

# EuroMechanical Jon's Panel with William Malek 2

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## SUMMARY KEYWORDS

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### 00:00 Speaker 1

I predominantly been in the Middle East since 2004. And I relocated to Abu Dhabi in 2018. It's been a great journey. But it's not about me, it's about the panel and also the audience that we've assembled today. So the panel, we've got different diverse perspectives. So we have two somebodies from Super majors. We have international service companies. And we have a former programme director and lecturer from Stanford University. And from the executive development programme that we're here to discuss the topic, but really want you to engage us in the topic as well. So all of this, whatever is happening is going to impact us all. So without further ado, I'm going to let the other people present. And the first speaker to the stage will be William Malik. And if you didn't know who the Stanford director was the next William, so William, please come up to the stage. Thank you very much. Thank you, John.

### 01:06 Speaker 2

Okay, there we go. Welcome, everybody. This is my first ADIPEC conference. And with every good story, there's a beginning, my beginning of this information I'm going to share with you actually started three years ago, I got a call from a highly successful company. As you can see, by the quotation, you read a recent book of a company that's growing at 22% compounded annually for the last 10 years. But what was more extraordinary is the fact that this company was growing in gross margin at the same rate. And the the, if you were in Strategic Finance, recognise that this is extraordinary to have that kind of growth, but also in profitability. They approached me and they said, Could you apply your knowledge of strategy and execution? You've been teaching and researching for 10 years? And tell us how you see our business model? I said, Sure. Usually, I would do this for consulting fees for you know, and it would take me a week with my team to kind of dissect what are the challenges in organisation, this took me seven months, it was so extraordinary, I was profoundly impacted by what this business was doing in a world that is changing rapidly, but they were able to keep up with the rate of change outside of them, as a company is called Haier. And essentially, I'm going to share with you the principles that they use in their business ecosystem strategy. So this is not just market based strategy. This is also about their operational model that matches the capacity to keep up with speed, and uncertainty in the marketplace. There are seven things I'm going to share with you in this very short period. This is the work I'm going to share with you right here there are seven factors, what are called levers. This is the work of Donella Meadows from the late 90s. If you want to change your system, you want to change your company and you want to truly do transformation, you need to recognise what are the levers in the

system, you should optimise in order to change the system to produce different outcomes. And so there's seven things we'll talk today about the first one is the goal. The goal is actually fairly significant. You'll see here in a minute. The second one is big picture thinking. The third one which is actually core to the the business model of Haier, which is a business ecosystem strategy, which is about micro enterprise teams, so very decentralised, autonomous type of organisation, the largest white goods manufacturer in the world. And last month was ranked as the I think the third most valuable company in China. The fourth thing gets now to the operational side of the organisation is how you design your organisation to distribute value. The fifth thing is how do you look at your organisation now from a proof systems perspective, is actually linked to the outcomes you're driving with your customer. The sixth one is to create to regenerate. So here's where the sustainability issue comes in. Here's how they build in circularity, if you would, into a business model in the market and actually create value. And the seventh one is about basically focus on value creation, internally is as much as what is delivered externally in the organisation. So there are seven things here and there are seven shifts that you need to kind of think about in order to begin to ponder how can a company that's \$32 billion in size continue to grow at this rate. This is just stunning when you look at the size and sheer capacity of the ability to grow and change at this rate. One of the things I'll come back to the slide in a second I see. My slides can actually be reordered here. There are seven things and I'm going to frame real quickly for you. The front To the front two of the first one to change, the goal is we must move out of the thinking that it's all about growth, and that we get measured on GDP growth, etc. in the marketplace. And Haier, it's the growth of the value of lifetime value creation. For the customers, they actually go after a market and a customer base, not for a transaction, but for lifetime generation of value to be with that customer on a much longer period over time. And so one of the things that we talked about is changing it from, we're going to grow to let's thrive, the shift of mindset is thriving, but thriving in the context of making sure that whatever we do, is within the capacity of the biosphere, to maintain itself to sustain itself. The second issue is basically generating what we call the ecosystemic. mindset. And that is about moving from, I've got a product to sale, and I get my margin, I report it to my board, and I love my margin that I have in my business or spend my product or service in this market. In this model. ecosystemic strategies are about approaching the market in a partnership with Win Win, including sharing, sharing, revenue, sharing value, with the customer, customer buying from you, but you actually end up sharing the value back with a customer that is CO creating with you this lifetime value. The third thing I mentioned before, this is what we what I call from the rational economic man to creative, independent, human. So it's a human centric approach. John, remember CEO, if you asked him what is the strategy of my company, he said, is to expand human creative potential. That's it. He doesn't talk about full integrated IoT services in the marketplace, he has come to the point to realise that expanding human creative potential is the strategy. If you focus on that, everything else will work itself out quite fascinating when you think of the shift that's required to do this. And in his model, it's about are we doing it with compassion? Are we doing this to sustain our relationships with our customers to sustain the environment to sustain the kinds of things that we we look at. And go back. And then quickly, for the last four, this is really the operational model. This is where the business itself is operating are the principles of ecosystemic design or CO sharing, which I already mentioned. The other one is we're moving from everything's got to be mechanical planned out from a central sort of strategic planning standpoint, to a decentralised customization at the local level, I call it globalisation, for products and services are packaged for delivery to value with the customers that you are trying to actually serve. And this is essentially requires you to let go of the need to control this is not an easy deal. Haier's major shift

was about seven years ago, or so. And they laid off 12,000 managers, there are now about 100,000 plus employees. But there are no managers and management at Haier, which is pretty stunning when you think about this.

#### 08:27 Speaker 2

The sixth thing is basically zero strategy, which is be it through a distance to your customer to understand your needs. And oh, by the way, let's design zero waste in the system, the entire supply chain from source to the market. So the issues of circularity are actually built into the business model. And then finally, the orientation of value creation is not about being addicted to growth and financial projections to the market and trying to beat the market, etc. It's basically to grow with your ecosystem, grow with your partners, if they fail, you fail. So it's a very strong Win Win mentality that goes all the way through to the customer, as I said before, they actually share the value of the co creation with their customer. So with that, I'm out of time. And I'll just basically make one other comment. The reason I believe this is extraordinary is the time that we see now in the transition. This is last year, these are venture capital startup companies in the renewable area. And if you think about 5000 venture capital companies coming up the energy industry, first of all, the good news is based on statistics, 4500 of these are going to fail, right? This is the nature of venture capital, etc. But for the ones who are going to come into the market. There are some here that are going to displace your businesses. They're going to rise fast enough they're going to be exponential. They're going to be significant enough we have to pay attention to this And now the question becomes how do we adjust to partners that may be on this list that we should be engaging with. But I have to change the business model to do this. I've already commented on this with respect to the biggest challenge that I see in organisations is the ability to understand you almost need two models to structures that have to work simultaneously as you make the transition to model it's much more if you would decentralised, autonomous and Haier was actually rank or qualifying as the first quantum organisation in the world by a well known physicist recently. So my conclusion and sharing with you today is, there's three things you have to understand management model innovation, that will drive an ecosystem type strategy. It's not the market, you can't go in the market with it, it's your operational capacity needs to mimic what you're trying to deliver for value in the marketplace. But it takes leadership to open that door. You can't do it without a Jungleman single biggest challenge was, what do I do with 12,000 managers that need to become entrepreneurs? Fascinated the discussion of change and thinking had to occur for the business to work. So with that, I'm going to say thank you for indulging me a few more minutes beyond my time. And John, I'm gonna give it back to you.

#### 44:38 Speaker 1

Perfect. Thank you very much. Thanks, William. We heard a lot about companies restructuring has a lot about different either hierarchy of networks. You talked about business ecosystems. Why business ecosystems?

#### 44:58 Speaker 2

If you look at the larger picture You're, and you have enough foresight to see what's happening. And you look at the top seven market cap companies now they're all businesses, Apple, Google Amazon. The understanding for some is that if you are an actor or an orchestrator within 10 years, your relevance will be questioned. And interestingly, it is not about capital, it's access to human talent, that is

going to be potentially the driver that moves that talent into those ecosystems, where autonomy will become the most important thing for a person to make a decision about where they work, how they work, etc. And now with thank you to COVID, we now begin to see that remote working, you know, I met a team here that they don't even have an office, there's so significant in the energy business, but they're all over the world. And I think you even mentioned you have, some of you now have access to the best talent in your organisation you never had before, simply because of the shift that's going on. So I personally believe that if you are not remaining relevant to the emergence of these existential shifts going on, it's going to be a problem, you're going to have a sustainability problem, if not, the market is going to respond and start putting you on a short seller list which nobody wants to extra. So I believe it'll be a very contrasting buy for the next 10 years, as we see that dynamic flux, uncertainty shifts are gonna go on, you have to begin to consider business models that allow you everything that's been discussed during this agility orientation is going to be critical. So long story short, get ready.

\*other speakers answering other questions\*

1:06:24 Speaker 1

Willie, do you have anything on that, especially bringing people to, to the energy sector?

1:06:48 Speaker 2

Yeah, I'll maybe I'll reflect even though Haier is a white appliance company make frigerators stoves, these kinds of things. They have 4300, microenterprises, squats, different name. But the thing that keeps the teams together is they have a they have a stake in the outcome. And if the value is delivered, the awarded proportionately, so you can fundamentally trig wealth through the work that you do. And there everything is incented, towards generating Win Win outcomes in the market and throughout the value chain. And what they find it quite significantly, as you might understand, the young people line up to come into these teams, because they can see a pathway where they're rewarded for what they're doing. And this is very different. So you can come in and the company is set up, they say the secret sauce for decentralisation is get your financial investment strategy right into the people that are there. So they have zero problem or retention throughout the lifecycle of the project. Because you can imagine even in an energy project or a product or in the market, keeping the team together is going to go through phases. And you're going to need different skills depending on where the project lifecycle is to sustain the ultimate delivery. So in the case of these microenterprises, the intrinsic motivators are, if we do well, we will self evolve, and we are rewarded directly, but didn't contract at the time that the value is delivered. So there's forget about waiting five years for your career performance bonus, and these kinds of things. It's happening as they are actually performing. And what they find is the young talent level, they want to stick around and they know that they can actually make some good money, but they're having fun. Because remember, the strategy is expanding human creative potential. And it brings out a whole different worker, if you will, into the mix. And I argue that it's whether it's energy or any project that when you can tap that kind of intrinsic they'll stay around. Interesting is another question here.

1:10:12 Speaker 1

William, do you want to talk about ecosystems in the context maybe of the title of the managers.

#### 1:10:24 Speaker 2

So there are no managers in management. In a \$33 billion company globally, this is not just China, it's they're everywhere, Europe, the United States, they bought GE appliance for, you know, four plus billion in cash. And the management has gone into thank you to technology, they have built the reason, we hire managers to help control risks to control our execution, risk, or financial, it's keeping the team together, if you think of all the things that a manager is tasked to do, these things have become embedded in an ecosystem of support. So think of shared services, essentially, becoming automated. And what Haier did is put their money into investing. What are the things that make the role of managers do that can be automated, so there was zero delay for decision, zero delay, and meeting the needs again, of the customer, because they're, you're there to create value, you're not there to, you know, comply to regulations that keep you from doing your job, etc. So the challenge, I think, with management, is how to use technology to provide so Haier does have a risk profile, they have a risk compliance, but it's built into how do you form the project, what's required upfront, how will you report etc. And there are indicators that keep the team moving forward, in the same way that it would be if there was a manager there. So it isn't that there, the management function is still there. But it's now essentially in a digital form. But a smart digital forms smart contracts form, the base of these project teams is 4300 teams to operate without 12,000 managers. So you can imagine the speed that you can take up if all that is happening in a decentralised autonomous way, but still, with a coherence towards a strategy of creating value in the marketplace. So I'll stop there, I could go on. But this was one of the most profound things by it took me seven months to figure out, how are they managing an organisation without managers and I come out of a project management portlet. I taught advanced project management for years, and I really, I had to come to my own realisation that I was going to existential Oh, my God, I have an unlearned 30 years of academic schooling, and, you know, project management to go. But as the project manager, do, you know, what's the real function there? So I'll stop there.

#### 1:12:53

Thank you so much. So you scripting some notes? So I guess you've got some input?

#### 1:17:14 Speaker 1

So just a quick word from everybody on, you know, the people and the mindsets. Are we growing them? Do we have enough of them? And is there a major change from how people used to lead, say, 10 or 20 years ago? Thank you.

#### 1:18:38 Speaker 2

So that's a that's a big order. And we'll talk about you know, who's mindset? What does it look like what work, etcetera means the cultural piece of this, but what I'm reminded of, you know, at Stanford, what's very interesting, they have the cream of the crop. They get some of the smartest kids in the world to come there and apply. They're very smart, smarter than me, I will say that for sure. But interested in their metric of mindset is how fast can I get out of the university because they usually go there because their father or mother said, you're gonna go to Stanford. They're not driven by purpose. They don't know what their purpose is. And this is one reason why at Stanford, you get two years you don't declare a major, they force you to go explore across all the all the different schools. What I find interesting in

the engineering department, which tends to be heavy technology, etc, is that their mindset is, am I going to join a company that has purpose? Because they see now thank you to iPhone and Google and everything else. They're seeing information, the level that I didn't see when I was in university, for sure. And they're exposed to far more the dark side of what's happening and they want to contribute. They want to make a difference because they know they have the mindset, the skill, the thinking capacity. and their orientation join a company is what are you doing to change the world. And if that's not there, you can pretty much they just write you off because they've got eight offers on the on the table to go in different places. So one thing is the mindset is, is there a purpose to attract the mindset of people that do want to make a difference in the world? If not, what you end up happening is I call eight and hit the gate, oh, it's five o'clock, it's time to go home. And as we know, high performing teams don't even look at their watch. And I'm exaggerating this to a degree. But I'm giving you the mindset issue, just as a basic thing that I see. And a lot of the engineers you know, what their first they consider successes, how soon are they in their first startup, because they know that the learning rate will be far faster, that they're actually doing a real project than sitting in an academic course talking about, you know, metallurgy, and you know, you name it. And this is why I think education has to go through a fundamental transformation as well, for us to to achieve what we are talking about here. It has to, because it's not producing the kind of knowledge and capability that the system is going to require to change.