

Part 2 The e-business strategy framework

Why disruption can be good for business

The problem with most management theory, says Clayton Christensen, leaning forward in his chair, is that it breaks fundamental rules about how good theory should be created. 'Too many academics and business researchers make the leap from observation to theory without paying attention to the intermediate step categorisation,' he says. 'They don't think about their recommendations in a circumstance-contingent way.'

I am perched on a sofa in Prof. Christensen's spacious basement office, deep in the bowels of Harvard Business School, struggling to keep pace. I am here ostensibly to talk about *The Innovator's Solution*, his new book, but the conversation has taken an epistemological turn. What he is saying – or at least what I think he is saying – is that a good deal of what passes for management theory is, well, bunk. Study 10 successful companies, work out what they have in common and recommend that everyone does the same. The genre was popularised by *In Search of Excellence*, Tom Peters' and Bob Waterman's 1984 management blockbuster. A more recent example was *Good to Great* by former Stanford University academic Jim Collins, the biggest-selling business book of the post-dotcom bubble era.

If Prof. Christensen is slating his peers, he is doing so with great grace. 'I have enormous respect for Jim Collins,' he says in his slow, sincere voice. 'He's got a good head and very high principles. But take his finding that the people who run these *Good to Great* companies are solid, grounded, humble people. The next question should be: is there a circumstance when you really need a Rudi Giuliani [the famously truculent former mayor of New York]? We need circumstance-based categories for all these things. Part of the reason why that kind of research plays so well is that many managers are just looking for an easy answer, a silver bullet. There is a lot of pressure on writers to cater to that need.'

Prof. Christensen has done very well by catering to something quite different: the hunger of a certain type of manager for books more grounded in theory than *Good to Great*-style bestsellers, but less taxing than textbooks. His first book, *The Innovator's Dilemma*, sold by the truckload and made him one of the biggest names in management theory. He remains arguably the brightest star on Harvard Business School's star-studded faculty. His contribution to the lexicon of management is great – 'disruptive innovation' is used and abused the world over.

That said, Prof. Christensen's stellar trajectory has engendered a certain amount of professional jealousy. Rivals have claimed that the best ideas in *The Innovator's Dilemma* were already present in *Innovation: the Attacker's Advantage*, a book written a decade earlier by McKinsey luminary Richard Foster. Others cock a snook at the way disruptive innovation has become a kind of pseudo-intellectual fashion item.

A more substantive charge is that the world view laid out in *The Innovator's Dilemma* – in which innovations are classified as 'disruptive' or 'sustaining' – is in itself too simplistic. Surely, I suggest, the world is a more complicated place than suggested by this two-part taxonomy.

Prof. Christensen's response is that the distinction between disruptive and sustaining innovations has been widely misunderstood. 'If I had to do it again, I would have found another word. Disruption had so many prior connotations,' he says.

There is some truth in this. Like 'core competences' and 'business process reengineering', the other big business concepts of the 1990s, disruptive innovation has been stretched in common usage. The true Christensen meaning is precise. Disruptive innovations are technologies or business models that allow companies to offer simpler, less expensive products or services than have been offered before. Often these are not breakthrough innovations but clever repackaging of old technology. A classic example is Linux, the open-source computer operating system that is a repackaging of technology found in Unix, the dominant enterprise computer platform.

As spelt out in *The Innovator's Dilemma* and recapped in the sequel, market leaders find it difficult to respond to a disruptive innovation because it tends to appeal first to non-customers, people who don't use that category of product, or to low-end customers, who are prepared to accept a less-than-brilliant product if it saves money. Neither segment is particularly appealing to companies that lead their industries. They prefer to invest in serving existing customers with proven technology and predictable returns.

Prof. Christensen is clearly bothered by lazy application, or rather misapplication, of his ideas. The distinction between disruptive and sustaining innovations is no panacea. In answer to the charge of over-simplification, he also points out that getting to grips with the subtleties of disruptive/sustaining innovation is the easy part. The real



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work begins when you try to place new technologies and business models into one or another category.

'An innovation that is disrupting to one firm is sustaining to another firm. So the Internet was sustaining technology to Dell Computer, which already sold personal computers by telephone. But it was a disruptive technology to Compaq Computer [which sold mainly through stores].'

What really lights Prof. Christensen's fire is applying his framework to companies, industry sectors and economies. Like a scientist with a new microscope, he cannot resist turning it on whatever comes to hand. Semiconductors, education, healthcare – each is examined, dissected and diagnosed in the course of our 90-minute conversation.

The Innovator's Solution, Prof. Christensen's sequel, adds at least one important element to the oeuvre: a model for trying to understand why the ability to make profits seems to migrate between parts of what strategy wonks like to call the 'value chain'. Why, for example, did profits in the personal computer industry migrate from the designers and builder of machines (Apple, Compaq, and IBM) to the makers of sub-systems (Microsoft and Intel)? Why does the balance of power appear to be shifting away from large car companies and towards the makers of value-added components and sub-systems?

His answer is that the basis of competition changes when products 'overshoot' the needs of the majority of customers. As this happens, raw performance becomes less important than the ability of manufacturers to get products to market quickly and in wider variety. The companies that concentrate on designing and assembling finished products (Apple or General Motors) thrive in the first era. They use proprietary technology and vertical integration to achieve maximum performance. Once performance is 'good enough' for the average consumer, however, product architectures tend to become modular. This enables shorter development times and products that are easier to customise.

In this environment, it is the sub-system and component suppliers whose products are no longer good enough. They come under greater pressure from manufacturers to improve performance but reap attractive profits for their trouble. Prof. Christensen summarises all this in one pithy sentence: 'The power to capture attractive profits always shifts to the activities in the value chain where the immediate

customer is not yet satisfied with the performance of available products.'

Simple, right?

Like the disruptive/sustaining innovation framework, this is a lot easier to grasp in the abstract than it is to apply in practice. In the hands of the master, however, it all looks so easy. Thus the semiconductor industry is on the verge of a huge upheaval, Prof. Christensen believes, as the basis of competition changes from trying to cram more and more transistors on a chip to offering customised products to the makers of the new breed of wireless and similar devices.

He switches the discussion to the US healthcare system, explaining that he sits on the strategy board of one of Boston's big teaching hospitals. 'We commissioned a study that showed that 70% of the people in the hospital would have been in intensive care 30 years ago, and 70% of the people in intensive care would have been dead 30 years ago. In other words, hospitals are moving to the high-end, focussing on intractable, multi-dimensional diseases.'

The disruptive innovation in this case is coming from technology that enables procedures that used to be handled in hospitals to be dealt with in specialist outpatient centres, and procedures that would have been handled in outpatient centres to be dealt with in doctors' offices. Then there is a whole category of things, including complex procedures such as dialysis that people can now handle at home.

'The focus now in America is how we get these very expensive hospitals to become cheaper, when we should be thinking about how we can help the inexpensive venues to do more. We should be facilitating the disruption rather than trying to make the status-quo less expensive. Yet public policy, like corporate policy, works against disruption.'

Think of *The Innovator's Solution*, Clayton Christensen's much anticipated new book, as 'the nine habits of highly disruptive companies'. While *The Innovator's Dilemma* (1997) spelt out why well-run companies find it so difficult to respond to what Christensen termed 'disruptive innovations', the sequel is nothing less than a handbook for managers who would rather disrupt than be disrupted.

The promise is rich: '*The Innovator's Solution* summarises a set of theories that can guide managers who need to grow new businesses with predictable success and ultimately kill their well-run, established competitors.'