Clayton Christensen’s article in the June 2014 edition of the Harvard Business Review, “The Capitalist’s Dilemma,” is an important and thought-provoking read. The article contends that investor myopia and outdated assumptions about capital being a scarce resource cause companies to underinvest in market-creating innovations that are necessary for their long-term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. Our management training and financial tools tell us to do the wrong thing when making decisions about the allocation of investment.

The fundamental issue is that our investment evaluation models treat capital as a scarce and expensive resource that should be conserved at all costs. This thinking favors investment in efficiency that frees up even more capital and in low-risk, performance-improving innovation that generates short-term returns. The uncertainty and risk associated with market-creating breakthroughs make doing nothing appear to be a better alternative. This is one reason companies have piled up a $1.6 trillion cash hoard and why economic and job growth is anemic. We need to reevaluate the resources we consider scarce.

In the past four years most of my clients have not been constrained in the amount of capital they have to invest. Budgets have loosened up, but these companies are still hesitant to hire and add fixed capacity. That makes talent scarcer – and more expensive – than money and should force us to think differently about the allocation of investment. If human resources are the constraint, then we should optimize our innovation portfolios to generate the greatest long-term returns per unit of human – not investment – capital.

The crux of the problem is that we continue to evaluate investment in different types of innovation with the same old flawed models that do not sufficiently differentiate among innovation types and how value is created. As Christensen puts it, “The tools businesses use to judge investments and the understanding of what is scarce and costly need to catch up with the new reality.”

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