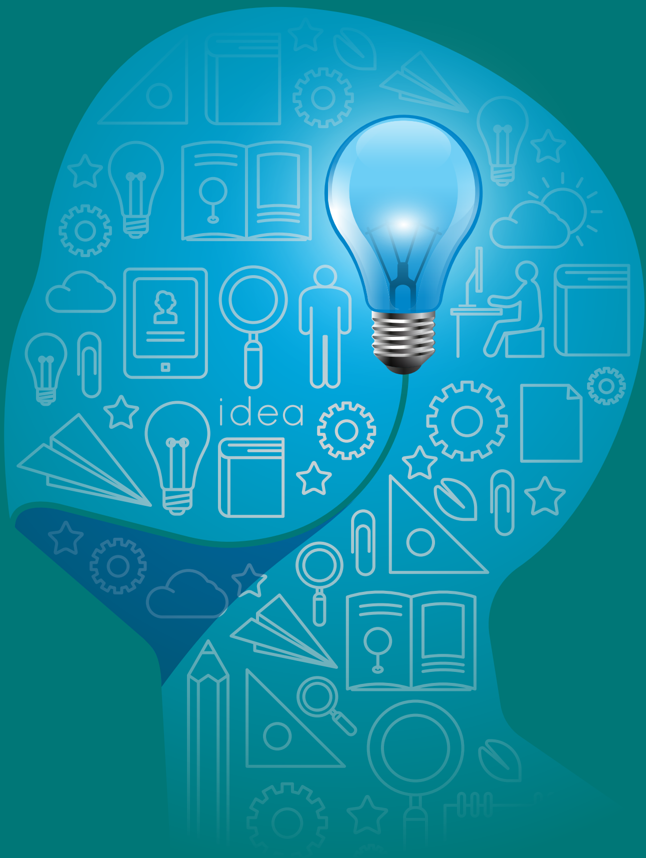

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4 Myths about How to Respond to Disruption

Julian Birkinshaw, Professor of Strategy and Entrepreneurship at the London Business School, explains some of the misconceptions about how to embrace emerging technologies

Disruption may be the most overused term in today's business lexicon. Depending on your perspective, it's either a rallying cry or a bogeyman, but no one is immune. Every start-up wants to re-invent the established order and every incumbent is scared of becoming obsolete.

Yet the obsession with disruption is a little disturbing. Plenty of industries house big, established players that are stable despite the storms they have weathered. Retail banking, for example, has experienced many technological shifts such as telephone, online and now mobile banking – and yet the old order has held firm.

Of course, intensive disruption does occasionally happen. We all know the sad tales of Blockbuster, Kodak, and Nokia. But the truth is, new technologies emerge in a wide variety of ways and the range of valid responses from established firms is equally wide. By focusing attention on the extreme, disruptive end of the spectrum, we risk losing sight of the bigger picture, which isn't healthy or honest.

The following myths – or half-truths – are valid under a narrow set of conditions, yet have been applied too broadly and become misleading.

Myth 1: Every industry will be disrupted

While start-ups sometimes completely kill off established firms (like Netflix with Blockbuster), the more common scenario is for the new and old to co-exist in different segments of the market. >

Take Airbnb, which is sharing the 'hotel' market with traditional groups like Hilton and IHG. Similarly, despite predictions of their demise fifteen years ago, book publishers and retailers still exist alongside Amazon and Kindle.

The market isn't homogeneous – different customers value different things. Some want the latest innovation and others the long established customer relationships and channels to market offered by incumbents.

So as an established player, it does no harm to think about worst case scenarios, but my advice is to plan for the most likely scenario.

Over-reacting can be as costly as under-reacting. After all, while innovative businesses challenge the status quo, they rarely stay on the steep performance trajectory they started on.

Myth 2: Established firms get in trouble because they don't see the new technology coming

When I discuss Nokia's failure to compete with Apple, the gut response is that it missed the shift in the market. But the company's problem wasn't a lack of insight, it was its failure to implement. In fact, Nokia had a touchscreen phone in prototype before the introduction of the iPhone in 2007, plus an App Store called Ovi.

In my experience, the captains of industry typically see the iceberg coming well in advance. But they respond by forming iceberg committees, and building iceberg-monitoring equipment, rather than by steering away.

The initial step, often called 'sensing' or 'scouting', is pretty easy to do. Most large firms have a business intelligence unit whose raison d'etre is to monitor potentially-disruptive trends. But they are often so detached from the decision-making they don't get their message across.

Myth 3: You must listen carefully to your front-line employees and build consensus for change

It is often argued that those closest to the action are best placed to pick up the weak signals of change. I agree that executives who empower and listen to their front-line employees will be better placed to make smart decisions, but the more consensus-oriented your decision-making, the slower it is likely to be. Discussing an issue in depth makes people feel better about it, but it can also create 'analysis paralysis'.

The companies best at seizing potentially disruptive opportunities are tightly controlled at the top – take Oracle, Amazon, Facebook or News International. These companies are run by strong-minded, powerful individuals, who are able to cut through the arguments and make decisive judgments.

Former Apple executive, Pascal Cagni, calls them "benevolent, transparent dictators". He argues this style of leadership works best in a fast-changing business world.

Myth 4: Smart decisions rely on big data and business analytics

When faced with a potentially disruptive threat, our first inclination is to analyse the situation using whatever data we can lay our hands on.

Most industries now have an abundance of information on customer behaviour, market trends and competitor actions and there are increasingly sophisticated tools for making sense of that data.

But there are limits to this approach. Don't have too much faith in the data (some of which may be of dubious quality) or lose context of what you are studying. You also run the risk that your competitors have access to the same body of data and analytical tools, which makes it very hard to differentiate your offering from theirs.

Competitive advantage is derived from decisiveness, not data. It's about having an emotional conviction. We should not throw out the hard data and rely entirely on gut feel, but nor should we be too easily seduced by the latest analytical tools or locked into a template that requires us to quantify everything. ■

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