Threat of ideas: how to survive the innovation age

The fear of being road-kill will prompt change at many companies.

But the panic over disruption may be overdone, writes ***Michael Smith***

Pool tables, wackily shaped lounges and piles of Lego, Google's Sydney headquarters is the tech start-up cliché.

There is not an office in sight in this corporate playground – just shiny kitchens, meeting rooms and open spaces that would put a modern art gallery to shame.

It's all designed to encourage collaboration by the teams of scooter-riding engineers who get one day off a week to toss around ideas and work on private projects.

Alan Noble, Google Australia's head engineer, is one of the brainiacs at the worlds most successful internet company. He is talking rapidly and enthusiastically about the sweeping changes having an impact on Google and every other company in the world. The firm's Christmas party is kicking off in an hour, but there is no evidence that Noble is the type of guy who switches off after work.

"We assume the competition is no more than one click away," he says.

"This is where a lot of incumbents get into trouble. They have a viable business and it is their cash cow and they are afraid to change for fear of impacting on their current business. But if they don't do it someone else will," Noble tells *AFT Weekend.*

Google is at the heart of the debate around technology-led disruption sweeping the corporate world. It was the buzzword in boardrooms in 2014 and many predict its impact on almost every industry – from banking to mining, health and agriculture – is going to accelerate in 2015.

If those warning of new technology revolution are right, no one will be immune from the upheaval to the way we shop, bank, entertain, travel, talk or think.

Even the disruptors like Google and taxi service Urber are themselves disrupted by a new generation of start-ups.

"No business can rest on its laurels," Noble says. "We are not oblivious to the fact that two guys in a garage could come out with something really cool that could disrupt part of our business because that is how Google started."

However, step back for a moment and you'll realise that disruption, for all its apparent modernity, is not a new idea.

Back in the 1940s, decades before Apple reinvented the phone or Amazon put Borders out of business, Czech-born economist Joseph Schumpeter was writing about "creative destruction" – the process of ceaseless innovation that sees established businesses disappear like dinosaurs while new giants rise. Creative destruction, Schumpeter said, is "the fundamental impulse that sets and keeps the capitalist engine in motion."

Some 50 years later, the theory itself was creatively re-adapted into the term "disruptive innovation." Coined by Harvard Business School professor Clayton Christensen in his 1997 book, *The Innovator's Dilemma*, the theory is that established companies are vulnerable to start-ups flooding the market with cheaper and more accessible products, often driven by technological change. Unless they embrace these newcomers and find a way to leverage off them, they will die.

It became one of the most lauded ideas in modern business, and has gained momentum as Silicon Valley and other tech hubs in Asia and the Middle East spew out armies of say entrepreneurs who seem to need nothing more than a laptop and some good ideas to bring down a Fortune 500 company.

And it has prompted pilgrimages by the boards of Australian banks and media companies to Silicon Valley to stare the future in the face and try to work out how to prevent their own companies from becoming road-kill.

David Whiteing, Commonwealth Bank's chief information officer, was one of the hundreds of senior Australian executives looking to California for inspiration. CBA sent its entire board to Silicon Valley in September, meeting heavyweights and potential competitors like PayPal, Facebook, LinkedIn and Microsoft. Whiteing says he was dazzled by the combination of a highly entrepreneurial and collaborative environment with the discipline that venture capital brings to a business. "For me and the executive committee it was the realisation it was not about the technology perse, but about the capability you have in your team, and the values and culture you are going to promote," he says.

Whiteing's open plan office near Sydney's Darling Harbour may not be as funky as Google HQ, but it is jus across the road from the bank's Innovation Lab, a kind of ideas incubator, where staff work in open-plan environments and can test out new products with customers and partners. They use tablets to interact with digital whiteboards and go shopping in virtual reality using the bank's cardless cash product.

It is no coincidence that other banks such as Westpac, which sponsored Christensen's visit to Australia last year, are doing the same thing. In an example of the adage of keeping one's friends close and enemies closer, Westpac has taken small stakes in outside start-ups including peer-to-peer lender Society One that could one day threaten its own business.

Analyst estimate the big banks face a $30 billion impact on their revenue from disruptive start-ups.

Whiteing says being paranoid and responding fast helps to stay ahead of emerging competition. “Having the humility to say that the way we do things today is the best way we know how today, and when you wake up tomorrow there might be a new and better way,” he says, adding that if CBA can get a new product to market a month after a start-up, that is quick enough to keep its customers committed.

But Whiteing is also aware of becoming obsessed by disruption at the expense of everything else, including keeping the majority of his staff who are not directly working on the issue motivated.

“There is about 80 per cent of what we do that won’t be disrupted or innovated. A bank account is a bank account: ‘How do I keep that safe and reliable?; If you get myopically focused on innovation there is a body of people that become disenfranchised.”

The sense of panic and near hysteria around disruption, particularly since the financial crisis , is starting to find its critics *The New Yorker* caused a stir in June when it published an article by Harvard historian Jill Lepore questioning the “gospel of innovation”. She pointed out how Christensen’s theory was really just an iteration of Schumpeter’s , and found glaring faults in his analysis of why some companies fail.

“It’s a theory of history founded on profound anxiety about financial collapse, an apocalyptic fear of global devastation and shaky evidence,” Lepore said.

Her argument stood out in a media landscape dominated by warnings that disruption is going to change everything, even though many company directors are privately wondering what they are innovating towards.

Gary Ranker, a New York-based executive coach who advises some of the world’s top executives, says many CEOs have not fully grasped how the world has changed because it hasn’t touched them yet.

But he also questions whether all this revolution is a desirable evolution and worries about the social impact of companies, often run by relatively young people, becoming too powerful in a short period of time.

“What we are now seeing, and Uber is a good example, is the possibility that some technologies will thrust companies into very high valuations very quickly and therefore in a position of power,” says Ranker, who admits he uses Uber when he visits Sydney.

He compares today's established corporates to the British soldiers in the American Revolution, outsmarted by the colonialists who broke the rules of war.

"You have forces around the world that have become more guerrilla in their tactics. It is about domination and profits and individual country rules are an impediment to what you want. For society this is going to be quite disruptive."

Uber is lauded as the ultimate disrupter, growing into a $US40 billion ($49 billion) company operating in more than 250 cities in just five years. It filled a huge gap in the market, using clever smartphone apps and high-quality service to take on traditional taxi services that had not changed in decades. But a series of public relations disasters this year, including a decision to raise fares during Sydney's Martin Place hostage crisis on December 15 and concerns about its attitude to customer privacy, has raised questions about the company's rapid growth.

Uber's Australian boss, David Rohrsheim, says this is unfair criticism and the company's motive has always been filling a gap in the market and proving a better customer service. "Technology is moving faster and faster every week. We put out a new version of the Uber app every week. It is evolving much quicker than law-makers are sitting and debating and passing regulations. It is an issue for lawmakers worldwide," he says. "We understand transport is an important function and deserves to be regulated with a focus on safety."

As well as threatening established businesses, companies like Uber and Airbnb, which allows people to rent out their homes to travellers, are having enormous social impacts.

Rohrsheim argues this is a positive thing. "Uber is often a poster child for the sharing economy. That model of taking assets that are already out there and making use of them is a fundamentally attractive model compared to owning and maintaining assets yourself."

This is little comfort for large listed entities that have enjoyed healthy profits for decades. While it is easy to inflate the scale of projected change, executives from just about every industry now have technology on the brain.

"Big data is a new field that uses very sophisticated algorithms to identify patterns," Rio Tinto's chief executive of irone ore, Andrew Harding, tells *AFR Weekend.*

*"*This means we can move from just looking at data to answer a specific question to finding opportunities that we hadn't even considered. The opportunities are enormous given we have years of raw data – more than anyone else."

He is referring to the sophisticated operations network the miner has built up around its 15 mines in the Pilbara that measure everything from workers' shifts to when haulage trucks are on the road.

"It is the same thing the US army is trying to do by having a comprehensive information platform for a battlefield. You can't have great soldiers and some great platoon commanders, but being able to mobilise them with a whole of battle picture is worth a lot."

Patrick Forth, who leads The Boston Consulting Group's technology, media and telco practice, says companies are grappling with a third wave of data-driven disruption. He points out that it took Facebook three years to get 50 million customers, but the online company game Angry Birds more recently only took 15 days to accumulate the same number of followers.

"The penny is dropping for most boards and most executives now. I have no doubt that many companies will fail, there will be a lot of disruption and a lot of companies that won't make it and others that make it. There will be plenty of people in the ASX100 in the future that aren't there now," he says.

He points to the disruption to retail increasing, Drones and autonomous cars could deliver products, 3D printing may upend manufacturing, predictive algorithms could cause upheaval in insurance and banking.

So, what can companies do about it? Many of the executives, venture capitalists and consultants interviewed for this article agree the answer lies somewhere in the culture and having the right staff in place rather than the technology itself.

"I think the single most important thing for any organisation is to instil a culture that encourages and reinforces the need to innovate and take some risks and tolerate the experiments that fail. Innovation and risk taking go hand in hand," Google's Noble says.

"I've been a technologist all my life, but I've just learnt that people and culture are ultimately what drives innovation."