



“Uberification” and a debate between technology and institutional disruption

Ibrahim Kholilul Rohman and Fithra Faisal Hastiadi

There has been a bit interesting but somewhat a bitter fact that historically economists (or economic analysis) usually fall short to grasp the environment revolving around the technological dynamism.

If we draw a line of economic history further back, it turns out that it was only about six decades ago technological innovation and spill-over were acknowledged as the catalyst of economic development. There were Schumpeter (1950) and Schmookler (1966) who firstly introduced the concept and motives of innovation (and innovator) which eventually affecting economic performance.

Later on, the consensus is more coherent. Innovation activities have become a key element, if not the most important determinant factor, which stimulates the long term growth. Scherer (1999), for instance, strongly emphasized that the future economic performance depends on how a country raises the level of innovation and technological development driven by the R&D activities.

To exemplify, when the first computer was introduced, the Mark I in 1939 and subsequently the Electronic Numerical Integrator and Computer (ENIAC) in 1943, it takes some –not years, but- decades to finally comprehend the impact of this innovation on the overall economic performance.

Quite understandably, it was among others triggered by the famous Solow paradox: “You can see the computer age everywhere but in the productivity statistics”. The satire has shown that even when the diffusion of computer has gone beyond the early stage of adoption in 1970, there was still a discrepancy between the measures of investment in IT and so to speak economists’ national income accounting.

The key message, as economists we need time to really understand the phenomenon let alone to justify the good and better recommendation on any events surrounding the technological determinism.

Now we witness the same phenomenon underlying “disruptive innovation” which has been popping up all the time concerning the sharing economy especially with regards to Uber in Indonesia.

In 1995, Clayton Christensen spoke in a prestigious seminar at Harvard on technology and innovation later evolved as a term of art called as the disruptive innovation (a series of his analysis was released afterwards: e.g. Christensen, 1993; Christensen and Bower, 1996; Christensen and Rosenbloom, 1995) and popularized in *The Innovator’s Dilemma* (1997) by himself.

A disruptive innovation is termed as “an innovation which introduces a different set of features, performance, and price attributes relative to the existing product, an unattractive combination for mainstream customers at the time of product introduction because of inferior performance on the attributes these customers value and/or a high price”.

Do we find it in the case of Uber?

Uber Technologies Inc. is an American online transportation using the Uber mobile apps which enable consumers with smartphones to inquiring a trip request which is then conveyed to Uber drivers who use their own cars. By mid of 2015, Uber is available in 58 countries and operating in no less than 300 cities worldwide. Since their successful milestone, many have copied their business model in what we call now as the “*Uberification*” phenomenon.

Governments have been generally not able to monitor Uber's operations in their jurisdictions due to its operations are conducted mainly over the Internet.

Certainly we have found the notion of disruptive innovation characteristics in Uber: cheaper and better quality of services.

However, while the disruptive innovation has been the centre of attention and knowing that the characteristics seemingly hold for Uber, one might overlook the other side of the coin.

Laurell & Sandström (2016), for instance, thoroughly analysed performance of Uber by questioning whether Uber is predominantly technological disruption or institutional disruption.

While the first concept has been well defined and connects to disruptive innovation, the latter concept is not related to the supply and demand on a market, but rather with the informal and formal rules that govern the interactions between buyers and sellers. This interaction leads to changing institutions characterised by conflicting interests, struggles for power and attempts to delineate what constitutes a certain organisational field.

The astonishing findings of the study point that institutional disruption receives more than double as much attention in the case of Uber which indicates that first and foremost, the Uber phenomenon is perceived as an institutional disruption rather than a technological disruption.

To deliver this point in a more eloquent message: Uber is not creating new markets, but thanks to their apps, they bypass traditional distribution chain on the existing market in the taxi industries.

Given the relatively low price and easy to access nature, these apps are creating head to head war with the already established operators. The conflicts arise since these “modern operator” are having competition with the “conventional operator” within the same market. Admittedly, a different

business model might be seen for relatively similar apps like “Grab taxi” as they utilize existing taxis while Go-jek and Uber have their own modes.

Consequently, as it resembles an institutional disruption, the higher tension happened in Indonesia between traditional taxis (mainly representing the incumbent one: Bluebird) and Uber and GoJek just weeks ago is not a new turmoil. In fact, Indonesia is just adding to the parade of nations where Uber operation is banned (or partially banned) such as in Brazil, Canada, China, France, Germany, India, and Spain even in the some States of the United States.

While we have to be more careful to examine this phenomenon after learning back that technological dynamism might necessitates longer time to be fully grasped and built in the analysis, we might come up with some preliminary suggestion.

First, we have to monetize the wave of the technological disruption. Indonesia has yet to be mainstreamed by disruptive innovations, but the signs have been there. The most discussed effect of technological disruption in Indonesia is the massive uses of Go-jek, Uber and Grab. These apps have created benefits at the expense of the already established taxis and Ojek (motorcycle taxi). Thus the established ones might adopt the same strategy to survive in the competition.

Secondly, has Uber really changed the landscape of the industry? Before making a judgment if companies have created significant market power which requiring government intervention, the specific test might be taken place, for instance the conventional test of small but significant and non-transitory increase in price (SSNIP). It is applied to define the relevant market in a consistent way. Are the existing players really under the threat?

Having this in mind, the progressive trend towards innovations should be matched with high adaptability of rules and regulation in Indonesia as it should be tuned to catch the next wave of technological disruption.

To sum, on the one hand, blaming Uber for their innovation that has been introduced is a complete ignorant as innovation is the blood of the modern economy, but on the other hand, letting all players operating in an unregulated industry might lead a more severe impacts of the institutional disruption.

About the authors:

Fithra Faisal Hastiadi, obtained his PhD in Economics from Waseda University is Research and community engagement manager, Faculty of Economics and Business (FEBUI), University of Indonesia.

Ibrahim Kholilul Rohman, obtained his PhD in Technology Management and Economics at Chalmers University of Technology in Gothenburg, Sweden, is an ICT industry analyst in Seville, Spain.