The Golden Ratio

by Bill Poston

One of the hallmarks of a clearly articulated innovation strategy is a balance of investment in incremental, adjacent, and breakthrough innovation types. Agreeing on a common method of classifying innovation initiatives into these categories is difficult enough, but agreeing on the right distribution of investment across these categories can be even more challenging. This is the search for the golden ratio.

Clients often ask what the appropriate allocation of investment across these categories should be, and they are in a constant search for benchmark information from those in their industry. That benchmark information is usually worthless. The right ratio for any organization is based on a complex set of variables including industry dynamic, competitive strategy, growth goals, available investment, tolerance for risk, and maturity in managing more aggressive forms on innovation.

Of these variables, I believe that industry dynamic and capability maturity are the most important. In stable industries, a 70-20-10 ratio of investment in incremental, adjacent, and breakthrough innovation types may be appropriate. In faster, more dynamic industries, that same ratio could spell a quick decline into irrelevance. Understanding the competitive landscape, speed of innovation, and threat of disruption is critical to determining the golden ratio for an organization. Where do you need to be to lead your industry in growth from innovation?

The maturity and capability of the organization to deliver breakthrough innovation is also a critical success factor. Simply allocating investment to higher return opportunities does not guarantee higher returns. The capability to deliver on the business goals of these initiatives must be developed. Too often, I work with senior executives that readily adopt the discipline of proper investment allocation without wanting to undertake the hard work of capability building. Without it, investment in breakthrough innovation may be completely wasted.

What is the golden ratio of investment in innovation for your organization? I don’t know yours, but asking the question is a good first step.
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For the past 30 years, Bill has helped executives in technology-driven industries transform their competencies to deliver results. He is a highly regarded consultant, speaker, and writer on the topics of innovation strategy, product development, portfolio management, technology commercialization, and the software systems that enable innovation. Keep up with Bill's latest research and thoughts on innovation and the rising role of the Chief Innovation Officer at www.TheChiefInnovationOfficer.com.