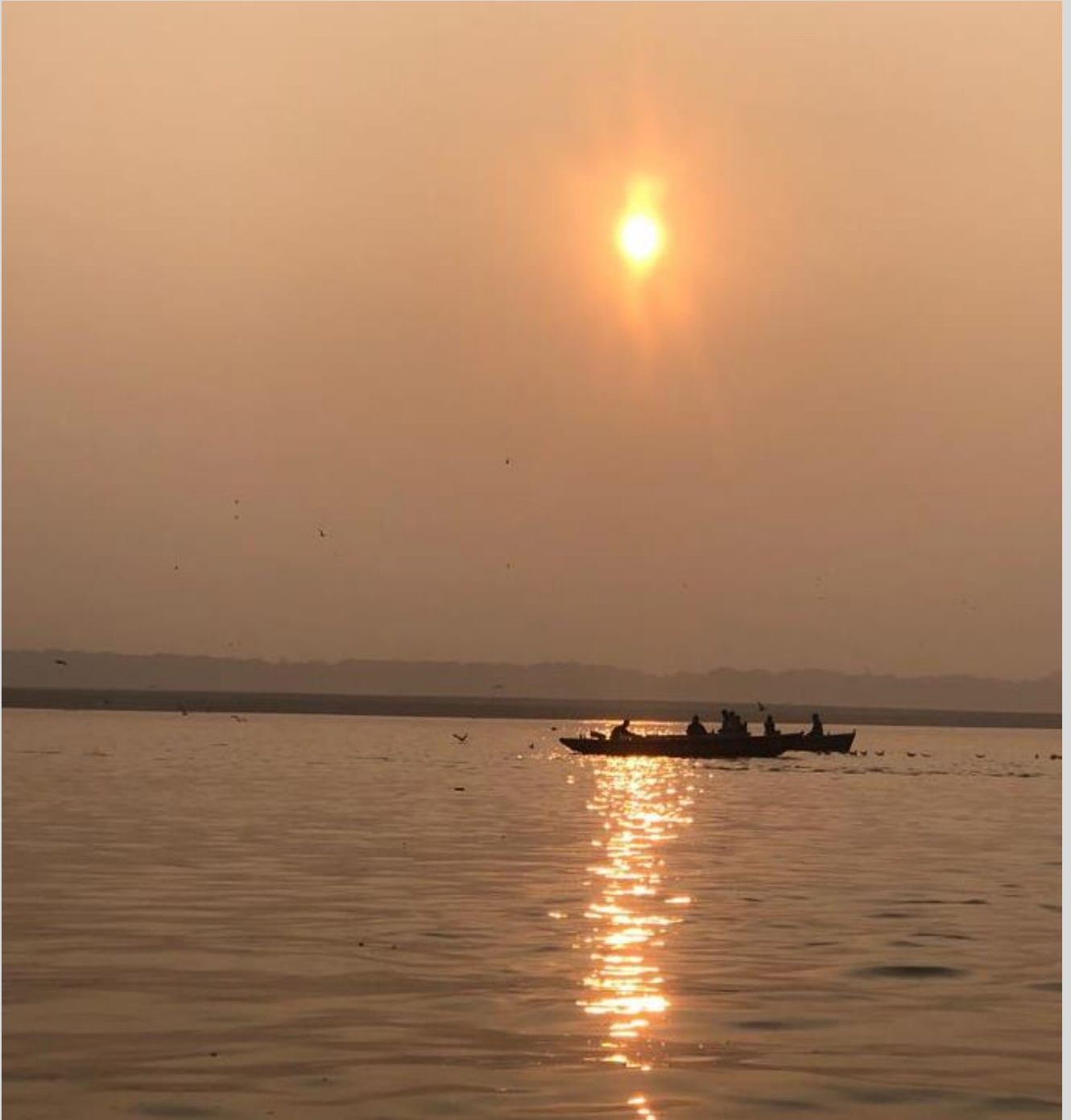


Selected 2018 chats on leadership, organization and innovation

A casual reading for retrospection and reflection



I have summarized 2 of the chats I had in late 2018 with 2 C-suite executives about topics ranging from organization & leadership to strategy & finance. I have removed the names of the people and the companies, but have provided some info on the position of the executives and the nature of the companies.

There is no claim to any scientific outcome or unusual wisdom; it should be seen as a snapshot of what a class of global executives thought a year before COVID-19 hit. It is only intended as a casual reading for retrospection and reflection, and I assure you the people and the interviews are real and reflect real opinions and actual statements.

The body of the note addresses a number of management topics (see the list below) through questions answered by the executives, clearly marked by their avatars. As a point of information, the executives were interviewed separately in different locations & settings and at different times and were not aware of each other. In the Epilogues 1 & 2, I included a few additional questions addressed to or only answered by one or the other executive.

The topics addressed

- *Agility & Collaboration*
- *Organization & Leadership*
- *Technology, Innovation & Growth*
- *Finance & Capital Markets, Planning & Risk Management*
- *Sustainability*

The Executives and their companies



CEO – A global Euro-American Telecommunication Technology Company - Sales : \$1bio



CFO – A global Conglomerate with traditional and technology activities – Sales : \$40bio

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Agility & Collaboration

Agility and collaboration are the two big organizational paradigms of our period?
Any opinion?



CEO

I have seen organizations work very well in this domain, and work very badly, and it is all about the Way of Working. Most of the traditional companies still have legacies of the 20th century, where mass production and optimization were the driving factors and corporations were structured in a “bucket brigade” model of silos doing their operations and handing down the bucket. The 21st century, however, is about innovation because the consumers gravitate towards newness, and my experience is that the optimized approach to mass production is not conducive to innovation, at least not at the levels and the frequencies sought after by the new generation of customers.

For the traditional companies the move toward such an organization is very hard: I have seen Senior Management try flat organizations, open spaces, interdisciplinary team missions, but the change is hard to make in companies rooted in legacy cultures and ways of working. On the other hand agility and collaboration are part of the DNA of the companies that came into prominence in the 21st century.



CFO

There are good reasons for certain industries to have quite a centralized organization, whereas for example in a fast moving disruptive environment you are better being agile. You take risks and potentially make mistakes, but overall you move the company in the right direction.

For us, it is hard to say for the whole company, because there are different environments and agility would be better in some and not in others. I think in some areas we can be more agile and we are thus not at the end of our road, but we know that and the board is aware of it

Agility & Collaboration (continued)

What are the drivers of collaboration and how do you go about building collaboration in your organization? And where do you see the best benefits from collaboration: internal (breaking down silos), or external?



CEO

Innovations are taking place at the boundaries of various disciplines such as technical (including multi-technology), legal, marketing. This fact alone requires an interdisciplinary approach to teams. I have worked in different responsibilities, industries and geographies, and I have witnessed first hand that once you change the way people work from the “Henry Ford way” to “Steve Jobs way”, the same people become very innovative and deliver things much faster.

It is up to the leadership to ensure that management works this way. This challenge is not simple, because most of the processes and mindsets have to change: from reviews, compensations, reporting lines to business decision making and arbitration. This is especially the case in traditional companies that have their roots in the 20th century.

At our company, we organize teams from various disciplines in the same physical location and give them the responsibility to work on a specific mission: for example we put people from development, finance, legal, marketing to work on a permanent and sustained basis on breakthroughs in Telecom, or User Experience, or Financial Services. Once we organize the teams on such a basis we succeed in creating innovation on a regular basis.

One of our programs is an extension of this collaborative approach to an ecosystem of partners, where each one provides its best-in-class offering toward the realization of the End-to-End solution. This extended enterprise program also integrates and provides Life Cycle Management (LCM) for our partners’ disruptive capabilities.



CFO

Let’s take agility in software (SW) development, the principle is to get the big development broken down into small pieces and then launch a series of developments and sequential updates and versioning. This is one of the competitive advantages to build on.

But the problem is that this does not create 100% quality. For a phone, if something does not work, you just put it away and get another one. But for example for a car, which has around 10,000 parts, it is a different problem:

If the new start-up companies try to apply the same agile development method to the development of systems for the car (“let’s get the car on the road, we get data and we gradually fix things within say 3 years and it will be a safe system”) they will be in for an unpleasant ride. Consequently, this approach will not work in the car industry, so the industry has to find ways to combine the different approaches with the right balance.

On the internal collaboration topic, we have our set of values which drive our culture, one of which encourages people to work together. For a few years we put a lot of efforts to promote networking and reduce classical organizational approach. We try to spice things up with support from HR: We have established communities, internal platforms and social networks.

Organization & Leadership

Looking ahead to the next 10-15 years, what other impactful transformational drivers you foresee in organizations?



CEO

If you want to differentiate and create innovative products that customers want to use, you would need to change the Way of Working. Now what are the additional needs for the next 10-15 years, on top of those mentioned above?

As I see it, the most important issue is that people's skills have to change, and in particular in two areas:

Customer Experience (CX) knowledge and design is one area which does not come naturally to corporations. In spite of efforts and many rhetoric, I find it is still quite poor in a majority of corporations. Typically nowadays the technology and the commercial sides work together, but this relationship should be a triangular one, with CX placed at the tip of the triangle.

The second issue is to develop your people's skill-set for the tools of the future such as AI, Big Data, etc. These have become "basic" tools for many trades and I see doctors, lawyers, accountants, and practically most professionals looking to upgrade their skills in these areas.

Both of these challenges have to be met on a massive scale in large corporations, especially those with legacy roots.



CFO

Networking is and has been the buzzword for the past five years. When we see how SW development is evolving and how complex it has become, we know that it will not work in a hierarchical organization anymore. For example we have over a 1000 SW engineers working on one application and it is becoming increasingly complex to ensure that all the interfaces are present, the teams communicate with each other and the sharing is done beyond the SW teams with other parts of the organization.

So I see the issue in the future to be collaborating, networking and consequently ensuring all the modern tools and concepts are used to promote this requirement and make it more efficient and effective to communicate and share information.

Organization & Leadership (continued)

Let's transition to your views on leadership: what do you see as the necessary requirements for the leaders of the future? And what do you think of the Millennial generation? Will it be an enabler for this necessary change in behaviors?



CEO

Styles vary the same way that people are different, and different styles and skill-sets work for different types of leaders. What has worked for me, and I think it will become more critical as our environment evolves, is the ability to self-organize the teams, give impetus to organizations through a vision supported by inspiration and pragmatism (simultaneously), and create the environment where people from different backgrounds come together around a common mission inspired by a common set of values.

As we look to the future, I believe the key ingredients of what you need in organizations are self-organization, inspiration and transparency. And this is what the leaders have to be able to create and drive in the future.

In that respect, I am very bullish about the new generation, because they have grown up like this, they like working this way and they don't know any other way. So yes, I do see the Millennial generation as an enabler.

In our generation (baby boomers) some people had it, but most people did not: they were looking for rule books, process maps, standard operating procedures, etc. The new generation is not like that and the future needs the new core skill of self-organization. When we were growing up, the objective was to succeed professionally and economically in the society, but the new generation is driven by purpose: "what is my purpose in life?"



CFO

Of course leadership styles and requirements vary from company to company. Some of our peers or customers have a hierarchical leadership style, whereas we have a totally different style starting with our CEO and the entire Board.

We have our value system, and believe leading is about trust and listening. We try to teach people to listen and try to understand each situation. Of course it also depends on the situation, but the faster your environment changes, the more you need to listen.

Technology, Innovation & Growth

As a C-suite executive of a global company driven on innovation, what do you see as the major issues in innovation in the next 10 – 15 years and how those issues will impact your organization?



CEO

One of the major issues that most companies, and in particular technology companies, are facing is the exponential increase in the speed of innovation development and assimilation: the speed at which the tools are changing to allow things to happen is mind boggling, and the ability to be in tune with those changes and be able to see which ones are a fad and which ones are real and start working with them becomes a key success factor.

As an example: the craze today is big data, but this will be “passé” in a couple of years because most companies will have assimilated it as a basic tool. In 2017 blockchain became a disruptor. Many companies in the Silicon Valley have been working on it in the past few months, and have been doing all sorts of innovative things around blockchains which have nothing to do with Bitcoin. I guarantee you that in a year people will say “that thing? Oh it’s done, we are moving on to this other thing”.

In my view, there is also, to a lesser degree, a geographical issue: since many of these evolutions take place in the Silicon Valley, you have to be present there to stay up to date on them and on the talents that master them, otherwise you will always work with previous generation tools.



CFO

With respect to the complexity of tools, we see that with the increasing complexity of systems, the use of simulation becomes mandatory. Yes simulation may create an overload of alternatives, many of which may not be useful, but overall the use of simulation does reduce the development cost and time.

As for the geographical issues, we can have lots of discussion on this topic, but for example, Silicon Valley is where many of the start-ups of interest to us reside, and on many new technologies of interest, the Valley is the centre of innovation, so if you are there you can grab it earlier and you get the people who are open to that. So yes it is important to be in some of those areas to make sure you get close to the technology in the early stages.

Technology, Innovation & Growth (continued)

This brings up the question of start-ups: given the pace and the quantity of new developments in tool sets, would partnerships with or acquisitions of start-ups be a way to help established companies maintain the pace?



CEO

There is no clear answer, but my own philosophy is that you can acquire start-ups to accelerate the development of your company's core, but you cannot buy your company core. The companies have to do the hard work themselves and ensure their core is in tune and is in a continuous learning mode, a mode which is spinning faster and faster. As an example, if you take Google, they are acquiring constantly, but most of that acquisition is to accelerate their development, they are not acquiring to change their core. As for partnerships, of course we encourage and promote them.



CFO

In my view, it is both. We are a case at hand: For many decades, we were a single product range traditional company. Then we started with an OEM technology acquisition and have made over 100 acquisitions in the past decade alone. So yes we used the money from the traditional business to build up a new core, and nowadays we are number 1 in many disruptive technology fields. Today we see the acquisitions as a way to fill the gaps such as in AI and cybersecurity where we are well advanced.

What is your view on the specific question of Artificial Intelligence and Big Data, and more generally about the whole Cognitive automation: is this a major game-changing step in humanity's evolution, or is it another disruption as we have seen before, such as steam engine or internal combustion engine?



CEO

I see it as a next logical step, but not yet as a game-changing evolution like electricity was, for example. AI at this time is still weak in spite of many improvements. For example, why is it that an 18-month old child can walk on the floor and avoid objects, but even our best AI powered robots (setting aside autonomous driving) cannot? Even though we are constantly improving, we have not cracked the code of how the brain works. Once we do that (Artificial General Intelligence – AGI), we have a major evolution.

Today, we are at the cusp of many things and we are going in many directions, but we do not have anything that has broken through. We do not have anything yet that matches the invention of electricity.

Technology, Innovation & Growth (continued)



CFO

The first issue in this area is to define what is AI? We have to get over the hype, because today we tend to call any algorithm that is more than $1+1=2$ an AI.

Nevertheless, we plan to have more than 1000 people in two years that are deeply educated in AI. For example, we are already working with large amount of data for cars on the road and with video films, with the aim of developing automatisms through SW for the car on the road. We also have it in processes, where for example our legal department is working on automating contracts which are now written and processed by systems. So are all these AI or just highly developed algorithms?

Finance & Capital Markets, Planning & Risk Management

We have seen the emergence of new sources of financing such as GAFAs, very wealthy individuals, sovereign funds, and so on. Do you see a major impact as a result of this emergence?



CEO

I think it is: the observation is that there are gold mines in what we just talked about, and if people want to put risk-equity at work, this is where they would put it. You have investment funds as before, but now you have countries and corporations that are saying: "I have to figure this thing out, otherwise I am out, and will not be doing very well." So now you also have sovereign funds and very cash-rich corporations that invest for the future and want to be in on the same technologies.



CFO

I would not say there are major changes in the financing due to that. The major element in the past 10 years has been cheaper debt financing and that made investment decisions under somewhat skewed calculations and deformed expectations. For the rest there is stock market listed companies which carry out financing via capital markets as before, and these capital markets are used even by sovereign funds and cash rich individuals and companies.

One related effect, however, is that the valuations for tech firms is being driven higher and a company like ours which does not have a big part of its activity in these high valuation businesses may not get the favorable financings, and this might make it more difficult to acquire additional technology.

Finance & Capital Markets, Planning & Risk Management (continued)

This brings us to another issue which is the decoupling between the stock market and investment value, economic activity and balance sheet? If everybody is racing to invest in these technologies, do we not have the risk of price explosion which will not be met by performance and we will face yet another major bubble?



CEO

I do think there is a lot of money chasing “stuff” and there is more money than there are stuff. So the valuations are very high, but is that a bubble? And if so, is it going to burst? I don’t know.



CFO

Basically this has been happening for a while now. These valuations, especially those high tech valuations, are the first ones to break down when the next crises come: we saw that in previous crises and will see it again in the future.

Currently, bond yields are very low, and there are these other “boring” companies. So investors invest in these companies with high-growth technology potentials, which are overvalued. As an example, a company supplying systems to the trucking industry that was valued at 9 times EBITDA in 2009 is now valued at 18 times and that is based on an equity story positioning it as a part of the autonomous driving enablers, and a high growth company. Many companies now transform their equity stories with buzzwords that are valued in the market, but this is not sustainable in the medium term, and the next crisis will correct this.

In this world that we just depicted with everything moving very fast, changing constantly, and where strategy is about making bets, there are risks. How do you manage them and where is the place of strategic plans and planning?



CEO

For big companies the planning process helps them organize and discipline the company, rather than figure out what the future will be. Beyond the organizing and disciplining the company, does it actually make a big difference in dealing with all the changes? Probably not, unless you are able to be efficient and agile.

At our company, for example, we have a Product Roadmap, but I tell my development people that this Roadmap is going to change every time I meet a customer and every time I see a trend. My R&D team may not like it because it can go against their DNA, but in our business this is what you have to do if you want to win. So now they are learning to change constantly (and efficiently) the Roadmap, and that change is determined by companies like Amazon and Facebook that are pushing the boundaries.

Finance & Capital Markets, Planning & Risk Management (continued)



CFO

For a company of our size and activities and markets, our risk is technology risk. In our traditional business, where technologies move slowly, the risks are medium term. In the technology sector, we have the BUs which look at the markets and the new product needs, and we evaluate and develop scenarios to finally decide if we follow the innovation or not. And if we do not follow an innovation, and it was a wrong decision, we can still have the means to acquire a company years down the line to rectify it.

For us risk management is the sum of all we are doing:

- Monthly profit and loss discussion at the board level;

- Constant dialog with our managers; and

- Risk management is also at our Technology Board where we cover systematically new trends, potential trends which we should follow or potential threats that are coming to the company from technology development.

Sustainability

In this world, driven by finance and technology, where do you see the place of sustainability? Is that coming back to the purpose and inspiration, as drivers for the young generation?



CEO

There is actually a lot of money being invested in sustainability. So yes there is the attractiveness of the purpose and the future of the planet that drives the sustainability, but it also happens that people think there is a lot of money to be made in sustainability. Just to take the revolution that Tesla has created: now many people (corporations, investors, etc..) are retooling to go after the electric and autonomous car market from many angles: applications, services, technologies.



CFO

We know from the stakeholder views and we know from the capital markets that it is getting more important. We know also that for people who want to work at our company it is getting more important. It is also important because of the environment we are working in: we are present in hundreds of sites. We publish our energy consumption and try to reduce energy usage, reduce water pollution and reduce other pollutions. All these issues will become more important and we have to pay more attention and spend more energy on them. In a nutshell, the sustainability and social responsibility are issues that you have to prove to your stakeholders that you are taking care of. It's like hygiene: You have to have it, otherwise you are out.

Epilogue – 1: Additional discussions with the CEO of the global Euro-American Telecommunication Technology Company

What is your view on the impact of new technologies, in particular AI, on the future job market? There are widespread statements about AI taking away large shares of the jobs and we are becoming basically a jobless society?



CEO

Yes this is of course a big debate right now. My view is that the world would have to go through a transition, and it is likely to be pretty painful, until the society is “retooled” and we come out of the other side. This transition will impact many jobs and organizations, but it will happen, just as it happened in the past. But I am an optimist and I think we will come out of it stronger and better.

What has changed significantly in this area in the last decade or so, is that using and knowing how to use these tools is now a necessity practically everywhere, and no one in any situation can avoid having to use them.

The transition will be difficult and we see already backlashes which have surfaced in some election results, demonstrations, etc... As it has usually been the case, the society does not know how to deal with this transition and its consequences and learning how to deal with this transition will take time. How long this transition will last? It is obviously unknown at this time, but these transitions are on a 10 year cycle historically.

Lastly on this topic, I have seen in my lifetime that every time we’ve had a transition cycle, practically every time, the leaders of the new cycle are not the same as those of the previous one, and that is also part of the unknown in the equation. It is those future leaders that will create the next set of jobs, not the leaders in the current cycle.

Epilogue – 2: Additional discussions with the CFO of the global Conglomerate with traditional and technology activities

Your company has different types of businesses: those where the technology is moving more slowly, and the technology businesses where things are happening very fast. Can you drive both of them?



CFO

We have on one hand our traditional business which is basically a consumer business with some volatility and a 4% growth rate, and on the other hand a technology business which is a disruptive activity. We like both parts because the traditional business is providing the stability in our top line and creating high cash returns, which we can use to finance the disruptive activities in our other businesses.

We leave the Divisions the freedom to run their organizations. For example we do not have one IT system for all the businesses and we let each business (the traditional and technology business) to look after it for their activities according to their needs.

We do not have one organization for the entire company either. Organizational decisions, including centralizations, are decided at the Division levels. The divisions, however, are put together in such a way that they have consistencies inside them: consistent business models, consistent technologies, consistent markets, which should naturally lead to consistent requirements for people management and collaboration.

I want to throw in a question on the SW world: in many industries we see that pure SW businesses do not necessarily make much profits, whereas, often a little hardware (HW) or device differentiation creates system profits, even if 80% of the system is SW based. What is your view on that?



CFO

A case in hand: a few years ago one of the rental car agencies developed a Customer Experience strategy in which the client did not even have to check in or out with the car - the reservation, car identification, car opening, starting and everything else was done through smartphone and SW. While many companies worked on the SW (as we did) and developed all the necessary features in the workflow, one main advantage was the supply of a chip that enabled the car-lock interface and the advantage was that all the developers had to interface to the hardware and the embedded SW.