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The Four Critical Questions in Portfolio Decisions

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Strategic portfolio management can give your company leverage to meet its growth goals and renew its products and services to avoid obsolescence and commoditization. The process doesn't have to be complex and bogged down in details. There are simple, powerful tools you can use to create great results.

Complexity comes from over-emphasis on optimization. You've probably been in one of these portfolio decision meetings: a bright portfolio analyst presents a massive PowerPoint deck, with every cut of the data and answers to any question anyone might have. The analyst has several good insights about the portfolio, and plans to walk through all main charts and metrics to gain approval of an "optimal" set of portfolio recommendations.

This approach rarely works. While everyone says they want to come together to make the choices that are best for the company, the optimization approach unintentionally activates a great many biases in decision making. It leads to information overload and recommendations that rely on an unachievable level of precision.

Often participants use the complexity of optimization to derail the process into polite politics and arguments about data quality. That's a great way to sidestep decision making and avoid facing tough choices. It gives executives excuses to do what they wanted to do anyway.

Another tempting trap is to treat portfolio management as mere resource allocation. Many portfolio managers see their job as allocating available resources among all the potential projects. This focus on allocation assumes that all projects are good ones that need to be done. Often the unintended result is attempting too many projects with too few resources.

The issue is not whether you can squeeze a few more drops from the lemon ... but who you as a company want to be, and where and how much to invest to get there.

Without the resources they really need to succeed, many projects are fundamentally wounded. Over time, project managers learn to ask only for what they think they can get, resulting in a system that disguises the wounds and condemns a portfolio to mediocre value realization and ineffective creation of new opportunities.

The issue is not whether you can squeeze a few more drops from the lemon; rather, the fundamental issues at stake are who you as a company want to be, and where and how much to invest to get there.

Having guided many executive groups through portfolio decisions, I have realized there are four critical questions that really drive portfolio decisions. These questions address the critical needs for Sufficiency, Significance, Renewal and Efficiency.

> *Curiosity at work isn't a matter of style. It's much more powerful than that. If you're the boss, and you manage by asking questions, you're laying the foundation for the culture of your company or your group.*
>
> — Brian Grazer

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The Sufficiency question asks, "Do we have enough to achieve our goals?" When executives can't clearly see that the portfolio has enough to reach their objectives, they tend to hang on to everything. Short-term projects get a lot of attention because the results are most tangible, but frequently the middle term has the biggest gaps. A good portfolio process shines a sometimes painful spotlight on these gaps, which motivates real choice.

The Significance question asks, "Are we focusing on things that matter?" Most portfolios are cluttered with uninspiring and mediocre projects: each serves a perceived tactical need, but won't actually move the needle for the company or inspire people to do something great. Often these insignificant projects are promoted based on "strategic" handwaving that clouds the issue. While small projects often seem inexpensive, this misses their opportunity cost: the time and attention spent on small projects distracts from significant projects.

The Renewal question asks, "Can we thrive in the future?" Projects that support the current business, incremental projects, and projects supporting next year's revenue are critical—but they are not enough. To stave off slow death and avoid a slide into commoditization, all businesses need to be regenerated with new opportunities, platforms, markets, business models, innovation, etc. Spending on the current versus the new must be explicit and balanced, or the current will crowd out the future and relegate the company to decreasing relevance and shrinking margins.

The Efficiency question asks, "Are we being good stewards of our resources?" In other words, are we delivering a good return on investment? No model can be so detailed and accurate that it makes all the decisions for you. Since most portfolios have many high return choices, the central challenge is selecting which of these good projects to pursue and which to say no to. You need to select those projects that take you furthest and fastest in the direction you want to go. Sometimes this means funding a lower return project (on its own merits) because of its strategic benefits.

Be a wise manager: ask the four questions. The answers will help your business thrive.

The wise manager wants to ensure sufficiency, significance, renewal and efficiency, and makes sure to ask all four questions. Addressing these questions directly and transparently is the key to getting a group past petty conflicts over whose projects win or lose and into alignment on how to shape the portfolio to create the future you want for your business.

All four questions need to be answered through the lens of resources or affordability. This is the heart of strategic portfolio management. Project managers ask for what they need for the projects' success, and decisions on allocating the company's resources focus on what the company really needs to address the four questions. If there are insufficient opportunities or resources to meet your goals, you can decide what to do about it. Your priorities guide your decisions, instead of predetermining them.

Through clarity on these four questions, companies typically find that 30-50% of their projects are clutter and simply don't need to be done. They typically realize that they are starving many of their best opportunities. They typically discover hidden upside in many projects and find paths to improve their returns by five times or more.

These business results are big enough that people can step out of petty politics and get behind difficult choices. These insights energize an organization's members and give them confidence that decisions are being made well.

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