions of taxpayers’ money. Just because sustainability is good and politically correct, not all systems should be sustained at all costs. Viable systems must be *self-sustainable*, not just government-sustainable.

Any self-sustainable system must secure, enhance and preserve *communication* (and thus coordinated action) among its parts or agents – like for example CIPF. Systems with limited or curtailed communication can be sustained and coordinated only through *external commands* or feedback; they are not self-sustaining. Traditional hierarchies of command can be sustainable but not necessarily self-sustaining.

Self-sustaining systems must be organized differently than sustainable systems: they must continually “produce themselves”: i.e., their own capability of their own action coordination. No

⁷ Usually those labeled “Too big to fail”, like GM, Chrysler, Goldman Sachs, etc. Most of these should be allowed to fail so that a new space opens for more competitive, customer-oriented, innovative enterprise. Instead, like GS now, they reap astounding profits from government-induced sustenance.

government guidance, interference or ownership can be a substitute. It is the *self-sustainability* that is of real interest, rather than sustainability.

Sustainability and self-sustainability are both related to system organization and its self-production (autopoiesis). *Self-sustainable* systems are autopoietic and must therefore be organized for autopoiesis. Merely *sustainable* systems are *heteropoietic* because their sustainability does not come from within (from their own organization) but from the outside: from planned, system-sustaining activities of external agents. *Non-sustainable* systems are *allopoeitic*, i.e., they are organized to produce things other than themselves. Allopoietic systems necessarily and irreversibly degrade their own environment. Heteropoietic systems can only be sustainable as long as *external agents* sustain their system-sustaining efforts. Only autopoietic systems replenish and renew their own environment and thus become self-sustaining.

Long-term functioning of a company requires continued coordination of action, i.e., recursive production of knowledge. Most systems can be sustained over long periods through an external supporting agent that disburses sustenance: ideas, efforts, money or resources. Once this external agent withdraws its support, a system's sustainability can be directly challenged. *Externally sustainable* systems do not have to be *internally self-sustainable*. Any relationship External agent → Sustainable system can be transformed into a *self-sustainable metasystem*: [External agent ↔ System]. While an external agent can in principle make any system sustainable (like a mother her child), only an integrated agent-system can become self-sustainable (like a mother *and* her child).

9 Anti-Porter Strategy: Executive Summary

In this paper we have touched upon only the most important aspects of modern strategy: customer sovereignty, tradeoffs elimination, mass customization, optimal design and decision-making framework. We have not addressed the issues of organization and structure, the CIPF cycle, knowledge vs. information, added value drivers, etc., described partially in some of the listed literature. Below we provide at least an *Executive summary* of the emerging view of strategy:

1. Any core competency or competitive advantage is *temporary*. Effective strategy is based on a *continuous* search for new advantage and production of new competencies.
2. Strategy *emerges* from a series of interrelated decisions aiming towards reducing or eliminating tradeoffs *conflict*.
3. Strategy is *action*, not a *description* of action, i.e. what a company does, not what it says, is its strategy.
4. All action takes place in the *present*, not in the future, not in the past; the rest are descriptions.
5. Current organization reflects current *portfolio of resources*. Strategy transforms resource portfolio into a better resource portfolio. *Organization and strategy* are interdependent and mutually co-determinant.
6. *Organization* is a self-renewing cycle of basic processes; *structure* is a time-spatial snapshot of the underlying organizational process: organization determines structure, not vice versa. The relationship between *structure and strategy* is irrelevant.
7. Corporate strategy must involve changes in *business model*, not just in products and services; i.e. it must allow continuous reinvention of itself as a company and business.
8. Corporate resources are *not given*, but must be continually designed and re-designed towards maximization of *added value* for both business and its customers.
9. Accumulated *knowledge* and past experience is the platform for change, *not information* of future intent, mission or vision. (Anything that can be framed and hanged on the wall is *not* strategy.)
10. *Added value* is a better measure of strategic success than profit maximization. All employees and corporate teams, units and departments must add value to justify their earnings.
11. *Customer* is the driver of strategy and the validating source and measure of quality, innovation and knowledge. Customer does not prefer tradeoffs: *he wants it all*.
12. Markets are continually and unpredictably changing and shifting. Long-term strategy, based not on *forecast*, but rooted in *foresight*, brings forth the necessary consistency of purpose.

13. New products, services and business models are being launched and tested at steady and predictable pace, regardless the *boom or bust* circumstances. Doing the *work of crisis* without the crisis – is a new corporate calling.
14. Strategy cannot come from *top-down* in the form of descriptions and declarations. Neither can action percolate from *bottom-up*. Strategy emerges from the *action cycle* of **C**ustomer-**I**nnovation-**P**rocesses-**F**inance. *CIPF* should be the strategy of any business; only the measures of performance differentiate individual corporate strategies.
15. *Foresighting* of trends, organizational *adjustment* and optimal *conditions* for CIPF-cycle functioning are the main charges of corporate leadership and executive management.
16. Corporate strategy is *not assembled* like a Lego - piecewise into a unified whole. Rather, strategy is *grown* and nurtured into its existence from the past action, not backwards from the future – like a living *organism*, not like a contrived *machine*.

In conclusion, strategy as a competent and purposeful action will impress both competitors and customers. Strategy is about what you do, not about what you say you do. Strategy is about action, not about description of action. Strategy is about doing, not about talking. All corporations have strategy, whether they know it or not: it is embedded in their doing. Strategy is what you *do*. What you do *is* your strategy. Your action should be stronger and more reliable than your words.

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