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Avoiding the quicksand: Ten techniques for more agile corporate resource allocation

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These tested ideas can help organizations overcome inertia and implement their strategies more effectively.

Insanity has been defined as doing the same thing over and over again and expecting different results. Many senior executives face exactly this situation in allocating critical corporate resources. Every year, they turn the handle on the same strategy-development, capital-planning, talent-management, and budgeting processes, and every year the outcome is only marginally different from the one they reached in the previous year and the year before that. Business leaders readily accept that strong corporate performance demands bolder shifts in resources over time; most even agree that this is one of the most important roles of a CEO and top team. Yet they remain prisoners of management processes that have evolved to deliver the exact opposite of what they are looking for.

Refocusing those processes can deliver different results. We do not yet have an exhaustive list, but we've been collecting, refining, and adapting a rich menu of ideas for shaking up the corporate status quo. Here are ten proven techniques for putting better information on the table, encouraging boldness, cutting through corporate politics, and improving accountability in this critical area.

1 **Create a corporate-resource map.** Some companies now choose to allocate resources at the level of literally hundreds of product and market “cells,” such as product or geographic categories. While that’s too detailed for others, the key, in any case, is to go beyond the big divisions and develop a map that’s granular enough to see where resources are currently deployed. Make sure it goes beyond capital spending, to include marketing expenditures, R&D funds, and top talent. Such maps—which one company we know brings to life on a tablet app highlighting resource requirements, returns, and growth options—give corporate decision makers the visibility they need for trade-offs between activities and initiatives a level or two below the business-unit level. This detailed transparency is typically required to change the allocation of resources in organizations that have powerful divisional leaders.

Further reading

Marc Goedhart, Sven Smit, and Alexander Veldhuijzen, “Unearthing the sources of value hiding in your corporate portfolio,” coming soon on mckinsey.com.

2 **Benchmark your “resource inertia.”** A number of companies have begun to measure the correlation between the percentage of resources each cell in their portfolios received in the most recent year and what it received in previous years. We encourage you to do the same—like them, you’ll be surprised by how often the answer is well above 90 percent. This provides a good measure for tracking whether a company really reallocates its main resources.

Further reading

Stephen Hall, Dan Lovallo, and Reinier Musters, “How to put your money where your strategy is,” *McKinsey Quarterly*, March 2012, mckinsey.com.

3 **Reframe budget meetings as reallocation sessions, and run them accordingly.** This may mean introducing unorthodox approaches, such as giving investment-committee participants a small pile of poker chips and asking them to "place bets" on projects they think deserve funding. Such an approach concentrates minds on the big picture, not individual silos, and makes all of the people in the room aware that a company has other priorities besides their own pet projects. Also useful is the technique of "stage gating," the common practice—in R&D- or capital-intensive organizations—of setting performance milestones and releasing additional resources only when intermediate targets are hit. This forces periodic debate when new tranches of resources must be released.

During these discussions, spend time on how you're going to make the benefits tangible and visible for employees, since that's what galvanizes support in organizations. A major Latin American oil-and-gas player reallocated 30 percent of its capital-expenditure budget in the first year of a new CEO's tenure. She believes that when people started seeing where the money was going—new service stations, smart uniforms, and more product diversity—their initial resentment of the budget cuts turned into pride about the company's fresh, service-oriented philosophy.

Further reading

Dan Lovallo and Olivier Sibony, "Taking the bias out of meetings," *McKinsey Quarterly*, April 2010, mckinsey.com.

4 **Develop a formal "counteranchor."** One common cognitive bias, known as "anchoring," is to base next year's allocation uncritically on the previous year's. Leaders can encourage debate by, for example, circulating independent analysts' reports on the growth outlook for their different markets. One consumer-goods company uses external growth and profit-potential data, down to the level of individual cities, to create a hypothetical allocation of advertising expenditures. Often, it is so different from the company's current allocation that it shifts debate from whether spending should be 110 percent or 90 percent of last year's figure to whether it should be 200 percent or 50 percent.

Further reading

Dan Lovallo and Olivier Sibony, "Re-anchor your next budget meeting," *Harvard Business Review*, March 26, 2012, blogs.hbr.org.

5 **Change your strategy-setting rhythm.** While companies rightly want their deliberations on strategy to influence resource shifts, too few allow sufficient time between the conclusion of the strategic-direction setting and the locking down of resource-allocation decisions. This approach leads to allocations that are very similar to the previous ones, because the planners then say, “Our bottom-up planning process has spoken, and it’s too late to change now.” Better to share unrefined strategic direction with the wider organization early on rather than wait to issue a more complete one that arrives too late to make a difference. One industrial conglomerate starts developing its strategy in May but doesn’t begin the budget process until November, giving businesses ample time to reflect any strategic-priority shifts in the way they allocate their capex dollars.

Further reading

Chris Bradley, Lowell Bryan, and Sven Smit, “Managing the strategy journey,” *McKinsey Quarterly*, July 2012, mckinsey.com.

6 **Build flexibility into the process.** Opportunities—whether to nurture existing businesses with additional capital or to acquire new assets at knockdown prices—often pop up once annual allocations have been locked down. One large natural-resources group allows its CEO to allocate 5 percent (in practice, usually well over $1 billion) of its capital expenditures at his own discretion. A biotech company creates two budgets, red and blue: one based on business as usual, the other ready to be implemented quickly if a pending major clinical trial has a positive outcome. It’s also worth considering the creation of a separate “rolling” budget: a discretionary pool that can be allocated over the year rather than at a single point in the calendar. This flexibility is particularly important for volatile emerging markets and cyclical industries, where the benefits of moving resources quickly are often high.

Further reading

Lowell Bryan, “Dynamic management: Better decisions in uncertain times,” *McKinsey Quarterly*, December 2009, mckinsey.com.

7 **Learn to let go.** One of the most difficult parts of allocating resources is getting out of businesses that have served a company well in the past but are now stagnant or worse. One useful approach is for the investment committee, once a year, to conduct a formal exercise imagining that the company isn't in any of its businesses and then to ask whether the market fundamentals would make investments in each of them compelling. As a matter of policy, one large energy group makes sure that it disposes of at least 2 to 3 percent of its portfolio every year.

Further reading

John Horn, Dan Lovallo, and S. Patrick Viguerie, "Learning to let go: Making better exit decisions," *McKinsey Quarterly*, May 2006, mckinsey.com.

8 **Make it easier to move the top 100 to 300 people.** Much management talent works in the business units, and rightly so—that's where companies create value. But many business-unit heads tend to hang on to their star executives, which complicates the people side of resource reallocation. Fighting these natural instincts requires action at the top. Several global CEOs think of their companies' top ranks as a corporate asset to be applied to opportunities that offer the highest returns. Tactics that facilitate this approach include a corporate review of all top talent, as well as standardizing job titles and role descriptions across the top 200 or so executives and compensating them on the same basis regardless of geographic location. Such ground rules make it easier for the top team to mix, match, and move top talent.

Further reading

"Tilting the global balance: An interview with the CEO of Solvay," *McKinsey Quarterly*, available on October 22, on mckinsey.com.

9 **Don’t forget about time.** Even without moving capital or people, companies can shift management’s emphasis dramatically by taking a clean-sheet approach to the way the top team spends its time. Some companies set a time “budget” for the top team to clarify how much leadership capacity exists to “finance” initiatives and whether management is really focused on the highest strategic priorities. Time can also feature on the resource map.

Further reading

Frankki Bevins and Aaron De Smet, “Making time management the organization’s priority,” *McKinsey Quarterly*, January 2013, mckinsey.com.

10 **Look back and learn.** Reviewing earlier investment decisions helps companies refine the resource-allocation process. One company responded to such a postmortem review by insisting that no future investment proposal come forward for discussion unless independent technical- and business-evaluation teams had formally signed off on it. The company also required each individual executive on the investment committee to cast a formal vote for or against every specific investment and recorded such votes for posterity.

Further reading

Dan Lovallo and Olivier Sibony, “The case for behavioral strategy,” *McKinsey Quarterly*, March 2010, mckinsey.com.

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We don’t pretend that each of these ideas for refocusing resource-allocation processes is relevant to every business. Rather, we hope that they will inspire management teams to talk through what adjustments they need to make, within their own organizations, to deliver better resource outcomes. Ultimately, it is the CEO’s job to adjust a company’s processes so that they truly allocate resources strategically.

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