

Opinions about BCG

95% “Some knowledge or extensive ...”

Help in Decisions?

66% Yes
(only 5% poorer)

[sample 175 MBA's in early 1990's]

No Prior Evidence to Support “Portfolio Planning” – Instead, Evidence is Negative

▪ Inputs

- Difficult to measure market share and market growth

▪ Outputs

- Firms that use BCG had a lower return on capital¹
- Firms whose decisions were consistent with portfolio planning methods lost market value²

1. Capon, Farley, & Hulbert (1987), *Corporate Strategic Planning*. New York; Columbia University Press.
2. Slater and Zwirlein (1992), Shareholder value and investment strategy using the general portfolio model,” *Journal of Management*, 18, 717-732.

Why BCG Portfolio Matrix Was Expected to Harm Decision Making

- **Mental accounts mislead**
 - Theater ticket problem
- **BCG assumes that market share causes profits**

Task Used in Laboratory Experiments

- **You are in charge of investments:**
 - **“Digits”** – invention in production that produces 100% gain over 10 years
 - **“Sunbars”** – advertising campaign that loses 50% over ten years
- **You attended:**
 - No course (control group)
 - BCG course
 - NPV course

Many Laboratory Experiments Conducted

- **Subjects**
 - 1,015 from ten countries
- **Administration**
 - by 6 faculty
 - on 27 occasions
 - over six years

Method Used

Treatment (n)	Method Actually Used by Percent		
	BCG	NPV	?
BCG (104)	55	30	15
Profit (70)	6	60	34
Other (70)	4	59	37

Selection of Unprofitable Project*

Percent by Treatment (Sample Size)

BCG	63	(296)
Control**	46	(228)
NPV	37	(232)
Payback	35	(112)

* Sunbars (the star)

** The Conglomerate, inc. exercise was the control group.

Selection of Unprofitable Project*

Percent by Method (Sample Size)

BCG	87	(219)
Proft	15	(432)
Other	70	(246)

* Sunbars (the star)

Conclusion

Do not use portfolio planning methods.

1. No economic theory to support use
2. Psychological theory says it will be detrimental
3. Firms that use it earn less
4. Firms whose decisions were consistent with BCG lost value
5. Experimental evidence shows managers are misled

For further details, see Armstrong and Brodie (1994), "Effects of portfolio planning methods on decision making," *International Journal of Forecasting*, 11, 73-84. (In full text on jscottarmstrong.com)