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Can Entrepreneurs Innovate Without Disrupting Industries?

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Editor's note: Prof. Carton is an expert on strategy frameworks. He is especially interested in how strategy ideas develop over time and how they get used and shared in organizations. In this article, Prof. Carton explores the ideas developed in a new book by well-known strategy professors W. Chan Kim and Renée Mauborgne, who pioneered the "Blue Ocean Strategy" framework.

Over the years, entrepreneurs have been envisioned as the driving force that sustains economic growth through "creative destruction" of existing economic structures. Look no further than the Internet, satellite technology, video streaming, and AirBNB, and it's easy to see how a disruptive new product or service can upend entire industries, creating new opportunities but often at personal and economic cost.

Joseph Schumpeter, the celebrated economist and scholar who first introduced the concept of entrepreneurship in 1942, called it a "process of industrial mutation…that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one." Later on, Clayton Christensen would study how industries evolve over time and showed how smaller firms tend to challenge established incumbents by providing products or services that appeal to a niche part of the market and eventually redefine the industry. For example, in his dissertation, Christensen used the disk drive industry to show how, over two decades, small firms entered the industry and created five breakthrough innovations that ultimately redefined the disk drive market. Throughout his career, he has observed and studied disruption in dozens of industries to improve understanding of how it happens.

However, recently scholars, thought leaders, businesspeople and policymakers have been pondering the severe social costs of unbridled disruptive innovation. INSEAD professors W. Chan Kim and Renée Mauborgne worked for decades on an alternative theory of competitive strategy called "Blue Ocean Strategy." They continue to push the frontiers of what we know about innovation in their new book, "Beyond Disruption(https://store.hbr.org/product/beyond-disruption-innovate-and-achieve-growth-without-displacing-industries-companies-or-jobs/10497) ," where they ask whether entrepreneurs can innovate without being disruptive.

This article explores that question – first by explaining the authors' theory of nondisruptive innovation and their three steps for implementing it, and then by discussing whether it's proven and practical.

Innovating without disruption

In "Beyond Disruption," Kim and Mauborgne argue that many famous products -- including the iPhone, Tesla, and Uber -- have upended their industries. While this claim has been hotly debated (https://eiexchange.com/content/299-the-theory-of-disruptive-innovation-science-or-a) , these companies undoubtably have drastically created a new market in the phone, car, and taxi industries by displacing incumbents from the low or high end of the market. Kim and Mauborgne question the benefit-cost ratio of this phenomenon. They argue that disruption not only creates winners -- the new entrants and the customers who receive a more convenient and cheaper product or service -- but also losers, who include the incumbents and their employees. They also point out that disruption incurs social adjustment costs due to shuttered businesses, lost jobs, and damaged communities.

A recent study (https://pubsonline.informs.org/doi/10.1287/mnsc.2022.4481) illustrates this point by showing how disruption affects unrelated markets within the communities where it occurs. For example, Uber and Lyft re-entered the city of Austin in May 2017 after leaving the market a year earlier due to regulatory changes. The study shows that the arrival of these disruptors caused low-skilled, low-wage restaurant workers to leave their jobs to work for these two ride-hailing players. This abrupt change in the labor market led to lower customer satisfaction in restaurants, a supposedly unrelated industry. Not only did Uber and Lyft create losers by displacing existing taxi companies, but their arrival also created a labor shortage in the restaurant industry, which impacted customer satisfaction and hurt local communities in the city of Austin. While it remains difficult to assess whether the benefits of higher wages for drivers counterbalances the costs of hardships on restaurants owners and customers satisfaction, this case vividly illustrates the hidden costs of disruption.

Given the social costs incurred by disruptive innovation, Kim and Mauborgne suggest that innovators should go beyond disruption, as their book indicates. Accordingly, they take up the challenge that entrepreneurs face to create the innovative solutions, processes and jobs that address critical global issues (https://eiexchange.com/content/82-eradicating-poverty-through-entrepreneurship?search=) . Simply put, they argue that entrepreneurs can develop nondisruptive innovations to create new markets, without incurring the costs of disruptive innovation.

Taking the example of Grameen Bank, they show how Muhammad Yunus has created the new market of microfinance to help the impoverished, who otherwise could not access financial services, gain access to small loans to stabilize their income streams, and save for future needs. By the time Yunus was awarded the Nobel Prize in 2006, more than seven million borrowers had received such loans. In a nutshell, rather than looking for better answers to known problems, nondisruptive creation aims to solve a brand-new problem or seize a brand-new opportunity (https://sloanreview.mit.edu/article/nondisruptive-creation-rethinking-innovation-and-growth/) . Besides banking, Kim and Mauborgne illustrate their propositions with many other cases from different industries to show that it is possible to innovate in this way . These range from startling ideas like organizing a concert for deaf people (*Music: Not Impossible*) to products and services like action cameras in the sports industry (*GoPro*).

Moving beyond disruption

The authors outline three steps that businesses can take to pursue nondisruptive innovation that helps them grow while also being a "force for good."

- First, entrepreneurs who create nondisruptive innovations give themselves license to dream really big(https://eiexchange.com/content/todays-innovators-can-prosper-by-building-a-better-tom) . You will not win a Nobel Prize by thinking small! If you are constrained by the world and do not think of opportunities beyond the existing market and environment, you will create disruptive innovations. Think of ideas first and then worry about making them happen. Also, stay open-minded to gain insights from unexpected people and situations.
- Second, developing nondisruptive innovations requires a real willingness on the part of the entrepreneur. Innovations are based on brand-new problems or opportunities that are either emerging or long-standing but unexplored. They can be either frustrations directly experienced by entrepreneurs, observed situations, or opportunities that have been actively explored.
- Third (and this is where it's more challenging than disruptive innovation), entrepreneurs must debunk the industry's assumptions that have hidden the opportunity. What are they, in terms of risk, target customers, and business scope? What do they mean in business terms, and what innovative solution can be developed to challenge and reframe them? Answering these questions will create the new market, such as microfinance, that Muhammad Yunus developed by trying to understand why banks refused to lend money to the impoverished.

Realizing the entrepreneurial opportunities then comes down to execution: relying on the right resources and capabilities, and maintaining the right mindset of an innovation aimed at building a better world. While it can be a long journey with many obstacles, "Beyond Disruption" argues that the rewards of creating innovation without the downsides of disruption are well worth it.

A Theory That's Still Untested

By proposing to go beyond disruption, Kim and Mauborgne focus on innovations related to underserved or forgotten segments. They exclude innovations that may bring better service and/or lower prices to existing customers but come with social adjustment costs. Thus, as their book makes clear to entrepreneurs, a realm of innovation beyond disruption focuses not only on improving current products or services, but also on

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considering ethics when innovating. Similarly, in my own research (https://www.emerald.com/insight/content/doi/10.1108/JBS-07-2020-0168/full/html) , I have found the need to go beyond the current business thinking about global value chains to think more about local models that do not harm society.

Of course, the point of "Beyond Disruption" is not to throw the baby out with the bathwater -- to ignore that disruption is sometimes good and necessary -- but to remind entrepreneurs, investors, and academics that disruption is not a panacea. Developing products or services with the sole purpose of disrupting incumbents hardly creates value. In contrast, thinking about innovation first as a "force for good" offers greater potential to address critical global issues.

While "Beyond Disruption" offers recipes for how to ultimately create nondisruptive innovation, I haven't yet seen proof an entrepreneur can follow them and ultimately create a nondisruptive venture. Following the publication pattern of the "Blue Ocean Strategy" odyssey(https://www.economica.fr/les-coulisses-du-management-c2x34989310) , Kim and Mauborgne took an idea first published in Harvard Business Review and developed it into a book, illustrating it with a wide range of compelling cases from different industries. As with "Blue Ocean Strategy," the cases in "Beyond Disruption" are well written and compelling but were developed before the authors developed their framework and therefore are not proof that it works. To answer this criticism, Kim and Mauborgne have harnessed their network of academics and consultants located around the world, and a decade after the publication of "Blue Ocean Strategy" they have published a second opus, "Blue Ocean Shift," which offers step-by-step and tried-and-tested guidelines to create blue oceans based on cases of successful implementation.

While Kim and Mauborgne have created a nice story and a rhetoric to innovate by creating value for good, they are currently teaching their idea, developing real-world nondisruptive cases, and advising entrepreneurs on how to achieve such endeavors. As in the case of "Blue Ocean Strategy," there is no reason why this idea of *nondisruptive innovation* should not be applied by entrepreneurs, since the authors put in place all the mechanisms to realize the idea. However, I believe the authors should not only develop their idea from a practical perspective -- as described above for the case of "Blue Ocean Strategy" -- but also ground it in theory by observing anomalies to the theory as ways to stress-test and improve it, as the late Christensen did to nurture his disruptive innovation theory over time (https://journals.aom.org/doi/abs/10.5465/amle.2009.41788846?journalCode=amle) .

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