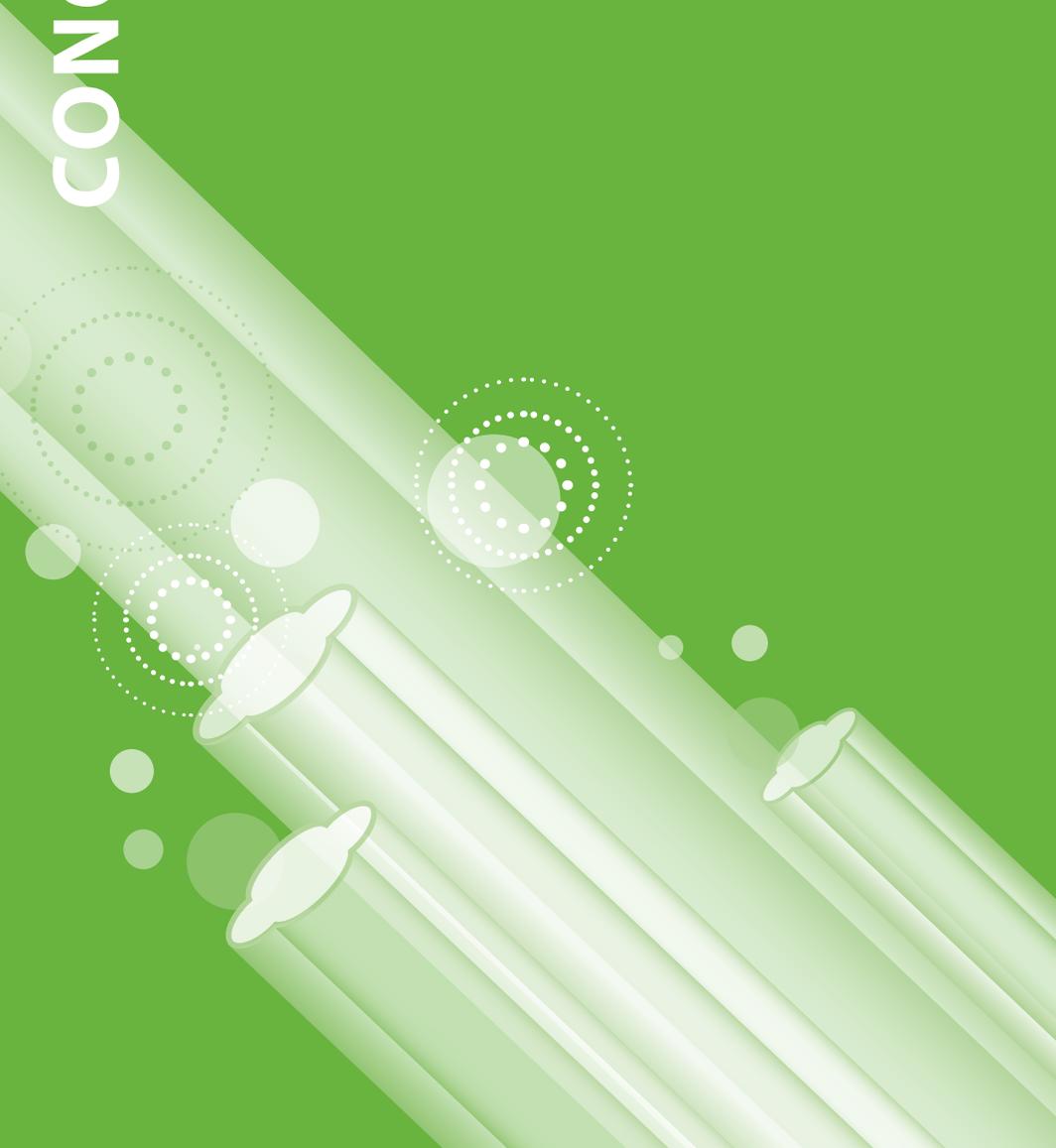


CONCLUSION

**Executive Traits for
Recognizing the Bountiful
Opportunities Ahead**



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Industries are being reordered today by the confluence of four technologies: cloud computing (which makes supercomputing power affordable even for startup firms), artificial intelligence (which ups the IQ of products, people and processes), big data and analytics (which turn operational chaos into coherency), and the internet of things (which lets us track products, people, customers, and premises around the clock/around the world).

But why do so many companies ignore the transformation that is happening now around them? In their new book, MIT professors Andrew McAfee and Erik Brynjolfsson argue (as Kuhn did about scientific revolutions) that it is difficult to change long-accepted beliefs. “Existing processes, customers and suppliers, pools of expertise, and more general mindsets can all blind incumbents to things that should be obvious, such as the possibilities of new technologies that depart greatly from the status quo,” they write in *Machine, Platform, Crowd: Harnessing Our Digital Future*.⁷⁰ It’s why “so many of the smartest and most experienced people and companies ... [are] the least able to see” a transformation that they won’t escape.

⁷⁰ Andrew McAfee and Erik Brynjolfsson, *Machine, Platform, Crowd: Harnessing Our Digital Future* (W.W. Norton & Company), published June 2017. <http://books.wwnorton.com/books/Machine-Platform-Crowd/> Accessed July 28, 2017.

Is such blindness avoidable? I think so. To do so, senior executives need to sharpen or develop five traits that may have sat dormant in them, but which I think reside in all of us. These traits helped the executives running three of the

most successful companies of the last 10 years—Apple, Amazon, and Netflix—rapidly recognize the potential of AI and automation, cloud computing, IoT and big data and how they would transform their businesses. Those traits are:



1. An abundance of imagination:

About new businesses to be in, and new ways of doing the business they do today.



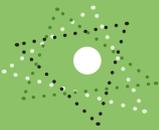
2. A voracious appetite for new and clashing ideas:

An unquenchable thirst for new concepts they hadn't thought of, and having arguments that lead to better concepts.



3. A relentless focus on increasing value to customers:

And checking their pulse frequently to see they're getting that value.



4. Extreme calmness in the face of rising competition and market chaos:

Not taking their eyes off the prize—i.e., giving customers increasing and unprecedented levels of value—while competition breathes down their necks.



5. Being sentimental about top talent but unsentimental about what they do:

Recognizing which people are most valuable in the organization, but not letting that stop the company from automating and outsourcing their jobs and reassigning their key talent to new, more important positions.

I'll explain each trait and why the confluence of the technologies I mentioned puts them at a premium today in the C-suite. To illustrate them, I'm going to show how they played out at Apple, Amazon, and Netflix:

- Under Steve Jobs, **Apple** transformed itself from a failing maker of desktop computers to a mobile device and computer company that has redefined the music, media, photographic and telecommunications industries. Rejoining the company in 1997, 20 years ago when it was nearly bankrupt, Jobs had lifted it to more than \$100 billion in annual revenue and a net profit of \$26 billion at the time of his death in 2011.⁷¹ Since then Apple's revenue has doubled again, to \$214 billion in 2016, under CEO Tim Cook.
- Since 2006, Jeff Bezos has been expanding **Amazon's** business beyond online retailing to cloud computing services. This year, AWS' revenue is on track to exceed \$16 billion, and its operating income is larger than that of Amazon's retail business, even though its revenue is eight times greater than AWS'.⁷² Perhaps better than any other company, Amazon acted early on the convergence of cloud, big data, and automation. Said Werner Vogels, the firm's CTO: "Amazon Web Services was always considered a business by itself, with the expectation that it could even grow as big as the Amazon.com retail operation."⁷³
- Reed Hastings has presided over two transformations at **Netflix**: Its switch from distributing movies through the mail to streaming them online, and then getting into movie and TV programming business itself. In 20 years, Netflix has gone from a startup to almost \$9 billion in annual revenue, with a market cap in July of nearly \$80 billion.⁷⁴

While the stories of these companies are well-known, the five characteristics that their executives share aren't as well-understood. Here are those traits, and how they helped their leaders dissect the vast opportunities of a new technological wave.

⁷¹ Apple earnings press release. <https://www.apple.com/newsroom/2011/10/18Apple-Reports-Fourth-Quarter-Results/>

⁷² Amazon second quarter 2017 earnings press release. Accessed July 29, 2017. <http://phx.corporate-ir.net/phoenix.zhtml?c=97664&p=irol-newsArticle&ID=2289566>

⁷³ Quora.com post by Amazon CTO Werner Vogels. Accessed July 29, 2017. <https://www.quora.com/How-and-why-did-Amazon-get-into-the-cloud-computing-business>

⁷⁴ Wall Street Journal. Accessed July 29, 2017. <http://quotes.wsj.com/NFLX>

The Imagination to See What Others Didn't



Netflix founder Reed Hastings launched Netflix 20 years ago knowing that the technology of that time to distribute movies was going to change dramatically after the proliferation of high-bandwidth Internet networks. In a recent interview with venture capitalist Marc Andreessen, Hastings explained that putting DVDs in the mail was a weigh station to a streaming future.⁷⁵ “We always viewed the DVD by mail as a digital distribution network.” The product—movies encoded in digital form on disks—were in fact digital. When it was technically and economically possible in the last decade for those digits to be shipped online, the Netflix business would need to change. In comparison, his earliest big competitor (Blockbuster) was run by executives who “fell in love with stores,” Hastings says.

Says Hastings, “That’s why we called the company Netflix rather than ‘DVD By Mail’ or that kind of thing. We had the slight advantage that we would not fall in love with our first business.”

Netflix also had the imagination to predict that it couldn't remain only a movie and TV programming distributor. Cable and telecommunications companies were wiring up their communities with broadband, and they'd be able to distribute the same fare that Netflix could. Netflix had to also be in the “content” business—creating its own TV series. In fact, last year the company spent \$5 billion on such programming, and said it would spend another \$6 billion on it this year.⁷⁶

⁷⁵ Andreessen Horowitz website. Hastings and Andreessen interview can be seen here. <https://a16z.com/2017/02/25/reedhastings-netflix-entertainment-internet-streaming-content/>

⁷⁶ *Wired* magazine, January 20, 2017. <https://www.wired.com/2017/01/netflix-investing-original-shows-finally-pays-off/>

In other words, the top management at Netflix had the imagination to know that they had to transform their offerings beyond renting movies that are produced by other firms. They knew at some point they had to be in the movie and TV show production business too.

All in all, Hastings and his team had the imagination to see where their business was headed, and they acted first. Netflix has more than 100 subscribers now to its video streaming business worldwide, half of whom are outside its U.S. base.⁷⁷ Blockbuster, which didn't have the imagination to see and action on the future, is long gone.

Hastings realizes Netflix's success can be a damper on imagination at his firm. But he knows he can't fall into the trap. As he said to Andreessen: "The lack of imagination amongst us leaders can be very high. It's easy to look at guys like [Ken Olsen, the founding CEO of Digital Equipment Corp.] and say, 'What idiots!' But, in fact, they are us."

Jeff Bezos also recently lamented the lack of imagination across industries about the opportunities for companies. He believes big technological trends are easy to identify but "strangely hard for large organizations to embrace." Bezos pointed recently to a big trend that is "an obvious one right now"—machine learning and artificial intelligence. Amazon has been experimenting with putting machine learning to use for years—for example, in its delivery drones and Alexa cloud-based AI assistant.⁷⁸

⁷⁷ Story on Netflix in *Variety* magazine, July 17, 2017. <http://variety.com/2017/digital/news/netflix-q2-2017-earnings-1202497619/>

⁷⁸ Amazon video of Bezos internal speech, dated April 12, 2017. Accessed July 27, 2017. <https://www.amazon.com/p/feature/z6o9g6sysxur57t>

A Voracious Appetite for Compelling and Competing Ideas



The C-suite of any company is not likely to be as imaginative as it needs to be these days if only one person—the CEO—is allowed to do the imagining.

According to Steve Jobs' appointed biographer, the co-founder of Apple and the firm's lead transformer of the music, computer, cellphone, and other industries was not some lone inventor who dreamed strong ideas and told others to execute them. He sought out team members with great ideas—and the fortitude to convince him they were right. "I can tell people in a meeting that they're [wrong], but they can bark back at me and tell me I'm [wrong]," wrote Walter Isaacson in Jobs' biography.⁷⁹ "And then we have the most rip-roaring arguments, and that's why we work together well."

"We have wonderful arguments. If you want to hire great people and have them stay working for you, you have to let them make a lot of decisions and you have to be run by ideas, not by hierarchy. The best ideas have to win. Otherwise good people don't stay."⁸⁰

Jobs and his Apple executive team had many heated debates about company strategy, what products to pursue, and so on. But Jobs made sure his ideas didn't stamp out the concepts of others. Before he died, Jobs told a technology conference that great ideas—and internal debates about them—were paramount in companies, no matter where those ideas came from: "We have wonderful arguments. If you want to hire great people and have them stay working for you, you have to let them make a lot of decisions and you have to be run by ideas, not by hierarchy. The best ideas have to win. Otherwise good people don't stay."⁸⁰

⁷⁹ Fast Company interview with Walter Isaacson. <https://www.fastcompany.com/1790791/steve-jobs-biographer-apple-founder-was-driven-simplicity-mystical-thinking-and-occasional-l>

⁸⁰ Steve Jobs' conversation with Walter Mossberg. <https://www.youtube.com/watch?v=f60dhel4ARg>

Great ideas for the future—not those of the past—were what Jobs cared about. Said current CEO Tim Cook, “Another thing Steve taught us all was not to focus on the past. Be future-focused. If you’ve done something great or terrible in the past, forget it and go on and create the next thing.”⁸¹

A Relentless Customer Advocate



Jeff Bezos has had a laser focus on investments and improvements that have kept Amazon’s customers loyal and buying even more from the company. As he said in his 1997 letter to shareholders, “We will continue to focus relentlessly on our customers.”⁸² Amazon’s growth speaks volumes to the promise that Bezos has kept since then.

The way Amazon views the technology convergence that’s now upon us is through the lens of customer value: how can cloud, AI, automation, and IoT help the company generate unprecedented value for its global customers. From the start of his company, Bezos has avoided getting distracted by the technologies swirling around it. As he told a large employee group this spring, “There are many ways to center a business. You can be competitor-focused. You can be product-focused. You can be technology-focused. You can be business-model focused. And there are more. But in my view, obsessive customer focus is by far the most protective of [long-term] vitality.”⁸³

⁸¹ Macworld article, Oct. 5, 2012. Accessed July 29, 2017. <http://www.macworld.com/article/2011277/a-year-after-steve-jobs-death-as-we-should-have-expected-its-the-same-apple.html>

⁸² Visible blog post, Feb. 23, 2016. Accessed July 27, 2017. <https://visible.vc/blog/investor-letters-amazon-1997/>

⁸³ Amazon video, accessed July 28, 2017. <https://www.amazon.com/p/feature/z6o9g6sysxur57t>

Exuding Calmness in the Storm



Tumultuous market changes can distract an executive team. Bezos' "true north" amidst his company's technological and competitive storm has always been the customer. Netflix founder Hastings too has found it necessary not to worry incessantly about what competitors are doing, even those with much deeper pockets.

"People say things like 'only the paranoid survive,'" he said, repeating the title of a book by Andrew Grove, the legendary ex-CEO of Intel.⁸⁴ "It encodes a truth in a way but it oversimplifies it because paranoid [people] are delusional," explained Hastings. And when executives get delusional, they "get totally distracted on the wrong threats," Hastings said.

He should know. When Netflix's primary business was distributing movie DVDs through the mail, its competitors were much bigger companies with bigger coffers: Blockbuster, Walmart, and others. "Suddenly, we were up against much larger companies. We got through it by not getting psyched out but by focusing on improving service," Hastings said in his interview.⁸⁵ "We spend a very small amount of time thinking about the competition and most of the time about improving our service, because there is nothing we can do about the competition."

That is, Hastings has remained calm no matter how many competitors there are today and on the horizon.

⁸⁴ Andreessen Horowitz website. Hastings and Andreessen interview can be seen here. <https://a16z.com/2017/02/25/reedhastings-netflix-entertainment-internet-streaming-content/>

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Loyalty to Great People, But Not to Their Current Jobs



One of AI's greatest challenges for big companies is this: Making sure their most valuable people don't leave because of the fear their jobs will be automated.

One of the least recognized characteristics of the leaders at Apple, Netflix and Amazon has been their ability to retain valuable people, even if those whose jobs had to shift.

Steve Jobs stayed loyal to the executives who had helped him at Pixar and NeXT. He took many of them with him when he returned to Apple in 1997.⁸⁶ And many of them stayed as Apple evolved from a computer company to a computer, digital device, smartphone, and music distribution company.

The ability to recognize talent and redeploy it when the work and products of a company must change will be an increasingly important one in a world of AI and automation. Top executives must be unsentimental about the work of the organization that can be improved by being automated or outsourced. However, they must be sentimental to highly valuable people who occupy those jobs and are ready to put their talent into something new.

The five traits of abundant imagination, a hunger for ideas, an unrelenting focus on giving customers more and more, staying calm in the competitive storm, and staying loyal to great people but not to their old jobs are now vital in just about every large company. If you have them, they will go a long way in helping your firm to transform itself and pursue the immense opportunities ahead.

⁸⁶ New York Times, March 17, 2015. Accessed July 27, 2017. https://www.nytimes.com/2015/03/17/opinion/joe-nocera-the-hidden-talent-of-steve-jobs.html?_r=0