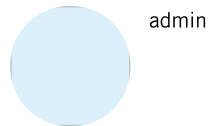


## PERSPECTIVES

# PODCAST: Unlocking Innovation: Strategies from Silicon Valley CEOs

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Most companies want to be innovators in their field, but how does a company foster innovation? In our latest [“Talking Markets”](#) podcast, a panel of accomplished Silicon Valley CEOs—including Franklin Templeton’s Greg Johnson—discuss how to drive and nurture a culture of innovation within their employees.

[Tune in](#) for a discussion on the topic with Greg Johnson, Aneel Bhusri of Workday, Adobe’s Shantanu Narayen, and Andrew Wilson from Electronic Arts. Leading the conversation is best-selling author and teacher of innovation and entrepreneurship at University of California—Berkeley, Mark Coopersmith.

## Key Takeaways from the Speakers:

- Greg Johnson: To me, innovation is the DNA of business. It’s what you do. You can’t just outsource it. But sometimes disruption and innovation are confused and put in the same bucket. To me, innovation is about knowing your clients and their needs.
- Aneel Bhusri: I’ve always been a believer that innovation does not happen with 200-person development teams. It happens with groups of 10 or 20 led by entrepreneurial people who are on a mission to change the world.
- Andrew Wilson: We think about innovation in three core vectors. The first is the philosophy of innovation. The second is a culture of innovation. And the third is how to measure innovation over time.
- Shantanu Narayen: Preserving the status quo is not a business strategy. If you don’t think about disrupting yourself, some person in a garage is going to disrupt you.

The podcast transcript follows.

**Host/Richard Banks:** Hello and welcome to Talking Markets: exclusive and unique insights from Franklin Templeton. I’m your host, Richard Banks.

Ahead on this episode, unlocking innovation. A panel of accomplished Silicon Valley CEOs discuss how to drive and nurture the culture of innovation with employees. The CEOs speaking are Greg Johnson from Franklin Templeton, Aneel Bhusri of Workday, Adobe’s Shantanu Narayen, and Andrew Wilson from Electronic Arts.

Leading the conversation is best-selling author and teacher of innovation and entrepreneurship at UC Berkeley, Mark Coopersmith.

**Mark Coopersmith:** What we’d like to do in this really accomplished panel is take some different perspectives about how we innovate. So Greg, if I might ask, how do you think about innovation here at Franklin Templeton and your view on driving that?

**Greg Johnson:** We think about innovation a lot. To me, innovation is the DNA of business. It's what you do. You can't just outsource it. You can't have a strategy session around innovation. You just have to make sure that you have a company that attracts the kind of people that are going to bring new ideas to bear. And I think it's my responsibility just to make sure that those ideas are heard and people have an ear and channel to get feedback on ideas. And for us, I think the big thing, you get a big global company, 10,000 employees, matrix organization and a company that really has been innovative from day one as far as products and ideas. But the more we get siloed, I sometimes think that innovation gets lost in terms of how employees view the organization.

So I think we've had to take steps to make sure that all of the innovative things we're doing, the investments we're making are seen and heard by all of the employees around the world. Because there was clearly a disconnect there. And I think in the last couple of years, that's been a big priority.

**Mark Coopersmith:** Perfect. Andrew.

**Andrew Wilson:** Yeah, I mean, we think about innovation in kind of three core vectors. The first is the philosophy of innovation. The second is a culture of innovation. And the third is how do you measure innovation over time?

And so for us, again, we make video games for a living. And so, many of the things that we do have been done before and many things that we try and do are completely new. And so, we think about innovation in those two core buckets of are you doing something completely new or are you doing something old in a completely new way?

The second thing of course is culture. And for us, you know we're a very human-centric organization because we're very creative. And so we see culture as that collective habit of an organization. And habit, as human beings we formed a habit on a very linear basis. We started with a value system that value creates needs and motivations. Those needs and motivations cause us to perform actions where we get the response we want. We do more of those actions and it becomes behavior where we get the response that we want from the behavior. We do more of that behavior. It becomes habit.

And so, we started at the very core of our organization with our values, system, creativity, passion, pioneering, learning, determination, teamwork—all the things you need to drive an innovative culture.

And then, the last is just how do you measure it. And what organizations like asking, really kind of trip over themselves, is measuring the micro. And of course, we have to measure the macro in the course of our daily business. But in a context of innovation, you have to measure the macro. How many people are you bringing into your community? How much time are you causing them to spend with you? How much money are you compelling them to spend while they spend that time? And as importantly, what are they saying to their friends about what you do? It's sort of these core metrics of our organization that look at all of these micro things, but really measure the macro impact and that way when you have success and fire along the way, you are not penalizing people for that.

As organizations, we talk about failure a lot. And you know, failure is this magic word in Silicon Valley, but as human beings, we actually don't like to focus on failure. We've been pre-programmed from a very young age that failure is bad. So that's why we don't have failure as part of our value system. But we do have learning, which is the results of failure and we really focus on the positive manifestation of what failure brings and an organization can rally around that.

**Mark Coopersmith:** Yeah, fantastic. Exactly. What are the upsides, the opportunities none of us like to fail. Right, exactly. Aneel?

**Aneel Bhusri:** I'd echo a lot of what Andrew and Greg talked about. First and foremost, at Workday, we are a core values-driven company and what really drives our culture and innovation is one of those core values and what that means is that we celebrate and reward innovation. And it's not just technology innovation, it's innovation in sales and marketing, across all parts of the company. We do it very visibly at our company meetings where some of them will come up with a new idea at any part of the business and it will be rewarded and celebrated.

The second piece is, I've always been a believer that innovation does not happen with 200-person development teams. It happens with groups of 10 or 20 led by really entrepreneurial people who are on a mission to change the world.

And you know, that was easy when we were 10 or 20 people at Workday, but now we're 11,000 people and we've had to change how we do it. The way we do it now is to consistently break big problems into smaller and to smaller teams and let them really own it and see what they can do to innovate it.

I think that is a danger as you become a bigger company. The way it happens at Workday, you know, I don't worry about our large competitors disrupting workday. That's just not the way the technology industry works. It's always some new company coming down the pike that comes up with a better solution because they can start with a clean sheet of paper and technology is moving so rapidly. So every two years, we'll take the top 10 to 15 technologists—thinkers in the company—we'll go off-site and we'll say, "What would we do if we started Workday today? What would we do differently?" And you know, it's been remarkable.

So the first time, in 2010, we did this exercise, would we be mobile first? We would write everything to mobile. So, we very quickly, redirected the company to be mobile first. The second was, will we leverage all the big data technologies? So, we rewrote our architecture to embrace big data. And so that mindset of going off-site and thinking about what would someone do with a clean sheet of paper is really core to how we think about innovation.

**Mark Coopersmith:** Shan, a little bit about what you're doing at Adobe.

**Shantanu Narayen:** We also start with purpose and we say the mission of the company has always been changing the world through digital experiences. But, I think what's important about that is that word "change." And I think the imperative for change—we always talk about preserving the status quo is not a business strategy. And so, if you think about the history of Adobe, whether it was creating desktop publishing with postscript, or .pdf changing the world of electronic communication or a Photoshop with imaging, I think what's core to the DNA of the company is this belief that if you don't think about disrupting yourself, some person in a garage is going to disrupt you. And I think that's very core to what the company's done. Maybe a few things that are different at Adobe is in addition to this revolutionary innovation, which I think everybody obsesses about, we also think a lot about evolutionary innovation because I think when you have tens of thousands of people every year, you're not going to create that next Photoshop in the company necessarily. But, how are you constantly evolving around whether it's business model, etc.

In common with, I think, one of the other three folks who have also said we're in the intellectual property business and you know, we love to say our intellectual property goes home every night. Hopefully, they come back the next day. And so, I think thinking about people and talent is such a key part of what we do with innovation. And I think we too often, people only recognize the successes that you have, but in many ways, the way we inspect the business is really critical and if you're inspecting and rewarding only things that work. And so, we think about innovation is just a fundamental core part of the DNA. We think a lot about the people. And, we think about what example we're setting ourselves as senior leaders in terms of what we inspect and where we spend our time as being really representative of how people think of innovation at Adobe.

**Mark Coopersmith:** Aneel, I want to go to you. You were a venture capitalist and everybody here on the panel invests in a lot of startups, as well. How do you bring that mindset of a venture capitalist, investing, thinking about risk, looking at new market opportunities to an enterprise?

**Aneel Bhusri:** That's a great question. I do think they're very different mindsets. The mindset of a CEO, entrepreneur is an optimist, someone that's trying to change the world and is all-in every day and making that happen.

**Mark Coopersmith:** And that's who you would make bets on.

**Aneel Bhusri:** That's who we make bets on. And that's, frankly, I feel more comfortable in that role. Venture capitalist is an allocator of capital, trying to make bets on those kinds of individuals. But actually, trying to be the guard rails for those overly optimistic entrepreneurs.

But the recurring theme that I saw as a venture capitalist is that, you know, incremental innovation is just not good enough. You really have to come up with something that's truly disruptive. It's if it's 10 or 20% better than what one of the large incumbents offer, it's not going to be enough to change the customer's minds. It's got to be radically better.

**Mark Coopersmith:** And how do you bring that to a larger enterprise?

**Aneel Bhusri:** So what we tried to do at Workday is create pods of entrepreneurship and instead of letting the people go and do startups, we actually are able to give stock and incent them to stay. And sometimes, it can be challenging because to keep some of the best people you have to pay them quite a bit in terms of long-term rewards. But you keep that entrepreneurial innovation mindset in the large company.

**Mark Coopersmith:** Do you generally drive a lot of experiments in your businesses? How do you think about experimentation as opposed to business initiatives?

**Aneel Bhusri:** So we now run the HR systems for 40% of the Fortune 500 and we can't experiment with their systems and their data. In the early days, when you're a startup, you can experiment with everything, but once you get to a certain size, your customer base is your biggest asset, but it prevents you from experimenting in ways. So we set up, much like many of the consumer internet companies set up, we set up something called Workday Labs. And I would say one of every five experiments works. Four out of five, we learned something and we are constantly showing them to the customers. We'll try something and they'll say, "That's a really dumb idea." And well, that'll be the end of that one. Or, here's how we would tweak it.

Customers are not great at coming up with innovation. They're good at reacting to it and telling you what they would want to help you solve it. So we have a very active labs project. You have to be careful with the labs that the people in there just don't start becoming impractical in what they're working on. So, we actually do a rotation. So someone's been on the line doing development for three years, they'll get six months or a year in the labs. It gives them a chance to recharge their batteries and also get back to innovation and then keep cycling through. And that was where we experiment.

**Greg Johnson:** I'd say for us, obviously with the change in the markets and the industry, we're doing a lot more experimenting in a lot of different areas. And I think, historically, we've always used our balance sheet to look at new securities. Things like we looked at life settlements and insurance and tested that to see if it's a viable alternative category. We're doing a lot in the private markets today. And we first, you know, test them before we put them into our products and funds.

I mean just around private-equity-deal flow ideas. For us, I think it's very hard in a large established company with set values and focus on the client, to think about how we disrupt ourselves. That's pretty tough to do. And I think what we've found is it's much more effective to create an environment where we're seeing everything in the fintech space. That's been a big priority for us in the last few years, where again, we've been using our balance sheet in an organized way to make strategic investments in strategic pools and things like artificial intelligence and natural language processing things that we think could be effective tools in portfolio [management].

And that's versus trying to incubate, build it yourselves. I think sometimes you're going to pay more when you buy into established companies, but it's faster and sometimes less in the face of your customer who may view it as a conflict or a disruption.

**Mark Coopersmith:** So let's, let's go a little deeper into that because that's a really challenging issue, which is if 40% of the Fortune 500 are on your platform, for example, you can't just start changing the way they're managing your systems for managing people or finance. If you are working with a broad range of CIO's and other funds, you can't start changing that too quickly. How do you drive, and Greg start with you, how do you drive that kind of change with existing businesses? How do you kind of trade off innovation and change versus that consistency that your customers are looking for while being able to do what you just said cannibalize yourself first?

**Greg Johnson:** Yeah. One of my favorite sayings is, I'm all for employee perspective. I'm all for progress. It's change I don't like.

**Mark Coopersmith:** We all say we like change, but we actually don't like it that much.

**Greg Johnson:** We don't like change. And I think that change, and we found this, I'll give you just one example in data science and you know, we are firm believers that the difference today is obviously the real-time capture of data and how that's going to affect asset management. And it's got to, it's just, we have to think differently about how we approach asset management. But if you just tell your CIO, go do data science and approach it when you have a very established or you know, our first step was we created a separate resource in data science where we found that that wasn't really the, the groups weren't functioning together and leveraging that and what we've done is put a data scientist in each group that then feeds into the larger resource and that's worked much more effectively where the CIO is part of that change and part of that pace of change and part of their process adjustments are done at their speed, not somebody dictating it. So I think that's been very effective for us.

**Shantanu Narayen:** Two quick thoughts, if I may. First is, I met with a major automotive manufacturer in Germany. And I remember always what they told me which is, if with every new version of the car, they didn't piss off at least 10% of their customers, they didn't think they were innovating fast enough.

But, I think part of what Aneel saying is he has 40%, the 60% market share to go. And so, for those folks, you know, you have to focus on what are the other features that happen. And I think every business has this s-curve. And if you're not constantly thinking about how you're changing, somebody else is going to change it for you. Right? So, it's how you roll it out. It's how you train people. But they expect that of you.

**Mark Coopersmith:** Well, they do. And the other thing too that, that's interesting is some people won't know what they're looking for until they see it. So how do you drive those kinds of changes when your customers may have lots of options, but they're not going to design your product for you? How do you give them that opportunity to help pull those new innovations forward?

**Andrew Wilson:** I mean, our business is doing that, right? Our business is actually trying to figure out how to drive innovation, but remain true. And you know when I started making games, I remember we used to use, that is, if you ask a five-year-old what their favorite part of a cake is, they'll tell you the icing. But if you made them a cake out of it, all icing, you would make them sick. And so, what we spend a lot of time is, okay, how do you think about that? So, the absence of boundaries isn't creativity, it's chaos. And so, for us the boundaries are the motivations of why people play games and that is inspiration, escape, social interaction, competition, self-improvement. These core reasons why we play.

And so, when we go out and we asked players what they want and they say, well, we want this and we want that and we want this giant world and we want people in pink pajamas or whatever it might be, what we always come back to is, okay, we've heard what you told us. What we know you're trying to do is fulfill these very core motivations that you have around social connection or competition or self-improvement or escape. And we're going to do new and interesting things in the conduct of our visit to fulfill those motivations. And as long as you keep coming back to what your core customer needs, not just what they want, then ultimately you will, you will innovate in the right direction.

**Greg Johnson:** You know, when you think about innovation and sometimes we confuse disruption and innovation and put the two in the same bucket. And to me, innovation is about knowing your clients, knowing what they need and, and the best ideas that we've had have come directly from clients and it was just our speed to market that gave us a leadership position. So, I don't think there's really a conflict with your core business and being innovative.

**Mark Coopersmith:** Can anybody here think of an example of a failure or a setback that they had an experiment they ran that definitely had the wrong outcomes, negative outcomes that ultimately resulted in insights or knowledge or improvements for the long run?

**Shantanu Narayen** I don't think we have enough time for that. I mean, I'll say one, maybe more than failure, I'll talk about adversity. Yeah. We went through this situation for those who followed Adobe, about a potential issue between Apple and Flash and Adobe. And I think you learn during that process a lot about what's fundamental to the company. And so I think the learning moment for me during that entire process was what does the area that you can fundamentally innovate and in a long way and without a doubt, the people who responded at that point, well, their careers absolutely blossomed within the company. And so, I think dealing with adversity, which we have all faced, if you can use that to learn, I think that's an incredible experience.

**Mark Coopersmith:** On that note, I think that's a great way to end it. Shantanu, Aneel, Andrew, Greg, thank you very much.

**Host/Richard Banks:** And thank you for listening, we hope you enjoyed the conversation and this episode of Talking Markets with Franklin Templeton. Check out our complete archive of episodes and subscribe to Talking Markets - we're on iTunes, GooglePlay, and just about any other major podcast provider.

So until next time, when we uncover more insights from our on-the-ground investment professionals, goodbye.

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