

# Chapter 14

## The Role of Culture in Developing Disruptive Innovation in Domestic Firms

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### ABSTRACT

*National culture influences how people perceive the world, and subsequently, what actions they take. Research has shown that this also follows in the actions taken by firms that reside in those national cultures. The actions identified in this paper look at domestic firms' pursuit of disruptive innovation. Disruptive innovations are unique types of innovation that require different thinking from the firm. We discuss the two ways a firm can pursue disruption and how culture might affect that pursuit. Specifically, Hofstede's (1980) five cultural dimensions of uncertainty avoidance, power distance, long-term orientation, individualism, and masculinity will provide a guiding light on the values needed for a firm to develop disruptive innovations. Additionally, it will be further argued of the coexistence of disruptive business models and the opportunities of the bottom of the pyramid markets.*

### INTRODUCTION

Existing literature on innovation has elaborated on the different types of innovations a firm may pursue. One type of innovation which has not received much attention is disruptive innova-

tion, specifically in an international business context (Sandberg & Hansen, 2004). Disruptive innovations are simple adaptations to existing technologies that appeal to customers who were not attracted to previous products (Christensen, 1997). To develop such innovation, the firm must

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seek change and question current practices. The literature clearly shows that certain cultures are more apt to seek change while others may be resistant to change. This leads to the question, what role, if any, does culture play in a firm's pursuit of disruptive innovation?

Hofstede's five cultural dimensions (Hofstede, 1980; Hofstede & Bond, 1988) are well documented in terms of their ability to assist in understanding cultural differences. Researchers have used Hofstede's cultural dimensions to review the relationship between new product development and national culture. For example, Waldman, Luque, Washburn, and House (2006) build their study on the assumption that societal-level values predict the values at the firm level. From Nakata and Sivakumar (1996), it can be seen that national culture will have an influence over the direction of research and development (R&D) inside the firm. For instance, Morris, Davis, and Allen (1994) find that certain levels of individualism lead to more corporate entrepreneurship. Similarly, Shane (1992; 1993) finds individualistic- and low-power distance societies have more patents and trademarks. The key discovery of Jones and Davis (2000) is that national cultures affect innovation and the location factor for innovation should be a major consideration for any firm. Thus, when analyzing different types of innovation, it is important to understand culture.

To identify true national culture effects, this chapter will look at the perspective from domestic firms rather than Multinational Companies (MNCs). This is not to say these cultural relations do not hold true for other types of firms with their innovation. MNCs operate in several different countries, all with unique cultures. Operating in different cultures could potentially form a cosmopolitan perspective or create a cornucopia of all of the mixed cultures put together (Cantwell & Piscitello, 2000). Thus, keeping the perspective on domestic firms allows the ability to capture the truest form of the cultural effects. Additionally, to maintain a competitive advantage over MNCs,

domestic firms must be more adaptive to local needs (Bartlett & Ghoshal, 1989). This requires a more in depth knowledge of the national culture, from the internal processes and decision to the exchange with customers.

Johne (1984) states there are two phases of product development: initiation where the idea is generated and tested, and implementation where the product is fully developed and launched into the market. For the purpose of this study, only the first phase will be examined to see the effect that culture has on a firm's intention to pursue either disruptive or sustaining technologies. Pursuing disruption is a priority and mindset which the firm must adopt (Jalinec & Schoonhoven, 1993); otherwise, it will not pursue it. Thus, this chapter is not focused on implementation and market adoption of the disruptive innovation. Others have already explored in depth the diffusion and adoption of innovations in different nations (Dwyer, Mesak, & Maxwell, 2005; Steenkamp, Hofstede, & Michel, 1999). It is more relevant for this chapter to examine if different domestic firms which sit in different cultures even seek to pursue a disruptive strategy. The intent of proactiveness in disruption provides more of the firm-level actions.

This chapter seeks to expand on the concept of national cultural effects on developing disruptive innovations. We will also expand disruptive innovation in an international setting by looking at cross-cultural differences. Understanding disruption in this context and identifying cultural differences further reduce the mystique of disruptive innovations which has kept many firms from actively pursuing such a strategy. While this chapter takes a domestic firm perspective, MNCs can also utilize such a study to be aware of cultural affects in pursuing disruptive innovations in certain subsidiaries or when partnering with certain domestic or foreign firms. As described above, firms act differently when developing disruptive innovation, which validates the need to look at specific types of innovation when providing

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