Chapter 5

Business Model:
Strategic Logic of Disruptive Innovation

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ABSTRACT

Today’s world of business is increasingly witnessing exemplary firms which introduce new business models, exploit new markets and disrupt established firms in order to create a unique competitive position. Although the theoretical and conceptual posture of this phenomenon is well grounded and explained in the extant literature on disruptive innovation, little is known about strategic logic of this phenomenon. In other words, the managerial paradigm or cognitive and mental model that underlies the orchestration of micro- and macro-organizational mechanisms of a disruptive move, such as market and technological knowledge, have surprisingly received little attention. In this sense, an analytical review of literature suggests that strategic logic of a disruptive technology can be well presented through the lens of business model (BM) and its innovation. Accordingly, it is argued that business model represents a mental model which underlines activities such as acquisition of market and technological insights, opportunities and requisite actions required for transforming a disruptive idea into a disruptive market movement. This view offers new insights into the study of disruptive phenomenon. It addresses the managerial (i.e. mental model) underpinnings of disruptiveness, instead of market, economical and technological dimensions. Business model innovation (BMI) is a disruptive change in the core logic of value creation and capture. It is a value-revolutionizing framework which explicitly delineates the strategic processes of a disruptive strategy. Thus, it is essentially a paradigm for strategizing the craft of disruptive innovation (technology). Given this view, this chapter conceptually explicates this contour and shows how BMI effectuates a disruptive technological phenomenon by presenting four propositions. Finally theoretical and managerial implications of this view are illuminated in order to furthering the practice and enhancing future research in this growing field of inquiry.

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Few companies have introduced genuinely disruptive innovations, the kind that result in the creation of entirely new markets and business models - (Christensen, Johnson and Rigby, 2002:22)

INTRODUCTION

Since its introduction by Bower and Christensen (1995) and popularization by the book of Christensen (1997) the concept of disruptive technologies (DT), also known as disruptive innovations (DI) has received a considerable amount of attention from scholars (Adner, 2002, 2006; Yu & Hang, 2010; Christensen, 2006; Markides, 1998; 2006). Review of the growing body of literature in this field shows that the notion of disruptiveness has become a multidisciplinary theoretical which aims to persuasively address a wide spectrum of strategic (Adner, 2002; Charitou, & Markides, 2003; Kim & Park, 2006), marketing (Renko, Carsrud, & Brannback, 2009; Glazer, 2007), entrepreneurial (Gilbert, 2003; Carayannopoulos, 2009), and technological (Danneels, 2004; Rao, Angelov & Nov, 2006) questions about how industrial and market changes can be analyzed, managed and predicted. In this sense it is important to bear in mind that, the initial concept of disruptive technologies was replaced with disruptive innovation by Christensen and Raynor (2003) in order to widen the applicability of the assumptions which the theory offers as I explain later in this chapter. Additionally, scholars (Markides, 2006; Yu & Hang, 2010) also agreed that DI is a more appropriate term to describe the phenomenon under discussion. So in this chapter the focus is placed on the notion of disruptiveness and technology or innovation are interchangeable. Given this point, it must be pointed that although the notion of disruptiveness has gained its current popularity in literature by works of Christensen (1997, 2006) but in fact, over the past few decades it has been used in different conceptual forms such as emergent (Utterback, 1994), radical (Gopalakrishnan & Damanpour, 1997), revolutionary (Tushman & O’Reilly, 1996), breakthrough (Florida & Kenney, 1990) and discontinuous (Anderson & Tushman, 1990; Meyer, Brooks, & Goes, 1990). However it was the compelling model and robust empirical grounding of the research conducted by Christensen that catapulted the concept of disruptiveness to the forefront of research in technology and innovation management and overshadowed the classical terms which had delivered the similar logics (Yu & Hang, 2010).

In this respect, a disruptive phenomenon refers basically to the change in the response of customers to a set of attributes offered by a new product (physical product or service) or in general offering which eventually disrupts the position and profitability of dominants products (Adner, 2002). The significance of the model lies at its assumptions which shift the focus of attention in management of innovation from technological aspects to more market-based, customer-oriented and managerial ones (Schmidt & Druehl, 2008; Yu & Hang, 2010). In general, a disruptive innovation is the one which dramatically disrupts current markets and create new ones (Schmidt & Druehl, 2008). A quick look at the recent history of industries such as mobile phones, social networking websites, home appliances, online retailing, amongst many others, reveals how disruptive offerings have destroyed established markets and contribute to grow. So disruptiveness changes the phase of competition, metamorphoses industrial rules, standards and creates new markets (Anderson & Markides, 2006). A great deal of studies indicates that disruptive innovations have played an influential role in the evolution of industries and the structure of markets (Ehrnberg, 1995; Crossan & Apaydin, 2010).

Given this revolutionary function perhaps a key question is; so what is the logic behind a disruptive move? To address this primary question it must be noted that, scholars in innovation and technology management (Rosenbloom & Christensen, 1994; Ehrnberg, 1995; Yu & Hang, 2010) have argued that the phenomenon of disruptive
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