Chapter 3
Assessing Disruptive Innovation From the Perspectives of New Entrants and Incumbent Firms

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ABSTRACT

Disruptive innovation (DI) is evolving as a strategically significant innovation type in this current dynamic, volatile, and global competitive business environment. The theory of DI is critical in comprehending entrant-incumbent relationships and elucidating how their interplay affects the nature of the market. The fundamental aim of this study is to assess disruptive innovation from the perspectives of new entrants and incumbents using the empirical reviews approach. The chapter contends that disruption is a phenomenon whose forces are always at work, and incumbents can elude it by putting in place the prerequisite measures and having the right caliber of human resources to pre-empt and avert genuine potential disruptive threats. The study demonstrates the steps taken by upstarts to displace leading firms and the responses that can be provided by the latter against disruption. It extends its scope to significance of DI, reasons for failure of incumbents in DI battle, and barriers to effective implementation of disruptive innovation.

INTRODUCTION

The consequences of disregarding a looming threat of disruptive innovation (DI) can be very devastating to the success and survival of a firm. This substantiates why large or established firms are currently spending considerable amount of resources in attempting to preempt and combat potential threat of disruption by smaller firms or new entrants. The difficulty however, is on how to differentiate real disruptive threats from false ones amid the influx of emerging technologies into the business world. The occurrence of

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disruption is evitable provided incumbent firms have intelligent, courageous and open-minded executives who can sit together to deliberate thoroughly on core competitive threats and generate plausible ideas to forestall those threats (Rafii & Kampas, 2002). Disruption is a continuous process that is often at work and can take several years before the insurgent would be able to greatly impinge the established market. In this process, a new entrant or smaller firm with lesser resources succeeds at challenging incumbent firms. Disruption is a relative phenomenon that explains how small firms systematically displace or make established firms to fail and can be evaluated through comparison of different business models (Christensen, 2006).

From the onset, research on disruptive innovation has increased significantly and the concept has received a considerable amount of attention. The incessant interest by practitioners and researchers alike has made the concept to gain widespread dissemination and usage. In an attempt to enhance readers understanding and address shortcomings inherent in DI theory, several refinements have been made by its proponents over the past two decades (Christensen et al., 2015). DI results in a product or service that is less complicated, affordable, convenient and provides inferior performance attributes as compared to the performance dimensions the product of incumbents deliver and what most demanding customers in established market value. However, the architectural nature of this product or service makes it possible to meet the minimum performance requirement of the market and appeal to less demanding customers at the low-end or niche market and with passage of time end up outstripping or displacing incumbents. DI strategy acts as a differentiator to effectively combat unforeseen market changes and with the propensity of dramatically increasing a firm’s market share, competitive advantage and long-term success. It is found in a research carried out by Christensen (1997) on new entrants and established firms operating in disk drive industry that 37% of the firms that employed DI strategy attained $100 million annual revenues benchmark between the period of 1976 and 1994 juxtaposed to only 6% of firms that utilized sustaining innovation approach. The intriguing aspect is that within this period, the cumulative total revenue of firms that launched disruptive products is $62 billion and $3.3 billion for those that did not launch (Christensen, 1997).

The primary purpose of this chapter is to critically examine disruptive innovation from the viewpoints of new entrants and incumbents. This study is significant in the sense that it does not limit its scope to how insurgents or small firms displace established/leading firms but showcases how the latter can avert real potential disruptive threats and also, pursue disruption if deem necessary or appropriate based on the prevailing market conditions. The next immediate section presents thorough reviews on innovation and disruptive innovation theory. Subsequent sections discusses key areas such as why established firms mostly fail in DI battle, how to respond to DI, benefits and challenges of implementing DI. In the final part, conclusion of the study is put forward.

The Concept of Innovation

Innovation permeates several disciplines and fields ranging from social sciences and humanities to natural sciences and occupies an important place in these fields. Innovation is a phenomenon and a symbol of modern society that provides a remedy to many problems. Innovation comes from the Latin word “innovatus” and means using new methods in administrative, social and cultural environment. Innovation is the most powerful way to provide competitive advantage for businesses in this rapidly changing world. Firms that can successfully achieve innovation can continue their business journey even more strongly with their experience (Bulut & Arpak, 2012). Innovation involves doing things in different ways, ven-
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