Meeting the Challenge of Disruptive Change

- Introduction
- Where Capabilities Reside
- The Migration of Capabilities
- Sustaining versus Disruptive Innovation
- Creating Capabilities to Cope with Change
- Fitting the Tool to the Task
- Conclusion
Introduction

- Managers’ track record for dealing with major disruptive changes
  - Not one of the minicomputer companies succeeded in personal computer business:
    - Wang Laboratories, 1951-1997
  - Leader in discount retailing: Dayton Hudson (1997 based on the article written time)

Introduction

- They all have
  - Sufficient technology info about the disruptive change?
  - Adequate resources?
  - Talented managers and specialists?
  - Strong product portfolios
  - First-rate technological know-how
  - Deep pockets
Introduction

- Have Great Managers
  - Ability to identify the right person for the right job
  - Train employees to succeed at the jobs they’re given
- But Managers Lacking
  - A habit of thinking about their organization’s capabilities
  - Lacking the skills of assessing the abilities and disabilities of their organization as a whole

Introduction

- Purpose of the article – a framework to understand
  - What their organizations are capable of accomplishing
  - What disabilities are more sharply defined when its core capabilities grow
  - Bottom-line advice to cope with disruptive change
    - Create new organizational structures
    - Spin out an independent organization
    - Acquire a different organization
Where Capabilities Reside

Three factors affect what an organization can and cannot do
- Resources
- Processes
- Values

Resource Analysis
- Tangible Ones: People, Equipment, Technologies, Cash
- Less Tangible Ones: Product Designs, Information, Brands, Relationships with Suppliers, Distributors, and Customers

Where Capabilities Reside - Processes

Process Analysis
- What are the processes?
  - Pattern of interaction, coordination, communication, and decision making employees use to transform resources into products and services of greater worth
  - Formal processes: Explicitly defined and documented; Visible
  - Informal processes: routines or ways of working; Invisible
- Examples of processes
  - Processes that govern product development, manufacturing, and budgeting
Where Capabilities Reside - Processes

Dilemmas of Management – Processes

- Very Nature
  - Efficient task performance
  - Setup for performing tasks in a consistent way, time after time
  - Meant not to change; or changed through tightly controlled procedures
- A process that creates the capability to execute one task concurrently defines disabilities in executing other tasks
- The most serious disabilities in coping with change reside

Where Capabilities Reside - Values

Corporate Values

- Reflect cost structure or business model
- A key metric of good management
- Employees set priorities that enable them to judge whether
  - An order is attractive or unattractive
  - A customer is more important or less important
  - An idea for a new product is attractive or marginal
- Consistent with the strategic direction and business model
- Prioritization decisions
  - Among sales representatives
  - Executive tiers
Where Capabilities Reside - Values

- Two Sets of Corporate Values that Make Companies Progressively Less Capable of Addressing Disruptive Change Successfully
  - Acceptable gross margins?
  - How big a business opportunity has to be before it can be interesting?
- Disabilities in managing innovation
  - Big companies lose the ability to enter small, emerging market caused by an evolution in values
  - High-tech companies getting bigger through mergers or acquisitions lose the appetites for all but biggest opportunities

Where Capabilities Reside - Values

- Toyota
  - Corona model, targeted the low-end of North America market
  - Segment become crowded with the look-alike models from Honda, Mazda, and Nissan: drove down profit margins
  - To improve profit margins
    - Developed more sophisticated cars: Camry, Lexus
    - Departure from the low-end market
  - Reenter entry-level car markets, www.toyota.com
    - Yaris, $11,350
    - Corolla, $15,250
The Migration of Capabilities

- Phases of Migration of Capabilities
  - Start-up Stage:
    - Shift toward its process and value
    - May failed due to unable to develop processes that can create a sequence of hot products
  - Early and Middle Years:
    - more mature processes, and readjust it’s values
  - Successful Companies Mature
    - Follow processes and decide priorities by assumption
    - Culture enables employees to act autonomously, and consistently

The Migration of Capabilities (cont.)

- Organizational Capabilities
  - Shift over time:
    - Resources ↓
    - Visible articulated processes and values ↓
    - Migrate finally to culture
  - Problem Solving Capabilities (for those fundamentally change problems)
    - Reside in its People: Changing capabilities to address problems => relatively simple
    - Reside in Processes and Values: Change can be extraordinary difficult
Sustaining vs. Disruptive Innovation

- **Sustaining innovation**
  - Examples: CPU choices

- **Disruptive innovation**
  - Examples:
    - Early personal computers – relative to mainframe and minicomputers – Development, Design, Manufacturing, Sales - Processes
      - Outsourced most components from the best suppliers around the globe
      - Modular components and design, had to be completed in 6 to 12 months
      - Manufactured in High volume

- **Digital Equipment Corporation**
  - None of the above Personal Computer related processes exist within DEC
  - Incapable of doing tasks performed by PC makers
  - Company’s value system: worth doing it if greater than 50% gross margin

- **IBM, www.ibm.com**
Creating Capabilities to Cope with Change

Three Possible Ways to Create New Capabilities

- Create new organizational structures
  - Chrysler
  - Medtronics
  - IBM
  - Eli Lilly
- Spin out an independent organization
  - Hewlett-Packard’s laser-printer division
- Acquire a different organization
  - DaimlerChrysler merger
  - IBM’s 1984 acquisition of telecom company Rolm
  - Cisco Systems acquisition processes in 1993 and 1997

Conclusion