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Sufficiency and Significance

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August's ValuePoint introduced the Four Critical Questions for Decision Making in Strategic Portfolio Management (see sidebar). In this edition, we'll look at two questions about Sufficiency and Significance.

Sufficiency

The Sufficiency question asks, "Do we have enough to achieve our goals?" In particular, is there enough potential in the portfolio of innovations, new products and process improvements to give the organization a good chance to hit its growth targets? Simple roll-ups rarely address this issue because project uncertainty often makes portfolio forecasts seem unreliable, which creates executive discomfort about having enough.

When we are concerned we don't have enough, it's human nature to keep lots of options available and hang onto everything. Yet this understandable reaction inevitably leads to clutter in portfolios and unfocused effort (the subject of the Significance question).

Time complicates the question further: we need enough to meet both our near-term and long-term goals. The farther into the future we look, the more uncertainty there is in our forecasts. Discomfort increases. The response is typically either hanging onto too many projects out of fear of missing out, or a short-sighted assumption that if we look after the short-term, the long-term will take care of itself (leaving the long-term up to chance generally sacrifices it).

Most portfolio evaluation tools don't provide clarity and confidence about the portfolio's value and range of financial performance over time. Addressing Sufficiency requires clearly understanding the uncertain performance of the portfolio over time relative to goals. A good portfolio process shines a (sometimes painful) spotlight on the gaps between uncertain performance and goals over time, which motivates and enables real choice.

For example, Figure 1 shows a typical portfolio, which performs well on its goals in the short term but not in the medium term. The potential results, if everything works out (the typical planning assumption), show delivering the goal across all time frames. However, a more realistic view of the portfolio, accounting for probability of success and project upsides, shows that the medium term goal is seriously at risk.

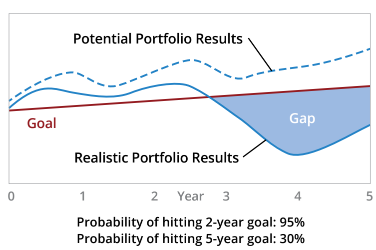

Figure 1. A good portfolio process spotlights potential gaps between results and goals.

A good portfolio management tool kit builds uncertainty into project forecasts and rolls them up into an overall portfolio forecast. Because it factors in uncertainty, the portfolio forecast will show ranges of possible results and highlight risk areas, including when potential gaps between results and goals might occur and how deep those gaps might be. As a happy side effect, the process may also show unexpected upside—many feared gaps may not actually be real.

Four critical questions for decision making in strategic portfolio management

Sufficiency: Do we have enough to achieve our goals?

Significance: Are we focusing on things that matter?

Renewal: Can we thrive in the future?

Efficiency: Are we being good stewards of our resources?

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In most cases, executives realize they can meet their goals with fewer projects, resulting in better portfolio focus, less clutter, and stronger growth.

Significance

The Significance question asks, “Are we focusing on things that matter?” There are many tactical reasons to assign importance to a project—it’s a slam-dunk, an important customer asked for it, a competitor just did something like it, it’s a really interesting new technology – but for the project to matter, it has to make a significant contribution to our goals.

Most portfolios are cluttered with uninspiring and mediocre projects, each of which serves a perceived tactical need. Often projects are given priority based on “strategic” handwaving that clouds the issue. Sometimes internal champions exploit company politics to ensure their projects keep their funding and stay on the development schedule. But these methods of assigning importance often ignore the significance of the project.

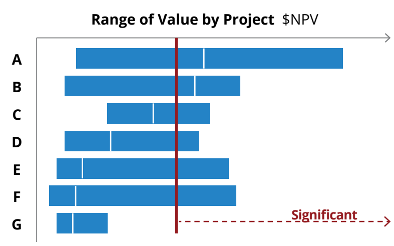

Figure 2. Significant projects have high expected value and/or high upside potential.

This distinction is crucial: tactical importance is different than strategic significance. Significant projects have a high expected value or high upside potential that can be exploited, as in Figure 2. They will make a difference to meeting our goals and growing our business. But because companies rarely rigorously consider uncertainty in their evaluations and forecasts, executives have limited visibility to project significance. Worse, they assume (dangerously) that tactical importance implies strategic significance.

The assumption goes wrong in two ways, both of which can devastate growth, as shown in Figure 3. Projects that have tactically low importance but high strategic significance, often the greatest drivers of renewal and growth, are in danger of being missed, cast aside, or being underfunded. The other danger is the attraction of tactically important projects that are in fact strategically small. These can become clutter.

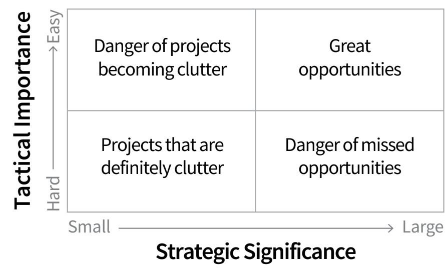

Figure 3. We should focus on strategic significance before tactical importance.

While clutter projects often seem inexpensive taken individually, this misses their opportunity cost: time and attention spent on small projects distracts from significant projects. These insignificant projects won’t move the needle for our goals or inspire our people to do something great. However, they will take actual management attention and other resources away from to other projects that could create real upside for our company. All insignificant, unimportant projects are just clutter. And many tactically important projects are also clutter, but we just don’t realize it because we don’t see their low significance.

Removing clutter from a portfolio allows us to focus on the projects that matter, ones that will make substantive contributions to achieving our goals. That includes not just managing to realize the expected value of the project as it stands today, but looking for ways to drive the value of the project to the upside that we believe is achievable.

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