Gear Up to Lead Disruption in the Digital Era

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Just a year ago, one of the leading Indian telcos approached one of us to deliver a keynote address. Mission? Motivate executives in the wake of reddening bottom-lines and imminent layoffs induced by the Jio effect (Reliance Group had launched a disruptive mobile and data services that had severely affected the leading telcos). We marvelled at how lethargic and complacent these leading telcos had become even though they were cognizant of the Jio launch at least a year earlier.

What is visible 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: By making calls free (and nominal charge for data) in a market that so far focussed on telephone services, Jio created consternation for Airtel, Vodafone and Idea by igniting mass frenzy. Not content with a massive subscriber base in the shortest time ever, Reliance Jio took its disruptive juggernaut to related markets of mobile handsets and data services with the free phone offer and free Wi-Fi for college students.

Ever since the iPhone and the commercialisation of Android, the world has been reverberating from the radical changes brought by the smartphone. Cameras, GPS, watches, alarm clocks, music systems, TV, travel agents, banks and lately, even gyms, have faced disruption as customers are getting their “jobs done” via smartphone-enabled software. Incumbents are right to be worried about the next threat to their past competitive advantages. And yet, for most in India, the innovations that are essential to staying competitively relevant remain hostage to inertia, risk-repugnance, and the inheritance of copy-paste culture.

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Disruption is everywhere: From telecom to retail, financial services to IT, and pharma to travel. Take for instance the banking and financial services industry (BFSI). 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 business by new entrants that are offering services that are either cheaper or delivered differently. Payments, share trading, money management, forex, investments and Portfolio Management Services (PMS) are all seeing the impact. From Bitcoin and Paytm to Bharat Interface for Money (BHIM) and Freecharge, India is following the world.

Disruption is at its every-day best in another industry, arguably the world's biggest: Travel. Technology is making it easier for travellers to get information, compare prices and make their arrangements today. 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 with themselves at the centre of the most critical transactions.

Increasing Competition and Decreasing Performance

It is incomprehensible how few firms can make ongoing innovation an internal proficiency. In the developed world, there is a continual decline in return on assets (ROA) in the last 40 years. The 'topple rate' – a measure of the rate at which companies lose their leadership positions – has increased by 39 percent. 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 percent of the S&P 500 companies will have turned over. The bottom line is that company leaders understand they need to innovate and adapt, but they seem to be stumbling on just how to make this happen in reality.

Most companies in India stick to a business model and execute against it repeatedly albeit 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 the need to obtain early warnings and make decisions faster at their peril.

The remedy to ride the disruptive wave is to mount disruption itself. We propose Discovery Driven Disruption (DDD) as a means to scout for opportunities or "transient advantages" and framing 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 business. In the outer edges of uncertainty, or Horizon 3, are what Rita calls "options" – which are small investments an organisation makes today that give them the right but not the obligation to make future investments.

The 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 akin to movie making. The DDD framework uses a five-step process viz., 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 the opportunity to search and scale-up personally, DDD will pave way for "entrepreneurship". The process for establishing a frame involves working through certain expectations of various stakeholders and looking at what minimum revenue and Return on Investment (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. Companies may use tools such as Marketbusting, Consumption Chain and Attribute Mapping during this process. Just as in investing in financial options, 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 you to create focus and strategic alignment across a portfolio of initiatives.

We would imagine a group like Tata that has been "experimenting" with innovation in multiple ways, to lead disruption in many industries globally. Instead, 70 percent of its profits come from just one company: TCS. The trouble is that most companies invest in setting up innovation teams, building incubation centres, sending teams to Silicon Valley and so on but do not follow a seamless approach as DDD or address systemic issues unique to India such as risk-aversion, the copy-and-paste culture and *jugaad*. The DDD adapts the "if-you-have-to-fail, fail-cheap-and-fast" policy that encourages more disruptive initiatives at lower downsides.

Bottom line: If you don't disrupt your own business, someone else will!