

## Book Review

### **Creative Destruction**

By Richard Foster and Sarah Kaplan  
(Doubleday 2001)

With the return of economic turbulence, Joseph Schumpeter's famous phrase "creative destruction" is once again in favor. Schumpeter was an Austrian economist who popularized the idea that innovation and entrepreneurship drives "uneven" economic growth. He may have relevance beyond the economy as we think about how region's grow.

This book, by two McKinsey consultants, is based on a corporate performance data base of more than 1,000 companies in fifteen industries over four decades. They found that only two companies – GE and Kodak – performed better than the market average. Only 18 of the Forbes 100 in 1917 are still there. Only 74 of the S&P 500 are still there in 1997.

Their conclusion: Capital markets encourage the creation of corporations, permit their efficient operations and then rapidly—and remorselessly – remove them when they lose their ability to perform. Corporations that operate on management philosophies based on the assumption of continuity are not able to change at the pace and scale of markets.

- Corporations are built on the assumption of continuity—their focus is operations
- Capital markets are built on the assumption of discontinuity—their focus is creation and destruction

Their key points have relevance to how regional leaders think:

- Reality of discontinuity: Schumpeter says "the problem that is usually being visualized is how capitalism administers existing structures, whereas the relevant problem is how it creates and destroys them."
- Cultural lock-in: corporations limited creativity through convergent thinking, discontinuity thrives on divergent thinking
- Mental models: limit creative thinking. The key is changing and creating mental models
- Definition of innovation: more than technology change; it's based on creativity and invention
- Continuous creation: increasing creation by ten fold through divergent thinking

While this book was written for business leaders, many of its core lessons can apply to regional leaders who must operate in a world of discontinuity. We need to constantly reexamine our mental models to avoid cultural lock-in so that we can promote continuous innovation in our regions. We must learn to understand and ride the waves of creative destruction that will shape our regions' future.