

Strategic Management

Lecture Twelve: Innovation and Disruptive Strategies

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Introduction

- Risk Management helps organizations anticipate, prepare for, and mitigate threats.
- Crisis Strategy focuses on real-time response and recovery when risks become reality.
- We explored tools like SWOT, PESTEL, Heat Map, and BCP.
- We identified risks in our personal lives and how to deal with them.
- What did we learn? **Failing to prepare is preparing to fail.**
- In the current topic we now explore when you do not want to play safe as firm, instead you want to break away from the norm and mold.

Learning Outcomes

1. Define innovation and disruptive strategies in strategic management.
2. Differences between sustaining innovations and disruptive innovations.
3. Analyze case studies of companies that use disruptive strategies to grow.
4. Reflect on how innovation or disruption might apply to your own life or future workplace.

Opening Case: The Kodak Moment That Killed Kodak”

In 1975, an engineer at Kodak invented the first digital camera. Kodak, the giant of film photography, dismissed the idea, fearing it would disrupt their profitable film business. Fast forward to the 2000s: Kodak declared bankruptcy, while digital photography became the norm.

Reflection:

- What do you think made Kodak reject its own innovation?



Image source: How.africa

M-Pesa: Innovation Born from Simplicity (Jack & Suri, 2011)

In 2007, Safaricom, a mobile network operator in Kenya, launched M-Pesa—a mobile money platform that allowed users to send and receive money via SMS, without needing a bank account.

Originally it was designed to help microfinance borrowers repay loans using mobile phones. The service quickly evolved into a nationwide money transfer tool, especially for people in rural and unbanked areas. With minimal infrastructure, M-Pesa became a lifeline for millions, enabling them to pay school fees, buy goods, save money, and access financial services for the first time.

By solving a real problem—lack of access to traditional banking—M-Pesa didn't just compete with banks. It bypassed them entirely, offering a low-cost, accessible, and secure alternative.

Today, it is used in more than 170 countries with over, over 70 million people using M-Pesa across multiple countries in Africa. It has been credited with reducing poverty and increasing financial inclusion, especially among women and rural households.

Reflection Questions

- What problem was M-Pesa solving, and why weren't traditional banks addressing it?
- In what ways did M-Pesa "disrupt" the financial services industry in Kenya and beyond?
- Who were the early adopters of M-Pesa, and why do you think they embraced it quickly?



Image source: Microsoft 365 stock images

What is Innovation?

- Innovation means creating new value through ideas, products, experiences or processes or even the combination of all these.
- It can be technological, organizational, or strategic.
- Innovation is a driver of competitive advantage in dynamic markets.
- Those who innovate they stay ahead of the industry

Types of Innovation

1. **Incremental Innovation:** Involves small, gradual improvements to existing products, services, or processes. Example: Upgrading smartphone camera or battery life.
2. **Radical Innovation:** Introduces groundbreaking, transformative changes that often create entirely new markets. Example: The introduction of 3D printing or electric vehicles, where we have seen new players venture into, such **Stratasys Ltd** in 3 D printing.
3. **Disruptive Innovation:** Begins with a simple product or service targeting a niche or underserved segment, eventually displacing established market leaders. Example: **M-Pesa** offering mobile financial services to the unbanked.
4. **Architectural Innovation:** Reconfigures existing technologies or components into new structures. It does not necessarily introduce new technologies but rearranges how components work together. Example: Using prefabricated materials to revolutionize the construction industry, firms such as **Clayton** are leading in this field.
5. **Sustaining Innovation:** Enhances existing products to better serve current customers, usually done by established firms. Example: Car manufacturers adding autonomous driving features to existing models.
6. **Open Innovation:** Leverages external ideas and innovations, often through partnerships or crowdsourcing. Example: Firms using hackathons or startup collaborations to generate new product ideas.

Disruptive Strategy

A disruptive strategy introduces a product or service that is initially low-cost and accessible to new or overlooked segments.

Over time, it improves and displaces established products and companies.

Disruptive strategies often prioritize simplicity, affordability, and access over high performance.

Examples of Firms with Disruptive Strategies:

M-Pesa: Which we looked in our opening case as solving the lack of access to traditional banking. M-Pesa didn't just compete with banks. It bypassed them entirely, offering a low-cost, accessible, and secure alternative.

Netflix: We looked at this in our early lectures, Netflix started as a DVD rental-by-mail service targeting convenience over in-store experience, later shifted to streaming, disrupting traditional video rental and cable TV.

Airbnb: Disrupted the hotel industry by allowing homeowners to rent out spare rooms or homes, creating an alternative to traditional hospitality.

Uber: Disrupted the taxi industry by introducing ride-hailing through mobile apps, offering better customer experience and price transparency.

Zoom: Disrupted traditional corporate conferencing tools by providing easy-to-use, cloud-based video communication that surged in adoption during the COVID-19 pandemic. It is now a must have tool not only for businesses but also educational institutions.

Jumia: Africa's e-commerce platform, which can be compared to Amazon, disrupted traditional retail by delivering goods directly to consumers in urban and remote areas.

How Strategy and Innovation Relate

The above examples clearly indicate that there is a connection between innovation and success.

Strategy answers the questions of **what** and **why**: It outlines long-term goals, defines a company's vision, and chooses where and how to compete, all of which we have looked at in our previous chapters.

Innovation on the other hand answers the question "**how**": It provides methods, tools, and creative thinking to reach strategic goals differently or more effectively.

Mutual Reinforcement, they both support each other:

- Innovation helps achieve strategy faster or more efficiently.
- Strategy gives direction to innovation—ensuring it isn't random but aligned with purpose.

Competitive advantage may not be sustainable without innovation: A good strategy without innovation can become outdated. Innovation without strategy can waste resources or lead to misalignment.

Firms that align both outperform: For example, Apple's strategy of ecosystem integration is powered by continual innovation in hardware, software, and services. **Tesla's** strategy to lead sustainable transport is realized through constant innovation in battery tech, software, and manufacturing.

Adaptive Strategy: In volatile markets, firms must evolve strategies based on innovative insights, especially from customers, competitors, or emerging technologies, a point we emphasized when we covered strategy evaluation and control.

Lessons for our personal lives

It is clear that you don't need to own a company to think like a strategist or innovator. Disruptive thinking can transform how you study, earn, serve your community, or build a career.

- **Solve problems around you:** Look for everyday frustrations—lack of transport, poor access to information, long queues, outdated processes—and think of low-cost, simple ways to improve them.
- **Use available tools creatively:** just like M-Pesa used mobile phones to offer banking, you can use WhatsApp, Google Forms, or local knowledge to deliver value in new ways.
- **Challenge the “normal” way:** Ask, why do we do it this way? Then test if there’s a better, faster, cheaper method.
- **Build personal strategy:** Think long-term. What is your vision? What skills or ideas can help you achieve differently from others?
- **Offer value in a new format:** For example, a student can teach peers through short TikTok lessons, or a youth farmer can create a YouTube series on organic methods.

Takeaways

1. Innovation is about creating new value; disruption is about changing the game.
2. Disruptive strategies often begin small but grow to challenge industry giants.
3. M-Pesa succeeded by reaching the unbanked with a simple, mobile solution.
4. Kodak failed not due to lack of innovation, but fear of disruption.
5. Innovation is personal: each of us can be a disruptor in our space.
6. In our next and last lecture, we will look at Artificial Intelligence (AI) and Strategic Decision Making which is more of like extension of the current topic

References

Jack, W., & Suri, T. (2011). Mobile money: The economics of M-PESA. National Bureau of

Economic Research Working Paper No. 16721. <https://doi.org/10.3386/w16721>

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