



Exploiting Disruption to Jumpstart Innovation

Mature companies understand that to compete effectively in today's world they need to innovate. But finding sources of innovation while still paying attention to the current business can be a struggle. The good news, says Harvard Business School Professor Lynda M. Applegate, is that one of the forces that threaten established companies can also be a source of salvation: disruptive change.

Applegate should know. Her current research and teaching focuses on the challenges of building new ventures and leading radical business innovation in the face of significant market, technological, and regulatory turbulence. She also teaches courses on innovation and building new ventures to seasoned executives in the School's [Executive Education Program](#).

This excerpt from a recent presentation encourages executives to leverage disruptive change as a platform for innovation.

By Lynda M. Applegate
For [HBS Working Knowledge](#)

Innovation is not an option today. The HBS executive programs on jumpstarting innovation that I chair for executives in large firms and

business owners of small- to mid-size businesses are all oversubscribed. This interest in innovation is confirmed by an IBM [study](#) in 2006, which asked over 750 CEOs of the world's largest and most respected firms, "What's the extent of change that you need to make in the next 2 years?"

The answer surprised them. They knew that innovation was important, but *65 percent* of the CEOs said they were planning significant change over the next 2 years and another 22 percent responded that they planned to implement moderate change. More importantly, when asked, "What's your past level of success in managing significant change," only 15 percent said they had been "very successful." Another 15 percent replied they had had "little or no success."

Clearly, jumpstarting innovation is a critical business imperative. Executives realize that radical change is needed and they do not feel equipped to be able to make those changes.

Disruptive change as a source of innovation

Why do we see this increasing interest? One of the things we know is that the interest in innovation is being spurred by radical change and disruption that is going on in the business environment. Indeed, almost 50 percent of the executives in the IBM study said the source of innovation was from changes in the business environment. Less than 20 percent reported that innovation came from internal R&D.

Disruptions in the business environment cause economic shifts that destabilize industries, companies, and even countries. They allow new

entrants or forward thinking established players to introduce innovations—in products, markets, or processes—that transform the way companies do business and consumers behave.

These disruptive innovations are not just novel inventions. Successful innovators take ideas and turn them into opportunities by adding a business model that creates sustainable economic value for all stakeholders. They then go one step further and exploit the opportunity by creating a sustainable business.

So what are some of the disruptors that innovators are exploiting to create value? As you review the list below take a moment to stop and think. What are some of the disruptive changes in your industry that might serve as the source of innovation for you and your company?

Technology: What are the key emerging technologies and how are they being used inside and outside your industry, company, and region to create proprietary advantage?

Business Models: Are there new business models emerging that you can adopt or adapt to deliver radical improvements in the way you and others do business? Will these improvements drive profitable growth by creating proprietary advantages in the way you do business? Can you expand not just your “share of market” but also your “share of wallet” by adding new business models—for example, if you currently have a product business, can you add information, services, or solutions? Can you expand into adjacent

businesses by either taking over activities that used to be done by someone else in your industry, expanding into new markets, or adding new products?

Industry Dynamics: Are there fragmented industries where significant value can be delivered through consolidation? Are there shifts in power (e.g., entry or exit of a key player or consolidation of several players) that threaten your existing position or create opportunities to partner in your existing business or enter a new one?

Globalization: What's happening in another part of the world that you could adopt and adapt in your environment? What are the proprietary advantages that you have based on your access to people, information, materials, or capital? Are new markets or businesses emerging in other parts of the world that create opportunities or threats?

Off-shoring and Outsourcing: Are there opportunities to create value by outsourcing or off-shoring activities that you currently perform inside your organization? Are there activities that you currently source from outside that you should be doing inside to create proprietary advantage?

Regulatory, Macro-economic, Political, Societal: Are there impending (or early) shifts in regulation, political power, or society that threaten to disrupt entrenched power bases and provide opportunities for new entrants?

As you reviewed the list of disruptive changes, you probably noticed that they can be viewed from two very different perspectives: as an opportunity or a threat. In fact, entrepreneurs often view disruptive change as a source of

opportunity. When they see a disrupted business environment—whether that disruption is from new technologies, new business models, or new regulations—they ask: “How can I leverage these changes to create value?”

But established companies often approach innovation and disruption much differently. Having worked hard to align strategy and organization to support the current business, they develop tunnel vision in encouraging employees, customers, suppliers, and partners to work together to deliver today’s business results. Even when disruptive opportunities are identified, tightly aligned organizations, business models, and industry relationships make it tough to respond quickly and effectively. As a result, executives in established firms often frame disruption as a threat. When they see changes happening, they work to defend their existing business model and ask, “How can I insulate against these disruptive threats and preserve my current business model?”

Turn disruptive change into a source of ideas

Jeff Timmons, whose book, *New Venture Creation*, has been a best-seller for over a decade, calls good ideas a “tool in the hands of an entrepreneur.”

Indeed, finding good ideas is the first step in the innovation process.

Successful serial entrepreneurs are able to recognize patterns before an opportunity takes shape. They search for ideas at the intersection of markets, industries, and emerging technologies. They look for disruptors that will “unfreeze” a stable industry and the companies that compete within them. They look for business models that worked well in one market and can be adapted and applied in another. They recognize that they must listen to customers but must sometimes educate the marketplace to new approaches.

Entrepreneurs learn to identify ideas by raising their focus above day-to-day operations and expanding their vision. They then prioritize and narrow the many ideas they generate into a potential opportunity that addresses a compelling problem for customers who are able—and willing—to pay.

The following guidelines can help you leverage disruption to turn ideas into opportunities to create sustainable business advantage.

- *Listen to, and learn from, the market:* Identify sources of significant problems that cannot be solved using today's product/service offerings. Focus first on the problem, not the solution. Be sure you don't just listen to your *current* customers. They have the same tunnel vision problems that you do and may even actively push to keep you from considering new approaches. Keep in mind Henry Ford's classic comment as he struggled to take advantage of new technologies in the early 1900s: "If I asked people what they wanted, they would have said faster horses."
- *Expand your horizons:* Set aside a portion of every week for broadening your perspective. Identify important global and local trends that signal potential radical shifts in customer behavior. Look for new business models and technologies that can radically transform product, market, and industry economics and power. Benchmark inside *and outside* your industry, remembering to benchmark the *rate of change* in value delivered—not just a single point in time. Clarify and challenge the biases and business models in your firm and in your industry. Collaborate!!! Innovations that matter arise from perspectives that cross boundaries.

- *Identify potential disruptors that could be a source of opportunity:*

Identify people with a broad range of perspectives on potential disruptive opportunities. Have each work individually to brainstorm and then analyze disruptive trends within key categories. Using a scale of 1 (very low) to 5 (very high), rate the disruptive potential of each trend based on the following criteria: Potential Influence on Market Dynamics; Potential Influence on Competitive Dynamics; and Potential Influence on Business Economics. Additional rating criteria specific to each category of disruptor are provided below.

- List key emerging technologies. Rate the disruptive potential of each technology in terms of the standard criteria plus: Timeframe to Commercialization; Availability of Technological Expertise; Cost and Time to Develop and Deploy; Ease of User Penetration and Adoption; Potential for Patents.
- List key emerging business models. Rate the disruptive potential of each business model in terms of the standard criteria plus; Ease of Business Model Penetration and Adoption; Ease of Future Business Model Evolution.
- List key industry trends. Rate the disruptive potential of each trend in terms of the standard criteria plus: Potential Influence on Industry Power; Expected Timing of Industry Impact.
- List key global trends. Rate the disruptive potential of each trend in terms of the standard criteria plus: Ease of Penetration and Adoption Across Borders; Ease of Adaptation for Local Context.

- List key regulatory, macroeconomic, political and societal trends. Rate the disruptive potential of each trend in terms of the standard criteria plus: Potential Influence on Power Dynamics; Timing of Business Impact.
- List other sources of ideas for opportunities that could be explored. These sources could include combining products and services to create business solutions, adding information value to a product or service business, or pursuing internal process innovations that could transform business economics in your industry. Rate the disruptive potential of each idea in terms of: Potential to Increase Revenues; Potential to Decrease Cost, Potential to Improve Asset Efficiency; Potential to Achieve Sustainable Proprietary Advantage; Time to Implement and Achieve Advantage.
- *Select ideas for further evaluation:* Working as a team, have each person share their analysis of disruptors. Discuss what you have learned from the analysis and brainstorm business ideas that leverage disruptors to create value for you and your customers, partners, and other stakeholders. Identify the potential value of promising ideas and a process for prioritizing and choosing among them. Do a “back-of-the-envelope” assessment and rate each idea on a scale of 1 (key weakness) to 5 (key strength) on the following criteria.
 - Market: Size; Readiness
 - Industry: Competitive Dynamics; Availability of Suppliers and Partners

- Capabilities: Access to Talent and Expertise; Able to Become Best-in-Class
 - Economics: Top-Line Growth Potential; Bottom-Line Productivity
 - Personal: Passion of Founder and Team; Strength of Connections; Access to Resources; Supportive Personal Environment
- *Turn promising ideas into opportunities:* Identify a promising opportunity and develop a business plan that highlights both long-term and short-term (“go-to-market”) benefits. Define product-market positioning at entry and capabilities and resources required at entry. Define a plan for evolving strategy and capabilities to exploit long-term value potential.
 - *Implement to reduce risk and manage uncertainty.* Successful entrepreneurs are not risk seekers. Instead, they have learned to manage risk by identifying key assumptions and uncertainties in their business plan and then staging commitments and implementation to reduce uncertainty while building a sustainable business. Established firms must adopt a similar approach to risk management when venturing into uncharted territories. You can’t simply use the same approach that you use to incrementally evolve a mature business. Some firms create separate new venture groups responsible for leading radical business innovation and disruptive change. Others maintain a closer connection to established business groups to facilitate future integration of new businesses into the established business. We’ve seen examples of success using both approaches. The key is to become skilled at the entrepreneurial innovation process as you search for

ideas in the face of disruption, turn ideas into opportunities, choose opportunities to pursue, successfully launch new businesses, and grow and evolve them to create sustainable proprietary advantage.

Leveraging disruption

Executives around the world have spent the past decades redesigning processes and restructuring their firms to meet the challenges of operating in a more dynamic, hypercompetitive world. But many have been forced to face the grim reality that the decades ahead will demand even more radical change. As disruptive technologies, regulatory environments, and societal norms destabilize markets, industries and organizations, executives are finding that incremental innovation is not enough.

The good news is that these disruptive shifts are the perfect place to search for opportunities. The key is knowing where to look, how to interpret what you see, and then how to manage uncertainty as you exploit opportunity.

About the author

Lynda M. Applegate is the Henry R. Byers Professor of Business Administration at Harvard Business School, teaching courses in entrepreneurial management and technology and innovation, and serving as head of the School's Field-Based Learning programs. She chairs HBS' Owner/President Executive Programs and its Building New Ventures executive education and alumni programs.