

Maintaining Australia's Corporate Competitiveness in a Digital World



FINAL

David Thodey

13 April 2016

Proudly supported by the Australian Information Industry Association



Maintaining Australia's Corporate Competitiveness in a Digital World

It is my honour to have the opportunity to speak to you today, at the request of Paul Fletcher MP and the Australian Information Industry Association, about an important issue – **maintaining Australia's corporate competitiveness in a digital world.**

We all understand that the world is changing very quickly – driven by fundamental advances in technology. Software is disrupting every industry. The internet – reinforced by sophisticated logistics and new business models – now exposes every company to global competition.

The world is getting wealthier and the economic centre of gravity is shifting towards Asia – including the digital centre of gravity, as anyone who has visited companies like Huawei, Alibaba, TenCent or Samsung will testify.

This has significant consequences for the way we compete – as a nation, and as individual businesses. In my previous role as CEO of Telstra, and with my current roles as Chairman of CSIRO and JobsNSW, every day I see how businesses are working to respond.

It is pleasing that there is a renewed national focus on innovation, with the Turnbull Government issuing an important policy package just before Christmas. Measures to stimulate basic research, to improve collaboration between researchers and industry, and to foster investment in start-up technology businesses - all of these initiatives are enormously important.

Today though, I want to concentrate on a slightly different aspect of innovation and digital transformation.

My proposition today is that a key element to our national competitiveness, as the digital transformation of the global economy continues, is in the way that our Australian businesses – and particularly our larger corporates – respond.

I want to **start with some history**, to illustrate that as a nation, and as a business sector, we can take some collective pride in our performance over the last thirty or forty years.

Then I will discuss how – despite various challenges – this **transforming global digital economy offers tremendous opportunities** for our nation and our businesses.

Finally, I will discuss **the steps I think Australian businesses need to take to survive and prosper in the digital era.**

1. HISTORY

So let me start with a little bit of history, to remind you of the transformation we have seen in recent decades.

We can debate exactly which starting point to use, but perhaps one good marker is 1980. This was the date of the famous comment by then Prime Minister of Singapore Lee Kuan Yew that Australia risked becoming the “poor white trash of Asia.”

In 1982, our GDP per capita was \$11,600, in 2015 it was \$67,000; we have the 12th largest economy in the world; third highest average adult wealth; the share of the population with a wealth above \$100,000 is the highest of any country in the world – I could go on.

How did we do it? The microeconomic reforms of the 1980s that reduced trade barriers and opened up our industries to overseas markets certainly played a role, as did our strong immigration flows attracting talented people so that today we now have 24 million people living in our country.

And of course, there was a bit of luck. With our strong endowment of natural resources, we were in the right place at the right time to meet increasing demand from Asia. This has had a very beneficial impact on trade.

Australian corporates have played a critical role in this growth. There has been a huge increase in competitiveness and service levels. Australian companies are world leaders across a number of sectors – mining, banking, agriculture, financial services, and telecommunications.

There are many success stories. We have seen the development of world-class companies like:

- BHP Billiton and Rio Tinto in mining
- Lend Lease and Westfield in property,
- News Corporation in Media
- Telstra is the 9th largest Telco in the world
- Amcor in packaging, Brambles in Logistics, and
- Our big four banks are amongst the world's largest and strongest.
- Macquarie is now an international investment bank
- So is QBE is an international Insurance Company.

These global leaders are now being joined by a wave of newer companies like:

- Resmed, CSL, Ramsay and Cochlear in medical technologies,
- REA, Dominos and Wesfarmers,
- SEEK and Navitas in Education
- And of course software company Atlassian which recently listed on NASDAQ.

We have a growing list of truly international companies that are focused on growth and diversification (and we need more). Companies we can be proud of.

The story of Australia's economic transformation since the nineteen eighties has been told many times, with due emphasis on some of the policy changes I mentioned earlier. But in **my view there has been inadequate attention given to the transforming of Australia's business culture.**

To give one example which I know very well, the culture at Telstra has changed profoundly since it was a government owned monopoly in the early nineties. Telstra has market leadership in mobile for example – and it has fought to hold that position in the face of fierce competition from well-funded global companies such as SingTel, Vodafone and Hutchison.

This robust competition across the industry has delivered great benefits to the nation. First, there has been an extraordinary growth in the take up of mobile services. In June 1996 there were 3.6 million mobile services in operation in Australia.¹ Now there are well over 32 million.

Over the same period customers got an ever better deal. In the 15 years from 1997 to 2012, the cost of mobile calls fell by half.² Another very important benefit has been the rate at which the latest technologies were introduced - from AMPS to GSM to CDMA to 3G to 4G or LTE and many other variants in between. We have some of the best mobile networks in the world.

¹ AMTA, 'Ten Years of GSM in Australia'

² ACCC 'Changes in the prices paid for telecommunications services in Australia report' 2013–14, p95

2. TODAY'S CHALLENGES AND OPPORTUNITIES

The strength of companies like those I have mentioned has helped fuel Australia's growth over the past two decades. In business, however, you can never stand still. In today's digital age we face a new set of challenges and opportunities.

According to some economic commentators, the global indicators suggest we should be pretty gloomy. They point to such factors as:

- The volatility of Chinese equities, with dramatic swings on the Shanghai market
- Growth rates in Brazil, Russia, India and China slowing markedly from the time when they were branded the BRIC economies
- Oil prices at historic lows and the notoriously cyclical resources sector is seen as very much in the 'bust' part of the cycle
- Interest rates negative in many parts of the world as Central Banks use highly unorthodox monetary policy approaches.
- Concerns about wealth disparity as the number of billionaires continues to rise while poverty seems intractable in many parts of the world
- Geo-political changes with an adventurist Russia, China flexing its muscles in the South China Sea and vicious civil wars across much of the Middle East
- The threat of Terrorism has now reached all around the world.

The list goes on. However, before we get too depressed - the IMF is also forecasting growth to increase from 3.1 (2015) to 3.4%, China is still forecasting to grow at 6.2%, and the Australian economy, while facing inevitable challenges, is seeing low unemployment and generally strong real estate markets. So there are still many opportunities.

Even the predictions on world poverty are less gloomy than first appears. According to the World Bank, the share of the world's population living in extreme poverty has fallen from 12.8% in 2012 to 9.6% in 2015.³

Now with all the points I have listed that we could worry about, you will notice I did not include the digital transformation of the global economy.

Arguably though it is more important for Australian businesses than any of the factors I mentioned. It differs from them in another important way: it is not a negative or a positive factor – just reality. Rather, it is a change in the environment – and it is for businesses to determine how to respond.

Let me expand for a moment on the elements of digital transformation. Our industries – indeed every industry – are impacted by the so **called Industrial Revolution 4.0 or Digital Disruption** – being driven by five forces:

- Lower cost of computing
- Greater connectivity/bandwidth – fixed and mobility
- Automation and robotics
- Artificial intelligence and new software development tools
- New business models and the 'sharing economy'

...allowing us to do things in new and creative ways - industry by industry and company by company... every part of our society is impacted.

It is difficult to imagine a more disruptive period at the scale and breadth that we are currently experiencing.

³ <http://www.theguardian.com/society/2015/oct/05/world-bank-extreme-poverty-to-fall-below-10-of-world-population-for-first-time>

But in my view we should view this disruption positively and embrace it.

I believe that Australia has a unique opportunity to take advantage of this digital disruption.

The Government's Innovation and Science Agenda has laid out a sound set of policy initiatives to address many of the impediments to innovation and scientific research in Australia. Collaboration, talent and skills, culture and capital and Government as an exemplar are strong initiatives.

I am a great believer in the importance of supporting dynamic start-ups and entrepreneurs; celebrating innovation and innovators; we do need more accelerators and incubators; we need more commercialisation of research; we need more collaboration between industry-government-academics and researchers; we need more capital and better incentives to support early stage companies and we do need to be less risk-averse in digital innovation.

We need Australian Corporations to take advantage of these digital opportunities – to transform their businesses and capitalise on this disruption. Australian Corporations have an opportunity to redesign their businesses, invest more in innovation and expand globally at a faster rate.

Certainly we can see plenty of evidence around the world of start-ups successfully riding digital transformation to become very large companies very quickly. Indeed, we have never seen a period in history where new companies have become so big so quickly.

Three of the world's top five companies by market capitalisation in 2015 (Apple, Microsoft and Google) were technology companies, and four of the top twenty (with Facebook at number 17.)⁴ Extraordinarily, Apple and Microsoft were founded in the 1980s, Google in 1998 and Facebook in 2004,

Between 2009 and 2015 the market capitalisation of technology companies in the top 100 listed companies globally rose by 177%.⁵

Another example of extraordinary growth is the Chinese telecommunications equipment maker Huawei. Founded in 1887, today it is the largest company in its industry with global revenues of USD [60 billion] in 2015.⁶

While none of Australia's technology companies are in the top 100 global listed companies – our four non-technology entrants are BHP and three banks – we however have technology companies to be proud of.

- Atlassian, a software company founded by UNSW graduates Mike Cannon-Brookes and Scott Farquhar in 2002, today employs around 1,000 people and its December 2015 IPO valued the company at \$4.4 billion.⁷
- Cochlear, based in Sydney, is a world leader in hearing implant technology, with global revenues of around \$900 million a year, based on technology developed in Australia.

The critical question I would ask is whether Australian corporates are seizing on the opportunities of digital transformation as rapidly as we need to – are our aspirations BOLD enough -and are we really thinking globally?

⁴ <http://www.pwc.com/gx/en/audit-services/capital-market/publications/assets/document/pwc-global-top-100-march-update.pdf>

⁵ <http://www.pwc.com/gx/en/audit-services/capital-market/publications/assets/document/pwc-global-top-100-march-update.pdf>

⁶ <http://9to5google.com/2015/12/31/huawei-2015-annual-earnings/>

⁷ <http://www.afr.com/technology/atlassian-prices-ipo-sets-record-us44-valuation-20151209-gljvsp>

3. THE STEPS AUSTRALIAN BUSINESSES NEED TO TAKE

In the remainder of this lecture, I want to focus on what Australian Corporations need to do to leverage the changes that are evident around the world.

I am of the school which believes that these changes have only just begun, so we have numerous opportunities still ahead of us.

For this section I will speak largely from my experience at Telstra – a satisfying, but imperfect, period of change. These observations are based on what I have seen at Telstra – and are reinforced by many other corporate experiences and business strategy articles. **The question I am seeking to answer is how do Australian Corporates maintain their competitiveness in a digital world – so that their businesses become stronger and create greater value.**

I will outline five suggestions that I think can help Australian Corporations address this opportunity.

3.1 A Digital Mindset.

Many Corporations in Australia and around the world have ‘digital’ strategies. Often these may be as simple as some type of web presence through to mobile applications or as complex as web enabled supply chains. However, this is not what I mean by a ‘Digital Mindset’.

A Digital Mindset is a way of thinking that emanates from a view of your business as a digital only business. It is a world that is always connected, ‘always on’ with real-time data with no delays. All processes are designed with the customer in mind and with complete transparency. It is a world where social media is the norm (not just another electronic communication tool). Digital does not differentiate between the type of electronic channel be it web, mobile or wearable – this is totally transparent to the user.

It is very hard for a large Corporation to truly adopt a digital mindset as it requires a new way of thinking, often a different business model – which may mean changing legacy processes and systems.

Many Corporations in Australia have started this journey – airlines designed for an online world, banks where it is now the norm to transact online and not visit the Branch, retailers with hybrid channels to market, e-market places; some utilities have adopted some digital capabilities. But there are many industries that still have much to do: health, education, government services, transportation, professional services and construction to name a few.

Customers now have very high expectations of digital services driven by Smart Phone applications and clever web-sites. If you can transform your business and provide a great digital experience – you inevitably reduce costs, expand your reach to global markets, improve customer satisfaction and improve returns.

The Education Sector is a great example of where we have created a large export market (roughly \$19B in export earnings) – and now have the opportunity to further leverage digital technology to address new opportunities. There are some terrific Australian companies in this space: companies like 3P Learning, which brought the world Mathletics, and Open Learning which is a MOOC platform. Our whole education system needs to grasp this opportunity.

To have a truly digital mindset requires a multi-faceted strategy across the following elements:

- All sales channels need to be redesigned to provide customers with the ability to see, interact, compare and purchase
- Customer Interactions need to be seamless across all touch points and designed to be intuitive and simple to use for customers. The customer must be in control.

- All processes must be redesigned to in a digital world for greater simplicity – and need to be transparent to the end user. In effect – back-office systems are exposed to the customer.
- Product design must be designed with a digital first mentality.
- Manufacture products more cost effectively and ‘on-demand’.
- Retail must be digitally enabled.
- Service and support must be digitally enabled from quoting and dispatch, to support services, tracking and monitoring. All in real time.
- Social Media cannot just be another channel of communication – it must be integrated into every process and the way you interact with customers.

For all of us, our competitors are now no longer solely domestically based – we are now competing in a global digital marketplace. This is true of many sectors including the Telco-Media sector.

In an internet enabled world Australian corporates in many sectors are showing a GLOBAL DIGITAL MINDSET. It has been encouraging to see the success of companies like Computershare, Worley Parsons, SEEK, REA, CarSales, Ramsay Health Care, Dominos, using online platforms to take their innovative solutions to global markets.

There are many different strategies being pursued. Often we see a corporate with a strong brand and market presence introduce a specific digital brand and channel. Some examples include NAB/uBank, ING Direct, and Telstra/Belong.

One question worth asking: do Australian corporates following this strategy default too readily to serving Australian customers? Should they instead see their digital channel as the chance to serve a global market? The reason that many Corporations do not do this is because it is difficult and requires investment, and transforming your entire business is extremely challenging. However, if you don’t do it – someone else will do it to you.

If you get this right – ultimately it will both reduce costs and improve customer service.

Having a Digital Mindset is the starting point to take advantage of digital transformation for any Corporation.

3.2 Willingness to disrupt and reinvent the business with the Customer at the Centre.

Secondly, we must be willing to reinvent ourselves. This is very difficult for a Corporation as we are bound to current business models, our processes are optimised for efficiency not necessarily customer experience and our service levels are designed for what we could afford, not what the customer wanted.

Customers are more informed, more empowered, have more choice and are more discerning in a global market than at any other time in history. They now make decisions on more than just price. There are many examples in the Telecommunications Industry that I know well: impact of SKYPE on international calling, the impact of WhatsApp on Text messaging, the new OTT services to displace traditional voice calls, Google’s new Fi offering for voice over Wi-Fi...the list goes on. Enormous disruption – FinTech is the same.

Convenience, selection and price are still important but so is reputation, what people say about you, the service you provide and the type of company you are. New Search capabilities, the sharing economy and the power of social media create a completely different dynamic for all companies.

Scale and size of companies – or even the strength of your balance sheet – are now no longer protection against new digitally enabled businesses. Often traditional value propositions of companies are challenged: Dollar Shave Club and Gillette; Spanish Power Company Hola Luz are giving customers more control of the

power bill; Metromile for low mileage car insurance etc. In all these instances it is about giving the customer more control of their interaction with you – and this builds trust.

Transparency is key as you become a digitally enabled business.

Digital enablement also allows value to be created at different points in the value chain – so you must be willing to experiment and trial new business models. For a Corporation to reinvent itself it must:

1. **Truly put the customer at the centre** and redesign every process and interaction to provide transparency and create a brilliant customer experience. This is not easy.
2. **Trial new innovative ways to interact with your customer** using digital tools – that are predictive, easy-to-use and transparent.
3. **Disrupt your own business models and be leaders not followers.** If new technology or value models emerge because of digital enablement – be the first to adopt this technology and disrupt yourself.

Sometimes these changes cannot be done from within your current business due to legacy systems and inertia – if that is the case, consider buying businesses with this capability.

For a businesses to truly disrupt themselves - the whole organisation must be so focused on the customer that the only question asked is 'will this improve the customer experience?'. This is the single most powerful driving force for disruption.

3.3 Invest in Innovation

Thirdly you must invest in Innovation.

Innovation is a much used word these days – and rightly so, because digital disruption is giving us a unique opportunity to be more innovative.

However, for a large Corporation – saying that you want to be more innovative is not enough and can sound hollow – you have to be prepared to invest in innovation and be willing to take risk.

Innovation simply defined is about finding new and better product, new technology or new ways of doing things. Corporations often find it difficult to invest in innovation as they are prone to protect incumbent positions.

Innovation is however more than this – it goes far deeper into the fabric of a nation or company. For me, Innovation is about five things - process, product, technology, organisation and behaviour. Let me discuss these briefly:

- **Innovative Processes:** this is the basic level that every company can do. We all know that complexity and bureaucracy can be the curse of large companies. So it is easy to ask employees to help find more innovative ways to run the business and improve processes to reduce cost, bureaucracy and improve the customer experience. At Telstra we ran a process called T-Solve that allowed all employees to suggest new ways to do things or to raise issues where processes didn't work. We used Social Media for this communication and invested in improving processes.
- **Innovative Products:** large companies must continue to encourage product innovation especially when there are long product development cycles. Often, some of the most innovative ideas for

products come from small changes in product design. However, you must be willing to invest in new innovative product design and also measure success. T-innovate had assigned capital to invest in new innovative product ideas. Sometimes it is innovative pricing models that drive differentiation.

- **Innovative Technologies** – all companies must remain vigilant in looking for new innovative technologies whether it be Qantas with online check-in or automated check-in terminals, Immigration with new automated immigration stations and image recognition technology, or online retail using augmented reality, or financial institutions backing new technologies. At Telstra this was a part of what we did – deciding when to make billion dollar investment decisions on new technologies that would enhance the customer experience. We had a strategy of always be at the front of the innovative technology curve to build sustainable competitive advantage and to compete aggressively.
- **Dedicated Innovative Groups** – you need to have the objective to imbed innovation into the very fabric of the organisation so that it becomes the way you do business as well as allowing a part of the business the freedom to invest and explore new innovations. At Telstra we always had an R&D facility but we changed that group to be an Innovation Centre – they were responsible for managing the innovation processes as well as trialling innovative ideas as well as partnering with customers on innovative projects
- **Innovative Behaviours** – Garry Hamel in his book ‘What Matters Now’ talks about relentless improvement and how organisations can be taught to innovate. He cites Westinghouse as an example of continual innovation. I do believe that innovation is a behaviour and can be taught. You need to give people permission to be innovative and unleash their creative potential – you will be surprised at what happens.

Some Corporations are inviting Entrepreneurial Companies to work with them to digitally enable processes or leverage digital opportunities – this drives faster innovation. I support this in large companies. Participation in Incubators and Corporate VCs also helps this transfer of innovative skills. Our experience at Telstra with the Telstra Ventures and the incubator Muru-D was more about the culture change and technology transfer these initiatives brought to the company than it was about the financial returns.

Board’s and Management teams must include exposure to Digital Innovators.

I think our aspiration should be to make Australia one of the top Innovation centres for the world and definitely for Asia.

We must do more than just celebrate innovation – we must invest in innovation - in process redesign, product design, technology and the behaviours of the people working in our corporations.

3.4 Change the Corporate Culture

Fourthly, we must change our corporate culture.

In today’s fast moving digital world of ideas and the free flow of information – the rate of change has accelerated and the traditional cultures and values we have relied on are no longer enough.

Often culture is used as a catch-all for many things – but I am referring to the values and behaviours that are practised and recognised in a company. Many new digital companies have very different cultures to older companies. I am not proposing that we wholly adopt these norms – but I am saying that the digital world requires a different way of working and interacting than we have known.

While we must never lose the identity of what a company has created or stood for – its essence - however the culture must evolve and develop in the face of these challenges.

Companies of people, especially the new generation, are looking for companies with a greater purpose – companies that impacts people’s lives for good, and with values that they can relate to on a daily basis.

What they are looking for is an authentic culture that is contemporary and relevant:

- From hierarchical organisations to an organisation that is based on ideas and networks
- From a conventional and unchanging culture to one of innovation and change.
- From a siloed organisation to a collaborative one
- From abdication to trust
- From good enough to excellent.
- From incumbent to responsive
- From opaque to transparent
- From inefficient to responsive
- From unreliable to trustworthy

Australian Companies need to change their culture if they are going to be successful in this new digital world. The old cultures will no longer be enough to compete successfully. There are many examples where this is happening and this change is essential if we are going to be competitive.

Responding to new kinds of competition isn’t something you can outsource. It requires a fundamental shift in corporate social structure – and culture is hard to change.

3.5 Capability, Organisational Design and Leadership

Lastly, capability, organisation design and leadership must change.

Capability will be a major differentiator for the winners. Success in this new digital world requires people to have a different skill set – often better digital skills and understanding. There are two primary challenges around capability – how do you attract the right new skills and re-educate the current workforce?

- To *win new talent*, companies must compete on purpose and authenticity. Millennials are now the largest group in the global economy - they are seeking companies that are authentic, honest and that attract the brightest and best. The new start-up companies appear to have these attributes and Australian companies must be attractive to this next generation of talent. It will be a challenge for individual companies and indeed our nation, to keep these skills in Australia when their skills are so globally transferable – so we must make Australia an attractive place to stay.
- **Immigration** is also a key consideration – we must attract people with diverse talent and skills and make it easy to come to Australia to work and contribute. As we know there are talented engineers in India, Pakistan, China and other Asian countries – what a wonderful contribution they make, and can further make, to Australia.
- **Re-education** of the existing workforce is also essential. Big companies like AT&T are already re-equipping all employees with digital skills and exploring new ways to provide services and build products. We must do the same if we are going to remain competitive.
- We must also encourage a culture of *continual learning* in the community

Organisational design must change if we are going to have the ability to compete in this new world. Corporations with 7 to 10 layers of management are just not optimal. Decision making is too slow, communication is pedestrian, and it supports a command and control culture that destroys innovation, trust and accountability. Corporate structures often do not foster inclusion and acceptance but rather support hierarchies and bureaucracy. I am not saying that controls and procedures are not required – what I am saying is that we need more agile companies of people that can respond quickly to customers and market changes.

There are now new organisation models being trialled with teams of no more than 40 individuals in a division or unit, also I understand that some organisations are trialling management structures with spans of 100 people. The design point must be around speed of decision making, speed of product to market and better customer service.

Lastly, **our model of business leadership** – which hasn't really changed for the last 100 years – is long overdue for an overhaul. The essence of business leadership needs to adapt to a world where people are looking for greater meaning in their work. We need a new generation of Australian leaders that reflect the new culture of the digital world:

- Leaders who are not hierarchical but recognise and celebrate thought based leadership in networked organisations.
- Leaders who do not rely on rules and processes solely but rather look to the greater purpose and values of the company.
- Leaders who are not exclusive or secretive but rather open and transparent.
- Leaders who are not always directive but rather enable others to be successful.
- Leaders who have moved from compliance to trust.
- Leaders who do not have all the answers but are continually learning and developing.

These are the new leaders in a digital age.

Australian Corporations need to find and develop new talent, build organisational agility and transform what great leaders do.

4. CONCLUSION

Australia has had a wonderful period of economic prosperity. To sustain this - we must adapt to the new digital world. This will require more entrepreneurs, more early stage investment and more innovation.

Our Corporations have an opportunity to take advantage of this digital disruption and become more competitive and grow on the global market.

I have outlined five suggestions or imperatives that I think are essential if we are going to capitalise on this opportunity, namely:

- i. *You must have a **digital mindset**.*
- ii. *You must **disrupt yourself** by having the whole organisation so focused on the customer that the only question is will this improve the **customer experience** – the consequences of not doing so are worse than the challenges of reinventing yourself.*
- iii. *We must do more than just celebrate innovation – we **must invest in innovation** - in process redesign, product design, technology and the behaviours of the people working in our corporations.*
- iv. *You must change the culture and changing culture is very hard. This is something you can't outsource. It requires a fundamental shift in corporate social structure. It requires enormous commitment and effort.*
- v. *We must **attract and develop new talent, build organisational agility and transform what great leaders do.***

There are no easy fixes. But we know what we need to do. If we focus on these five initiatives we would make great strides in helping Australian Corporations benefit from the opportunities presented by the Digital World.

When Paul Fletcher asked me to give this lecture he spoke about the man after whom his electorate is named, Dr John Bradfield, the designer of the Sydney Harbour Bridge.

Just as John Bradfield persevered for 18 years to see his vision of the Sydney Harbour Bridge completed, Australian Corporations need to set a vision and persevere to get there. Bradfield was once described as having “tremendous faith in his ability which is not a conceit when there is an enormous knowledge behind that faith and ability”.

Let’s build a generation of Australian Corporations with that same faith and ability that will benefit from the challenges and rewards of a digital world; and create a more prosperous, competitive and successful nation.....for the benefit of all Australians.