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Disruption isn't just a buzzword. If you don't disrupt your own business, someone else will

Now, Snap Yourself Into It


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Not too long ago, a leading Indian telco approached one of us to deliver a keynote address. The brief: to motivate executives in the wake of reddening bottomlines and imminent layoffs induced by the 'Jio effect'. We marvelled at how lethargic these leading telcos had become, even though they were cognisant of the Jio launch a year earlier.

What is visible, clearly, is the ineptitude of Indian companies to lead disruption from inside out. While all the existing players imagined Jio to commence a price war, they were struck by a disruptive vicissitude in the unit of business itself.

Disruption is everywhere. From telecom to retail, financial services to IT, and pharma to travel. Take, BFSI (banking, financial services and insurance). With the regulatory thrust for better liquidity and digitisation post-demonetisation, financial institutions need to think differently now more than ever.

The sector is also seeing incursions into its traditional businesses by new entrants offering services that are either cheaper or delivered differently. Payments, share-trading, money management, forex and investments are all seeing the impact. From Bitcoin and Paytm to BHIM (Bharat Interface for Money) and Freecharge, India is following the world.

Disruption is at its everyday best in another industry: travel. Technology is making it easier for travellers to get information, compare prices and make their own arrangements. Third-party advice sites such as TripAdvisor, Yelp and Zagat make and break businesses: a few bad reviews can radically trim business. At the same time, new entrants such as Airbnb, Uber and Lyft have the potential to replace today's middlemen at the centre of the most critical transactions.

In the developed world, there is a continual decline in ROA (return on assets) in the last 40 years. The 'topple rate' — a measure of the rate at which companies lose their leadership positions — has increased by 39%. Share buyback and stock incentives are creating 'profitless prosperity' in which executives and investors reap rich rewards, while corporations are hollowing out basic capabilities.

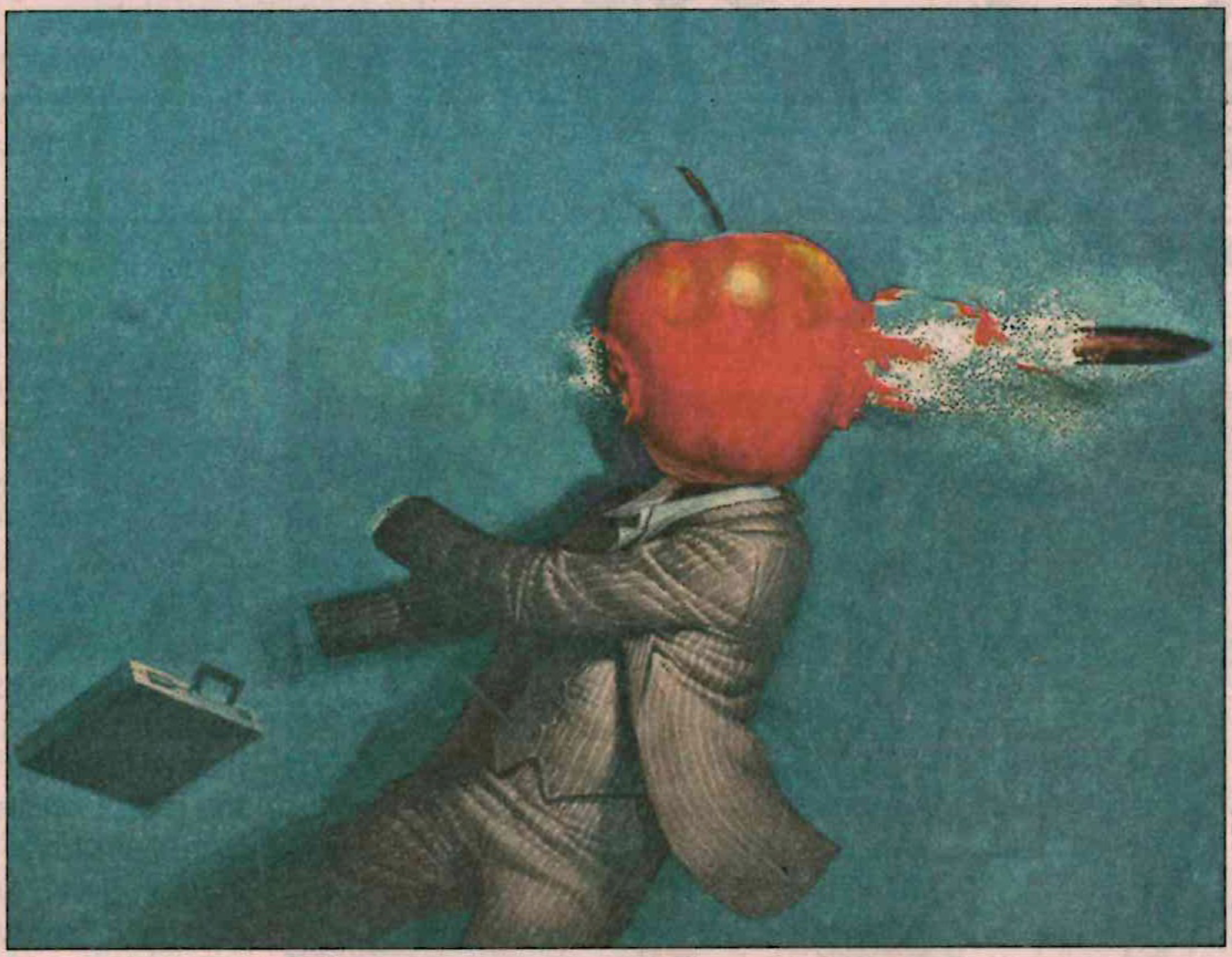
The tenure of companies on the S&P 500 has declined from 61 years in 1958 to 18 in 2012. Two decades from now, 75% of the S&P 500 companies will have turned over. Company leaders understand they need to innovate and adapt, but they seem to be stumbling on just how to make this happen.

Tomorrow is Another Day

Most companies in India stick to a business model and execute against it repeatedly, although shoddily. Worse, they pay only lip service to corporate entrepreneurship in finding 'transient advantages', while their employees continue to ignore competition from other industries, the need to manage both cyclical and structural changes, and obtain early warnings and make decisions faster.

The remedy to ride the disruptive wave is to mount disruption itself. Discovery-Driven Disruption (DDD) is a means to scout for opportunities or 'transient advantages' and frame options. For most firms, the core business is largely about today's offerings for today's customers.

The idea is that 'Platform Launch', or 'Horizon 2', is tomorrow's potential core businesses. In the outer edges of uncertainty, or 'Horizon 3', lies 'options'. These options are small investments an organisation makes today that give them the right, but not the obligation, to make future investments.



It's always worth a shot

FILE PHOTO

DDD will help firms to draw their new strategy playbooks that will continually reconfigure, engage and disengage in new opportunities for Horizon 3, allocate resources between projects deftly as options evolve, build innovation proficiency and entrepreneurial mindset. This will also lead to managing careers of employees in radically different ways.

DDD uses a five-step process: creating a climate supporting continuous opportunity-hunting; establishing the entrepreneurial frame; creating a well-stocked opportunity register; building real options; and driving adaptive execution.

Just as entrepreneurs orchestrate opportunity search and scale up personally, DDD will pave way for 'intrepreneurship'. The process for establishing a frame involves working through certain expectations of various stakeholders and looking at what minimum revenue and ROI targets the firm will consider as a major win. Reverse income statements will analyse resultant possibilities. The opportunity register will inventory all new business ideas identified for funding and it will have a rich set of prioritised items.

Real options reasoning involves making small investments that give you the right to make a decision later. The idea is to limit your downside exposure until the upside potential of the opportunity is demonstrated. In conjunction with limiting risk, an options approach allows one to create focus and strategic alignment across a portfolio of initiatives.

Coming Apart at the Teams

One would imagine a group like, say, Tata, which has been 'experimenting' with innovation in multiple ways, to lead disruption in many industries globally. Instead, 70% of its profits come just from TCS. The trouble is that most companies invest in setting up innovation teams, building incubation centres, sending teams to Silicon Valley, but don't follow a seamless approach. Instead, they address systemic issues unique to India, such as risk-aversion, a copy-and-paste culture and jugaad.

DDD adapts the 'If you have to fail, fail cheap and fast' policy that encourages more disruptive initiatives at lower downsides. Bottomline: if you don't disrupt your own business, someone else will.

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