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

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)

- **Disruptive Innovation Theory**
  - Different performance measure
  - New Market Disruption
    - Compete against non-consumption
  - Low-end Disruption
    - Targets overshot customers with lower-cost business models
  - Sustaining Innovation
    - Bring better products into established markets

- Nonconsumers or nonconsuming contexts

- Company Improvement trajectory
- Customer demand trajectory
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 priorisation of special opportunities
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:

<table>
<thead>
<tr>
<th>Artists 8%</th>
<th>Labels 49%</th>
<th>Manufacturing 8%</th>
<th>Despatch 5%</th>
<th>Retail 30%</th>
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Kusek et al. 2006
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

Focus and prioritisation of “all forces at the decisive point of the battle”
  (Sun-Tzu. 5th century b.c.)
<table>
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<tbody>
<tr>
<td>• Value chain: Music as service, not product</td>
<td>• Ops. linkages in- &amp; outside an organisation:</td>
<td>• Sustaining personal &amp; team energy &amp; commitment:</td>
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<tr>
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<td>Global solution of DRM</td>
<td>Building organisational flexibility</td>
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<tr>
<td>• RPV reengineering: Virtual space &amp; physical place: Hybrid strategy</td>
<td>Flexible models of revenue sharing</td>
<td>RPV-orientation on virtual services &amp; physical products to build on low-end market opportunities &amp; creating up-market physical niches</td>
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<td>• Managing systemic efficiencies</td>
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<td>Adding new values to consumers, e.g., merchandising, experiential experience, subscription services</td>
<td>Incentive models for new digital service development &amp; hyper consumerism discovering new music styles</td>
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<td>Expanding range of offers by organising own and using external communities</td>
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<td>Collaboration instead of confrontation:</td>
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<td>§ Open Innovation, e.g. pandora, spotify, etc.</td>
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<td>§ Open Business Models, e.g., distribution and revenue streams for assigned &amp; non-assigned creative parties</td>
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## Leadership & Management in the Music Industry (Tidd et al. 2008, Oestreicher. 2007)

<table>
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<th>Leadership &amp; Management Factor</th>
<th>Description</th>
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<tr>
<td>Shared vision, leadership, will to innovate</td>
<td>The future of the music market will be dematerialised (Benavent. 2008, Benghozi et al. 2005) Transformation from physical place to virtual space</td>
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<td>Extensive communication</td>
<td>Not treating consumers like criminals, but understanding their shift of behaviour</td>
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<td>High involvement in innovation</td>
<td>Mass collaboration (Wikinomics [Tapscott et al. 2007]), swarm intelligence, “[f]ollow the free”-models (Kelly. 1997)</td>
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<td>External focus</td>
<td>Embracing consumers’ new behaviour as new extended market opportunity (Lipovetsky. 2009,)</td>
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<td>Creative climate</td>
<td>Industry boundaries are not given, but can be shaped (Kim et al. 1997): Extended value offer beyond products</td>
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<td>Learning organisation</td>
<td>Following customers’ demand from pre-recorded content to 1:1 market offer = prosumer (Kotler et al. 2002)</td>
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</tbody>
</table>
"From time to time new technologies or ideas with the power to change everything are developed. Not often, but when, our world changes forever." — Lou Gerstner

Thank you for your attention!
References

Benavent, C. (personal conversation september 2008)

Moyon, E. et Lecocq, X. 2006. La dynamique des réponses stratégiques des majors au changement institutionnel dans l’industrie de la musique. Lille: IAE de Lille, LEM.