

## “The Rebirth of Innovation—a Perspective of Clay Christensen”

OMNI Consulting Group’s managing principal and technology economist Frank J. Bernhard recently sat down to probe a deeper solution to the telecom debacle with Clayton Christensen, Harvard Business School Professor and author of the best-selling book, “The Innovator’s Dilemma”. In a jointly published paper by Deloitte Research ([www.dc.com](http://www.dc.com)) entitled, “Integrate to Innovate”, Christensen and co-author Michael E. Raynor apply contemporary thinking to solve an escalating problem—how service providers will meet the ultimate challenge to succeed or perish.

Never underestimate the power of integration to change the forces of economic tides within mature markets like the telecommunications sector. Fact: Failures are disproportionate to success and questions are being asked about the next nirvana for profitable expansion while market entrants continue to shutter their doors. So, what does this era of disruptive technology in the networking space teach us about survival? The answer rests squarely in how service providers adapt their technology to meet the parameters of market demand—and how they can apply concepts such as the Law of Conservation of Modularity to predict why proprietary technologies versus open architectures are likely to succeed.

*OMNI:* What does the failure of the CLEC business plans teach us about entering new service models?

*Christensen:*

The prominent failures of ASPs and CLECs were very much attributable to entrants attempting to evoke a prematurely disintegrated strategy. A good example of this involves the deployment of DSL services to the masses and those entrants who jumped on the bandwagon with Congressional legislation to open local service markets. After pouring billions of dollars in venture capital and a few wary customer hype stories, the whole notion of the CLEC cratered miserably. And amidst a backdrop of demise, we sit back and muse ourselves with the question of why something so promising could plummet so rapidly. The answer: DSL service is not good enough. The technology remains immature, and faced with a high degree of interdependence across the RBOC networks, this spells a perfect recipe for disaster. And of course, it did just that when customer premises and local network access came into opposition. No amount of goodwill legislation or RBOC input could unravel the quagmire created by something that is technology unfeasible.

*OMNI:* You coined the term ‘disruptive technology’ early on in your research and continue to apply this label to various telecom technologies. What can we learn from disruptive technologies such as wireless and VoIP?

*Christensen:*

Conventional wireline telephony is facing significant hurdles with the advent of wireless applications and intelligent packet-switched networks. But indeed, these technologies have enabled RBOCs and the alike to achieve a new

form of synthesis between conventional telephony uses (voice) and harness the potential of data networks that carry the advanced utility at a real cost advantage. Rather than shun these technologies apart from their core business model, carriers have “co-opted” or integrated disruptive technology into their existing blueprint. The end result of customer expansion and marginal profit productivity is being realized—unlike the contrast of ailing service providers that face the markets alone. Consolidation is one of the observations that will continue to happen as RBOCs tap the integration potential of these and other disruptive technologies that integrate well within their legacy structure.

*OMNI:* Take conventional business wisdom and management theory. Can we still apply classical thinking to current market issues?

*Christensen:*

Absolutely. The word ‘theory’ often connotes imaginary results, or more likely, an impractical solution when pragmatism only need apply to real-world challenges. Good theory, and that which has the appropriate response mechanisms in place, has a direct application to solving business challenges that matter at a point of objective performance. The underlying problem is that we often fail to reformulate our thinking based upon observation and trial of the theory itself—reformulating our perspective is an integral part of the innovator’s management process. Entrepreneurs and established industries alike require the constant interpretation and correction that proves necessary to charting a desired course. Unfortunately, we wind up learning from the mistakes after a critical junction of strategic direction.

*OMNI:* In your most recent lectures and working papers abroad, you refer to a concept labeled as ‘skating toward the puck’ and use legendary hockey player Wayne Gretzky as an example. What do telecom service providers need to understand if they will be triumphant in surviving this downturn?

*Christensen:*

Every organization aims and hopes to stay ahead of the competitive curve—which usually implies developing products and services at a first-move advantage. But in essence, skating toward the puck is all about being able to envision (and be) at a position where the market will be—not where it is at the moment. Wayne Gretzky always faced his opponents by skating toward a position where he believed that the puck would move to instead of where it was at a given moment on the ice. This enhanced his ability to predict and execute effectively on a strategy that assured the best chances for a successful goal shot. In the same way, telecom service providers can adapt this same strategic philosophy to position their value-chain to a future point rather than where it is at the moment. Foresight and anticipation for execution are critical pieces to excelling during these turbulent times.

## Integration at Every Corner

Speaking with Clay about the woes of telecom is more than a glimmer of hope for an industry that continues to face eroding subscriber revenue and fewer disruptive innovators. The end game—as with any business model—should be to win by strategically placing the company’s technology and service capabilities ahead of the market so as to capture the upper echelon of the demand curve. Nascent innovations in optical networking and wireless advancement instruct us to think beyond the malaise of the moment. Securing a spot in the Winner’s Circle of telecom will undoubtedly require service providers to think critically about their assumptions and test their hypotheses against valid market segments.

Ramifications for failing to capitalize on integration as a cornerstone of strategy are obvious. Survival is such a minimalist existence. Isn’t it time for telecom to learn to integrate for a future of profitable innovation?

