



<b>Setup</b>	
<b>Title</b>	<u>Allocational Rigidity (Or, The Ghost of the Politburo)</u>
<b>Summary</b>	The process for resource allocation in too many organizations is highly centralized, creating a monopsony for new ideas within an organization, and favoring investment in projects that represent incremental deviation from the status quo
<b>Moonshots</b>	<ul style="list-style-type: none"> <li>Overcome the gravitational pull of the past</li> </ul>
<b>Description</b>	<p>Current resource allocation process is rooted in denial</p> <ul style="list-style-type: none"> <li>This denial follows a very familiar pattern:             <ul style="list-style-type: none"> <li>Disquieting developments are first <u>dismissed</u> as implausible or inconsequential</li> <li>Inaction is <u>rationalized</u> on the grounds that such developments are aberrant and irremediable</li> <li>Organization reluctantly attempts to <u>mitigate</u> impacts of development, but on a reactive basis</li> <li>Ultimately some (but certainly not all) organizations <u>confront</u> reality, albeit typically after the damage has been done.</li> </ul> </li> <li>Propensity to disclaim disconcerting facts increases as one moves up the corporate hierarchy; decision makers become increasingly separated from the realities of the marketplace and as a result, they are unlikely to give much credence to such threats.</li> </ul>
<b>Illustration</b>	<p>Evolution of Music Download Market</p> <ul style="list-style-type: none"> <li>Digital distribution model (i.e. downloading of MP3 files) was initially dismissed by the major music labels as technologically inferior and too complex for users.</li> <li>Industry leaders did little to exploit the nascent market, justifying their inaction on the grounds that the new distribution model was based entirely on theft, while ignoring the fact that customers were actually seeking an alternative to purchasing music in the traditional album format.</li> <li>When the music industry did finally react to the threat, they focused on <u>defensive</u> strategies, initiating well-publicized lawsuits against individuals and providers of enabling technology (see Napster, Real Networks).</li> <li>This strategic error on the part of industry leaders allowed an outsider (Apple) to launch a pioneering music distribution model, and by the time the incumbents had recognized their error, Apple had grabbed a commanding share of the market.</li> </ul>
<b>Root Causes</b>	<ul style="list-style-type: none"> <li>Key information is “filtered” before it reaches key decision makers</li> <li>Existing compensation systems tend to penalize decisions that sacrifice current year earnings in return for future earnings.</li> </ul>
<b>Solutions</b>	<ul style="list-style-type: none"> <li>Dispatch senior executives on regular fact-finding missions to the “front lines,” be it visiting retailers or observing consumer focus groups</li> </ul>



# Management Innovation eXchange

Improving the technology of human accomplishment

	<ul style="list-style-type: none"><li>Remove financial disincentives for “self-cannibalization” (i.e. profits lost due to cannibalizing existing product lines are added back)</li></ul>
<b>End Notes</b>	
<b>Credits</b>	Gary Hamel
<b>Tags</b>	Music industry, MP3s, music downloads, Apple, Napster, Real Networks
<b>Materials</b>	“A Tense Kodak Moment ,” Business Week, October 18 <sup>th</sup> , 2005 “All the Rave: The Rise and Fall of Shawn Fanning's Napster,” Joseph Menn, Crown Business, 2003