CHAPTER 1

Obtaining the Best Ideas

Innovation is the central issue in economic prosperity.
Michael Porter

THE COST OF WASTED IDEAS

In any organization, every employee possesses a unique viewpoint. These viewpoints create a tremendous opportunity. Under Toyota's production system, which is seen as world class, not utilizing these employee ideas is actually seen as a form of waste (Ohno, 1988). This waste is placed in the same category as using more raw materials than are required, or the inefficiency of having to repeat a process due to a poor quality outcome. Thinking of failure to act on employee ideas as a form of waste helps to define the opportunity for more effective portfolio management.

Employees have many ideas for improvement of the work that impacts them. Some of these may be raised in the form of questions to the manager. Why do we do it this way? Some may occur over lunch, in

hallway conversations, or while the employee is performing routine tasks. Many of these improvements can be made by employees on their own without the need for additional resources. Some of these ideas might entail 20 minutes of work to implement; some might require a 20-year effort. Some ideas might not merit any action when compared with other business options that meet the same need.

Although there is clearly no shortage of ideas within an organization, unfortunately, these ideas are seldom captured in most organizations, except in the few cases where a handful of employees are sufficiently entrepreneurial to drive their own ideas through to implementation. This can happen in spite of the organization, rather than because of it. Organizations are effective at focusing employees on their daily tasks, roles, and responsibilities. Organizations are far less effective at capturing the other output of that process: the ideas and observations that result from it. It is important to remember that these ideas can be more valuable than an employee's routine work. Putting in an effective process for capturing ideas provides an opportunity for organizations to leverage a resource they already have, already pay for, but fail to capture the full benefit of—namely, employee creativity.

To assume that the best ideas will somehow rise to the top, without formal means to capture them in the first place, is too optimistic. Figure 1.1 identifies the risks of such a process. This Darwinian view of the process, or of organizations, may work for a subset of ideas, but many of the ideas lost along the way have significant merit and do not get implemented for other reasons, primarily because the junior employee has no easy way to communicate an idea to the broader organization. Also, to borrow another idea from the natural sciences, rejected project ideas may be useful in the future as the starting point for new and innovative project ideas. If they are not captured, this cross-pollinating between different ideas cannot occur. Organizations must drive innovation to remain competitive, yet they often fail to take advantage of the resources they have to make that happen.

Historically, capturing, ranking, and processing these ideas in a simple way across a broad network of employees would have been a major undertaking. But today with simple, portal-based solutions combined

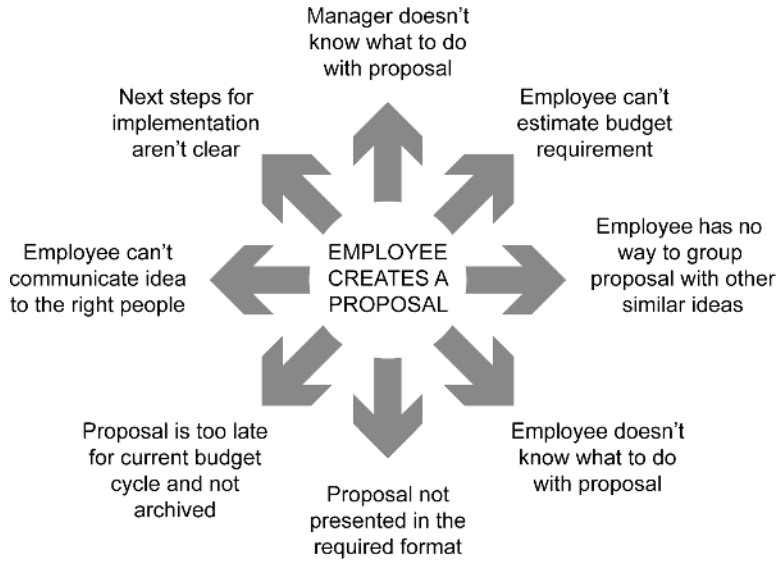

FIGURE 1.1 Risks of Informal Idea Capture Processes

with portfolio management tools, setting up a process for doing this is low-effort and low-cost. Yet, the results are dramatic.

PROJECTS AND INNOVATION

Innovation is a high priority for most organizations looking to differentiate themselves from the competition. For many organizations, sustainable organic growth is the strategic Holy Grail. Yet organizations frequently achieve far greater success with incremental improvements than innovations and consistently lament their ability to innovate. This should not be a surprise because genuine innovation is much harder to deliver consistently than incremental improvements. For example, in the field of electricity, it is easier to improve the efficiency of a steam turbine incrementally than to develop radically new, less-carbon-intensive energy sources. It is easier to make a better scalpel than it is to develop keyhole surgery. Generally, innovation requires forecasting or shaping of future trends, which is notoriously difficult, often because a combination of different trends must come together to make the idea

viable. It also requires changes in organizational alignment that differ from the current organizational structure. Today's product may be contained in a single division of the organization; tomorrow's product may require multiple divisions to work together on different aspects of an innovation, while at the same time working on something that potentially threatens in-market products.

Innovation requires taking significant risk, fostering a creative mindset, and collaborating across organizational boundaries. None of which is simple to do. In combination, these challenges appear daunting. Indeed, true innovation is likely to be proceeded by many apparent failures (Farson, 1970). Conventional project management systems must share some of the blame for the lack of innovation. Application of consistent metrics across all projects may hamper innovative activity. Innovations will fail far more often than typical improvement projects. Indeed, for innovations, a 10 percent success rate is good and 20 percent is spectacular. Success rates of 20 percent or less would be viewed as a disaster for any project portfolio targeted at incremental improvement. To drive real innovation, more ideas must be captured, ideas must be allowed to feed off each other to create more ideas, and metrics for success must be relatively soft during the early stage of the process.

WHY A LONG LIST OF PROPOSALS IS NECESSARY

Many organizations I speak with have a list of projects only about as long as they can execute. This makes it almost impossible for that portfolio to be strategic. "The essence of strategy is choosing what not to do" (Porter, 2008). If your list of projects is about as long as you can execute, then clearly there is not much you're not doing. Of course, those organizations with a meager list of proposals might argue that there are many ideas that do not become proposals because they run into one impediment or another along the way. That may be true, but that sort of informal process is far from robust portfolio selection. Impediments are quite different from well-thought-out decisions. Putting in place a simple but consistent mechanism for idea capture can help dramatically increase

the number of ideas that could become projects within the portfolio and magnify the portfolio's effectiveness.

Regardless of the differing levels of rigor applied to projects, if there are only a handful of formal proposals, then any idea that is given serious consideration by management is implemented. There may be some modifications to the proposal based on feedback but, nonetheless, most submitted proposals will be implemented. Sometimes, the idea list might be only slightly longer than can be executed, but this deficit might only be realized several months into portfolio execution. This is costly because even though some level of selection is occurring, there is a clear cost of starting projects only to quickly replace them when a better idea comes along.

THE RISK OF INFORMAL PROCESSES

Informal processes risk generating inconsistent outcomes. Sometimes proposals are written up and analyzed in excessive detail. Yet, in other situations, only a cursory analysis is done before committing a major investment of resources. It is also frustrating to those submitting the proposals if there is no transparency or consistent rationale as to why their projects are not selected. Without feedback, it is hard for participants to improve their proposals or even remain engaged in the process. Another problem is that sometimes the level of influence of the project champion can be more important than the quality of the project proposal itself.

A simple, transparent process is important because, in order to collect a large number of strong proposals, idea submission must be encouraged by building faith in the proposal system. Without it, there will be a reluctance to submit proposals in the first place. Greater formalization of the process can also be encouraged by including an element of employee compensation. There is an opportunity to tie employee compensation to successful proposals, whether through patent filings or a portion of the cost savings generated. Such compensation will encourage submission.

Without grouping proposals together and analyzing them, it is a leap of faith to believe that the organization has naturally developed a process

to get the best ideas onto the table without anyone consciously taking any explicit action or making any decision at the aggregate level. The ad hoc process is likely to be inefficient and more time consuming than a more structured portfolio selection process. Portfolio selection offers the opportunity to analyze proposals en masse, which can make it easier to calibrate across the group and can create efficiencies through economies of scale.

To take an extreme example, batch prioritization might require one meeting for 100 projects, as opposed to 100 ad hoc meetings if each project were considered individually. Therefore, it is key not just to have more ideas but to group those ideas together to ensure meaningful prioritization that is efficient from a time-management perspective. The grouping together of ideas is also helpful because it provides the opportunity to group similar proposals together into larger, richer proposals, and for the combination of proposals to spur new thinking and proposals. If proposals are considered in smaller sets—or worse, on an ad hoc basis as each proposal comes in—much of this cross-fertilization may not occur and an opportunity for further innovation is lost.

Another level of rigor can be applied to particularly risky or critically important projects. Here, proposals can be held in reserve to be executed, should the primary project fail or go irretrievably off course—as will likely occur across a large portfolio. For example, new problems may arise that need addressing, or compelling new ideas may arise based on customer feedback or market and competitive analysis. Although these ideas are healthy and often superior to project proposals being executed, this can disrupt the process, since the attempt to configure the portfolio on the fly is unlikely to lead to an optimal outcome. Resources on a canceled project will have been wasted, and recalibrating the project portfolio too frequently as new ideas come up may not be an effective use of time and resources. Managing this balance is critical; altering the portfolio creates adjustment costs, but reacting to changing market conditions rapidly and effectively can differentiate an organization from its competition.

It is rare that organizations are able to develop a broad and extensive list of projects to truly prioritize explicitly. Nonetheless, it is a complete list that enables strategic alignment in project selection. Without an extensive list of options, how can you arrive at the best permutation? As Napoleon said, "To govern is to choose." But how can you choose without options? The best ideas do not come from you. The best ideas emerge from within your organization, given the unique perspectives of the different divisions and functional roles. These ideas must then be consistently reviewed so that you can meaningfully rank them against each other. It is clear that any attempt to prioritize ideas must start with an effective mechanism for capturing a large number of potential project ideas. This must occur even before the formal project proposal stage.

LOWERING THE BAR FOR IDEA SUBMISSION

The main reason for a lack of good project ideas within most organizations is simply that it is hard for employees to know what to do with their ideas. Ideas are not asked for explicitly from a broad enough set of people, in a transparent enough fashion, and on a regular enough basis. Idea generation typically is something that is seen as being valuable, but until recently, the technology has not been available for broad and simple idea capture, and the significant implementation costs have made most organizations reluctant to explore the area. Executives are receptive to new project ideas and would like to hear more of them—especially within a streamlined, simple process—but often the process for submitting project ideas is too complex or, worse, not defined. If all ideas must be justified by a 20-page analytical report listing the expected financial benefits and strategic rationale, then the number of ideas submitted will be low and, indeed, very similar to the set of ideas management already sees.

Often, the person able to come up with the spark of a new idea may not have the skills to perform a full analysis to justify or flesh it out in rigorous fashion. However, others must do that analysis in order to

ensure that the best ideas are executed, or at least reach the stage where that analysis can be done. Therefore, more important than having a process is making sure that the process is simple and available to all within the organization.

Case Study: Managing a New Product Portfolio

Scott is managing a portfolio of new product launches. The goal is to extend an existing international consumer products company into new geographies and markets. Scott is "aiming toward incrementality" and "trying to be very efficient with his spend." As there are many existing competitors in the market, there are a lot of analogs to existing products that could be introduced, Scott says, "We could not invent for 5 years and still bring out new product." However, Scott takes a "core-satellite" approach to the portfolio, first targeting higher-volume products to lead well in new markets and build relationships with partners, and then focusing on innovation, particularly in markets where innovation is expected by consumers such as Japan.

Scott's process is fairly dynamic, built around monthly reviews with core stakeholders and quarterly reviews with all the international partner teams. In addition, the CEO will periodically contribute ideas into the pipeline based on market and competitive observations so the set of ideas under consideration is constantly expanding. It is easy to introduce a feasibility study for any product, but the amount of effort required to build the full business case, including financial estimates, can vary depending on how established the category is. As such, business cases are living documents. Testing is conducted to minimize risk. Concepts are tested online or via focus groups to generate more information that can feed into financial assessments. However, there is no mandated process for testing; the overall goal is to reduce financial risk through reducing uncertainty. "I don't mind some uncertainty if the finance stakes are low," he says. In cases where financial estimates are more uncertain, more testing will be performed; in areas where financial uncertainty is less, testing phases will be skipped to lower cost and increase speed to market.

Projects are ranked systematically across four core criteria:

1. Supply chain issues (cost, manufacturing feasibility, shelf life, etc.)
2. Market opportunity (customer demand, value proposition, incrementality)
3. Brand (degree of alignment with brand positioning)
4. Compete (competitive threats and responses)

The resulting rankings are fairly "fluid" as new information comes in; for products that are not in development, ranking is less of an issue. But for the top six or so products in the active pipeline, reprioritization is common and encouraged as new information is learned from test results and feasibility studies, though products are typically only "knocked out completely for manufacturing or distribution reasons." Some products are also unlikely to ever be in development because of brand "guard rails" that make the company unlikely to invest in areas that are inconsistent with what their brand represents. Priorities may also change based on distribution deals with new markets, since "Japan, Korea, and the UK are all different" if we decide to enter a certain market, that may change our development priorities. Also, in development if we "spend a couple of months and can't get where we need to be," that product will also likely be reprioritized.

USING SIMPLE IDEA CAPTURE

Providing a simplified, streamlined process for idea submission can increase project proposals and result in a better portfolio of projects. Simplification is not about reducing the quality of ideas, but about reducing the bureaucracy associated with producing them. Simplification is not easy, as it involves defining what is really needed before further due diligence is conducted on the project. It also means making the submission process easy to follow and locate and driving awareness of it. In terms of a simplified proposal, a relatively brief description with broad estimates of key parameters, such as budget and headcount, is all that is needed. In fact, sometimes all that is needed is the idea, and the budgetary angle can be left until later in the process. Then as the

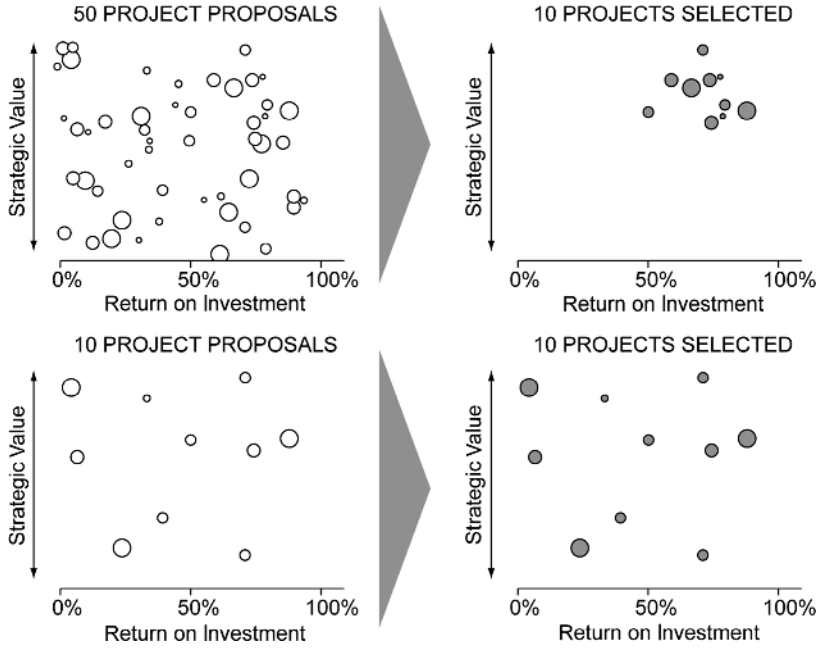

FIGURE 1.2 Benefit of More Project Proposals

proposal moves through the process and gets closer to implementation, more detail can be added—perhaps by introducing a step to develop a detailed business case into the process, assuming the idea is selected at an initial stage. In this way, no proposal is more detailed than it needs to be. In addition, less effort is wasted on filling out what might be superfluous information because the proposal may not make it that far during the selection process.

Having this process in place helps maximize the number of ideas, which must be the central goal of the idea submission process in order for it to succeed. Figure 1.2 shows how having more ideas to choose from can lead to a superior portfolio of projects being selected. During this stage, it can be helpful to focus more on the benefits than the costs or impediments. It is likely that the organization is more aware of the costs and pitfalls of particular actions than of the benefits of moving into an unexplored area. Therefore, proposals should center on a clear description of the idea and potential benefits, and then the cost estimates

can come later, should the potential benefits of the project warrant it. The key is that less time spent on a submission process means that less time is invested in each idea, and so more ideas are forthcoming. A side benefit of this lightweight approach is that an idea that has not been fully polished is less likely to become a pet project of anyone before it gets approved, and a simplified submission process makes it easier to reject ideas, without the problem of investing too much in concepts that will never see implementation. This can be important because the more that can be done to make the process objective and transparent, the more interest and excitement will be built around it.

A more democratic idea submission process creates the opportunity for less-senior employees to submit ideas. This group of employees has a wealth of knowledge about particular parts of the organization that executives may have little exposure to. Therefore, a more democratic—and simply easier—process for idea submission is likely to lead not only to more ideas but also to broader ideas. The ultimate result is a better portfolio because the range of possible projects is significantly expanded.

THE VALUE OF RANGE-BASED ESTIMATION

Another benefit of a simplified project proposal process is that contributors are not locked into specific but inaccurate estimates at an early stage. Keeping estimates range-based makes it more likely that estimates can converge toward their true value as more data are obtained. If a point estimate must be provided early in the process, it is less likely to converge on the true value. This is partly due to the psychological effect of *anchoring* (i.e., when an estimate that is introduced into the process gains some credibility), regardless of the accuracy of the underlying assumptions, and the estimate is then less likely to move than if no estimate existed. Having no estimate whatsoever poses its own problems, so using a range-based estimation process is the best approach; the issue of anchoring doesn't disappear but it is less acute with a range rather than a point estimate. Figure 1.3 shows how the margin of error for a particular project cost estimate reduces over time as the project gets closer to implementation.

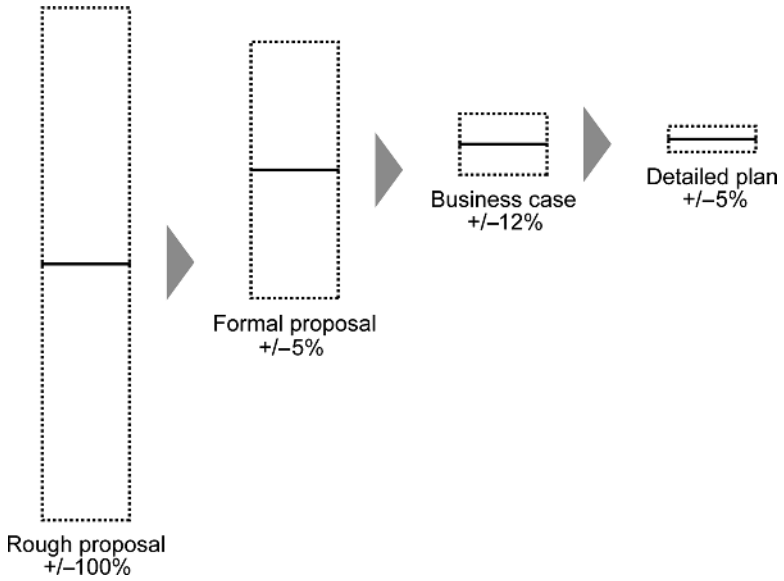

FIGURE 1.3 Range-Based Estimation

ANCHORING

The impact of anchoring was identified by Tversky and Kahneman in a 1974 article. Their key insight was that estimation processes "are biased toward the initial values" regardless of whether those initial values make any real sense; this is believed to be because insufficient adjustment occurs from those values. For example, in estimating percentages, such as the percentage of African countries in the United Nations, when people were asked, "Is the percentage of African countries in the UN higher or lower than 10 percent?" they ultimately estimated 25 percent when asked what the actual percentage was. Surprisingly, those who were asked "Is the percentage of African countries in the UN higher or lower than 65 percent?" estimated that the actual percentage was 45 percent. Thus, a higher initial estimate, even if the participants knew it was randomly determined, caused estimates to change materially.

It might be argued that portfolio management is a serious business so this problem will not occur, but Tversky and Kahneman found that offering payoffs for people to be more accurate did not improve accuracy, and the impact of the random first estimate remained powerful. These results are persuasive and

suggest that in project management, the initial estimate you come to, even if it is determined in a very basic manner, even randomly, has a powerful impact on future estimates due to insufficient adjustment from this starting value. This means that the initial estimate should be delayed if at all possible, or given as a broad range, and the problem of insufficient adjustment should be given real attention by management to ensure that estimates of key factors such as the portfolio budget really do evolve over time to reflect true values.

Source: Amos Tversky and Daniel Kahneman, "Judgment under Uncertainty: Heuristics and Biases by Science," *New Series*, vol. 185 (4157), (September 27, 1974): 1124–1131.

GENERATING EXCITEMENT

A robust idea submission process has limited value without broad awareness of the process across the organization. A crucial aspect of any process is driving interest and excitement around it. It is important that employees are made aware of the process and want to contribute. Awareness should be raised in innovative ways, perhaps by highlighting those ideas that are noteworthy. Another incentive can be demonstrating the success and impact of ideas that come from people outside of the traditional portfolio decision team. Generating enthusiasm and excitement around the submission process is critical to drive more ideas through the system, further improving the output of the whole process. Once again, the more that can be done to build broad participation in the process, the better the outcomes that the process will achieve. To implement a diverse set of projects, which is often helpful from a risk management perspective, a diverse set of ideas is valuable.

Another way to generate excitement is to enable participants to not just submit ideas but to also participate in a preliminary ranking process, assigning a start ranking to proposals according to their perceived merit. This technique is sometimes referred to as *crowd sourcing*, which can be valuable in situations where a large number of ideas are submitted. Here, a very simple peer review process can serve as a simple preliminary filter for ideas. For example, only ideas receiving a certain rating receive formal consideration. Collaborative ranking of ideas also builds engagement in

the process; since all ideas are transparent, participants may devise their own project proposals in the process of ranking others. In addition, through rating the ideas of others, the enthusiasm and interest in the portfolio selection process will increase.

Another option for process engagement is to tie successful submissions to the firm's incentive structure. In this way, employees can be financially rewarded if their proposals and ideas are implemented. Incentives might be provided for a particular subset of ideas. For example, employees might receive a bonus if their ideas result in a patent filing. Incentives can be tied to ideas that result in successful project *outcomes* in order to reduce the incentive of just submitting ideas, which would put the emphasis on submitting ideas that might have a high chance of business impact. Using this approach depends on the corporate culture; it can boost idea submissions, but it might also make employees less willing to work collaboratively on proposals if the rewards go to the individual and not the team.

MAKING PROCESSES TRANSPARENT

Excitement can be further enhanced by a transparent process. When employees understand how the process works, they are more likely to support and contribute. Putting in place clear, transparent benchmarks improves portfolio performance. Sharing the strategic goals helps the end-to-end process of project management. It also likely means you will get better projects in the first place. If everyone knows what the target is, effort spent on projects that are futile is minimized. The process has most context, so ideas receive sufficient improvement before submission. This improves the caliber of proposals. Knowing these benchmarks ahead of time will help focus proposals on the areas the organization cares about and will ensure that the proposals are written to address the areas that matter. Transparency will help idea submission so the process is not a black box. Feedback should be provided on rejected ideas so that better proposals can be created in the future, or rejected ideas can be refined to merge into compelling suggestions for future prioritization

processes. In this way, the process should improve over time as the quality of submissions is refined and the objectives of the process are clear. Providing feedback on rejected proposals is an important way to improve idea submission over time, so that the overall quality of ideas will improve.

Making the process transparent also helps with process improvement. If all participants understand the process, then they are better able to suggest improvements to it. In this way, creating transparency is valuable not just for increasing engagement with the process but for the improvement of the process itself.

MAKING PROCESSES SIMPLE

Simplicity is the key to collecting the largest number of ideas from the broadest set of participants. Transparency and excitement will go a long way to driving engagement among your employees, but a simple capture process will increase the number of ideas you are able to receive as various blocking issues are removed. It makes it easy for those who want to engage in the process to do so. The challenge is understanding what you really need to collect. Every move to simplify the process involves potentially removing a valuable piece of data. Early on, it may not be clear what data are essential to capture, resulting in more data being collected than are ultimately needed due to this uncertainty. This is difficult to overcome in the short term, but as soon as the process is established, you can monitor which data are necessary for decision making and cut everything that is not. Without constantly reducing the reporting burden, the process will inevitably become bureaucratic over time. Bureaucratic processes are not conducive to transparency and excitement, and can lead to the demise of the process.

It is important to remember that at the first stage of the process, the only data necessary to capture are what enable an informed decision to be made on whether an idea should reach the second stage. Thinking about data capture in those terms can help with process refinement and maximize idea submission.

USING SUPERIOR ESTIMATION

The barriers to submitting an idea should be low, but they should offer sufficient structure to be useful. Setting *confidence bands* is an appropriate way to enable this. A confidence band gives a high and a low estimate for a particular value. For example, for the total financial cost of a project, the very early estimate of cost might be given as $1 million to $3 million. This is, of course, a very wide range, but it gives some indication of where the cost might lie without wasting effort on a detailed forecasting process before it is known whether the project will proceed. Then as the project is formally assessed, the range might narrow to $1.25 million to $2.25 million after preliminary estimation is complete, and then at the approval stage, the range is $1.75 million to $2 million, and then at formal project launch after a detailed budget is constructed, the cost is $1,815,000. This method avoids wasted effort on forecasting and does not lock down the budget before all the details of the project are formally defined. This is very important because inaccurate cost estimates are often not due to inaccurately costing out the work involved but, rather, from not capturing the entire scope of work for the project. Of course, this estimate band concept can be applied not just to budgets but also to other important project attributes, such as resource utilization or the schedule itself.

The estimation process should also tie back to the goal of the proposal itself. If the project is time critical, then an elegant estimation process may actually result in project failure, and a greater margin of estimation error may be tolerable. However, if a project is centered on cost savings and efficiency from a cost management standpoint, then efficient estimation processes are likely to be more important.

GOING BEYOND THE EMPLOYEE

Just as senior executives do not have all the good ideas, neither is everyone who has a proposal for improving your organization employed by your company. Consider inviting customers, vendors, or suppliers into the idea submission process. Once again, a different perspective will

yield different ideas for projects that could be executed and will help diversity across the project portfolio. Think creatively about how ideas can be captured from anyone who has a perspective on your business. Of course, in moving outside the employee base, the bar for idea submission must be even lower, and employees will have to encourage and develop the ideas that stem from those outside the organization. However, fostering these ideas is likely to provide a wealth of material for developing the organization in ways that the conventional thinking of those steeped in the traditions of the organization might not be able to see. If security procedures do not permit granting access to nonemployees, consider allowing employees to submit ideas on behalf of others and work with those outside the organization to capture ideas. Often, those outside the organization can have powerful project suggestions. Capturing ideas and proposals from customers directly is ideal and can strengthen relationships beyond simply executing on the project in question.

MANAGING PROJECTS ACROSS THE SUPPLY CHAIN

Further consideration of broadening the scope of idea submission also leads to consideration of broadening the scope of project execution to include projects that involve working with customers or across the supply chain. Of course, this is a natural outcome of the process and should be encouraged. It is unlikely that the best projects are completely within the scope of the organization to implement, and though these broader projects will be more challenging to implement, the benefits of doing so will also be greater. Developments in technology now make it easy to manage projects beyond the boundaries of the enterprise on a single system, and your projects should have the same scope as your business. Running a hosted project management system can enable access from different organizations on an equal footing.

WHERE ARE YOUR IDEAS COMING FROM?

The way to get good ideas is to get lots of ideas and throw the bad ones away.
Linus Pauling

Where are you getting your ideas from? Executives in an organization do not have all the good ideas. Do you have a process for employees to submit ideas for consideration? What about customers or other businesses that partner with you or form part of your supply chain? Are you leveraging their ideas and expertise? Typically, lengthening the list of project ideas can also increase the quality of ideas. It is likely that the first few projects that come to mind are the work that must get done—the operational imperatives for the organization or a repeat of work that was done last year. That is important, but there are many other ideas you are missing. It is only by broadening the number of ideas you consider that you will get away from a run-of-the-mill project portfolio to one that is truly strategic in its impact and includes innovative ideas that will really drive your business forward and differentiate you from your competitors.

Batch versus Ad Hoc Prioritization

It is important that ideas are compared against each other. Any reasonable project has merit in isolation; it is only by comparing projects and associated resources that an effective conclusion on which proposals to implement can be reached. For example, if two projects require the same strategic resource at the same time, only one can proceed. Beyond resource constraints, there is the need to manage the project portfolio in the way any financial portfolio should be managed. Key considerations include managing risk. Risk should be balanced across the portfolio, and risk should be diversified so that all projects are exposed to different risks. Breadth of objectives is also important; if every project is a cost-cutting project, then that has an impact on business performance and revenue growth will be reduced. It is only by treating projects as a portfolio that these trade-offs can be managed effectively.

Faster Starts versus Robust Prioritization

Typically, organizations start projects as needed. The idea of delaying a critical project is not acceptable given business imperatives, and so the project starts straight away. In some cases, this is the only possible course of action; in others, a batch process for project selection makes

more sense. A batch process is one where potential projects or project proposals are grouped together to be prioritized so that of, for example, 50 potential projects, the top 30 can be implemented. The advantage of batch selection is that trade-offs can be made to create the most effective portfolio of projects.

If projects are considered on a more ad hoc basis as they come in, then the optimal portfolio cannot be achieved without potentially stopping in-flight projects, which is a waste of resources. To be clear, there is nothing wrong with stopping a project if it is not meeting its targets or if circumstances have changed, but cutting a project simply because your selection process wasn't sophisticated enough to consider all relevant proposals suggests a need for process improvement. A further benefit of batch selection is efficient usage of executives' time because to be effective, the prioritization discussion involves a meeting of several executives. It also works better with context—all prioritization is relative, so choosing between projects simultaneously is likely to achieve a better result than choosing projects in series.

Therefore, there is a trade-off between running a batch prioritization relative to prioritizing project ideas as they come in. A *batch process* is more efficient in terms of reaching an optimal portfolio and reducing time spent on the process. On-the-fly prioritization is most commonly used and minimizes delay for any given project, but it also implies constant churn within the portfolio. In practice, prioritization is a continuum rather than an either-or decision, and the question is how often prioritization should happen. Annual or quarterly prioritization processes tend to manage this trade-off most effectively, but the exact frequency should be less often if the cost of doing the prioritization work is high and should be more often if the cost of delaying projects is high.

KEY QUESTIONS

- How are you splitting your metrics and processes for innovative and traditional projects?
- Are your expectations for innovative projects distinct from those related to process improvement?

- How many ideas are you really considering on your project shortlist?
- How can you increase the ratio of ideas to executed projects?
- Can you lower the barrier of ideas to submission? Can you widen the net of people who can submit ideas?
- Can you make the process more transparent and less bureaucratic?
- Do you really use everything required in a project proposal to make a go/no-go decision on a project?
- What are you consciously choosing not to do? How is that decision being made?
- Are you comparing projects against each other, or just dealing with issues as they come up?

SUGGESTED READINGS

For more detail on the innovative production methods pioneered by Toyota, see Taiichi Ohno, *Toyota Production System: Beyond Large-Scale Production* (Productivity Press, 1998).

For a more on innovation, see Richard Farson, *The Innovation Paradox: The Success of Failure, the Failure of Success* (The Free Press, 1970).

Michael Porter's thoughts on strategy are discussed in more detail in Michael Porter, *On Strategy* (Harvard Business Press, 2008).

The problem of anchoring is discussed in more detail in Amos Tversky and Daniel Kahneman, "Judgment under Uncertainty: Heuristics and Biases by Science," *New Series*, vol. 185 (4157), (September 27, 1974): 1124–1131.

For an interesting discussion of decision-making and analysis by project managers, see Kishore Sengupta, Tarek K. Adbel-Hamid, and Luk N. Van Wassenhove, "The Experience Trap," *Harvard Business Review* (February 2008).

For a rich and accessible discussion of how decisions are made and can be improved in a host of situations, see Richard H. Thaler and Cass R. Sunstein, *Nudge: Improving Decisions About Health, Wealth, and Happiness* (New Haven, CT: Yale University Press, 2008).

For a discussion of the difference between strategic planning and strategic thinking, see Henry Mintzberg, "The Rise and Fall of Strategic Planning," *Harvard Business Review* (January 1994).

For further updates and information on the topics discussed on this chapter, see www.strategicppm.com.