

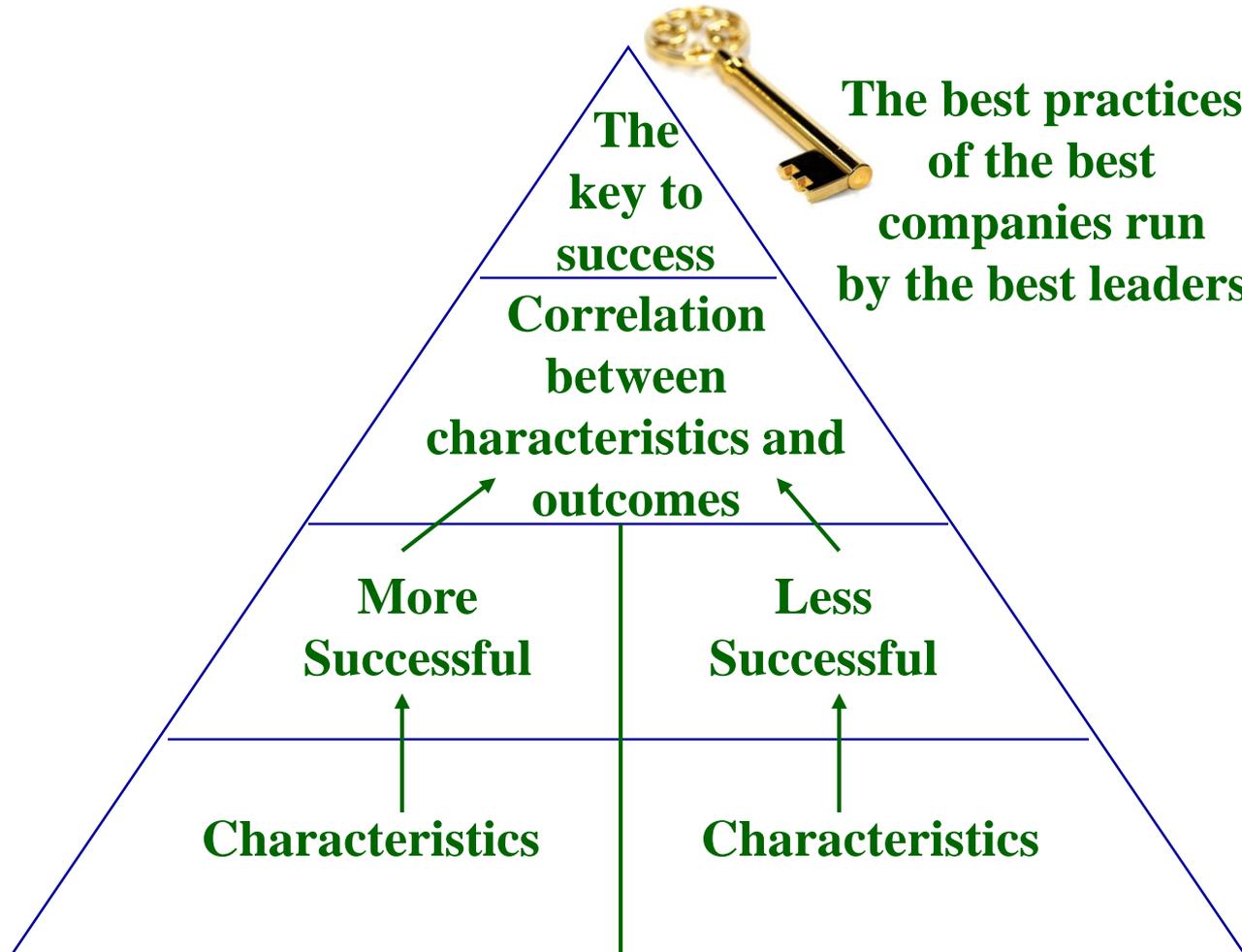
The value of theories in management

Prof. Clayton M. Christensen
Harvard Business School

Theories and Management

- A theory is a statement of what causes what, & why
 - Every action a manager takes is based upon a theory
 - Every plan a manager makes is predicated upon a belief in cause and effect: that certain actions and events will lead to the envisioned outcomes.
 - Every analyst or investor's conclusion about the meaning of data is based upon a theory
- Managers, consultants, analysts and investors therefore are actually *voracious* consumers of theory
 - Explicit, well-researched theories of cause and effect can have tremendous value to each of these people.

Correlative theory

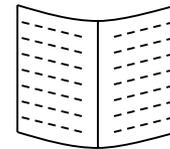
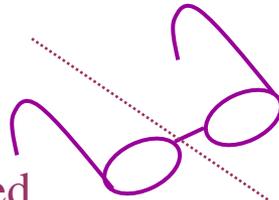


How to prepare for BSSE classes

Step 1:



The assigned reading should be the primary focus of each day's preparation



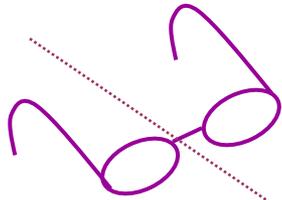
The case is a venue or vehicle on which to practice using the theory

How to prepare for BSSE classes

Step 1:



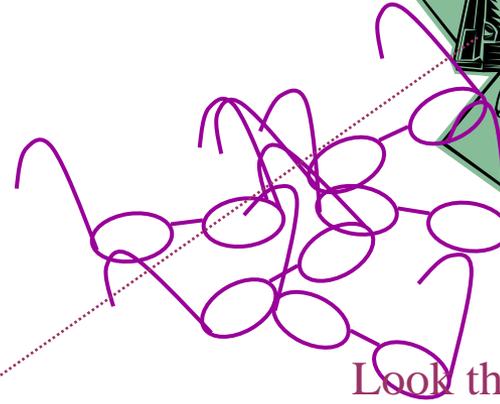
The assigned reading about a theory of innovation and growth is the primary focus of each day's preparation



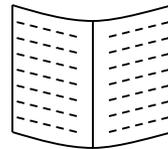
Step 2:



Look through the lenses of theories used in prior classes, to get a comprehensive picture



The case is a venue or vehicle on which to practice using the theory



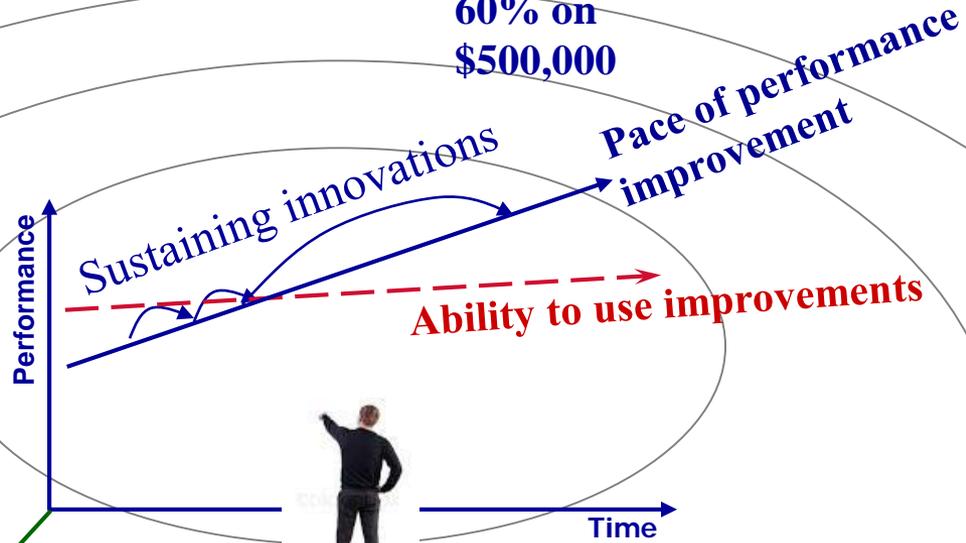
*Incumbents dominate
sustaining battles*



60% on
\$500,000



45% on
\$250,000



Competing
against
consumption

Competing
against non-
consumption

Disruptive Innovations

*Entrants
typically win
at disruption*

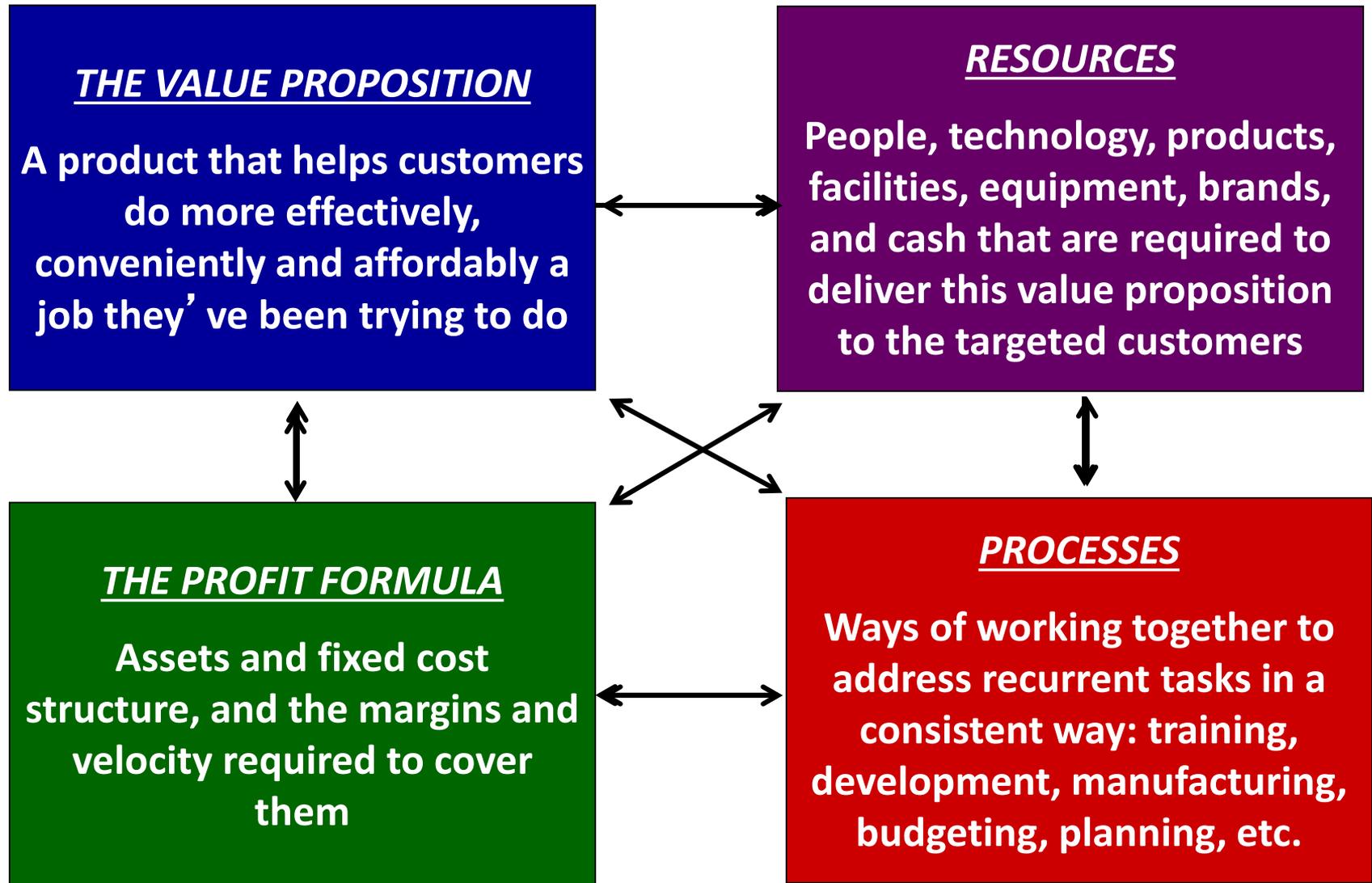


Time

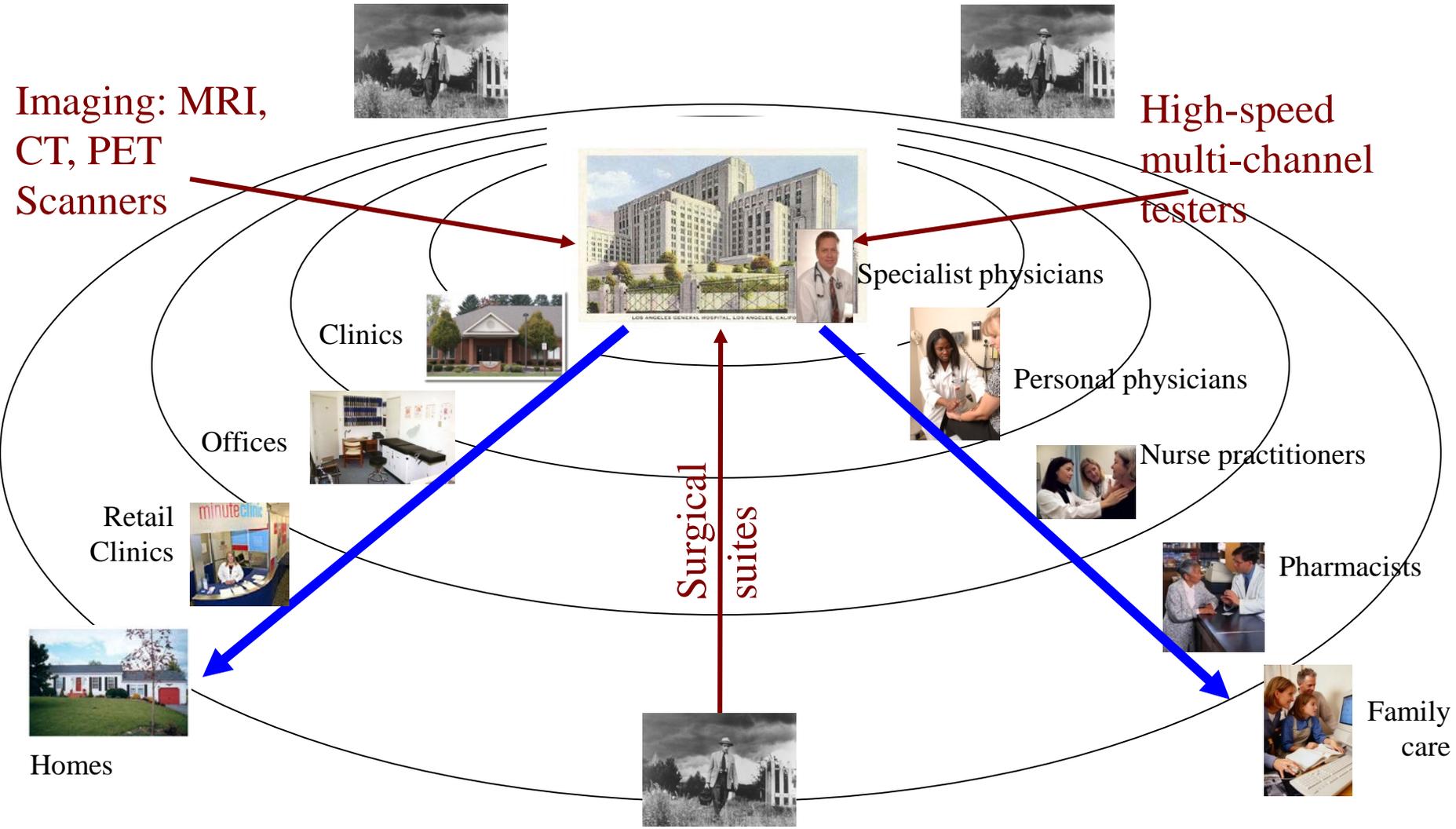
40% → 20%
on \$2,000



A MODEL FOR MANAGING MERGERS AND ACQUISITIONS



The decentralization that follows centralization is only beginning in healthcare



A few theories about management.

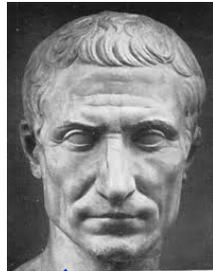
1. Disruption
2. What a company can and cannot do (M&A)
3. Can we predict what a customer will buy?
4. How are brands bought and destroyed?
5. How nations become prosperous
6. Interdependence and modularity
7. The capitalist's dilemma

Most potentially successful innovations focus on a job that people need to do.



“The customer rarely buys what the company thinks it is selling him.” - Peter Drucker

I need to get this to there as fast as possible, with perfect certainty.



The job to be done

Horseman & chariot

Telegraph or railroad

Airplane

DHL



How everyone knows what product does the job best.

What we can do that competitors cannot.

How customers will choose us

The job the customer needs to do.

A purpose brand is one that “pops” into our minds when we realize that we have a specific job to do.

IKEA

Disney

Mayo Clinic

TurboTax

QuickBooks

Zara

Hilti

LandRover

A purpose brand acts as a two-faced compass. It tells customers what to expect from the product, and it tells marketers and engineers what features and functions they should and should not incorporate in their product.

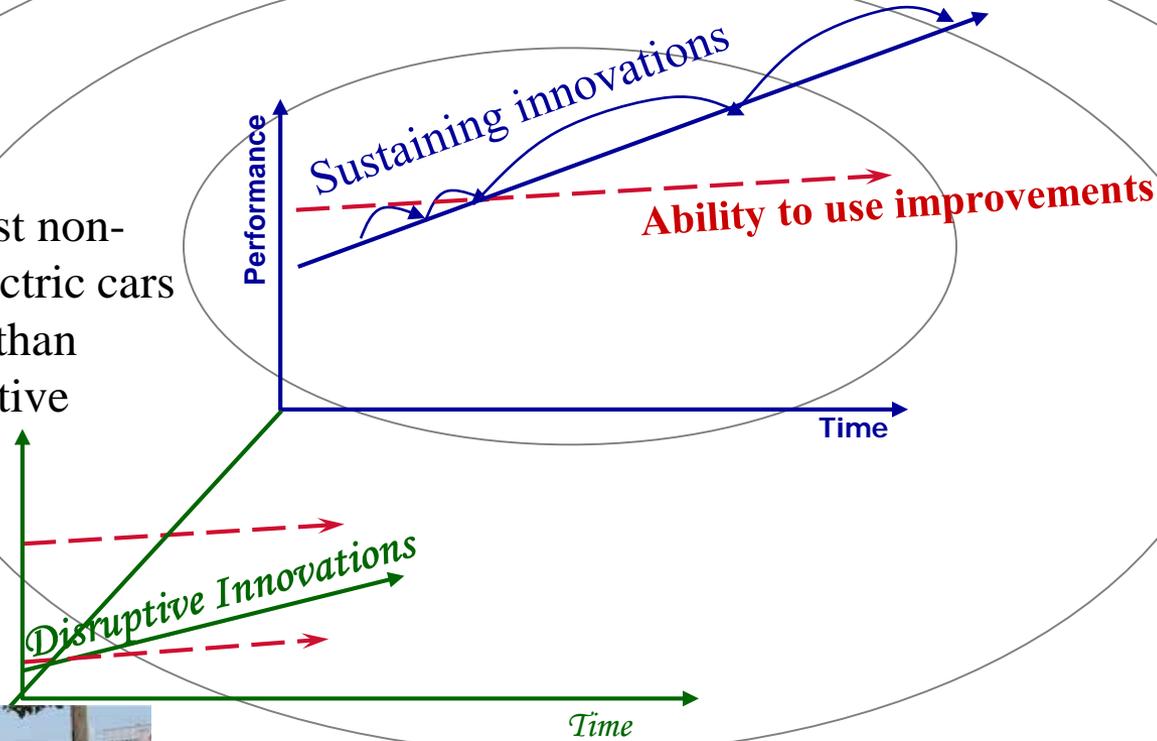
The Prosperity Paradox

*How Innovation can Lift
Nations Out of Poverty*

Compete on the autobahn
based upon design,
reliability & performance:
a sustaining innovation



Competing against non-consumption. Electric cars need to be better than nothing: A disruptive innovation.



8/3/2018

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Competing against non-consumption of refrigeration



More people start new businesses that are enabled by refrigeration.



And be distributors.



Many more can own & use refrigeration.



Peltier-Effect refrigeration



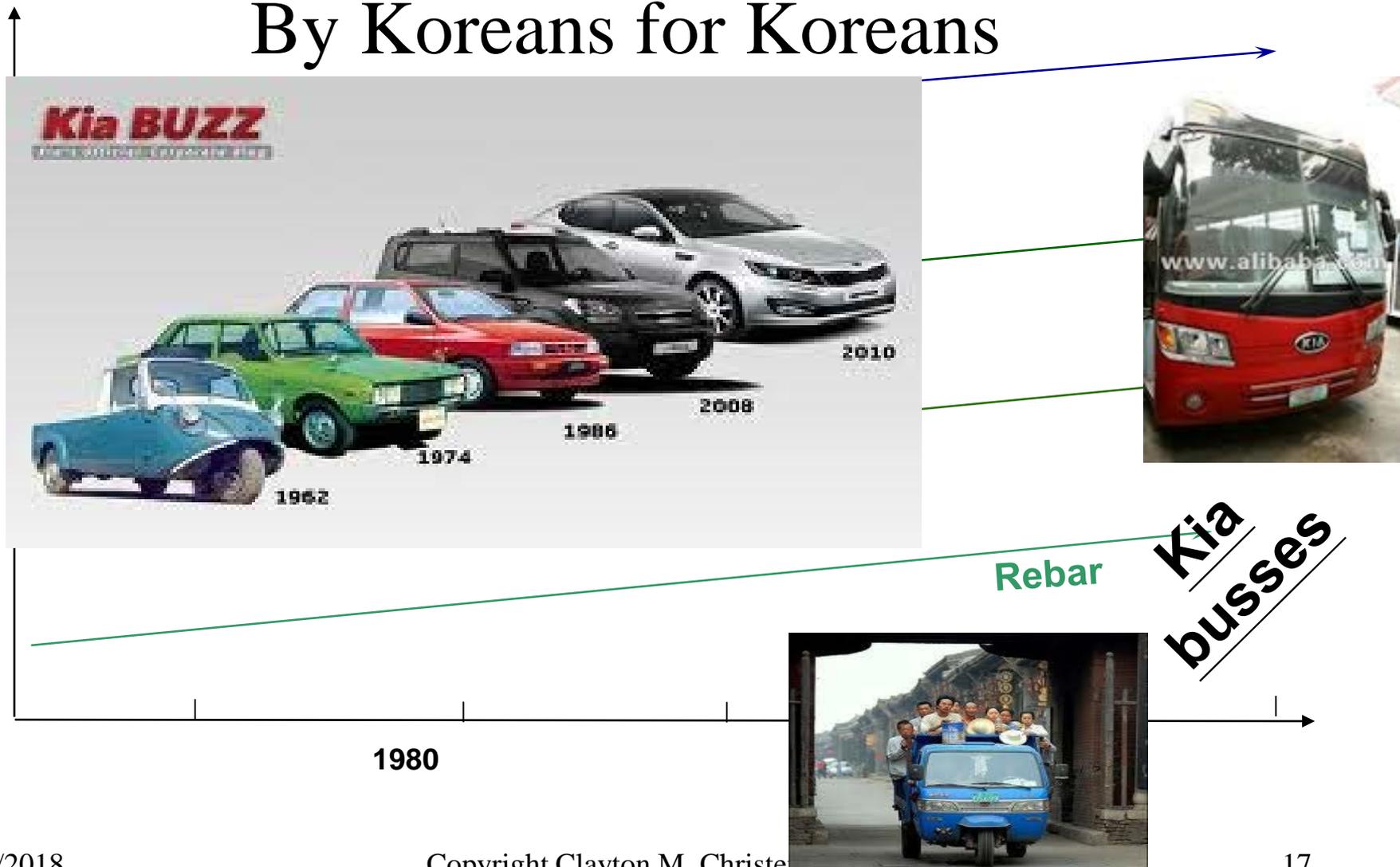
Hire more to make them.

And to sell them.



Market-Creating Innovation and Growth:

By Koreans for Koreans





Air conditioners for Mormon missionaries, Pusan, 1960s



SamSung SmartPhone, 2010

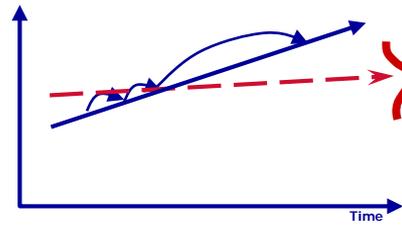


SamSung Air Conditioner, 1970s

Idomie Noodles in Nigeria



Development of Resource-Based Economies



Sustaining Innovations
Focus of management
Sustain margins
Create little net growth

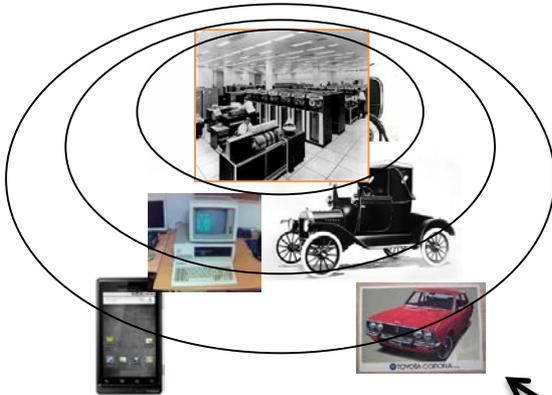
Disruptive Innovations

Create corporate and economic growth.
Create jobs
Need capital

A MANAGER'S
VIEW OF GROWTH

Efficiency Innovations

Eliminate jobs
Increase free cash flow



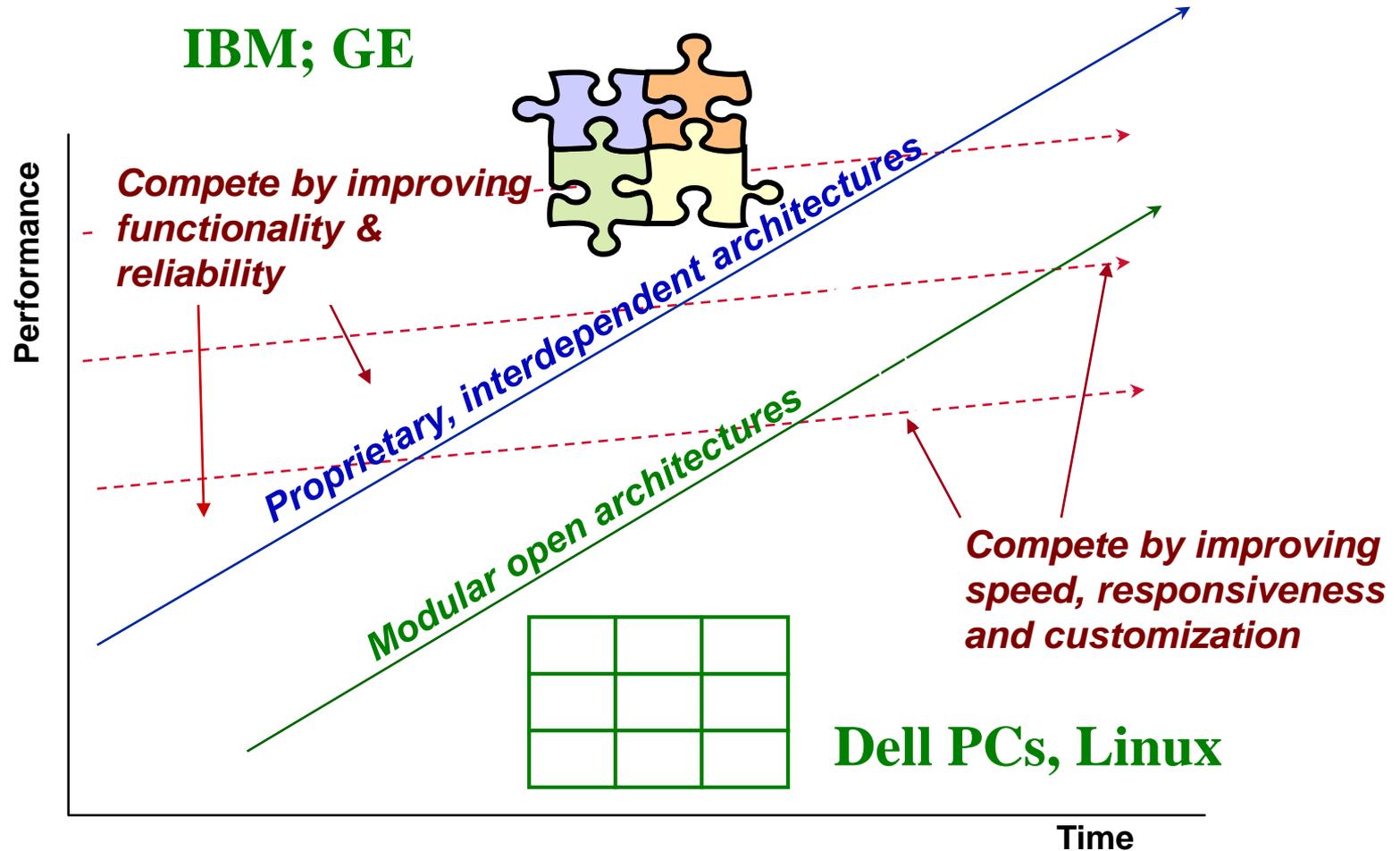
**Nigeria
Venezuela**



Airtel, MTN



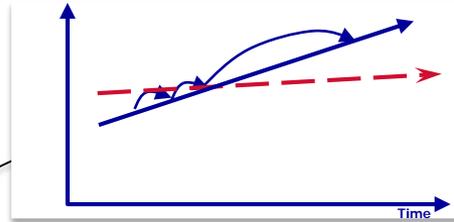
The right product architecture depends upon the basis of competition



A MANAGER'S VIEW OF INNOVATION AND GROWTH

Sustaining Innovations

- make good products better.
- Improve margins
- Gain market share
- Create little net growth



Efficiency Innovations

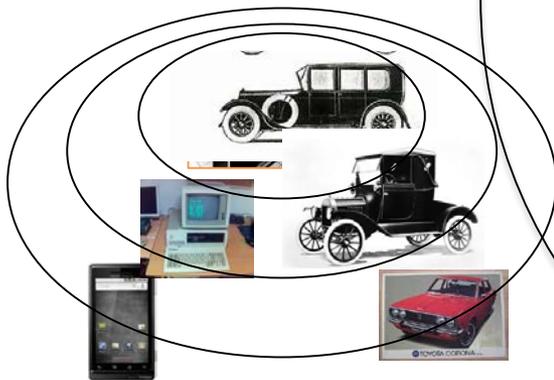
- make more with less.
- Eliminate jobs
- Increase free cash flow



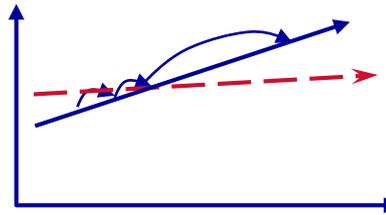
Disruptive Innovations

make products affordable and accessible.

- Create growth
- Create jobs
- Need capital



KEY DOCTRINES IN THE FINANCIAL VIEW OF CORPORATE PROSPERITY:



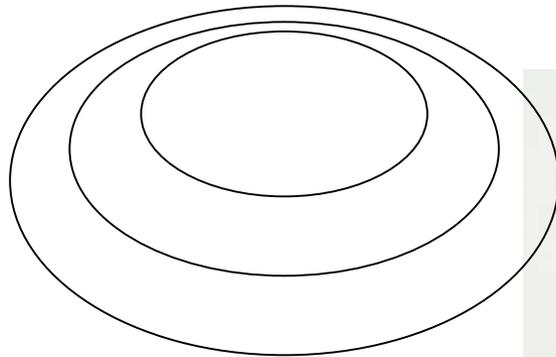
Sustaining Innovations

Disruptive Innovations

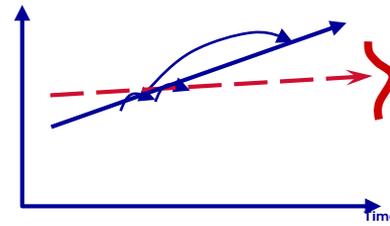
1. ABUNDANCE AND SCARCITY

2. PROFITABILITY (RONA, IRR) IS BETTER THAN PROFIT (\$)

Efficiency Innovations

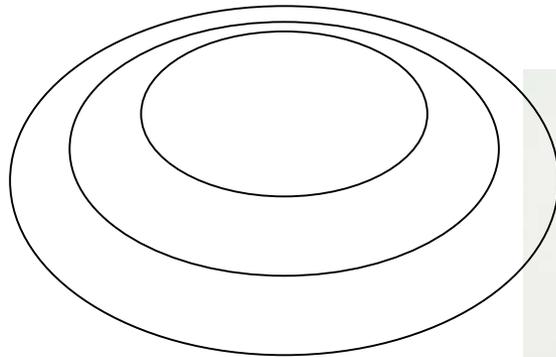


KEY DOCTRINES IN THE FINANCIAL VIEW OF CORPORATE PERFORMANCE:

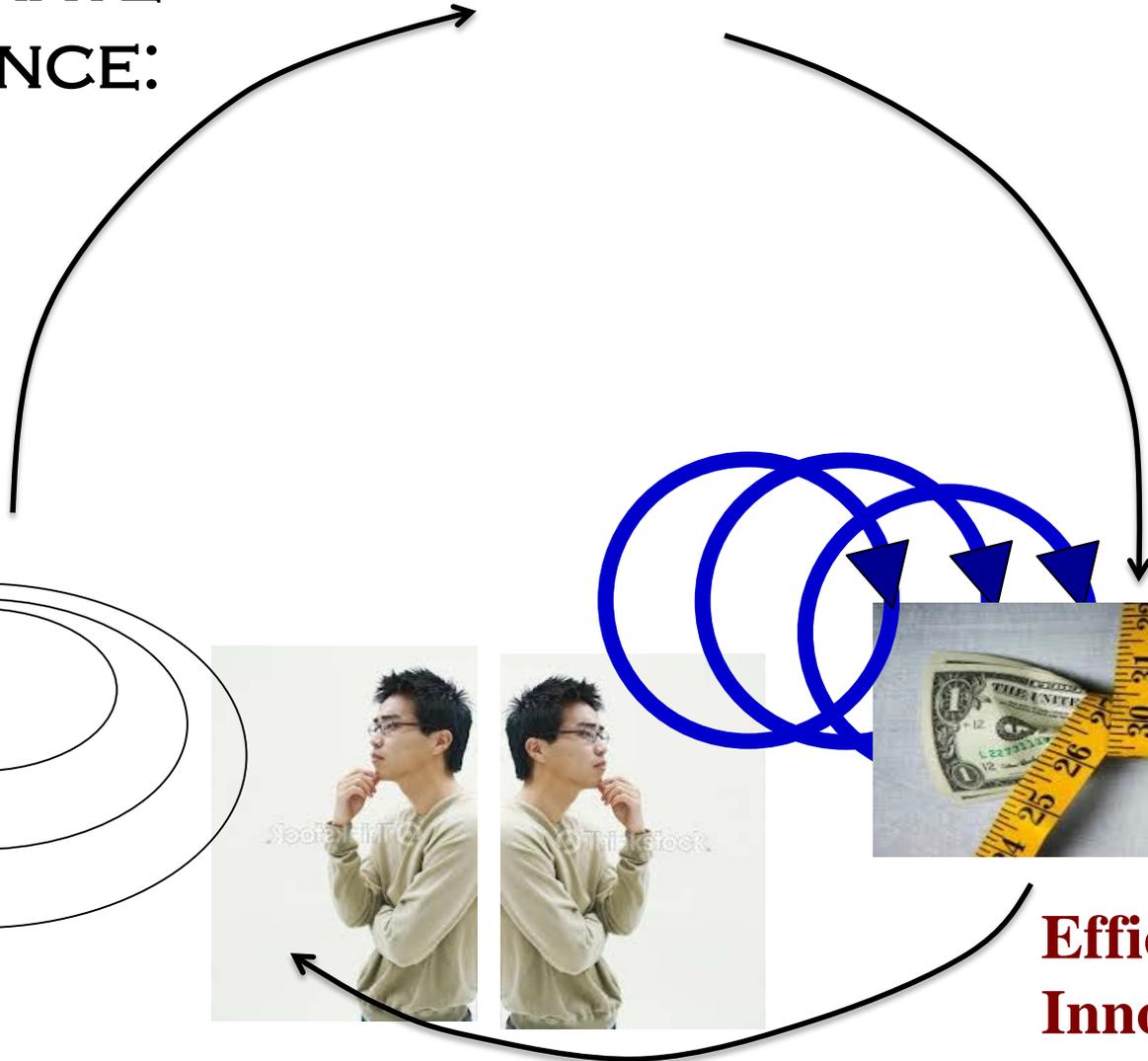


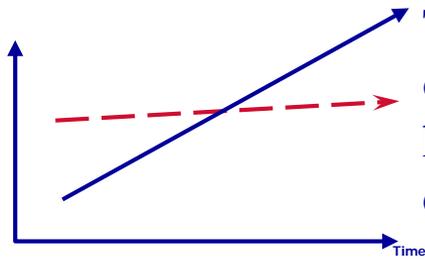
**Sustaining
Innovations**

**Disruptive
Innovations**



**Efficiency
Innovations**



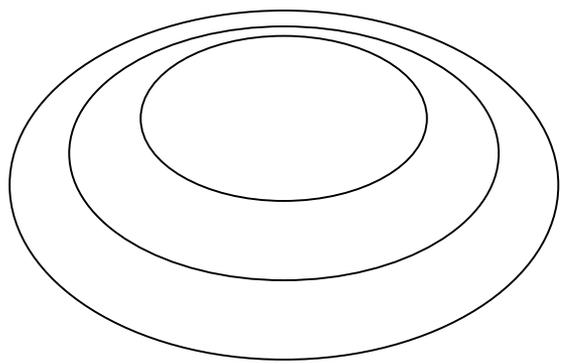


The ratios used to measure returns on sustaining innovations are *always* higher than when the ratios are calculated for disruptive innovations.

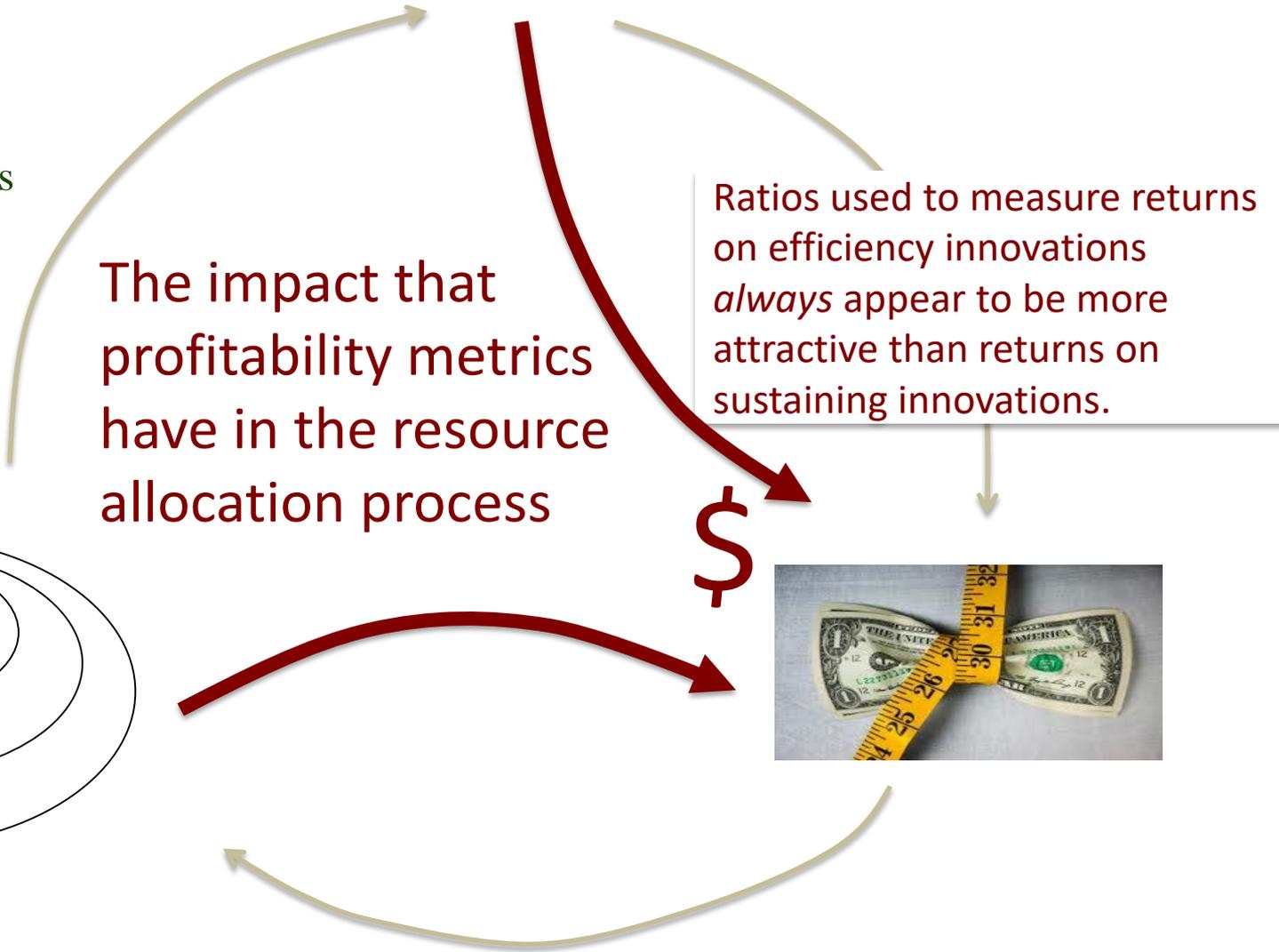
Disruptive innovations *always* struggle to attract capital and managerial attention.

The impact that profitability metrics have in the resource allocation process

Ratios used to measure returns on efficiency innovations *always* appear to be more attractive than returns on sustaining innovations.



\$



Are universities being disrupted?

- **Undergraduate education**

- Southern New Hampshire
- Western Governors
- Kaplan – Purdue University

- **Law schools**

- Para-legals
- Out-sourcing data & analysis

- **Business schools**

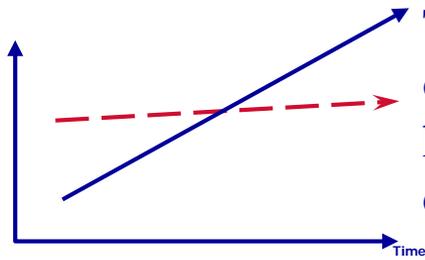
- Solving the overshooting problem by in-sourcing training
- Modular
- Job to be done
- Perdue University

- **Medical schools**

“Morris, the American semiconductor companies all try to become fabless companies. This drives their RONA up. But when they outsource fabrication to TSMC, they shift the assets off of their balance sheet onto your your balance sheet. How is something that is bad for them, good for you?”

“Clay, their analysts have never talked to a banker. But I have. I’ve interviewed bankers all around the world. I have not yet found a bank that accepts ratios as deposits. They only accept cash.”

*Morris Chang, Founder and Chairman of TSMC,
from an interview with Clayton Christensen*

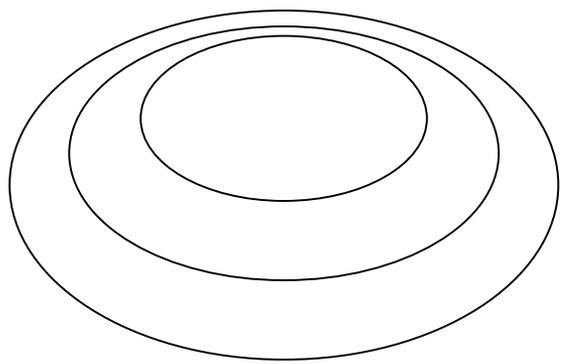


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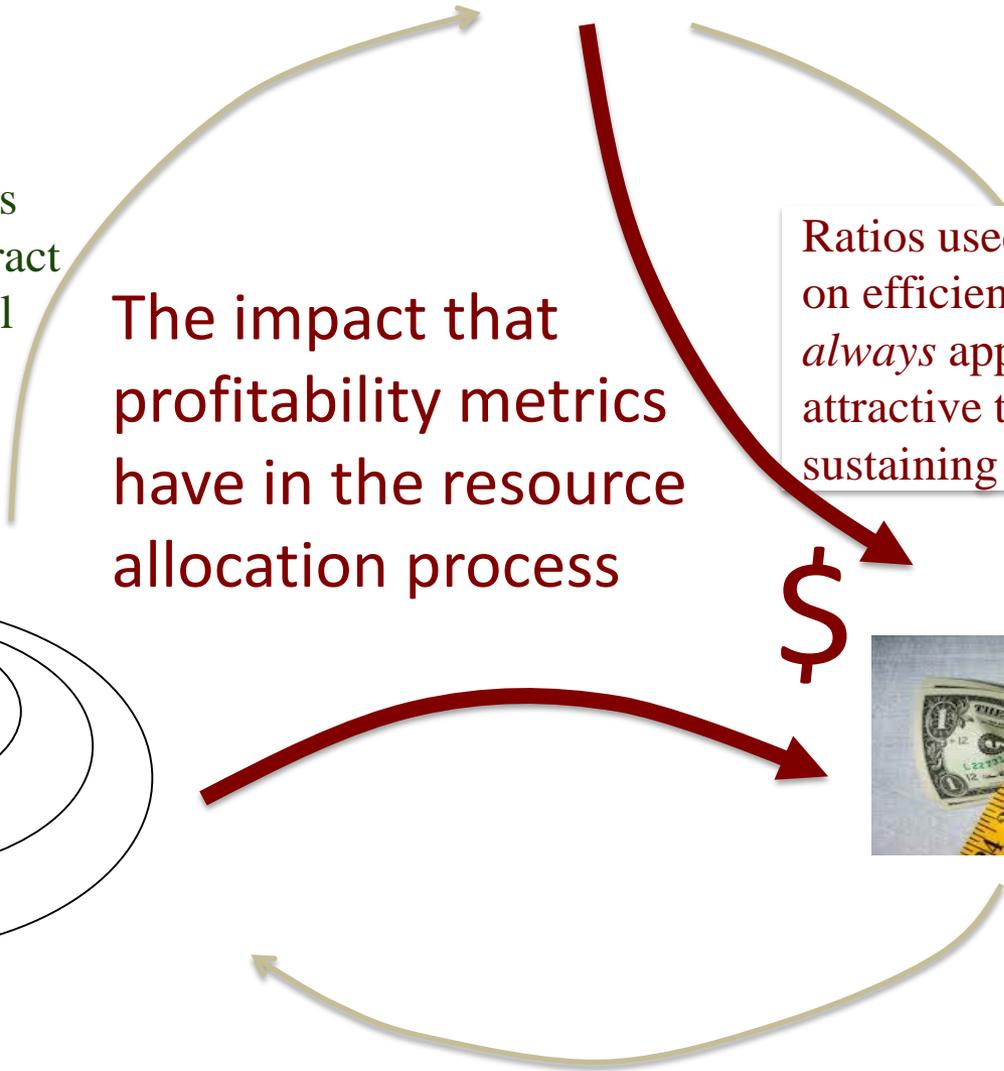
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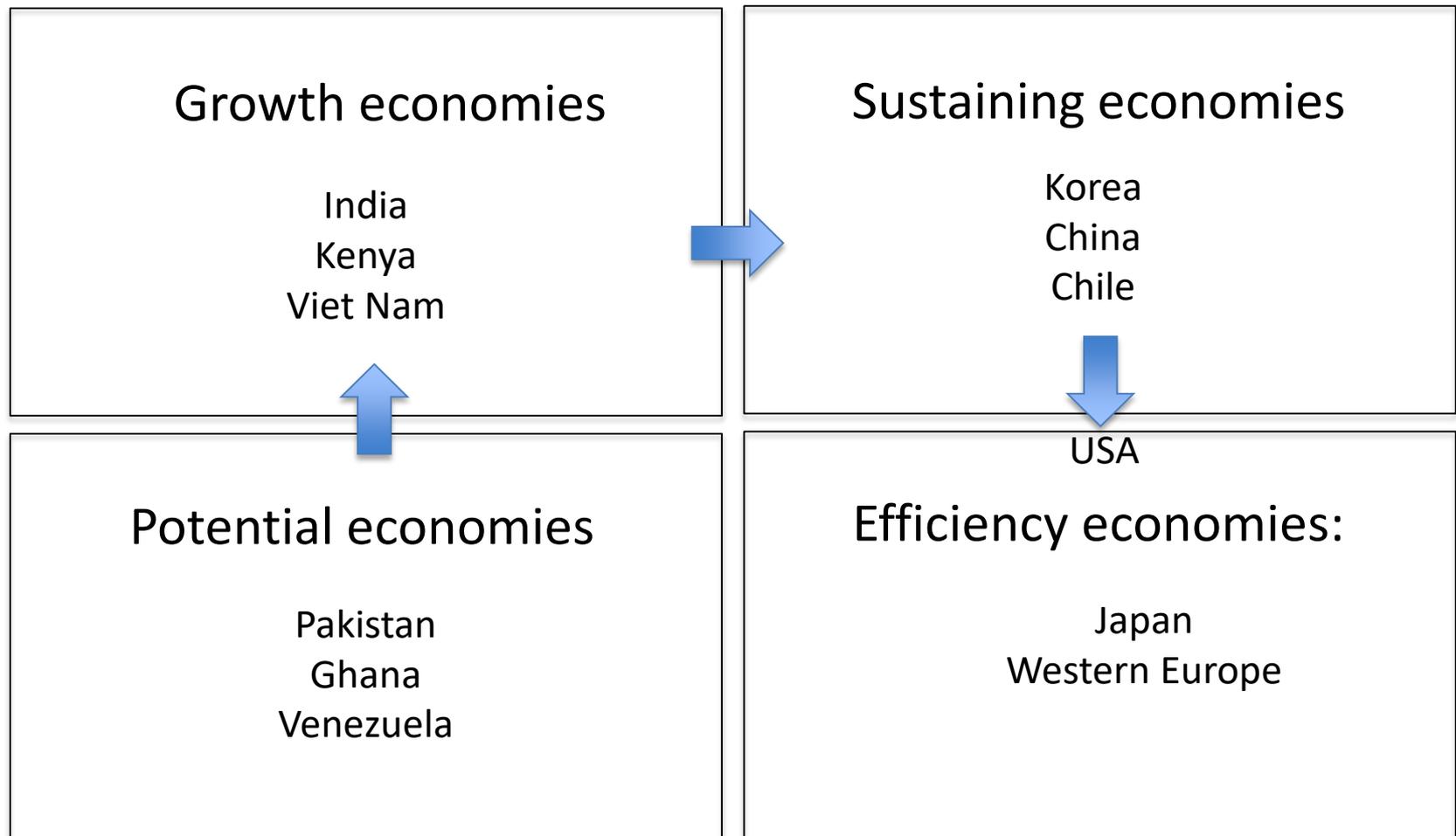
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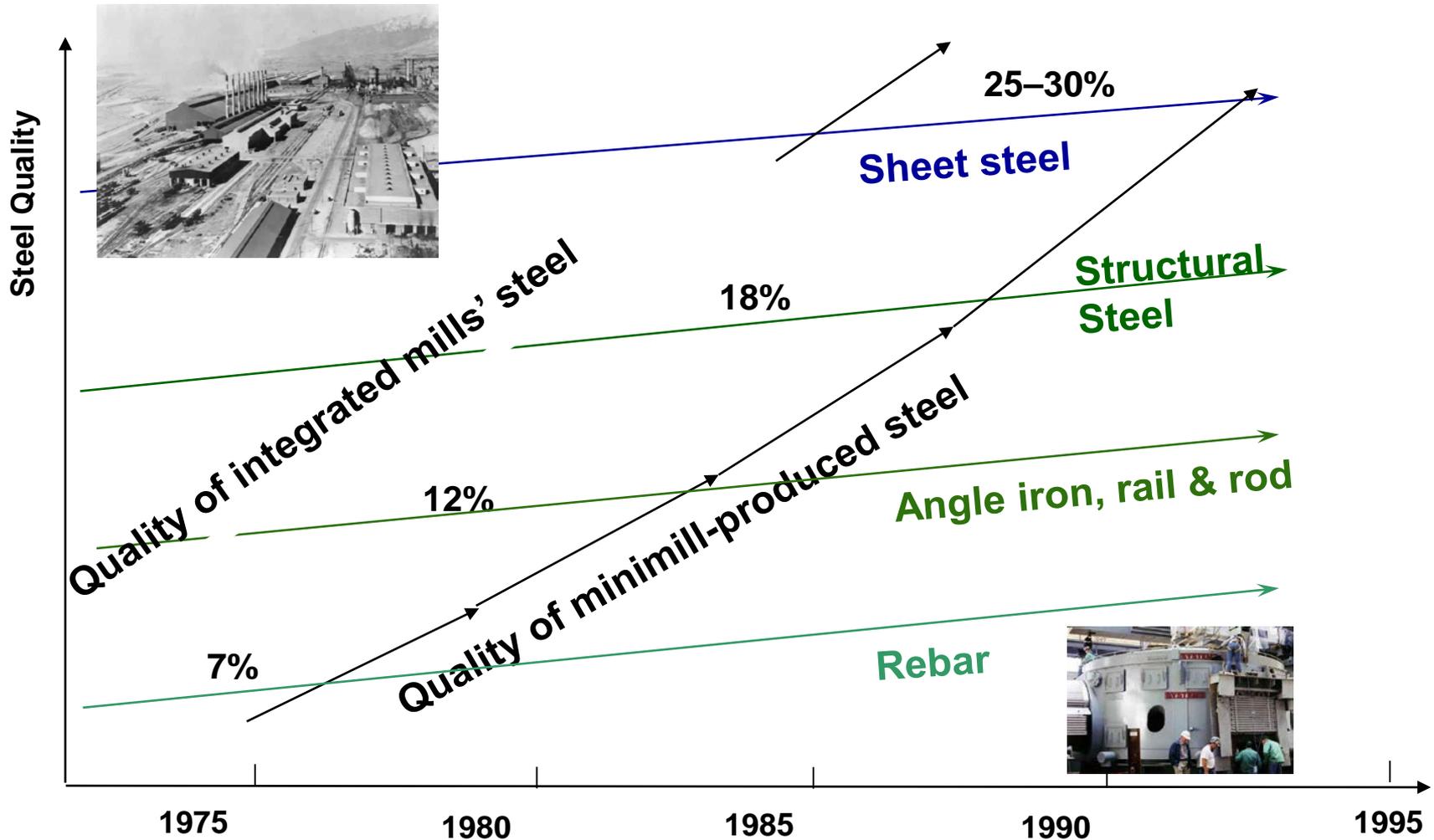


Different types of innovations play roles in the growth of companies and economies



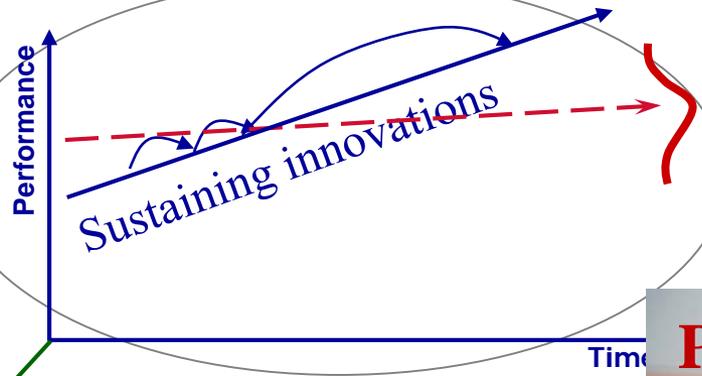
The Flee or Fight Response to Profit

DOD

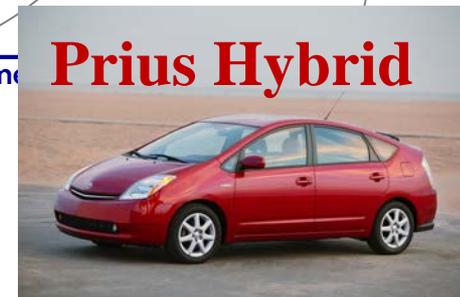


New technologies need to be embedded into a business model

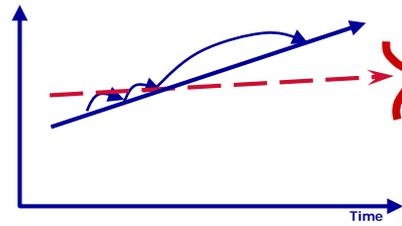
Compete on the autobahn based upon cost, design, reliability, and performance: a sustaining innovation



Competing against non-consumption. Electric cars need to be better than nothing: A disruptive innovation.



Development of Resource-Based Economies



Sustaining Innovations

- Focus of management
- Sustain margins
- Create little net growth

Disruptive Innovations

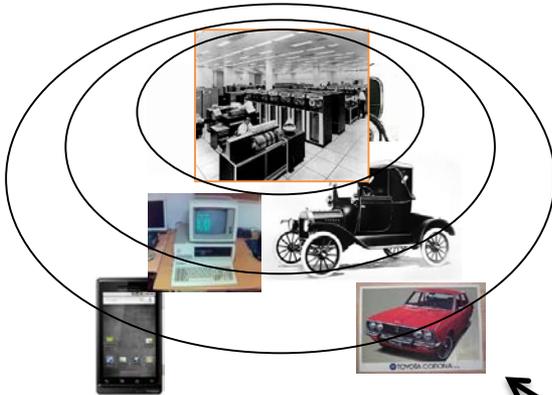
- Create corporate and economic growth.
- Create jobs
- Need capital

A MANAGER'S VIEW OF GROWTH

Efficiency Innovations

- Eliminate jobs
- Increase free cash flow

Nigeria
Venezuela

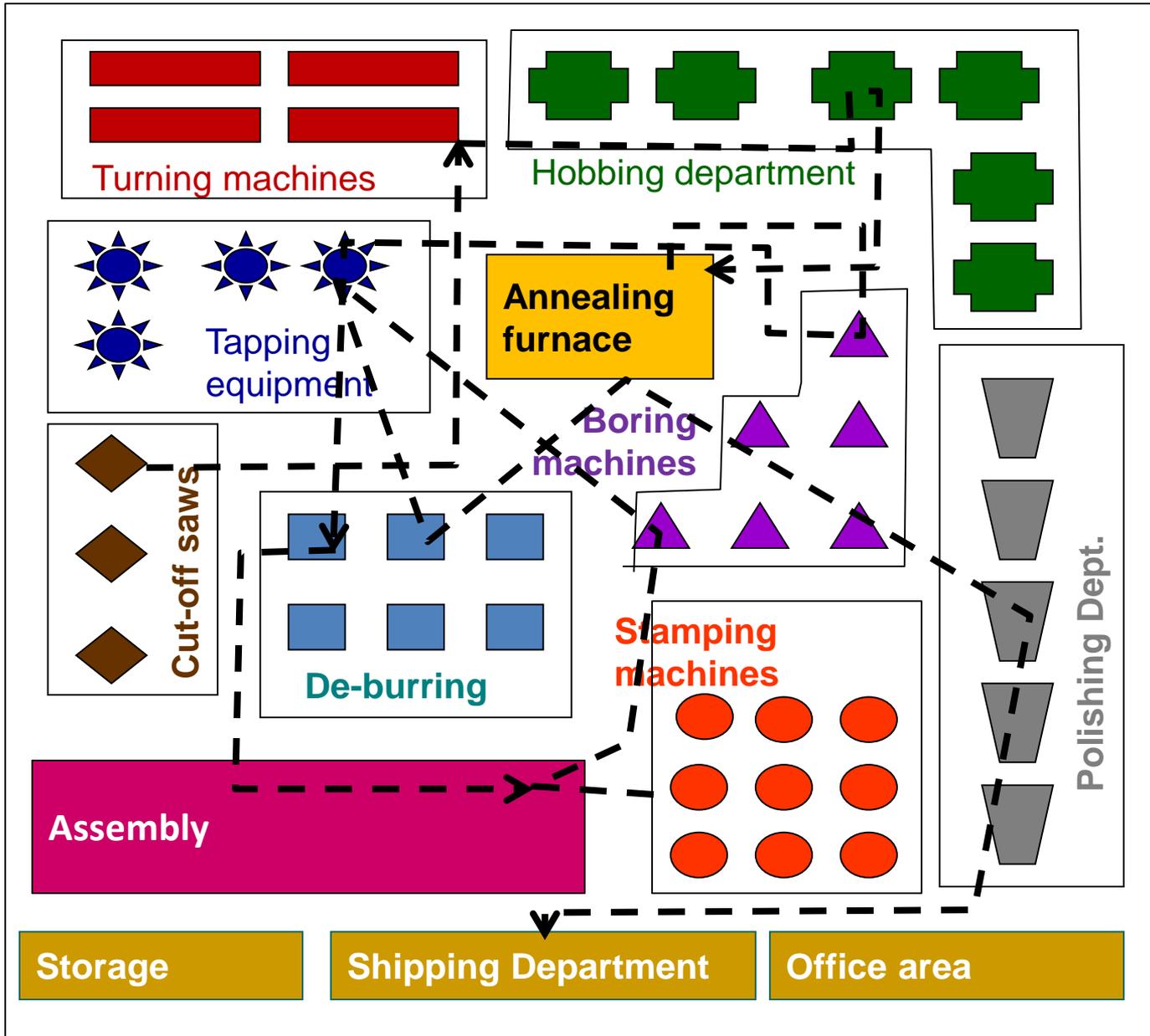


What theories might give us guidance?

- Disruption
- Job to be done
- Interdependence – Modularity
- What an organization can and cannot do
- The Toyota set of rules

Stephen Gould: Panda's Thumb

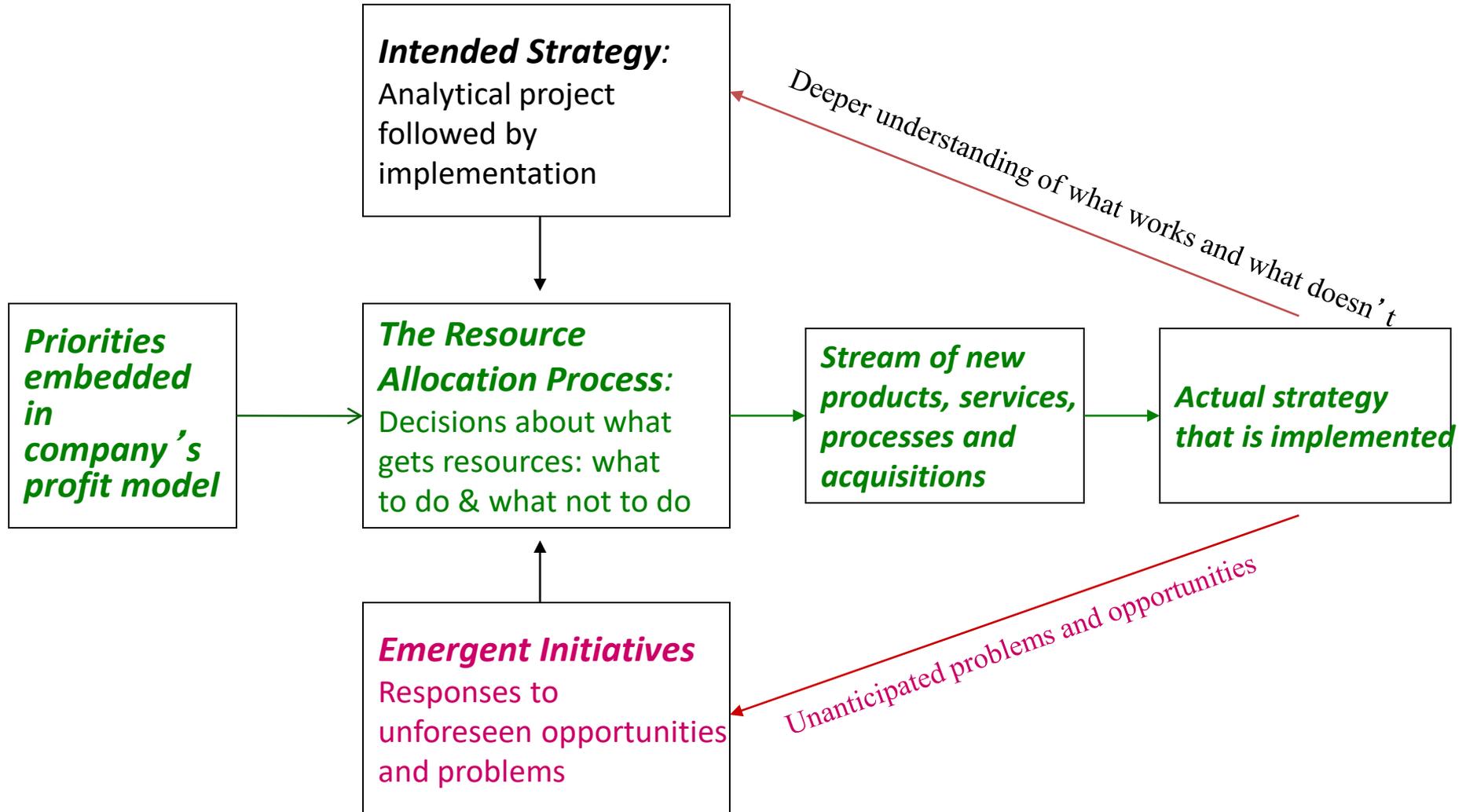
- General, community hospitals
 - 1920s: doctors cheap, transportation expensive
 - Do everything for everybody
 - 2013: doctors expensive, transportation cheap
- Marginal cost is lower than whole cost
- Doctors choose this profession so that they can control their destiny and choose how they will work.
- Reducing cost inherently impairs quality of care



We'll do anything for anybody.

- Overhead = 85% of total
- Overhead increases 30% for each doubling of complexity
- Variable quality

Processes of Strategy Formulation and Implementation



SOLUTION SHOPS

- Consulting firms
- R&D organizations
- Diagnostic & intuitive activities of hospitals

FEE FOR SERVICE

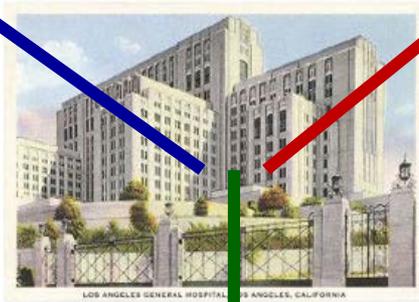


National Jewish Medical Center
Pulmonary & Respiratory Diseases



Dave Snow, asthma
CEO, Medco

**Typical hospitals
are not
complicated.
They are
impossible.**



PROCESS BUSINESSES

- Manufacturing
- Education
- Construction
- Medical procedures

*FEE FOR
OUTCOME*



**Shouldice: Hernia
surgery;
New England Baptist:
orthopedic surgery**



FACILITATED NETWORKS

- Telecommunications
- Insurance
- EBay
- D-Life; Crohns.org

*FEE FOR
MEMBERSHIP*

Proper team structure is crucial in every project

Product

Business model in which product is used

Product architecture: What are the components, and which ones interface with others?

Change the specifications for how components must fit together

Improve performance of each component

Process

Business model in which process is used

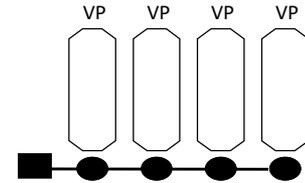
Process architecture: What are the steps in the process, and what is their sequence?

How must the steps in the process interface in time and space?

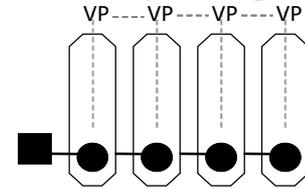
Improve individual steps in the process

Team Type

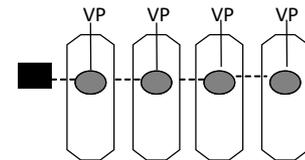
Autonomous



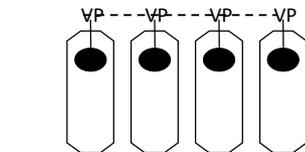
Heavyweight



Lightweight



Functional



Disruptive
innovations

-Sustaining innovations

Level of change