Disruptive Innovation in Mature Industries

With start-ups driving and defining transformation and disruptive change across industries, what is the role of larger companies?

Unable to compete with startups on focus and speed, large established organisations are considering ways to integrate new disruptive innovation with their core assets. Whether this is best done through acquisition, corporate incubators and accelerators or venture capital funds, depends on a corporation's makeup, but as a panel of four very different CEOs at INSEAD's recent **Global Business Leaders Conference** in Abu Dhabi agreed, no matter how successful the company or stable the industry, firms that don't prepare themselves for disruption risk extinction.

Innovation is not just about creating new markets. It extends product life cycles, improves cost margins and has the ability to transform the competitive landscape. Today few companies can escape the all-pervasive impact of digital disruption as it reshapes business relationships, overhauls logistics processes and revolutionises markets across every sector.

"The concept of the cloud, the increasing use of big data, 3D printing and the introduction of the digital supply chain are all changing the way organisations do business and who they do business with," Tarek Sultan, CEO of leading Middle East logistics player, **Agility**, noted at the conference.

"Companies can't avoid these changes, they need to embrace them. The internet has created a world where if you don't do something, your competitor will. In fact you may not even be aware you have a competitor until it's too late."

While mature companies have the resources and capabilities to change, convincing decision-makers can be challenging. Leaders of organisations with a strong growth history and expansion pipeline may see disruption as an unnecessary risk. "There is a group of people on our advisory board who would say, 'You have got to watch out for innovation, it can put a company out of business'," Tarek explained. "And yes, in some cases it has. But you have to show them the flip side. For example, we were early adopters of Cisco (technology) ... While at the time it was a colossal failure, today we can trace $10 billion of opportunities that came out of that failure, because of the investments we made in technology and the way we configured our business.

"It's clear to us that as a business we need to change, and we need to change quickly. We just have to make sure we don't, at the same time, throw away the business that we have. "

Disruption without risk

This is one of the biggest quandaries facing mature businesses today; how, or how far, can they adopt disruptive practices without harming their organisation. Or, as one participant at the conference asked, how do you strike a balance between standardisation necessary for scale, and innovation which requires disruption?

"I think the idea of the big bang approach is wrong," Tarek observed. "Many technologies allow you to experiment in small scalable ways.

"But if you're going to innovate, keep in mind that the people working in the core business have strict schedules, and keep the innovation outside of that sphere. Create a separate division or spin off company to explore potentially disruptive new products or processes on a smaller scale. Once you know you're on the right path with the new product or process, then it's time to make the difficult decision of whether to introduce it into the business."

Innovation is not renovation

Not everyone supports this idea of sidelining innovative practices.

"Companies should have the aim to be entrepreneurs inside the enterprise," insisted Andreas Jacobs, Chairman of INSEAD and Chairman of **Barry Callebaut**, the world's leading supplier of chocolate. "Innovation is a culture, it doesn't come from a good idea alone, it's something you need to bring into the DNA of your company, and it's not easy."

As head of an organisation that has been turning out the same product for 175 years, Jacobs notes the importance of differentiating between innovation and renovation. "In response to consumer demand for healthy products, we looked at changing our recipe to use artificial sugar and less, or more healthy, fat. But to me that's not innovation, that's standard renovation," he told the panel session.

Where the company did innovate was by going deep into the jungles of Indonesia, Brazil and Africa, and encouraging suppliers to change the fermentation process to ensure the natural medical and healthy elements of the cocoa bean were not lost in the process.

"Fundamental change requires questioning today's and yesterday's position. It's about empowering people, in the company and within the supply chain. We want our company to be an enterprise of entrepreneurs, so we try and create an ecosystem which promotes start-up thinking and creates this feeling of ownership and entrepreneurship at each and every level."

Acquiring innovative practices

Jordan's **Hikma Pharmaceuticals**, has had a more complicated path to innovation, according to its CEO, Said Darwazah. "Because our firm started in a small country we are not by nature an innovative company, we have to learn and find ways to get it into our DNA and stay ahead of our competition."

The company has done this through joint ventures, acquisitions and the creation of a venture capital fund which focuses on bio technology. Said says it is also about giving employees the incentive to be innovative. "You have to create an environment which rewards entrepreneurship, one that allows and encourages people to think differently. You can't hire really bright kids then get them to follow rigid rules. "

It is important as a company to avoid getting boxed in by a label, says Said. "Don't be afraid to experiment with products as you move forward."

Staying relevant

Phillips, one of the 40 most well-known brands in the world today, wouldn't be around if it hadn't been able to change and innovate its product line. The company, which sold off its iconic television division as it moved from electrical goods to lighting and energy efficiency, is now concentrating on optimising the opportunities presented by the digital disruption of its healthcare and consumer division.

"At the end of the day it's about staying relevant and making fundamental decisions," Arjen Radder, CEO **Philips Middle East and Turkey** told the conference. "We made the decision to spend eight percent of sales on innovation, this is money that is not, potentially, being spent on marketing. It was a very conscious decision and one every company has to make."

Another conscious decision was putting in place processes aimed at facilitating innovation. "Innovation doesn't happen by coincidence. You need to have structures there which allow you to deliver consistently over time."

Be prepared to change everything

Disruption is not typically about one sudden change but a host of small, related changes. Without bureaucracy to complicate the process smaller start-ups will always be better able to take risks, challenge tradition and react quickly to changes in the environment. Larger companies need to understand the motivating factors behind the transformation and be ready to invest and adapt to the shifting marketplace. Companies that drive disruptive change will always be one step ahead.

To paraphrase Samsung chairman, Lee Kun-hee, "Prepare to change everything except your wife and children."

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