

Disruptive Management: In Search of “The Next Big Thing”

Enric Serradell-Lopez, Pablo Lara-Navarra, Raquel Ferreras-García
(Business and Economics Department, Open University of Catalonia, Spain)

Abstract: We are immersed in a changing and highly complex context. Highly volatile, complex and dynamic markets hinder managers’ role in planning and decision-making enormously. There seems to be a consensus that accelerated innovation could provide an answer to the question, what might the next discovery or advance that breaks the rules of our market be? Or in other words, to use an expression common in management speak, what is “the next big thing”? Disruptive management aims to study the causes of business innovation and how it can be systemized in a company, providing clues to achieving excellence in any given market and a methodology that can be learned by managers for application to all companies. This study describes some of the elements for professional and business adaptation to VUCA environments.

Key words: disruptive innovation; company management; leadership; VUCA environments

Jel code: H

1. Introduction

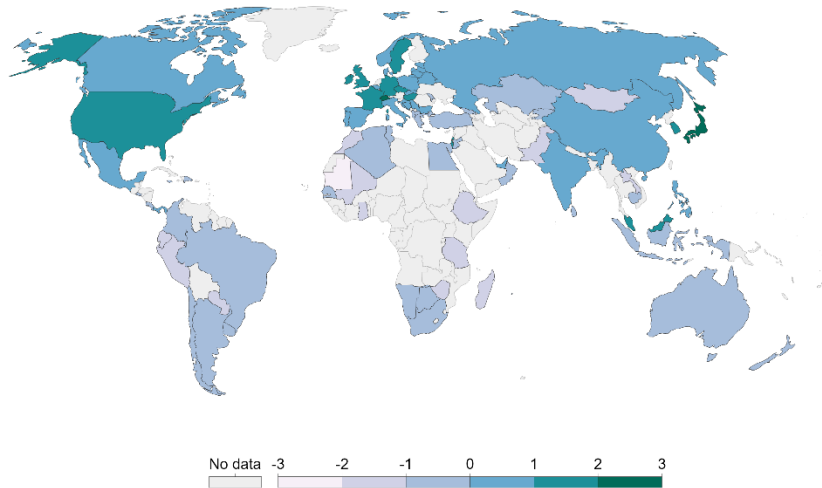
Managers face an environment that is changing massively due to its complexity and intense dynamism. The term VUCA covers four elements that define our current environment: highly volatile, great uncertainty, complexity and enormous ambiguity. These four essential elements clearly define our era: large, unexpected movements in markets, sectors and products, the rapid rise of new competitors and very short product lifecycles that seriously limit the potential profitability of companies.

Figure 1 shows the state of complexity of the world (data from 2016). Complexity is calculated using figures on exports, reducing a country’s economic system to two dimensions: i) “diversity” of products in the export basket; and ii) “ubiquity” of products in the export basket. Diversity is the amount of products a company can export competitively. Ubiquity is the number of countries that can export a product competitively. This website provides a dynamic map of the world’s complexity in the last 50 years.

In general terms, less complex countries export very few different types of products (i.e., their export baskets are not diversified) and the products they do export are produced in many other countries (i.e., export baskets are filled largely with a few ubiquitous products).

Economic Complexity Index (ECI) by country ranking, 2016

The ECI measures the relative knowledge intensity of an economy. The higher the index, the more economically complex a country is determined to be. In 2016, Japan was ranked top using the ECI.



Source: ECI - Observatory of Economic Complexity (OEC) (2016) and the Atlas of Economic Complexity (2016)

CC BY-SA

Figure 1 Map of World Economic Complexity, Country Ranking

Source: <https://ourworldindata.org/how-and-why-econ-complexity>.

Consumers and customers are changing at an unbelievable rate and while customers are becoming less loyal, they are also increasingly demanding in their appreciation of the potential benefits of products. Furthermore the effect of social media on product recognition and evolution is turning consumers into prosumers, a combination of the terms professional, or provider, and consumer. They are characterized by being extremely demanding: they gather information from different sources and then analyse, assess and publish it collectively on social media.

So-called disruptive change processes are continually appearing. The Oxford dictionary definition of disruption is “disturbance or problems which interrupt an event, activity, or process”, or alternatively, according to Merriam-Webster, “a break or interruption in the normal course or continuation of some activity, process” .

This apparently restrictive or a priori negative definition implies that a process of change means we no longer do things as we have done up to now and we switch to different ways of doing things.

The conditions under which managers make decisions are, therefore, determined by forces in the environment often beyond our control. Such forces include the appearance of new technologies, new regulations or laws, and new competitors or replacement products. The speed of change requires more prior planning, along with the realization that the effects of such planning are very limited in the long term, so strategic planning is ever shorter with ever briefer effects.

In general, the conditions for decision making can be classified into three kinds: certainty, uncertainty and risk.

Clearly, decisions are never made in an environment of absolute certainty, thus the starting point is always what we might term relative certainty, while at the other extreme there is great uncertainty (Figure 2).



Figure 2 Decision Continuum

When we talk about certainty, what we mean is that the person making the decision knows the results of the decision. In situations of uncertainty, however, people do not have the data or do not know whether they are wholly reliable.

It is often difficult to know the full consequences of a decision. This is a difficult situation for managers because they do not have enough information to assess the risk involved in their decisions. Thus managers use their experience and knowledge of the sector, market and other situations where they have faced similar problems. However, in the words of Sala i Martín, making decisions or forecasts using past data is like trying to drive with your windscreen completely covered, using only rear-view mirrors. When the road is straight, there is little problem in steering the car, there is no need to move the wheel, decisions are few and based on continuing along the previously established route. However, when conditions change, when the road starts to curve, where previously it was straight, then problems suddenly arise, decisions are needed, the steering wheel has to be turned, but we are unable to do so because our information is inaccurate, as it comes from our rear-view mirror (Sala I. Martín, 2018). It is often thought that the evolution of the economy and sciences applied to decision-making is advancing at an ever higher rate. Authors generally agree with this view, although well-known authors such as Thomas Piketty (2014, p. 94) argue that new waves of innovation have less potential for growth than previous ones (meaning industrial revolutions), as they are considered less disruptive to modes of production and have less impact on improving productivity in the economy.

However, managers are used to making decisions in risky environments. This means they are capable of estimating (more or less objectively) the likelihood of their results. We often use rational approaches to do so, estimating monetary values and using techniques such as net present value or internal rate of return. These techniques help in the decision-making but obviously many variables have to be considered, yet they can change in a matter of hours, days or months.

A graph of these concepts would show a continuous line running from certainty (highly predictable environments) to highly unpredictable or turbulent environments (Figure 2). Figure 3 shows how the concept of disruption has a highly technological component. Some of these technologies, such as the Internet of Things, appear to be an essential element in this disruption due to their flexible nature, as they are applicable and adaptable to any given productive sector. The same can be said of the Internet, the concept of automation in the work place and smart cities. These are very broad concepts that contain everything that could make a city smarter: interconnection, connectivity, government proximity to its citizens, transparency of information, sustainability. These are just a few examples of the smart concept related to cities, which also make the citizens living in them “smarter”.

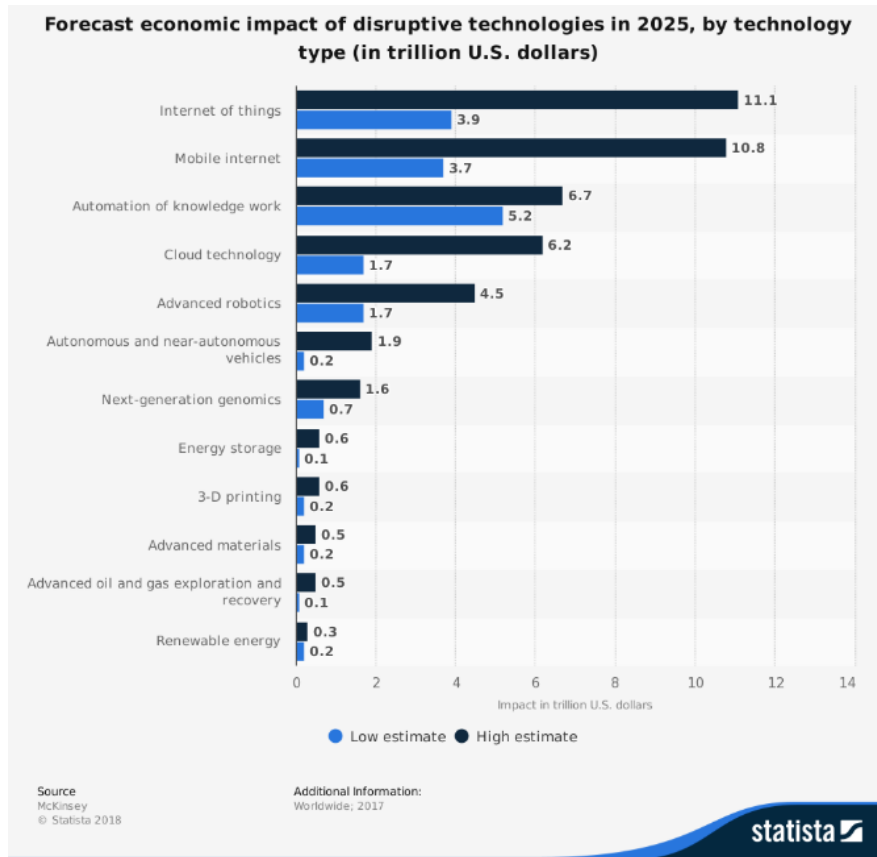


Figure 3 Forecast of the Economic Impact of Disruptive Technologies (McKinsey, 2018).

2. Concept and Evolution of Disruptive Innovation

The term was first used in 1995 by professors Clayton Christensen and Josep Bower, who argued that disruptive innovations create new markets and transform existing ones through simplicity, convenience, affordability and accessibility (Bower & Christensen, 1995).

For many of us, what first comes to mind when considering the concept is technological products: smart phones, flat-screen TVs, MP3 players and so on. The results are usually obvious because their main effect is to completely replace other products. However, these changes apply not only to products but also to processes; for instance, the introduction of new technologies replaces ways of obtaining bank and government services.

The first aspect of the concept of disruption is that it is a process whereby a small company, normally with few resources, is capable of competing with other established companies in the market. Thus, while established companies set their priority as improving their products and services for which there is most demand, they usually exceed the needs of some such segments while ignoring the needs of others (Christensen et al., 2016).

Thus disruptive companies, after the success of their first entry and after meeting their goals in market segments uncovered by other companies, start to offer their service or products in a growing number of segments, while maintaining the advantages obtained in previous segments. Usually the entry method in all segments is based on aggressive cost and price cutting, which are not recognized or matched by competing companies until it is too late.

Hence disruptive innovation is that which creates new markets and eventually ends up replacing market leaders.

Innovations of this type are usually produced by small companies, entrepreneurs or start-ups, which are not usually introduced by leading, established companies in a market or sector.

There could be said to be two types of disruptive innovation: The first one occurs in new markets (new market disruption), targeting customers whose needs were previously unmet by existing companies (although not even the customers knew they were unmet). This occurs with the introduction of completely new products or services.

The second type of disruptive innovation is “low-end” innovation or disruption, which occurs when existing companies provide an increasing number of functionalities for their products and exceed the needs of the customer segment. Due to technological development in this market segment, disruptive innovations offer products that exceed the requirements of the segment at a much lower cost than established products.

All innovation that truly challenges established companies is usually considered disruptive. However, at the managerial level, doubts and concerns arise when analysing the environment in terms of disruptive innovation, so our suggestion is to ask the following questions:

- What type of disruption, understood as non-linear change, will affect our sector in the coming years?
- What changes will there be to customers or technologies in the coming years?
- What kinds of products or services do our customers expect? What do they not expect?
- Can we be creative when segmenting customers, using criteria other than traditional ones?
- Can we offer the product or service that our customers of the future really need?
- Can we offer our product at the lowest possible cost?

If as managers we are able to answer at least some of these questions, it means we have the profile of a disruptive manager. And if can we answer all of them, we should immediately set up a creative, multidisciplinary team to provide a response in the VUCA environment.

3. The Disruptive Manager

The concept of leader is an evolving one, as are the concepts of leadership and innovation. Leaders must not only be innovative but also profoundly transformative, in line with disruptive innovation. They are, therefore, agents for change. Pure logic states that true leadership comes from within and once we are aware of this, we can take the next step and start leading other people, a true high-performance group.

In their book *The Innovator’s DNA* (2012), Dyer, Gregersen and Christensen list five behaviours that characterize leaders: associating, questioning, observing, networking and experimentation. The authors call these behaviours “discovery skills”, whose focus goes beyond the frontier of the company’s current resources and capacities to identify new opportunities. Apart from these attributes, they list five essential leadership skills for success.

The first is the leapfrogging mindset. The more different and unexpected the solution, the more disruptive its effects. The mindset required is that of leapfrogging: creating something new or different that represents a major leap forward.

The second is boundary-pushing. Disruptive change means finding creative solutions and opportunities in apparently impossible challenges. When we push beyond the limits of our comfort zone, we increase our

problem-solving ability and capacity for strategic planning.

The third is data-intuition integration. Obtaining full information is an impossible task. We need to combine robust data with our own intuition, based on prior experience. The challenge of innovation largely depends on the knowledge needed to advance in any given area. In terms of business innovation, professionals make their assessments for decision-making based, firstly, on available information and, secondly, as stated above, on their professional experience, to which we should add the manager’s degree of confidence when making decisions (Serradell-Lopez et al., 2012).

The fourth is adaptive planning. Disruptive innovation represents forward movement despite the reigning uncertainty. Making decisions, seeing results and learning from them, including and fundamentally learning from mistakes. Technology can help in taking this step. Technologies such as the Internet of Things enable businesses, cities and emerging economies to work with systems of the past in a way that does not prevent integration of future systems (Schneider-Electric, 2016).

The fifth and final one is savouring surprise: unexpected changes, competitive movements, political changes and any other type of unexpected change. These types of leaders and companies, who accept that adapting to constant change is a way of life, use this dynamism as a central element and tool for disruptive creativity. Disturbing events within the organization break existing frameworks whereby what previously made sense no longer does (Fosfuri & Tribó, 2008). It means accepting that the only stability is change itself.

As well as these elements, Nitin Seth, CEO of Incedo, provides further elements to complete the profile of the disruptive manager (Seth N., 2018).

The first element could be defined as taking the reins of your own future. Basing decisions on innovation means being open to new ideas, taking risks and not being afraid to cannibalize your own products along the way.

The second element refers to technology. While traditional companies see technology as a support, a change of a perspective is required so that technology is considered a strategic element to be incorporated into the company’s DNA.

The third element refers to strategy, and not marking so many differences from pre-established concepts. Establishing the focus for executing strategy can boost company results. Execution and real-time assessment represent a radical change in this context.

Another element is collaborating with customers. There is no time for long co-creation processes; innovation should be carried out considering customers as partners instead of customers. The company-customer relationship becomes iterative, with multiple interaction points.

Another aspect to bear in mind is rethinking structure and processes to gain simplicity. This is the only way to manage change and uncertainty. The key for companies is to redesign the organization, promoting simplicity over control.

The last element is developing the entrepreneurial spirit: developing new leaders instead of managers. Bearing in mind the duality of coexisting short- and long-term goals. Nevertheless, these goals should still be met.

4. Conclusions

This study presents various elements that define disruptive management. First of all there are adaptation elements that a manager has to consider when adapting to a highly dynamic and changing, if not chaotic, environment. However, this context may also include elements that take into account how to innovate

systematically. This orientation is now standard for all companies, and therefore innovation needs to be as disruptive as possible to obtain competitive advantages. After recognizing the essential elements of disruptive innovation, we can then determine which elements help shape and contribute to the concept of disruptive management. In other words, what knowledge, skills and leadership are required by managers to tackle the challenge of disruptive innovation.

We still do not know what the next disruptive innovation or “next big thing” will be, nor even whether we will recognize it. Other theories, such as the blue ocean strategy, can help us identify in which sector, market, country or business niche the next great, new, totally disruptive idea might appear (Serradell-Lopez, 2017). We need to be alert to signs of opportunities offered by the current times.

Acquiring and developing talent together with the elimination of inefficient routines and working cooperatively will allow changes in the VUCA environment to serve as a lever for the qualitative balance that enables us to grasp opportunities in the environment. New generations of managers have to take on this role and integrate it into new practices in strategic planning.

References

- Bower J. L. and Christensen C. M. (1995). “Disruptive technologies: Catching the wave”, *Harvard Business Review*, Vol. 73, No. 1, p. 43.
- Christensen C. M., Raynor M. and McDonald R. (2016). “What is disruptive innovation?”, *Harvard Business Review*, available online at: <http://doi.org/10.1353/abr.2012.0147>.
- Dyer J., Gregersen H. and Christensen C. M. (2012). *El ADN del Innovador: Claves Para Dominar Las Cinco Habilidades Que Necesitan Los Innovadores*, Grupo Planeta (GBS).
- Fosfuri A. and Tribo J. (2008). “Exploring the antecedents of potential absorptive capacity and its impact on innovation performance”, *Omega*, Vol. 36, No. 2, pp. 173-187, available online at: <http://doi.org/10.1016/j.omega.2006.06.012>.
- Martín X. S. (2018). *La Invasión de los Robots y Otros Relatos de Economía*, Conecta.
- McKinsey (2018). “Forecast economic impact of disruptive technologies in 2025, by technology type (in trillion U.S. dollars)”, in: *Statista — The Statistics Portal*, 30 Octubre 2018, available online at: <https://0-www-statista-com.catalog.uoc.edu/statistics/826712/worldwide-disruptive-technologies-economic-impact-forecast/>.
- Piketty T. (2014). *Capital in the Twenty-first Century*, London, England: The Belknap Press of Harvard University Press.
- Schneider-Electric (2016). “IoT 2020 Business Report. [28 Octubre 2018]”, available online at: http://www2.schneider-electric.com/documents/presentation/en/local/2016/04/998-19699217_IoT_Report_2016_v2.pdf.
- Serradell-López E., Lara-Navarra P., Castillo-Merino D. and González-González I. (2012). “Developing professional knowledge and confidence in higher education”, in: M. D. Lytras & I. Novo-Corti (Eds.), *Trends and Effects of Technology Advancement in the Knowledge Society*, pp. 273-281, IGI Global, available online at: <https://doi.org/10.4018/978-1-4666-1788-9>.
- Seth Nitin (2018). “Guiding principles for management in the age of technological disruption”, *Forbes*, accessed on 28 Octubre 2018 available online at: <https://www.forbes.com/sites/forbestechcouncil/2018/04/04/guiding-principles-for-management-in-the-age-of-technological-disruption/#6fcda84b4d5c>.