



Creative destruction and the sharing economy. Uber as disruptive innovation

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BOOK REVIEW

Creative destruction and the sharing economy. Uber as disruptive innovation, by Henrique Schneider, Cheltenham, Edward Elgar, 2017, 141 pp., £60.00 (hardback), ISBN 9781786433428.

Innovations in urban mobility, such as ride-hailing apps, car clubs, and peer-to-peer car sharing, have developed rapidly in recent years, with many combining technological advances with the concept of the sharing economy. At the forefront of these innovations is the highly controversial ride-hailing app Uber, which since being founded in San Francisco in 2009, has spread its services worldwide (in over 70 countries), and in doing so challenged established taxi services and regulators to such an extent that the word 'uberisation' has become a shorthand for a wide range of innovations that include elements of the Uber operation.

Such has been the impact of Uber that the debate concerning its merits and significance becomes ever more intense, rising to a new peak in 2017 with the resignation of its chief executive and driving force Travis Kalanick. Yet the sheer intensity of the spotlight on Uber has meant that the debate can generate more heat than light, particularly with regard to providing a historical and analytical perspective. The great merit of this carefully thought out book is that it takes a step back in order to provide an economic and historical context for the growth of Uber. In doing so, Schneider seeks to answer four basic questions: What is the economics of Uber? What is Uber's business model? How is Uber an agent of creative destruction? And how opposite are innovation and regulation?

Crucially, in terms of the central arguments of the book, and the approach Schneider takes to Uber, he places it in the context of the principles propounded by so called Austrian economics, where it is argued that the economic values of goods and services are subjective in nature, so that what is valuable to you may not be valuable to your peer. Such is the variety and complexity of these individual choices that markets are viewed as a series of open-ended, undetermined processes. Viewed from the perspective of markets as processes, it becomes impossible to know what the future of the ideal transportation market is, as the subjective preferences of individuals are continuously evolving, with the result that any regulatory system must rely on a 'snapshot' approach, rather than insights into the desired future of transport systems. Into these complex systems Uber, acting as an entrepreneur, adopted a number of disparate elements, including the principles of the sharing economy, and seized opportunities, while acting according to their beliefs and preferences. However, for all its rapid growth, Schneider argues that Uber cannot know if it will emerge successfully from the processes it is involved in. By way of example, he outlines the history of the taxi industry, and makes the important point that, like Uber, it was originally quite radical and innovative, but over time has become generally conservative and heavily regulated. Uber's success is therefore due partly to this loss of innovative pace. He believes that, at the heart of Uberisation, is the psychology of convenience, in terms of the decision to access and use it, and in the ease of use and re-use.

At the heart of the book, Schneider debates the extent to which Uber fulfils the conditions for creative destruction, as proposed by Schumpeter, and from that of disruptive innovation, as described by Christensen. Creative destruction occurs when a novelty radically changes all competitors and the way the agents in the market processes behave, while Christensen argues that creative destruction comes about through processes of disruptive innovation, whereby a product or service takes root initially in simple applications at the bottom of a

market, and then relentlessly moves up the market, eventually displacing established competitors.

Although Christensen himself argues that Uber is not a disruptive innovation, Schneider disagrees, and believes that at the heart of Uber's disruptive innovation is its use of technology, so that it provides a substitute for taxi rides by being cheaper and more comfortable, often in cars of higher quality, while also being a source of entrepreneurship for drivers with spare capacity.

The most controversial section of the book is in the chapter where Schneider compares innovation with regulation, and concludes that regulators must be in dialogue with regulated industries, otherwise regulation will not be efficient. Consequently, this assists companies with the most lobbying power so that, despite the good intentions of regulators, the 'level playing field' becomes uneven. Instead, Schneider argues that competition is generally more efficient than regulation, and asks the basic question: How can regulators know more about the market than the market knows?

For Schneider, there is irony in the trend for Uber, despite its radical and innovative reputation, to not only run a large lobbying organisation, but also to have generally over time adapted itself to regulatory regimes. Consequently, Uber will become less innovative, and so destroy some of its own capacity for creative destruction. This leaves Uber vulnerable to new innovative business models that will continue to appear. He concludes, therefore, that by destroying creative destruction, Uber risks being destroyed itself.

The book is clearly written, and in carefully applying economic theory to Uber, it highlights many of the key questions surrounding its operation, particularly in identifying the elements that make Uber an effective innovation, the strengths and weaknesses of this innovation, and the inherent difficulties in regulating the disruptive innovator. At the same time, from the transport studies perspective, the emphasis on economic theory inevitably raises wider and more long-term questions concerning the significance of Uber. For example, as Uber continues to grow and diversify its services, what are the implications not only for the incumbent taxi firms, but also for other modes of transport, such as the privately owned motor vehicle and public transport services? As Uber seeks to build alliances with public bodies, to what degree will this blur distinctions between the public and private sectors? To what degree will the size and lobbying power of Uber allow it to influence regulatory processes? Uber's role as a powerful political actor can therefore mean that, even if its capacity as a classic innovator diminishes, its impact on urban transportation systems generally can become more profound.

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