

Rethinking Disruptive and Social Innovation: The Impact Model

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The leadership literature often emphasizes innovation coupled with disruption as a source of competitive advantage based on the assumption that, without it, organizations constrain social progress in organizations. We identify a new model that comprehensively considers not only disruptive innovation but also the social impact of future decision-making. We create a comprehensive framework which we call the impact model. There is a lack of an effective model that can support internal entrepreneurs in their social innovation. This new

model fills that gap, taking organizations in the direction of training internal entrepreneurs, thus known as intrapreneurs, to start initiatives that affect society and ensure their survival in

The implementation of the impact model brings the social impact of decision-making to the upper echelon of the organization by helping leaders to create both disruptive and social innovations.

diversity, equity, and inclusion (DEI). Organizations cannot innovate without taking into concern diversity, equity, and inclusion. To improve innovation, organizations must address diversity, equity, and inclusion as they innovate continuously.

They also need to evaluate what can become disruptive for both a product and social concern.

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Social innovation manifests itself in deploying and developing the most innovative solutions to challenge social issues in order to meet social needs in a better way than the previous ones (Zu, 2013; Yeratziotis et al., 2022). We carefully examined approximately 100 organizations around the world, and we found out that although many of them rank at the highest levels in investments made for the development of social innovations, they are not in good rankings in terms of achieving social innovation. Thus, they lack the necessary knowledge to be a diverse, equity-driven, and inclusive organization. In some cases, a manufacturer may spend a lot of money to achieve social innovation, but the results of these initiatives may appear disappointing (Zu, 2013; Phillips et al., 2019). What became clear in our examinations was that the organization's generous spending on social innovation was not delivering the desired results because of a flawed business model that was committed to the way of the past. A new model was needed for creating social innovations that could more effectively align the organization with its changing ecosystem so that it could address not only the dynamic changes in the customer base but also the social structure of the organization. Thus, this qualitative research was based on the following overarching research question:

Why have many organizations' generous spending on social innovation not delivered results?

The key informants and sample were solicited from both 172 middle and senior managers of an organization that had branches in 48 countries around the world. The demographic data analysis highlighted that 98 of the respondents were male and 74 of them were female. Analysis of the respondents' age distribution revealed that 21 of the respondents were between 25 and 34, 71 were between 35 and 44, 48 were between 45 and 54, 21 were between 55 and 65, and 11 were older than 65. Further analysis of the data also showed that 63 of the respondents were senior managers, while 109 of them were in middle management positions. After interviewing middle and senior managers of this organization, we revealed that the achievement of social innovation requires the realization of disruptive innovation that is conducted by human capital which can more effectively understand the needs and demands of society. People are diverse more than ever today, they arise from different social strata which are indicative of equity, and they must be included in organizational decision-making. Organizations that can hire more capable human capital can surpass their competitors in creating disruptive and social innovations and be better equipped for providing a culture of diversity, equity, and inclusion. The two risks that organizations face today are non-financial risks such as diversity, equity, and inclusion, and risk potential such

as failing to take the necessary steps with product development.

Thus, we offer a new model that addresses these challenges. The model deploys the organization's human capital and helps them to engage in disruptive innovation instead of moderate risk-taking. Disruptive innovations are those that gain a large market share by identifying and responding to unmet customer needs and can have a large impact on industry structure (Laermann-Nguyen & Backfisch, 2021; Küfeoğlu, 2022; Morris et al., 2023; Sewpersadh, 2023). In particular, disruptive innovation has been defined as "the phenomenon by which an innovation transforms existing products, markets, and consumer preferences by introducing user-friendly, convenient, and low-cost products" (Rajagopal, 2014, p. 200). This innovation also helps in developing a new market, supply chain, and value network, which "drives toward disrupting the long-standing market demand and value network displacing an earlier technology" (Rajagopal, 2014, p. 200). Organizations that engage in disruptive innovation, although they quickly gain a large share of the market, also purposefully achieve what we call social innovation (Chemma, 2021; Felicetti et al., 2023). In fact, by understanding their social responsibility and profit motivation, these organizations see society's problems as an opportunity. Building such an effective organization is facilitated by the implementation of the impact model which not only addresses the financial sustainability of an organization but also meets the needs of both employees and customers.

The Impact Model: A Catalyst for Transformation

In the impact model, we attempt to link disruptive innovation, social innovation, and DEI and offer practical guidelines that can improve the social impact for companies in the 21st Century. Managers should be aware that disruptive innovation is difficult for many organizations. The current condition of organizations and the business models they use have caused challenges with disruptive innovation. Disruptive innovation seeks to create breakthrough innovations to provide better products, but it also may impact both the social architect of the organization and the customer base (Christensen, Raynor & McDonald, 2015; Skog et al., 2018). For example, Samsung Electronics has developed disruptive innovation in the data storage market (Martinez, 2017; Wang et al., 2022), which resulted in a high social impact on industry structure through developing high-efficient green memory products and reducing carbon emissions (Wang et al., 2022). To investigate the impact of corporate social responsibility (CSR) on disruptive innovation, Wang et al. (2022) also conducted an empirical study in which they studied a sample of 226 firms. The results indicated that

CSR positively contributed to disruptive innovation. Since innovation requires support along with changing some approaches to work for some employees, top managers must be aware of not only the financial risk but also the non-financial risk as well. Many CEOs are paid as the shareholder value increases and thus some CEOs are profit-seeking and use short-term approaches.

The impact model focuses on a few basic points. First, we focus on the importance of disruptive innovation in gaining a major market share and reducing organization costs. Second, the model fulfills the hidden and unmet needs of customers by addressing them on the basis of diversity, equity, and inclusion. Third, the model shows the inclusion of human capital to have more effect on the innovation process. This approach leads to the growth of creative thinking in organizations which enhances survival.

There is a need to realize disruptive innovation and achieve high levels of social innovation (Datta, 2023; Tavanti, 2023). In doing this, the first step we considered for this model was that the organization should balance its financial and social goals. This step seeks to focus on the profitability of the organization but also seeks the social impact of diversity, equity, and inclusion. Equity is at the forefront of our decision to create this model as we found a story published in *Life Magazine* in which a Pakistani child was sewing a Nike while only earning six cents an hour (Lii, 1995). This photo resulted in countless calls around the world to boycott Nike products and led to a potentially fatal blow to the reputation of one of the biggest and best brands of sports products in the world---a true non-financial risk. This photo and its consequences led to Nike reforming its supply chain management and repeated advertisements to demonstrate this eventually saved the organization. Interestingly, this story shows that social transformations can also lead to disruptive innovation in organizations. Herein, this potentially fatal blow to the reputation of Nike caused the executives of this company to bring disruptive innovation to offset the social impact of this photo. In fact, there is one social innovation that makes Nike disruptive in the industry: reforming its supply chain and network value. We also suggest that organizations manufacture or produce cheaper and more products for lower-income groups across the globe. This is exactly what Nike did, and by revising many of its safety regulations, this organization cut ties with many local manufacturers and distributors in Asia. In addition, by giving up short-term profits, Nike ultimately ensured its long-term survival in

the market. Another example is Tesla, an American multinational automotive and clean energy company, which developed a plan that temporarily stopped the production of model-3 long-range automobiles in lieu of the cheaper short-range model-3 cars that meet the governmental stimulus of a \$7,500 rebate from the electric car incentive for personal taxes (Butler, 2023). Herein, Tesla disruptively and effectively innovated the scene by making these cars cheaper and more accessible to people. Thus, there is also one innovation that makes both Tesla and Nike disruptive in the industry: introducing low-cost products.

Our model then extends the collaboration of two departments of human resource management and customer service relations to create a new and better image of the organization in both the external and internal environments of the organization. In the past, some employees considered managers to be deceitful and believed that managers only cared about profit at the expense of building an inclusive culture. In addition to creating a culture of innovation and risk-taking that strengthened disruptive innovation, we suggest that organizations create a de-

The impact model focuses on disruptive innovation, D.E.I., and human capital. This approach leads to the growth of creative thinking in organizations.

fender image of society for their employees offering a sense of belonging to the organization. Also, customers had similar ideas that employees have, and the organization reached out to meet the needs of the new diverse customer that was at one time, over-

looked. The mission of the customer service relations department was to correct this perspective and created a new and better image of the organization for customers, which ultimately led to greater customer loyalty. The customer service relations department was trained in diversity, equity, and inclusion by what we call a deep dive learning event.

In the organization we studied, the human resource management department conducted training workshops to develop human capital and involve them in disruptive innovation coupled with diversity, equity, and inclusion awareness. This linked innovation with disruptive innovation. The human resources department was reminded that ignoring the link between disruptive innovation and social innovation due to budget constraints was not acceptable. In the interviews that we had with a group of senior and middle managers in this organization, we realized that these workshops were exactly what this organization needed. Also, the product development department of the organization began to design new and cheaper products for developing countries, which played a significant role in expanding the market of the manufacturer's products in countries

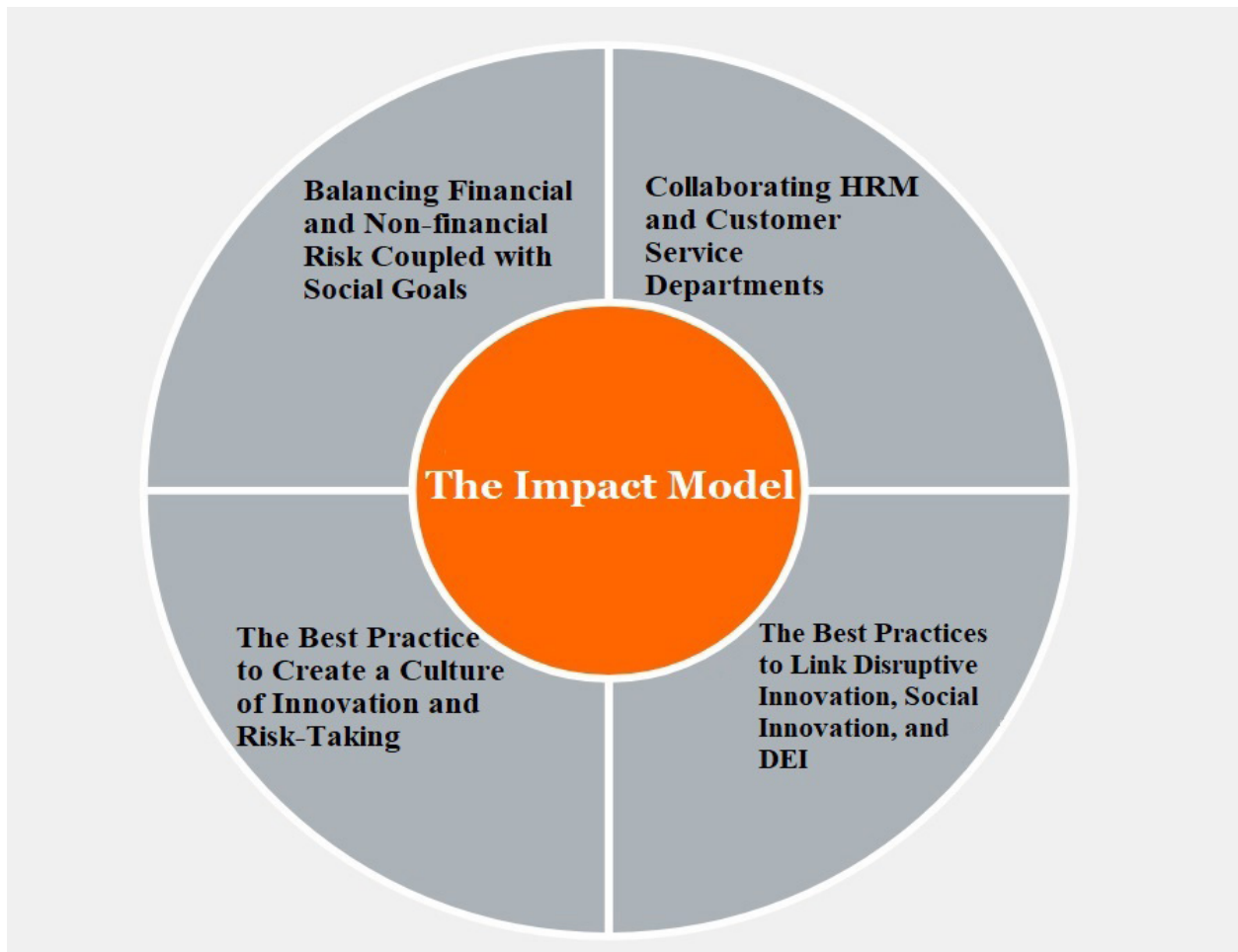


Figure 1. The Impact Model

such as India and Bangladesh (Banerjee & Savitha, 2021; Swazan, & Das, 2022). The results of the impact model implementation were the expansion of the market share, the enhancement of customer retention, and the improvement of profitability for this organization. These results in the one-year period ending in 2022 were key indicators of the success of this model. To measure the key indicator of customer retention, we suggest that companies use output metrics such as the average rating, satisfaction score, the number of attendees, and feedback forms. In terms of profitability, organizations can consider the four metrics of operating profit percentage, net profit margin, return on assets, and gross profit margin ratio. To evaluate the key indicator of market share, the company's sales over the period of the model implementation can be also calculated.

Based on these findings, the following model is presented for the development of the link between disruptive innovation, social innovation, and diversity, equity, and inclusion:

Application of the Model

Below are four actual steps for managers that can enhance the effectiveness of the impact model implementation:

1) Financial and non-financial risk management requires disruptive innovation and social innovation. The previous approaches to financial and non-financial risk management are not sufficient anymore. The new approaches should highly value social impact, and adopt different functions to develop a more effective management of risk for social change. By comparing employees' attitudes toward the new risk management approaches before and after the implementation of this model, in an interview that we had, a manager noted that "risk management practices at our company are now more advanced with respect to financial risks and non-financial risks."

2) Managers should develop collaboration between the departments of HRM and customer service. This collaboration requires creating a collaboration culture, which manifests itself in:

- A supportive workplace
- Responsibility for failure or success in organizations.

By measuring collaboration before and after the implementation of this model, we found that a manager noted that “collaboration now flourishes as a direct result of a collaboration culture.”

3) Managers should develop an innovation and risk-taking culture in organizations. Creating this culture requires:

- Adopting entrepreneurial mindsets by both managers and employees
- Improving organizational learning.

We also suggest that managers should avoid penalizing employees for failure, aiming at increasing their psychological security to take risks. For example, in our last assessment (after implementing the model), one executive commented that “entrepreneurial mindsets and organizational learning were the missing factors in our company.”

4) Managers should conduct training workshops to develop human capital, involve employees in disruptive innovation and social innovation, and increase their awareness of diversity, equity, and inclusion. For example, in an open-ended interview question, we found that a manager noted that “attending these workshops opened our eyes and helped us to have a better understanding of disruptive innovation, social innovation, and DEI.”

Conclusions

We developed a new model that addresses not only innovation but also DEI. The impact model captures the essence of today’s leading organizations as they begin to develop better products to meet the unique needs of their customers while training their employees on the forefront of social and cultural norms necessary for survival. The article explained the link between disruptive innovation and social innovation, which leads to the growth of social innovations and benefits society at large. The implementation of this model acts as a transformational catalyst that brings the social impact of decision-making to the upper echelon of the organization by helping leaders to create both disruptive and social innovations.

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Review

This article was accepted under the *constructive peer review* option. For further details, see the descriptions at: <http://mumabusinessreview.org/peer-review-options/>

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