
23 SEPTEMBER 2022

The overlooked power of day-to-day dynamism

New PwC research shows that starting and stopping smaller projects contribute at least as much to performance as making big, business-level decisions and deals.

by Aaron Gilcreast and Allen Webb

Aaron Gilcreast

is the global valuations leader for PwC. He advises clients in value-based strategy, corporate finance, business modeling, and complex valuations used for hard-to-quantify attributes. Based in Atlanta, he is a principal with PwC US.

Allen Webb

leads the global thought leadership team at PwC. He is a managing director in the Seattle office of PwC US.

The authors thank the following current and former colleagues at PwC for their contributions to this article and research: Libby Boswell, Catherine Moore, Glenn Williams, and Spencer Herbst.

Every day, executives, managers, and individual contributors make decisions about where and where not to allocate resources, including money, people, and time. Sometimes it's as simple as agreeing on next steps at the end of a meeting, which can lead to further exploration and time investment, or to continuing an ongoing initiative. On other occasions, it's a decision to stop a project. Fewer and farther between are major decisions to double down on a new business, to divest an underperforming one, or to make an acquisition.

In PwC's [25th Annual Global CEO Survey](#), we sought to understand the relative importance of big, headline-making resource allocation moves (which are typically the domain of senior executives) versus day-to-day, project-level decisions (generally carried out at lower levels of an organization). By asking the 4,446 CEOs who took the survey about the frequency with which they employed a wide range of resource reallocation mechanisms, and then using statistical techniques to identify the relationship between those responses and the profitability of those organizations, we learned:

- Project-level and business-level resource reallocation are equally important to performance, with the former accounting for 51% of performance variation in our model associated with resource allocation, and the latter accounting for 49%. To our knowledge, this is a first-of-its-kind finding made possible by the powerful data set at our disposal and the granularity with which we explored different resource allocation mechanisms in the survey.
- In general, frequent resource reallocation is strongly associated with

profitability. This finding is consistent with a large body of research linking resource reallocation to corporate performance.

- The profit margin differential between frequent and infrequent reallocators for both project- and business-level moves was roughly 5 percentage points overall, and between 3 and 7 percentage points per resource allocation mechanism.

The leadership implications of these findings are significant: at the highest level, these results clarify the importance of linking strategy set by senior leaders with day-to-day execution carried out by managers and individual contributors. Decisions about day-to-day, project-level moves—whose strategic impact appears to be dramatic—frequently take place outside of the C-suite and the annual strategic review or planning process. Developing strong norms and processes for effective decision-making at all levels of the organization to quickly start, stop, or double down on projects is worth serious management attention—likely more than many top teams give it. Sweating the “smaller stuff” doesn’t let anyone off the hook for bigger, business-level decisions, including acquisitions and divestitures, whose strategic importance also is underscored by this data from thousands of CEOs. Top teams that get the big moves right and create the conditions for the rest of the organization to make tough, project-level calls should enjoy a performance edge.

What the numbers say

Academic researchers in the fields of finance and strategy have produced a large body of empirical evidence suggesting that corporate resource allocation is inefficient, with explanations ranging from misaligned incentives to internal politics to psychological factors such as confirmation bias. Regardless of the cause, inertia appears to reign at many organizations. In our experience, capital deployed at the business-unit level typically remains quite static, even as prospects for growth and capital returns change over time. Financial statement reviews also generally show an extremely high correlation from one year to the next of capital allocation between business units.

In our survey, we sought to go a level deeper by asking CEOs about the

frequency with which they and their organizations employed seven resource re-allocation mechanisms. Three of them (initiating investments in new projects, stopping low-potential or non-aligned projects, and doubling down on high-potential projects) were at the project level, and the remaining four (scaling up high-performing businesses, trimming low-performing businesses, divesting businesses, and acquiring businesses) represented business-level decisions.

In a separate part of the survey, we asked CEOs about their performance, defined as profit margins or return on assets (depending on the industry), over the previous 12 months. Then we undertook factor analysis, which involves grouping highly interrelated individual questions into variables that can be analyzed and correlated with performance outcomes.

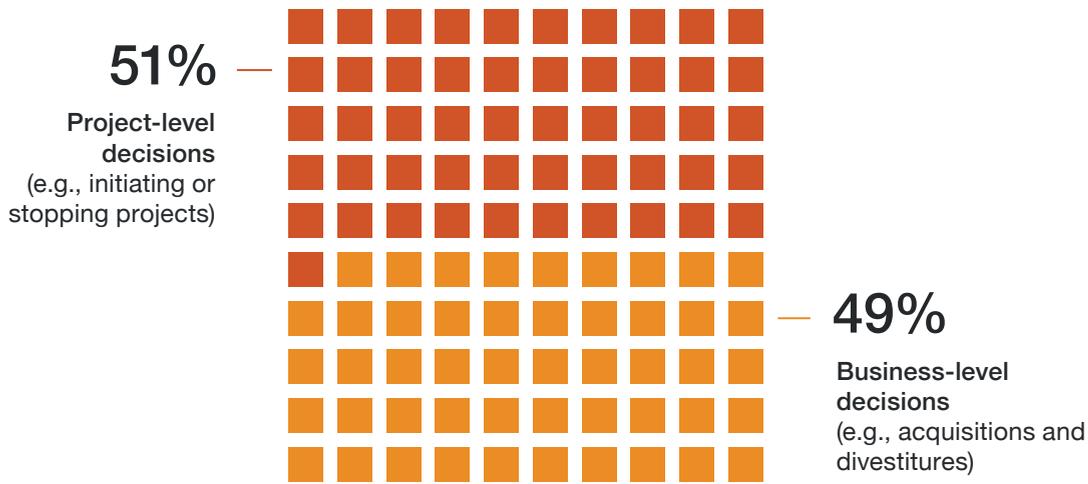
The power of resource reallocation

Across the survey as a whole, both resource allocation (comprising all seven factors) and a second factor we created for the survey, related to customer trust, stood out as positive, statistically significant correlates with financial performance (For more on trust, see “[Translating trust into business reality.](#)”) Not surprisingly, headwinds in the survey, such as global threats, decarbonization pressures, and tax risks, were negatively correlated with profit margins.

We further dissected resource allocation by studying it on its own, against two control variables (industry and firm size) that typically dominate in industrial organization studies. Many variables simply don't show up when set against industry and firm size, but resource allocation explained 28% of the model's variance for profit margins, an unusually high explanatory level for a single factor.

At this point, it is worth mentioning that regressions of this sort measure correlation, not causation. In other words, high degrees of resource reallocation could cause strong performance, or strong performance could stimulate more frequent resource reallocation. That might be the case, for example, because a well-performing firm simply had more resources available to launch new initiatives. Because we asked about both starting *and stopping* projects and business-level initiatives, we are comfortable surmising that performance is unlikely to have prompted resource reallocation. It's not uncommon for leaders to invest

DECISIONS ABOUT PROJECTS HAVE ABOUT THE SAME IMPACT AS LARGE-SCALE BUSINESS DECISIONS.



Source: PwC analysis of data from PwC's 25th Annual Global CEO Survey

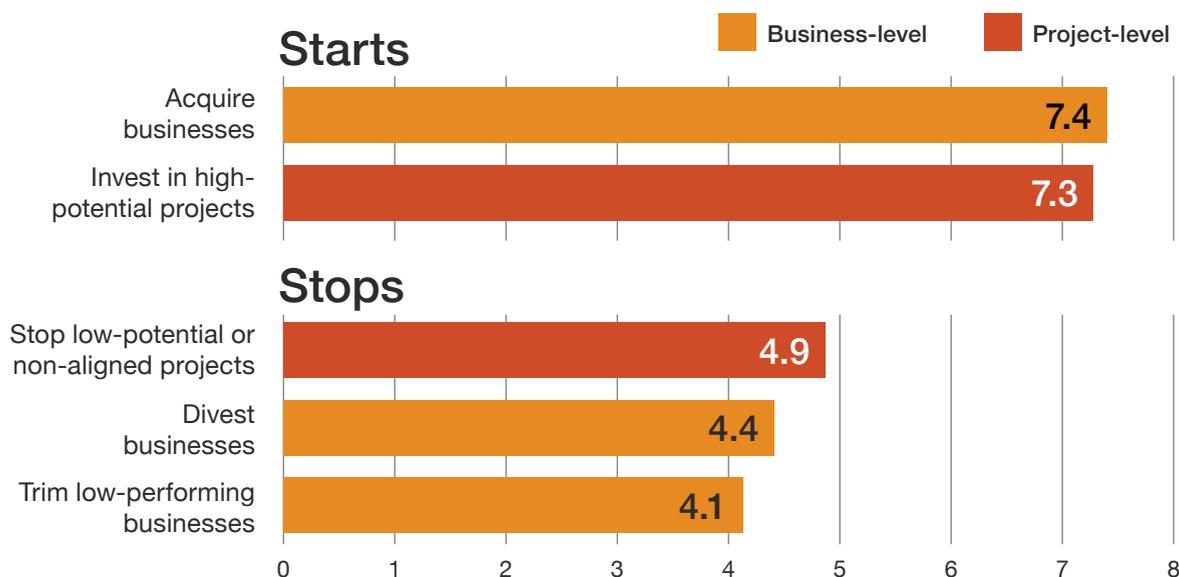
more when their success generates surplus resources, but it's rare, in our experience, for extra resources to cause leaders to *stop* investing.

The fine-grained nature of our data enabled us to do something that has eluded academic researchers: assess the impact of project- versus business-level resource reallocation, as well as the impact of individual resource reallocation mechanisms. We learned that seemingly mundane activities like “seeding” (starting and boosting investments on projects) and “weeding” (killing projects) matter just as much as (actually a touch more than) their more prominent brethren (business-level moves, including mergers and divestitures). This is important and vital news for executives: small, everyday processes appear to matter just as much as the large ones that often command the most serious attention (see figure above).

Starts and stops

To get even more fine-grained, we compared resource reallocation frequency with profit margins for all seven mechanisms. (More specifically, we looked at the differences in profit-margin levels for respondents who indicated that they

ANALYSIS REVEALS THE PROFIT-BOOSTING POWER OF MAKING NEW MOVES.



Mean difference between profit margin percentages for resource allocation mechanisms

Note: Two mechanisms not shown here, both of which have a mean difference of 3.1, are “Initiate investments in new projects” and “Scale up high-performing small businesses.”

Source: PwC analysis of data from PwC’s 25th Annual Global CEO Survey

had undertaken more frequent reallocation.) All of the differences are substantial and statistically significant, with five of the seven mechanisms showing significance at the level of rigor ($p < 0.05$) used in academic research (see figure above).

In addition to confirming that project- and business-level resource moves impact performance similarly, two other points emerged from the data and merit emphasis. One is the apparent inseparability in resource reallocation of “starts” and “stops.” Two of the five mechanisms that pass the most rigorous tests for statistical significance reflected project- or business-level starts (invest in high-potential projects and acquire businesses), and the remaining three represented stops (stopping projects, trimming low-performing businesses, or divesting businesses). Second is the positive impact of frequent acquisitions. Many studies of M&A show that its impact is, at best, a wash for buyers, who sometimes overpay as a result of the “winner’s curse.” Our data shows something different: a

Many studies show M&A can be a wash for buyers. **Our data shows something different: a significant performance edge** associated with more frequent M&A.

significant performance edge associated with more frequent M&A. Our interpretation is that frequent, fairly programmatic M&A can be a performance enhancer. Such an interpretation can be entirely consistent with the fact that there is a high degree of performance variance around the “big bang” M&A activity that gathers headlines and dominates some studies, because of the large market capitalizations involved.

What the numbers mean for you

What accounts for these results? And what should you do about them? The first question isn't answered by our analytics, but in our experience, effective project-level decision-making taps into some powerful forces. These include proximity between the initiative and the decision maker; the ability to match people with project needs in a fine-grained way; autonomy and empowerment; and morale (a force multiplier that can improve markedly with small-scale initiative-taking, or when energy-sapping dud projects are killed).

As for what to do about these findings, we'd be the first to acknowledge that it's still early days for us in translating what we've learned into a resource reallocation strategy for executives. But a few things seem clear:

- Project-level decisions are frequently being made in meetings that you may or may not attend or even have visibility into. Those decisions, collectively, may impact your performance as much as the big strategic bets you and your top team invest significant time in.

Project-level decisions made in meetings you may not attend may impact your performance as much as the big strategic bets you invest significant time in.

- It's critical, therefore, to take a hard look at the processes, policies, and operating norms you have around projects. A well-known example of a company encouraging project exploration is Google, which at one time allowed employees to allocate up to 20% of their time to the projects of their choosing. The result was successful new products such as AdSense, Gmail, and Google News.
- Of course, if you're going to encourage project-level entrepreneurship, you also need "stop" mechanisms to ensure it doesn't get out of control. The baking company Goodman Fielder maintained at one point more than 550 R&D projects. The company appointed a "project killer" who pruned that down to 200.
- We'd further suggest that executives should stay on the lookout for overly centralized processes that inhibit project-level initiative-taking. Red flags include approvals that bubble up to high levels of the organization for minor projects, and command-and-control funding for projects that are clearly the domain of individual business units. Such processes contrast starkly with the frequency and small-scale entrepreneurship that our data suggest are important.
- In addition, organizational innovations such as enterprise agility—intended to decentralize, empower, and enable nimbleness—may be even more important than they appear, if they boost the effectiveness of project-level resource allocation.
- Finally, don't be afraid of acquisitions—especially smaller, lower-risk ones that can be undertaken more frequently and that likely contribute to the performance benefits we uncovered in this research.

Clearly, the application of principles like these will be heavily dependent on organizational context and business circumstances; we're not suggesting they are iron-clad rules for running a company. Rather, we advise leaders to pay more attention to the processes and practices that guide the "under the radar" decision-making, because its impact appears to be significant.

strategy+business

a **pwc** publication

- strategy-business.com
- strategybusiness.pwc.com
- facebook.com/strategybusiness
- linkedin.com/company/strategy-business
- twitter.com/stratandbiz