

THE STONEWOOD PERSPECTIVE

A S T O N E W O O D G R O U P I N C . B U L L E T I N

StoneWood Interview Series

An Interview with Redknee CEO, Lucas Skoczkowski

Founded in 1999, Toronto-based Redknee Inc. has grown quickly to become a world leader in providing infrastructure software and solutions to telecommunications operators globally. With more than 300 employees in six offices around the world, including an R&D centre in India, the publicly traded company projects revenues approaching \$50mm in 2007. StoneWood's Managing Partner Bob Hebert sat down with Redknee's 34 year old founder and CEO Lucas Skoczkowski to discuss the human dimension of high growth organizations.

Redknee was recently named one of the 50 fastest growing technology firms in Canada. Can you start by talking about the people side of building high growth organizations?

People will say I am a technology guy. This is interesting because my job is mostly about people. Technology issues tend to be top of mind in the first 2 years of a business...will the product work, does it work, do enough people know about it, do people trust it to work and so on. You then move very quickly to do we have the right people in the right positions?

I think when we last met, it was about 2 yrs ago I was still in a primitive stage of development and I thought to a degree that you put the people in the right positions and you're set, this is great! But I have come to understand that things are not so simple because your business constantly changes and so must you. By definition if you're growing, you're changing and therefore your people and the issues around them will change. It pushes you everyday, so either you embrace it, or you get crushed by it. Managing change becomes the biggest people issue for fast growing organizations.

I tell everybody who joins here that this is going to be a very difficult environment... *What do you mean difficult they ask??? Are people mean???* No, actually the difficulty is that change sneaks up on you. We are a supportive organization not command and control. Everybody's empowered, we don't tell them what to do. But we expect our organization to grow and people must understand that they must be learning continuously. Expectations evolve quickly... and for many people it is hard to evolve in step.

Think about it...our superstars of two years ago are now our baseline. Do you think it is easy for them to deal with that? For some people it is a journey they relish while for others it is one they cannot or will not take. They say, "this company is too big for me. I liked it better when it was smaller. It is not how it used to be". But the company today is better than its ever been... it is just different and some people really embrace the differences, the positive differences while others have rejected it.

When I say rejected, I mean that they've really realized that they prefer environments which maybe more chaotic or fluid...the starving startup where things are flying all around and you have a lot of creativity. While it is true that you have a lot of creativity you don't need as much consistency but as you scale the business consistency becomes much more important. The business has to change as the demands placed on it change. People have to constantly retool. A lot of times people go from success to a big failure. If possible you want to do everything you can to prevent this because the biggest cost of growth is the people cost.

As the leader of the company, you have the same issues. How have you evolved your skills to avoid falling behind the growth of your organization?

I am a type 'A' personality, highly ambitious, highly aggressive. I want to be successful and I want others to be successful. I know I can't force anyone to be successful or to change; they need to want it quite bad. Similarly I cannot change the organization or impose my will onto it. Instead I have to lead by example. I have to change the organization by changing myself. Very simple, intuitive and straightforward but very hard to achieve.

I do a number of things all requiring a degree of heavy lifting. First, I hired an executive coach two years ago and I meet with him once every 2 weeks. We discuss leadership issues, problems and how I can improve. I also joined a Young President's Organization (YPO). This is an excellent support group for other CEOs of varying ages who are all really trying to learn. So I meet with eight other CEOs every month for half a day.

I am also a big believer in mentors. I have had mentors since university when I was provided access to one as part of a scholarship I won. I have had different mentors at different stages of my life and have changed them as needed. In fact I had a great mentor when I started Redknee who worked here and from whom I learned a great deal. I have gone through a series of mentor relationships each offering different things at different times. I had lunch today with a CEO of a software company which was just sold. As he embarks on the next stage of his career I asked him what he would have done differently knowing what he knows now. I have folks I talk to who obviously who have done it before and are now in their 50s - 60s – I look to them for life wisdom. I try to pick their brains and I usually meet with them two to three times a year.

I have also learned to reflect. This is hard because we are so busy and it is so easy to get sucked into the busy vacuum of what you are doing today. Learning is a big commitment and you have to be conscious of the learning you need. Some say that the average age that men stop learning is 30. I am 34 and I do not believe that. But you have to work at it because it does not just happen. We do not all work in a university setting where learning is in the forefront.

Finally, I read a lot. Two years ago I read twenty-six books, last year I read thirty-seven books. You have to make the time. I read books not associated with my industry as well as books on change management, biographies, other organizational acts such as the story of Oracle, Microsoft, SAP and how they have done it. I also started listening to audio books when I exercise.

You have referred to the need to retool. Can you explain?

This is important because the tools that get you to one stage, might actually prevent you from getting to the next stage. Retooling, both personally and organizationally, becomes a constant imperative.

For example, last year I hired a consulting firm to implement a new management system in our organization. The whole objective was to do a cascading process of changes, to help us over next 3 years, to develop a series of key result areas in how we measure this organization and bring more clarity. I did this because I felt our management system will either help us accelerate or will block us from evolving into a hundred million dollar company.

It wasn't easy to bring a team of experts at a significant cost to tackle something that really wasn't broken per se. But in just six months the new tool, the new approach has really paid off. We have found very quick successes, immediate successes which we can build on because it makes us confident in what we want to do next. The new report cards we generate are very different from the key performance indicators which we had in the past. They are better and will allow us to do much more with the business.

So yes, all tools need to be continually retooled. What's interesting is that the one key theme, if I look at high growth organizations, is they are all high change organizations. And dealing effectively with that change is the key because under stress we will always revert back to our old ways, which will further compound the stress and the negative situation. So as you are going up in a spiral of growth, you have all these behaviours and tendencies that must be overcome.

And no one ever really gets trained on dealing with change. If you look across our workforce at Redknee, we have a very intelligent workforce with Masters degrees bright engineers, and computer scientists everywhere. While all are well educated few are trained to tackle the changes which our growth imposes on them.

I read somewhere that our internal change capacity is largely developed around the ages of five to seven and never really upgraded afterwards. So when changes come, of the magnitude found here at Redknee, we get all kinds of coping mechanisms from denial to projection. You know how it goes, "It's not my issue, it's your issue" etc etc. I used to wonder how stupid things happen in group environments where everybody wants to do the right thing. I'm convinced that it's because each person deals with change differently which in combination leads to strange things happening.

The other thing I have learned is that under stress people reach their highest level of ineffectiveness. I have seen and observed this quite a bit. That doesn't mean that you fire them when they become stressed. Instead, I believe you need to be enabling people, because if you enable, support, and carry, you create the right climate to grow. That's also the only way you can foster innovation. And I don't just mean technological innovation but innovation in how you run the company. So I always share every month with management the books I have read, and we discuss lessons learned and how to use them going forward. Getting better alleviates stress and we must all strive to get better.

I don't expect that our people know everything, actually if they think they know everything, that's probably most dangerous. But I do expect them to understand that they have to keep learning. I put it in front of the agenda, that high growth means high change which means a learning organization.

As a young company, Redknee made sales to world-class carriers that many would say was impossible for an emerging firm. You made many of those sales personally. As the firm grew you had to start backing off on some of your responsibilities and trusting other people to execute. Can you talk about that transition?

I will give you two sides of the story. First, nobody wants you to let go. I had people say, continue selling and we will put everything else

in place, so you can continue what you are doing. So nobody wants you to get off the train. And why would they? In the second or third year, I brought in \$10 million in orders... its Great!! Keep doing what you are doing. But this is not healthy for your ego because it's like steroids. And it sure isn't good for the organization. In our case, the board was very good in telling me that I was doing too much, that I should pick what I want to do and then commit to it.

It took me two years to do this, because the other issue is that when you build the team that you believe can take the keys to the house, or to your car, not everybody works out. And anytime something bad happens your first instinct is to step in to make it better. But you have to stick with it, back off and focus yourself on the few things that will make the biggest difference for the business.

The easiest thing is to create a dependence that fulfils some of my secret desires at the same time becoming a convenient crutch for the company. But the crutch prevents you from being a high performance organization. Some people don't see that.

You were an early experimenters with doing R&D in places like India, and you've had years of experience in that now. What are your observations?

You have to do it for the right reasons, everything you have to do for the right reasons. People thought it was gong to be a panacea for everything... if you have a high cost just move to India and all your headaches go away. That is simply wrong.

We have gained from it, but it can be very, very difficult and I know a lot of people who have done it and retreated. A couple of observations for Canadian companies... In Canada, despite complaints of how productivity is low and so on, my employees here are probably the most productive that I have anywhere in the world. By this I mean productivity of value creation per each dollar it costs us. Its not about salaries, it's the value you create. Cheap workers don't mean anything. I've got lowest churn here and the highest engagement. You need to have a core base.

We've made our own share of mistakes. When we began in India, people probably read too much into it internally which created fear, which was not a positive thing. But there has been a lot of good. We improved our processes because we were forced to work at different times in different regions. We matured as a company as a result and we continue to benefit by having a dedicated team of Redknee people over there.

What are the major people issues over there?

Churn is high and it's bit of a bonanza mentality. But it was the same case in 1999 in California. What's different probably, which to us was a shocker is the show-up rate. As little as 25% of the

people who accept a job actually show up on the first day of work. Between the time they accept and the time they are to start, they get two or three other offers and guess what, it's all the same to many of the young workers so they go to the highest paying one. It is definitely a metric we don't have to measure over here in the same way.

We also try to put Toronto ex-pats into those facilities... this is important as a bridge and linkage to continue to facilitate the development of the Redknee culture over there. Culture doesn't happen by itself, you have to foster and tend to it. I travel there regularly and try to make sure they feel they are a core part of our organization.

What are your observations about hiring executives who will live remote from the organization? Do you believe in centralized or distributed management teams?

Ideally, I want my core team to be here in Toronto.

Teams have to gel and they need face time to do that. The remoteness is challenging, tiring even and it is hard to manage at the best of times. Under pressure it puts a lot more strain in fact it's an amplifier for stress.

A distributed company is an overhead for the business. And if you have a truly global company, we have 6 offices globally, it puts a strain on the company. I go and meet with everyone on a regular basis and try to stay connected to them. If the people in those offices don't feel connected, the office won't last for very long. I also believe that you should build as few offices as possible but make each as big of an office as you can. People need to work in teams. That's what becomes the multiplier effect. Otherwise you get splinters and it becomes difficult to create alignment, common methods, common faith. I don't believe in a centralized organization, but I believe in teams that spend quality time with each other...

Going back to distributed management, this is probably one of the biggest issues Canadian tech firms deal with....can I put my VP of Sales or Marketing in the US, or even my CEO? What advice can you offer?

Yeah, it's a huge challenge. You often hire someone who is good but they are partially in your team, partially not in your team and partially working as they did in their previous organization. That can tear your organization apart.

Also, how many people do you know who like to commute long-term? It is fatiguing. What you end up doing is gradually building that stress level, which is going to affect your main job.

To me keeping things simple is the most important aspect. If you can get someone who can move, excellent. If you cannot get the best person you can get here and then figure out how they can build people underneath them regionally.

Can you talk about hiring executives who've lived your future?

Too far into the future is bad...because they cannot build the bridge to where you are today. I have made these mistakes, I'll admit. You simply cannot hire people too far into your future. They are so many islands ahead of you they need a plane to get to where you are, forget bridges. You know the type. "I am a visionary, I visualize things, and the rest is done for me". That's the danger. There are benefits to it, but you have to be very careful.

Instead, you go a couple islands ahead at a time, and I continue to listen, learn, and understand what and where they are. Each one has a bridge but people have to be two or three ahead not ten.

What are the key attributes you look for in people for this organization?

The basic ones, saying the obvious are integrity, trust and honesty. I'm still trying to figure out how to test for those every time but they are critical.

If you're building a business you need high energy. High energy is very important. Also, if people are going to keep growing they better have curiosity, as well as a hunger to learn.

I also look for people with a need to be continuously challenged. Many times I meet people in interviews who are excellent people but they have the attitude, "I've been there done that", as opposed to "this is exciting and we can make something really cool here". So attitude is very important.

Everything else can be learned. High energy and real commitment to work and an attitude are the core.

Any final advice for the person who wants to build the next Redknee?

Are you doing it for the right reasons? To test for this ask yourself whether you are willing to do this for the next five to ten years. This is important because those reasons will get tested daily for a very long time. If you are building a company solely for things like money, power or ego, all very powerful motivators, I am not sure this will sustain you for 5-10 years. I think they will get tested out and you won't be able to survive the quest.

Building a great company takes time. Look at RIM, Cognos or Oracle. They all took time to build and were driven by a vision. Many will tell you it takes ten years to build a solid company. It takes 3 years to implement a proper management system alone and you have to go through a few cycles along the way. Building a solid business is not a sprint, it's a marathon.

Now I will admit there are different quests. If you want to build something to flip it that is fine and some people are very good at that. But know whether you are in the business of growing trees or growing corn because they are very different from each other. People try to compress things, they try to grow trees like they grow corn. But trees take time and you cannot build great forests by continually clear-cutting the saplings. Long term value gets built through commitment....

People have actually asked me, how dare you to dream of building a big company? I dare because I do not know any better. I have never known better. I have never known what I wasn't supposed to be able to do. Now I am not so arrogant as to say it will definitely happen but I can definitely tell you I know I will spend the rest of my life trying.

The quest is the thing, and I am learning every step of the way. I love it!!!