Importance of Portfolio Matrix as Generic Mechanism for Effective Resource Allocation in Nigerian Organizations

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Abstract

Keeping fit in strategic decision making such as resource allocation is essential in today's modern practices among business and profit oriented organizations. Amidst the influx of competition in the business world, it is germane for management of organizations to adopt portfolio matrix in order to optimize the allocation of scarce resources for effective and efficient operation and achievement of organization's predetermined goals and objectives. Therefore, the work examined the importance of portfolio matrix as a tool for effective resource allocation in Nigerian organizations. The study adopted literature survey method to gather information concerning portfolio matrix. The information obtained was analyzed qualitatively due to the nature of the research. The paper concluded that portfolio matrix as a sure generic mechanism for effective allocation of resources in an organization should not be trivialized by management. It is also recommended that management of organizations in Nigeria should cultivate the idea of adopting a portfolio matrix

planning ahead before allocating financial resources to projects and businesses.

Key Words: Portfolio Matrix, Boston Consulting Group (BCG) Matrix, Directional Policy Matrix (DPM), Resource Allocation, Human Capital Resource and Financial Resource.

Introduction

A portfolio refers to a collection of investment tools such as stocks, shares, mutual funds, bonds, cash and so on depending on the investor's income, budget and convenient time frame. Its management is the art and science of making decisions about investment mix and policy, matching investments to objective, asset allocation for individuals and institutions, and balancing risk against performance (Adams, 2019). Matrix as tied to an organization is a structural chart used by management to determine the effectiveness and efficiency of an organization's vision, mission, goal and objective. It shows the relationship between elements concerned for the efficacy of such cycle. It is essential for every business to have a portfolio matrix. This is because, it serves as a guide to decisions, actions and results of the organization. It is the human resource management that delineates portfolio matrix for the effective and efficient management of organizational resources towards the attainment of stated goals and objectives.

The business portfolio matrix is a useful management tool that has been used to analyze a business unit's environment and to suggest several resource allocation strategies based on the unit's industry growth rate and the organization's relative market share/strength. The key is that strategies should be made to differ widely from business unit to business unit, as a function of the growth and relative competitive position of each business unit and the company's overall resource position particularly with respect to cash (Dennis and Michael, 2014). There are many portfolio matrices as

postulated by some authors. Some are tied to market, production, financial and other strategic areas of business. All these tell of the significance of portfolio matrix in the life of an organization.

Effective resource allocation could be dependent on the portfolio matrix adopted by the human resource management or project management of an organization. Resources such as humans, time, money, materials, plants, etc are relatively scarce in nature. Thus, the effective portfolio matrix management of an organization is a key to promote the allocation of resources required by an organization to run its business effectively and efficiently. In line with the afore-asserted, this research work examined the relationship between portfolio matrix and resource allocation with focus on concepts as conceptualized in this study.

The study of Stephen et al (2018) shows that effective implementation of the BCG model helps the institution of higher education to achieve the finest status from the viewpoint of competitive positions in the market. The model helps institutions choose which markets and business units to finance on the basis of two features – competitiveness and market attractiveness; with the fundamental drivers for these factors being market share and growth rate respectively. In the study of Poongothai (2013), it was found that Directional Policy Matrix (DPM) serves as a competitive weapon in strategic marketing in Sri Lanka, as it deals with the survival and sustainability of organizations which are based on their business strength and market attractiveness. This helps management to make strategic decisions such as human capital and financial resource allocations in the organization to facilitate a better performance. Finally, the study of Rouse (2014) revealed that project portfolio management is seen as a holistic activity, dependent on the organization's strategy as it showed the interconnection between company strategy, project portfolio and projects in process and practice, which have bearings on organization's resource allocation.

Purpose of the Study

The purpose of this study is to examine the importance of portfolio matrix as a tool for effective resource allocation in Nigerian organizations. The work specifically reviewed the dimensions of portfolio matrix and measures of resource allocation, and importance of portfolio matrix to an organization's resource allocation.

Methodology

The present research employed literature survey method to collect data that are relevant to the concepts of portfolio matrix and resource allocation. The data obtained was analyzed qualitatively due to the nature of the study.

Concept of Portfolio Matrix

Portfolio matrix is a handy tool that helps management makes the right portfolio decisions. These decisions could be product, human, capital, business and projects in process. This post explains how management can effectively apply it to manage a portfolio of any chosen path of business line. Portfolio matrix also deals with investment tools such as stocks, shares, mutual funds, bonds, cash and so on depending on the investor's income, budget and convenient time frame. Portfolio management is the art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance (Adams, 2019). According to Dennis and Michael (2014), portfolio matrix is a useful management tool that has been used to analyze a business unit's environment and to suggest several resource allocation strategies based on the unit's industry growth rate and the organization's relative market share/strength. Thus, it is a useful model to explain or describe business enrollment among organizations. The key is that strategies should be made to differ widely from business unit to business unit, as a function of the growth and relative competitive position of each business unit and the company's overall resource position particularly with respect to cash. The sole aim of every

business it to grow, survive and expand especially when it is profit-oriented in nature. With the help of a viable portfolio matrix, human resource management of organizations would have an insightful decision making towards the management of resources while attaining organizational predetermined goals and objectives.

Dimensions of Portfolio Matrix

There are several portfolio matrices used by management of organizations. But for the purpose of this work, the researchers have tailored the dimensions of portfolio matrix into Boston Consulting Group (BCG) Matrix and Directional Policy Matrix.

Boston Consulting Group (BCG) Matrix

Boston Consulting Group (BCG) Matrix is one of the best known and dependable tools in strategic management. The BCG matrix method is the most popular portfolio management tool used to determine what priorities should be given in the product portfolio of a business unit. From Aithal (2017), the BCG matrix is a framework created by Boston Consulting Group to evaluate the strategic position of the business brand portfolio and its potential. Portfolio matrix classifies business portfolio into four categories (namely: Star, Cash, Cow, Question Mark and Dog), based on industry attractiveness (growth rate of that industry) and competitive position (relative market share). These two dimensions (growth rate of that industry and relative market share) reveals likely profitability of the business portfolio in terms of cash needed to support that unit, and cash generated. According to Mohajan (2017), the business portfolio is a useful management tool that has been used to analyze a business unit's environment and to suggest several resource allocation strategies based on the unit's industry growth rate and the organization's relative market share or strength. The BCG Growth Share Matrix helps organizations to consider growth opportunities by reviewing their products portfolio to decide where to

invest, to develop or discontinue products (Stephen, Yusheng, Michael and Kingsley, 2018).

Directional Policy Matrix

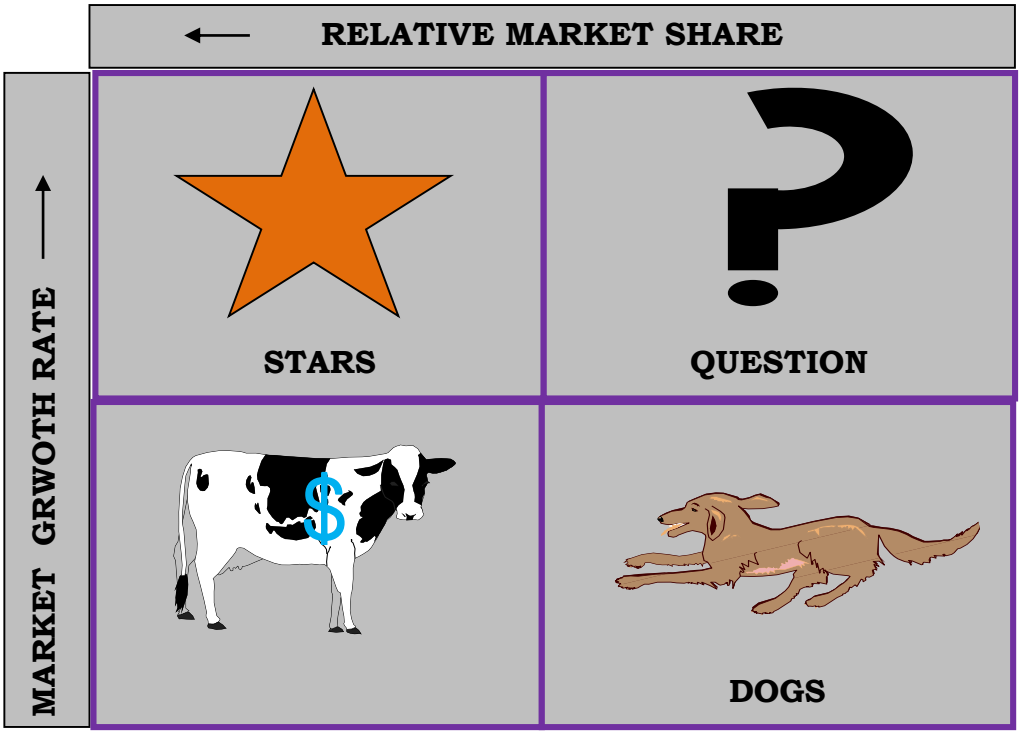


Figure 1: BCG Matrix

The directional policy matrix is the more useful development of the Boston (BCG) matrix. However, many companies experience difficulties in accurately measuring the market share and accurately predicting the potential growth of particular markets. In the directional policy matrix, market share and market growth rate are replaced by business strength and market attractiveness (Poongothai, 2013). Market attractiveness is not only the size of the market, but includes such things as the expected growth, the lack of competition, the profit margins within the market and any favourable political or socioeconomic conditions. Business strength is

determined by such things as the number of sales, the product's reputation, reliability, service and competitive pricing. These are very practical attributes as they are more specific to an organization whose products are in fact services. The directional policy matrix is sometimes shown as having nine segments, but the simpler version shown, developed by McDonald and Payne is easier to grasp and more appropriate for the financial services product concept (McDonald and Payne, 1996). There would be no point in developing a new product and spending time and money for launching it unless there was a market for it. The size of the market, the need for the product, the likely sales volumes and the profit margins that can be expected will all have been investigated in the planning and researching of a possible new product. The business will then make a decision as to the attractiveness of the Marketplace before any new product is developed (Poongothai, 2013).

It therefore follows that new products will only come out if they are in the 'high market attractiveness' area. As the product will be new, its market share or business strength will be low initially. Thus, any product will usually appear in this box when it is first launched. This will be shown in the upper right hand quadrant as "Grow" in Figure 2. If the correct research has been carried out and the product includes the right price, then the sales will improve. The product will become strength to the business as it at starts to bring an increasing income stream to the business and enhances the reputation of the provider. It will therefore move to the upper left-hand quadrant as "Invest". As existing customers' needs are met, and as a new products and services with greater appeal to the customers are introduced by competitors, the growth of product sales may slow. Because the market becomes saturated, providers are likely to cut charges or offer special deals in order to try and maintain their market position. They may need to start or increase promotional activity and all these things will incur a cost to the business. This in turn means that profit margins are cut and so the market attractiveness declines. The product is now positioned in the lower left-

hand quadrant as "Harvest". As sales diminish due to the lack of customer appeal, the product's strength to the business also decreases. The company is likely to reduce or even withdraw completely any marketing support, choosing to spend resources on new or existing products that offer the prospect of greater returns on any investment made (Poongothai, 2013). The product is therefore now firmly in the lower right-hand quadrant as "Divest". All of the products and services offered by financial services organizations should be able to be positioned within this matrix. Doing so is of great help to the product manager in product planning, forecasting and promotional activities. In product planning, by positioning the product within the matrix, the product manager can predict how the sales will evolve, and therefore develop a suitable product strategy. This will be done with a great deal of information about competition of products and customer needs etc, hence the importance is once again accurate and up-to date in research. The provider will need to understand not only the product and its competition, but also possible future trends in the market which will increase or decrease the market attractiveness. By placing the product in one of the quadrants and properly understanding the movement of the product within the matrix, the product manager will be able to plan where changes to the product may be needed, and where the budget for promotional activity will be best spent. In forecasting, the directional policy matrix will help the product manager to forecast future revenue and costs and therefore assist in the management of resources. He will be able to see which of the products he controls would provide the best return following investment in such thing as advertising. In promotional activity, the directional policy matrix assists in the planning of any promotional activity. For example, while the product is positioned in the upper right-hand quadrant, a great deal of activity surrounds the launch. However, as the product moves to the upper left-hand quadrant, the product manager may expect a great deal of competition to arise and therefore decide to continue

with the product promotion as long as the market attractiveness remains high (Smith, 2015).

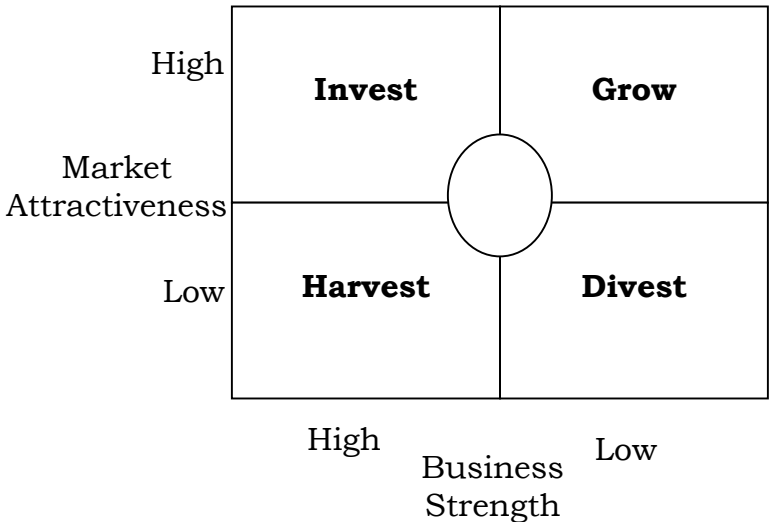


Figure 2: Directional Policy Matrix (Positioned)

Concept of Resource Allocation

According to Peter (2017), resource allocation is just a fancy term for a plan that you develop for using the available resources at your disposal in a project. This is mostly a short-term plan set in place to achieve goals in the future. Resources are varied, everything from the people you are working with and the equipment they are using to complete their tasks to the materials and other supplies you need, even the site where you are working on the project all fall under the umbrella of resources. Resource allocation also refers to assigning one's resources-time, people and tools-across various tasks in a project to work toward one's deadlines. This is usually done by a human resource manager or project manager of an organization (Broderick, 2018).

It is the process of assigning and managing assets in a manner that supports an organization's strategic goals. Resource allocation includes managing tangible assets such as hardware to make the best use of softer assets such as human capital. Resource allocation involves balancing competing needs and priorities and determining the most effective course of action in order to maximize the effective use of limited resources and gain the best return on investment. In practicing resource allocation, organizations must first establish their desired end goal, such as increased revenue, improved productivity or better brand recognition (Rouse, 2014). Resource allocation is central to all development processes and in all organizations, therefore, the issues of the proper understanding and documentation of it is important for human resource management to focus on to enable them to prioritize problems and proffer solution towards the attainment of organizations' expectations. It is crucial to use proper resource allocation approaches according to the available budget and available local resources to support the areas of a business in a way to achieve long-term development with a future vision of becoming an empire in business conduct, growth and expansion. Resource allocation is the process of dividing up and distributing available, limited resources to competing, alternative uses that satisfy unlimited wants and needs of an organization per se. Given that the business world is rampant with scarcity (unlimited wants and needs, but limited resources), every want and need cannot be satisfied with the available resources. Choices have to be made for organizations' aspirations to be attained. An efficient resource allocation exists in an organization if management has achieved the highest possible outcome (Smith, 2015). These resources in general can take the form of financial resources, human resources, material and equipments needed to achieve a certain goals and finally infrastructure facilities needed to develop a certain area of business (Course, 2011).

Measures of Resource Allocation

Allocation of resources in an organization varies in line with the vision, mission, goals and objectives of the organization. Nevertheless, for the purpose of this work, the researchers measured resource allocation in human capital and money.

Human Capital Resource

Human capital resources are the knowledge vested on individuals who employ their brainy and brawny efforts towards the attainment of organization's predetermined goals and objectives. They are human beings in the organization. It is the greatest assets every organization wishes to have. A good human resource capital is a key to effective and efficient productivity and performance in an organization (Smith, 2015). As the pace of business accelerates and competition intensifies, companies in virtually all industries are confronting greater uncertainty and complexity. In the face of such challenges, human resources has the potential to be a crucial asset by ensuring that companies have the human capital they need with the ability to react fast to changing environments. Yet such human resource HR departments are typically the exceptional, not the rule. In fact, the HR model at many companies particularly established ones that have been in business for a long time is increasingly outdated and inefficient to help them navigate the current environment. In this model, HR still functions in its traditional role as a service provider that focuses on transactions, rather than as a true partner to the business units. Most business problems are people problems particularly in service industries and this outdated HR model can prevent companies from making the changes needed to compete more effectively. Conversely, if HR can adopt a more innovative and strategic role, it can have a positive multiplier effect. By optimizing company structures, developing and flexibly deploying company resources, and thus ensuring that the company has the right human capital in place, HR can help it meet its business objectives and improve both financial and operational performance. To get there, HR functions will need

to adopt more efficient, forward-looking ways of working and take on a far more active role to support the business. Apparently, Reinhard, Markus, Anja and Mike (2015) stated four (4) levers through which human resource could be addressed by human resource management which include:

(a) Personnel Quantity. Here, human resource managers must ensure that the company has the right number of employees in the right roles and under the right employment conditions such as full-time, part-time, or flex-time. This is not a static situation. These HR functions also understand external factors that might shape the supply of talent, such as changes in the education landscape, demographic shifts, and other trends. Finally, leading HR functions have planning processes to address potential imbalances between supply and demand, including finding the right balance between developing internal talent and hiring from external sources.

(b) Personnel Costs. The second lever, personnel costs, considers the financial implications of the workforce. Top-performing HR department are able to give a highly detailed accounting of the company's current employment costs in both wages and total compensation. They can also assess the implications of various scenarios, map those scenarios to budget targets, and accurately forecast future personnel costs regardless of market shifts. Critically, the cost lever also requires a consistent compensation strategy including how benefits fit into the overall value offering to potential employees which in turn means understanding the current market for labor and management, and the degree to which the company can use compensation to recruit and retain talent (Reinhard, et al, 2015).

(c) Personnel Quality. In addition to the quantity of employees, HR department must assess and develop the workforce's skills and competencies. This third lever entails defining the tasks and required certifications for all current job categories, assessing how well the company

is meeting those objectives, and determining how employees will need to develop over time to meet future business goals. Top-performing HR departments have strong talent- management and training-and-development programs, with priorities for how to allocate resources and generate the largest payoff in terms of new skills, capabilities, and certifications.

(d) Transformation and Management. This lever is managing the process of change both within the HR department and, more broadly, across the entire company. This lever is essential if HR is to take on a more innovative and strategic role and thus successfully support company-wide transformations, reorganizations, and efficiency programs. Companies need to establish processes and rules by which HR department can centrally plan the workforce using objective criteria (Smith, 2015). Furthermore, these criteria have to be linked to the company's overall business strategy and financial objectives, and they must be clearly communicated and accepted by all managers. This requires a significant change at many companies, especially in the HR department itself. People will have to change the way they work, with new roles and responsibilities, different objectives, and different metrics to gauge performance (Reinhard, et al, 2015)

Financial Resource

Financial resource is the money used in operating a business functions towards the actualization of organization's predetermined goals and objectives. Every business requires finance or cash in order to operate. Finance is needed to purchase equipment, meet wages and overheads and so on. Apart from the owners' capital to establish a new business, a major source of finance to it is debt supplied by banks and/or other financial institutions (Smith, 2015). Financial resource is a term covering all financial funds of the organization. From an economic perspective financial resources are the part of the organization's assets or property. Sometimes

financial resources are referred just as finance, often with some attributes. It could be in form of an asset or liquid all to facilitate organization's operations and as well attain its expectations. Financial resource allocation is effective voting of finance either in assets or liquid to projects, units, departments and the organization as a whole to propel its operationability and performance. Some examples of financial resources are:

Cash: money or its equivalent.

Bank Deposits: money placed into banks, including checking accounts and money market accounts.

Holdings of Stocks: publicly traded stocks can be easily converted to cash, and are considered financial resources of an organization. These stocks are traded on stock exchange, like the NASDAQ or the NSE. It takes only a few minutes to sell stocks in the market.

Holding of Publicly Traded Bonds: There are various types of bonds that can be included in the financial resources of an organization: U.S. government securities, mortgage bonds, foreign bonds, corporate bonds, etc.

Foreign Currency Holdings: These are currencies issued in another country. Foreign currencies can be held in a local or in a foreign bank. Foreign currency can be quickly converted to local currency, thus they are considered part of the financial resources of an organization. Also, many international companies need to hold amounts of foreign currency to carry out its operations, like selling abroad or paying foreign suppliers.

Checks: checks are instruments that contain an order that directs a bank to pay an amount of money to the check holder. Check can be easily

converted to money, and sometimes, checks can be used to pay to suppliers: checks are financial assets.

Good financial resources allocation management among others is key to achieve the goals of the organization. Situations in which the shortage of funds can compromise the short term operations must be avoided. For example, if the organization doesn't have enough funds to pay salaries or buy raw materials. On the other side, an excess of financial resources can lead to a high opportunity cost. Budget control and analysis play an important role in financial resources allocation management. Efficient management of financial resource should react quickly to changes in the environment and pursue a healthy stock of financial resources, according to the needs.

Importance of Portfolio Matrix to an Organization's Resource Allocation

From the discussed concepts under study, it is obvious that portfolio matrix contributes a lot to the allocation of resources in an organization. Nevertheless, portfolio matrices such as Boston Consulting Group (BCG) Matrix and Directional Policy Matrix pay significance to the following:

1. They are very simple to use and explain, as their dimensions contribute to the investment, divestment, strength and weakness of a given competitive business if well analyzed.
2. They are reputable and long-standing strategic models that has proved to be robust over time and significant changes in the competitive environment.
3. They are growth and market relative in nature as they show their availabilities to the organizations, along with competitive measures, making them relatively easy to execute and prepare.
4. Their clear guidance are provided for each quadrant in terms of the approach to investment and support of business units or brands or

products perhaps with the exception of the question mark quadrants.
5. They are important models for allocating resources for firms pursuing market share goals and seeking experience curve benefits.
6. They have bases for allocating resources across their business units, based upon competitive position and market opportunity making for more strategic based decisions.
7. Their matrices are more beneficial for large-scale manufacturing operations where experience curve benefits can be realized, that is, where there are strong correlation between market share and profitability.
8. For management students, they provide good understanding of the concept of aligning competitive strengths with market opportunities in the development of suitable strategies for the organization survival.

Theoretical Review

The key theory which may have contributed considerably towards the understanding of the importance of portfolio matrix for firms is the Theory Based on Resources, also known as the Resource- Based Theory of the firm. The concept of competitiveness based on competences was developed according to Omerzel (2010) by Penrose in 1959 and later used by Wernerfelt in 1984, Rumelt in 1984 and Barney in 1986. These scholars can be adjudged as the creators of the Resource-Based theory. The theory posits that resources are traceable and nonspecific to the firm, for instance, organizational processes. The theory is based on the following assumptions. First, that resources and capabilities may be heterogeneously distributed across firms and these differences may be long lasting. Second, that economic factors be they firms or people are boundedly rational utility maximizers. Third, that markets can vary in their competitiveness and that information can vary in how it is diffused across a market and so forth. Unless knowledge management and core competencies can be synchronized, the organization will find it difficult

to build long term survival and competitive advantage. It therefore follows that knowledge should be viewed as the most important resource for organizational profitability. This suffices that organizations should identify and develop their portfolio matrix which is a mix in the management of knowledge in order to strengthen and sustain effective resource allocation thus promoting competitive edge. This means that portfolio matrix should be understood as the fundamental knowledge management system of an organization in order to boost optimum allocation of resources such as human resources and financial resources (Omerzel, 2010).

Conclusion

Summarily, portfolio matrix is a sure generic mechanism for the effective allocation of resources in an organization should not be trivialized by management. Every strategic decisions of a organization ranging from structural design to resource allocation, project, unit, etc should pass through the tunnel of portfolio matrix so as to minimize wanton damage as a result of misfeasance by management.

This study therefore concludes that the importance of portfolio matrix cannot be emphasized in an organization, hence management in Nigerian organizations should adopt necessary matrices that favour the vision, mission, goals and objectives of the organization so as to keep the organization afloat on business success.

Recommendations

Based on this literature review the study recommends that in Nigerian organizations:

1. BCG matrix should need systematic classification rule, interaction-based exploratory analysis tool to achieve the consensus among different managers, and customized

classification scenario analysis for logic classification searching and as well promote resource allocation in the organization.

2. In BCG matrix, the funds need to be generated for Cash Cows that are used to turn Question Marks into Stars, which may eventually become Cash Cows, and always to restrict becoming of Dogs, thus enhancing effective allocation of resources such as finance and humans.
3. Since directional policy matrix (DPM) serves as a competitive weapon in strategic marketing, it should be strengthened by management of organizations so as to enable them locate resources such as human and financial in their rightful places, units, departments and business to enhance organizational competitiveness.
4. The management of organizations should cultivate the idea of adopting a portfolio matrix planning ahead before allocating financial resources to projects and businesses.
5. Management of organizations should build a solid foundational knowledge management system to enable it manage both human and non-human resources, effectively and efficiently.

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