The Capitalist’s Dilemma – Scorecards

by Bill Poston

Final thoughts on Clayton Christensen’s article in the June 2014 edition of the Harvard Business Review, “The Capitalist’s Dilemma”. I encourage you to read it and think about its application in your own organization. The conclusion of the piece calls for renewing the capitalist system to overcome the collective reluctance to invest in market-creating innovation with four suggested solutions:

- Repurposing capital – “persuading capital that it wants to be used differently”
- Rebalancing business schools – less siloed finance, more multidisciplinary strategy
- Emancipating management – reward executives for balancing long-short investment horizons
- Realigning strategy and resource allocation – create scorecards to align investment with growth

In my work we strive to create visibility into the innovation pipeline and the prospects for growth contained in the portfolio. Often, the first objective of the scorecard is to point out the rampant incrementalism that overwhelsms most “innovation” portfolios. With this view we can then facilitate a fact-based conversation about growth from innovation.

I suggest a couple of other investment analyses to help maintain balance in your innovation portfolio. The first is a split between total investment in innovation-producing initiatives and innovation capability-building initiatives. This is the old production versus production capacity view of investment.

The second is a horizons of growth view of the innovation portfolio. Some companies do a decent job of integrating their active development pipeline with their short-term business plan. Others can point to investments in research as supporting long-term growth prospects. But very few can point to specific investments in that middle horizon (the number of years out depends on your industry’s lifecycles).

Lastly, remember to keep the detailed financial projections out of your early-stage innovation conversations. Keep the focus on market impact and order of magnitude measures of growth potential. This will help you avoid the “withering of ambition” that comes from risk adjusting every forecast.

This important article does its best to challenge outdated assumptions about capital being a scarce and expensive resource. Companies that invest in market-creating innovations will enjoy higher levels of long-term prosperity. We can fix the scorecards, but ultimately we have to fix ourselves.

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What's your view? Add your question or comment
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