

Speaking Remarks

Patrick Hylton – NCB Group Managing Director

PSOJ Breakfast – July 28, 2015

Good morning and welcome ladies and gentlemen,

It is a pleasure to host this month's President's Forum. These forums are important for the sharing of new ideas and best practices, for fostering collaboration and building and maintaining strong relationships within the private sector. As a result NCB is happy to and continues to support the PSOJ in this worthwhile endeavor.

The theme of my remarks this morning is ***Mission It's Possible: Disrupting Yourself to Enable Transformation***

I want to set the tone and provide the context behind the *Mission It's Possible* part of my theme by sharing the story of Apollo 13. Apollo 13 was the third manned mission in the American Apollo space programme intended to land on the Moon. It was launched on April 11, 1970, but the lunar

landing was aborted after an oxygen tank exploded two days later. Despite challenges caused by limited power, loss of cabin heat, shortage of potable water etc., the crew returned safely to Earth on April 17. I recently had the privilege of attending a conference where the Commander of Apollo 13 Mr. Fred Haise was one of the presenters. There were many things Mr. Haise said which were insightful and inspiring. One of the most profound points he made however was to hold up a smart phone and point out that the phone in his hand had more than 100 times the computing power of the computer used to launch and sustain Apollo 13 in 1970.

So if they were able to take a space craft into outer space and safely back on earth after an aborted mission with less than one hundredth of the computing power in this phone, we lack no technical resources to complete our transformations. It is indeed possible.

There are however some important other lessons to take from the American Apollo space programme to successfully jumpstart our own transformations. Apollo 13 has often been referred to as a successful failure. There are good reasons for that description but more on that later in my presentation.

The second part of my theme today speaks to disruption. In my remarks last year, I discussed transformation being a key enabler for growth. The need to transform today amidst unprecedented change and volatility is impatient of debate. Digital technology has changed the competitive and consumer dynamics for all industries. Barriers to entry are lower, global boundaries are diminishing and the level of interconnectedness is high and customers are increasingly informed and demanding. We know that we need to transform. Today I posit that disrupting ourselves is a key enabler of transformation.

I recently read a definition of transformation by the Boston Consulting Group which said it is a comprehensive change to one's strategy, operating model, people and processes. So what this means is that, your organisation must look fundamentally different tomorrow than how it looks today. It means that you must be willing to disrupt yourself before you are disrupted. We should also avoid the tendency especially for entrenched organisations to see transformation as a defensive action rather than seeing it as an offensive and opportunistic one.

The lack of willingness to proactively and intentionally disrupt ourselves is in my view the biggest obstacle to meaningful transformation. Disrupting ourselves leaves us feeling uncomfortable, anxious, vulnerable, and afraid. We may even feel that disrupting the status quo is an indictment on our own leadership and success. No one likes to feel this way, but it is exactly these feelings that are the indicator that you are on the verge of being truly disruptive and

transformational and it takes courage to take this leap. But courage is a big part of what leadership is about.

The great Nelson Mandela said it well and I quote “I learned that courage was not the absence of fear, but the triumph over it. The brave man is not he who does not feel afraid, but he who conquers that fear”.

How many of us can say that our organisations today look fundamentally different than they did five or even ten years ago? If this generation’s experience with your business is essentially the same as the prior generation, then your business has not transformed. As an example, in some countries, children have no idea what a landline phone or PC looks like because they have only experienced mobile phones and tablets. Children born today are not likely to ever use a jump drive or physical storage, because storage will all be in the cloud. In Sweden, the younger generations have likely never seen a cheque because this is now obsolete in Sweden and cash is quickly going in the same direction.

Less than 30% of transactions are in cash. They are all by card or mobile phone.

Banks in many societies including ours are guilty of not truly transforming but that has to change. It is something we recognize at NCB and that change process has started and will continue. Apple and IBM are two companies that have successfully reinvented their business models and created significant value for their shareholders and companies. Meanwhile Kodak, once synonymous with photos, invented digital technology, failed to transform and became disrupted by other players.

So what are the Key Lessons for Disrupting Oneself for Transformation

Lesson 1: The right mindset is the first and most crucial step. Disruption of our own business model can and should be proactive.

Lesson 2: It's not about the technology

Lesson 3: Things will go wrong sometimes but that's okay

I. The right mindset

The right mindset can be summarized in two simple statements:

- My company needs to continuously transform beginning with me
- I will ensure we transform in spite of challenges because there are and will always be many challenges.

The most important step that a leader can take is recognizing the need to transform. The same article I read by BCG speaks to true transformation being pre-emptive – or changing before the change is upon you and it is too late. Jack Welch said *“If the rate of change on the outside is greater than the rate of change on the inside, the end is near”*. Let me share a few mindsets that prevent us from taking proactive action.

How many of us are guilty of the following?

- 1) Delaying change because we believe our customers are not ready
- 2) Thinking that we are cushioned from disruption because of our existing size, market share or regulatory protections?
- 3) Thinking we have time to change because we are in Jamaica and we are only seeing the changes in developed markets

These are all dangerous mindsets and failure to shift them will be at our own peril:

Dangerous mindset 1: Delaying change because we believe our customers are not ready

Kodak believed this myth. They were using existing sales of film as the indicator that customers were not ready for digital. Steve Jobs is infamous for saying that “customers don’t know what they want”. If you believe there will be value for consumers, then you just have to believe and push forward. We also have to be careful about using our own

personal biases as the basis for determining what our customers want. There is evidence of many bad predictions that show this danger.

- In 1968, an article in Business Week said *"With over 50 foreign cars already on sale here, the Japanese auto industry isn't likely to carve out a big slice of the U.S. market."* –
- In 1876, Sir William Preece, chief engineer of the British Post Office said *"The Americans have need of the telephone, but we do not. We have plenty of messenger boys."*

Dangerous mindset 2: Thinking that we are cushioned from disruption because of our existing size, market share or regulatory protections?

Blockbuster

Blockbuster was the largest and most profitable video rental company with nearly 60,000 employees and over 9,000 stores before competition from Netflix and Redbox led to loss of significant revenues and filing for bankruptcy protection in September 2010. Disruption can come from

unexpected competition. Disruption can also come from changing regulations which allow new entrants into your market or changes pricing dynamics. I like to say to my team that your past financial performance is exactly that. It is the past. It is history and no predictor or guarantor of future success. That is predicated on the decisions and strategies you make in the present regarding your future.

Uber

Uber, launched in 2009, allows users to arrange for limousines and, in some cities, taxicabs, using a smartphone app. Uber works with existing licensed drivers to help keep already-rolling vehicles busy transporting customers. Riders can track the location of their dispatched drivers using GPS, and pay directly on their phones. They can also rate the drivers. This all leverages standard existing technology that existing limo and taxi services would have access to. Highly regulated taxi and limousine companies have responded to Uber by trying to lobby to get Uber banned, versus investing in improving their own services and offerings. To date, these

efforts have not been successful and these companies continue to lose market share.

Existing competitive advantages are disappearing. We cannot be complacent.

Dangerous mindset 3: Thinking we have time to change because we are in Jamaica and we are only seeing the changes in developed markets

Many of our innovations in Jamaica have been “me too’ in nature. We see it in another market and we copy it. The beauty of the digital age is that innovation and progress does not need to be led by companies or individuals in developed markets. Anyone can develop the next billion dollar mobile application.

We must suspend the thought that we need to look to developed markets for innovations. We can look to emerging markets or even take the lead on innovations and disrupting our own business models.

WhatsApp

While WhatsApp was not invented in a developing market, it was its rate of adoption in developing markets however that made it attractive to Facebook and worth the \$19 billion valuation paid for it in February 2014 less than five years after it was launched. At the time of the purchase WhatsApp had 470 million monthly active users with a high engagement level as measured by the fact that greater than 70% used the application every single day. It was estimated that WhatsApp had by then erased \$33 billion in SMS revenues from wireless operators. It was only after the Facebook acquisition that WhatsApp became popular in more developed markets.

In January 2015, WhatsApp was the most globally popular messaging app with more than 600 million active users. In April 2015, WhatsApp reached 800 million active users. At its current rate of growth it should pass the 1 billion user mark before the end of 2015.

WhatsApp is now moving from messaging to voice. Voice minutes are already falling across the industry. Expectations are that mobile network revenues will contract for the first time by 2018.

So I recap that the first lesson and most important lesson is that it starts with our mindset. I need to transform and I will in spite of any challenges or myths. Without that, everything else is irrelevant.

II. The second lesson is : It's not about the technology

Technology is a great enabler, but not a prerequisite for transformation. If they could safely land the Apollo 13 back on earth with significantly less computing power than we have on our phone, then in most instances, we have all the technology that we need to transform our organisations. I go back to the Uber example. They disrupted the taxi services market leveraging existing technology – Smart phones and internet. The BCG definition that I mentioned earlier does not include technology in its definition. Transformation is defined as a comprehensive change in strategy, people,

processes and operating models. The lesson is that we cannot constrain ourselves or delay our transformations because we believe we have to install lots of new technology that may become obsolete in any event by the time you are ready to implement. Focus on the mindsets, and the changes that need to be made to your strategy, operating model, people and processes, then the technology you need will follow.

III. The third and final lesson is that things will go wrong so don't delay waiting for perfection

Things may even blow up as we saw with Apollo 13. We have to be comfortable with imperfection and testing and learning. We have to learn to be comfortable with being uncomfortable. When Apple and Samsung release their newest products, they are not perfect. This is why they continually provide software updates. They focus on launching what is called in technology circles – **the minimum viable product** – and then they refine as they go along. Each failure or challenge presents a lesson and an

opportunity. Despite Apollo 13's failure to land on the Moon, several experiments were conducted successfully during the mission. A lot was learned about traveling in outer space. Waiting for perfection puts value at risk. Apollo 11 only flew twice with Astronauts inside before it was launched to the moon. After the Apollo 13 disaster, they evaluated what went wrong and learned and continued to drive the space programme.

Xerox and Steve Jobs

In the 1960s, Xerox was one of the most important high tech companies in the world with great scientists and significant research budgets. They established a unit called the Palo Alto Research Centre (PARC) – an innovation think tank and their philosophy was “take time inventing the future”. They are credited with inventing the word processor, PC and graphic user interface. In December 1979 a 24 year old Steve Jobs gets an opportunity to visit PARC and he is introduced to graphic user interface and a mouse clicking on an icon on the screen. Xerox had been working on this for ten years. So

he gets back to his office and asks his engineers to immediately start working on something similar. The result was the Macintosh computer or Macs as this iconic product is often referred to which today continues to be the standard for graphical design. We are using Macs instead of Xerox computers today because Xerox was waiting for perfection. Value delayed is value denied. We have to get comfortable with moving forward with the imperfect.

I believe the journey of President Barack Obama adequately synthesizes these three lessons.

He had the transformation mindset. He accepted the need to transform and be disruptive and committed to do it in spite of – and we know the significant challenges he has faced. If he did not do some disruptive things, the US would not be back on the trajectory that it is today. He resisted the need for perfection. He compromised where necessary and moved full speed ahead with initiatives such as the Affordable Care Act despite a number of technical glitches and overwhelming resistance.

Today as he gets ready to close out his second term, the results speak for themselves:

- 1) Unemployment has been halved
- 2) The stock market has tripled
- 3) The deficit he came into has been significantly reduced
- 4) Gas prices have come down to below \$3.00 USD per gallon

If there is anything that I want you to take away from this morning's discussion is that transformation is possible but it starts with each of us. Until we have the courage to disrupt ourselves, we will always be at risk of being disrupted. Remember transformation like change begins with me.

The caption of a recent article by the consulting firm McKinsey & Company puts it in perspective, it simply said *"Change is good, you go first"*. As leaders we have to transform ourselves to lead the transformation we want to

see. It starts with our mindset and our attitude. The choice is ours and there is no time like the present.

Thank you ladies and gentlemen.