Social Media as a Disruptive Innovation for Marketing in Small-Medium Sized Firms: An Ambidextrous Strategy

ABSTRACT

In this paper we propose that a disruptive innovation will lead to an ambidextrous firm and therefore produce a competitive advantage. Through the context of small and medium-sized enterprises (SME) we show how social media (SM) is a disruptive innovation that has practical implications for marketing purposes. SM can be an incredible asset to SME's that learn to use them as a marketing tool by exploiting and exploring their dynamic markets. The major contribution of this article was to unite the research on disruptive innovation, ambidexterity and competitive advantage to create a framework that can be expanded with additional research.

Keywords

social media, disruptive innovation, disruptive technology, SME, ambidexterity, competitiveness, strategy, business intelligence, competitive advantage

INTRODUCTION

Understanding the SM phenomenon is one of the most emergent streams of information systems research. Researchers from multiple disciplines are enthusiastic over the potential to study the unique information that is shared through SM. In this paper we posit SM as a disruptive innovation and propose an ambidexterity strategy through the use of business intelligence. We then propose that this strategy will produce a competitive advantage. We investigate these issues in the context of SME marketing. While various studies contribute that SM has had major influence on SME marketing there is practical necessity to propose a strategy that will manage the effects of this disruptive innovation. Applying theories of disruptive innovation, ambidexterity, and competitive advantage we seek to develop a strategy model that creates a competitive advantage.

The remainder of this paper explores SM as a disruptive innovation in an SME marketing environment. First we present an overview of literature in related research areas to proliferate understanding. Next, we develop a conceptual model that unites the theories of disruptive innovation, ambidexterity, and competitive advantage. We then propose a theoretical model that further examines these concepts and proposes relationships. Finally, this paper offers implications and future research.

SOCIAL MEDIA

SM has a major influence on the world and on the discipline of information systems. One of the main reasons this new phenomenon has created such "buzz" in the academic domain is because "the concept of social media is top of the agenda for many business executive today". A goal of academic research that is often disregarded is to find practical relevance. Decision makers and consultants are constantly trying to identify ways in which organizations can use SM, such as Facebook, Twitter, YouTube, Google+, LinkedIn, etc. in a profitable way. Marketing efforts designed for SM have the ability to create vast word-of-mouth advertising and unlike traditional marketing, promoting products and services does not involve interposing or vexing your audience.

In December of 2011, Facebook had 845 million monthly active users and an average of 483 million daily active users. Facebook is currently available in 70 different languages and approximately 80% of their monthly active users are located outside the U.S. and Canada. Twitter, known more as a micro blogging SM, is available in 30 different languages and has gained over 300 million users. Google+ is a newcomer to SM, being offered publicly on September 20, 2011. According to Paul B. Allen, founder of Ancestry.com, the Google+ is adding 625,000 new users a day and will finish 2012 with 400 million. LinkedIn operates the world's largest professional network on the Internet with more than 150 million members in over 200 countries and territories, as of February 9, 2012. These impressive statistics are hard to ignore and decision makers are searching for new ways to gain exposure through SM. Still many organizations continue to struggle in adapting to the SM phenomenon and responsiveness to use SM ranges from reactive to repressive to integrative . Firms are hesitant to change strategies and behaviors and embrace new technology by incorporating SM into their business models. Kaplan and Haenlein (2010) suggest that "it is reasonable to say that SM represents a revolutionary new trend that should be of interest to companies operating in online space- or any space, for that matter".

SME MARKETING

Marketing is defined by the AMA as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. Marketing within SMEs comprises of unique features that are different from conventional marketing in large organizations (e.g. Carson, 1990). These features depend on the characteristic size and stage of the enterprise along with certain behaviors and characteristics exhibited by the owner or manager. SME's do not generally have a substantial amount of money to invest in marketing and must use a low-cost marketing strategy. Another area of concern is the problem SME's have "finding marketing and selling strategies that are both affordable and suited to their businesses".

Gilmore et al. (2001) suggest that the limitations of SME's can be classified into three different categories: limited resources (such as finance, time, and marketing knowledge); lack of specialist expertise; and a limited impact in the marketplace. Owners/managers of an SME typically compromise a general knowledge of business procedures and therefore make decisions that may be haphazard and uninformed (Scase and Goffee, 1980). "SME marketing is likely to be haphazard, informal, loose, unstructured, spontaneous, reactive, built upon and conforming to industry norms'. The emergence of small business marketing through SM has sky rocketed suggesting that SM will "play a key role in the future of marketing". SM provides the platform for SME's to share marketing and promotional efforts with customers at little or no cost.

A unique feature of SM is that it provides a new way for organizations to reach their customers. Social Network Theory suggests that social interaction is a social phenomenon and should be primarily understood and researched through the properties of relationships between and within units, instead of the properties of these units themselves. What makes SM distinctive is that it gives organizations a lens to view how customers interact and communicate about their product. The goal of an online marketing campaign has changed with the use of SM. Previously, SME's were happy promoting customers to click through the company's website, but now they seek to create sustained engagement with the customer through the use of SM.

CONCEPTUAL MODEL

Disruptive Innovations

In 1995 Clayton Christensen and Joseph Bower introduced the term disruptive technologies in an article titled Disruptive Technologies: Catching the Wave. After considerable work in this area Christensen recognized that few technologies are intrinsically disruptive in character so he replaced the term disruptive technologies with disruptive innovations. Through further development of the theory it was established that the business model comprising the technology is what creates the disruptive impact rather than the technology alone. The economic value of a disruptive technology remains latent until it is commercialized through a business model.

Christensen's development of the theory of disruptive innovation has led to a great deal of attention and scholarly debate from diverse disciplines and research areas such as marketing, strategy, management, and new product development. To justify this distinction Christensen suggest that in some instances the disruption consisted of a novel combination consisting of an "off the shelf" component applied cleverly to a novel value network. He explains this idea in his 1997 book The Innovators Dilemma;

> "Generally, disruptive innovations were technologically straightforward, consisting of off-the-shelf components put together in a product architecture that was often simpler than prior approaches. They offered less of what customers in established markets wanted and so could rarely be initially employed there. They offered a different package of attributes valued only in emerging markets remote from, and unimportant to, the mainstream"

The theory argues that well established organizations tend to ignore markets that are susceptible to disruptive innovation due to small growth rate of the market to the established firm. A more established customer focused company is often strategically counterproductive when coping with disruptive technologies. In other words it is more difficult for established firms to strategically incorporate disrupting innovations which in turn makes them more vulnerable. Christensen distinguishes between two types of disruptive innovations. One type, "low-end disruption" targets customers who do not need the full performance valued by customers at the high end of the market. A great example of low-end disruption is downloadable digital music that has replaced music CDs. The music industry phased out the availability to purchase singles in the 1990's which caused customers to purchase a higher priced complete CD. Apples iTunes and Amazon.com seized the opportunity to offer digital singles, forever disrupting the music business and dramatically affecting the sales of complete CDs. Another type of disruptive innovation is “new-market disruption”, which targets customers with needs that were not previously met by existing incumbents. When a product fits a novel or emerging market segment that is not currently being served a new market disruption occurs. Disruptive technologies rarely completely eliminate the need for the previous technology although the more established firms who embraced the previous technology eventually fail. This is applicable to the CD example above. CD’s are still available for purchase and there will probably always be a small niche market for them but the revenues and margins lost to the disruption are very evident. Disruptive technologies displace previous technologies by altering the market, even though a much smaller need for the previous technology may still exist.

These concepts presented above are the foundational ideas of disruptive innovation theory that have led to debate in many disciplines. Such debate led to a 2006 Christensen article entitled “The Ongoing Process of Building a Theory of Disruption” in which he discusses the complements and critiques of his work. By providing a case study into the development of disruption theory Christensen, seeks to aid other scholars in different fields to conceptualize the theory building process. Although there has been much debate over this theory most scholars agree that there is merit in the foundational concepts and that these need to be further examined and tested to progress the theory. We seek to use Christensen’s original classification method as other methods have yet to invalidate his research. In addition to this classification that includes the disrupting technology and business model, we suggest that business intelligence also plays an incremental role in leading to a disruptive innovation. Business intelligence is the ability to draw significant conclusions from statistical inferences in order to make better decisions. To further the theory of disruptive innovation we propose that SM is a disruptive innovation for SME marketing.

Social Media as a Disruptive Innovation for SME Marketing

SM has changed the way organizations market their products and this is most relevant for SME’s. With a limited budget along with other constraints mentioned above, the use of SM as a marketing tool for SME’s is a natural fit. Is this phenomenon a disruptive innovation? The answer is a decisive YES. Four main characteristics of a disruptive innovation are evident in the development of SM as a marketing tool for SME. First, disruptive innovations are defined as creating new markets and value networks by disrupting existing markets. SM has created a new value network for marketing. This new value is created by the uniqueness of SM to connect organizations to customers in ways that were not previously available. Another way SM can be categorized as a disruptive innovation is because it improves a product or service in ways the market doesn’t expect. SM is an incredible marketing tool that allows organizations to share information and promotions to not only their customers who are directly connected but this information may also be displayed to those customers’ connections (friends/colleagues/etc.). Thirdly, disruptive innovations can hurt successful well established and managed companies that tend to ignore the newly created market. Lastly, disruptive innovations rarely wipe out the older technologies but rather create a lasting change in the market. SM as a marketing tool for SME’s will never entirely replace previous marketing methods but they will have a lasting effect on marketing strategies and plans as time progresses. Aaukus et al (2009) suggest that “it is probably safe to assume that OSTs(SM) is here to stay and consequently that every organization should be prepared to face new challenges and opportunities whatever strategy they adopt”. Through an examination of the literature it is conceptually apparent that the use of SM allows firms the ability to incorporate an ambidexterity strategy. Therefore, we propose that incorporating a disruptive innovation will increase a firm’s ambidexterity.

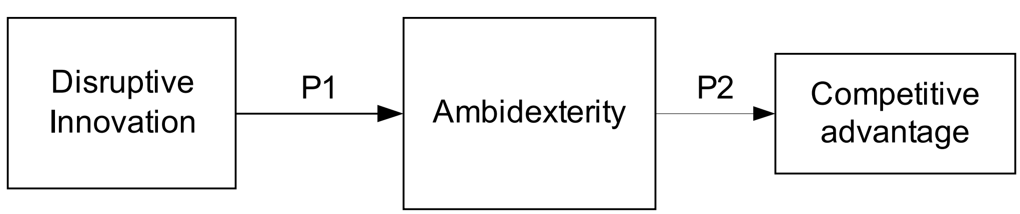

Figure 1. Conceptual Model

P1: disruptive innovations increase a firm’s ambidexterity

THEORETICAL MODEL

An Ambidextrous Strategy to Manage SM as a Disruptive Innovation for SME's

In 1976, Duncan was the first to use the term organizational ambidexterity although it was a March (1991) article titled, "Exploration and exploitation in organizational learning" that has been attributed for the development and increased awareness in the concept. Tushman and O'Reilly (1996) further developed the concept and were first to present a theory of organizational ambidexterity. Ambidexterity refers to a firm's ability to reciprocally pursue both an exploratory and exploitative orientation. March defines ambidexterity as the relation between "exploration of new possibilities and exploitation of old certainties". In other words it is the ability of a firm to exploit the present and explore the future simultaneously. The achievement of long-term success requires a dynamic capability that enables organizations to fulfill current demands while concurrently being preparing for future developments (Gibson and Birkinshaw, 2004).
The conceptual building on this topic has been accompanied by large-scale empirical work that provides evidence of a generally positive association between firm performance and organizational ambidexterity (Gibson and Birkinshaw 2004, He and Wong 2004, Lubatkin et al. 2006). We agree with O'Reilly and Tushman that an ambidextrous company may "provide a practical and proven model for forward-looking executives seeking to pioneer radical or disruptive innovations while pursuing incremental gains".

P1a: disruptive innovations increase a firm's ability to explore

P1b: disruptive innovations increase a firm's ability to exploit

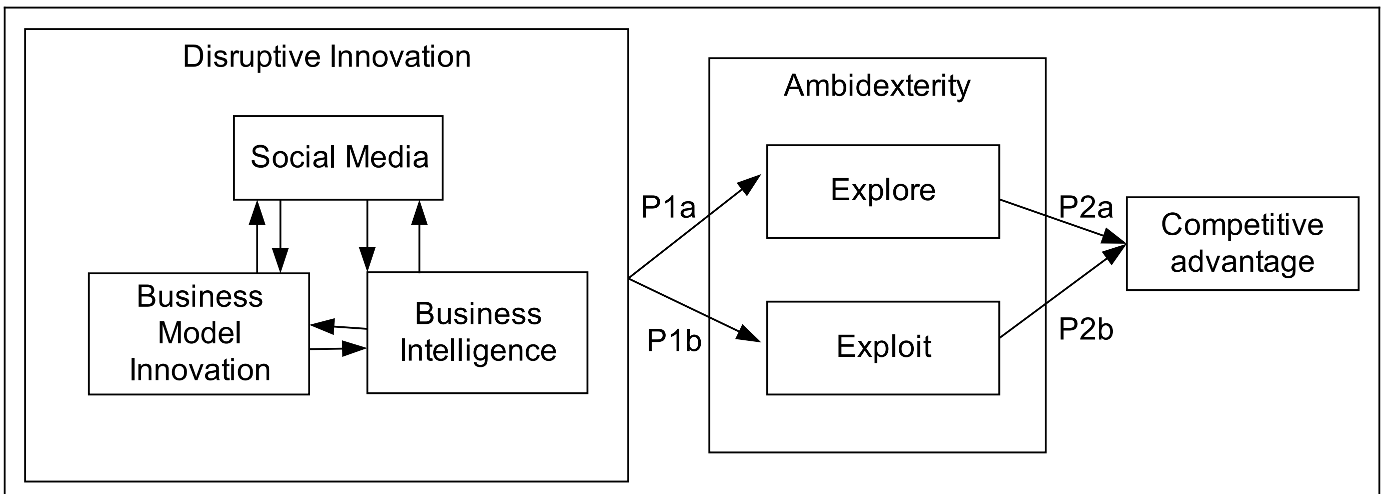

Figure 2. Theoretical Model

Ambidexterity leads to a competitive advantage

Ambidexterity has been empirically tested to show a positive effect on a firm's performance. We further propose that ambidexterity leads to a competitive advantage.

P2: Ambidexterity increases a firm's competitive advantage

Using Porter's Five Forces we examine the potential for a firm that exploits the present and explores the future simultaneously. Threat of new entrants is the ability for a new firm to enter the market and become a direct competitor. The exploratory ability of a firm allows them to be informed and understanding of new innovations that might weaken the barrier to new entrants. Also the ability to exploit current markets allows the firm to strengthen this barrier by constantly improving upon efficiencies. Another of the five forces is the power of suppliers, which suggests that suppliers contain a large portion of power in the bargaining process. Factors such as high switching costs, low number of suppliers, and a supplier group that does not depend heavily on one industry for revenues.

An ambidextrous firm would be able to explore new products and suppliers while also increasingly exploiting current areas of business. On the flip side we have the power of buyers which suggests that in some markets the buyer maintains the power by forcing down prices and demanding better quality and service. Again an ambidextrous firm is able to overcome this force by offering the best current product and also a new innovative product through exploration. The fourth force that porter discusses is the threat of substitute products or services. A substitute product or service performs the same or a very analogous function as the firm's product in a different manner. For example video conferencing might be a substitute for traveling or email instead of express mail. A company with an ambidexterity strategy would be aware of these substitute products by means of exploration and be able to offer a solution through the use of exploitation. Lastly, Porter discusses the rivalry among existing competitors which depends on intensity of competition and basis on which they compete. We propose that an ambidextrous firm will maintain a competitive advantage over their direct competitors as long as they can satisfy the current demands while simultaneously preparing for future developments.

P2a: The ability to explore new markets increases a firm's competitive advantage

P2b: The ability to exploit current markets increases a firm's competitive advantage

CONCLUSION AND IMPLICATIONS

This paper has suggested that a disruptive innovation will lead to an ambidextrous firm and therefore produce a competitive advantage. Through the context of SME's we show how SM is a disruptive innovation that has practical implications for marketing purposes. SM can be an incredible asset to SME's that learn to use them as a marketing tool by exploiting and exploring their dynamic markets. The major contribution of this article was to unite the research on disruptive innovation, ambidexterity and competitive advantage to build a framework that can be expanded with additional research. The next step for future research is to test this theory to confirm empirically that these relationships exist and are significant. Future research should also consider the use of business intelligence to maximize the utility of a disruptive innovation. The uniqueness of SM has generated many new research streams in IS research and we hope that this article will stimulate and encourage further research along these lines.

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