Promising Growth

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I was presenting the results of an in-depth portfolio review to the president of a major chemical company. "Will I meet my growth goals?" she asked.

Every planning process in the company involved her setting a goal and the business units (BUs) responding with how they were going to meet them. Then she would hold the BUs accountable to their promised results. If you promised $50M in new revenue, you were expected to deliver.

But much of this company's growth relied on innovation. While she had promises from her organization that they indeed would deliver on the growth goal, she knew that these promises were based on hopes and dreams. The uncertainty level in innovation was too high to make a reliable promise.

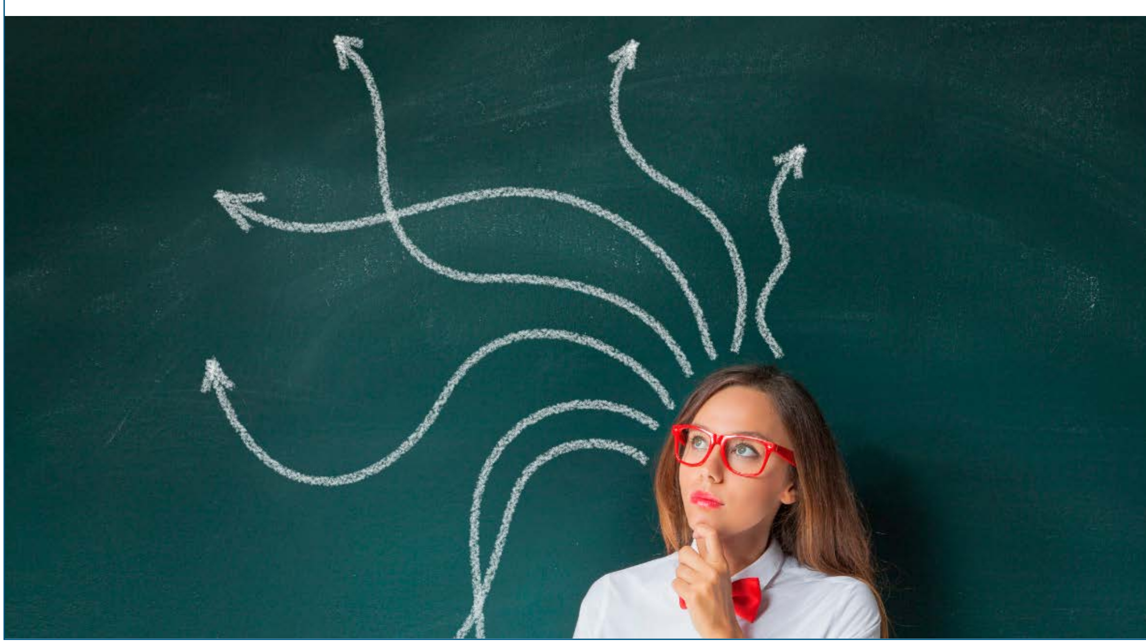
Her R&D organization had also been asking for money to explore new options and to find new sources of upside potential. Her inclination was to give them a little funding—this type of exploratory innovation was always good—but not too much, because they couldn't promise anything, not even a hope. To her, these efforts were speculative longshots and counted for nothing in the growth promises.

From Hopeful to Reliable

In her question, "Will I meet my growth goals," she was asking me where these growth promises in aggregate across the portfolio stood on the scale from hopeful to reliable.

"Let's take your question in two parts," I replied. "First, what three-year revenue growth level do you have a 90% chance of hitting—what's reliable that you can plan on?" We added up the reliable promises across the BUs and it totaled $250M.

> *It is easy to make promises—it is hard work to keep them.*
>
> — Boris Johnson



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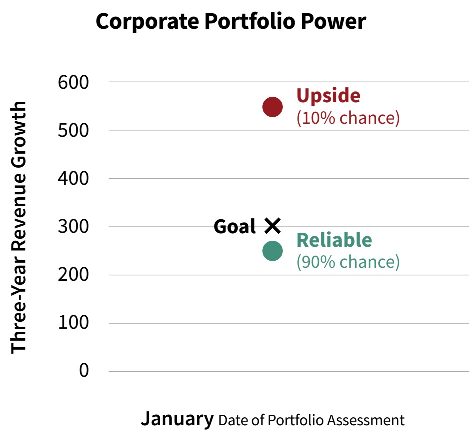
"But our goal is $300M! They all said they could deliver their share. I'll have to go push harder," she replied, with some frustration.

"Before you start pushing, let's look at the second part of your portfolio. The upside, what your BUs could deliver with a 10% chance, is $550M."



The overall organization can almost reliably promise growth that meets its goal and has lots of upside potential.

Her face brightened. "Great, let's go for that! Which projects exactly should I fund?"

"The upside isn't coming from a single project or two," I told her, "although many projects have significant upside. Your organization has line of sight to results at that higher level, with real evidence to support it. However, it is not proven: the weight of evidence isn't enough to promise it. The business case is optimistic at this point. So, don't fund the specific projects—you can't pick the winners—but fund learning and experimentation to test these upsides. A few will prove out, and fund those aggressively."

She started to get encouraged again, "Excellent! I'll direct my phase-gate managers to push projects on more aggressive deliverables. That will soon separate the good projects from the bad."

Focus on Learning, Not Delivery

"Sorry," I replied, "but I think that may backfire. The more forcefully you ask people to deliver, the more they feel the need to retreat to what they can reliably promise. The key to upside is well-placed efforts focused on learning, not delivery. If the experiments don't prove out, encourage them to move onto some other big thing quickly. Your goal is to discover the unreasonable and unlikely, not deliver on reasonable expectations."

Manage Differentially for Delivery and Growth

Conduct a portfolio assessment that rigorously looks at uncertainty and scenarios for upside and downside.

Create planning goals based on the reliable delivery in the portfolio—what it can deliver with 90% chance. Promise this level of growth and focus on delivery.

Aim for the upside—what the portfolio can deliver at a 10% chance. Fund learning projects to deliver the evidence. Promise conversion of upside to more reliable results.

Fund scouting focused on finding new upside. Promise new proposals with uncertain business cases and clear learning plans.

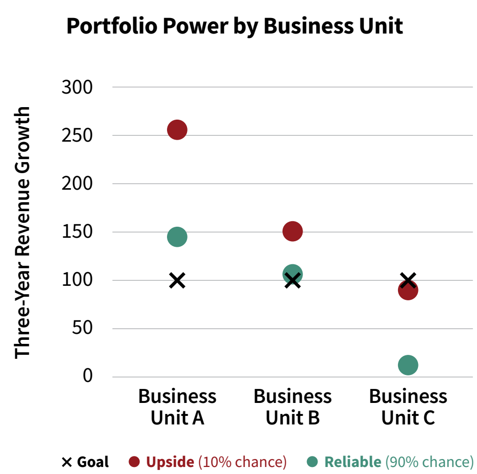
Track the upside and reliable delivery of your portfolio over time and adjust goals and funding accordingly.

In other words, rigorously promise what is reliable and rigorously promise to seek what is hopeful.

"I see," she concluded. "It's a challenge in differential management—learning for upsides and delivery for reliable promises."

"'Indeed. And your business units have some differential challenges."

I showed her a chart of portfolio power calculations. "Unit B is doing well. The reliable growth they can promise, at a 90% level, is more or less at their growth goals. Business unit A has a reliable growth well above its growth goal. Here you can turn up the heat, consider raising the goal even."



A is going to produce above its goal; B is about right but without much upside; C will fall short of its goal and needs to focus on refilling its pipeline.

Her eyes lit up at that prospect.

"Business unit C has the opposite issue. Their reliable growth is well below their growth goal. Indeed, their upside is barely adequate. They are set up for failure."

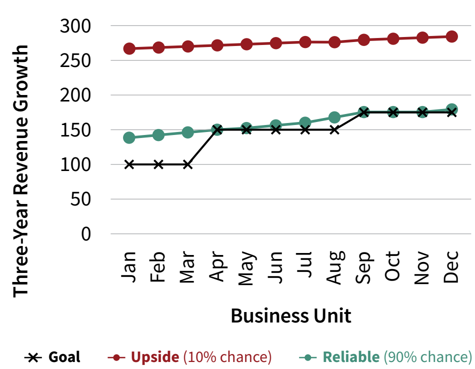
"They have been squirming a bit. I've known there was a problem and have been pushing them hard to sort it out."

"Actually, they need a reset. Lower the pressure on the reliable goal and encourage them to learn. Focus their innovation efforts on two things. First, seeing if the upside they do see is real—learning. Second, scouting to find new ideas that might increase the upside."

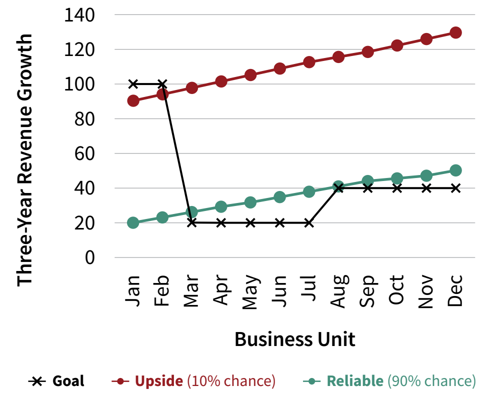
"Got it," she said. We adjourned the meeting, and agreed to review her progress at a later date.

Converting the Upside

About a year later, we touched base. She showed me a graphic. "We've been tracking the portfolio power based on growth goal, reliable delivery, and upside". The monthly shifts on the tracking chart showed the impact of using the portfolio process to seek growth.



Unit A ratched up its goals as its ability to deliver reliably increased.



Since their goal was too hopeful, Unit C got a major reset. As they proved out their upside and converted it to the reliable promise, the goals increased. Scouting efforts identify new upside and create future growth opportunities.

I could see that their overall reliable delivery was now well above the growth goal. She had raised the goal for Unit A and they had continued to rise to the challenge. And Unit C was doing well scouting and finding more upside.

I congratulated her on converting the upside. She had guided her business units in learning where to find new sources of growth and how to turn them into reliable promises.

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