

Achieve Transformational Innovation with Portfolio Management

by Will Yester

Are you using portfolio management practices and techniques to promote transformational innovation within your organization? A [recent article in Harvard Business Review](#) by Bansil Nagji and Geoff Tuff called “Managing Your Innovation Portfolio” covers just that. Is there an optimal innovation mix ratio for all companies? Do separate innovation teams really ensure transformational innovation success? Is phase-gate dangerous for innovation? Here’s our spin on the HBR piece.

Is there a Golden Ratio for innovation?

Nagji & Tuff classify initiatives as core (incremental changes), adjacent (new-to-the-company), or transformational (new-to-the-world) innovations. Their research indicates that the highest performing companies had an average “innovation activity allocation” of 70% core, 20% adjacent and 10% transformational – known as the Golden Ratio. This idea is attention-grabbing, but the authors also point out that the ideal ratio for a firm should vary based on many unique factors including industry, maturity and competitive positioning. The right innovation mix should be determined as part of a custom innovation strategy that matches the identity of the company and ties to the financial goals.

Getting the right innovation mix is critical, but leadership can’t stop paying attention once a strategy is in place. It is not enough just to understand what the innovation activity ratio *should be*; effective portfolio management is needed to understand and monitor the activity ratio over time. When both sides of the equation are known, the company can check and adjust activity and strategy, maintaining a healthy ratio that drives both short and long term success.

How can companies hire and organize for transformational innovation?

The authors make a strong case that organizational structures should be changed dramatically in order to consistently achieve breakthrough innovations. Their recommendation of creating independent teams focused on radical innovation has successfully improved breakthrough results at many companies such as Samsung, but it is important to note that there are other organizational approaches for fostering innovation. While “sequestered” teams have produced proven results, the right solution will need to fit each organization.

We have seen independent teams fail *because* they are separate; their insights are not easily visible to other groups whose contributions are required to deliver products. It is critical to maintain contact with these teams along the way so that insights can be shared and the likelihood of a successful handover to the business is improved. Portfolio management gives organizations the ability to see initiatives across regional, business unit and functional lines. This ability to collaborate and communicate is powerful and can ensure acceptance of innovation efforts against other strategic priorities.

Can phase-gate and transformational innovation coexist?

The article claims that phase-gate processes are “dangerous” for transformational innovation because traditional success criteria such as financial projections and consumer test data are difficult to attain for early-phase, new-to-the-world innovations. The authors argue that these transformational ideas take more time and effort to explore and develop, and that a funnel approach threatens to kill breakthrough projects before they are fully realized.

Our perspective is that phase-gate processes have proven benefits to new product development success and can coexist with the pursuit of breakthrough innovation. New-to-the-world innovations carry the highest investment and risk, and can benefit tremendously from the *right* level of leadership oversight and influence. The challenge is designing a process that is scalable rather than bureaucratic and training gatekeepers to be comfortable with the level of uncertainty that occurs with these types of initiatives.

What’s Your View?

Portfolio management and phase-gate are critical to achieving transformational innovation objectives, but clearly, companies need to approach this differently. Does your company have a Golden Ratio? Have you had success or failure with co-located “independent” innovation teams? Do you use phase-gate processes to manage innovation types? Let’s keep the conversation going!

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