The Diseconomies of Scale

by Bill Poston

In the thirty year period from 1981 to 2011, the share of US R&D investment made by companies with more than 25,000 employees fell by more than half. Yes, the total investment in R&D rose substantially during this period, as did the number of companies with this many employees, but all of the growth in investment came from smaller enterprises. Startups and companies with fewer than 1,000 employees grew their share by almost six fold.

This time period roughly tracks the birth and growth of the modern venture capital industry. That explains the growth at the low end of the scale, but it also follows the slow demise of the legendary corporate labs that drove innovation in this country for decades.

Consider the implications for very large companies that want to grow organically through innovation. They can buck this trend and increase investment in research and development, or they can take the easy path and acquire innovation from smaller, more nimble, less risk averse companies.

There are many barriers to achieving breakthrough innovation in very large enterprises. There are also tremendous benefits that can be used to gain competitive advantage in the quest for growth. The Chief Innovation Officer should commit to exploiting those advantages and fighting the diseconomies of scale.

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