

The source for value-based management

VALUEPOINT™

Get Smart!

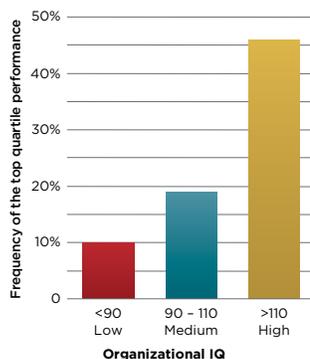
Jim Matheson, SmartOrg

In the **March ValuePoint™**, we offered an opportunity to test your company's Organizational IQ®. If you haven't taken the **Organizational IQ** test, we encourage you to take a few minutes to do so.

The test will reveal your organization's strengths and weaknesses and will identify specific principles your organization needs to focus upon to increase its ability to generate additional value. We have a database from thousands of similar tests to make the comparisons, and we will add your answers to the database for future analysis. All information will be kept completely confidential.

Organizational IQ is scaled like human IQ with 100 being average, below 90 being the bottom quartile and above 110 being the top quartile. We generated the following chart from our database of responses from hundreds of companies, showing how Organization IQ relates to actual performance.

You can see that those organizations in the top quartile of Organizational IQ had a 45% chance of also being in the top quartile of performance, while those in the bottom quartile of IQ had only a 10% chance—a very real difference.



Among the nine principles of the smart organization, as discussed in the March ValuePoint, “Embracing Uncertainty” frequently shows up as weak. Embracing Uncertainty means discovering and understanding the sources of uncertainty in your business arena and making sure everyone comprehends them.

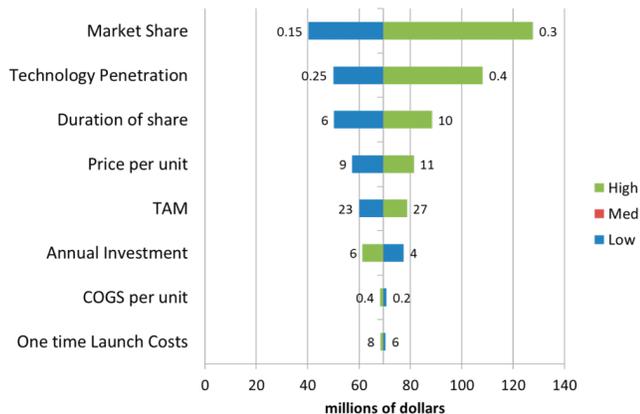
Uncertainty may be around your ability to deal with what I call “the uncertainty around business as usual” as well as uncertainty around large events that can change the whole business or technical landscape. To create value when faced with uncertainty, you need to identify and deal with both types of uncertainty. This can be accomplished by developing robust strategies that work well regardless of what happens, taking hedging actions that give up a little of the upside in favorable situations for better conditions in unfavorable situations, and creating flexible or contingent strategies that adapt as uncertainties unfold. By being sensitive to key drivers of value, you can continually look for the unexpected and adapt faster than your competitors.

Two other principles were rated as weaknesses during recent surveys: “Systems Thinking” and “Value Creation Culture”. In a value-creation culture, you consider your actions as they contribute to the value of your customers, stakeholders and the organization. Using systems thinking, you build formal value-based models that trace impacts

If a man will begin with certainties, he shall end in doubts; but if he will be content to begin with doubts, he shall end in certainties.

**Francis Bacon,
Advancement of Learning**

of uncertainty to impacts on bottom-line value. High IQ organizations typically find cash-flow models to be most useful. Cash-flow models produce a final value (usually an NPV) for each scenario. Sensitivity analysis can identify the factors most impacted by uncertainty. “Tornado Charts” like the one in the illustration, show the impact of uncertainties on value.



The impact of the low to high range of each uncertain variable is shown as a bar graph, sorted with the largest impact at the top. The tornado shows the factors to control if you can, and to hedge and watch out for if you cannot. We are often surprised to find that management attention has been focused at the bottom of the chart instead of the top. (To learn more about tornado charts, see *Tornado Diagram: Resolving Conflict and Confusion with Objectivity and Evidence* for further explanation.

We invite you to try this experiment: assemble a group of your peers and have each take the test. After you receive the results, meet and compare your assessments of the state of your organization—you may be surprised.

The way to improve is to maintain your strengths while working to strengthen your weakest areas.

References:

David and Jim Matheson, *The Smart Organization*, Harvard Business School Press, 1998.

David and James E. Matheson, *Smart Organizations Perform Better* in *Research • Technology Management*, July-August 2001, pgs 49-54.

Upcoming Events

Fire Up Cross-Company Breakthrough Innovation

Frost & Sullivan will highlight Co-Innovation, featuring Rich Duncombe of Hewlett-Packard in an hour-long webcast with SmartOrg. Learn how your organization can stimulate innovation by joining forces with others outside your industry.

11 AM PDT | 26 April 2012 | [More Information](#)

Pipeline 2012 — The Online Conference for Innovative Product Development

75% of new products fail to meet projected revenue and profits. Don Creswell will show how the tools of Advanced PPM can significantly improve your success rate. Tune in to his presentation “Winning in an Uncertain World,” which will run throughout this virtual conference.

4 AM – 1 PM PDT | 10 May 2012 | [More Information](#)

Front End of Innovation Conference

David Matheson will join over 100 world-class speakers as they explore the hottest topics in today’s dynamic innovation environment.

15-17 May 2012 | Orlando, FL | [More Information](#)

Taking PPM to the Next Level: Second in a Series

SAP, SmartOrg and Platinum DB Consulting combine forces to show how Advanced PPM can help your company make better choices and develop portfolios that focus on optimizing the value of product development.

11 AM PDT | 23 May 2012 | [More Information](#)

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