

Example of creative destruction essay

[Business](#), [Company](#)



The article titled “ Schumpeterian competition and diseconomy of scope; illustrations from histories of Microsoft and IBM” by the authors Bresnahan, Greenstein and Henderson is a great attempt to address the creative destruction problem that face organizations mostly in industries that are growing first. Therefore, this paper is a reaction to the arguments by the authors with a view on their focus on diseconomy of scope in addressing the possible cause of the creative destruction problem. The paper begins by reviewing the author’s argument and introducing a counter argument that is then supported by a further review of the validity of their arguments as well as the strength of the counterargument. (Bresnahan, Greenstein & Henderson, 2011)

Schumpeter’s view of competition is that companies’ innovation is continuously destructive to processes and assets. Therefore, new technologies displace the older ones making way for greater growth than in the stable markets. The authors’ review of the failure by IBM and Microsoft provides a good description of that Schumpeterian competition and diseconomy of scope. In that analysis, the authors address the question on the causes of creative destruction in which they challenge the view that failure in new technological areas by companies that have been successful in the industry is explained by two scenarios. One is that the companies fear the cannibalization therefore ends up under-investing in the new market. An example could be Microsoft and IBM introducing new products that could be cheap to their customers than their existing products resulting to reduced demand for their old products. The other explanation challenged is how the companies develop cognitive frameworks and organizational capabilities that

slow their identification and response to new opportunities. The authors' argument is that the problem that face such companies is the diseconomy of scope that relates to the assets involved hence the initial success that is usually followed by failure for such new ventures with an example of the problem that faced Microsoft and IBM. (Nerkar & Paruchuri, 2005)

Contrary to the authors' argument, the new development and ventures by the old large firms in the industry enjoys economies of scale and scope that provides a comparative advantage against new entrants and competitors. In addition, while market imperfections provide large companies like IBM and Microsoft with advantages in Research and development, the large companies are capable of spreading fixed costs. They are also able to exploit the economies of scale and scope for actions like Research and development. Finally, the firms have a better access to downstream capabilities and complementary technologies. Therefore, those companies can enjoy economies of scope and scale hence the issue of diseconomy of scope is as a weak basis for explaining their failure with new ventures. (Nerkar & Paruchuri, 2005)

Schumpeterian competition's definition in itself provides a preview of what the organizations face. It is defined as the process through which companies try to enhance their competitive advantage through innovation that strikes at their very lives and foundations rather than on output and profit margins. Organizational capabilities and fear of cannibalization that greatly relates to companies, foundations and core operations are the greatest possible causes of the problem as summarized in the following review of how they operate. Therefore, the authors failed to see the significance of the two explanations

that carry great weight than the diseconomy of scope in explaining the market failure problem. (Breschi, Malerba & Orsenigo, 2000)

The fear of cannibalization involves the idea that companies could introduce business lines and products that could eat away the market of their highly priced products. Firms face that challenge with the development of new technologies that are capable of introducing more effective and cheaper products into the market. So, the fear results to firms under investing in such ventures and is what cause their failure. Thus, the underinvestment is a great cause that should have been taken into consideration rather than being refuted as a significant cause. (Breschi et al, 2000)

First, the diseconomy of scope argument state that companies apply assets that are shared across the market including their reputation that is shared with partners. (Marsili, 2001) However, while the authors relate the management challenges in managing such assets with diseconomy of scope, the problem should be viewed as being more related to cognitive frameworks and organizational capabilities. That explains the problem that faces an organization when assets have attributes that are desirable for different business lines but undesirable to the market. (Bresnahan et al, 2011)

Further, with assets being under the managers' responsibility, it could be claimed that the management and the organizational capabilities plays a greater role in determining how effective they are applied in new ventures. Thus, the problems of assets' application for new business lines and sharing between the business lines is of cognitive framework and organizational capabilities rather than a diseconomy of scope matter as argued by the

authors. Therefore, the company's capabilities and cognitive framework are great determiners of how management identifies opportunities and act to create an advantage that in-turn determines success of the new ventures.

(Bresnahan et al, 2011)

In conclusion, the author's argument that companies failure in developing new technologies and pursuing new ventures is more of diseconomy of scope matter than a problem of their organizational frameworks as well as fear of cannibalization has been refuted. Therefore, the discussion has demonstrated how the authors failed to consider the significance of the two factors hence their focus on asset management's problem as being diseconomy of scope than of organizational capabilities.

Works Cited

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