Interview with Slava Orekhov, Senior Vice President of Industries and Digital Leadership, Asia Pacific Japan (APJ), SAP Asia Pte Ltd.

How We Can Benefit From New Technology?

By *Japan SPOTLIGHT*

SAP SE, based in Germany, is the largest software company based in Europe and the fourth-largest in the world, after Microsoft, Oracle and IBM, in terms of sales. In particular, it has the largest market share in enterprise software for large companies. As of July 2018, it had 404,000 companies as customers in 180 countries and its global sales reached around $30 billion.

Its local subsidiary in Japan, SAP Japan Co., Ltd. was founded in 1992. Slava Orekhov, a 35-year-old Russian, is the senior vice president of industries and digital leadership at SAP Asia Pte Ltd., and a representative young leader of the digital economy in our age.

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Digital Economy in Asia

Slava Orekhov

JS: SAP is a very well-known company and our readers would like to know who you are and what exactly you are doing.

Orekhov: First of all, thanks for the opportunity. I myself am a young professional working 11 years for SAP in different industries and also in different countries. Now I am part of the regional executive team based out of Singapore in charge of industries across the Asia-Pacific and Japan. Basically, my team and I support our customers and advise them on how to achieve their transformational goals using technology.

JS: How do you see business in the Asia-Pacific region?

Orekhov: Asia has more than half of the world's population and some of the fastest-growing economies. And at the same time, the speed of development of Asian countries over the last 50 years is often seen as a phenomenon of the modern economy. So when I wanted to basically make the next step in my personal development, after serving two years as managing director of SAP CIS, I really wanted to come to Asia to be part of this exciting journey.

The level of innovation and competition is creating a very good boiling environment. Everyone in every country wants to transform. Some are building everything from scratch like some of the Southeast Asian organizations, or small and middle-sized companies in India. Some have a lot of legacy like the older big Japanese companies who also need to transform themselves to be competitive and relevant on the world stage.

JS: To be frank with you I am not an expert on technology. I'm curious about the growth potential of IT business in Asia. Unfortunately, Japan is considered a little behind the trend of information technology.

Orekhov: The speed of growth is actually unlimited in any region of the world including Asia. I'm sure you have a smartphone right? And you are a Facebook user or you chat with others on the phone. We all are essentially a part of this digital world. Everything we do involves IT from traveling on a train to driving a car or shopping in a store. All the operations are controlled or influenced by software and technology that companies like SAP provide.

The next big thing is machine learning and artificial intelligence (AI), which basically means that machines will eventually replace a lot of people and the work that they do. An example is translation. Now we often need translations or we need to learn the language. Very soon this will be part of your smartphone where you can easily communicate with anyone else regardless of language.

There are hundreds of other things, which are affecting the way we live. New companies like Netflix, Airbnb, Uber, Amazon — they're based on the technology transforming our lives. Actually you may not be familiar with the technology but you're living in this digital world. And Asia is not an exception to the rest of the world. We work with a company in India that aims to provide all citizens with access to the Internet allowing many villages to connect to the rest of the world.

Companies like Rakuten in Japan are basically disrupting retail industries to some extent. Softbank is establishing an investment arm to consolidate some of the newer technology and make sure that it is part of its growth.

My last comment on this topic addresses the risk of Japan. It did extremely well in the second and third industrial revolutions. It still has an advantage because many countries still believe that Japan is at the front of the trends. However, most of the Japanese companies, our customers, have a sense of urgency when it comes to transformation and applying all this modern digital technology and connectivity. They would love to learn from Silicon Valley how they too could innovate at the same level. The key is that Japan needs to be more open. You cannot live or win in isolation. Through openness and cooperation new things will develop.

What is VUCA World?

JS: You said that today the Internet and information technology connect everybody, and that is creating VUCA: volatility, uncertainty, complexity and ambiguity. Could you please describe this?

Orekhov: Every generation over the last couple of hundred years has experienced some transformation. When cars were invented, people were really scared of them and planned to stick with horses. The same was true when computers came along. People are afraid of change and they often see the newer technology as a risk.

The discussion about autonomous cars, for example, is about displacing drivers, an industry comprising millions of people globally. What if translators are replaced by technology? And this applies to many other professions — where do they go?

About 200 years ago, 95% of Japanese were involved in agricultural trades. Now in developed countries like Japan, less than 5% of the people are involved in agriculture. Imagine 200 years ago, someone steps up on the stage and announces that we will soon lose 90% of our jobs. Panic would ensue. That transformation created a lot of new jobs in factories making tractors, and for mechanics and engineers. We need to understand there is a lot of uncertainty connected with any transformation and new technologies.

My bottom line is that there are a lot of uncertain elements that come with every transformation. And this transformation driven by software and IT is probably the biggest one that humans have ever experienced.

JS: Another distinction between the post-Industrial Revolution and other innovations in the past is the speed of progress of the digital/IT economy. Will this substantially increase volatility and uncertainty, complexity and ambiguity?

Orekhov: Of course, to some extent. But it also gives a lot of opportunities. Let me give you one example. Imagine you have a big factory. By connecting all the machines so they can communicate with each other you can micro manage them. If we know that a machine will not be needed for the next three minutes, software takes it off grid. No person is actually thinking about this. If all the machines can be controlled this way, then potentially you can reduce the consumption of electricity by up to 20%.

Digital World & Regulations

JS: Enhanced connectivity among different sectors and individuals is a post-Industrial Revolution phenomenon. This could be good but it could cause uncertainty and other VUCA issues as well. These technologies must be considered a sort of public good but they are not regulated.

Orekhov: The main task for the government and regulators is to make sure that there is a fair environment; no monopolization to stifle competition. If there is one common infrastructure layer, then it's either controlled by governments or by a set of participants. As with phones, you have competition for different operators and you can switch. IT is more dangerous. Facebook is almost a monopoly in the West. When it comes to enterprises, they can manage themselves and governments don't need to interfere. When it comes to citizens, governments need to take care of them.

JS: When it comes to individuals, how should we protect our privacy?

Orekhov: This is actually a very big debate right now. Basically everyone is tracked every second and your pictures are everywhere because you walk down the street and hundreds of people are taking pictures of the street too. And tomorrow your face appears on some blog and you never know this is happening. The amount of information that is now collected and it is possible to analyze about individuals is scary.

And I think ultimately all information will become open. The younger generation doesn't mind actually. They like to be visible; they like to check with friends and family and where they might be so they can meet. They see this as an opportunity and not a trap. It will naturally happen and there will be more and more openness of data. On the other side of the equation, we need some laws protecting personal information, like erasing or blocking for various reasons.

JS: How do you feel about the European Union's new privacy protection law in the digital society called General Data Protection Regulation (GDRP)?

Orekhov: Working for a European company, it is very tricky to answer this question. First, I think that the intention is absolutely right. We need to make sure that we give the right tools to people. I think it is a good thing for society in general that the EU has already started implementing the law. Because, if later we decide to adjust the policies, you need a starting point. One can argue whether it is good or bad, but I think only time will tell.

The Key to Surviving a VUCA World

JS: What kind of companies will survive this world described as VUCA and what companies cannot?

You mentioned that open companies would survive better than closed ones. Could you elaborate?

Orekhov: There are three key things which we believe will help the companies to survive during this transformation. The first is to analyze their processes. This technology is completely different and so too the opportunities for us to manage things differently. If an organization is constantly looking to improve its processes and is open to change, then it will survive from the process perspective.

The second big thing is the business model. New technologies are giving them opportunities for new models, examples being Uber and Airbnb. Basically, Airbnb is the biggest hotel operator that has no buildings or owns any rooms. This is a new business model. Komatsu is trying to push the service and not the product. Essentially you can rent out a truck instead of buying it.

The third important aspect is the workforce. Companies need to change the way they work in order to survive because the workforce of the future will be different from the current one. The younger generation has grown up with these technologies. When they come to work they expect the same level of easiness and interaction for whatever they do.

Essentially, companies don't have an option. You cannot fight it. If the entire generation is coming with different expectations, then you change or you die. SAP helps a lot of our customers preparing for this newer generation of workforce.

Japan, in particular, has another challenge, which is not that common in many parts of the world: diversity and gender equality. You still have potentially 30% of your workforce not working amid a shrinking and aging population. The way to survive is either to replace it with robots and AI or engage more of society, especially women who don't have access to do the same work as men.

Rakuten introduced a diversity policy and its growth was boosted immediately. Gender equality is just one thing but it is really important. We just discussed it with 50 customers on July 31 and this was a major point for everyone.

But another thing is diversity, in general meaning foreigners. Japan is such a great place to live. But no one knows this because you have 127 million people living here and only 1 million foreigners. Singapore is an example of one of the most innovative and rapidly growing countries because of this technology. They have two and a half million people yet 51% or 52% are not Singaporean.

The next big fight between countries is for people's brains, global talent and not material resources like in the past. I know that Japan is taking steps, like visas for skilled work and the startup hub in Fukuoka, where you can get a visa as an entrepreneur. But I think that Japan needs to do much more because that is the limiting factor to future growth and development.

JS: Regarding startups and entrepreneurship, this revolution has made it easy for people to start because of dramatically lower fixed costs. In light of this, I think that leadership in the future may become somewhat different from leadership in the past.

Orekhov: Absolutely. And this openness is a necessary part of diversity and understanding. The concept of diversity brings different perspectives, thinking outside the box that is necessary for success. Japan is doing well investing on average $2.4 billion per year into the building of this startup community. But still, if you take a look at the current statistics, not more than 16% of younger Japanese are open to the idea of being an entrepreneur, which is much lower than most of the countries in Europe and even in China. And I'm not saying that it's better to be part of the company. I am a member of a big company but we also constantly work with startups. We have a lot of platforms to cooperate with startups and to nurture them and we acquire some of them.

We also bring in innovation from the outside. SAP has an internal entrepreneurship program to support them. Essentially we treat some of the internal innovations as startups and we help and invest in them. Some even spin off and others become part of the future success for SAP. The point is to be more open and flexible. All the Japanese customers I personally have been talking to over the last two and a half years see the need. They all are willing to learn; it is just how fast they can go. Also, what is the government doing to support them? Is it making it easier to bring in people from outside?

Singapore is building a lot of the infrastructure to support all this innovation and they want to become an innovation hub. In fact, they are already an innovation hub; they just want to stay ahead. Why not Japan? It's an amazing place but it's not known.

JS: What about the education system? In order to raise entrepreneurs the education system needs to be changed.

Orekhov: Absolutely. My personal feeling is that the education we have now, in most countries, resides in the Middle Ages. In other words, not much has changed unfortunately. So we see a lot of new companies trying to disrupt the educational market; they are giving access to knowledge to all people in the world. The current educational system is not doing this. Through the Internet one can interact with the best students all over the world in real time, and have access to the best professors. One does not have to leave home. I think that higher education is in real danger. It is not really transforming itself and governments need to push the demand.

JS: The education system is important not only in terms of entrepreneurship but also in terms of adjusting our lives to AI, which can replace simple labor. I think we should enhance the added value of human activities.

Orekhov: I think this will happen naturally when the newer generation comes to power. This is one of the main barriers for the companies in Japan especially and why they are not really moving faster in transformation. Their senior leaders are not technology savvy. So they don't understand the technology, they don't live with the technology, and that's why they don't drive the transformation from the technology. Once the younger generation enters it will happen naturally in all organizations including the education system.

JS: So you think in a VUCA-dominated world young leaders will definitely be necessary?

Orekhov: Absolutely. And again Japan is a very good example, because of the cultural aspects they usually have at the CEO and board levels, people with a lot of experience. Grey hair is well respected here. There is nothing wrong with that. But let's come back to my previous point about diversity. The key is to keep the balance because sometimes we just need to infuse a little bit more of the courage from the younger people to transform.

Impact of the Digital Economy on Public Policy Issues

JS: Some economists see the need to change the regulatory system in accordance with the progress of the post-Industrial Revolution and this might change the nature of capitalism. What do you think?

Orekhov: There are two aspects. One is whether the regulation systems need to be changed, and I honestly don't know. But I definitely believe that they need to be reviewed. And this is what we usually do when a company or organization understands that they need to transform. We strive to improve everything that can be improved and constantly review these things together with the customers to bring in some new models, new business processes, next generation best practices. Then we provide the technology that supports that change.

Governments usually don't think this way. They have remained in place because there are too many other things to do. This kind of review and assessment — what we call "process consulting" — is better for the future. And I am not sure your government is thinking this way.

The other aspect is the entire change of society. This is what will happen eventually. In the past sustainability was a big topic amongst our Japanese clients. Now they think not only about shareholders, customers and employees but also about the planet, the world and the future of our generation. I would say these issues have a very limited connection to traditional capitalism and presage a major change in society in the future.

JS: In my mind there is an argument that competition rules should be reinforced. We are living in a sort of platform economy and each platform could serve as a monopoly, a dominant power.

Orekhov: It's not always easy to predict what could become a monopoly. When it comes to some natural things like utilities, some infrastructure, one can organize and restructure. When it comes to the new platforms like search platforms, Google is dominant in most of the markets in the world, but there are still exceptions. China and Russia, which are very different, have their own search engines and platforms and this is not because of anti-monopoly regulations, but because of normal competition. Personally, I believe we need to give opportunities for people and companies, so they create a new good. Of course if we cannot avoid it, then we need to implement controls.

JS: One more question is related to equality and inequality. I think the current world is efficiency- and growth-friendly. The question is whether this VUCA world is really an equality-friendly one. Some would say it is equal because everybody has an opportunity to start a business.

Orekhov: I think eventually equality will improve. I mentioned the example of education. We now have these massive open online courses (MOOCs) where everyone can participate. Someone with limitations, or living in remote locations, can now be part of this world in the same way as everyone else.

Another example is health care, which is undergoing huge transformations. One can have remote consultations with a doctor any time. He looks at your data and analysis and you interact with him through video connection. Close to 1 billion people don't have basic Internet connectivity. There is a great inequality now, but eventually technology will bridge this gap. Equality when it comes to opportunity and access will happen.

The Future Outlook

JS: How do you see the future of this VUCA-world and in the light of this assessment what is your business strategy?

Orekhov: I see it as bright and smart, absolutely no doubt about that. We are now building these tools to basically equip humanity, and at the end of the day to make the world run better. This is our mission strategy. SAP helps companies to transform and many companies want to learn from us, not only for the technology but also through our own history. We transformed ourselves four times over the last 45 years in order to stay alive. We're bringing intelligence to all the systems we are building. Intelligent enterprise, where things will be done by computer and not by man.

JS: Your strategy is basically to push your business in accordance with the trends?

Orekhov: Actually, it is a bit more sophisticated. We see several trends that we're working on. One is trying to integrate all parts of the business to be one common thing. Secondly, we believe in the future of AI and machine learning, so we want to infuse all these technologies in all products that we create. And thirdly, we believe that we need to have a common "data platform" because data layer is critical for everyone else. You're building the data layer, which is basically consolidating all the systems that we can build, but which also has the ability to connect to the rest of the world and ultimately this supports the openness we have been talking about. So these are the critical elements of our strategy and this is how we see our products going to the market. JS

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