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Beyond scarcity theater: Designing innovation systems around authentic constraints

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Abstract: Many organizations try to spark innovation by imposing artificial constraints like tight deadlines or hackathons, hoping to replicate the ingenuity born of necessity. Yet research shows these often fall short. This article contrasts “authentic scarcity”, conditions of irreversible consequences and existential urgency, with artificially imposed constraints. Only the former reliably activates the psychological, cultural, and systemic drivers of transformative innovation. Through case studies of Mumbai’s Dharavi slum and Silicon Valley’s frugal innovation labs, we show how real constraints foster resilience and radical problem-solving, while artificial ones yield superficial creativity. We present a strategic framework for leaders to engineer purpose-driven missions with real stakes, collaborate with necessity-driven ecosystems, and cultivate high-stakes leadership. The paper concludes with a theory of authentic scarcity, explaining how genuine constraints uniquely drive breakthrough innovation by triggering focus, cohesion, and urgency, offering crucial insights for innovation management in resource-rich settings.

Keywords: innovation; scarcity; constraints; organizational behavior; resource dependence; leadership; entrepreneurship

1. Introduction

Innovation is widely celebrated as the lifeblood of organizational resilience and long-term competitiveness [1]. In both academic literature and executive discourse, the capacity to innovate under constraint is often treated as a hallmark of exceptional teams and leaders. Numerous high-profile narratives, from wartime R&D breakthroughs to start-up garage stories, perpetuate the idea that limited resources ignite creativity, forcing individuals and organizations to find novel ways to do more with less [2]. In response, many resource-rich organizations attempt to simulate such conditions by introducing artificial constraints: hackathons, budget caps, “skunkworks” teams, and innovation sprints. These initiatives aim to recreate the sense of urgency, improvisation, and risk tolerance associated with necessity-driven innovation [3]. However, these efforts frequently fall short [4]. While artificial scarcity may stimulate short bursts of creativity or surface-level engagement, it seldom leads to the kind of radical, high-impact innovation that emerges in environments of genuine need.

This paradox raises a fundamental question: Why do artificial constraints often fail to produce transformative outcomes, even when carefully designed? To answer this, we distinguish between two types of constraint environments, authentic scarcity and artificial scarcity, and argue that the difference lies not just in resource availability, but in the psychological, cultural, and systemic consequences of those constraints. Authentic scarcity occurs when individuals or organizations operate under inescapable limitations, with no external safety nets and high stakes for failure. These

environments demand real-time problem-solving, foster deep collaboration, and align personal incentives with survival or mission success. By contrast, artificial scarcity is a manufactured condition within otherwise well-resourced contexts. While intended to stimulate creative tension, it often lacks credibility, urgency, and emotional resonance, leading to what we term “scarcity theater.”

Building on insights from organizational behavior, psychology, and innovation economics, this paper examines the mechanisms through which real scarcity catalyzes innovation, and why artificial scarcity often fails to do so. We integrate theory with illustrative case studies from two contrasting contexts: Mumbai’s Dharavi slum, a necessity-driven innovation ecosystem, and Silicon Valley’s “frugal innovation” labs, where artificial constraints are introduced in high-resource environments.

This paper proceeds as follows: Section 2 reviews relevant literature on creativity under constraint, crisis innovation, and stress neuroscience. Section 3 introduces the theoretical distinction between real and artificial scarcity. Section 4 compares case studies from Dharavi and Silicon Valley. Section 5 explains why artificial scarcity fails to replicate real stakes. Section 6 outlines exceptions where artificial scarcity can succeed. Section 7 offers strategic recommendations for innovation leaders, and Section 8 discusses broader implications. Section 9 introduces a theory of authentic scarcity, and Section 10 concludes with key takeaways for future research and practice.

2. Background

The relationship between constraint and creativity has long been a subject of interest across disciplines [5,6]. Foundational research in organizational behavior posits that constraints, when properly framed, enhance creative output by focusing attention and eliminating distractions [7,8]. However, subsequent studies have revealed that not all constraints are equal in their impact. Staw and Sandelands introduced the idea of “threat rigidity,” suggesting that under perceived existential threat, organizations may narrow their responses and become less flexible, implying that constraint alone does not guarantee innovation [9].

In psychological research, Shah et al., demonstrated that real scarcity sharpens cognitive focus but can also tax mental bandwidth, leading to both heightened creativity and decision fatigue [10]. Their work, along with that of Mani et al., underscores the paradoxical nature of scarcity [11]: it can be both enabling and limiting, depending on context and severity. Within the field of innovation management, the rise of “lean startup” and “design thinking” methodologies reflect an attempt to harness constraint-driven creativity through artificially imposed limitations [2]; time-boxed challenges, minimal viable products, and budget caps. These methods emphasize fast iteration under pressure but often lack the systemic urgency present in environments of authentic scarcity. From the perspective of the economics of innovation, Hicks later induced innovation theorists posited that scarcity in production factors (e.g., capital or labor) often leads to compensatory technological advances [12]. Scholars such as Acemoglu and Nelson have explored how institutions and ecosystems shape innovation trajectories, emphasizing that environments of necessity, such as emerging markets, often produce frugal, high-impact innovations due to real constraints and immediate stakes [13,14].

2.1. Crisis innovation and adversity-based creativity

Crisis situations, whether global, organizational, or personal, often disrupt established routines and demand new solutions. Research explores how adversity can both hinder and stimulate creativity and innovation, with outcomes shaped by individual, organizational, and contextual factors. Understanding these dynamics is crucial for effective crisis management and recovery.

Crises disrupt normal reasoning and action, creating a need for novel approaches and leadership, which can catalyze creative action and innovative outcomes at individual, organizational, and societal levels [15–17]. The ability to innovate during crises depends on factors like social capital, knowledge, and local cultural values. Prolonged crises tend to accelerate innovation, while short-lived events may lead to more cautious responses [18]. The impact of crisis on creativity is moderated by individual mindsets. A growth mindset can stimulate creativity through increased engagement, while a fixed mindset may stifle creativity due to heightened anxiety [19].

The Quadratic Creativity & Innovation Model categorizes crisis responses into four types: old school, trial-and-error, incremental, and breakthrough, offering a framework for evaluating and fostering creativity in crisis management [20]. Crisis innovation can occur at multiple levels; societal, organizational, financial, and digital. While crises often drive digitalization and open innovation, lasting transformation requires dynamic network structures that are not always implemented [21]. Creativity in crisis communication involves generating novel, contextually relevant strategies, such as metaphorical language, visual representation, humor, and artistic elements, to engage audiences, reshape understanding, and drive behavioral change [22]. Creative communication is essential for meaning-making, behavior framing, and reputation preservation, especially in prolonged or complex crises [22].

Crisis situations create complex dynamics where constraints can both facilitate and hinder innovation outcomes. Research demonstrates that the relationship between constraints and creativity follows a curvilinear pattern, where moderate levels of constraint optimize creative performance while excessive constraints may lead to cognitive overload [23]. This finding aligns with the Yerkes-Dodson law, which suggests an inverted U-shaped relationship between arousal and performance. Empirical studies reveal that constraints affect creativity through multiple mechanisms. Rosso identified two distinct categories of constraints affecting creative teams: process constraints (related to how work is conducted) and product constraints (related to what is being created), with each type playing markedly different roles in the creative process [24]. Teams experiencing enabling social dynamics were more likely to interpret constraints as opportunities rather than limitations, demonstrating that organizational context significantly moderates constraint-creativity relationships.

The effectiveness of constraints in driving innovation depends heavily on team dynamics and organizational culture. Research shows that teams with standardized routines and practices, when combined with organizational empowerment for creativity, demonstrate higher creative performance than teams lacking such structure [25]. This suggests that constraints can provide beneficial structure when embedded within supportive organizational environments.

2.2. Neuroscience of stress and performance

Stress is a major factor influencing human performance, especially in cognitively demanding or high-stakes environments. Neuroscience research has identified the brain mechanisms and physiological responses involved in stress, as well as their effects on cognitive functions such as working memory, attention, and decision-making. Understanding these processes is crucial for developing strategies to maintain or improve performance under stress.

The prefrontal cortex, hippocampus, and amygdala are central to the stress response, mediating cognitive functions and emotional regulation. Stress activates the Sympathetic-Adreno-Medullar (SAM) axis and the Hypothalamus-Pituitary-Adrenal (HPA) axis, leading to the release of stress hormones like glucocorticoids and catecholamines, which impact these brain regions [26–32]. Stress can induce both adaptive and maladaptive changes in brain structure and function, particularly in the hippocampus and prefrontal cortex. While short-term stress may enhance certain cognitive abilities, chronic or excessive stress can lead to neurodegeneration and cognitive deficits.

Stress can reduce cognitive efficiency, even if task performance appears unaffected, due to compensatory effort and increased recruitment of cognitive resources. This comes at a psychophysiological cost, such as increased heart rate, reduced heart rate variability, and heightened prefrontal activity [27,33,34]. Stress-induced neuromotor noise may facilitate performance on simple tasks but disrupts complex task execution. Biomechanical adaptations, such as increased limb stiffness, are observed under stress [34]. Stress impairs working memory by affecting the prefrontal cortex and hippocampus, leading to decreased academic and cognitive performance. Effective stress management is important to protect these functions [26].

The cumulative burden of adapting to stress, known as allostatic load, can result in long-term damage to brain and body systems, increasing vulnerability to mental and physical health disorders. The impact of stress on performance varies with the type, duration, and context of stressors, as well as individual differences in stress reactivity and brain structure. Aligning workplace practices with neurobiological principles and providing stress management tools can help mitigate the negative effects of stress on performance and well-being. Psychological interventions and targeting stress-related pathways offer potential for improving outcomes in individuals with brain injuries or stress-related disorders [35].

2.3. Organizational responses to constraints

Organizations exhibit varied responses to environmental constraints, with adaptation strategies playing crucial roles in determining innovation outcomes. Four pivotal strategies emerge from the literature as particularly effective for managing constraint-driven innovation: agile learning, organizational ambidexterity, digital transformation, and resource configuration [36].

Agile learning represents a continuous adaptation approach where organizations cultivate cultures of persistent learning and knowledge acquisition. This strategy enables rapid response to constraint-induced challenges by promoting collaborative learning from diverse experiences and enhancing organizational knowledge bases

progressively. Organizational ambidexterity requires organizations to balance operational efficiency with innovation capacity [5,37]. This dual capability becomes particularly crucial under constraints, as organizations must maintain stability while fostering transformative changes. Research indicates that ambidextrous organizations demonstrate superior performance in constraint-rich environments by simultaneously exploiting existing capabilities and exploring new opportunities [38]. Resource configuration involves strategic allocation and optimization of organizational resources to maximize impact under constraint conditions. This approach ensures resources are deployed where they generate the highest value, promoting organizational agility and responsiveness to environmental challenges.

2.4. Constraint management in innovation teams

Healthcare innovation teams provide valuable insights into how interdisciplinary groups manage organizational constraints. Research reveals that teams encounter two primary types of constraints: hierarchical constraints (stemming from organizational structure and authority) and heterarchical constraints (arising from peer relationships and lateral coordination challenges [39]).

Teams develop sophisticated constraint management processes (CMP) involving various tactics to address these challenges. Hierarchical constraints typically emerge during the design/implementation and sustaining phases of innovation, while heterarchical constraints more commonly affect the design/implementation and scaling phases. Successful teams demonstrate adaptive capacity by employing preemptive measures and maintaining arsenals of tactics to address constraints as they arise. The effectiveness of constraint management depends on teams' ability to interpret constraints as opportunities rather than barriers. Teams with enabling social dynamics show greater success in managing constraints, while those with disabling dynamics struggle to leverage constraints productively. This finding underscores the importance of team composition and interpersonal dynamics in constraint-driven environments.

Meta-analytic evidence reveals complex relationships between organizational constraints and performance outcomes. Chang analyzed 106 studies ($n = 35,699$) examining organizational constraints' effects on task performance, organizational citizenship behavior (OCB), and counterproductive work behavior (CWB) [40]. Results showed that while organizational constraints negatively affected task performance, they had differential impacts on other performance dimensions. The meta-analysis revealed that organizational constraints demonstrated stronger negative relationships with task performance than with OCB, suggesting that constraints may preserve prosocial behaviors while impairing core job functions. Additionally, negative emotions fully mediated the relationship between organizational constraints and counterproductive work behavior, highlighting the psychological mechanisms through which constraints influence organizational outcomes.

These findings suggest that constraint effects vary significantly across performance domains and are mediated by emotional and psychological factors. Organizations implementing artificial constraints must consider these differential

effects and the potential for unintended consequences on employee behavior and well-being.

2.5. Rationale for the study

Despite this robust body of literature, few studies directly contrast authentic scarcity with artificial scarcity, particularly in terms of their differing psychological, cultural, and institutional consequences. Moreover, the mechanisms through which constraints become credible, emotionally resonant, and systemically embedded remain under-theorized in management research. This paper aims to fill that gap by offering a theory of authentic scarcity and exploring how constraint environments can be deliberately designed or engaged with to foster transformative innovation.

3. The paradox of real vs. artificial scarcity

Scarcity, broadly defined, is the experience of having fewer resources, financial, temporal, or existential, than necessary to meet desired goals [10]. Real scarcity forces individuals and organizations to operate within rigid, unyielding constraints, where the consequences of failure can be dire. This often activates what some refer to as “survivalist creativity” [41]. By contrast, artificial scarcity is deliberately imposed in otherwise resource-abundant environments, aiming to mimic the pressures of necessity without replicating its stakes or consequences. The critical difference between these forms lies in the psychological, cultural, and systemic responses they elicit [42,43].

3.1. Real scarcity: A catalyst for innovation

Real scarcity has long been identified as a catalyst for innovation. Historical examples abound, from the resourceful solutions devised during World War II to the adaptive strategies observed in economically constrained environments like Mumbai’s Dharavi slum. Under genuine scarcity, individuals face irreversible stakes where the failure to innovate jeopardizes livelihoods or survival [44,45]. This sense of urgency triggers heightened focus, improvisational creativity, and risk tolerance, aligning with theories of behavioral economics that emphasize how necessity narrows attention to core tasks [10].

From a neurological perspective, real scarcity triggers physiological responses linked to stress. Adrenaline and cortisol surges focus the mind on immediate problem-solving, while the activation of the fight-or-flight response can foster bold decision-making [30,32]. These biological mechanisms, combined with cognitive adaptations to scarcity, create an environment where creative breakthroughs are often the byproduct of necessity.

Cultural dynamics further enhance the power of real scarcity. In necessity-driven ecosystems like Dharavi, shared hardship aligns collective incentives, fostering collaboration and resource-sharing among entrepreneurs [46]. This cultural cohesion, reinforced by existential pressure, creates fertile ground for innovation that might seem improbable in resource-rich contexts.

3.2. Artificial scarcity: A flawed simulation

Artificial scarcity, while conceptually appealing, often fails to replicate the transformative effects of real scarcity. Organizational leaders may impose constraints such as budget caps, tight deadlines, or resource limitations to stimulate innovation [2]. However, such constraints are often perceived as reversible or negotiable, undermining the sense of existential urgency necessary for high-stakes creativity [9].

The ineffectiveness of artificial scarcity can be understood through the safety net paradox: when individuals know that additional resources can be unlocked if needed, they are less likely to take bold risks or invest in exploratory behavior [41]. Neuroscience research corroborates this, showing that the absence of genuine stakes fails to activate the hormonal responses associated with real crises [42]. Instead, artificial constraints often lead to “innovation theater,” where surface-level engagement masks a lack of meaningful breakthroughs [43].

Culturally, artificial scarcity often isolates individuals within resource-rich organizations rather than fostering systemic urgency. Unlike the collective drive observed in real scarcity scenarios, employees in artificial scarcity environments may disengage, perceiving the imposed constraints as arbitrary exercises rather than genuine imperatives [44]. This cultural detachment further limits the potential for radical innovation.

3.3. Theoretical insights and implications

Several theoretical frameworks help explain the paradox of real versus artificial scarcity. Resource Dependence Theory [45] posits that organizations adapt and innovate primarily in response to external constraints that threaten their survival. In environments of artificial scarcity, where such threats are absent or perceived as contrived, the pressure to adapt diminishes. Similarly, Self-Determination Theory [46] suggests that intrinsic motivation thrives when individuals feel a sense of autonomy and purpose, qualities often lacking in artificial scarcity scenarios where constraints are externally imposed.

Research in behavioral economics further highlights the cognitive differences between real and artificial scarcity. Real scarcity focuses attention and prioritizes problem-solving by narrowing the cognitive bandwidth to essential tasks [11]. In contrast, artificial scarcity may distract attention, as individuals expend energy questioning the legitimacy of the constraints rather than addressing the problem itself.

Table 1 shows that authentic and artificial scarcity activate different human systems, not just different management tactics.

Table 1. Mechanisms of innovation under authentic vs. artificial scarcity.

Mechanism	Authentic Scarcity	Artificial Scarcity
Psychological	Urgency, focus, risk tolerance	Ambiguity, disengagement, shallow effort
Physiological	Cortisol/adrenaline boost, problem-solving	Hormonal flatline, low arousal
Cultural	Collective pressure, alignment, cohesion	Siloed effort, individualism, detachment
Structural	Systemic alignment, feedback loops	Isolated projects, sandboxed initiatives

4. Case studies in contrasting scarcity

The contrast between Dharavi's informal economy and Silicon Valley's frugal innovation labs illustrates the dynamics of real versus artificial scarcity. In Dharavi, the absence of a safety net creates a direct link between innovation and survival. Entrepreneurs repurpose waste and maximize efficiency, exemplifying survivalist creativity. By contrast, Silicon Valley's artificial constraints, such as innovation sprints or hackathons, often result in incremental improvements rather than transformative breakthroughs [43].

4.1. Mumbai's Dharavi slum

Constraint: Dharavi, reputed as one of Asia's largest slums, faces challenges characterized by extreme resource constraints. Limited infrastructure, near-zero access to capital, and a dense population of approximately one million residents in 2.1 square kilometers create an environment where survival depends on resourcefulness and ingenuity. Despite these constraints, Dharavi's informal economy generates an estimated \$1 billion annually, with industries spanning recycling, pottery, leather, textiles, and food production. One of its most striking contributions is recycling, with Dharavi processing up to 80% of Mumbai's plastic waste [47]. This achievement is especially notable given the systemic lack of access to formal waste management infrastructure or institutionalized support.

Innovation: The ingenuity observed in Dharavi stems from a hyper-efficient use of available resources. Small-scale entrepreneurs have devised innovative methods to repurpose waste into raw materials, reducing dependence on costly imports and decreasing overall waste in the process. For example, plastic collected from urban areas is cleaned, melted, and reshaped into pellets for manufacturing purposes, with workers using makeshift equipment to minimize production costs. Furthermore, communal spaces such as narrow alleyways or rooftops are transformed into workstations, allowing entrepreneurs to overcome the constraints of minimal living space. Local dwellers have also pioneered "micro-factory" models, where individual homes serve as production units, ensuring both efficiency and proximity to markets. These operations are often vertically integrated, enabling the community to manage everything from waste collection to final product delivery at minimal overhead [47,48].

Driver: The defining feature of Dharavi's innovation ecosystem is existential risk. Unlike resource-rich environments where failure often results in reputational or financial setbacks, failure in Dharavi has immediate and severe consequences, such as the inability to secure food, shelter, or medical care. This absence of a safety net amplifies entrepreneurial motivation, activating what Baer and Oldham refer to as "survivalist creativity" [23]. Under such circumstances, entrepreneurs exhibit remarkable adaptability and resilience, overcoming challenges that would stall larger, resource-abundant organizations. Neuroscience research supports this observation, suggesting that high-stakes environments can heighten focus and problem-solving through stress-induced physiological responses [30,32].

Cultural and Social Factors: Beyond individual ingenuity, Dharavi's innovation is supported by a unique cultural and social dynamic. Shared hardship fosters a high degree of collaboration and resource-sharing among residents. Informal networks

enable the rapid exchange of knowledge and skills, which are critical for problem-solving in constrained environments. This collective approach aligns with studies on necessity-driven ecosystems, which highlight the role of shared cultural urgency in driving innovation [49]. Dharavi's informal economy thrives in part because of this cultural resilience, allowing the community to function as an interconnected system where resources and expertise are pooled to overcome common challenges.

4.2. Silicon valley's "frugal innovation" labs

Constraint: In well-funded technology companies, artificial constraints are often introduced to simulate the pressures and urgency of a start-up environment. Common initiatives include "innovation sprints," where employees work intensively over short periods to address specific challenges, "hackathons" designed to foster creativity and collaboration under time constraints, or budget-limited pilot projects intended to replicate resource scarcity. These programs are typically framed around mantras such as "think lean" or "act scrappy," invoking start-up culture's hallmark characteristics of agility, resourcefulness, and risk tolerance. However, unlike in genuine scarcity scenarios, these constraints exist in organizations with significant financial and technical resources, creating an artificial and controlled environment. Although such initiatives aim to push boundaries, they often fall short in fostering the kind of radical innovation associated with existential challenges [2,4].

Outcome: Artificial constraints in these programs tend to produce incremental improvements rather than the groundbreaking innovations seen in contexts of genuine scarcity. Employees often treat these programs as short-term tasks, aware that real resources are still available if needed. For example, while hackathons can yield creative solutions, they frequently result in quick, surface-level prototypes rather than fully developed products or transformative breakthroughs [43]. Research on the psychology of constraints reveals that the absence of genuine stakes, such as job loss or market failure, limits the extent to which individuals engage in high-risk, high-reward decision-making [10].

Additionally, the short-term nature of these programs often prioritizes speed over depth, favoring ideas that can be quickly implemented within existing frameworks. This focus can inadvertently discourage disruptive innovation, which typically requires more sustained effort, experimentation, and risk-taking. As a result, while such programs may bolster organizational morale or enhance productivity, they rarely catalyze the kind of visionary thinking associated with high-pressure environments like Dharavi or wartime innovation labs.

Flaw: A critical flaw in the design of artificial constraints is the lack of genuine consequences, which undermines the psychological and physiological engagement required for radical innovation. Employees are acutely aware that these constraints are reversible and that additional resources can be unlocked if necessary. This knowledge dampens the sense of urgency and desperation that characterizes real scarcity, where failure often carries irreversible consequences [45].

From a neuroscience perspective, artificial scarcity fails to activate the stress-related hormonal responses, such as adrenaline and cortisol surges, that enhance focus and risk-taking in authentic high-stakes scenarios [30,32]. Instead, participants in

artificially constrained environments are more likely to adopt a conservative approach, preserving energy for tasks they perceive as more critical. Research on motivational psychology suggests that when constraints lack credibility or perceived stakes, individuals are less likely to push boundaries or invest deeply in exploring uncharted territory [41].

Moreover, the cultural context of well-funded organizations often clashes with the principles underpinning artificial constraints. In environments where employees are accustomed to stability and resource abundance, imposed scarcity can feel contrived, leading to skepticism or disengagement. Without a compelling narrative to frame these constraints as part of a broader mission, employees may view them as mere “scarcity theater,” fostering superficial participation rather than meaningful innovation [44].

Cultural and Social Dynamics: Artificial constraints are further limited by their inability to replicate the collective urgency observed in real scarcity ecosystems. In genuine scarcity scenarios, such as necessity-driven markets or low-resource environments, shared hardship aligns group incentives and fosters collaborative problem-solving. By contrast, artificial constraints in resource-rich organizations often isolate individuals or teams, failing to cultivate the systemic alignment needed for breakthrough innovation.

Table 2 provides a comparison of the cases discussed above, highlighting the contrast between authentic and artificial scarcity.

Table 2. Case comparison: Dharavi vs. Silicon Valley labs.

Feature	Dharavi (Authentic Scarcity)	Silicon Valley Labs (Artificial Scarcity)
Constraint Source	Structural poverty, survival necessity	Simulated limits within abundance
Stakes of Failure	Immediate: hunger, shelter, business loss	Negligible: missed KPIs, reputational loss
Innovation Type	Process hacks, frugal innovation	Prototypes, MVPs, iterative tweaks
Resource Access	Minimal or improvised	Abundant but selectively restricted
Social Dynamics	High interdependence, shared urgency	Competitive teams, time-boxed collaboration
Outcome Transferability	Scalable, deeply contextualized	Often non-scalable, demo-focused

5. Why artificial scarcity fails

From the perspective of innovation economics, scarcity functions not merely as a constraint but as a catalytic condition that reshapes incentives, reallocates resources, and alters the strategic behavior of agents. The distinction between authentic and artificial scarcity maps directly onto fundamental economic principles such as opportunity cost, induced innovation, and dynamic efficiency.

In environments of authentic scarcity, decision-makers must weigh trade-offs more acutely, often reallocating resources toward the most essential or high-leverage innovations. Economic agents in such contexts optimize not for abundance but for survivability, leading to highly efficient, often unconventional innovation pathways. For instance, Dharavi’s micro-entrepreneurs exhibit extreme resource discipline, repurposing waste materials in a closed-loop economy, a manifestation of scarcity-induced allocative efficiency. In contrast, artificial scarcity often fails to recalibrate opportunity costs, as agents implicitly know that additional resources exist beyond the

imposed constraint. This dampens urgency and may even encourage gaming behaviors where actors perform “innovative” routines without facing real trade-offs.

Hicks proposed that technological change is frequently induced by shifts in relative factor prices, when one resource becomes scarce or expensive, innovation tends to economize on that factor [12]. Dharavi entrepreneurs, lacking capital and infrastructure, have developed process innovations that economize on both. Similarly, in low-income countries, labor-intensive but capital-efficient solutions emerge as dominant strategies. Artificial scarcity mimics constraint without changing real costs or incentives and therefore rarely sparks meaningful innovation.

Economists distinguish between static efficiency, achieving the best outcomes given existing resources, and dynamic efficiency, the system’s ability to improve over time through innovation. Authentic scarcity environments often prioritize dynamic efficiency out of necessity, experimenting with new business models, supply chains, and technologies to survive. The rapid evolution of informal sectors like Dharavi’s illustrates this phenomenon. Artificial scarcity, on the other hand, often promotes only static gains incremental improvements achieved within a narrowly defined sandbox that lacks external shocks or existential drivers. As such, artificial scarcity may optimize existing routines rather than disrupting them.

The economics of information and risk also help explain the innovation gap between authentic and artificial scarcity. In environments where real stakes are present, agents are incentivized to reveal true effort and capabilities, as their survival depends on performance. This reduces information asymmetries between principals (e.g., funders, managers) and agents (e.g., innovators, workers), resulting in clearer signals of innovative value. In contrast, artificial constraints often preserve underlying safety nets, creating moral hazard: individuals can afford to fail without bearing the full cost. As Taleb notes, “You cannot fake skin in the game” [4]. Real scarcity aligns incentives through embedded risk exposure, something artificial scarcity fails to replicate.

Innovation under real scarcity frequently produces positive externalities, particularly in under-resourced ecosystems where necessity-driven solutions diffuse rapidly across communities. Informal economies often serve as laboratories of systemic learning, with one entrepreneur’s breakthrough informing others in a tight feedback loop. These spillover effects enhance collective adaptive capacity. Artificial scarcity tends to be siloed within firm boundaries and lacks the shared urgency or diffusion pathways that characterize necessity-driven environments, leading to isolated and non-systemic innovations.

The following are some potential theory-informed explanations of why artificial scarcity fails:

5.1. The safety net paradox

When constraints are perceived as optional, individuals conserve energy for “real” problems [41]. Neuroscience research suggests crisis-level stakes produce adrenaline and cortisol surges that heighten focus and risk-taking. Artificial scarcity, lacking irreversible consequences, cannot readily trigger these high-stake hormonal responses.

5.2. Missing skin in the game

As Taleb emphasizes, “You cannot fake skin in the game” [4]. Without personal or organizational survival at risk, team members have less motivation to explore uncharted territory or invest resources beyond the bare minimum. Real scarcity, such as facing imminent market failure, forces innovators to commit fully, merging personal outcomes with innovation success.

5.3. Cultural context

In ecosystems like Dharavi or necessity-driven segments of emerging markets, individual and collective incentives align through shared hardship. Conversely, artificial scarcity within a resource-rich corporate context is isolated rather than systemic [44]. Lacking widespread social or existential pressure, participants remain culturally and psychologically detached.

6. Exceptions: When artificial scarcity succeeds

Despite the general ineffectiveness of manufactured constraints, certain cases suggest exceptions. Among these are environments where organizational leaders successfully frame artificial scarcity as an existential narrative. Elon Musk, for instance, publicly emphasizes the moral mission of “making humanity a multi-planetary species,” thereby spurring Tesla and SpaceX engineers to act with wartime urgency [50, 51].

When high-status stakes, such as beating a rival or saving the planet, are genuinely internalized by the team, constraints once seen as artificial can acquire the weight of necessity [50]. But this mindset shift only works if the story feels real. Without true belief, artificial scarcity stays just that: artificial.

7. Implications for leaders

7.1. Stop playing scarcity theater

Mandating “lean innovation” programs in large, profitable firms often results in superficial engagement, as employees recognize the artificiality of such constraints [52]. Leaders should instead direct resources and talent toward initiatives grounded in authentic crises or high-stakes scenarios. For example, channeling efforts into salvaging a declining product line, addressing major competitive threats, or responding to external disruptions like market downturns or regulatory shifts can create the urgency needed to drive genuine innovation [4].

To avoid scarcity theater, leaders must foster environments where challenges feel legitimate and consequential. This may involve redefining success metrics to prioritize resilience and adaptability over short-term gains [53]. Additionally, organizations should embrace transparency regarding stakes and challenges, ensuring that teams clearly understand the gravity of their objectives. Research shows that perceived authenticity in organizational goals strengthens employee engagement and commitment [50].

7.2. Engineer purpose, not constraints

Innovation doesn't require material limits; it can also emerge from a compelling sense of purpose. For instance, the success of NASA's Apollo program stemmed in part from its positioning as a national imperative: "Beat the Soviets to the Moon" [54]. This framing inspired unparalleled dedication and creativity despite the program's substantial funding and resources.

Leaders can replicate this approach by aligning organizational goals with broader societal challenges, such as climate change, global health, or digital equity. A compelling narrative helps instill a sense of purpose, which research in motivational psychology suggests is a powerful driver of creativity and innovation [46]. This alignment also offers the added benefit of enhancing an organization's public reputation, as consumers increasingly gravitate toward purpose-driven brands [55].

Effective storytelling is key to engineering purpose. Leaders should craft narratives that articulate the significance of the organization's mission, emphasizing its potential impact on society or the future. For example, companies like Tesla and SpaceX have successfully framed their goals as existential imperatives for humanity, spurring their teams to tackle audacious challenges with urgency [51].

7.3. Partner with necessity-driven ecosystems

Collaborations with startups or ecosystems characterized by genuine scarcity can infuse resource-rich organizations with an external sense of urgency. Emerging-market tech incubators, for instance, are often necessity-driven, innovating within significant constraints to address local challenges like infrastructure gaps or public health crises [49].

Such partnerships can generate a cross-pollination of ideas, exposing resource-rich firms to unconventional problem-solving approaches. For example, Procter & Gamble's partnerships with entrepreneurs in low-income markets have led to innovations like affordable water purification technologies that align with both corporate goals and pressing societal needs. To maximize the benefits of these collaborations, leaders should adopt a mindset of mutual learning, valuing the efficiency and creativity of their partners rather than imposing top-down solutions. These partnerships can also serve as testing grounds for new ideas under constrained conditions, which can later be scaled in broader markets.

7.4. Reward survivalist creativity

Leadership selection is critical in fostering innovation under constraints. Emphasizing crisis management experience over operational scaling can ensure that leaders possess the resourcefulness needed to navigate complex challenges. Individuals who have successfully turned around failing divisions, launched ventures with limited resources, or managed high-stakes crises often bring a survivalist mindset that aligns with innovation in constrained environments [52].

Organizations should also create incentives to reward resourceful behavior at all levels. For instance, internal recognition programs or career advancement opportunities for employees who demonstrate ingenuity in high-pressure situations can reinforce a culture of survivalist creativity. Performance reviews should include

metrics that value adaptability, problem-solving, and resilience, ensuring these qualities are prioritized across the organization.

Moreover, leaders should actively build resilience into their teams, encouraging practices such as scenario planning and stress-testing ideas under constrained conditions. These methods simulate aspects of real scarcity, equipping teams with the skills and mindset to thrive when stakes are high [53].

Table 3 provides an idea of how to turn critique into action; it's a practitioner's blueprint, ideal for management readers.

Table 3. Strategic design recommendations for innovation leaders.

Misguided Practice	Core Problem	Paradigm-Shift Strategy
Hosting hackathons	Low credibility, no lasting impact	Embed teams in necessity-driven ecosystems
Simulating urgency via deadlines	Reversible stakes	Frame projects around real-world missions
Incentivizing shallow MVPs	Optimizes for speed, not depth	Reward survivalist creativity and adaptability
Over-reliance on resource controls	Constraints without alignment	Design systemic consequences, not isolated ones

8. Discussion

The findings presented in this paper challenge a foundational assumption within modern innovation discourse: that constraints, regardless of their origin, are inherently beneficial for creativity. This paper dismantles that myth by distinguishing between authentic and artificial scarcity, not merely as contextual variations but as fundamentally different catalysts of human behavior and organizational dynamics. While mainstream management practice continues to endorse hackathons, innovation sprints, and budgetary limitations as tools for driving ingenuity, our analysis reveals these practices as largely symbolic, a form of “scarcity theater” that mimics the appearance of constraint without invoking its consequences.

Table 4 provides a summary of the themes discussed in this paper and also how this tie with the literature.

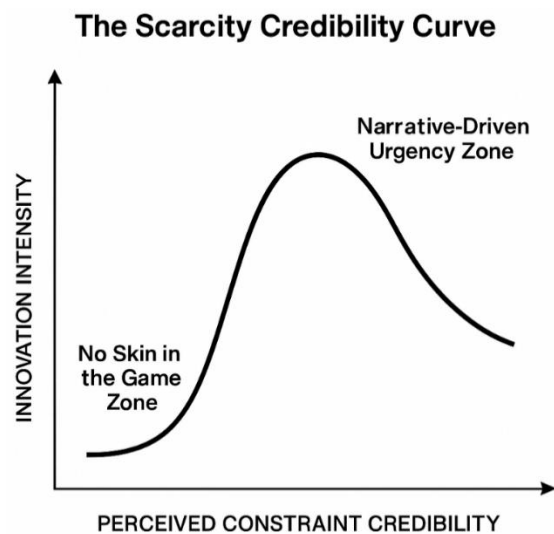
Table 4. Summary of key studies on constraints, scarcity, and innovation.

Study	Focus Area	Type of Constraint	Key Findings	Implication for This Study
[10]	Behavioral Economics	Real (Cognitive) Scarcity	Scarcity narrows attention and increases focus but reduces cognitive bandwidth	Supports argument that real scarcity triggers sharper cognitive response
[11]	Psychology of Poverty	Real (Financial) Scarcity	Poverty impairs decision-making by taxing mental resources	Reinforces cognitive impact of genuine constraints
[9]	Organizational Behavior	Perceived Threat	Organizations under threat may show rigidity or innovation depending on context	Context helps explain when constraints enhance vs. hinder innovation
[3]	Innovation Studies	Frugal/Engineered Scarcity	Resource constraints in emerging markets drive efficient, local innovation	Case support for authentic scarcity model (e.g., Dharavi)
[2]	Innovation Process	Artificial Constraints	Lean startup methods can foster quick iteration but lack systemic urgency	Frames limitations of artificial scarcity in well-resourced settings
[2,27]	Neuroscience	Stress-Related Constraints	Acute stress improves focus; chronic stress impairs cognition	Links real scarcity to physiological activation conducive to innovation
[1]	Creativity & Organizational Context	General Constraints	Some constraints boost creativity by focusing attention and limiting options	Baseline framework for constraint-creativity relationship

Table 4. (Continued).

Study	Focus Area	Type of Constraint	Key Findings	Implication for This Study
[23]	Psychology of Creativity	Time Pressure	Moderate time pressure enhances creativity; excessive pressure reduces it	Informs curvilinear model of constraint and creative output
[43]	Innovation Strategy	Organizational Simulation	Artificial scarcity often produces innovation theater, not breakthroughs	Supports critique of hackathons and sprints as superficial
[4]	Risk and Incentives	Skin in the Game	Real stakes drive real action; artificial stakes lead to inauthentic behavior	Reinforces core claim that authentic scarcity can't be faked

The Scarcity Credibility Curve given below in **Figure 1** illustrates the relationship between how credible or real a constraint feels and the intensity of innovation it generates. On the left side, where constraint credibility is low (e.g., imposed deadlines or simulated constraints), innovation is minimal; this is the “No Skin in the Game Zone.” As credibility increases, that is, when people believe the stakes are real, innovation intensity rises sharply, reaching its peak in the “Narrative-Driven Urgency Zone,” where even artificial constraints gain power through emotionally resonant, mission-driven framing. Beyond that peak, the curve may decline as constraints become overwhelming or paralyzing, or when the narrative loses believability or traction. In short: innovation thrives not just on constraints, but on whether that constraint feels consequential [56].

**Figure 1.** The scarcity credibility curve.

This distinction is not semantic; it is strategic. Authentic scarcity generates innovations not because of constraint per se, but because of irreversible stakes. These stakes activate a full-spectrum response: physiological arousal, psychological focus, cultural cohesion, and systemic urgency. These psychological and cultural effects can't be recreated in artificial settings where failure has no real cost. This introduces a conceptual inversion: scarcity is not valuable for its limitations, but for the transformations it compels.

Organizations that rely on manufactured constraints are misdiagnosing the source of innovation. They mistake the appearance of pressure for its essence. The insight here is deeply counterintuitive: resource-rich environments may be the least fertile

ground for transformative innovation unless they voluntarily align with existential missions or embed themselves in necessity-driven ecosystems. This raises unsettling questions for the very structure of contemporary innovation labs, corporate accelerators, and R&D arms of global firms. Much of what is celebrated as cutting-edge may, in fact, be elaborate forms of bureaucratic improvisation, lacking the systemic urgency that drives genuine breakthroughs.

Moreover, the success of authentic scarcity environments like Dharavi's informal economy is not merely a triumph of resilience. It is an indictment of the assumption that innovation requires capital, infrastructure, or institutional support. Instead, these environments demonstrate that when survival is at stake, innovation is not a choice; it is a condition of existence. Paradoxically, the absence of a safety net becomes the most potent driver of systemic ingenuity.

This forces a reconsideration of how innovation ecosystems should be designed. Rather than imposing artificial constraints in-house, organizations might achieve more by embedding their teams within high-stakes external ecosystems, forming partnerships that dissolve the illusion of insulation. Alternatively, firms might reframe internal goals around missions with existential resonance such as climate collapse, health equity, and digital disenfranchisement, thereby imbuing work with the psychological gravity often missing from internal innovation exercises.

Yet, even this approach comes with risk. The commodification of purpose, where existential narratives are deployed for branding rather than belief, can backfire, fostering cynicism rather than commitment. Thus, the lesson is not to manufacture constraint or simulate urgency, but to engineer environments where the stakes are real, the narratives authentic, and the failure consequential. In other words, it is useful to reposition constraint not as a lever to be pulled by managers but as a deeply contextual force with divergent psychological, cultural, and economic implications. A paradigm shift from designing constraints to designing for consequence is called for. Only in doing so can organizations hope to catalyze the kind of innovation that doesn't just survive under pressure but redefines what is possible.

9. Towards a theory of authentic scarcity

The theory of authentic scarcity that we propose posits that genuine scarcity, characterized by immutable constraints, existential stakes, and the absence of safety nets, uniquely drives transformative innovation by activating heightened psychological focus, physiological stress responses, cultural cohesion, and systemic alignment, which artificial scarcity, lacking such stakes and credibility, fails to replicate.

Figure 2 provides a depiction of the variables and relationships in the associated nomological network of this theory.

This figure illustrates the core constructs and causal pathways within the theory of authentic scarcity. Authentic scarcity, characterized by immutable constraints, high-stakes consequences, and the absence of safety nets, activates a set of interrelated psychological, physiological, cultural, and systemic mechanisms. These include heightened cognitive focus, stress-induced hormonal responses, collective cultural urgency, and aligned incentives. Together, these factors increase the likelihood of

breakthrough innovation. In contrast, artificial scarcity, lacking existential credibility, fails to activate these mechanisms, resulting in diminished innovation outcomes.

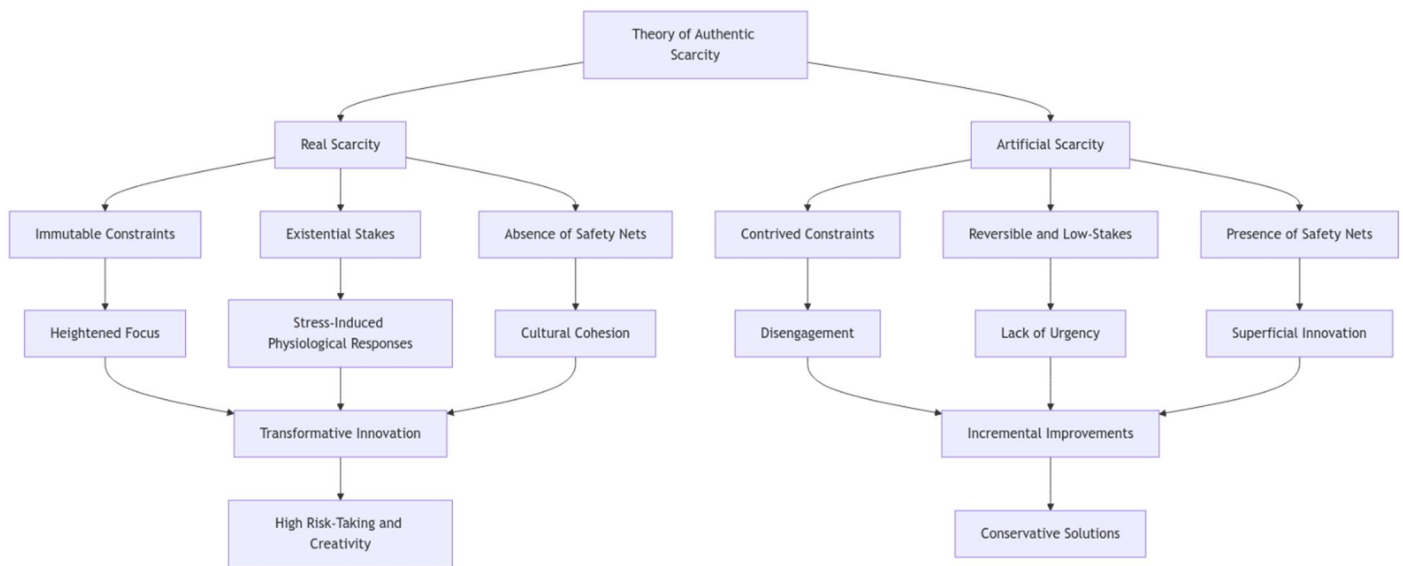


Figure 2. A visual summary of the proposed theory of authentic scarcity.

10. Conclusion

Real scarcity, defined by its irreversible consequences, triggers a heightened level of focus, commitment, and creativity that artificial constraints fail to replicate. This dynamic stems from the unique psychological and cultural conditions inherent in environments of genuine scarcity, where survival depends on resourcefulness and innovation. Authentic scarcity drives individuals and teams to embrace improvisation, take calculated risks, and push the boundaries of conventional thinking, creating conditions where radical breakthroughs become not just possible but necessary. For leaders seeking to cultivate transformative innovation, abandoning “scarcity theater” is paramount. Imposed constraints, no matter how cleverly designed, cannot substitute for the existential urgency that real stakes generate. Instead, leaders should focus on aligning organizational missions with challenges of true consequence. When leaders focus on real challenges like failing products or urgent social issues, they spark the kind of engagement and creativity fake constraints can’t achieve.

The potential of partnerships between resource-rich organizations and necessity-driven ecosystems offers another compelling path forward. Such collaborations provide opportunities for cross-pollination of ideas, allowing organizations to learn from the hyper-efficiency and creativity of resource-constrained environments. These partnerships also challenge the comfort zones of resource-abundant teams, exposing them to the constraints and cultural dynamics that fuel survivalist creativity in contexts like emerging markets, informal economies, or regions affected by systemic scarcity.

As global challenges grow in complexity, whether through advancements in artificial intelligence, the urgency of climate resilience, or the need for equitable technological access, organizations must recognize that their capacity for innovation hinges on their ability to embrace the transformational power of real necessity. This involves not only responding to crises but also framing ambitious missions as

existential imperatives, thereby fostering the same psychological and cultural conditions that drive radical innovation in scarcity-bound contexts.

The key to unlocking groundbreaking innovation lies not in mimicking scarcity but in harnessing the deep, authentic motivators that arise when individuals and organizations confront high-stakes challenges. By focusing on purpose instead of manufactured constraints, and partnering across diverse ecosystems, leaders can help their organizations thrive amid uncertainty. In doing so, they prepare their teams not just to survive but to redefine the boundaries of what is possible.

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