

Business strategy and economics

[Business](#), [Strategy](#)



Abstract

This paper is focused on the importance of disruptive innovation as described in the teaching of Professor Clayton Christensen. The first part of the paper introduces a business report of Christensen's theory on disruptive innovation. The focus is on major assumptions of this theory, as they are applied to the performance of one of the leading European airline companies, Ryanair. Moreover, the second part of the paper outlines a plan that clarifies how the professor's teaching enhances the potential of individuals to move forward to a sustainable and successful future based on the model of disruptive innovation.

Introduction

The theory on disruptive innovation has gained adequate importance in the global business environment. Introduced by Professor Clayton Christensen, this theory emphasises that companies should refocus their capacities and resources on technology in order to achieve a sustainable competitive advantage and growth in particular market segments (Christensen et al., 2008). Disruptive innovation is a powerful tool to drive the expansion of companies that are concerned with the attainment of long-term success (Christensen, 1997). The objective of this paper is to provide a business report on the theory of disruptive innovation as applied in the case of Ryanair, as well as to outline a plan of how the professor's teaching can lead to developing of a sustainable and successful future, as human beings.

Business Report

In *The Innovator's Dilemma*, Clayton Christensen (1997) introduced his distinct concept on disruptive innovation. Disruptive innovations are usually initiated as versions of products and services that already exist in the market, but they are identified as less desirable due to the aspect of lower quality. However, such products and services tend to improve with time and thus gain recognition among major customer population (Christensen et al., 2008). The conceptual framework of disruptive innovation is based on opportunity recognition, which is associated with the generation of useful ideas through implementing a past, present and future approach. The importance of considering past events have been acknowledged as a way to understand the specificity of how certain innovations have occurred (Cortez, 2014). Awareness of current trends in a particular business sector should be maintained in order to demonstrate disruptive innovation. Moreover, presenting possible scenarios is another essential step of this approach that could help companies gain a strong competitive advantage (Christensen, 1997).

Disruptive innovations can be perceived as 'factor changers' in the sense that they shape the markets into which specific products and services are introduced (Govindarajan et al., 2011). Therefore, disruptive innovations can refer to any product or service that has successfully altered dimensions of behaviour or technology in a particular market. It can be indicated that disruptive innovation usually characterises as low-end innovation and new market innovation (Christensen et al., 2008). Low-end innovation takes place when leaders tend to implement a strategy of over-supplying the needs of their customers with substantial technological capability or services that

they may not actually need. As a result, a vacuum is created within such low-end market, which in turn reflects in a situation where customers with low demands are more likely to achieve their goals at lower cost (Jang, 2013). This aspect illustrates the validity of the theory on disruptive innovation considering the numerous examples of successful companies that have relied on this strategy, including Apple, Ryanair, and Rolls Royce.

The second type of disruptive innovation, new market innovation, is focused on the formation of a new niche of customers by the introduction of new products or services. Individuals can be facilitated to complete certain procedures or processes that have been previously identified as challenging or quite demanding in terms of requiring a wide range of skills and knowledge (Christensen, 1997). However, established organisations usually demonstrate a trend to ignore the growth of new markets because of the prevailing conception that such markets are low margin. Similarly to low-end disruptive innovation, new market innovation indicates the importance of enhancing product offerings and expanding product niches (Habtay, 2012). Emphasis is put on attracting customers away from recognised or established products and services. Substantial disruption takes place as a direct result of this process, as the newly introduced products and services have the power to change the existing market on a permanent basis (Maldonado, 2014). The theory of disruptive innovation is valid because of the focus it maintains on the capacity of companies to refocus on technology advancements to optimise their performance.

An example of the theory on disruptive innovation in practice can be found in the business operations of Ryanair. In the 1990s, leading airline European companies in the industry decided that the opportunities arising from the implementation of a low-cost strategy do not present a substantial threat to their market (Paton, 2013). Yet, newcomers in the European airline industry, such as EasyJet, applied the example of Ryanair's point-to-point strategy. A direct outcome of this initiative was the creation of a low-cost niche market, which led to significant shifts in market behaviour as well as technology utilisation (Maldonado, 2014). It can be suggested that such niche of customers have realised the importance of Ryanair's strategy even though they have not been identified as regular flyers. In addition, the low-cost and no frills strategy soon started to attract a considerable number of business travellers, who demonstrated a rapid switch from high-cost airline companies to low-cost airlines (Christensen et al., 2008). This has been done with the assumption that low-cost airlines have significantly improved their service as a result of the implementation of disruptive innovation principles (Habtay, 2012). Such aspect demonstrates the validity of the theory considering its successful application to expanding companies' growth in new markets.

Ryanair has succeeded in the creation of a new market of budget travellers, which represents an example of the theory on disruptive innovation. The basic of such success was to offer routes to customers that no other airline did at rather competitive, affordable prices. The main aspect of disruptive innovation is to refocus technology use (Paton, 2013). This has helped the airline to maintain a close contact with its customers through optimisation of the internet use, commitment to quality, and safety maintenance and

adequately focused criteria for growth. Ryanair has achieved its objective to reduce its operation cost through maximising its use of technical advances, as it introduced the options of booking of tickets and issuing of boarding cards online (Schmidt and Druehl, 2008). This airline company has provided a relevant example of how its operational teams and processes are brought together to deliver innovation in specific target niches. It has been assumed that the innovation introduced by Ryanair is desired by the target niche market (Habtay, 2012). Therefore, it can be argued that innovation levels should be maintained in balance in order to achieve the company's initially presented goals for growth and expansion.

As illustrated in Professor Clayton's theory on disruptive innovation, an emergent strategy that organisations should adopt should be based on essential principles. Initially, companies that consider the option of disruptive innovation should incorporate elements of learning into their strategy plan (Paton, 2013). Furthermore, organisations should be focused on finding relevant information that can guarantee that they move in the right direction, similarly to what Ryanair did in the European airline industry through its adherence to the disruptive innovation model (Schmidt and Druehl, 2008). As a result, this type of innovation can produce long-term catalytic change, as illustrated in the example of Ryanair.

The way in which a new technology addresses the demands presented in an existing customer segment is an important condition for success. Existing customers have been found powerful to affect an organisation's resource allocation process (Christensen et al., 2008). The basic idea behind the

application of disruptive innovation in practice is to introduce new functions or attributes, as Ryanair introduced a low-cost strategy and flexible fares to its customers (Petrick and Martinelli, 2012). A significant assumption can be provided in relation to new market disruptive innovation in the sense that it is more likely to prosper among customers that companies have not been addressed previously.

As implied in The Innovator's Dilemma, Professor Clayton's theory of disruptive innovation illustrates both the strengths and weaknesses of using financial ratios to measure business performance in both the short-term and long-term (Christensen, 1997). The strengths associated with using these ratios refer to the capacity of companies to use specific financial information to advance their business operations. Weaknesses of these ratios include improperly maintained focus or irrelevant or inaccurate financial details. The most important ratios with regards to Professor Clayton's theory are the following profitability ratios:

Return on Capital Employed (ROCE);

Current Ratio and Acid Test Ratio (Christensen et al., 2008).

The ratio of RONA presents a comparison of net income with the specific net assets. The ratio of ROCE provides significant information about the returns that an organisation achieves from the capital it employed. In the case of Ryanair, the company's ROCE ratio indicated a significant increase from 6.86% in 2011 to more than 10% in 2013 before tax (Paton, 2013). The formula for calculating the current ratio is to divide current assets and current liabilities. Therefore, Ryanair's current ratio in 2013 is 1.97: 1. Acid

test ratio is obtained through subtracting current assets and inventory and the result is divided with current liabilities (Habtay, 2012). The acid test ratio in 2013 is 1.97: 1. These ratios indicate that the company performs well in its niche target market as a result of the introduction of disruptive innovation.

Plan

Professor Clayton's teaching provides fundamental business ideas that can help individuals move forward to a sustainable and successful future, as human beings. His concepts reinforce the potential of professionals in the business world to bring about a substantial change that can alter positively their lives (Christensen et al., 2008). When human beings are confronted with new technological innovations, they tend to explore the numerous opportunities associated with such technology advancements that can help them become more successful in their operations. Sustainability emerges as an essential dimension in Clayton's teaching on disruptive innovation (Petrack and Martinelli, 2012). By finding new markets for new technologies, individuals can help companies move in the right direction through adhering to the model of disruptive innovation (Christensen et al., 2008).

Technology is the key to a sustainable and successful future for human beings considering the emphasis on improvement in product performance. There has been always a drive to seek improvement of products and services in any market segment. Clayton's teaching motivates individuals to restructure their thinking and present distinct inferences regarding the application of disruptive innovation models in practice (Chandra and Yang,

2011). In fact, the model suggested by the professor indicates a proven path to achieving a sustainable and successful future based on the concept of disruptive innovation. The ability of human beings to innovate is leading in the contemporary business world, which is oriented towards long-term success. Clayton's ideas are focused on presenting a realistic framework according to which sustainable is achievable as well as new innovations address current needs and expectations identified in different markets (Christensen et al., 2008). As Clayton argued, market leaders are responsible for embracing such innovations and exploit the numerous advantages of technologies. As a result, this would contribute to the emergence of a high level of sustainability in the dynamic business environment (Maldonado, 2014).

The model introduced by Professor Clayton provides managers with an opportunity to offer relevant insights into the most appropriate way of utilising disruptive technologies. The professor presents his arguments in a clear, consistent manner, which helps individuals understand the specificity and applicability of his theory (Christensen, 1997). The emergence of particular value networks is in line with the basic idea to refocus on technology through the distinct model of disruptive innovation (Petrick and Martinelli, 2012). Moreover, Professor Clayton emphasises the necessity to discuss different managerial decisions, which contribute to enhanced sustainability in the business world.

Moving to a sustainable and successful future may be challenging for human beings, but they can make a sense of all activities pertaining to disruptive

innovation and apply them in practice. This can help individuals realise the potential and practicalities of the ideas shared by Professor Clayton (Habtay, 2012). Emphasis on the learning cycle shows that both individuals and companies can embrace the concept of change, which may contribute to expanding sustainability not only in the organisational context but also in society (Christensen et al., 2008). The professor's teaching is intended to clarify any misunderstanding related to business performance in the contemporary world. His ideas suggest that sustainability and business success are attainable through the simple realisation of companies' potential (Christensen, 1997). In addition, the development of new capabilities as related to specific organisational boundaries may be a relevant solution to overcome problems in a company's performance.

Conclusion

This paper discussed Professor Clayton Christensen's theory on disruptive innovation, which has been recognised as a significant tool in driving the growth of many organisations (Christensen et al., 2008). The paper also provided arguments pertaining to the successful implementation of the theory in practice. Ryanair was referred to as an example of company, which adheres to the model of disruptive innovation (Paton, 2013). It has been concluded that Ryanair's low-cost strategy has brought substantial success to the company. Moreover, the paper discussed details on how the professor's teaching is inspiring for human beings in the process of moving forward to a sustainable and successful future.

References

- Chandra, Y. and Yang, S. (2011). 'Managing Disruptive Innovation'. *Journal of General Management*, vol. 37(2), pp. 23-50.
- Christensen, C., Johnson, C. W. and Horn, M. B. (2008). *Disrupting Class: How Disruptive Innovation Will Change the Way the World Learns*. New York: McGraw-Hill.
- Christensen, C. (1997). *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*. Boston: Harvard Business Review Press.
- Cortez, N. (2014). 'Regulating Disruptive Innovation'. *Berkeley Technology Law Journal*, vol. 29(1), pp. 175-228.
- Govindarajan, V., Kopalle, P. K. and Danneels, E. (2011). 'The Effects of Mainstream and Emerging Customer Orientations on Radical and Disruptive Innovations'. *Journal of Product Innovation Management*, (1), pp. 121-132.
- Habtay, S. R. (2012). 'A Firm-Level Analysis on the Relative Difference between Technology-Driven and Market-Driven Disruptive Business Model Innovations'. *Creativity & Innovation Management*, vol. 21(3), pp. 290-303.
- Jang, S. W. (2013). 'Seven Disruptive Innovations for Future Industries'. *SERI Quarterly*, vol. 6(3), pp. 94-98.
- Maldonado, E. R. (2014). 'How to Identify Disruptive New Businesses'. *Global Conference on Business & Finance Proceedings*, vol. 9(1), pp. 510-520.

Paton, M. (2013). Ryanair Profits Soar 21% [online]. The Motley Fool.

Available at: <http://www.fool.com/investing/general/2013/01/28/ryanair-profits-soars.aspx> [Accessed: 14 August 2014].

Petrack, I. J. and Martinelli, R. (2012). 'Driving Disruptive Innovation'.

Research Technology Management, vol. 55(6), pp. 49-57.

Schmidt, G. M. and Druehl, C. T. (2008). 'When Is a Disruptive Innovation

Disruptive?' Journal of Product Innovation Management, vol. 25(4), pp. 347-369.