Corporate Innovation Funding - Part 2

by Bill Poston

Corporate-level innovation executives with large discretionary budgets have a tremendous lever to use to increase business results from innovation. The methods used to allocate this budget can present real challenges for the leader. The first decision is splitting investment between increasing current production and improvements in productive capacity (covered in Part 1 of this post).

The second decision is the model used to fund specific innovation initiatives. The mistake made most often is agreeing to fund entire initiatives that are executed by business units. This enables the business unit to push off all of the risk and not touch the core development pipeline. It also creates an issue with resourcing since people are more typically the constraining factor in innovation, not budget.

In simple terms, I advocate for a funding model that sets up corporate as a co-investor with the business unit. Corporate money can be used to accelerate innovation or marginally reduce the risk profile to enable a decision to proceed. The corporate investment should be limited to a maximum of a third of the total cost. If the business unit will not spend the majority of the money required for the program from its own budget, then why do it?

There are always exceptions to this rule, like cross-BU initiatives or funding a new business initiative that does not fit neatly into the current structure, but the day-to-day spending of corporate money should be done judiciously and with an understanding of the long-term implications on business unit behavior.

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