

# Leadership & Management in the Environment of Disruptive Innovation

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## Abstract

Long-term research in various industries (Abernathy et al. 1983, Utterback. 1997, Christensen. 2003, Christensen et al. 2003, 2004) offers evidence as to why established organisations are able to deal with incremental innovation and why their failure rate increases when innovation becomes radical or disruptive. In a Schumpeterian understanding, disruptive innovation simultaneously destroys existing and creates new industries (the wind of creative destruction), e.g., typewriter vs. computer or VHS vs. DVD. Other industries, e.g., computer and the camera industry, are confronted with radical innovation, e.g., by convergent technologies, causing major shifts in the macro and microenvironment.

Employing two theories, the disruptive innovation theory and resources, process, and values theory, the paper sets out to explain underlying reasons for such adaptive failure and identify the challenges for both management and leadership in such turbulent environments.

The proposition is that the more radical an innovation becomes, the impact of both technologies and market linkages may result in threats for an industry to become obsolete. Management and leadership need to reflect then on adopting either end-game strategies in a disruptive (Harrigan. 2003, 1980, Harrigan et al. 1983) or change strategies in a radical environment (Balogun et al. 2004, Johnson et al. 2008, Trott. 2008, Tidd et al. 2005).

Such challenges in the environment require management and leadership styles, which embrace organisational learning and future orientation to improve an enterprise's position in its permanent struggle for survival (Helfer et al. 2006).

Key words: Management and leadership, disruptive innovation, radical innovation, change.

Overall Album sales (including Albums and Track Equivalent Album sales) **-8.5%** compared to 2007.

Total Album sales **-14%** compared to 2007.

**But ...**

More Vinyl Albums purchased than in any other year (no CDs!).

Metallica's "Death Magnetic" is the best selling Internet album for the year with 144,000 sales.

Digital Track sales break the **1 BILLION** sales mark for the first time.

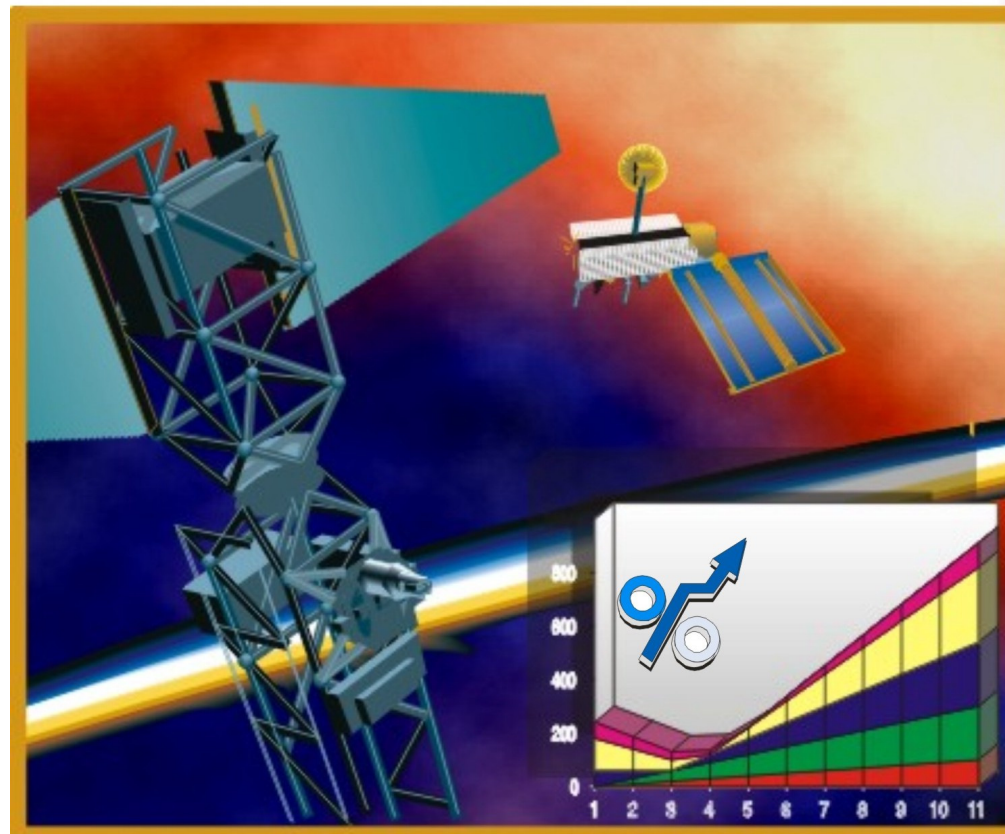
Digital Album sales reached an all-time high, more than 65 million sales – **+32%** over the previous year.

2008 is the first time a digital song broke the **3 million** sales mark in a single year.

**19** different digital songs with sales exceeding **2 million** compared to 9 in 2007.

(Nielsen Soundscan Company Report cited in Kusek. 2009)

# Leadership & Management in the Environment of Disruptive Innovation



# The Wind of Creative Destruction

(Schumpeter. 1943)

No market leader in the computer industry transferred its position from one generation to the next

Kodak's loss of market dominance, when digital photography emerged

Obsolescence of VHS cassettes

- ▶ The whole industry disappeared

(Utterback, 1996., Christensen 2003, Christensen et al. 2003, 2004, Markides. 2008)

## The Answer?

Since leaders are simply managers just caring for the daily business ...



... but why did then most airline companies fail, whose leaders adopted low-cost transportation early?

## The End of Music as We Know It (David Bowie. 2002)

Innovation's *two* streams

### 1. **Technology:**

- Pre-recorded products vs. downloads:

### 2. **Market linkages:**

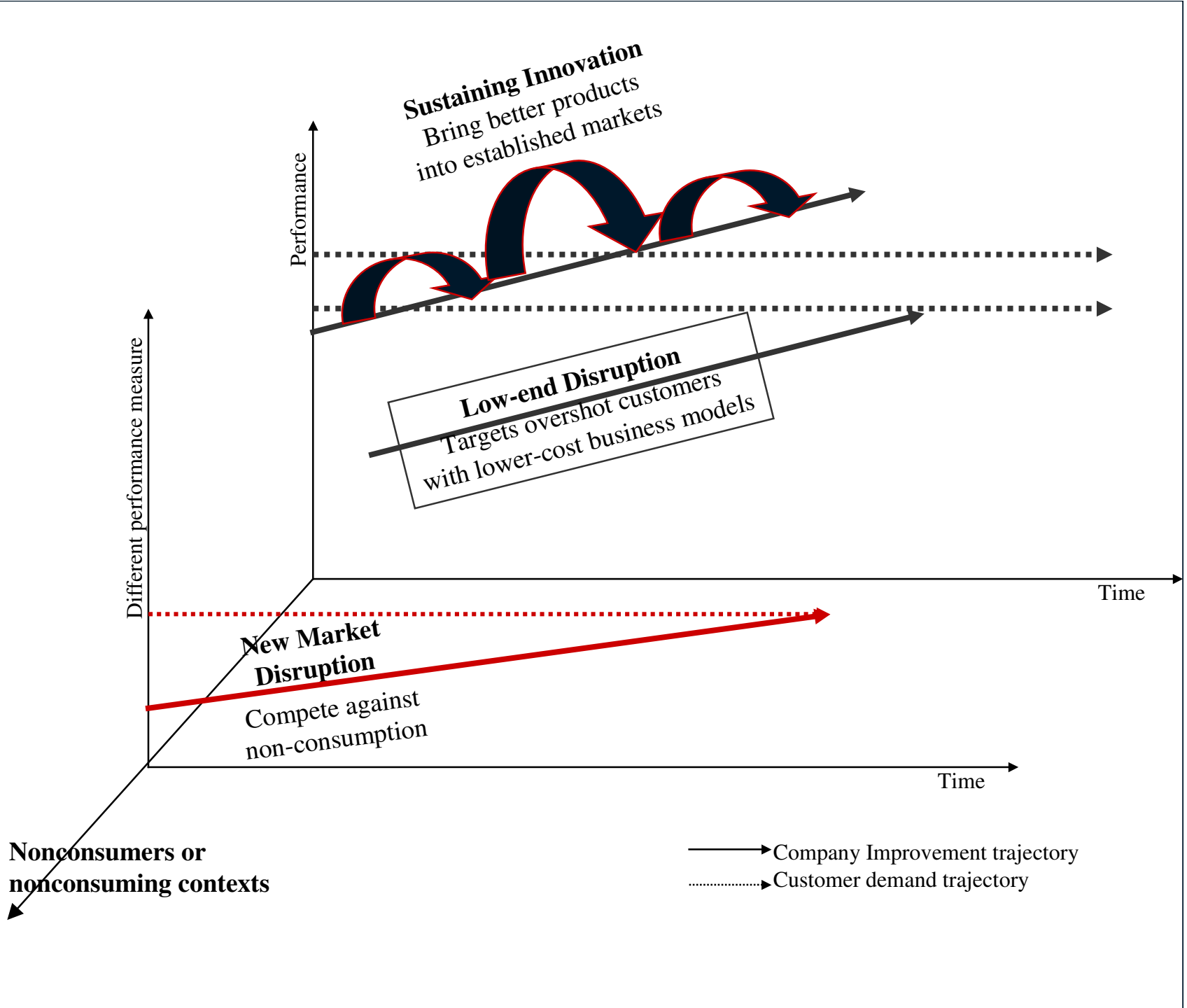
- Physical CDs vs. dematerialised P2P file sharing:

An explanation by theory (Christensen. 2004, Christensen et al. 2003, 2004) :

- ▶ The disruptive innovation theory
- ▶ The resources, processes values theory

# 1. Disruptive Innovation Theory

(Christensen et al. 2004)





## 2. RPV Theory

Organisations adopt innovation,

- ▶ If their resources support it
- ▶ If their processes facilitate to do what needs to be done
- ▶ If their values allow prioritisation of special opportunities

**R** esources – which a firm owns

**P** rocesses – how a firm operates

**V** alues – what a firm intends to do

## The Music Industry's Dilemma

Established companies fight for the status quo, because

- ▶ ... their values prioritise it
- ▶ ... their processes and resources are appropriate for the distribution of physical products

They fail with disruptive downloads, since

- ▶ ... they lose control of markets and products (Moyon et al. 2007, Oestreicher et al. 2009)
- ▶ ... their established revenue model is threatened:



Kusek et al. 2006

# The Kaleidoscope of Change

(Balogun & Hope Hailey. 2005)



Will and ability to lead from

- ▶ Product to service orientation  
(Kusek et al. 2006)

Multiplying services

- ▶ Open Innovation & Business Models  
(Chesbrough. 2006, 2006)

Managing diversity

- ▶ Making sense of virtual space
- ▶ Customer values in upmarket place (niche exploitation)
- ▶ Abandoning the status quo, creating a new value chain  
(Kotler et al. 2002, Utterback. 1996, Christensen et al. 2004)

*Focus and prioritisation of "all forces at the decisive point of the battle"* (Sun-Tzu. 5<sup>th</sup> century b.c.)

# Leading to a New Value Chain

(Davenport et al. 2006)

## 1. Entrepreneurial Process

- Value chain:  
Music as service, not product
  - RPV reengineering:  
Virtual space & physical place: Hybrid strategy
- Collaboration instead of confrontation:
- § Open Innovation, e.g. pandora, spotify, etc.
- § Open Business Models, e.g., distribution and revenue streams for assigned & non-assigned creative parties

## 2. Synergising Process

- Ops. linkages in- & outside an organisation:  
Global solution of DRM
- Managing systemic efficiencies  
Flexible models of revenue sharing
- Adding new values to consumers, e.g., merchandising, experiential experience, subscription services
- Expanding range of offers by organising own and using external communities

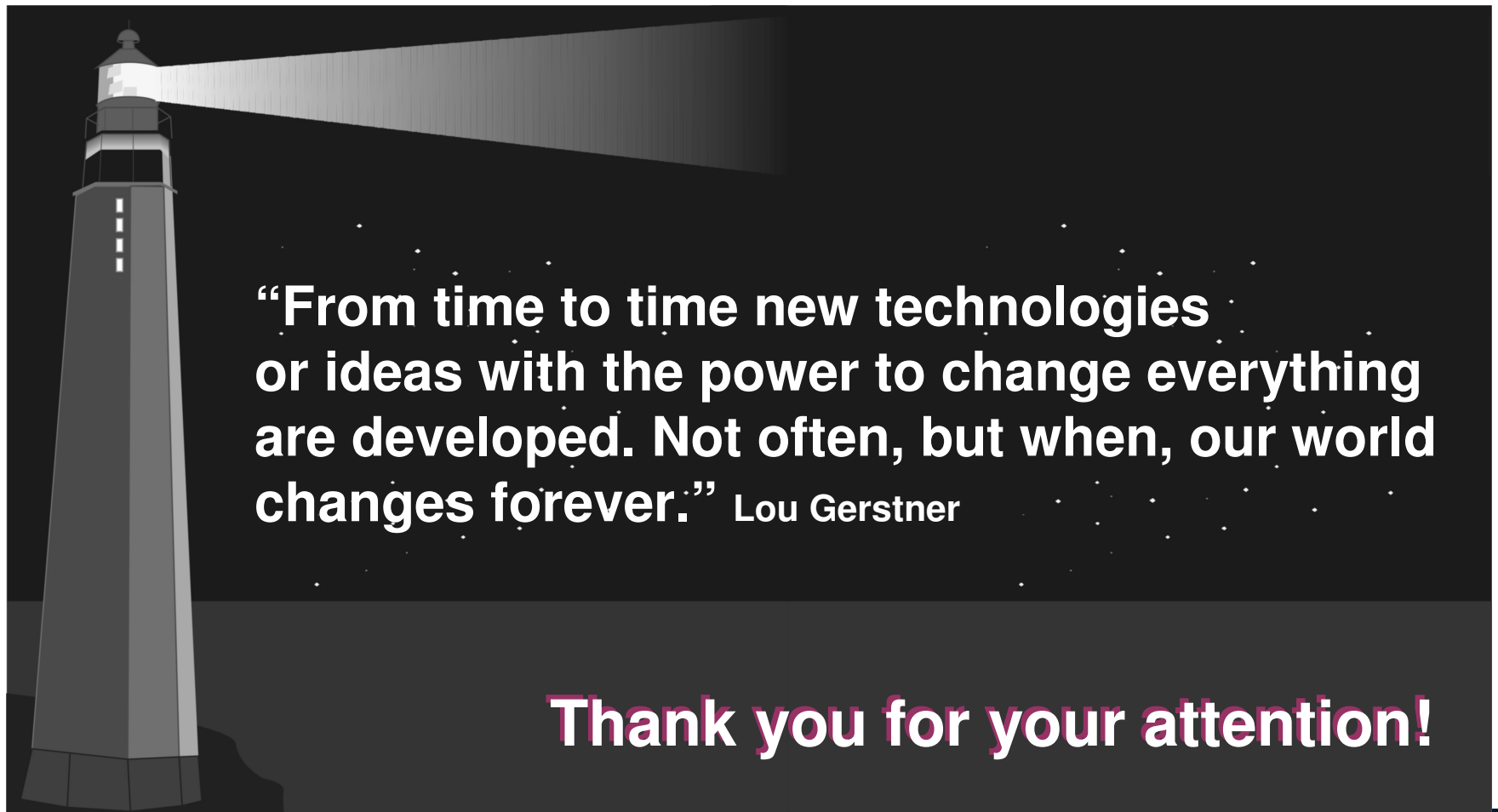
## 3. Energising Process

- Sustaining personal & team energy & commitment:  
Building organisational flexibility
- RPV-orientation on virtual services & physical products to build on low-end market opportunities & creating up-market physical niches
- Incentive models for new digital service development & hyper consumerism discovering new music styles

# Leadership & Management in the Music Industry

(Tidd et al. 2008, Oestreicher. 2007)

Shared vision, leadership, will to innovate	The future of the music market will be dematerialised (Benavent. 2008, Benghozi et al. 2005) Transformation from physical place to virtual space
Appropriate structure	Disruption takes place: Reengineering RPVs (Benghozi 2005, 2006, Benghozi et al. 2000, 2005, Christensen et al. 2004, Chesbrough. 2006)
Extensive communication	Not treating consumers like criminals, but understanding their shift of behaviour
High involvement in innovation	Mass collaboration (Wikinomics [Tapscott et al. 2007]), swarm intelligence, “[f]ollow the free”-models (Kelly. 1997)
External focus	Embracing consumers’ new behaviour as new extended market opportunity (Lipovetsky. 2009.)
Creative climate	Industry boundaries are not given, but can be shaped (Kim et al. 1997): Extended value offer beyond products
Learning organisation	Following customers’ demand from pre-recorded content to 1:1 market offer = prosumer (Kotler et al. 2002)



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