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SURVIVING EXTINCTION – HOW CORPORATIONS CAN ADAPT
INVESTORS SEEK FORTUNES IN FUSION POWER
THE $100 MILLION SPEC HOME TAKES THE STAGE IN LA
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SURVIVING EXTINCTION

In an age where start-up culture provides all the buzzwords and millennials keep asking for meaning, corporate chieftains should know that large organisations can prepare themselves to handle massive disruption – the answers lie in the people you already employ.

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You'll have heard an awful lot about disruptive innovation: new ideas that turn existing businesses on their heads, creating new value networks and leaving incumbents by the wayside – think Kodak and digital photography, or Nokia and the smartphone. Disruptive innovation is the most resilient of buzz phrases, quickly becoming ubiquitous and fuelling a lucrative consultancy industry after it was coined in 1995 by Harvard Business School professor Clayton Christensen. These days most business leaders are keenly aware that their nemesis is just as likely to be an unforeseen advance – probably technological, marshalled by a nimble young market entrant – as it is a traditional competitor doing a slightly better job.

The question is what to do about it. It's one thing to know that a threat is likely to come from an unexpected source, but when the precise source is unknowable, the challenge becomes creating the sort of organisation that is capable of foreseeing threats in advance. It's also critical to act on mitigation, rather than continue to do the same thing – something that many companies and the individuals within them would prefer.

These days, the amped-up pace of technological change makes disruption a potential challenge for every business, not just the obvious ones. From artificial intelligence to automation to driverless vehicles, transformative technologies are multiplying in the wake of the ultimate disruptor: the internet. This allows lower barriers to entry, lower fixed costs and new methods of raising funding.

"There's enough evidence for us to say that the speed of adoption is getting much faster," says Helena Leurent, head of government engagement and an executive committee member at the World Economic Forum, who has been researching the future of production: how manufacturing and all the systems and services connected to it will change as a result of technology. "It took 70 years for the telephone to reach 100 million users. Facebook and Instagram did it in under five years."

Scott Anthony, Singapore-based managing partner of Innosight, the consulting firm founded by Clayton Christensen, says a dramatic increase in the turnover rate of the S&P 500 benchmark index suggests disruption is happening more these days, with new entrants likely to remain part of the index for an average of 10 to 15 years, down from 50 years in the mid-20th century.

More subjectively, he adds, "there's also the increasing pervasiveness of digital technology: AI, big-data analytics and so on. They used to be confined to companies where information is their business. Today they're affecting every aspect of business – there is no safe space any more. Take agriculture, which is about as traditional an industry as you can get. Thanks to drones, genomics and robotics, Monsanto [the American multinational agricultural corporation] are now calling themselves a technology company."

That also creates a force multiplier effect, with new technologies being combined in a constantly increasing number of potential ways. "It's not so much that the pace of change is increasing as that we're on an exponential curve, with the possible complexity increasing exponentially with each step," says Anthony.

Hong Kong is full of companies that have been doing the same thing for 100 years – many of them growing fat on property and thus making them potentially ripe for disruption.

"In companies that are doing well, the sense of urgency is masked by the numbers," says Joe Ngai, managing partner of McKinsey Greater China. "It's easy to be distracted. All of the big Hong Kong companies are asset-heavy in areas such as property. It's a licence to print money in many ways and it's easy to feel having unique assets means there's no threat'."

Ngai points out that companies that have been in existence for longer generally find it harder to change. "But a lot of companies that have sprung up in the past 10 to 15 years have no qualms about changing their business model overnight," he adds. They came out of nowhere themselves, so they're aware that someone could eat their lunch any time." And a lot of these companies of no fixed business model come from mainland China.

The challenge is a cultural one: becoming the sort of organisation that can anticipate and embrace change. "Very few business leaders are saying that nothing is happening," says Leurent. "An increasingly large proportion of them are doing a few things: asking which technologies they should understand more about, talking to start-ups, and setting

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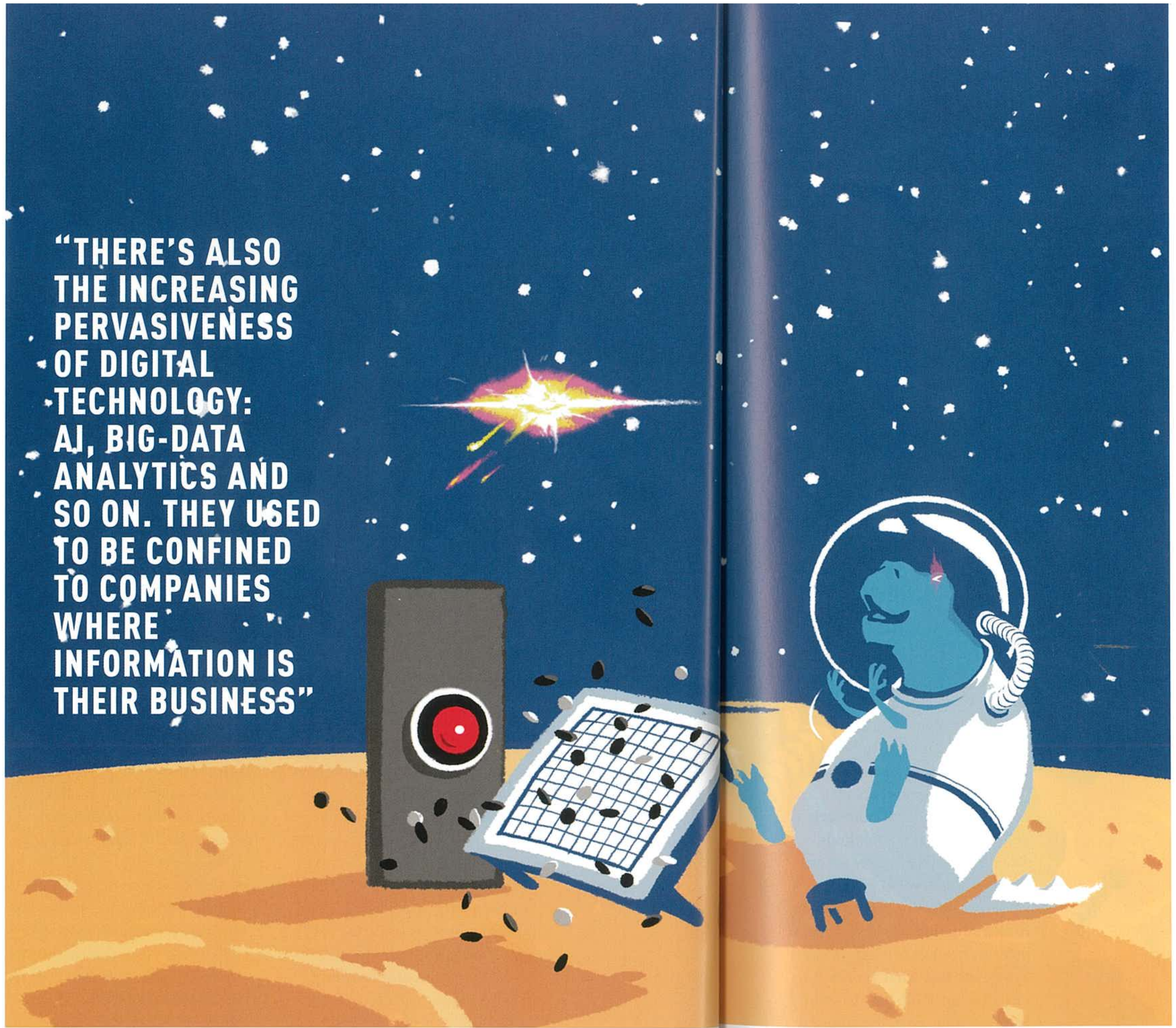
up teams within their own organisations to experiment.

"It's a leadership challenge. Unfortunately a lot of this is a fear-driven conversation. How do you change that conversation from fear to opportunity to transformation? How do you get it so that everything starts not from the technology but from the people you're trying to do this for?"



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ALL IN THE MINDSET

One answer might come in the form of Hong Kong-based TAL Group, a leading global garment manufacturer that has repeatedly embraced transformation. Starting off 70 years ago as a cotton mill, it became a shirt manufacturer, introducing a whole raft of shirt-making innovations including the first wrinkle-free cotton shirts. It also has been a high-tech pioneer in its factories, has developed its own 3D scanning technology, and has its own supply chain management system that automatically manages inventories for clients so they don't need to reorder. The latter is so in demand across the apparel industry that in 2011 TAL spun off Weave Services as a specialist supply chain company.

"I would say that to be innovative is half process driven and half about mindset," says TAL's CEO Roger Lee. "The process side is what everyone does: getting employees to provide feedback." TAL, for example, encourages workers at its factories to make suggestions, providing generous prizes for the best.

"When it comes to mindset I always believe that it doesn't matter how old you are, you always have to be curious about what's next," says Lee. "Complacency is what kills everyone, and it's easy to be complacent when you're doing well. That mindset is hard [to change] – really, really hard. And it has to come from the top. The top 40 people in our company are also open to change; people can quickly spot others who aren't.

"A lot of companies look at what their competitors are doing, but we don't look sideways – [by then] it's already too late, and you're just catching up. Instead, we always think about what we can do for the customer. We've had people join us from multinational corporations and tell us that the mindset is completely different there – a lot of companies will try to change their customers' minds. But if a customer asks us to do something that loses us money, we do it anyway. Not everyone is convinced by this strategy, but not everyone thinks long-term."

This attitude is encoded in the company's official drivers of value, in which quality is ranked first, on-time delivery second, and profitability third. The reasoning for this is that profitability will happen as a result of the strong long-term relationships fostered by the company's dedication to the first two imperatives.

"Customers can actually see your true colours," says Lee. "They're going to choose suppliers that care about long-term partnerships first."

Weave is perhaps the company's most dramatic innovation, turning it into a services company as well as a product one. "We realised that people were coming to us just because of the supply chain, [it was] nothing to do with manufacturing," says Lee. "If I'd been a consultant before, it would have been easy to draw up a consultancy agreement for two or three years. But we decided to set up a proper company. We took people from manufacturing, we hired an ex-McKinsey guy to run it, and then it was on its own, recruiting its own people with its own separate profit and loss. We separated them out from day one – it does not in any way suck up resources from manufacturing.

"We're very happy with what we've done, plus we can easily scale a services division. Watches, shoes, bicycles – whatever business you're in, you're selling a product and inventory is hard to manage. And there's no one else in this area. It was hard to do, but we had to do it."

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Anticipating the continued shake-up of the industry, which has seen consolidation among suppliers amid falling margins in recent years, TAL has taken the bold step of setting up a factory in Ethiopia, which currently employs 1,000 people. "We were the first in the industry to go there," says Lee. "We decided to do it because we realised we'd be trying to catch up for 10 years. It takes three to five years for a factory to get up to the level where we want it to be. No one could have foreseen a location like China becoming expensive, but it has. We're not going to make any money in Ethiopia for a few years, but we're getting some incredible learning.

"We're always willing to take a risk and think far out. When we interview executives, we always ask: 'what's the longest project you've worked on?' We're asking what the customer is going to want in five to 10 years, and surprisingly not many people have gone through that: usually the longest is between one and three years."

The spin-off of Weave offers one possible solution to a perennial problem among transforming companies: keeping your eye on not just one ball, but two. "The single biggest issue is recognising that there are two things: to strengthen and reposition today's business, and to start tomorrow's business," says Innosight's Anthony, who also recently co-authored *Dual Transformations*, a book exploring the subject. "Most companies don't do both, they either focus on the new business and neglect the old one, or batten down the hatches and try to ride it out with the old one."

To successfully embrace change, Anthony adds, the organisation needs to have two characteristics. "One is humility, which might sound weird but is just a recognition that the success formula of today is unlikely to be the success formula of tomorrow; and a fundamental separation of the two aspects – transforming today's business and building tomorrow's.

"The organisation's leader [also] needs to be able to tell a story about what the future organisation is going to look like – people need to have a view of the destination. And the vision has to have some kind of human connection or purpose, a meaning beyond boosting shareholder value. People need a reason to change what they do. This stuff is really hard."

Even a company like TAL finds this challenging, says Lee. "Relatively speaking, because the culture of openness is so ingrained, resistance to change is less than in other companies. Having said that, resistance is still there. We need people to be so strong technically, and if you've spent 30 or 40 years working on that, sometimes you just don't know how to change. So we need to complement them with people who really want to drive change, and who can work together with them."

TIMING, TIMING, TIMING

Equally important is getting the timing right, as the dangers of acting too early can be as great as those of acting too late. "The times you say no are more important than the times you say yes," says Lee. "There are so many new ideas you could say yes to, and it's hard to say 'It's not the right time', but you could easily cannibalise your own business. It comes back to leadership balance. As a leader, you want to allow your teams to do what feels right. But there has to come a time when you put your foot down and say 'let's take a risk', and your team has got to trust you."

The most important thing of all, suggests Anthony, is to have deep pockets. "People say that culture beats strategy, and that's true, but resource allocation eats both culture and strategy for breakfast, lunch and dinner."

One company that's consistently been prepared to put its money where its mouth is is Los Angeles-based Decurion Corporation, recently nominated as one of the world's most adaptable companies by authors Robert Kegan and Lisa Lahey in *Harvard Business Review*, the publication in which the term disruptive innovation was coined. They suggest that the most important element of developing an adaptive culture is to focus on the personal development of individuals within the organisation, something Decurion takes to extremes.

The 1,100-strong company, which started life as Pacific Theatres in 1946, prioritises its culture and way of operating

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– Bryan Ungard, Decurion

over the actual nature of its business. That alone makes it very flexible about what sort of business it's in; its holdings include cinemas, commercial real estate, senior living homes and self-storage facilities.

And then there's that culture. Broadly speaking, the company wants to get away from the alienating nature of most modern workplaces and allow individuals to find meaning in their work. Helping them do so is Bryan Ungard, who glories in the job title *Head of Purpose*. Ungard says he started off as a sceptic about the corporate world, instinctively rebelling against its alienating treatment of employees, until he realised that the problem wasn't an intrinsic one; it was just a natural result of the culture of most companies.

Decurion, he says, "didn't start off trying to be adaptable or resilient per se. [Company president] Christopher Forman's original aim was for the company to be excellent. But it turns out the question of excellence is rather deep, because we can never get away from what we've learned, and excellence is about far more than just doing what we're supposed to be doing. It's about more than being adaptable; it's about meeting situations where we don't know what they're going to be.

"The closest framework we found was in the field of adult human development. Contrary to social norms, it turns out we're not done with development when we're done with schooling – we're able to grow and develop throughout the rest of our lives. One conventional understanding of learning is that you get better at what you're meant to get better at. Development is different – it's mostly an unlearning process. It's about moving through different mindsets and beliefs about how the world works. You have to loosen your prior beliefs. Each stage of development comes with more autonomy and freedom than before, and also more complexity.

"The business world is also entering new stages of complexity," continues Ungard. "So we've got serious about development and become very deliberate about the methods, structures and processes we use internally to develop, both as a whole organisation and as people, to face situations we haven't faced before – to let go of what we knew before and face what's coming next. The question isn't to know what's coming next; it's to be in a position to respond."

The company works backwards from its goals. Its senior living homes, for example, aspire to incorporate the emotional impact of residents' eventual deaths into every aspect of the service it offers at a low price point – something once widely thought impossible.

"We have to rethink all our assumptions about old age," says Ungard. "We have to ask, what is love? Our caregivers also have to rethink their assumptions; it's not just about handing out meds more efficiently. Self-development at an organisational and individual level is ongoing every day. When you come in every day, you're reminded of this bigger goal. How do we love these people through what's actually happening, instead of just going through the motions?"

Decurion decided to harness the power of its mostly teenage workforce in its cinema chains by getting rid of the majority of managers. It then sat down with each individual employee, finding out what their long-term career aspirations were and matching them with tasks that could provide them with skills useful to those goals. The company also teaches them how to read profit and loss statements, to make staff aware of what the business's main levers of profitability are and effectively put them in charge.

"There's a deeply held belief that if you want to maximise profit your people are going to suffer, and vice versa, but it's only true in most organisations because they make it true," says Ungard.

In other words, the news isn't all bad – disruption is not inevitable, even for long-established companies. It's a matter of having the right organisational culture, and of using it to take advantage of the resources you have as an incumbent.

"I think we denigrate incumbents far too much," says Antony. "They have expertise. A lot of people think that the core business is a problem, but the core business is what allows you to expand into the new one. You still have customers who like you and want you to carry on doing what you're doing. And you've still built up capabilities, whether it's your factories or your worldwide reach. Entrepreneurs have speed, but incumbents have resources."