Disruption, Effectuation & Blue Ocean Strategy in Entrepreneurship

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ABSTRACT

Disruption in business results in loss and painful inflection. There are several instances of disruption being caused by technology enabled innovation. Most technology innovations metamorphose into billion dollars new generation business. Effectual entrepreneurship is a concept that is gaining currency. An effectual entrepreneur is one who starts small with the means that are closest at hand, without any great planning and move almost directly into action. The article also discusses about Blue Ocean Strategy, which go after untapped market space for demand creation and growth. Experiences show that most successful effectual enterprises follow Blue Ocean Strategy. It is concluded that the best form of an enterprise is one that applies disruptive innovation, through the effectuation principle of evolving to control an unpredictable future through Blue Ocean Strategies.

Keywords: *Entrepreneurship, Disruption, Effectuation, Blue Ocean Strategy*

I. Disruption

DISRUPTION in business is considered by established business houses as a painful inflection. Imagine the tumultuousness caused when a successfully running business is obliterated into nowhere by a completely new business model or a substitute product! It is akin to the game of Cricket where a seasoned batsman, good at playing spin bowling, is suddenly castled with a googly and there goes his wicket! When a successfully running business with established planning and execution strategy is totally surprised by a new entrant with a new model that is hitherto unheard of; the resulting loss and the subsequent pain that it causes and the disruption that it brings to the industry is tremendous.

In the recent history of business, there had been several instances of disruption caused by innovation (Christensen, 2010, 2011). A classic example is silent movies being disrupted by talking movies which brought such a huge impact to the audience. The disruption caused to the postal business by the courier model is a similar case. Another example is the impact that was brought into the communication industry by e-mail technology at first and later by technologies such as instant messaging solutions; WhatsApp etc. that is still felt by us all.

To put in management science perspective, this isn't anything new. Long back, Prof. Michael Porter of Harvard Business School, in his ‘Five Force Analysis’ had spelt out the distinct forces such as; the power of bargaining of the customers, the power of bargaining of the suppliers, the intensity of the competition, the power of the new entrant and finally, the power of the substitutes; that impact businesses, from which the last two forces have immense power to cause business disruptions *(*Dastur, Sawant. & Bawa, *2012).*

In the disruptions that we see around, the core of it happens to be the innovation that had caused it. In most of the cases, it could the technology that enabled the innovation. All the billion dollar businesses that had emerged in present times stand testimony to the above fact. For instance, we are now seeing the disruptive power of ‘e-commerce’ over the traditional retail model in India. Technology had accelerated the pace of innovation. Using technology, today start up entrepreneurs are finding new ways of solving problems of the mankind and filling the gaps that exists in business models, in addition to following larger trends in social, financial and demographical shifts that are happening around the world. Most of these technology innovations are metamorphosing into billion dollars new generation businesses now.

II. EFFECTUATION

A concept that is gaining currency in the realms of entrepreneurship is now discussed. It is called 'effectual entrepreneurship' and is based on the effectual reasoning. The concept was originated by Prof. Sarasvathy of Darden Business School of University of Virginia (Sarasvathy, 2009). It has now gained traction as a thought movement in the form of 'Society for Effectual Action' led in the forefront by business leaders and academicians from all over the globe.

Before proceeding to effectual entrepreneurship, the concept of effectual reasoning and the opposite of it - the causal reasoning is discussed. Causal rationality begins with a pre-determined goal and a given set of means and seeks to identify the optimal – fastest, cheapest, most efficient, etc. – alternative to achieve the given goal. On the other hand, effectual reasoning does not begin with a specific goal. Instead, it begins with a given set of means and allows goals to emerge contingently over time from the varied imagination and diverse aspirations of the proponent of it. Causal practitioners can be compared to the great generals seeking to conquer fertile lands and effectual reasoners as explorers setting out on voyage into uncharted waters.

In a well-established industry with well-defined customers, competitors, business models and lower dynamism; a causal process would work well. However with the advent of very advanced disruptive technologies, we don't live in such a world anymore**.** The present world is replete with shorter product life cycles, fast changing business ecosystems, unique business models, rapid product& technology innovations and novel distribution systems. Therefore, a well-defined, well established industry does not exist any longer. It is here that the effectual entrepreneurship practitioners score well.

Effectual entrepreneurs begin with the following three categories of means:

1. Who am I? – My capabilities, talents and traits
2. What I know? – My competencies, learning and experience; and
3. Whom I know? – My social and professional connects.

With the above means, the entrepreneur begins to think and implement possible effects that can be created with them. Mostly, he starts small with the means that are closest at hand; and without any great planning, move almost directly into action. Unlike causal entrepreneurship that comes alive through careful planning and execution, effectual entrepreneurship is an evolving one and it is all about execution.

Effectual reasoning is inherently a creative process. To take an analogy, the straight and simple task of cooking dinner may be considered to contrast the two types of reasoning. A chef who is given a specific menu will only need to pick out his favorite recipes for the items on the menu, shop for the ingredients and cook the meal in his own kitchen; is an example of causal reasoning. An example of effectual reasoning will involve a chef who has not been given a menu in advance, and is led to the kitchen where he has to explore the storage area for unspecified ingredients and cook a meal with them. While both causal and effectual reasoning call for domain-specific skills, effectual reasoning demands more imagination, spontaneity and risk-taking. By far, the effectual process is deemed the best to tackle the uncertainties and the unknowns of future business (Considering the fact that entrepreneurship is a wealth creation and distribution process which involves risks – calculated, uncertain and unknown, in that order)

Causal entrepreneurship focuses on expected return but effectual entrepreneurship emphasizes on affordable loss. Causal entrepreneurship depends upon competitive analyses whereas effectual entrepreneurship is built upon strategic partnership. Causal entrepreneurship urges the exploitation of pre-existing knowledge and prediction, but effectual entrepreneurship leverage on contingencies and surprises (googly that is!)

Causal entrepreneurship is based on the logic, “to the extent that we can predict the future, we can control it” and spends enormous amounts of thoughts and resources for developing predictive models. Effectual entrepreneurship is based on the logic, “to the extent that we can control the future, we do not need to predict it.”

If the germination, growth and consolidation of companies such as EBay, Facebook, Zara, Gap, Alibaba etc. are considered, we could come across the manifestation of effectuation principles in the establishment of these hugely successful companies. What is listed is only some prominent ones where as there exist many companies of various size and shape, belonging to multifarious industry segments that are following effectuation principles of entrepreneurship.

III. Blue Ocean Strategy (BOS)

Blue Oceans are defined by untapped market space, demand creation and the opportunity for profitable growth. Blue oceans can be the market created from within red oceans (competitive markets) by expanding existing industry space well beyond its boundaries or a total new market that did not exist till now (Mauborgne & Kim, 2005). Compared to the industries thirty years back, many industries we have today such as mutual funds, cell phones, gas-fired electricity plants, biotechnology, discount retail and coffee bars were nonexistent then. With ‘Value Innovation’ as the core theme that places equal emphasis on value and innovation; it is a business strategy that results in the creation of a blue ocean that breaks away from the competition.

Hitherto, corporates and businesses followed the famed strategic management theory put forth by Prof. Michael Porter which was all about creating competitive advantage either thru cost leadership or thru differentiation leadership which results only in a ‘zero sum’ game, Value Innovation proposes both differentiation and cost leadership within it, something that was completely un-thought by the proponents of management (Christensen, 2010, 2011). By applying the principles of value innovation and by creating newer industries and newer market spaces exclusively for oneself, Blue Ocean Strategy makes the competition irrelevant because the rules of the game are only waiting to be set (Table 1).

Table 1 Distinction between competitive & Blue Ocean strategies

Competitive strategy	Blue ocean Strategy
Focuses on rivals within the industry	Looks across alternative industries
Focuses on competitive position within strategy groups	Looks across strategic groups within industry
Focuses on serving buyer group better	Redefies industry buyer groups
Focuses on maximising value of product within industry boundaries	Looks across to complementary products& services
Focuses on improving price performance within the functional/emotional orientation of the industry	Rethinks the functional/emotional orientation of the industry
Focuses on adapting to external trends as they occurs	Participating in shaping external trends over time

Blue Ocean strategy brings the product/solution into a strategic canvas covering all the strategic elements and then applies the ‘Eliminate-Reduce-Raise-Create’ grid (ERRC grid) that allows total redefining of the market and the industry thereby getting ahead by completely disregarding competition (Mauborgne and Kim, 2005)..

IV. THE BOS – EFFECTUATION LINK

It could well be observed that many of the successful effectual enterprises follow the Blue Ocean Strategy of business. Many entrepreneurs follow a process that starts with what one has and select among possible outcomes. It is nothing but effectuation entrepreneurship; a logic of thinking that uniquely serves entrepreneurs in starting businesses, provides a way to control a future that is inherently unpredictable. The blue ocean strategy also allows the entrepreneur to evolve a course and follow it by disregarding the competition that allows the entrepreneur to control his destiny.

Coming to think of it, the best form of an enterprise could be the one that applies disruptive innovation to takeover a market/industry, through the effectuation principle of evolving to control an unpredictable future through Blue Ocean Strategies of charting a course by making the competition irrelevant. Can we, therefore, call in a win-win-win enterprise?

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