

# Nondisruptive Creation: Rethinking Innovation and Growth

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# NONDISRUPTIVE CREATION: RETHINKING INNOVATION AND GROWTH

**It's time to dispel the myth that innovation must be disruptive. Nondisruptive creation is an alternative path to growth.**

BY W. CHAN KIM AND RENÉE MAUBORGNE

**I**n recent years disruption has become the battle cry of business. Disruption occurs when an innovation creates a new market and business model that cause established players to fall. We love the ease of taking, sharing, and storing digital photographs — a disruption that led to the demise of both Kodak and the once ubiquitous film market. Millions of us benefit from Uber's driver-on-demand service, even as it displaces existing taxi companies.

Not surprisingly, many have come to view disruption as a synonym for innovation. Scores of articles offer advice on how to succeed as a disruptive innovator and how to defend against a disruptive challenger. Corporate leaders are continually warned that disruption lurks around every corner and that the only way to survive, succeed, and grow is to disrupt their industries or even their own companies.

But is disruption the only way to innovate and grow? Is it even the best way? Our research and analysis over the last three decades suggest that the answer is no. Disruption may be what people talk about, and it's certainly important and all around us. But we found that a single-minded focus on disruption leads companies to overlook another building block of innovation and growth — one that we would argue is more important.<sup>1</sup>

That other building block is what we call *nondisruptive creation*, which offers a new way of thinking about what's possible. It highlights the immense potential for creating new markets where none existed before. This is creation without disruption or destruction. All the demand generated by this kind of innovation is new.

Most companies remain stuck in the mindset that in order to create you must disrupt or destroy. The time has come to fully embrace the idea that you can create without destroying. Nondisruptive creation breaks the existing frame on innovation and growth and allows for a much broader view of how they are generated. It expands the conversation about where real opportunities reside.

In this article we define nondisruptive creation; outline its distinctive advantages for established companies, startups, and society; and offer a framework to help leaders charged with driving innovation achieve the kind of growth that best suits their companies. We then spotlight which strategies trigger nondisruptive creation and which lead to disruption. Finally, we examine how — and even

where — managers can identify problems to solve and opportunities to seize through nondisruptive creation.

## Understanding Nondisruptive Creation

**A**lthough the term is new, the existence of nondisruptive creation is not. It is a feature of business life — past, present, and future. Think back. Before X-rays, what was there? No market at all, just surgeons with knives who cut into our flesh to find (or not find) something. Before aspirin? Herbal remedies, mostly made at home from recipes passed on from grandmothers. And when it came to reliving a beautiful song heard at a concert? Before phonographs and musical recordings, all we had was memory.

Nondisruptive creation is just as much a modern phenomenon. Microfinance, Viagra, life coaching, Post-it notes, health clubs, and environmental consulting are all prime examples, as are, more recently, online dating, crowdfunding, and smartphone accessories. In each case, the pie was expanded without destroying existing businesses or markets.

Take microfinance, one of the many examples in our research. Today it's a thriving industry. But 35 years ago it didn't exist. That market came into being when Grameen Bank solved an unaddressed problem: the lack of access to capital for billions of people living on only a few dollars a day. By offering microloans without requiring collateral, microfinance enabled poor people to start businesses and climb up the income ladder. Did microfinance disrupt an existing market? No. Previously, conventional banks had simply ignored the poor. Grameen created a new model for making financial services available to once noncustomers of banking services.

Or think of a service like life coaching. It's now also a multibillion-dollar industry and among the fastest growing professions in the U.S. But again, 25 years ago it didn't exist, until someone had a brand-new idea for helping people improve the quality of their personal and professional lives. Life coaching didn't disrupt an existing market or industry. It only created a new one.

Viagra is yet another multibillion-dollar business that didn't arise at the expense of an existing industry or player. It unlocked an even broader opportunity, the market for lifestyle drugs that had not previously existed.

We continue to see the nondisruptive creation of significant new markets. The only thing the online dating industry disrupted was loneliness. Crowdfunding stepped into a space that venture capitalists and banks had ignored, displacing only the frustration of aspiring individuals without the connections or track record to access capital to realize their dreams. The mobile phone accessories market didn't displace anything, and it now racks up more than \$70 billion in annual revenue.

As these examples illustrate, when you put on the lens of nondisruptive creation, you quickly discover that it is all around us. Just look to the historical evolution of the North American Industry Classification Standard published by the U.S. Census Bureau. Since 1997, it has been revised several times to keep up with the pace of industry creation, re-creation, and growth. In these new versions, while disruption is certainly at play, entirely new categories were also created to recognize the emergence of brand-new nondisruptive market spaces and industries.<sup>2</sup>

Whether in advanced nations or in developing countries, history has shown nondisruptive creation to be key to innovation and growth as disruption has been. Despite all this, our recognition of the significance of nondisruptive creation is little more than nascent.

## Going Beyond Disruptive Trade-Offs

**I**n nine short years, some 75 million riders have flocked to Uber. Yet cities have gone to great lengths to rein in the company. Why? Well, congestion is up and public transportation ridership is down. But most significantly, the company's success has come at the expense of taxi drivers. In New York City, for example, taxi medallions were long seen as a retirement ticket. Thanks to Uber, their value has

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plunged from more than \$1 million to as low as \$175,000. Six taxi drivers have committed suicide as taxi earnings have nosedived by over 20% since the appearance of Uber and other ride-hailing services.

The disruption of photographic film by digital photography had a profound impact on Rochester, New York, Kodak's longtime headquarters. Kodak's bankruptcy cost the city 55,000 well-paid jobs. That loss significantly hurt vendors, retailers, real estate values, service firms, and nonprofit organizations. This single disruption was arguably large enough to decimate a small community.

Disruption unlocks growth and creates compelling value for end users, but at painful adjustment costs for societies. It imposes a trade-off. Shuttered companies, lost jobs, and hurt communities are inherent by-products, as market creation and market destruction are inextricably linked.

Part of nondisruptive creation's appeal is that it breaks this trade-off. It increases the economic pie with minimal to no social pain. It's a positive-sum approach to innovation, as opposed to the zero-sum nature of disruption. The impact of microfinance on people, jobs, and society has been almost uniformly positive. More than 140 million poor people have been able to create self-employment projects, generate income, and move from poverty to hope. Moreover, microfinance loans are reported to have a higher repayment rate than traditional loans.

Consider the societal impact of crowdfunding and Kickstarter. Conventionally, few people were able to finance or market creative projects such as art, photography, or music through traditional means. The lack of funding killed potentially wonderful ideas and careers. Kickstarter changed that with a nondisruptive online platform that lets creatives get funding without bankers or equity investors. Since backers receive no financial incentives, a new category of investors was created — people who care about creative work and helping others realize their dreams. Based on an initial study on Kickstarter's impact by the University of Pennsylvania, Kickstarter estimates that as of 2016 the projects generated on its platform had created over 300,000 part- and full-time jobs and 8,800 new companies and nonprofits, producing more than \$5.3 billion in economic impact for creators and their communities.<sup>3</sup> Instead

## WHY DISRUPTION HAS BECOME A NEAR-BLANKET TERM FOR INNOVATION

In light of the prevalence and inherent benefits of nondisruptive creation, why has disruption become the near-blanket term for innovation that it has? To answer this question, we need to go back to the root theory of innovation and growth. Ever since the father of innovation, the Austrian economist Joseph Schumpeter, advanced the idea of creative destruction, it has been embedded in the psyche of innovation and entrepreneurship. As Schumpeter defined it, creative destruction occurs when an innovation creates a new market that displaces an earlier technology or an existing product or service. This, Schumpeter argued, is at the core of economic growth.

The concept of disruption echoes Schumpeter's insights. Among many studies on disruption, the most well-known one is disruptive technology — later extended as disruptive innovation.<sup>1</sup>

Whereas creative destruction occurs when a superior technology, product, or service comes along and destroys the old, disruptive innovation begins with the arrival of an *inferior* technology at the low end of the market or in a new market foothold. As it does not directly threaten the mainstream market or entice existing players' most profitable customers, incumbents tend to ignore it. Disruption occurs when the new technology crosses the line from inferior to superior and, in doing so, attracts mainstream customers, displaces market leaders, and creates new markets.

The distinguishing insight here is that the new technology, product, or service waltzing into an industry need not always be superior, as Schumpeter suggests. Instead, it can come in like a Trojan horse, disguised by its initial inferiority and seeming to pose no threat to the mainstream market. As a result, established players ignore the newcomer until it's too late.

What is common to both approaches, however, is their defining focus on the disruption and eventual displacement of existing players by new ones and the idea that such disruptive creation is a key source of growth. These overriding similarities have led creative destruction and disruptive innovation to be seen and treated as largely interchangeable, with the simplified nomenclature of disruption increasingly used as a near-blanket term to capture their Schumpeterian form of innovation, market creation, and growth. That's why we use the terms *disruption* and *disruptive creation* to embrace the essential commonality of these two ideas about generating growth.

of unleashing damage, Kickstarter helps the artistic community flourish.

The rise of the fourth industrial revolution, when smart machines will replace many existing human jobs, makes it all the more imperative that society moves beyond disruption's trade-off between market creation and market destruction. A study by the University of Oxford predicts that within 20 years, half of U.S. jobs will be at risk of being eliminated by automation.<sup>4</sup> To absorb the human capital that will be released, new jobs will need to be created — and not at the expense of other jobs. Nondisruptive creation can play a key role in this evolution. Unlike disruption, it allows organizations to pursue growth without imposing social costs on our communities.

## The Advantages of Nondisruptive Creation

Most companies today focus their efforts on what it would take to disrupt existing markets. This narrows their vision and blinds them to the wealth of nondisruptive, market-creating innovations they could unlock. For established companies and startups alike, a nondisruptive approach creates several distinctive advantages:

**Making execution emotionally and politically easier.** All companies want to innovate. But established companies face high execution hurdles when disruption is the way, because it means destroying their own existing business. Fear of losing one’s job or current status can prompt managers to undermine disruptive projects, starve them of resources, or burden them with undue overhead. Many people forget that Kodak created the first digital camera. But since the digital camera would disrupt its film business, the company faced insurmountable emotional and political conflicts among its people, hindering the change. While Kodak is often held up as an example of what established companies should not do — resist disruption — this does not make it any easier for organizations to embrace disruption that would kill their existing business.

Nondisruptive creation opens a less threatening path to innovation for established companies. It doesn’t directly challenge the existing order or the people

who make their livelihoods based on it. By framing their innovation efforts in a broader context that embraces both disruptive and nondisruptive creation, established companies can better manage their organizational politics and the anxieties of their people.

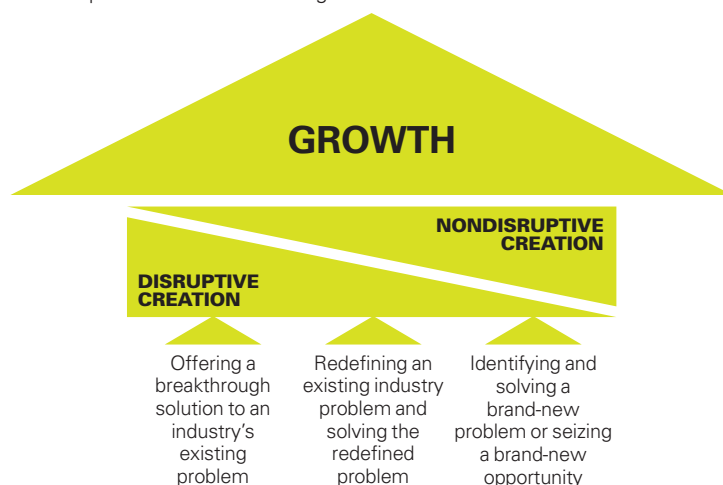
**Offering a good counterresponse to disruption.** Nondisruptive creation can be an effective way to respond to market disruptors. When transatlantic ship travel was disrupted by air travel, for example, Cunard Line, which runs transatlantic passenger ocean liners, saw no way to match or beat the speed and convenience of air travel. After two failed attempts to enter the airline industry, Cunard pivoted and made a nondisruptive market-creating move by launching the business of luxury vacationing at sea for the public. By shifting the ocean trip from simple transport to a vacation experience, Cunard opened up the entire cruise tourism industry. While the company today is part of Carnival Corp., its nondisruptive creation of cruise tourism 40 years ago has unlocked a \$120 billion industry that employs over 1 million people — a good outcome for business and for society.<sup>5</sup>

**Avoiding Goliath.** When companies — especially startups — set out to disrupt an existing market, they often face well-entrenched market leaders with far greater financial and marketing resources. While the popular press makes it seem that David always beats Goliath, the truth is that Goliath wins far more often. Do you really want to go head-to-head with well-entrenched leaders? Maybe. And that’s certainly one way to go about it. But you don’t have to. Opportunities for nondisruptive creation loom just as large, and all companies — startups and established companies alike — would be unwise to overlook them.

**Reducing conflicts with social interest groups and government agencies.** When the social costs incurred by disruption become too great, social interest groups and government agencies often lobby against, clamp down on, rein in, or tax the disruptor. Consider how city after city has attempted to impose regulations and penalties to stymie Uber’s ability to maneuver and expand. Since nondisruptive creation doesn’t displace existing businesses and livelihoods, it imposes minimal adjustment costs on society and allows companies to largely avoid these negative issues.

### A GROWTH MODEL OF INNOVATION STRATEGIES

Each approach to innovation strikes a different balance between disruptive and nondisruptive creation to achieve growth.



## An Expanded View of Innovation and Growth

The moment for a broader view of innovation has arrived. We need a model that recognizes and embraces both disruptive and nondisruptive creation, since they are complementary engines of growth. Focusing on only one leads to a biased view of what's possible and limits a company's potential to create the markets of tomorrow.

Which innovation strategies drive disruption, and which drive nondisruptive creation? Our research suggests that the answer comes down to the type of issue a company sets out to address as it launches its innovation strategies.<sup>6</sup>

There are three basic ways to pursue innovation. Companies can:

- Offer a breakthrough solution to an industry's existing problem.
- Identify and solve a brand-new problem or seize a brand-new opportunity.
- Redefine an existing industry problem and solve the redefined problem.

Let's look at how each approach strikes a different balance between disruptive and nondisruptive creation.

**Offer a breakthrough solution to an industry's existing problem.** When an organization creates a breakthrough solution to an existing industry problem, it strikes at the core of existing companies and markets whether at the outset or over time. Disruptive creation is the result. Think of the music industry. CDs were a breakthrough solution (over cassette tapes) to the problem of how best to store and replay sound recordings. In contrast to its predecessor, the CD offered "perfect sound forever," by moving effortlessly from one song to another with none of the crackling and gumming up of twisted cassette tapes. The CD was such a good solution that it quickly replaced the cassette as the standard music medium. Then Apple delivered its MP3 player, the iPod, offering yet another breakthrough solution to the problem of storing and playing music. Once again, people rushed to replace the old technology with the new. Now smartphones are having the same effect on MP3 players, including the iPod. In each case, the existing product — and often its ancillary businesses — has been replaced through disruption.

The same process has unrolled in navigation. Not

## INSTEAD OF LOOKING FOR BETTER ANSWERS TO KNOWN PROBLEMS, YOU CAN ASK: ARE THERE BRAND-NEW PROBLEMS WE CAN SOLVE? ARE THERE BRAND-NEW OPPORTUNITIES WE CAN UNLOCK?

so long ago, almost every car had a road atlas. These huge collections of maps were bulky and often confusing to interpret. Furthermore, drivers would have to pull over to read the maps and then hope they remembered the best route. Then came a breakthrough solution to the problem of how to navigate on the roads: GPS devices in cars. Now drivers could input any destination and the device would do the rest, even offering spoken, step-by-step directions. Atlases became obsolete artifacts. With the rise of smartphones, a further breakthrough solution for navigating roads was offered in the form of mobile apps. Today, navigation apps like Waze and Google Maps are fast replacing the use of GPS devices in cars.

The main effect, therefore, of developing a breakthrough solution to an existing industry problem is the disruption and replacement of the old offerings by the new. In this way, existing markets are re-created from their core, generating new demand and growth.

**Identify and solve a brand-new problem or seize a brand-new opportunity.** On the other end of the spectrum, we have nondisruptive creation. Here, organizations that identify and solve brand-new problems or seize brand-new opportunities create new markets *beyond* industry boundaries, rather than eating at the margins or the core of existing industries. Viagra identified and solved a problem that had not been previously addressed, spawning all new demand. Life coaching identified a brand-new opportunity for people. *Sesame Street*, too, created a brand-new opportunity and unlocked the new market of preschool edutainment without replacing preschools or libraries.

Instead of looking for better answers to known problems, this approach leads you to ask: Are there brand-new problems we can solve? Are there brand-new opportunities we can unlock? As you shift the questions you ask of yourself and your

company, you shift the opportunities you see to create new markets and growth.

Consider a recent nondisruptive creation unlocked by two companies founded by graduates of our school, INSEAD. More and more students across the globe study abroad. But in most countries they visit, it's hard for them to get a loan to pay for those studies without collateral or a local cosigner with a strong credit history. Many students put off their dreams of foreign studies for years or even shelve their aspirations altogether.

Our alumni at U.K.-based Prodigy Finance and U.S.-based MPower Financing set out to solve this long unaddressed problem. After learning firsthand that many INSEAD students faced this challenge, they quickly discovered that the problem confronted most students aspiring to do advanced studies abroad, whatever their school. They set out to create a new model where students wouldn't need a local cosigner, collateral, or a credit history in their country of study to get a loan.

Prodigy and MPower decided to assess foreign students on their own merit — their academic performance and future earnings potential gleaned from the degree they are pursuing and university acceptance. By solving a problem that had never been addressed, Prodigy and MPower can offer previously “unlendable” foreign students the funds to fulfill their dreams.

Prodigy has already given out loans in excess of \$690 million to students from over 130 countries. And since its founding in 2014, MPower has provided financing to students from over 110 countries. Default rates are low (approximately 1% at both institutions),

**REDEFINING AN EXISTING INDUSTRY PROBLEM AND SOLVING THE REDEFINED PROBLEM DRAWS ON ELEMENTS OF BOTH DISRUPTIVE AND NONDISRUPTIVE CREATION. IT ALLOWS ORGANIZATIONS TO QUESTION LONG-HELD ASSUMPTIONS AND SHIFT INDUSTRY BOUNDARIES IN CREATIVE WAYS.**

investors are interested (Prodigy recently raised \$1 billion in debt financing), and the two companies are earning a tidy profit by creating a new market that will help produce the next generation of global talent. This nondisruptive creation is unleashing yet another new multibillion-dollar industry.

**Redefine an existing industry problem and solve the redefined problem.** Innovation strategies that redefine an existing industry problem and solve the redefined problem lead to both disruptive and nondisruptive creation. Problem redefinition allows an organization to question long-held assumptions and shift industry boundaries in creative ways.

Take the case of Nintendo's Wii. It redefined the problem the video console industry had long focused on from how to have the fastest, highest-resolution graphic video console to how to deliver an easy-to-use console that combined the movement of physical sports with family-friendly games everyone could play together at home. The Wii's family-friendly games were easy to understand and play, and their operation was governed by motion, not button pushing. The Wii drew a slice of demand from the existing video game console industry, creating an element of disruption, but it also expanded the industry in a nondisruptive manner by attracting a mass of people — from young children to senior citizens — who had never played video games.

Cirque du Soleil redefined the existing industry problem of how to maximize the fun and thrill of the circus to how to combine the best of the circus (clowns, tents, and amazing acrobats) with the best of theater and ballet (their artistry, music, dance, and storylines). It created a new market between these existing forms of entertainment and drew a slice of audience from each. But it also enlarged the overall pie by pulling new people into this newly created market. Adults without children and corporate executives who would never have dreamed of taking a client to the circus became customers of Cirque du Soleil.

As shown in the chart, “A Growth Model of Innovation Strategies,” offering a breakthrough solution to an industry's existing problem spurs disruptive creation. Solving a brand-new problem or seizing a brand-new opportunity drives nondisruptive creation. And redefining an existing industry problem and solving the redefined problem draws on elements of both disruptive and nondisruptive creation.



## How to Spot Potential for Nondisruptive Creation

What makes some leaders effective at identifying brand-new problems to solve or brand-new opportunities to seize? Our research indicates that they think about innovation in a distinctive way. Fundamentally, they follow three steps.

First, they tend to think deeply about burning but overlooked issues in the world, in their industry, or in their vocation that they truly care about and that people or organizations are struggling with. Caring deeply is a fairly reliable indicator that an issue is of central importance, and if people or organizations are struggling with it, that suggests a gateway to an unaddressed problem or a brand-new opportunity.

Muhammad Yunus, the founder of Grameen Bank, passionately hoped to reduce poverty in his country, Bangladesh. He saw that the poorest households aspired to improve the quality of their lives but had hardly a penny to buy bamboo to make simple stools that they could sell. The founders of Kickstarter were passionate about helping creative artists overcome the funding barriers that could hold them back. Similarly, the founders of Prodigy and MPower saw that unnecessary funding friction was preventing students from completing important studies abroad.

Ask yourself this simple but profound question: What burning but overlooked issue with which people or organizations are struggling in the world, in your industry, or in your vocation do you care deeply about?

Step two is to understand which organizations or industries would typically address the problem or opportunity and to figure out why they have overlooked it. Understanding why an issue is overlooked will often provide insight into what your innovation must address to unlock a nondisruptive market.

As he tried to understand why poor rural people failed to start microenterprises, Yunus saw that the central challenge was not laziness or wasteful ways but a lack of access to capital. That seemed like a problem that would belong to the banking industry. Yet the aspiring rural poor were effectively treated as noncustomers by bankers, since they lacked collateral or a steady income. Similarly, the founders of Kickstarter saw that the dreams of artists and creatives didn't match up to the requirements of the industry that could ostensibly fund those dreams. Bank loans and venture capital are based on earning a return on funds,

while artistic ventures are not necessarily pursued for financial gain. That made the vast majority of creatives noncustomers of traditional funding. The founders of Prodigy and MPower came to understand why the banking industry viewed foreign students needing funding for advanced studies as noncustomers: When it comes to crossing borders, credit is fundamentally broken. It has been localized for the last 500 years, leaving the majority of students with no way to bankroll a postgraduate degree in a foreign country.

The third step is to look for new technologies, platforms, and/or methods that allow you to solve the problem or seize the opportunity in a high-value, low-cost way. Prodigy and MPower, for example, found that recent data technologies could lead to a novel form of credit evaluation. The technologies make it easier to assess demand in a student's future job field, value different academic degrees, and assess the earning power of a school's alumni. Yunus, too, created a brand-new method for determining credit-worthiness, basing Grameen's tiny loans for the rural poor on the tight social bonds of poor communities, like kinship and group pressure. And Kickstarter's founders deployed a crowdfunding platform to support artists and deliver new forms of payback, like listing the names of supporters on an artist's website.

Think, how can you use your creative power and the latest technology developments to solve problems or seize opportunities previously seen as out of reach by conventional means and methods?

## Areas Ripe for Nondisruptive Creation

Our research has uncovered numerous areas ripe for nondisruptive creation with the three steps above. Many fall under what we think of as the social and human economy. They

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include mental and emotional wellness, cybersecurity, privacy, upskilling people most likely to be replaced by smart machines, and meeting the needs of those at the bottom of the financial pyramid.

As the world's population continues to grow and industrialize, mounting energy needs, carbon dioxide emissions, and the production of waste are creating all new problems. One example: the Great Pacific Garbage Patch, which endangers marine life, damages our food chain, and destroys the ocean's beauty. Issues like these present nondisruptive opportunities to create a more sustainable world for ourselves and our children.

Demographic changes, like the world's aging population and increased urbanization, also bring a host of new challenges and opportunities. How can we create intellectual and social engagement for those beyond their prime? What new kinds of care can help people live a healthy and vibrant longer life? Are there platforms that could teach seniors how to leverage the wisdom accrued in life to better the world and create a newly empowered chapter of their lives? Seizing these new opportunities and solving these brand-new problems will likely be the source of vast nondisruptive creation.

**AS INNOVATIONS CONTINUE** to bring whole new sets of habits, tastes, and knowledge, new needs, problems, and opportunities will continue to emerge. For too long now, businesses, governments, and other organizations have relied too heavily on disruption for the innovation they need to propel society. The time has come for them to gear policies and incentives to the delivery of nondisruptive creation, which benefits all of society's stakeholders.

As we look at the many dire challenges facing our planet and the people on it, it's clear that new strategic solutions are needed. A model that places nondisruptive creation on an equal plane with disruption will allow us to unleash a wave of new growth and better align the goals of business and society. That more expansive view gives us a chance to improve the world. Let's make the most of it.

**W. Chan Kim and Renée Mauborgne** (@blueoceanstrgy) are professors of strategy at INSEAD and codirectors of the INSEAD Blue Ocean Strategy Institute. They are the authors of *The New York Times* and *Wall Street*

*Journal best-seller* *Blue Ocean Shift: Beyond Competing* (Hachette Books, 2017) and the *global best-seller* *Blue Ocean Strategy* (Harvard Business Review Press, 2005; expanded edition, 2015). To learn more, see [www.blueoceanstrategy.com](http://www.blueoceanstrategy.com). Comment on this article at <http://sloanreview.mit.edu/x/60312>.

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