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The Innovative Ecosystem

Michael Arena

Having one foot in the business world and another in academia offers a special vision and understanding of the world. These kind of people see business challenges from a wider perspective, connecting the pieces of the strategic puzzle, making historical sense of the issues at hand. Michael Arena is a good example of a talent manager who combines these facets. He is currently VP for Talent and Development at Amazon Web Services and was previously Chief Talent Officer at General Motors. He has also combined these responsibilities with his role as a visiting scientist at MIT, a coach at Stanford and a member of the Organizational Dynamics faculty at the University of Pennsylvania, as well as a board member of AACSB, the global association of business schools.

Arena is an observant person, who listens before he speaks. When he does, his opinions are profound and well argued. He has an innovative vision of leadership and talent management. The following comments are taken from an interview held on March 11, 2021.

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Developing Talent in Today's Organizations

I've been in talent management for almost 20 years, and I'd say the field hasn't advanced much over the last decade. The war for talent started the idea of people management. Management practices today are still fairly similar to those of 15 years ago, but the world has changed and our management tools have not kept pace, so we are in for a giant wave of innovation in the talent management area. Additionally, the years of one-size-fits all in corporations is over and we can expect to see much more agile talent management systems.

You build *innovators* in an organization differently to how you build *operators*: it requires different emotions, different experiences, different review systems. Talent management will become much more bimodal in the years to come.

We will also see a giant shift toward social capital as well. Human capital will always be important, but it's just a starting point. Social capital is how well positioned we are to leverage what we know, and there is a lot of latent human capital in organizations today that haven't focused enough on how to connect people.

The next wave will be how we evaluate people in the flow of work. How do we get people to release the latent potential inside organizations? Organizations can be seen as a combination of supertankers and startups or speedboats. The supertanker, the traditional organization, is scalable, it's one-size-fits-all, and best-practice talent management works well there; but organizations that have to constantly reinvent themselves need speed boats as well. We're going to be far more advanced at thinking about different social arrangements to get people into speed boats, with companies like Amazon, that we call 'two-pizza teams' and can move very fast and invent the future, along with supertankers that bring the necessary degree of stability.

At the same time, our top management systems must evolve to match the emerging business management systems, which will be much more fluid. Sometimes I say that we will be much more liquid than static in the future.

There's a radical difference between how a traditional organization manages talent and how a startup does. We need to reconcile the differences because all organizations are a little bit of both. But all organizations that can adapt are a little bit of both: part startup, part supertanker.

There are a lot of entrepreneurial people even in large, static companies. They're latent though, they're deep inside the organization. We rarely suffer from a deficit of ideas in organizations. Instead, we suffer from an inability to scale those ideas up into commercialized products and solutions. We'll see a defragmenting of the organization, which I call adapting to space, as well

as much more intentionality about building these entrepreneurial pockets; I call them social arrangements, small pockets of entrepreneurs. They'll be put them on the edge where they can move really fast using agile methodologies. These small teams of 8–10 people can move 10 times faster than the core of the organization.

We need to understand the nuances of creating these arrangements so we can come up with new ideas that require connections to other entities. We can build those ideas which require these small entrepreneurial pockets, and then we can quickly scale those ideas, which requires some bridging back into the operational tools. Neither is perfect. Our talent tools are going to be looking at how we can position those entrepreneurial people to do what they do so brilliantly. Because once these folks build products and build solutions, they can manage it very well. That's how traditional organizations will get around this.

For example, the General Motors approach: they have these small units on the margins that they incubate, build, and keep connected. One of the problems with incubators is they get too disconnected, and they lose the ability to later scale. General Motors has done an incredible job with groups like Cruise Automation and some other electric vehicle activities, and they keep them loosely connected so they will ultimately become the new core.

Amazon does things a little bit differently, reflecting its growth pattern. Amazon expects the same person to build and then operate what they have built. The company is like the land of a thousand startups where entrepreneurial leaders are hired to build ideas that meet the customer's needs, to build solutions and then build the team to carry them out, and they almost act like many large organizations working on their own.

Bridging Innovation and Management

We have bred operational leaders in those organizations: traditional talent management has predominantly focused on building good general managers at scale, but I think these entrepreneurial people already exist. Most of them are somewhere deep in the organization. They're usually fairly disgruntled. What we can do is cultivate them. Certainly, we want to build them, but I think more of them exist than we would generally give credit for in most organizations.

There's a third part in all this that's really important, and they are what we might call the bridge people, a rare breed who are not easy to find or build, and who need to know a little bit of both and who link those two entities

together. They need to know how to be entrepreneurial, and they need an appreciation for what it takes to be entrepreneurial. But they also need to be great operators. Their job is to stand in the gap between those two entities. And while that idea is incubating, they've got to provide some protection for that entity so that the antibodies don't prematurely kill it. But later on, they're going to pull that entity into the organization so that the organization can quickly scale it, which is the benefit of a large organization. At the end of the day, our new talent management systems will have three types of people. They will have general managers, entrepreneurs, and they will also have these bridging people, who I would call integrators and protectors.

Market Focus and Global Scope

Organizations must move closer to their potential customers. Rather than calling it markets, because it's different in every part of the business, I would describe it more as localization. We're going to see a swing toward localization and the reason for that is it puts you closer to customers, that could be market, that could be segments, could be all kinds of different things: we don't have to be that prescriptive about it. I think the essence is people who are building the growth parts of the business need to be very close to their customers so that they can hear exactly what they need quickly. However, just as importantly, as you localize, you also benefit from miniaturization, from being able to move fast. And again, I already said that small, agile teams can move 10 times faster than large complex organizations. The real benefit is you get centrality to customers, you get localization where everybody is focused on the primary vision and you also get speed with that design. That's what you're going to see more and more, with some defragmentation in the organization.

The Future of Executive Education

Training and development is the area that will be most disruptive in talent management. People will learn in these new frameworks and models in a radically different way. The days of corporate universities, for the most part, are over. They will still serve a purpose, but not the entire purpose. We will see a radical localization of education and learning.

If you think about how startups learn, it's by doing. Design thinking is particularly helpful because it's an architecture that helps to force you to learn

exactly what you need from your customers so that you can apply it in the moment. Large, centralized corporate universities and even business schools will become removed from customers.

We will see widespread fragmentation of learning and localization of learning. It's going to be much more about creating, more about really learning from the flow of work, about adapting quickly and working as cohorts, small groups solving problems. For example, one of the first things I did at General Motors was to shut down the corporate university, which was a very centralized, traditional, almost like an MBA program. We shut down 90% of the curriculum and we created laboratory and innovation spaces. What we ended up doing was bringing in teams to work on real customer issues using a different methodology—design thinking being a very big one. The way we changed the learning process was to learn by doing: we flipped it by bringing in teams of up to 150 people. We would give them a big business challenge to work on and they would interact with customers to learn what the customer needed. They would then come back and use design-thinking methodologies, they would do some sensemaking and prototyping, share that with the customer, and they would learn much more about the flow of work, so that there were true teaching moments. This really was a learning experience. We were providing retrospective teaching, and it would all be much more around a core issue or challenge they were trying to solve. That's not the only model, of course, but it's the model you're going to see larger corporations gravitating toward, because you get the benefit of learning and you also get the benefit of solving problems for customers and doing that as a team so that it's a collective, shared experience that has much longer lasting impacts than the more traditional classroom.

The Impact of Technology on Training and Development

Learning while dealing with the workflow is very similar to what I just described: solving real problems and bringing people together. I see two other big dimensions in the future of learning.

The first is the use of technology to do things that we would have been unable to do. When it comes to learning, we can now deliver small bits of information when you most need it. We can pick up a signal from a learner so that we know when they're struggling with something and we can push exactly the content necessary to resolve whatever core issue they're dealing with right now, either in their life cycle, their employment life cycle, the

product life cycle or whatever else it may be that they're struggling with. And we're now able to provide much more real time, small snippets of information or knowledge that can help educate, but more importantly, it's part of the workflow, where people can directly apply that information or knowledge, and they're not absorbing three days' worth of content, they're absorbing three minutes' worth and it's very, very closely linked to what their next set of actions might be. That's the role technology plays. I think we're really able to use machine learning at a whole different level.

The second thing is that technology enables us to understand exactly how people come into contact with each other. If we can design solutions using machine learning techniques, it helps us to quickly diagnose through every click, every assessment, every question, to quickly diagnose the proficiency level of the learner so that we can predict mastery or predict competency sooner and not force everybody to absorb the same amount of content.

In other words, technology will soon be at the point where we may be able to determine that you have been at this much longer than I have. So, maybe you only need 30% of the time. But I'm new to this, so I need 95% of the content. And we're able to truly customize learning curriculum and the learning experience as a whole to each individual learner.

Leaders as Teachers

One thing I love about Amazon is that our leaders are consummate coaches and teachers and they don't wait until the middle of a dialog or business discussion to hit the pause button and know when they have a teaching moment. I think the role of leaders as teachers, their role as leaders and educating their broader organization is going to be important in the future.

Those leaders who are the best teachers aren't the first ones to speak. Usually, it starts with a lot of listening, allowing others to engage in a conversation. In some ways, it's a bit like a product process, only in real time.

Business schools use the Socratic model for learning. They create a case, simulate the environment, and stimulate debate. Business leaders can enable that in the real world, and the great teachers, first of all, create the conditions for people to debate with each other, so that it's not a quick decision, it's not a group thing decision, but it's a true debate. So, the very first thing a great teaching leader does is enable the environment for people around them to have discussions and debates about which approach to take.

Leaders listen to that conversation and they're very attuned to the thinking processes going on. And then at the right moment they hit the pause button

and say, here's how I might think about this, or here's how I remember dealing with this circumstance in the past. They are very skilled at joining up the dots and being able to share real-life cases so as to create a learning moment.

They're very good at setting boundaries and guardrails like "our customers expect more out of us than this," or "there's a better answer than this." They have very high standards and force the organization and individual leaders not to accept a short-term answer, and instead force them to look around corners and elevate their thinking in such a way that they're having a whole different third type of conversation versus the two-sided conversation that generally happens through the Socratic process.

In short, that's how great leaders do it. They are very empathetic, very good listeners. They allow organizations to engage, and only step in if they've got something insightful to say. But they don't waste those moments. They don't spend time teaching and they don't act as if they are the world's experts.

The Role of Business Schools

Business schools can play an important role in pivoting away from a focus on knowledge toward systems based on judgment. I've worked with a lot of business schools and I work with a lot of professors and a lot of business school graduates, and I find that the best students are those with judgment skills: they don't just apply theory models and frameworks or have a lot of knowledge, but they've got the judgment to be able to put what they know in context. Where I've seen universities and students struggle the most is whenever they're so fixed on the theory and they're so locked into "this is the way you do it" that they don't put it in the context to recognize that there is no single way to do something what matters is having the ability to make a call on how to apply something. These kinds of people tend to have high social quotients or social intelligence, and they also need to know how to engage the system to make the most of it.

Judgment skills and high social quotients are where universities really can help. Something like 90% of HR heads believe that most leaders fail because of their inability to do the soft skills stuff, which includes judgment. I know for a fact that most employers say it's hard to find graduates with soft skills versus the technical skills. Technical skills are almost never the challenge. At Amazon, I'll take it one step further: we spend very little time interviewing for technical skills. The way our process works—and this is public knowledge—is that the hiring manager makes an assessment based on an individual's technical abilities. And then there's a very rigorous interview process involving a

group of five or six people, and 100% of that assessment is based on cultural fit and your ability to practice our leadership principles, which are much more about judgment and social skills.

Challenges for Companies in the Post-Pandemic World

I'll start big and then go very specific. First of all, we have moved work as much as five to 10 years into the future. I think what we have learned through this huge experiment of teleworking will infuse our thinking for the next generation. Many people would have resisted the notion of virtual work prior to the pandemic, although they quickly learned that productivity has remained the same or increased, especially for knowledge workers. Obviously, this doesn't apply to labor intensive work, but in almost every case involving knowledge work I have studied and evaluated internally and externally, productivity has, at minimum remained static, and, in most cases improved. It would be very easy to jump to the conclusion that we can continue to all work from home from now on, but that is wishful thinking, short-sighted. I think that productivity will also take a hit.

BCG did a great survey—and productivity is the least of my concerns—which shows that if you were satisfied with your social connections, your productivity, prior to the pandemic, your productivity increased significantly, maybe as much as threefold. In other words, those who were satisfied with their social connections experienced a threefold impact on productivity, compared to those who were dissatisfied, whose productivity fell. The good news was more people were satisfied than dissatisfied. In the long term, as we become less and less disconnected, we will see social erosion, with adverse consequences like mental stress and a consequent reduction in productivity.

The long-term issue about working virtually is how we will continue to innovate and the consequences on culture. I think there are two types of social capital: bridging and bonding.

We noticed a 30% drop in bridging social capital during the first three months of working virtually. That's one team connected to another, and that to another team. What happened in the early days is that teams continued to function, bonding social capital really, really well. But the bridge connections between and across teams soon began to erode.

That limits our ability to discover new ideas. And that could even be a connection to the customer, for example, it limits our ability to take ideas and solutions that teams develop and to quickly scale them out across the

organization. If we don't think about some sort of hybrid model—which we will in the long term—there will be a radical erosion of innovation, and then on corporate culture, which is more caught than taught. I have learned about culture by watching other people in action and absorbing the way they interact with others and their model behavior. Catching social behavior in a virtual environment is incredibly challenging. If we can't find a way to get people back in touch with each other physically, then we will see a radical deterioration in innovation and shifts in cultures and organizations, with a radical set of subcultures beginning to emerge.

The future is hybrid and it will require us to think about how we work virtually and physically and how we bring people back together so that they can build bridges and learn passionately about culture.

Future Leadership Models

The premise of a one-size-fits all model for organizations is obsolete. Those organizations that apply it will soon be out of business. The S&P 500 Index illustrates that. The extinction rate is growing fast. The old model of the control and command CEO is gone.

In fact, the complexity of most organizations has surpassed human capability and those of the average CEO. Now, there are some superhuman CEOs that are brilliant at checking the pulse of their organizations. But even over time, as that organization grows, I believe it will become impossible for the top leader of any part of that organization—and certainly the CEO—to really understand everything that is going on. And this takes us back to what I was saying earlier. The new generation of CEOs are going to be far more agile. They're going to be more like enablers than dictators. They're going to be able to use high judgment to listen very closely about all the things that are happening in the organization. They're going to speak last, not first, and they're going to be the enablers of a business culture and business decisions by making sure that they're scaling the rest of their team to have these really high-level debates and conversations.

The CEOs of tomorrow will spend their time listening, watching and paying attention, shaping the future and enabling people to move in a given direction and then sometimes teaching, and sometimes making tough decisions.

The next generation of CEOs will spend their time constantly watching the market, constantly watching their organization, providing it with the opportunity for a deep, high-level dialog, and then stepping in and declaring

at some point later in the process, in order to get to market sooner and satisfy customers' needs faster, more like the conductor of an orchestra than traditional managers.

Once all the information was on the table, she would pull people into the conversation and facilitate a dialog, and then make a decision and argue her position. I think that's what you're going to see in CEOs from now on.

Great leaders are also first-rate humans. And to be a great human, you've got to be a great listener and do what's right for everybody, as well as to have courage to be able to make a decision and know that you're really working for your customer. You're not working for the organization. You're not working for any individual. You're not working for yourself and your ego. You're serving a greater purpose. They're not about their own personal agenda. And they're always about what the customer needs and getting the customer what they need quickly.