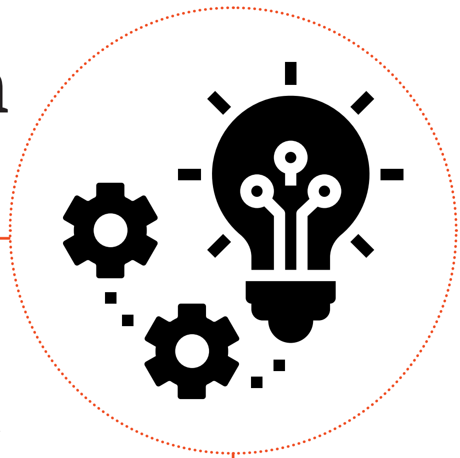
THE UNIVERSITY OF SYDNEY
Business School

CEMS

Disruptive Innovation



Intro

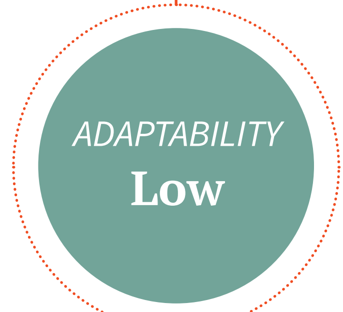
Everyone likes a good underdog story, and in the world of business there are plenty. Netflix usurping Blockbuster or Uber shaking up the taxi industry. These are disruptive innovations: an underdog disturbing existing markets after entering from below. Sometimes these innovations have been dismissed as a novelty only to transform the status quo down the line. Described by Clayton Christensen in 1995, disruptive innovation refers to the entry of an innovation that disrupts incumbent players in an existing market, introducing a transformative product or approach that is initially cheaper and of lower quality but eventually catches up to the incumbent, who makes the mistake to overshoot average customer needs by 'gold-plating' its product (called the innovator's dilemma). A new technology, say digital animation, allows creating a product with different, cheaper means (cheaper than original animation). Initially this approach is not quite good enough (initially digital animation films lacked warmth and character), but over time it improves and disrupts the incumbent player. Disruptive innovation has underpinned the rise of the Silicon Valley startup, and has enjoyed buzzword status for a while. But why is the concept so attractive, why does it carry so much weight, and while it feels intuitively true, what is the evidence to support it?

What's the evidence?

Christensen uses many examples to illustrate his theory. And it makes intuitive sense, especially to the many start-ups who want to be the next disruptor, or to the many incumbents who fear such disruption. The theory is attractive, but it has at least three main issues. First, it lacks a good empirical basis. Second, it is too narrow in its formulation. And third, it misses what is most disruptive about innovations. King and Baatartogtokh (2015) traced 77 of Christensen's examples and found that only 9% of cases showed all required features for a case to be called 'disruptive', according to the theory. In fact, many incumbents did not fail (like Disney, who simply purchased challenger Pixar). Additionally, many disruptions do not come from below, such as the iPhone, which Christensen therefore argued was not a disruptive innovation. And finally, Christensen misses that truly disruptive innovations are different in kind, and transform what counts as quality in a market. For example, while digital music has lower sound quality than the CD, what is important today is accessibility and portability, not the high-fidelity ideals of the 1990s. As a result, many incumbents are unable to react to emerging disruptions, another required characteristic in his theory.

Why unlearn disruptive innovation?

Disruptive and innovation are words we throw around without too much thought. But the story of disruption is too simplistic. No single company can disrupt a market on its own. True disruptions are often the result of many factors and developments cumulating over long periods, such as the internet or computing technology. And the biggest disruptions often come from large corporations (Apple was behind two major disruptions in the music and the phone markets). The concept also puts undue blame on incumbent managers. For example, neither Kodak nor Fuji could have seen the slow move to digital photography coming: the shift is obvious only in hindsight. Businesses need to be mindful of the future, but ultimately nobody has the ability to predict where the next disruption will come from. The better strategy for incumbents is to focus on innovation and organisational responsiveness to be able to react to change when it occurs.



Want to know more?

https://sloanreview.mit.edu/article/how-useful-is-the-theory-of-disruptive-innovation/