

CREATIVE DESTRUCTION

Creative destruction is a term first coined by the Austrian economist Schumpeter to explain the transformation process that accompanies radical innovation. In the present economic crisis, we are witnessing countless cases where former, seemingly invulnerable behemoths are being vanquished to the annals of history. For Schumpeter¹, capitalism is sustained by the innovative entry by entrepreneurs even as they destroy the value of established companies.

Disruptive technology and processes accompany creative destruction. For instance, the audio cassette was replaced by the audio CD, which is currently being outmoded by MP3 players and online music downloading.

Is what is going on in the world economy today a function of solely a creative destruction process at work?—probably not. There is a regulatory and market-driven adjustment in place amending improper real estate and investment trades, and many other corrective forces. However, history will probably show that the companies and organizations that do fail in this period will have, at their core, technological and process shortcomings that were major contributors to their cessations. Early signs are that the companies have not been flexible enough to meet market demands for perceived ecological sustainability, failure to innovate and grow the online arm of the business, not meeting globalization challenges, and not making the grade for internally controlling and monitoring internal corruption. It remains to be seen how new innovators will replace such organizations.

The creative destruction unleashed by a crisis *always* opens up opportunities for innovation. It is up to creative innovators to identify and solve customer problems that will make the new money and new growth businesses of the future.

Recently creative destruction is also becoming known as the innovator's dilemma.

It is important to note, that while most examples of creative destruction are viewed in macro-economic terms, creative destruction can be a force internally for an organization. Suppliers going out of business, dealing with lay-offs and competitive threats are examples of issues that must be dealt with as internally destructive changes. Furthermore globalization means that the process is accelerated and cycles are ever shorter.

¹ Joseph A. Schumpeter. *Capitalism, Socialism and Democracy* (New York: Harper, 1975)

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It is clear that companies and organizations that fail to identify and address destructive change head-on will face becoming yet another text-book case.

The important thing to understand is that there are a massive number of multi disciplinary creative teams at work on the planet. They are continuously creating new business models and technologies. Once a business model is created people around the globe scrutinize and improve it.

By observing the laws of creative destruction, you will prepare your business for disruptive technologies and disruptive business models that will affect your business. You must ultimately always prepare for death by being innovative. ■