THE BOARD MINDSET™

The vital attribute of exceptional boards

WHEN IS DISRUPTION A GOOD IDEA?

When should companies disrupt to grow? When times are good, and the business seems to be growing with little effort, why would directors then decide to invest in new growth ventures? It seems so unnecessary, and investors frequently balk at the idea. When times are bad, and the company feels under siege from competitors, boards can't get enough profits to the bottom line fast enough, so why would they then decide to sail the ship into uncharted waters? Many directors believe in the *concept* of disruptive innovation but remain skeptical about making it work—and it never seems like a good time to try.

Often directors consider themselves innovative, but most of them show more adeptness at producing sustaining innovations—products and services that meet the demands of *existing* customers in *established* markets. Few boards have introduced genuinely disruptive innovation—the kind that results in the creation of *entirely new ways of doing business*. The motivation to pursue innovation doesn't *seem* urgent, even when the facts tell a different story. In almost every industry, the most dramatic stories of growth and success involve directors who launched a growth initiative from a platform of disruptive innovation. Therefore, the only reasonable time to launch new growth initiatives—including acquisitions—happens when the core business is strong. Then, they need *future-proofing*.

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Future-proof, the buzz term that describes a product, service, or technological system that will not need to be significantly updated as technology advances, had its origin in the technology and manufacturing arenas. People used it to describe the software or computer they would design to be used in the future, even when the technology changed.
Now, people use it to describe future offerings so that they can anticipate what's coming and develop methods to mitigate the negative effects the change might bring. In general, the term "future-proof" refers to a process for making a product or service that will not become obsolete and will continue to have value into the distant future. For example, "What software should I buy to future-proof this system?"

Disruptive directors relentlessly focus on future customers and future needs for existing customers. That doesn't mean they ignore their best existing customers, but it does mean they shift from what is to what's possible, thereby lifting the strategy above departmental turf wars. It also means a strategy that focuses on future customers frees the company's assets and resources to pursue those customers, even when that means losing some existing customers who don't buy frequently or at high enough price points. Companies like Amazon and Netflix keep getting bigger because of this kind of orientation. They continually reinvest in the engine that drives disruptive growth.

In other companies, the revolving door at corporate headquarters spun as decision-makers scrambled to go back to the mission that led to their success. Their attempts at disruption caused them to be disrupted but not more successful—at least not initially. For example, in 2012 Walmart posted its second straight year of declining sales. How did this happen to America's behemoth—a store that should have been thriving as customers looked for low-cost alternatives amid an economic downturn? The company disrupted but didn't innovate.

To jumpstart lethargic growth and counter the rise of competitors, decision-makers veered away from the winning-formula mission: "Saving People Money So They Can Live Better." Instead, the world's biggest retailer raised prices on some items while promoting deals on others.

That wasn't the only change to its mission. A foray into organic foods didn't catch on with discount shoppers. Similarly, a push to sell trendy fashions and an attempt to cut clutter in stores to attract higher-income customers ended up alienating the company's traditional shoppers. "The basic Walmart customer didn't leave Walmart. What happened is that Walmart left the customer," according to former Walmart executive Jimmy Wright.

"The basic Walmart customer didn't leave Walmart. What happened is that Walmart left the customer"

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In 2012, Walmart stock for $60 a share. By 2022, the price had more than doubled in the throes of the COVID crisis and a bear market. Directors at this retailer learned the hard way what to change and what to leave alone—what should be disrupted and what will merely cause the company to be disrupted.

Walmart made mistakes, but so did Pepsi, Continental Airlines, and United Airlines. No one wants health food from Pepsi or designer clothes from Walmart. Everyone wants lower cost airlines, but unless the airline has done its homework, chances are it will end up in a low-cost war with Southwest and lose its uniform shirt.

Walmart floundered, but it didn't sink. On the contrary, it sailed into profitable waters. At this writing, no one knows the fate of the airlines, even the major carriers. As Mark Twain (or was it John Billings?) once said, "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." Boards that aspire to encourage growth will need to surround themselves with devil's advocates who will consistently and consciously challenge assumptions and anticipate consequences. Only then will they know when to disrupt.

Helping Define Your Company's Success

Helping boards achieve excellence in critical aspects of governance that most ignore.

We can help you formulate a strategy that works:

- Defines the choices a company is making about who is and who is not a customer
- Doesn't serve as a rationalization for budgets
- Challenges assumptions
- Seeks to reduce risk, not avoid it
- Serves as a framework in which adjustments are expected and can be accommodated

We advise on any unaddressed issues to help the board and the company move forward. If you have any questions about The Board Mindset, visit www.theboardmindset.com or contact us.

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