The Capitalist's Dilemma – A “Good Gut” > BASS

by Bill Poston

Recently I wrote a general commentary on Clayton Christensen’s article in the June 2014 edition of the Harvard Business Review, “The Capitalist’s Dilemma”. The article contends that investor myopia and outdated assumptions about capital being a scarce resource cause companies to underinvest in market-creating innovations that are necessary for their long-term prosperity. In this post I would like to talk about spreadsheets.

A sidebar in the article calls spreadsheets “the fast food of strategic decision making.” Like cheap, abundant fast food, spreadsheets make analysis cheap and easy, creating an unhealthy dependence on financial metrics. This is especially true in the early stages of a market-creating innovation project when we are dealing with massive levels of uncertainty and unknowns. Scott Cook of Intuit says, “The focus on financial outcomes too early in the innovation process produces a ‘withering of ambition’.” These metrics lack predictive power. All failed innovation initiatives had great forecast numbers.

In my work I say that a good gut is better than a BASS (big-ass spread sheet). Financial forecasts have their place, but I have seen organizations effectively outsource strategic decision making to an algorithm. Investments in life-changing innovation requires the application of liberal does of management judgment and courage. I don’t need to know – and can’t possibly know – the estimated NPV of a market-creating innovation before we have even exited the concept stage.

Instead of looking for proxies for future cash flows in the early stages of innovation, we should ask simpler questions to develop a reason to believe in the idea. If we are only relying on financial metrics to make decisions, then we don’t need vice presidents. Just give us analysts and algorithms.

The one thing a spreadsheet can’t answer is how profoundly the concept being evaluated will change people’s lives? The answer to that question is more important than all the NPV, IRR, and RONA ratios your un-nutritious calculator can compute.

Originally published at www.thechiefinnovationofficer.com

Originally published on October 28th, 2014

What's your view? Add your question or comment
About the Author

Bill Poston
bill.poston@kalypso.com
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.