

" Effects of Disruptive-Innovation on industry-level"

"IKEA-store" case study

"الآثار المترتبة على الابتكار التخريبي على مستوى الصناعة"
" دراسة حالة مخازن - ايكيا"

by

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Abstract

Disruptive innovation is a concept that was conceived in relation to the technology industry however, soon it was adopted by businesses around the world. The idea behind this type of innovation is that it changes the business model of the company and creates new uses and markets for the innovation even though the innovation may come in an existing product. The main characteristic of this type of innovation is that it may come from outsiders of the industry and the companies who fail to adapt to the innovation are left behind. In such a scenario, IKEA has been a company that has not only remained successful but has also been able to take its simplistic house design model to the different countries that it has expanded into. The company has also changed its business model to suit the various markets, to the extent of entering into totally new and different businesses to suit the market conditions. Thus IKEA forms a case for how companies must manage themselves internally as well as externally to remain strong in the face of challenges posed by disruptive innovation. The present study analyses in what way the industry is affected via disruptive-innovation. For this purpose, the 13-factor framework of disruptive innovation are considered. The research involves both qualitative and quantitative analysis to understand how the industry and particularly IKEA is performing in the face of disruptive innovations. The thesis concludes on how the industry may be affected in the future and makes recommendations on how the companies can stay strong in the face of imminent innovations and the challenges posed by them.

Key words: disruptive innovation, business models, value-migration, value-network

نبذة مختصرة

الابتكار التخريبي هو المفهوم الذي تم تصوره فيما يتعلق صناعة التكنولوجيا ومع ذلك، سرعان ما اعتمد من قبل الشركات في جميع أنحاء العالم. الفكرة وراء هذا النوع من الابتكار هو أنه يغير نموذج الأعمال للشركات ويخلق استخدامات جديدة للابتكار على الرغم من أن الابتكار قد يأتي في منتج موجود. السمة الرئيسية لهذا النوع من الابتكار هو أنه قد يأتي من المستثمرين الجدد في هذه الصناعة والشركات التي تفشل في التكيف مع الابتكار قد تندثر أو تعلن إفلاسها. في مثل هذا السيناريو، شركة إيكيا كانت قادرة على اتخاذ نموذج مبسط لتصميم منزل في مختلف البلدان التي توسعت فيها. كما قامت الشركة بتغيير نموذج أعمالها لتناسب مع مختلف الأسواق العالمية لتناسب مختلف الشرائح، إلى حد الدخول في أعمال جديدة تماما ومختلفة لتناسب مع ظروف السوق. وهكذا تشكل إيكيا حالة لكيفية إدارة الشركات نفسها داخليا وخارجيا لكي تظل قوية في مواجهة التحديات التي يطرحها الابتكار التخريبي. تحليل هذه الدراسة والطريقة التي تتأثر الصناعة فيها عن طريق الابتكار التخريبي. ولهذا الغرض، ينظر في إطار ال 13 عامل للابتكار التخريبي وأثره على الشركة والصناعات بشكل عام. ويتضمن البحث كلا من التحليل النوعي والكمي لفهم كيفية أداء هذه الصناعة وخاصة في شركة إيكيا في مواجهة تحديات الابتكارات التخريبية. وتختتم الأطروحة حول الكيفية التي يمكن أن تتأثر بها الصناعة في المستقبل، وتقدم توصيات بشأن الكيفية التي يمكن بها للشركات أن تبقى قوية في مواجهة الابتكارات الوشيكة والتحديات التي تفرضها .

الكلمات الرئيسية: الابتكار التخريبي، ونماذج الأعمال التجارية، وهجرة القيمة، وشبكة القيمة

Dedication

I dedicate this dissertation to BUID family for continuous support, and my family for their patience during my academic journey.

Thank you all

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CHAPTER I: INTRODUCTION

1.1 Introduction

This chapter is provide a brief outline of disruptive innovation and how it effects industires. In light of this, this chapter provides a number of sections that offers a detailed evaluation of the dissertation study topic and the subsequent process of execution. Starting by presenting the concept of disruptive-innovation, the chapter goes on to discuss the problem statement, purpose of study, aims, and research questions.

The term “**disruptive innovation**” was created in 1995 by Clayton M. Christensen to refer to a novel idea that creates a market of its own thus “disrupting” the existing industry and value network. As a result, the innovation transforms the way in which the product was previously considered or used and even changes the techniques used to sell that product (Osiyevskyy and Dewald, 2015). This concept, since its inception, has substantiated to be an excellent instrument for thinking on innovation-oriented growth in industry. According to *Markides (2006)*, disruptive innovation is basically known as the Christensen’s theory of the disruptive innovation which has majorly gripped on the business consciousness similar to other existing ideas. The modern world is deplete with innovations that can be termed “disruptive” including such innovations as the iPod and iPhone that revolutionized the way the telecom industry worked. From becoming a source of communications through mobile phones, this innovation brought the whole world to the hands of the users including access to bank accounts, internet, and friends all over the world, as well as continuous inflow of news and reports from around the world. Not only that, the smart phones increased public interest in global politics and made the whole world one big platform of sharing information, displaying talents, and being connected. Similarly, Air BnB is considered the biggest disruptive innovation of the current century that revolutionized the travel and tourism industry, by challenging the hotel industry through offering accommodations by the general public. This not only brought the buyers and sellers of accommodation together but also opened a whole new informal market parallel to the travel industry and actually increased the global travel by providing means to the travelers to reduce their costs of travel (Guttentag, 2015). Generally, the phrase is used in the description of a progression in which a specific product or service providers assumes a

source that is originally in simple claims at the lowest of the marketplace and later persistently moves up the market hierarchy ultimately displacing all their competitors. Product or Service available in the market now known to be introduced through a clear business models which normally provide average outcome which maintain industry level a consequence. Nonetheless, introducing these produce or service under disruptive innovation condition may assist industry authority.

IKEA's business strategy as well as the way it changed the furniture industry can be described as disruptive innovation. Prior to IKEA, most furniture companies are restricted to their own local markets, catering to local tastes and price ranges. The company brought a major transformation to the way furniture industry worked and also the way customers' expectations were managed. The company is now a market leader in the furniture and household goods industry with over 400 stores in 43 countries around the world. How this happened was that IKEA not only revolutionized the way customers purchased furniture, it also went on an expansion spree that made it a multi-billion dollar company. IKEA has been instrumental in not just altering the rules of the game but also in adopting to the host country requirements. IKEA can be termed as a market-driving company as the IKEA management does not just adopt to changing technologies or innovations, they create new ways of doing the same old business as well. IKEA has adapted to changing markets and new countries as well as kept an eye on the businesses that are related to IKEA. The company has gone into such market areas that were not the main business of the company. Even while taking this risk, the company was successful in making more profits than its existing business.

Similarly, companies in the furniture industry are not known to outsource their strategic operations. However, IKEA, following the business model innovation and in order to generate more value for the customers, even outsourced its main operations. This did not become a threat for the company and rather became an asset as the company's management was better able to focus on the strategy to expand rather than being bogged down by the supply issues. As a result, the company has become successful not only internally, but also in revolutionizing the way furniture industry operated in the past.

1.2 Problem Statement

The current challenge relating to the issue of disruption is inexistence of an in-depth empirical analysis that delves into the implications of the disruptive innovation towards the achievement of the industry goal of success. For instance, *Lindsay and Hopkins (2010)* developed a study on the origin of disruptive innovation and what prompts companies to take risk of adopting disruptive innovation. Hence, this study focused on evaluating and establishing of the different implications of disruptive innovation to the overall industry. In its review, the study developed several examples of companies adopting disruptive innovation in the various countries.

The outcomes of the study indicated a association between disruptive innovation and an increased level of competitive advantages and companies' capabilities to improve industry level. Apparently, the study demonstrated that through the process of disruptive innovation, it was possible for companies to address and overcome the existing turbulent market conditions and high frequencies of risks. The rationale for this is that the disruption innovation facilitates a strategic approach in gaining a market characterized with uncertainties, increase customer base and mitigate any surprise challenges that may be common in their market. In this essence, the study made conclusions that the disruption innovation has a capacity of enhancing progress in organizations capabilities hence leading to target market dominance, which end up reflecting industry level.

Contrary to the above research, a systematic study developed by *Christensen et al. (2015)* on the disruptive innovation and oil industry companies' competition noted that the process of disruptive innovation elicited challenges to the success of the organizations in their markets of the project. According to the author, the company that participates in the disruptive innovation faces an imminent danger of becoming the victims of their own success.

The UAE Government particularly that of Dubai, has a vision to become the world leader in modern technology and in adopting the latest ways of going about personal and professional lives. Although the innovation is not indigenous to Dubai, the practice of early adoption of ideas that can be considered disruptive innovations (electric vehicles, driverless cars, flying taxis, etc.) has been a forte of the Dubai Government. Despite this, there exists

a limited pool of studies and empirical evaluations that have been established to describe the best practices on the implications of the disruptive innovation. This is directed to different company's endeavors to emerge as customer friendly and preferred to all their clients for a substantial period of time. This prompts a need for the market developing a rigorous study that is essential for establishing whether the current practices of disruptive innovation trends can be valuable to the success of the companies (*Cavalcante et al., 2011*).

Therefore, the dissertation studies and explores the effects of disruptive innovation on the level of industry in the Emirate of Dubai. For this purpose, Ikea, the Swedish chain of retailers vending ready-to-accumulate furniture, plus housewares, in a warehouse-like space; has been selected. Ikea has not only been popular for sale of furniture and houseware, the company has come under several studies to understand its business model innovations that translate into disruptive innovation in different countries (Lindgardt, Reeves, Stalk, & Deimler, 2009). For example, when IKEA entered the Russian market, studies revealed that wherever IKEA opened a store, the prices of real estate in the nearby areas shot up. This led IKEA's management to change its business model and explore another way of doing business; i.e. through mall development. Thus, IKEA's new business in Russia, managed by a separate business segment called Mega Mall, makes more money for the company through building malls in Russia than the company makes on its traditional business of selling furniture and household goods (Lindgardt, et al, 2009). This approach of Ikea to transform its business model by adopting to the host-country dynamics has led the researcher to study the case of Ikea in Dubai.

1.3 Purpose of the Study

In this particular research, both theoretical and practical consequences will be obtained to achieve the key purpose of this dissertation, which is assessing potential effects of disruptive innovation through a framework. And how the industry level can be affected by Disruptive innovation.

The main beneficiaries of this study shall be companies and managers working in industries that are transformed by disruptive innovations. The research will shed light on

how to differentiate between disruptive innovations and regular innovations. It will also provide its readers with an understanding on how to react in the times of change and when to adapt to the disruptive innovations.

1.4 Aims

The key aim of this research is to measure the effects of disruptive innovation in enhancing industry level.

1.5 Research Objectives

The objectives of this research include:

- To understand the concept of disruptive innovation through detailed analysis of literature on the subject
- To apply the concept of disruptive innovation to IKEA and its industry
- To understand how companies survive in the face of disruptive innovation by making a case of IKEA in the highly dynamic UAE market

1.6 Research Question

In this study, the overall guiding research question will be the following:

- How disruptive innovation can be measured?
- What are the effects of dynamic/disruptive innovation in industry level?

1.7 Scope and Limitations of the Study

The scope of this research is inadequate to the UAE market and how disruptive innovations adopted by Dubai can impact at industry level. This is a case study that also tests a theory and applications in the UAE market. The findings of this research, although applicable to the whole business arena, may have results specific to the UAE due to the unique characteristics of the UAE, its population demographics, and the presence of majority of young, working population of expatriates.

1.8 Research Summary

The study demanded the application of current and contemporary data. To achieve this and ensure comprehensiveness of the data and information used, both qualitative and quantitative approaches were used in the dissertation. On the one hand, the qualitative method was used in the identification of the different dynamics/disruptive innovation theories and dilemmas. On the other hand, the quantitative approaches were employed in gathering and measuring disruptive innovation through number of elements which effect the industry level. In this case, both the main and subordinate data bases were used in the process of collection and subsequent analysis of data. The secondary data were sourced from different literature sources that have focused on dynamic/disruptive innovation globally. In the context of primary data, the need for scientifically adopting analyzable and verifiable data. An online survey platform was adopted in the collections of primary quantitative data. Through this, it was possible to source for multiple companies' experts in disruptive innovation and its effects, the application of SPSS software was used as the software for statistical analysis.

CHAPTER 2: LITERATURE REVIEW

2.1 Background

The fundamental focus of this chapter is to deliver a critical analysis of already published resources on the above subject. In the evaluation process, different academic literatures and journals were used to demonstrate the various concepts and theories of disruptive innovation. The major strengths and limitations of the sources will be evaluated to come up with the most representative sources that evaluate the disruptive innovation ideas in detail and depth. To achieve this, this section will be segmented into different sections. First, a definition of the dynamics/disruptive innovation will be provided with its list of characteristics provided. This will be followed by the theories behind dynamics/disruptive innovation and a theoretical framework. This will be inclusive of the analysis of the different theories that are applicable in demonstrating the best practice of the dynamic/disruptive innovation in the industry.

2.2 Dynamics/Disruptive Innovation

The concept of disruptive innovation has attracted different definitions in different contexts. For instance, *Yu and Hang (2010)* defined the concept of disruptive innovation as a practice where large business units concentrate on improving the products and services for its most challenging clients. On the other hand, the small companies investigate on gaining a foothold in the bottom part of the market or enhancing the tapping of a new market which the incumbent was unable to recognize and capitalize. In a simpler definition, the founder of the concept *Clayton Christensen* defined the process in terms of innovators dilemma where organizations work in creating and discovering new categories of markets and clients. As *Markides (2006)* noted, disruptive innovation is a practice in which new products and services are developed by different entities targeting to replace the traditional technologies to ensure they gain competitive advantage. In his definition, the author noted that the companies factionalized this through providing harnessing of different

technologies and development of new business models and exploiting the old technologies in new and improved approaches. In the virtue of merging the definitions from various authors, it is easier to differentiate between the dynamic/disruptive innovations from the sustaining innovation.

As demonstrated by *Yu and Hang (2010)* the sustaining or traditional innovation is basically involved in enhancing the improvement of the existing products. In overall, Disruptive innovation is improving /creating something new such as product or services. This innovative product or services would be unexpected to the customers, which can lead to increase the demand; particularly with affordable price. This disrupts can either lead to success by establishing new market, new product or services with value network, or shifting successful industries or companies to destroy whatever exist. (*Wikipedia contributors, "Disruptive innovation,"*).

“Christensen mentioned as well that not all innovations consider as disruptive, as disruptive innovation will shock competitors and lead them either to quit or stimulate their minds to keep processing. “Disrupts innovation can hurt if you’re not the one doing the disrupting”(Christensen, 1995).

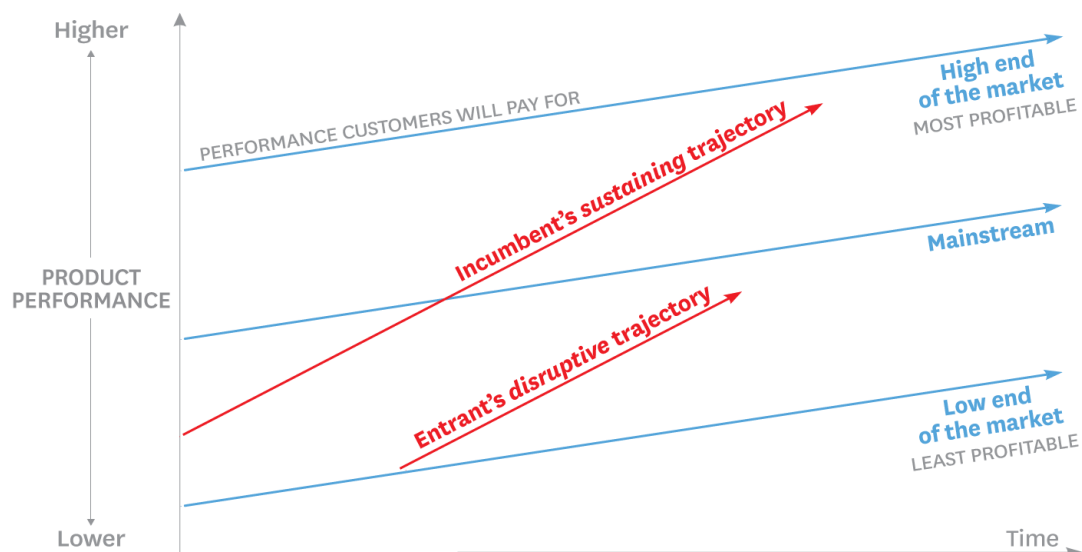


Figure 1 - Visual Representation of Theory of Disruptive Innovation

Source – Christensen and Bower, 1995

This quote illustrates what is going on in the market nowadays, all companies are competing the time to create something new, not like old days where companies competing each other. This competition is not easy for many companies and business forms and most of the time can lead to failure and crises, especially if it not wisely managed. For intense, Nokia company couldn't manage the smartphone revolution, particularly by the time competition heated up, due to product developer weren't able to cope the changes, so they become outdate and pushed the company to the verge of bankruptcy until Microsoft could bail out the company by purchasing Nokia's mobile products segment in 2013 (Ando and Rigby, 2013). Clayton M. Christensen in 1995 start the term of disruptive innovation to explain what is happing in the market, especially with new generation of product, services which start to launch based on customer's value and demand. Therefore, any company planning to launch a disruptive innovation needs to pay attention to invention (product/services) provided, prices they offer, and most important customers' demands who are eager to get this product or services, otherwise, the company will throw itself to failure.

Regarding to previous overview, this dissertation will adopt the Disruptive innovation that introduce performance packages valued to mainstream customers, and how they can exploit or absorb these performances which will be reflected on the industry level in the end of the day. (Christensen, 2003).

The reason behind choosing this theory, that any improvement or development on product or service is essentially start upon customers need or expectation, therefore, the industry level is bonded to disruptive-innovation to cope with changing customers' demands. (Boye, 2013).

Before we embark on the other aspects of disruptive innovation, it is imperative to understand how these innovations are disruptive and what factors qualify them to be disruptive in nature, as all innovations do not fall in this category. It must be understood that those innovations fall into disruptive category that redefine the business model for the

company or the industry (Lindgardt, et al, 2009). Disruptive innovation occurs when one of the value or operational factors of a business model are changed completely and a new functional value of the product or service is developed (Christensen, Grossman, & Hwang, 2009). Any business model is made up of two components namely the value proposition and the operational component. The value proposition includes:

Target Segment – which group of clients is the company directing to attract and to whom the product is of the highest value

Product or service – the features associated with the product that make it useful to the customer

Revenue model – what does the company make by offering their product or service in the market

The second component is the operational model that comprises of

Value chain – how is the company functioning and how each department contributes to bring the customer their desired product. It also involves the question as to which segments or divisions a company outsources and which function in-house.

Cost model – this involves the costs associated with production and also of each step of the value chain

Organization – this involves the question as to how a company manages the resources such as human resources to create synergy.

The value proposition and the operational component combine to create the business model as given below:

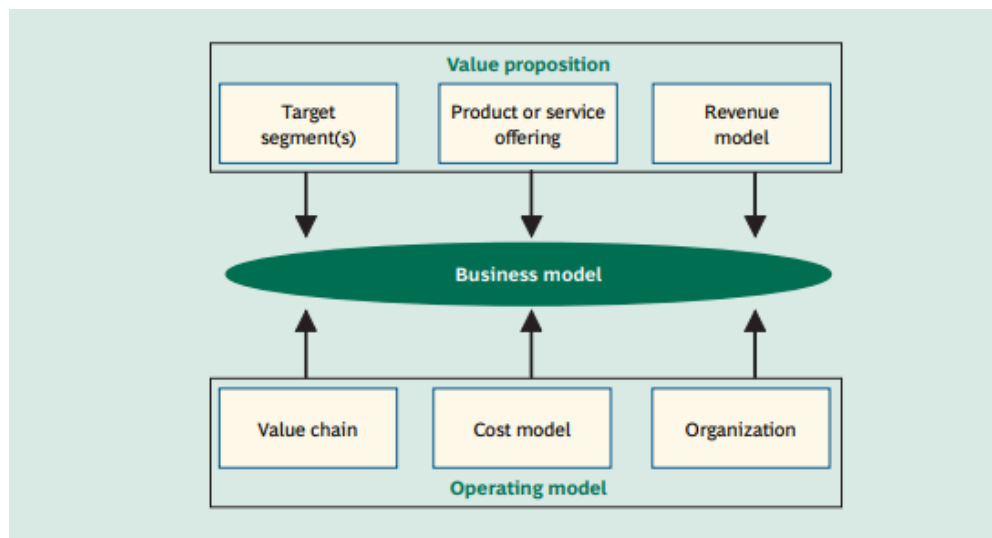


Figure 2 - Components of Business Model

Source – Business Consulting Group (BCG), 2009.

When two or more of the components of a business model are altered due to the innovation, we term it as Business model innovation or even disruptive innovation (Lindgardt, et al, 2009). This has been the case with Apple that did not only bring a new and different product to the existing market but also transformed its business model by changing its sourcing approach as well as its sales strategies.

2.3 Sustaining Innovations

According to the concepts demonstrated in this theory, the sustaining innovations are basically incremental. Sustaining innovations are small incremental steps towards product or service improvements that come from listening to the customers and changing the product or service offerings according to customer needs. Companies remain on a look out to what the customers need and also have teams that predict future needs of the same customer segment. As a result of an analysis of the present and future expected needs, companies keep reinventing their products so that their existing customer group is satisfied and also remains loyal to the company. It must be noted, that the existing players in the markets, particularly the market leaders are very good at finding and exploiting the needs of their customers through sustaining innovations. However, when it comes to disruptive innovations, small new players in the market see an opportunity of providing to an ignored customer segment and exploit this opportunity. Thus it can be safely said that initially, the disruptive innovations are so small and uninteresting that incumbents simply ignore those areas. One reason given by Schmidt and Druehl (2008) is that these large organisations have a responsibility toward their shareholders. Thus managers find it difficult to convince the shareholders and take their approvals for investments in smaller projects that have very little initial returns. Thus managers of these organisations look for projects that guarantee short term growth and higher returns. *King and Baatarogtokh (2015)* noted that sustaining

innovations can equally be fundamental innovations that improve an existing product or service laterally the presentation path that is found meeting the demands requirements of the current mainstream customers and particularly the top-end clients who are often prepared to pay for adequate performance. Taking into account of the theory, the author identifies two distinct forms of customers who are directly affected by the sustaining innovations. According to Slater and Mohr (2006), the two types of clients include the undershot and overshot. The undershot represents a group in which their existing products and services are inefficient while the overshot represents the customers in which the products and services are not satisfactory. The underlying concept of sustaining innovation is ensuring that the gap is closed between the products current performances and their different demands. In a separate study on sustaining innovations, Schmidt and Druehl (2008) noted that some of the targeted clients might be involved in paying for their performance in a product that is more than what they are capable of utilizing. In this case, the customers might directly be in a capacity of compromising on their performances for a more appropriate or reduced cost of the product that has a capacity of meeting their particular needs.

2.4 Disruptive Innovations vs. sustaining innovation

The theory contrasts the sustaining innovations with the disruptive innovation. As *Christensen (2006)* noted, the difference between the sustaining and disruptive innovations is hedged on the rates in which the products are provided to their more traditional clients. In the disruptive innovation, the product delivery to clients involves combining of new technologies which elicit a potential of evolving in a rapid approach with an innovative business model at play. In this case, a more established and modernized value proposition to the market with new performance characteristics that are appealing to different clients established. In the essence of this, *Enders et al. (2007)* demonstrated that in such phenomena, the process meets the needs of all the current clients owing to the established products or services offered in a different manner. The rationale of categorizing disruptive innovation as being better as opposed to sustaining innovation is hedged on its capacity of

enhancing a rapid improvement which scope spans beyond the provision of needs of the incumbent low-end clients and increasingly leading to an attraction of the mainstream and more clients. Eventually, the clients who are placed in the top rank of the market organization are reached as well (*Christensen, 2006*).

Two Innovation Strategies	
Sustaining Innovation	Disruptive Innovation
Problem is well understood	Problem is not well understood
Existing Market	New Market
Innovation improves performance, lower cost, incremental changes	Innovation is dramatic and game changing
Evolutionary Innovation	Revolutionary Innovation
Satisfies current customer needs (of mainstream customers)	Satisfies future customer needs (nice)
Traditional business methods are sufficient	Traditional business methods fail

Source: The Innovator's Dilemma

Figure 3 - Innovation Strategies

Source – Christensen, 2006

As discussed above, the disruptive innovations are initially so small and uninteresting ideas that incumbents simply ignore those areas. This gives the innovators and small companies some time to invest in their ideas and make them better while the bigger organisations ignore those ideas. The extended time provided to the innovators gives them an opportunity to expand before they come in the eyes of existing players.

Here it should be mentioned that managers of the existing firms are not ignorant to the innovations in the market, however, as discussed above, these managers are answerable to the shareholders and Board of Directors for their performance. Thus they focus upon those projects and product improvements that provide a sure shot income in the short term. It is not that the incumbents do not adopt disruptive innovations. However, by the time the disruptive innovations catch their eye, enough time has been lapsed to allow the new

smaller players to establish themselves and understand market dynamics as well as the technology (Danneels, 2004).

A good example of the the difference among sustaining innovation and disruptive innovation is found currently in the automobile industry. While the industry giants such as Toyota and BMW are continuously improving their automobiles in terms of fuel efficiency, better engines, and greater durability, one company is coming up as a disruptive innovator and changing the market dynamics slowly. This company is Tesla which is working solely on electric motor vehicles. How the markets will change due to Tesla? Currently cars run on gas or oil which is provided through petrol stations around the world. Tesla, on the contrary runs on battery powered by electricity. As a result, a number of battery charging stations are springing up everywhere in the world, including Dubai. This will take the business out of not just old automobile makers but also the supplementary products such as the oil industry and transfer it to the electric charging stations and battery manufacturers.

Secondly, Tesla is targeting the customer segment who cannot afford cars due to the rising feul costs as well as high maintenance costs. Tesla is coming up with cars that do not need servicing and can be maintained at minimal costs. Thus while the market leaders such as Toyota and BMW have also realized that the need of the hour is electric vehicles, Tesla cars are already selling like hot cakes in the market the world over. As a result, the existing players such as Toyota and BMW are finding it hard to compete in the electric motor category. Furthermore a number of incumbents of the industry have lost tremendous market share and are on the verge of shutting down as they do not have the resources to participate in completely new technology that commands the making of electric motor vehicles.

2.5 Innovators Dilemma

The dynamic nature of businesses in the present-day world has been compared with the stormy seas. Here those who ride high may actually face extinction while the low riders may survive in the turbulent waves. In such an arena, according to economist Joseph Schumpeter (2003) Gales of creative destruction,” come across industries and as a result the old and obsolete companies sink. However, in the 1990s these waves of periodic

destruction became very strong, challenging even the strongest of market players. In such a situation Christensen (1995) came up with the theory of disruptive innovation terming it as an “Innovator’s dilemma.” In this theory, he tried to give a reason to why great companies fail during times of change. He stated that good managers often face a dilemma i.e. by doing exactly what is expected of them – getting customer feedback, providing them with the products they need, and invest in the growing business – they risk ignoring the disruptive innovations going on in the industry. As a result a number of old and solid companies with great management, fail in the face of disruptions caused by innovations. This theory has been termed as “one of the most influential theories of modern times” by the Economist as well as Harvard Business Review. According to *O’Reilly & Tushman (.2008)*, the innovator's dilemma is the difficult selection that an innovator has to deal with in the event of selecting the option to go through disruptive innovation process or to continue with the way business was done previously. The options include improving what is already in existence in their active practice or the unknown strategy for disrupting what is already existence in their system. From the above characteristics of the dynamic/disruptive innovation, it is possible to generate prospects on what the disruptive innovation can reveal to modern organizations. As a standard practice, it is uncommon that a technology or a product is characteristically sustaining or disruptive hence leading to the dilemma. In an event where the new technology is developed, the process of disruption theory does not command what the managers are expected to conduct.

However, the best practice in dynamic/disruption theory is ensuring that strategic choices are made between adopting a sustaining path and alternatively adopting a disruptive approach. It is always necessary to enhance the prediction of the extent in which the overall process applicant tackles the mandatory challengers in a prompt approach, providing improved products and services with the incumbents accelerating their innovations in defending their business operations. Apparently, as *Henderson (2006)* recommended, when the new technology increases in the overall process, the disruption process ends up guiding their strategic choices.

2.6 Theory of Disruptive Innovation

In its original form, this theory was developed and popularized by Clayton Christensen. This was initially introduced in *Christensen et al. (2006)* where the article “Disruptive Technologies: Catching the Wave” was originally published. In this case, the concept was being adopted in the describing on the extent in which the techniques that elicit a transformation available in the market and client’s expectations towards the direction of new dimensions of performance. Over the years, as the market dynamics progressively changes leading to a revolutionization of a new market environment, the concept of disruptive innovation has equally gone through a transformation. As noted by *Yuan and Powell (2013)*, in the contemporary practice, the idea of disruptive innovation is identified in the realms of a complex scope to include the technical, product, procedure and business model innovations (*Christensen et al., 2006; Hwang & Christensen, 2008*). This is evident from Christensen assertions that in an event they are faced with distinct threats of disruptive changes, almost all the incumbent firms end up being displaced from their industries due to the organizational and management inertia towards the process of adopting innovations (*Hwang & Christensen, 2008*).

For a number of years, this theory has served as a strong means of explaining “innovation-driven” growth (Christensen, Reynor, and McDonald, 2015). The theory was hailed as a beacon of light and a guiding star by the managers of many small, entrepreneurial ventures as well as by large multinational organisations such as Intel and Salesforce.com. The advantage of this theory is hedged on its capacity to count on the dimensions of time and performance as the fundamental elements of validating the existence of success in performance through innovativeness. In its initial formulation, this theory has typically adopted a combination of technology and new business models that have a capacity of exploiting the overall process and their potential for enhancing rapid further development and as such leading, to the disruptive innovation as shown in figure below

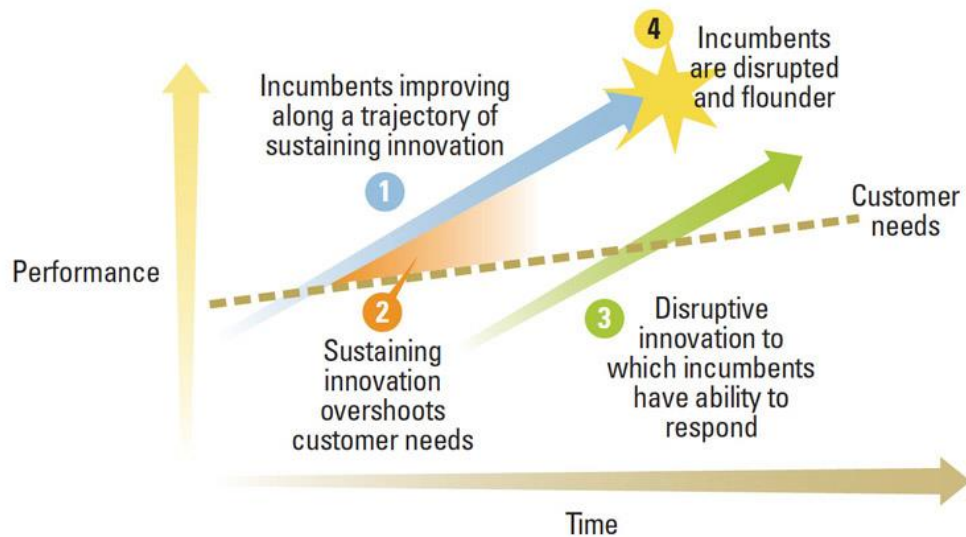


Figure 4Disruptive Innovation Characteristics (performance/time). Source: Yuan and Powell (2013)

Taking into account of the above analysis, it is evident that there exists a direct correlation between the customers, their performance characteristics of the products and the services offered in specific market segments. This is also inclusive of the different capabilities of organizations operating or sourcing to function in the various markets which are expected to change over time in future (*Hwang & Christensen, 2008*). Hence, as the customer's dynamics and circumstances variations in the market and sustain their innovation, it will be possible to a particular organization to be disruptive to the other one. Hence, as the circumstances of their client's changes, it will be possible for them to be attracted to a particular product or another one may also change.

As the customer's circumstances end up turning, the performances of characteristics that attracts the customer's ends up changing the product or other may equally change. The applicability of this model to the evaluation of the concept of disruptive innovation is hedged on its capacity to differentiate the sustaining and disruptive innovations (*Christensen, Horn, and Johnson, 2008*).

Another aspect of disruptive innovation is that it may take longer than the other innovations and the risk of failure is high as market may not always understand or accept the product changes, however the returns of such an innovation are also high if it gets approval of the customers. This is because the disruptive innovation generates a new-fangled market for the product of service and can also change the way the market for that product functioned previously in terms of marketing, sales, production, or even customers (King and Baatartogtokh, 2015).

To summarize, the concept of disruptive innovation can be divided into four key parts

Existing Market Players are improving along the path of innovation – According to the theory of disruptive innovation, while the existing players or “incumbents” as they are called, are working towards improvements of products through dynamic changes or innovations, disruptive innovation mostly comes from those outside the industry as these people are not looking for a product improvement but are working to find a completely unique use of the product (King & Tucci, 2002). Thus when we see the case of Nokia, we find it trapped in its vision to produce better and longer-lasting mobile phones with a longer battery life etc. while on the other hand, Steve Jobs was looking at the mobile phone as a source of total connectivity in terms of internet, social media, emails, and a complete package rather than a simple talking device. Thus while Nokia was finding new ways of making the existing mobile phones better, Apple came up with a product that completely transformed the way mobile phones were used by the customers.

The speed of disruptive innovation outruns customer expectations – at times the disruptive innovation brings the product changes at such a speed that even customer expectations are left behind. As a result a completely new use of the product is developed and many a times the market may not even be ready for that change. This is the result why at times disruptive innovations may be considered to be ahead of their time (King & Tucci, 2002).

Existing players have the competence to respond but fail to achievement it – since incumbents are already in the business of making that product and they know their customers and markets well, they have a great chance to exploit the new market created by disruptive innovation. However, in many cases it is seen that incumbents face ego issues when adopting the new product or they take too long to watch whether the product is accepted or rejected in the market that they lose the first movers' advantage and are often left behind.

Existing Players lose as a result of disruption – as discussed above, incumbents are often bent upon their own products and are so obsessed with it that they do not see the change in the market. As a result, they not only lose their market share, slowly they fail as a company.

This is explained in the figure below:

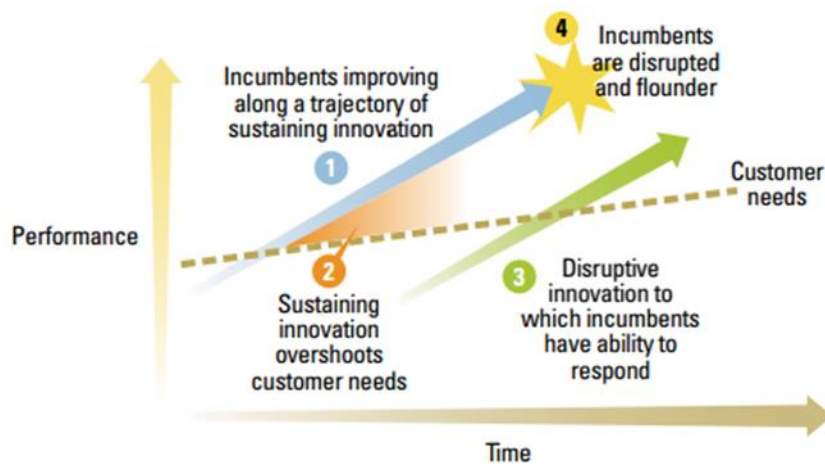


Figure 5 - Four fundamentals of the Theory of Disruptive Innovation

Source – Yu and Hang, 2010

The above figure compares product performance trajectories with customer needs trajectories. It can be seen from the Figure above, that the incumbents or the existing players are so focused on the high-end customers that the requirements of lower end clients and even many mainstream customers become overshadowed. As a result, a big part of

market is ignored by the existing players of the industry. A disruptive innovation actually targets these ignored customers and often an outsider sees this neglected segment and tries to cater to their needs. Eventually, the new player makes his product and service offerings better with time and captures a much higher market share than the existing players. Here the market dynamics start changing. If the existing players do not change their business models according to changing market dynamics, they eventually run out of business. Thus the disruptive innovation completely changes market dynamics, customer needs, as well as market leadership trends (Christensen, Reynor, and McDonald, 2015).

2.7 General Characteristics of Dynamic/Disruptive Innovation

In regard to the underlying concept of dynamic/disruptive innovation, it highlights a process in which a smaller company with limited resources is better placed to challenge a well connected and strongly established incumbent businesses successfully. Particularly, *Christensen et al. (2006)* noted that the occupants in a market tend to orientate their approach on the improvement of their products and services for their greatest demanding clients. As a consequence, these organizations tend to neglect specific segments while over - researching on individual dominating market segments. According to the author, candidates that prove to be dynamic/ disruptive end up to be successful in targeting the market segments that have been neglected hence gaining a foothold in the delivery of a more suitable functionality often at a limited price.

As a consequence, *Sandberg (2002)* noted that the incumbents who are often focusing on increased profitability in more-demanding segments often take the time to respond in a more vigorous manner. The **first** characteristic of disruptive innovation is that it is a **process**. As noted by *Gatignon et al. (2002)* dynamic/disruptive innovation cannot be regarded as a product or a service at a particular fixed point. However, it ought to be used in referring to the evolution of the products and services delivered over time. For instance, taking into account of the initial minicomputers, they were disruptive not only by virtue of being low-end upstarts after their initial introduction in the scene. However, the process followed by the minicomputers to the superior mainframes in many

markets to enter the mainstream market has a direct relationship. Focusing on different examples of market disruption, it is worth appreciating the fact that majority of the innovations starts their life as a small-scale experiment.

To affirm this analogy, *Schmidt and Druehl (2008)* noted that disrupters often tend to be oriented on sourcing for a new business model instead of merely the products. Upon their success, their path of achievement from the low end of the market to the mainstream market initially takes a huge share of the incumbent market venture and later their profitability. This is a long-term process where the incumbents will have an opportunity of being creative in defense of their long term established franchises. The process need to generate a modification on five elements which are the price, flexibility, suitability, customization and disruptive competitors to could substitute the traditional market. (Christensen et.2001).

The **second** characteristic of dynamic/disruptive innovation is that **the disruptors** often construct their business models that are extremely different from those of the incumbents. In a study by *Omachonu and Einspruch (2010)* on dynamic/disruptive innovation in the healthcare industry, the author hypothesized that the general practitioners who operate out of their offices majorly rely on their years of experiences on testing the results for interpreting the patient's symptoms, making their diagnosis and prescription of treatment choices. Nevertheless, as an active approach to disruptive innovation, modern clinicians are opting the application of disruptive path as a business model, adopting distinct protocols for diagnosing and treating a small but an increased number of disorders. Furthermore, *Danneels (2004)* noted that through focusing on the customers covered by the incumbents, their business models challenge the incumbents often edging them out of active business operations.

The **third** characteristic of dynamic/disruptive innovation is that some of the disruptive innovations succeed while others fail or in the other words “**hunting opportunities**”. As noted by *Charitou and Markides (2002)*, the major mistake made by contemporary entities attempting to embrace disruptive innovation in their practice is assuming their success is the virtue of adopting a disruptive innovation. This means that it is not all the disruptive paths that ultimately lead to the success and on the other hand not all the successful newcomers lead through disruptive paths. For instance, as noted by Tellis

(2006), some of the internet-oriented retailers had pursued a disruptive strategic approach, but very few of them succeeded. Hence, bracketing all businesses that succeed as disruption, entities that success through different manner will be perceived as a source of insight into a standard approach for success. As noted by *Christensen et al. (2006)*, this may act as a significant challenge to the management as they attempt to mix and match behaviors which are inconsistent with each other hence failing to achieve the expected results. For instance, taking into account of both Uber and Apple companies, they both succeeded under the virtue of disruptive innovation. In this case, both managed due to the adoption of a platform oriented models. Nevertheless, their initial success was hedged on sustaining innovation through an expansion of their networks and functionalities that distinguish them from their other traditional practices.

Lastly, on characteristics, the **refrain of dynamisms** or disruption can be misleading to the audience. In this case, *Sandberg (2002)* noted that the incumbent entities are not necessarily subject to responding to the disruption, but they are supposed to progressively strengthen their relationships with their core clients through investments in sustaining of innovations. To affirm this equivalence, *Gatignon et al. (2002)* noted that entities involved in disruptive innovations could work on creating a fresh division of activities that are only oriented on the growth chances that are sourced from the disruption. A study by *Omachonu and Einspruch (2010)* noted that the primary attribute of success in disruptive entities is hedged on their abilities to separating themselves from the traditional organizations in a particular market environment. Of course, as an aspect of collective knowledge, with time as the disruptive stand-alone business expands, it may consequently result to stealing their customers from the core with the corporate leaders being mandated in not trying to solve the underlying issues prior it is perceived as a critical issue. Therefore, to summarize up the disruptive innovation general characters in points:

1. Disruptive innovation process takes longer to develop
2. Low financial income at first and then raised eventually.
3. Have greatly and signification social impact
4. Can disable and paralyze the traditional/existing market for a while through hunting the opportunities.

5. Can launch new market which wasn't exist before
6. The disruptive innovation launched by entrepreneur and inventors and disruptors
7. Higher risk associated
8. Faster market penetration and spreading achieved regarding its dynamics
9. Higher degree of impacts once it released.
10. Can destroy the complicated system by replacing with much simpler and easier system.

General characteristics of disruptive innovation can assist identifying product or service with disruptive innovation, although it can't evaluate the success or failure of product and service within an industry, or measure the reflection of disruptive innovation on industry level, especially if disruptive innovation described as a process. Christensen & Raynor (2003).

This main issue that faced disruptive innovation products or services in the market, that they were implicated by entrepreneurs but not the leaders of the industry, as most of leaders prefer the traditional product and service.

Based on (Boye.2013). Markide (2006) admit that disruptive innovation assists industry expansion through attracting new customers, and this leads eventually to invite existing customers to change their behavior towards new product and service.

2.8 Strengths and Weaknesses of this Concept

The concept of disruptive innovation is one of the key concepts in the modern times. These innovations do not only bring out the new leaders of the industry, they also challenge the operations of the existing companies pointing out the weaknesses in their value chains and the need for structural improvements (Kiesling, 2014).

The concept also bring to light the new leaders, those who accept the change and welcome the challenges that this disruptive innovation will bring about. Those companies and managers who do not accept the change and stick to the way things were done in the past, also become a part of the past.

Furthermore, the companies that accept the change inculcate a culture of change within themselves. Such dynamic organisations are not afraid of the change, rather their employees know how to re-arrange their efforts to overcome the challenges brought about by the change (King and Tucci, 2002).

The theory of innovator's dilemma has received various accolades for being one of the greatest theories of modern times. However, despite its widespread acceptance among the notable academia, it is hardly ever tested for validity and generalizability among the academic literature. This theory was mainly based on Christensen's research on the hard disk drive industry of the 1970s and 80s. After that he wrote a few other articles on the subject however, little research is available on the quantitative testing of this theory. Furthermore, those researches that are published fail to provide evidence required to confirm the correctness of this theory. According to Christensen, Grossman, & Hwang, (2009) defend this by stating that this theory has not been proved by quantitative analysis because of the inability of statistical measures to test such a theory. However, if case studies are to be seen, these case studies prove the theory to be correct case after case across any industry selected (Christensen, 2006).

Another accolade of this theory of Disruptive innovation is that it contradicts the previous theories of company failures. According to previous theories, companies fail when their capabilities become obsolete and competitors replace those capabilities with something new and stronger to succeed. However, Christensen (1995) argued that companies may fail even though they possess the necessary capabilities and are up to date with the customer demands. This happens when companies fail to see the change in the market and products and focus too much on the existing competition thus ignoring the impending threat of competition from new entrants. Thus, this theory brought about a change in which previous organization theories were built.

This theory also spot the light on the important and visionary role of the managers of leaders of the companies that survive in the face of disruptive innovation. Christensen,

Grossman, & Hwang, (2009) state that leaders need to be able take risks and adopt disruptive innovation rather than shunning it as a fad. Thus according to this theory, the riskiest thing that a leader can do is to ignore the disruptive innovation and change accordingly.

Lepore (2014) critiques the theory by stating that while Christensen highlights the quality of successful firm that it innovates and also adopts the disruptive innovation at the earliest, he does not identify what factors associate innovation with continuous success of a company. Thus while Christensen uses case study methodology to identify the disruptive innovations in various industries, the theory fails to provide any quantitative proof of innovation and its relationship to success.

According to Christensen, Reynor, and McDonald (2015) the theory is facing the risk of becoming the target of its own triumph and popularity. In an article published in the Harvard Business Review they answer to the critique of this theory that a number of allegations regarding the inapplicability of this theory are actually due to the fact that it has been misrepresented and widely misunderstood as well. Additionally, the small refinements of the theory over the last two decades has also overshadowed the original work of Christensen (1995). Answering Lepore's critique, Christensen, Reynor, and McDonald (2015) state that a number of arguments given against the theory by Lepore (2014) were already answered in several articles written by the academics over time. One reason why the theory has been misunderstood and criticized is that due to its wide dissemination, the term "disruptive" is being used by innovators for every innovation, without understanding the true characteristics that differentiate disruptive innovation from "any" innovation. This is evident from the Figure below as to how "loosely" this term is being used by innovators and businesses over the years

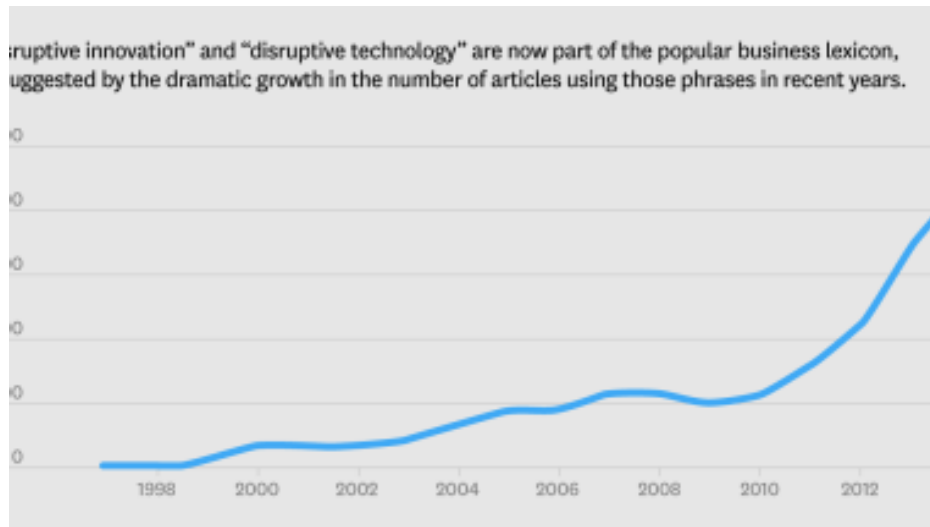


Figure 6 - Use of the Term "Disruptive Innovation" by businesses

Source - Christensen, Reynor, and McDonald (2015)

They further argue that each company and every industry is different. Thus what describes a disruptive innovation in one industry may not be termed as disruptive in another industry due to totally different industry dynamics. Christensen, Reynor, and McDonald (2015) also warn that if this term is used so ubiquitously by managers without understanding the true characteristics of disruption, then there are more chances of failure than there are of success.

The biggest and most important characteristic of disruptive innovation, they argue, is that ““Disruption” defines a process whereby a smaller corporation with less resources is able to magnificently challenge recognized incumbent businesses.”(Christenses & Bower, 1995). Since the existing players in the market are competing for the customer money, they sometimes exceed the requirements and requirements of one segment of customers and in their competition, they may totally ignore the other customer segment. Thus when small players enter the industry and target that ignored segment of customers, by offering something that is according to customer needs and often at a lower price than the market, this is when disruptive innovation takes place.

2.9 IKEA and innovations

IKEA is a home store giant that has taken over the world with its innovations in such a business which is considered simplistic and prior to IKEA the furniture stores were simple walk in and select type stores. IKEA not only changed the way business industry worked but also over the years brought about number of innovations in its own way of doing business (Hummels & Frens, 2011). As a result, the company is today 409 stores strong spread over 43 countries around the world (IKEA, 2017).

As discussed above, Christensen and Bower (1995) gave certain characteristics of companies and businesses that can be termed as disruptive innovations. Before discussing the case of IKEA, we shed light on whether this company can be termed as disruptive innovation.

Christensen and Bower (1995) state that an innovation can be termed disruptive when a small company with fewer resources develop a product or service that challenges the way the market functioned previously. If we look at the case of IKEA and the furniture industry, the furniture industry can be dated back to human existence. The furniture industry around the world is mostly local industry with few small businesses that design and build furniture ready to sell to the final customer. The furniture manufacturers have a small set of suppliers and a small number of workers that convert the raw material into furniture.

The customers have little say in the furniture design and making as they usually pay a fixed price for the things they buy. On the contrary, IKEA started as a small business in Sweden, but it found a very big segment of customers that was previously ignored by the furniture industry players. These customers wanted more contribution in design and development of furniture. Furthermore, they wished to pay a smaller price than what was charged by furniture sellers and that too for durable furniture. IKEA found this segment to be totally neglected by the incumbents of furniture industry. As a result, the company came up with a business model that allowed customers to build their own furniture according to

their houses and provided them with relatively lower priced furniture that was also durable in nature. As a result, the incumbents of the industry faced stiff competition from a new comer that started at the bottom of the market, but slowly moved up and eventually left the existing players way behind and even forced them to go out of business. As in other industries, IKEA's competitors resisted changing their own business models according to the changes that were brought to the furniture industry by the disruptive innovation caused by IKEA. As a result, IKEA became the new and only leader in furniture and household industry around the world while the existing players perished.

IKEA is not a company that can be classified as "market-driven." Rather the company is truly "market-driving" in its operations (Schindehutte, Morris, & Kocak, 2008). While market-driven companies learn from the market changes, customer expectations, and sales figures, the market-driving companies take a totally different approach. These companies produce completely novel markets, produce sporadic bounds in customer value, design exclusive business schemes, develop new channels, raise service to unprecedented levels, and primarily transform the rules of competition as well as the basis on which companies compete. The market-driven companies may change according to the innovations in the market or the new products that arrive, market-driving companies like IKEA keep their transformation going despite the product or process innovation in the market. Thus for them, novelty is the not the only criteria to innovate (Schindehutte, Morris, & Kocak, 2008). IKEA attained long-run steadiness with above-normal returns that led to a continual competitive advantage. The company started as a local and trivial business but what differentiated it from other was its groundbreaking ideas and not products. The company did not start making profits overnight. They had to introduce the ideas that customers really got attracted to in order to earn great financial results. As soon as they familiar sources of sustainable benefit, they became market drivers and never looked back. The company has also been successful in its market segmentation and acquisition strategies as well as in its creative destruction strategy which encompasses continuously looking for economic change from within, thus destroying the old ways of doing things and discovering new ones (Bowonder, Dambal, Kumar, & Shirodkar, 2010).

The magnitude of IKEA's operations around the world can be understood by the fact that the company around one percent (1%) of the world's commercial supply of wood. In some countries such as Great Britain, IKEA has built not just stores but their own cities with its own schools, hospitals, and bus service as well. This shows that IKEA does not just enter a market, it works to develop the market as well.

IKEA is a company that not only reinvented itself over time, it also transformed the industry in which it operates. This is the biggest characteristic of disruptive innovation, that it creates the new way of doing business and transforms the ways in which an industry functioned in the past (Voelpel, Leibold, & Tekie, 2004). It is not always that a business model innovation may be successful. Companies like IKEA take the risk of failure and this is the biggest reason why they eventually succeed. In a world that is constantly changing, companies that do not take risks are bound to fail. This is not because they play too safe. It is because their management thinks that they can keep going on the way they did in the past. However, as market dynamics change, it is imperative for companies to evolve as well. IKEA has showed to the business industry around the world that changing times command changes in business model despite there being high risk of failure.

2.10 Hypotheses

This paper assumes that disruptive innovation in industry has shaped a different environment for customers which reflect on company performance and income. IKEA store as an example, shows a great impact on furniture industry, people start to enjoy shopping while visiting IKEA stores, and that leads to increase number of stores worldwide. Based on these expectations, the sequences of hypotheses are suggested:

1. Compared to Traditional selling methods, IKEA shifted to online, which increase the yearly income. Which leads to faster market penetration and spreading achieved regarding its dynamisms. As well as, destroy the complicated system by replacing with much simpler and easier system

2. Compared to the mainstream customers, IKEA targeted new customers, new market as well. The company has exploited a number of new markets that did not exist before.
3. Compared to expanding in process, there is increased number of branches. This is due to the fact that IKEA is known for its business process and warehouse style outlets that have a great satisfaction and social impact, because people enjoy doing things by themselves.
4. If IKEA considered to follow disruptive innovation in their process, it will be affected by four main features (Basis of competition, market shares, market size and customer behaviour) based on (Boye, 2013).

2.11 Theoretical framework

(Boye, 2013) in his thesis about the effect of disruptive innovation on mobile network mentioned several factors which has been obtained from above literature review. For the drive of this dissertation, only the disruptive innovation factor (theoretical field in this paper) will be under survey, analysis and discussion.

Based on Boye (2013) on his thesis, four factors may disturb the industry level and they are Basis of Competition, Market shares, Market size and customer behavior. **Basis of Competition** can easily change well-defined business models from proven/ predictable to new/ unpredictable for customers. **Market Shares**, can play a significant role as different parties engage in decision of take risk of Disruptive innovation or not, as well as the percentages of total revenue. **Market size**, eventually affect the disruptive innovation acceptance and absorb by customer, as more branches of the industry spread as much as consumer of the product and service required, as well as if it locally or internationally. Finally, **Customer behavior** toward the new product or service change overtime and increase industry level through it.

Theoretical fields	Factors	Theoretical description of factors	References
Disruptive innovation	Basis of competition	The basis of competition can change to price, flexibility, convenience or customization.	Christensen, 2001
	Market shares	Disruptive innovation can eventually replace established offerings and incumbents.	Christensen, 2013; Christensen & Raynor, 2003; Govindarajan & Kopalle, 2006
	Market size	The industry can be enlarged when new customers are attracted and existing customers consume more.	Christensen & Raynor, 2003; Markides, 2006
	Customer behavior	The customers' behaviors and habits can significantly change.	Dan & Chieh, 2008; Danneels, 2004; Christensen, 2006; Markides, 2006; Slywotzky, 1996

Figure 7 Theoretical factors based on Boye. 2013

2.12 IKEA store - Case study.

As discussed above, the selection of IKEA for the topic of disruptive innovation is due to the fact that IKEA, as a company qualifies for the application of the concept of disruptive innovation. This is due to the fact that IKEA entered a market that was already stable however, the market leaders were focusing on the customers who could pay the high price of furniture. IKEA owners saw the need of the neglected customers who wished to purchase customized furniture at a lower price. IKEA brought to the market, a business model that changed the way the furniture industry worked.

IKEA started as a small company and focused on the neglected customer segment. Thus the company was able to start small and grow gradually. While the other players in the market could copy IKEA's model, the company was already established and the brand strength forced the incumbents to lose business to the new comer.

Theoretical field	Factors applied	IKEA as a study case
Sustaining / disruptive innovation strategy (Christensen, 2006).	Issues and problem detection	Furniture industry wasn't having problem or issue to innovate or create a solution to it, the IKEA founder though that he wants people to experience new way of purchasing their item and do it by themselves as fun.

		Therefore, they start with disruptive innovation first, then they realize it reducing the cost of labor who fixing the items as customers do item fixing, reducing cost of transporting items to houses, as customer taking their own items.
	Target market	IKEA targeted both exciting and new market by offering both readymade item for traditional purchasers, and items need to work on and fixing for customers.
	Performance	IKEA performance depending on game changing to cope the market and customers' needs and can be dramatic by creating things and let the costumers imagine their own homes with IKEA items.
	Types of innovation	Revolutionary and radical innovation
	Customer satisfaction	Satisfy mostly new customers
	Business methods	IKEA create their own business models as the traditional models are not sufficient.
Innovation dilemma (Henderson. 2006)	The new technology affects the overall process.	The new technology increases in the overall process.
	strategic choices	The disruption in the process ends up guiding their strategic choices. As they start innovation at beginning and become a risk taker, then change to sustaining their success with continue sparks of innovation time to time. Therefore, they made between adopting a sustaining path and alternatively adopting a disruptive approach their own way to achieve success in the market.
Disruptive Innovation Characteristics (Yuan and Powell .2013)	Time	IKEA purchasing process (for example) taking less time especially with new system of purchasing. The traditional

		purchasing methods, plus self-purchasing methods where the customers service themselves.
	Performance	Highly performance
Disruptive innovation on the industry level (R.Boye.2013)	Basis of competition	“Inappropriately IKEA is not protected to the global recession. Nonetheless when many customers have less money to spend, our low price perception becomes even more applicable. This spurs us to continue our efforts to reduce prices and progress quality.” <i>Mikael Ohlsson, President and CEO of the IKEA Group.</i>
	Market shares	“Last year the IKEA Group increased its market share in all our retail markets” <i>Mikael Ohlsson, President and CEO of the IKEA Group.</i>
	Market size	“We opened 15 stores in 11 countries. We will continue to expand, although at a somewhat slower pace, and expect to open around 15 new stores in 2010, most of them in Europe” <i>Mikael Ohlsson, President and CEO of the IKEA Group.</i> This is being in 2009 and middle of economic crises.
	Customer behavior	"It makes it easy for customers to do all their shopping in one place, leading to fewer journeys and improving our opportunities to influence public transport, which is one aspect of our work to create a more environmentally approachable visitor flow". <i>Mikael Ohlsson, President and CEO of the IKEA Group.</i>

CHAPTER 3 RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methods adopted for the research study. It must be noted that the methodology is selected keeping in view the investigation questions and the determination of the research.

3.2 Methods Adopted

As stated by Christensen (2006) the best way to test the disruptive innovation theory as well as that of the innovator's dilemma is to perform case study analysis. This is due to the fact that this theory has not been proved or discarded based on quantitative methods in the last 22 years since it was first presented. On the contrary, all efforts to prove this theory have been met with insufficient proof to accept or reject it. However whenever a case study analysis was conducted, the researchers have been able to understand how disruptive innovation has effected a certain company or the overall industry, identifying the new leaders in the face of change caused by the innovation. Thus for the purpose of this research, a case study methodology is adopted. IKEA was selected as the company in the furniture and household industry with Dubai market as the specific case to study.

Since the study demands understanding how IKEA adopts various business models to suit the markets as well as an analysis of how successful the company is in its strategy, both qualitative and quantitative research methods have been adopted for this study. The qualitative method commanded the analysis of theories on the subject as well as their application to IKEA, both as a company as well as in the specific Dubai market keeping in view market dynamics of the UAE, particularly Dubai. Additionally, a quantitative analysis was also conducted using survey to gain customer feedback on how IKEA is performing in Dubai and what customers feel about this type of furniture stores in the UAE. Also, measuring the thread to other similar competitors. Additional to it, mixing and matching the survey findings with the disruptive innovation aspects from

disruptive innovation theories and its characteristic, leads to measure how the disruptive innovation may affect the industry level of execution. The conceptual framework of disruptive innovation in the industry shadowed within qualitative methods, besides, the quantitative methods used to support the finding of the theory aspects ensure the validity of results collected.

3.3 Research Instrument

The tool used to gather data was a questionnaire which included mostly closed-ended questions. The survey was conducted using the internet for easy access to various customer segments. To conduct the online-survey, the website of Surveygizmo.com was used in this research. The survey was divided basically in to two sections, as well as a demographic information section. These sections include 22 questions and items. The survey was available on the website for four days. The section following the demographic information, was applied to measure how customers understand the concept of disruptive innovation. The other two sections were fundamentally representing the disruptive innovation factors based on the theoretical framework discussed in the Literature review. As well as disruptive innovation characteristics potential characteristics disruptive innovation that may effects the industry. Both, factors and characteristics were reformed under IKEA store example of furniture industry, and represented respectively.

3.4 Sample

Random sampling was performed for this survey and it was circulated randomly online to number of people pool who expected to know and visit IKEA stores under the process of snowball technique to get results. Snowball sampling is a random sampling technique which is non-probabilistic in nature and the first few participants of the survey then refer to other participants who then take the survey. This causes a snowballing effect and is thus named. Total of (126) responses were detected within 4 days of survey being

on the field. The considered pool of responses was (101) with (average of 32 responses per a day), (25) was eliminated due to partial or incomplete survey and (1) was for testing purpose. Besides, there were zero disqualified responses, as well as zero quarantined of contributors. The questionnaire created and planned through a website called, SurveyGizmo tool, URL: <https://app.surveygizmo.com/distribute/share/id/3921033>. All information was absorbed through Email Campaigns and Source Tracking sheet.

Due to the research purpose in measuring the effects of disruptive innovation in industry level, data were collected from IKEA stores customers. This is to capture their impression about the store and how it effects the industry. The survey was launched online to be distributed to the contributors, who participated willingly. In the associate with the online survey, the informed permission and privacy of personal information and anonymity of candidate's identity was clearly stated in the beginning of the questionnaire. Furthermore, a clear declaration about the survey reason of conducting was also mentioned to avoid any misleading.

3.5 Validity and reliability

To test the validity of the survey, a test run was conducted with a sample of 15 participants to test whether the questions are able to collect information necessary to reach a conclusion regarding the hypotheses.

In order to test content and face validity each question of the survey was carefully designed to achieve the research objectives and each question was linked to the research objectives in an effort to attain content validity.

3.6 Measures

Both dependent and independent variables were measured for the determination of this research to test the hypotheses mentioned earlier. The questions were developed keeping in view the dependent and independent variables for the research. Cronbach's Alpha was planned to understand the content validity of the questions and to test how closely the questions are connected to each other and to the topic of research. The Cronbach's alpha for the questions showed a value of 0.77 which suggests that the internal consistency of the questions is acceptable.

3. 6.1 Dependent Variable

Depended variable is any variable change and effected by other variables. Such as factors, characteristic of disruptive innovation and success of the company, popularity of IKEA among customers, and profitability of IKEA are all dependent variables where the increase or decrease of these elements is influenced by the adoption of disruptive innovation by the company.

3. 6.2 Independent Variables

The adoption of new business models and that of any disruptive innovation by IKEA formed part of the independent variables of this study.

CHAPTER 4 DATA ANALYSIS

4.1 Introduction

This chapter offerings the data collected from primary research. This includes the survey results conducted to understand IKEA's position in the eyes of potential customers and also the factors that disruptive innovation brings to any industry.

4.2 Findings

The questionnaire data collected was examined by using "Statistical Package for Social Sciences Techniques" (SPSS). Then all data examined in details and demonstrated through tables and charts to explain it easily for the readers. Data analysis followed by descriptive Statistics to focus on the findings and shadowed them with the discussion.

The questionnaire data collected was analyzed by using Statistical Package for Social Sciences Techniques (SPSS). Then all data examined in details and demonstrated through tables and charts to explain it easily for the readers. Data analysis followed by descriptive Statistics to focus on the findings and shadowed them with the discussion. Demographic data was gathered to evaluate the survey pool selected. As well as measuring the awareness of disruptive innovation. Also, gender, education, region of origin and monthly income was measured.

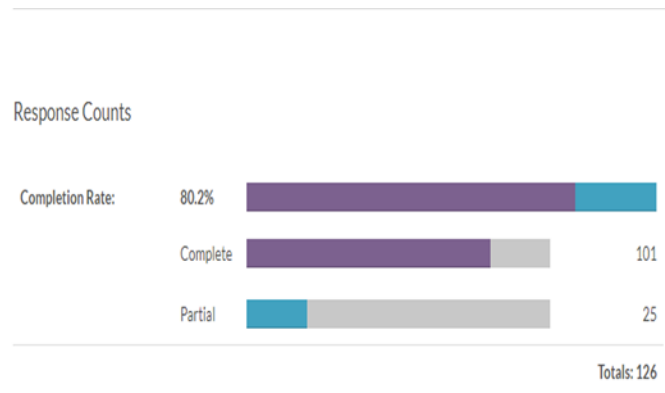


Figure 8 - Response Counts for the Survey

As it shows that the completion rate for the survey was 80.2% with 101 surveys completely filled and 25 others were partially filled by the participants. The partially filled surveys were not used for the purpose of this research.

As is evident from the Figure below, the survey was filled by 61.3% female participants.

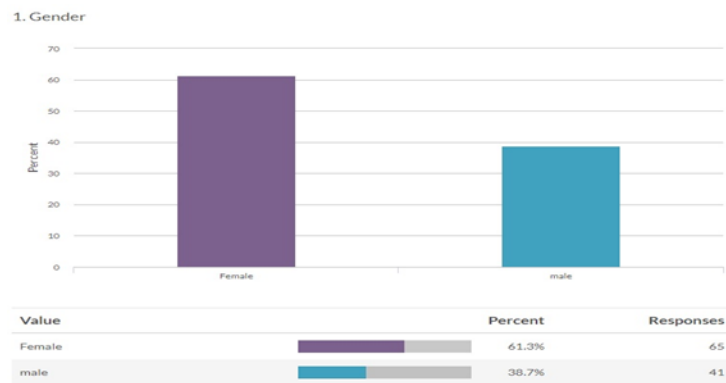


Figure 9 - Gender of Participants of the Survey

Dubai being a multicultural city, it is important to understand the geographic association of the participants. However, the survey reveals that most participants were from the Middle East and Africa region.

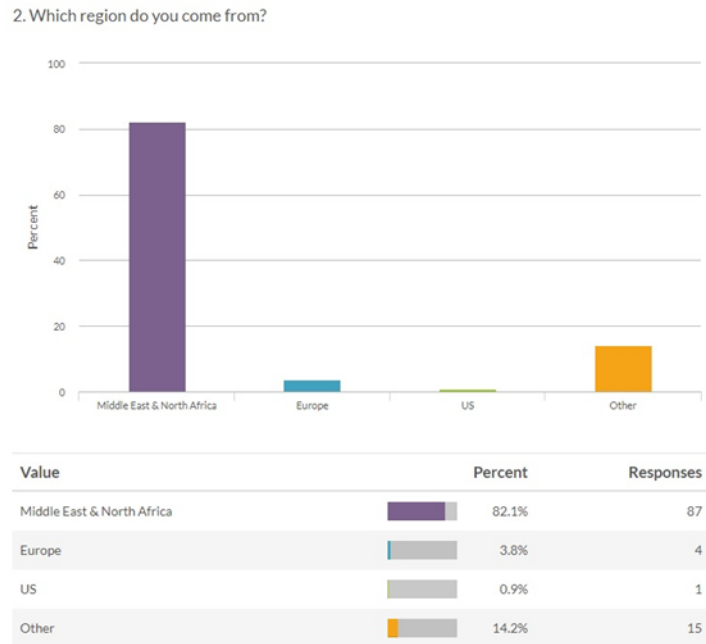


Figure 10 - Geographic Association of Participants

Almost all participants were within age range of 26 and 50, while around 14% fell below 50 years of age. Thus it is expected that most participants have crossed the student life and is safely in the professional life or managing their households (most being females).

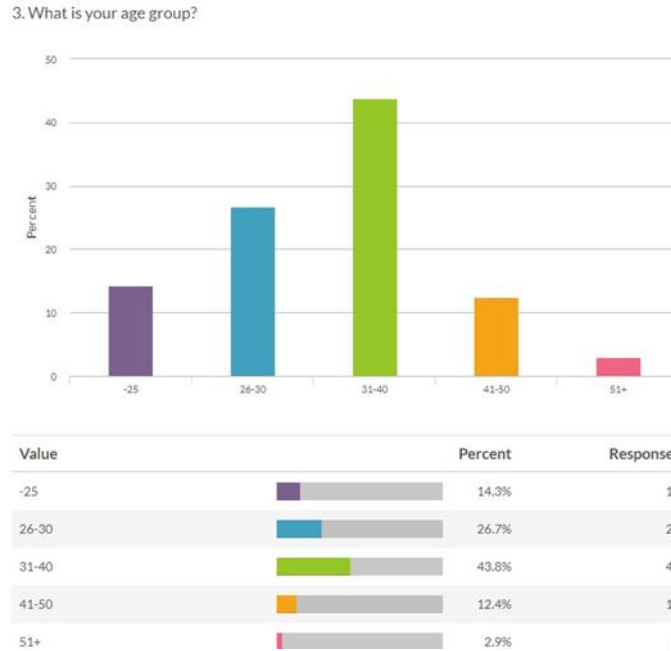


Figure 11 - Age of Participants

The participants were at least high school graduates with over 80% having Bachelors' degree and nearly 30% with post graduate degrees and qualifications.

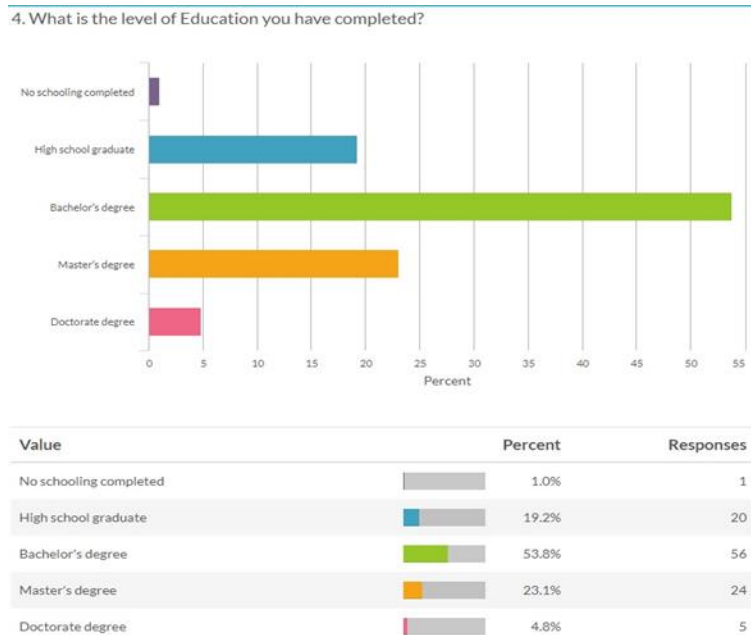


Figure 12 - Education Level of Participants

Of the participants, more than 60% worked in the government sector while the remaining were in the semi-government or private sectors, as shown by the graph below.

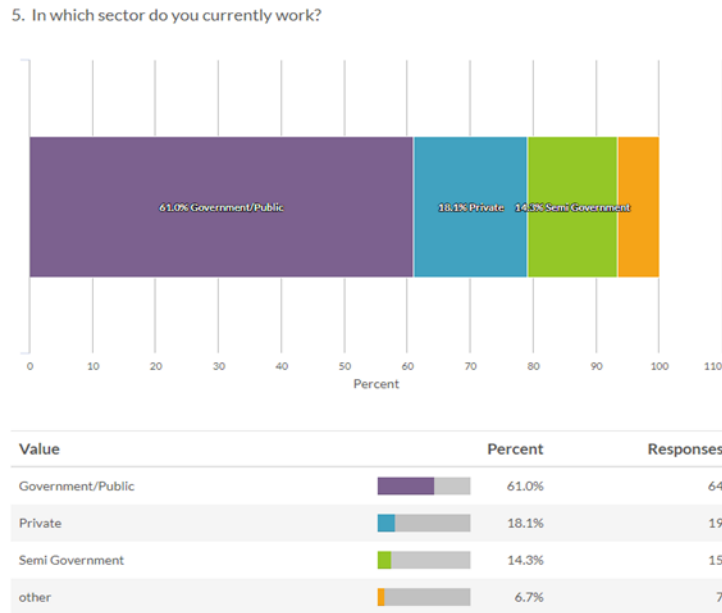


Figure 13 - Sector of employment of Participants

Both graphs below illustrate the working status of participants as nearly more than half of them working and employed. Which reflect of the monthly income between 11000-30000 AED.

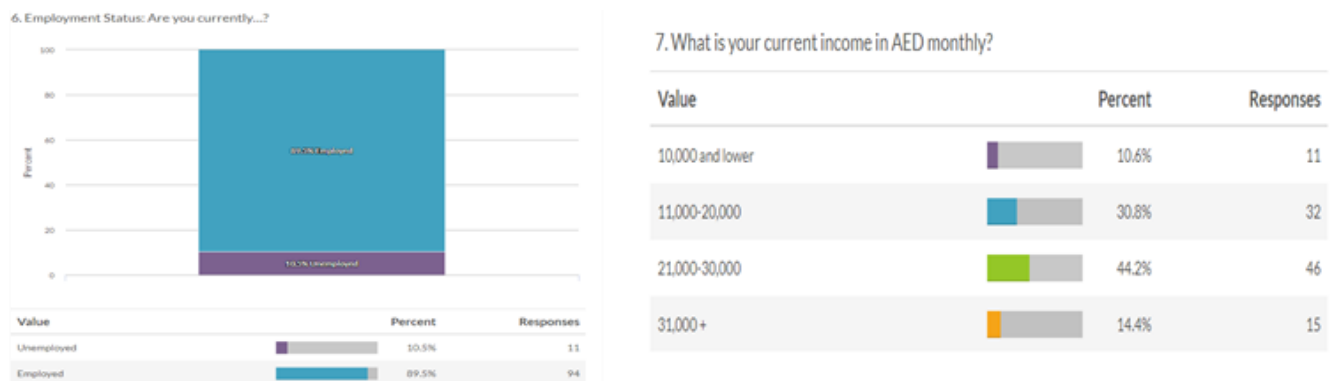


Figure 14 - Employment Status and Salary of Participants

The survey results suggest that the awareness of disruptive innovation terminology was shared equally as half of participant have an idea about what is Disruptive innovation is, and half doesn't know.

4.3 Reliability test

Case Processing Summary

	N	%
Cases Valid	101	99.0
Excluded ^a	1	1.0
Total	102	100.0

Reliability Statistics

Cronbach's Alpha	N of Items
.727	14

Item Statistics

	Mean	Std. Deviation	N
Item1 disruptive innovation	3.90	.985	105
Item2 disruptive innovation	2.44	1.633	105

Item3 disruptive innovation	2.65	1.786	105
Item4 disruptive innovation	2.53	1.730	105
Item5 disruptive innovation	2.57	1.675	105
Item6 disruptive innovation	2.34	1.577	105
Item7 disruptive innovation	2.57	1.751	105
Item8 disruptive innovation	2.72	1.686	105
Item9 disruptive innovation	1.88	.962	105
Item10 disruptive innovation	1.73	.677	105
Item11 disruptive innovation	1.72	.885	105
Item12 disruptive innovation	1.73	.893	105
Item13 disruptive innovation	1.73	.882	105
Item14 disruptive innovation	1.75	.876	105

Table 1 - Reliability Statistics

4.4 Descriptive statistics

Descriptive Statistics

	Mean	Std. Deviation	N
Item1 disruptive innovation	3.90	.985	105
Item2 disruptive innovation	2.44	1.633	105
Item3 disruptive innovation	2.65	1.786	105
Item4 disruptive innovation	2.53	1.730	105
Item5 disruptive innovation	2.57	1.675	105
Item6 disruptive innovation	2.34	1.577	105
Item7 disruptive innovation	2.57	1.751	105
Item8 disruptive innovation	2.72	1.686	105
Item9 disruptive innovation	1.88	.962	105

Item10 disruptive innovation	1.73	.677	105
Item11 disruptive innovation	1.72	.885	105
Item12 disruptive innovation	1.73	.893	105
Item13 disruptive innovation	1.73	.882	105
Item14 disruptive innovation	1.75	.876	105

Table 2 - Descriptive Statistics

Frequencies Statistics

	what is your gender	where are you from	what is your age	what is your education level	what is your work sector
N Valid	101	101	101	101	101
Missing	1	1	1	1	1
Mean	1.59	1.41	2.67	3.11	1.65
Std. Deviation	.494	.992	.960	.799	.943

Table 3 - Frequency Statistics

CHAPTER 5 DISCUSSION AND CONCLUSION

5.1 Discussion of the finding

Disruptive innovation does not just bring around a new product or a new feature of the product, it allows the innovator to create a whole new market for a product with its own features, characteristics, customers, and even a changed business model for the company and industry (Porter, 1980. Christensen et al. (2006) in the article “Disruptive Technologies: Catching the Wave” introduce how disruptor acts and behaves in the market. The concept adopted in describing the techniques that elicit a transformation available in the market and client’s expectations towards the new dimensions of performance. According to the research by Ando & Rigby (2013) the companies that take up the challenge posed by different markets and new products, are the ones that are more likely to thrive in the face of disruptive innovation.

Christensen and Bower (1995) describe disruptive innovation as “a process where a smaller corporation with fewer assets is able to successfully challenge well-known incumbent businesses.” According to the original theory, since the existing players in the market are competing for the customer money, they sometimes exceed the needs and requirements of one segment of customers and in their competition, they may totally ignore the other customer segment. Thus when small players enter the industry and target that ignored segment of customers, by offering something that is according to customer needs and often at a lower price than the market, this is when disruptive innovation takes place. This is the case of IKEA as well. Starting as a small business in Sweden, the company’s owners soon saw a gap in the furniture market. What they saw was that all furniture companies had either pre-designed furniture or they made to order. In both cases customers had little contribution to the furniture design and had little say in the prices. Thus the bargaining power of customers was low in the market. IKEA came up with a different idea that targeted customers who wished to design their own furniture and that too at affordable prices. This led to a company that was small, an outsider in the furniture industry, targeting a market segment that was previously ignored, and coming up with a concept that

completely changed the market dynamics. Thus IKEA can be considered as a good example of a company that caused disruptive innovation in an industry that hardly had any new thing to offer.

The case of IKEA is no different. When the company enters new markets, research suggests that the IKEA management is not bent on introducing only its organization culture in the market but it also learns and adapts to the new market and its demands. Thus as research suggests, when IKEA entered the Russian market the management witnessed a new trend. Thus wherever IKEA opened its store, the prices of real estate in the nearby areas shot up. This was a unique trend showing the attractiveness of IKEA stores to not only the customers but also to other retail businesses. As a result, IKEA's management decided on completely changing its business model by entering into a completely new business venture in Russia, i.e. of real estate. IKEA formed a separate division within the company by the name of Mega Mall. This division was responsible for the development of real estates and malls wherever IKEA was opening its new branches. In a few years, the Mega Mall division of the company started making more profits than the original business of selling furniture and household goods.

This suggests that IKEA's management is not bent upon bringing its own organisations culture and selling techniques to every part of the world. Rather the management and leadership of the company is not scared to accept the challenges posed by new markets and new ways of doing business. It is a company that will even change its business model to succeed in a market and change is not a threat but an opportunity to further expand.

The market dynamics increasingly change leading to an evolution of a new market environment, the concept of disruptive innovation has equally gone through a transformation. As noted by *Yuan and Powell (2013)*, in the contemporary practice, the idea of disruptive innovation is identified in the realms of a complex scope to contain the technological, product; process and business model innovations (*Christensen et al., 2006; Hwang & Christensen, 2008*). Christensen, Reynor, and McDonald (2015) also state that over the years, the concept of disruptive innovation has been modified so much that the original concept is forgotten. As a result a number of managers confuse any sustaining

innovation with disruptive innovation. This is evident from Christensen's assertions that in an event they are faced with distinct threats of disruptive changes, almost all the incumbent firms end up being displaced from their industries due to the organizational and management inertia towards the process of adopting innovations (*Hwang & Christensen, 2008*).

By studying the case of IKEA stores and furniture industry wasn't having problem or issue to innovate or create a solution to it, the IKEA founder thought that he wants people to experience new way of purchasing their furniture and household products and do it by themselves as fun. The furniture industry which is otherwise considered a simplistic industry in nature whereby companies purchase wood and other raw materials from suppliers and build their own furniture to sell to the customers who walk in to the stores and select one design. However, IKEA brought about a revolution in the industry and transformed the way the furniture industry worked. What IKEA brought to the industry can be termed as disruptive innovation as it changed the whole game. It changed the way companies in furniture industry operated. While most furniture companies are restricted to their own local markets, catering to local tastes and price ranges, IKEA went about becoming the market leader with over 400 stores in 43 countries around the world. How this happened was that IKEA not only revolutionized the way customers purchased furniture, it also went on an expansion spree that made it a multi-billion dollar company. IKEA has been instrumental in not just changing the rules of the game but also in adopting to the host country requirements. IKEA can be termed as a market-driving company as the IKEA management does not just adopt to changing technologies or innovations, they create new ways of doing the same old business as well. IKEA has adapted to changing markets and new countries as well as kept an eye on the businesses that are related to IKEA. The company has gone into such market areas that were not the main business of the company. Even while taking this risk, the company was successful in making more profits than its existing business.

Similarly, companies in the furniture industry are not known to outsource their strategic operations. However, IKEA, following the business model innovation and in order to create more value for the customers, even outsourced its main operations. This did not become a threat for the company and rather became an asset as the company's

management was better able to focus on the strategy to expand rather than being bogged down by the supply issues. As a result, the company has become successful not only internally, but also in revolutionizing the way furniture industry operated in the past.

The company's vision is "To create a better everyday life for the many individuals". The company operates on the principles "to offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them." Therefore, they start with disruptive innovation first, then they realize it reducing the cost of labor who fixing the items as customers do item fixing, reducing cost of transporting items to houses, as customer taking their own items. They build their own business model. Going through their financial report 2016, IKEA group launched nearly 15 new stores in 2015, and this figure reach to peak in 2015 with 267 new stores. Adding to it 34 franchisees who run their stock around the world. During this year a total of 590 million customers experience shopping from their stores. This mean that they target the right market, right customers in the right time. As the case of IKEA suggests that it was the management's vision that saw a need in the market where only the rich customers were being focused by quality furniture sellers and the lower economic class, which is a huge market, was completely ignored. IKEA came up with a business model that targeted the huge customer segment left uncaptured and provided them with durable furniture at lower prices. This is how the company brought about a change in how the furniture market functioned previously. The disruption in the process ends up guiding their strategic choices. As they start innovation at beginning and become a risk taker, then change to sustaining their success with continue sparks of innovation time to time. Therefore, they made between adopting a sustaining path and alternatively adopting a disruptive approach their own way to achieve success in the market. The company is so dedicated to its vision that it has been placed under a trust since 1982 so that it stays independent from the owners and the company is able to re-invest most of the profits in present and new IKEA stores, as well as in product development, sustainable solutions and by unceasingly dropping prices for the customers' benefit. IKEA's management understands that the path to disruptive innovation is different in each industry. Thus in the furniture industry, taking small steps and adopting sustaining innovation on a continuous basis actually changes the industry dynamics over

the years. Thus while the other furniture manufacturers kept their focus on selling furniture the traditional way, IKEA slowly introduced small changes for example, IKEA's catalogue is distributed in billions of copies around the globe. Similarly, IKEA slowly transformed the way it sells its furniture in the warehouse style. Additionally, the company has kept innovating in terms of outsourcing its suppliers, recycling the paper used to publish the catalogue, and also in the reducing its carbon footprint despite using up over 1% of the total commercial wood of the world. These and other innovations are shown in the figure below.

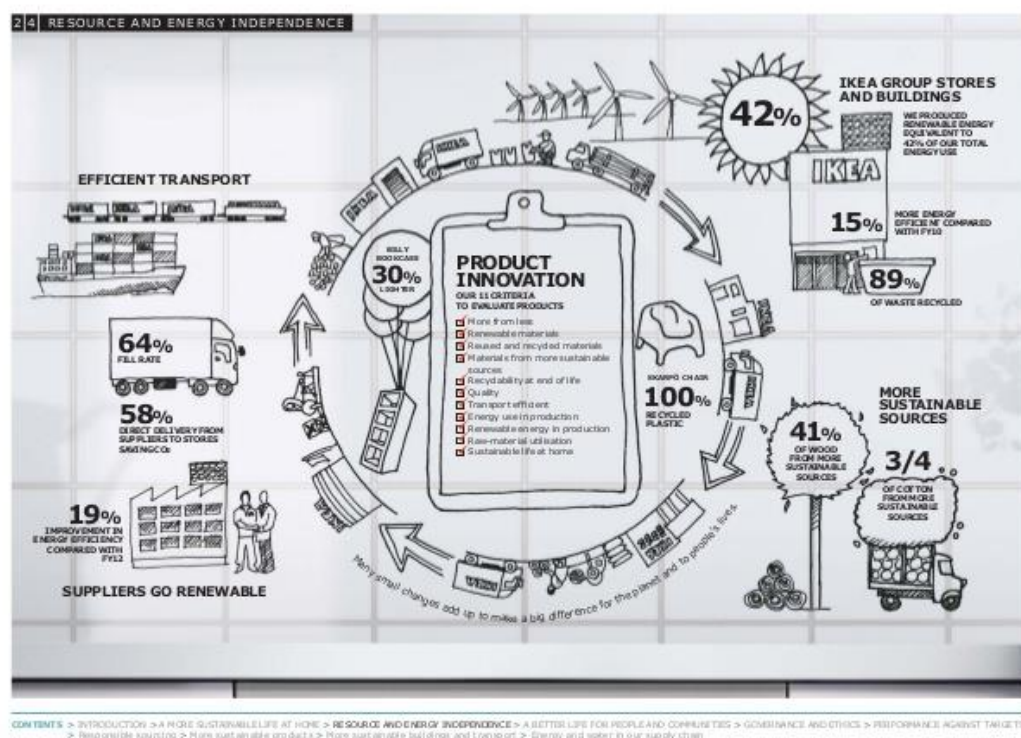


Figure 15 - IKEA's Innovation at the Centre of Organization

Source – IKEA Yearly Group Summary, 2017

This is supported by the survey results that compare the price flexibility with other similar stores, with majority of the participants showing their strong preference to shop at IKEA compared to other similar stores in the country. Furthermore, 71.5% of participants found that they prefer shop from IKEA due to experience of shopping, performance, prices and purchasing and delivering process. Nearly 79% of total participants would prefer to have more IKEA stores around and this is a demand. People

also strongly agreed (29%) and agree generally (52%) about the continuous innovation in IKEA stores is a reason to attract customers. Innovating in the deals, offers and benefits can attract nearly more than half 74.3% of the participants. As continuous innovation in products, ideas, as well as in the business model has been a part of the company's strategy, majority of participants (53.8%) agree on this way to attract more customers and enhance shopping experience. Here it is important to understand that not all innovation is disruptive in nature. Thus the continuous innovation discussed here is more likely to be "sustaining" in nature. Thus as IKEA has become a huge brand and a globally recognized company, it is important for the company management to keep improving its operations and do not just wait for a disruptive innovation. Thus finding customer needs and fulfilling them on a regular basis is now the key to long term success of the company. This is supported by the research of Christensen & Reynor (2003) and Coulson-Thomas (2017) whose work suggests that companies and leaders who stay on the path of innovation and also learn from the innovations of others, may they be insiders or outsiders of the industry, and do not let their egos come in between, are the true leaders of the future. These companies and these people will stay on top once the turmoil caused by disruptive innovation subsides and the new normalcy prevails.

51.0% believe that IKEA team are well trained, therefore they performing well in serving customers. Research by George, McGahan, & Prabhu (2012) also support this fact that companies who focus on teams and work on improvement of team functions are more successful in the modern day business world. Cavalcante, Kesting, & Uihøi (2011) also argue that in the face of business model innovations, it is highly imperative that the leadership takes care of the employees, make them understand the need for change, and keep them motivated in the face of disruptions. Change is not an easily acceptable phenomenon. Especially a drastic change like IKEA underwent in Russia where they completely transformed their business model and entered into a venture that they had no experience about. Furthermore, once the side business starts making more money than the actual business of the company, it is very easy to lose sight of the actual strategy. This can cause a lot of demotivation among the older teams and older employees. In such a scenario, managing the expectations of those employees and keeping the teams focused on the goals is no less than a challenge. However, IKEA's management proved time and

again as to how they will keep the teams motivated and working together in order to maintain or even increase the synergy created by the joint efforts of so many motivated people.

IKEA's operation process is easy and understandable to mainstream customers 41% agree with this statement and nearly 28% are strongly agree. This process and the warehouse style outlets are IKEA's trademark. Those entering the outlets are happy to customize the offerings according to their requirements and build their houses the way that suits them best. IKEA's still remains a family business as the leadership of the company believes that it is easy to make and sale expensive furniture and then let the wealthy customers pay for it. On the contrary, most of the customers are not wealthy and they cannot afford furniture out of a magazine. Thus IKEA tries to make durable furniture at affordable prices and also offers the satisfaction to its customers to purchase only the things they want and their houses can accommodate. This process not only relates to the operational model of the company but also to the value network that I an integral part of the business model of the company. For so many customers IKEA stores are no less than a destination. It is not that IKEA's furniture is cheap. However, the company creates value for each of its customers by allowing them customize the furniture according to their requirements and household needs.

Due to its unique selling solutions and outlet designs IKEA is a brand that is not easy to copy. While there are some other stores in the UAE that allow customers to customize their products, not many stores around the world have been able to copy IKEA's style or to compete with it. This is also reflected in the present study where almost 54.3% of participants though that IKEA consider as threat to other companies and this is because IKEA raise the basis of competitive.

5.2 Limitation of research

The biggest limitation of this research was the unavailability of any prior study on the subject that successfully tested the theory of disruptive innovation quantitatively.

Secondly, as the academics suggest that this theory can only be applied in case studies, performing statistical analysis to prove the hypothesis did not result in gaining confirmed answers to the research questions.

Although the research provides direction to how disruptive innovation effect the industry, there is further need to clearly state disruptive innovation in each industry and point the Disruptive innovation factors which have great impact on it to be more focus and precise in delivering accurate details. Cooperation from companies will be appreciated to examine their DI and how their customers react toward it.

5.3 Recommendation of further research

As one of the biggest critiques of this theory of disruptive innovation is that it cannot be proved statistically (Lepore, 2014). Even Christensen (1995) who gave this theory defends it by stating that the best way to test this theory is through case studies. Thus when case study analysis is performed this theory always stands true case after case and industry after industry. However, when trying to use statistical measures, the quantitative analysis always fail to prove or disprove the theory. This thesis was an attempt to test this theory statistically. However, to make the research stronger, a case study analysis was also performed in an industry that is conventionally very stable and devoid of much innovation. It is recommended that more research be conducted in the future that tries to test this theory using quantitative analysis.

The research topic was quite branched and there was no clear path regarding how disruptive innovation affect the industry. This is being a reason to take an example or case study to manage clearly as number of sectors impact the industry and one of them is furniture's. Theories were clear about how disruptive innovation can change the industry growth, at the same time it hard to measure without focus on small scale or part of one of industries in the country. Christensen's theory was shedding light on the need of disruptive innovation and obligate to start before it become a demand, and this was ignored for long time as there are always alternative and traditional methods. Even there

is number of industries start to walking on the DI path to cope the customers demand and expectation.

The recommendation is that increase the awareness about the disruptive innovation and its impact on the people, community and industry. Since there is a trend of terming every innovation as disruptive, it is very important that managers understand how to differentiate between disruptive innovation and sustaining innovation. As stated by Christensen, Reynor, and McDonald (2015) if the difference is not taught to the managers properly, there is a great risk that future successes will not be possible and managers will get bogged down by their wish to innovative disruptively only and may ignore the continuous improvement that sustaining innovation demands.

Additionally, getting senior management level to invest on the disruptive innovation instead for waiting for small entrepreneurs to do so. Disruptive innovation need the right people to manage it, especially in the industry as it cost a lot if it manages it wrongly. Disruptive innovation founded to solve unexpected issues to customers and turned it to demand. In the industry, most concern is around poor services, poor performance, stock availability and selection in the store (*Victor dos Santos Paulino, 2016*) and this is what IKEA founder worked on.

5.4 Conclusion

Among the modern day theories of business and management, Christensen's concept of disruptive innovations is one of the most popular theories among academic circles. This theory gives an understanding of how new products or services or entirely new uses of the existing products or services can transform the way an industry functioned previously. As mentioned by Christensen et al (2001), disruptive innovation can replace exciting market by building new one, if it is well managed. And if the organizations in the industry changed by disruptive innovation, are managed by visionary leaders, they not only accept the innovation but also move ahead to adapt their own business models to the new needs created by the innovations. However, those companies whose management

remains adamant and keeps on working the way things worked in the past, also become a part of the past. Disruptive innovations increase the competition in the industry as mostly these innovations come from the outsiders and not the incumbents of the industry. It will automatically raise the competition in the market, as other business tries to cope with the disruptor which leads to a shift in the basis of competition from price to greater flexibility and customization.

Not every company needs to come up with the innovation in order to remain competitive. The theory of disruptive innovation also states that companies may need to undergo business model innovation whereby they change at least two elements of their business models that comprise of the value network and operational model of the companies, as discussed in the literature above. The results of the present study about IKEA and its response to disruptive innovation at industry level have shown that IKEA is one such company that has survived the winds of change and has also been able to successfully keep its own business model in countries around the world, by anticipating the market changes and adapting to those change. What IKEA brought to the industry can be termed as disruptive innovation as it changed the whole game. It changed the way companies in furniture industry operated. While most furniture companies are restricted to their own local markets, catering to local tastes and price ranges, IKEA went about becoming the market leader with over 400 stores in 43 countries around the world. How this happened was that IKEA not only revolutionized the way customers purchased furniture, it also went on an expansion spree that made it a multi-billion-dollar company. IKEA has been instrumental in not just changing the rules of the game but also in adopting to the host country requirements. IKEA can be termed as a market-driving company as the IKEA management does not just adopt to changing technologies or innovations, they create new ways of doing the same old business as well. IKEA has adapted to changing markets and new countries as well as kept an eye on the businesses that are related to IKEA. The company has gone into such market areas that were not the main business of the company. Even while taking this risk, the company was successful in making more profits than its existing business.

Similarly, companies in the furniture industry are not known to outsource their strategic operations. However, IKEA, following the business model innovation and in order to create more value for the customers, even outsourced its main operations. This did not become a threat for the company and rather became an asset as the company's management was better able to focus on the strategy to expand rather than being bogged down by the supply issues. As a result, the company has become successful not only internally, but also in revolutionizing the way furniture industry operated in the past.

According to the present study, in the UAE, IKEA has been successfully able to hold its market share as customer experience of building their own furniture has been rated as the best characteristic of IKEA stores. Transforming the customer experience while shopping is greatly important in the industry, IKEA convert the traditional idea about getting new furniture by engaging customer to create their own furniture or fixing item parts. Since the UAE has one of the highest concentration of expatriates in the Middle East and those too who are young workers that come to the country for a few years, selling durable furniture at an affordable price has become the forte of IKEA. Furthermore, the stores attract customers as they provide a thrill of customizing furniture thus allowing customers to select what they want rather than being forced into packaged deals. By this way the company bring the experience of being one of IKEA labor, experience their work. It has shifted the idea to flexible choices and decision that the customer need to take, and it will reflect on customer behavior in the end of the day.

Targeting both existing and new market will directly enforce the industry to launch more branches to cope the number of customers and meet their expectation and demand and enrich their experience. Therefore, IKEA may need to increase its number of outlets in Dubai with malls to reach as much as possible population of shoppers. At the end the industry can simply raise or fall level based on the company's performance and nowadays, disruptive innovation in products and services have great impact on it. This research confirms the theory of disruptive innovation with the case of IKEA suggesting that companies that are willing to change their business models according to market needs and are open and flexible in their adoption of disruptive innovations in their

industry, better succeed as compared to companies that do not change their business models.

To conclude, the case of IKEA also sheds light on an important concept. Since each industry is different, the theory of disruptive innovation cannot be applied to every industry in the same manner. Thus IKEA shows that a number of sustaining innovations such as that in the furniture assembly, furniture delivers, in printing of catalogues, etc. a company can actually cause disruptive innovation at industry level. The most important thing is to identify the worth of original ideas by getting away from the conventional ways in which business is done by competitors. Customer needs, ignored set of customers, and solutions to the issues in the industry are usually visible to every manager, even those in the big companies. However, not every manager has the courage or the vision to take steps to address those needs or issues. Those players, inside or outside the industry, that take steps to address those needs, ignoring the small profits and the risks attached, are usually the ones that end up with disruptive innovations and in eventually becoming market leaders, leaving the incumbents behind.

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APPENDIX 1: DISSERTATION SURVEY



“ The Effect of Disruptive innovation on industry level”

“ IKEA” business model

Dear applicant,

This survey is being done as a part of a Project Management Master programme. Your responses would significantly influence a study regarding “ The Effect of Disruptive innovation on “ IKEA-store” business model.

All findings from this survey will assist thoughtful and understanding how the disruptive innovation effect the furniture & retail industry level based on the business model they approach. The survey is intended to reach different community category who benefit from IKEA services and experience.

No personal information needed as it is measuring general knowledge of targeted sample. Your responses to this survey will be fully confidential and no one can access these data except the researcher Sharifa Almaazmi and her instructor. Your honest responses are appreciated and greatly valued. If you have any questions, please contact Sharifa Almaazmi, at sh-almazem@hotmail.com.

Survey Duration is approximately: 5-10 minutes

Section 1: Demographics & General Information	
1. Gender	
Male	
Female	
2. Which region do you come from?	
Middle East & North Africa	
Europe	
US	
Other	
3. What is your age group?	
- 25	
26 - 30	
31 - 40	
41 - 50	
51 +	
4. What is the level of Education you have completed?	
No schooling completed	
High school graduate	
Bachelor's degree	
Master's degree	
Doctorate degree	
5. In which sector do you currently work?	
	Government/Public

	Private
	Semi Government
	Other
6. Employment Status: Are you currently...?	
	Unemployed
	Employed
7. What is your current income in AED monthly?	
	10,000 and lower
	11,000-20,000
	21,000-30,000
	31,000 and above
8. Do you have an idea about Disruptive innovation?	
	Yes
	No

Section Two: Factors

Disruptive innovation factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	1	2	3	4	5
1) “IKEA” items prices are flexible, affordable compared to other stores	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

2) You prefer shop furniture from “IKEA” store, than other similar stores	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3) Would you prefer more “IKEA” stores to be open around UAE	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4) Do you believe that continue innovation in “IKEA” stores reason to attract more customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business model factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	1	2	3	4	5
5) You prefer “IKEA” deals , offers and benefits more than other stores	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6) “IKEA” Devoting part of its profit in innovating and creation their stores.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7) “IKEA” staff are trained and skilled in serving purchasers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8) “IKEA” operations process, such as purchasing items are easy and understandable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section three: disruptive innovation characteristics.

Techno- characteristics	High	Low	I don't know
	1	2	3
9) “IKEA” performance compared to the performance criteria valued by mainstream customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10) “IKEA” products and services price are	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

demand- characteristics	Yes	NO	I don't know
	1	2	3
11) "IKEA" targeting new customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
12) "IKEA" targeting existing customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Nature & Threat - characteristics	Yes	NO	I don't know
	1	2	3
13) Disruptive Innovation nature affect the market	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
14) "IKEA" create danger to existing similar firms	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Thank you

APPENDIX 2: TABLES & FACTOR ANALYSIS TABLES

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	
1	3.990	28.503	28.503	3.990	28.503	
2	2.434	17.382	45.885	2.434	17.382	
3	1.298	9.273	55.157	1.298	9.273	
4	.997	7.122	62.279	.997	7.122	
5	.981	7.007	69.286	.981	7.007	
6	.853	6.092	75.377			
7	.653	4.661	80.039			
8	.579	4.135	84.174			
9	.571	4.081	88.255			
10	.494	3.529	91.784			
11	.382	2.729	94.513			
12	.319	2.276	96.789			
13	.243	1.733	98.523			
14	.207	1.477	100.000			

Component Matrix^a

	Component				
	1	2	3	4	5
Item1 disruptive innovation	.412	-.093-	.662	.181	.302
Item2 disruptive innovation	.728	.207	-.115-	.180	.153
Item3 disruptive innovation	.584	-.034-	-.143-	-.019-	.460
Item4 disruptive innovation	.714	.180	-.023-	.182	-.044-
Item5 disruptive innovation	.715	.121	-.208-	.232	.168
Item6 disruptive innovation	.629	.295	-.034-	.078	-.320-
Item7 disruptive innovation	.758	.282	.085	-.170-	-.336-
Item8 disruptive innovation	.748	.134	.151	-.280-	-.244-
Item9 disruptive innovation	-.324-	.248	-.212-	.561	-.475-
Item10 disruptive innovation	-.207-	.103	.814	.243	-.130-

Item11 disruptive innovation	-.252-	.714	.051	-.330-	.028
Item12 disruptive innovation	-.192-	.778	.122	-.347-	.017
Item13 disruptive innovation	-.306-	.697	-.156-	.133	.221
Item14 disruptive innovation	-.238-	.690	.032	.331	.240

Correlations

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.302 ^a	.092	-.056-	.507

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.229	14	.159	.619	.843 ^b
	Residual	22.128	86	.257		
	Total	24.356	100			

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	
	B	Std. Error	Beta		
1 (Constant)	1.259	.317		3.970	
Item1 disruptive innovation	.055	.061	.110	.905	
Item2 disruptive innovation	.039	.045	.130	.867	
Item3 disruptive innovation	-.048	.036	-.173	-1.333	
Item4 disruptive innovation	-.008	.040	-.029	-.210	
Item5 disruptive innovation	.054	.043	.183	1.245	
Item6 disruptive innovation	-.050	.043	-.160	-1.162	
Item7 disruptive innovation	-.028	.049	-.098	-.563	
Item8 disruptive innovation	.003	.048	.010	.064	
Item9 disruptive innovation	.052	.058	.101	.898	

Item10 disruptive innovation	.045	.087	.062	.519	
Item11 disruptive innovation	.039	.078	.070	.501	
Item12 disruptive innovation	-.014-	.082	-.025-	-.171-	
Item13 disruptive innovation	-.057-	.080	-.101-	-.711-	
Item14 disruptive innovation	.053	.078	.095	.688	

T-Test

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	what is your gender	1.59	101	.494	.049
	Item1 disruptive innovation	3.90	101	.985	.098
Pair 2	where are you from	1.41	101	.992	.099
	Item2 disruptive innovation	2.44	101	1.633	.163
Pair 3	what is your age	2.67	101	.960	.096
	Item3 disruptive innovation	2.65	101	1.786	.178

Pair 4	what is your education level	3.11	101	.799	.079
	Item4 disruptive innovation	2.53	101	1.730	.172
Pair 5	what is your work sector	1.65	101	.943	.094
	Item5 disruptive innovation	2.57	101	1.675	.167
Pair 6	are you employee?	1.89	101	.313	.031
	Item6 disruptive innovation	2.34	101	1.577	.157
Pair 7	What is your current income in AED monthly	2.62	101	.870	.087
	Item7 disruptive innovation	2.57	101	1.751	.174
Pair 8	Do you have an idea about Disruptive innovation?	1.49	101	.502	.050
	Item8 disruptive innovation	2.72	101	1.686	.168
Pair 9	Item9 disruptive innovation	1.88	101	.962	.096
	Item10 disruptive innovation	1.73	101	.677	.067

Pair 10	Item11 disruptive innovation	1.72	101	.885	.088
	Item12 disruptive innovation	1.73	101	.893	.089
Pair 11	Item13 disruptive innovation	1.73	101	.882	.088
	Item14 disruptive innovation	1.75	101	.876	.087

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	what is your gender & Item1 disruptive innovation	101	.102	.312
Pair 2	where are you from & Item2 disruptive innovation	101	.100	.322
Pair 3	what is your age & Item3 disruptive innovation	101	-.014	.888
Pair 4	what is your education level & Item4 disruptive innovation	101	.095	.345
Pair 5	what is your work sector & Item5 disruptive innovation	101	.001	.995
Pair 6	are you employee? & Item6 disruptive innovation	101	.055	.587

Pair 7	What is your current income in AED monthly & Item7 disruptive innovation	101	.163	.104
Pair 8	Do you have an idea about Disruptive innovation? & Item8 disruptive innovation	101	-.076-	.451
Pair 9	Item9 disruptive innovation & Item10 disruptive innovation	101	.089	.376
Pair 10	Item11 disruptive innovation & Item12 disruptive innovation	101	.627	.000
Pair 11	Item13 disruptive innovation & Item14 disruptive innovation	101	.547	.000

Paired Samples Test

		Paired Differences	t	df	Sig. (2-tailed)
		95% Confidence Interval of the Difference			
		Upper			
Pair 1	what is your gender - Item1 disruptive innovation	-2.098-	-21.958-	100	.000

Pair 2	where are you from - Item2 disruptive innovation	-.670-	-5.672-	100	.000
Pair 3	what is your age - Item3 disruptive innovation	.422	.098	100	.922
Pair 4	what is your education level - Item4 disruptive innovation	.936	3.145	100	.002
Pair 5	what is your work sector - Item5 disruptive innovation	-.541-	-4.815-	100	.000
Pair 6	are you employee? - Item6 disruptive innovation	-.132-	-2.815-	100	.006
Pair 7	What is your current income in AED monthly - Item7 disruptive innovation	.410	.273	100	.786
Pair 8	Do you have an idea about Disruptive innovation? - Item8 disruptive innovation	-.883-	-6.928-	100	.000
Pair 9	Item9 disruptive innovation - Item10 disruptive innovation	.371	1.326	100	.188

Pair 10	Item11 disruptive innovation - Item12 disruptive innovation	.142	-.130-	100	.897
Pair 11	Item13 disruptive innovation - Item14 disruptive innovation	.145	-.238-	100	.812

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Item1 disruptive innovation	Between Groups	1.051	1	1.051	1.084	.300
	Within Groups	95.959	99	.969		
	Total	97.010	100			
Item2 disruptive innovation	Between Groups	.005	1	.005	.002	.967
	Within Groups	266.827	99	2.695		
	Total	266.832	100			
Item3 disruptive innovation	Between Groups	.983	1	.983	.306	.581
	Within Groups	317.888	99	3.211		
	Total	318.871	100			

Item4 disruptive innovation	Between Groups	6.905	1	6.905	2.339	.129
	Within Groups	292.224	99	2.952		
	Total	299.129	100			
Item5 disruptive innovation	Between Groups	.001	1	.001	.000	.987
	Within Groups	280.692	99	2.835		
	Total	280.693	100			
Item6 disruptive innovation	Between Groups	5.238	1	5.238	2.131	.148
	Within Groups	243.317	99	2.458		
	Total	248.554	100			
Item7 disruptive innovation	Between Groups	3.310	1	3.310	1.080	.301
	Within Groups	303.383	99	3.064		
	Total	306.693	100			
Item8 disruptive innovation	Between Groups	1.632	1	1.632	.572	.451

	Within Groups	282.606	99	2.855		
	Total	284.238	100			
Item9 disruptive innovation	Between Groups	2.425	1	2.425	2.663	.106
	Within Groups	90.149	99	.911		
	Total	92.574	100			
Item10 disruptive innovation	Between Groups	.048	1	.048	.104	.748
	Within Groups	45.734	99	.462		
	Total	45.782	100			
Item11 disruptive innovation	Between Groups	6.277	1	6.277	8.636	.004
	Within Groups	71.960	99	.727		
	Total	78.238	100			
Item12 disruptive innovation	Between Groups	1.474	1	1.474	1.864	.175
	Within Groups	78.308	99	.791		
	Total	79.782	100			

Item13 disruptive innovation	Between Groups	4.883	1	4.883	6.631	.011
	Within Groups	72.899	99	.736		
	Total	77.782	100			
Item14 disruptive innovation	Between Groups	2.619	1	2.619	3.495	.065
	Within Groups	74.193	99	.749		
	Total	76.812	100			