

**ENTREPRENEURIALISM**

# Disruptors are just pirates on the high seas of capitalism

**DAINA LAWRENCE**

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Often portrayed as criminal pursuers of riches, pirates don't have the best of reputations. But is there something that can be learned from them?

Jean-Philippe Vergne thinks so.

Last January, the assistant professor at the University of Western Ontario's Ivey Business School introduced a course entitled Lessons From The Dark Side Of Capitalism: How Pirates Help To Shape New Industry. The course aims to help his students see the innovative impacts these fringe-dwellers have on the marketplace.

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"If you look at the history of any industry, you will find that when new industries are created and emerge, they are socially competitive or illegal, or both," Dr. Vergne says.

"The course is really trying to understand how the change happens and how entrepreneurs manage to change the game to get their ideas, their way of trading, their new norms of exchange and their products socially accepted."

The point of Dr. Vergne's course is not to judge whether these actions are right or wrong, just to point out the trend. It offers an evolution of piracy from the high seas to Napster – alongside the new industries created by piracy combatants, such as iTunes.

Piracy often has an economic function as it can reorganize or dismantle monopolies and displace sometimes-outdated government regulations. Business educators say there are lessons to be learned about how these innovators hack the established business model and can change the marketplace.

“[Pirates] end up displacing incumbent players, they end up changing the rules of the game in many industries, and that is where it is relevant for business students,” Dr. Vergne says.

Take New York taxi companies, for example. Licencing of metered cabs comes in the form of medallions, which can go for more than a \$1-million (U.S.) apiece, but the high cost prompts illegal drivers to hit the roads without one.

There are clashes between the city’s Taxi and Limousine Commission (TLC), but illegal cabs still exist with supportive patrons who claim they are more available and economical.

In essence, says Dr. Vergne, these illegal cabbies could be considered pirates. They work outside the laws, and take money (in the form of fares) from their legal counterparts. And now it’s gone one step further with Californian startup Uber – the ride-share app company – that has popped up all over the globe and continues to disrupt the established business model. The app connects passengers with grey-market cars.

It’s these “free market ideals” that Dr. Vergne wants to teach his students.

In some cases, those lessons extend beyond the classroom and help in current entrepreneurial endeavours.

Brandon Vlaar took Dr. Vergne’s course in his final semester at Ivey and says the lessons he learned are more relevant to his current entrepreneurial struggles than any other he learned throughout his business studies.

The 22-year-old entrepreneur is trying to get his venture, Lending Loop, off the ground. The online company aims to bring together Canadians who want to lend money to local firms that need financing in exchange for a return, but this model contradicts Canadian regulations around money lending.

“Small businesses in Canada are struggling to access financing from banks ... [and] loan-based crowdfunding has blown up around the world as a solution to this problem,” Mr. Vlaar says, citing companies such as Crowdcube and Funding Circles as thriving examples. But the Canadian system hasn’t caught up yet.

The current regulations are making it extremely difficult for Lending Loop to launch, and while Mr. Vlaar doesn’t necessarily consider himself a pirate, he did learn strategy from Dr. Vergne’s class.

“It’s scary how applicable the course was to this situation,” he says. “When you learn about companies like Uber, [hotel alternative] Airbnb or any companies going up against a difficult regulatory situation, it helps break down a basic playbook that we can use.”

When the term piracy comes up, it is often about morality or how to extinguish these actions, while there should be more focus on the business models and innovation it creates, says Steffen Roth, assistant professor at ESC Rennes School of Business in Rennes, France, and editor of the *International Journal of Entrepreneurship and Small Business’s* special edition on piracy.

“The pirate is ... not only an alternative role model for those who are bored by classical or social entrepreneurship roles,” Dr. Roth says, “but also a lens that can be used to fundamentally challenge hidden contracts and background assumptions that normally go along with the promotion of entrepreneurship as a key driver of modern economies.”

For Dr. Roth, the fine line between a pirate and entrepreneur is blurry and comes down to permission from the government. “We find that piracy is in the eye-patch of the beholder rather than in those who are observed as pirates,” Dr. Roth adds, “[and] all moralization of piracy implies partisanship and therefore promotes political incorrectness rather than truth.”

Instead, today’s business students should ask themselves if entrepreneurs should wait for that permission? Or – like Uber and Airbnb – should they simply set up shop in unfriendly marketplaces and wait for the laws to catch up?

### **Modern-day pirates**

**Airbnb.** The holiday rental site allows homeowners around the world to rent out their dwellings to vacationers, but it could have a negative impact on the hotel industry and, for some cities, reduce the hotel or tourism taxes they collect. Despite the backlash, economic predictions report that if the company grows at its current rate, it could take over more than 10 per cent of hotel profits by 2016. Airbnb has been in legal disputes with major U.S. and European cities. Meanwhile Amsterdam became the first city to pass an “Airbnb friendly law” allowing owners to rent out their homes with the company as long as customers absorb the cost of holiday taxes.

**Uber.** Launched in 2009, the Californian ride-share service is now available in more than 200 cities around the world. The original premise behind Uber’s smartphone application was to connect passengers with full-sized luxury cars. Later the company added small and mid-sized vehicles, which led to direct competition with taxi companies. Uber remains illegal in many places and continues to dispute regulations.

**Bitcoin.** Sometimes referred to as the currency of the Internet, Bitcoin has grown in popularity since its 2009 inception because, unlike traditional currency, a centralized bank or authority does not control it. The online currency is illegal in some countries, as bank authorities do not recognize it as a form of payment for goods and services. In contrast, Canadian group Bitcoiniacs launched the first Bitcoin ATM in Vancouver last year. The machine converts the online currency into dollars.

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