Which Rules Are Worth Breaking?

Disruption of an established business model requires companies to disregard the “rules” of the status quo — within limits.
Which Rules Are Worth Breaking?
R. EDWARD FREEMAN AND BIDHAN (BOBBY) PARMAR

Disruption of an established business model requires companies to disregard the “rules” of the status quo — within limits.

R. Edward Freeman is a professor of strategy, ethics, and entrepreneurship at the Darden School of Business at the University of Virginia. He tweets @re_freeman.

Bidhan (Bobby) Parmar is an associate professor at the Darden School.

The 21st century business world is being built on disruption in industry after industry. The old rules simply no longer apply to the industries being challenged: Thanks to Airbnb, for instance, hotels will never be the same; thanks to Amazon, retail will never be the same.

At one level, disruption is nothing new — simply a more modern way of rephrasing economist Joseph Schumpeter’s theory of “creative destruction.” But at another level, something else is happening. Many innovators are not just building a better mousetrap; they are also trying to articulate and consciously break the rules of the game, sometimes by figuring out ways to
accomplish more with less, sometimes by finding ways around legal barriers, and sometimes by taking the low road. And there's risk in defying too many rules.

Consider Uber. Only a few years ago, the San Francisco-based car service was the poster child for the new sharing economy. As Uber gained popularity, startups in other industries described themselves as the Uber of clothing, or food delivery, or travel reservations. Uber's business model explored new territory, offering customers the convenience of on-demand ride hailing via a simple app on their mobile phones. Customers got more efficient rides that were digitally integrated into their daily routines, and many of the previous hassles of getting around — from calling car services to pulling out cash or credit cards for each taxi trip to having to make ride appointments ahead of time — became a thing of the past. Uber also provided drivers the benefits of flexible work and additional income.

Uber became extremely successful in a very short time. By 2014, it was providing 1 million rides a day. By 2016, despite increasing competition, it was providing about 5.5 million rides a day globally.

But more recently, Uber has become more of a poster child for bad behavior — to its employees, its users, its communities, and the ride-hailing industry in general — as a series of mistakes and controversies began to litter its path. Earlier this year, because of its surge pricing practice on the day of protests over the Trump administration's first travel ban, more than 200,000 customers participated in a #DeleteUber campaign to stop using the app and the service. A former Uber engineer wrote a bombshell blog post a few weeks later alleging that the company repeatedly turned a blind eye to sexual harassment and had a culture of gender discrimination. Other sexual harassment issues quickly came to light: A senior vice president of engineering was forced to step down after allegations of harassment at his previous job emerged; a manager was fired for groping women at a company event; a management team in Seoul was reported to have visited escort karaoke bars.

Uber's problems continued to ripple out. Google, an Uber investor, sued the company for stealing intellectual property from Waymo, Google's autonomous car program. Uber blamed “human error” for one of its self-driving cars running a red light and then later acknowledged that the fault lay in the self-driving system, which did not recognize the traffic lights. And after a New York Times report called out Uber's practice of “Greyballing” to deceive authorities in areas where the ride-hailing service was restricted, Uber brashly defended its tactics before later conceding that it would no longer use the tool.

This string of controversies led to a mass exodus of Uber senior executives, including the president, the vice president of products and growth, the head of Uber's artificial intelligence labs, and CEO Travis Kalanick himself.

Creating and executing innovative products and services that disrupt the status quo require creativity, and creativity involves thinking differently about overcoming constraints. Laws and social norms are important checks on individual and corporate behavior. But there are forces that make it tempting to push aggressively on constraints. Psychology studies have shown a correlation, for instance, between unethical behavior and creativity: Research conducted by Francesca Gino and Scott Wiltermuth
demonstrates that there’s a creative upside to cheating. People who cheated in one task were more likely to generate creative solutions in subsequent tasks. The researchers credited a heightened feeling of being unconstrained by rules for the uptick.

Disruptive companies like Uber need to move from a perspective that rules and norms don’t matter to a more specific understanding of which rules are worth breaking and why. When disrupting the status quo, smart startups would do better using a scalpel rather than a hatchet to avoid cutting off vital relationships and essential resources.

A general attitude that “the rules don’t apply to us” paired with a narrow focus on outcomes (particularly shareholder value) creates fertile ground for ethical crises. While an organizational culture geared toward winning can be helpful in many ways, it can also cause unnecessary self-damage because not all rules are worth breaking — even when there is a short-term benefit. For example, society doesn’t see breaking rules about taxi licenses at the same level of importance as breaking norms about respecting gender equality. When key stakeholders perceive that a good rule has been violated, they get upset and can find ways to retaliate. Eventually, the negative impressions from repeated crises accumulate and affect the brand, making it harder to attract and retain high-quality employees, customers, suppliers, and communities, all of which are necessary for the company’s flourishing.

There is more to business than narrow outcomes defined as profit for shareholders. Violating rules and norms has real costs, and you have to pay for what you break.

Our own research demonstrates that employees are more likely to experience meaningful work in companies that they perceive to be pursuing an important purpose. People gain more autonomy and competence, and have better relationships, in companies they think are focused on a purpose beyond profit. This has tangible payoffs, translating to lower turnover, better employee engagement, and better customer service for companies.

Startups and other organizations that want to disrupt the status quo and also be responsible need a fine-grained understanding of which rules they want to break. Organizations need the capability to understand ahead of time the consequences of breaking certain rules, specifically understanding who will be harmed and who will benefit. Involving stakeholders in the process of developing new products and services is essential so that businesses can appreciate the stakeholders’ perspectives and better identify and avoid ethical disasters. Without this capacity to anticipate and circumvent potential problems of its innovations, a company — even one with great and truly innovative ideas — can suffer a death by a thousand cuts.

Yes, we need disruption. But let’s make it responsible disruption.

An adapted version of this article appears in the Spring 2018 print edition.
About the Authors

R. Edward Freeman is a professor of strategy, ethics, and entrepreneurship at the Darden School of Business at the University of Virginia. He tweets @re_freeman. Bidhan (Bobby) Parmar is an associate professor at the Darden School.
Articles published in MIT Sloan Management Review are copyrighted by the Massachusetts Institute of Technology unless otherwise specified at the end of an article.

MIT Sloan Management Review articles, permissions, and back issues can be purchased on our Web site: sloanreview.mit.edu or you may order through our Business Service Center (9 a.m.-5 p.m. ET) at the phone numbers listed below. Paper reprints are available in quantities of 250 or more.

To reproduce or transmit one or more MIT Sloan Management Review articles by electronic or mechanical means (including photocopying or archiving in any information storage or retrieval system) requires written permission.

To request permission, use our Web site: sloanreview.mit.edu or E-mail: smr-help@mit.edu Call (US and International): 617-253-7170 Fax: 617-258-9739

Posting of full-text SMR articles on publicly accessible Internet sites is prohibited. To obtain permission to post articles on secure and/or password-protected intranet sites, e-mail your request to smr-help@mit.edu.