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How to catch those fleeting investment opportunities

Companies are often too slow or too rigid to invest in new projects while they have an advantage. Here's how they can be more agile.

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Time is of the essence for many of the small to medium-size investment opportunities that companies face during the course of a year. The right moment can be fleeting, for example, to scale up production in a unit that suddenly takes off, to launch a marketing campaign to meet an unexpected wave of customer demand, or even to acquire a facility that comes abruptly onto the market. These are the kinds of projects, often identified by frontline managers, that a company should be able to approve quickly and undertake in less than a year's time.

Few companies are as agile as they'd like to be. Processes meant to bring the advantage of a cross-company perspective to the allocation of capital more typically fund the same activities year to year. Structures meant to ensure consistency among units operating in diverse industries can slow deliberations to a crawl. Performance targets meant to reward cost containment instead hinder investment in growth. And by the time managers have sorted through all those obstacles to reach a decision, the opportunity has passed.

This struggle is at the core of an ongoing discussion we and others have been having about a company's allocation of resources—and companies naturally want to know how to move more quickly without sacrificing discipline. To learn more, we surveyed more than 1,400 executives across industries, geographies, and ownership structures[1] and then interviewed a selection of the best and worst performers.[2] The things that slow them down are likely familiar. Fully half of our survey respondents felt that their investment processes were not transparent—and that they didn't know the criteria or process for making a decision. A third reported that it takes more than five meetings to approve an investment. Half of them noted that they lack the flexibility in their budgets that would enable their companies to seize opportunities outside the budget cycle, and 60 percent believe their decision processes take significantly longer than those of competitors. Agile resource allocators, by contrast, are faster on those same metrics—and the impact on their performance is significant (exhibit). They're more likely to hit performance targets and to be more profitable, faster growing, more innovative, and better at attracting talent.

There are some things companies can do to be more agile at allocating resources. The survey, follow-up interviews, and our experience suggest that managers should push project decisions down in the organization, keep abreast of data that define their decision criteria, and be more flexible about revising budgets during the year.

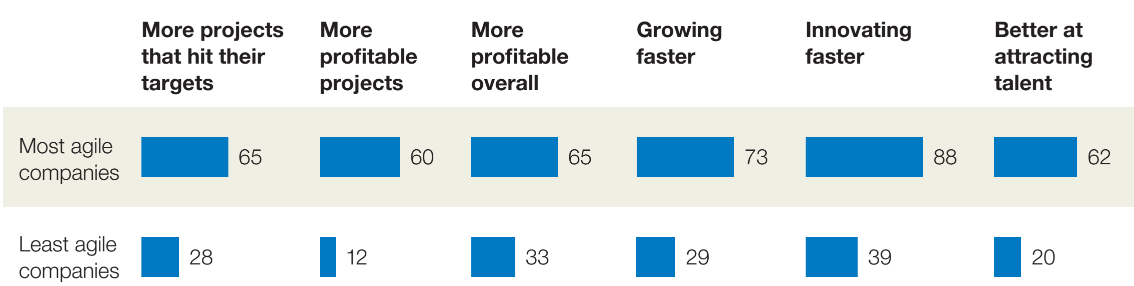
Push decisions down in the organization

Perhaps the defining trait of agile companies is the ability to make decisions quickly. That's a challenge for companies where investment decisions can only be made by those at the top. One company in the construction industry illustrates this dynamic. Although its staff has grown to nearly 3,500, every major spending decision still falls to a cadre of just three core executives, which has slowed the company's progress. Moreover, the criteria the company uses to make decisions are as opaque to insiders as to outsiders, inhibiting project proposals and leading to the perception that projects were approved based on favoritism instead of on their merits. As a result, the company lagged behind its peers at updating its IT and knowledge-management infrastructure. This lowered staff productivity, as

Exhibit

Agile companies have faster decision processes, and the impact on their performance is significant.

Perceived company performance relative to competitors, % of respondents[1]



[1] The most agile companies were those in the top 20% of the sample, the least agile in the bottom 20%.

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different teams duplicated one another's efforts, and it ultimately increased turnover, as engineering staff left for firms with better capabilities.

More agile companies push decision making closer to those who originate an idea—and who will be responsible for implementing it—and limit the number of meetings and decision makers. This lets companies move more quickly from concept to approval to project completion and make faster investment adjustments along the way.

For example, in contrast to many companies that require corporate-center sign-off for large investments in new techniques or technology, an entertainment-market-research unit of a large advertising firm generally requires the sign-off only of the unit CEO. The company's goal is to make sure that each unit can make pricing and marketing decisions that make sense for local geographic markets. In the rare case that needs corporate-center approval, such as a substantial new investment that was unplanned, they receive an answer in less than a week. The CEO and CFO have committed themselves to supporting localized decision making and have a lean corporate center that pushes people to move quickly and decisively.

Similarly, one telecommunications-equipment manufacturer delegated the authority to make investment decisions to geographic units. Each unit had standard targets for revenue growth and profit margins but had freedom to invest and make trade-offs as needed among, for example, new marketing, customized designs for the local market, and contract terms. The process required only the sign-off of the business-unit head and its finance manager. To understand trade-offs and model the implications of possible courses of action, local unit managers used a rolling 18-month forecast of the business.

This doesn't mean excluding other stakeholders such as corporate-center functions or department heads. But it does mean that they must inject their concerns into the development of criteria for assessing investment proposals before the fact, instead of employing the veto power they might have had over new investments in a more typical structure. This should give them confidence that new projects won't arise that create difficulties for their area of the company without slowing down the process.

Keep your decision criteria up to date

Another tactic that companies use to speed up decision making is having a clear strategic vision for the sorts of opportunities they are looking for. Without that, companies waste valuable time considering opportunities that don't align with their strategy or having to formulate a strategy before they can consider an opportunity. At best, this will slow investment decision making. Even worse, companies can miss opportunities altogether because they are too slow to act.

Companies with clear strategic goals know where the gaps are in their current development plans—and what kinds of decisions they expect to make, such as adding new technology, acquiring a new facility, or kicking off a new marketing campaign. Knowing these decisions are on the horizon, they monitor the most important data they'll need to make decisions so that they can react more quickly when an opportunity comes up. For example, managers at one healthcare company knew that it would need to add a new facility in the coming year; the only thing that might change was how much they would spend and the facility's location. Managers there reported maintaining a continually updated investment case, including two reports—a 15-year cash-flow forecast (to tell them how much they could spend) and a forecast of regional demand for medical services (to tell them where they wanted to be). As a result, when they were offered a commercial office building by a distressed seller, they knew, in fewer than five minutes, that the location was suitable and that the project would fit into their funding plan. The hospital also has a rapid approval process, where the chief operating officer and CFO jointly prepare proposals that the board of directors reviews and approves.

Be more flexible around budgeting during the year

Many companies manage their investment processes on an annual basis, allowing only limited windows of time for managers to propose new initiatives. There's often no formal mechanism to add to a unit's budget during the year—and no flexibility to exceed it. Indeed, it isn't unusual for companies to be quite strict about units hitting their annual budget targets. That rigidity can give senior managers confidence about total spending in a year and can impose discipline on unit-level managers to make trade-offs between projects. But, at the very least, such rigidity can stall efforts to scale up projects that are performing strongly; at worst, they can prevent managers from considering new opportunities until next year's budgeting process.

Agile companies don't let hitting a budget number force them to miss a good opportunity—and they will even exceed their budget in the current year to make smart operating decisions. For example, when managers at the ad agency mentioned earlier were presented with a new market opportunity, they were encouraged to pursue it even though it would result in a reduction in margin for the current

year. Instead of being penalized, the team was simply asked to submit a new plan that reflected the new forecasts for revenues and margins as the opportunity scaled up. Similarly, many of the executives we interviewed were willing to accelerate projects that were going better than expected, even if it meant increasing spending in the short term. They reported that their company's internal processes enabled them to exceed their budgeted spending in the current year to create more value for their firm by scaling up more rapidly.

Clearly, there are limits to how much discretionary spending a company can allow—and removing decisions from the formal budgeting cycle does make it harder to weigh the trade-offs among potential investments. Another way to add agility is to be more flexible about the timing of the formal budgeting reviews. Companies might, for example, set aside a pool of resources to fund off-cycle investments that they evaluate in batches every quarter. That way, investment decisions aren't held up an entire year, and managers can still weigh the relative returns of different proposals. Another option, which one technology company uses, is to create a rolling process for considering proposals. It maintains an ongoing pipeline of product ideas; as they are developed, they are reviewed and funded as needed. The pace of each proposal is driven by the technology needs of the product, however, and not by a company calendar or budget cycle.

Being flexible about timing, however, does not mean making ad hoc decisions. Instead, companies should use the same processes and apply the same criteria to evaluate and approve investments in every case—so that those proposing new investments know in advance what their proposal should contain and the metrics they should present and thus are better prepared to present to decision makers and defend their proposal.

[1] The online survey was in the field from July 9 to July 19, 2013, and garnered responses from 1,401 executives representing the full range of regions, industries, company sizes, functional specialties, and tenures.
[2] The survey itself was anonymous, but it invited participants to voluntarily indicate their willingness to be contacted separately for follow-up interviews.

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