



Aug. 28, 2017 Podcast Transcript

[Music]

Introduction: Welcome to "HII Talking Points," a Huntington Ingalls Industries podcast. Twice a quarter, we'll sit down with HII leaders to discuss topics of interest with our company and industry.

Interviewer: My name is Phoebe Doty, and today I'm talking with HII president and CEO, Mike Petters, about innovation and disruption. This is a topic that's gaining popularity nationwide, so today I'd like to break down what innovation and disruption mean for HII, so let's get started.

Mr. Petters, we've heard talk about innovation and disruption throughout the industry and in our own company. First off, what does innovation and disruption mean to you?

Mike Petters: Well Phoebe, thanks. Good to see you again. I'm glad to be here and glad to have a chance to talk about this.

Interviewer: Glad to have you.

Mike Petters: So there is probably as many definitions of those words as there are people walking around saying them.

Interviewer: Yes.

Mike Petters: And I guess I would talk about, I kind of put disruption in a category because it's probably very overused and everybody wants to be disrupted or to be disruptive, but I would argue that for us, we want to talk about disruption as something that would have not a one or two percent impact on what we're doing.

You know, disruption is not being two percent more efficient. Disruption is being 40 percent more efficient, or it is a major change in the way you're doing business such that it results in a tremendous change in efficiency or you know.

And if you look at the things out there that are sort of the poster children of disruption, what those folks have done and typically is they figured out how to use up some level of excess capacity in the system.

So take Uber for instance. They, if you walk around your neighborhood at night, go walk the dogs, count how many cars are parked in the driveways. All of those cars now are available to Uber to be carrying people and creating value. All of them. So there is excess capacity in cars.

Airbnb is another example of just the same walk around your neighborhood. How many empty bedrooms are there on your block? And those people have figured out how to take advantage of

excess capacity. They have created a tool that makes that available to the market and they have created a channel between the customers and that excess capacity to create great value. And they've done that and it is fundamentally disrupting – Uber is fundamentally disrupting taxi service in big cities around the world. Airbnb is disrupting hotels.

And so for us, the question around disruption is what are those things that could disrupt our business and/or what are those things that we can do that would disrupt the way our customers do business or the way our – or disrupt our competitors in ways that create value for our shareholders.

So to me, that's what it is. Disruption is a, it's a major change, not a minor change.

Interviewer: Right. So you mentioned 40 percent increase in efficiency. So I'm going to play Devil's advocate. I would say that things are going very well for HII. Our stock price is high. Overall we're performing well. The political climate seems to favor more growth and we have a good relationship with our customer building a very specialized product. So with all that in mind, do we really need to be concerned with disruptive innovation?

Mike Petters: Yeah, what a great question. Actually, we are in a phase where you're exactly right. Our relationship with our customers, and our shareholders, and our employees, and really the taxpayers is as good as it's ever been in my career.

And yet, that sort of sets the framework for why this may actually be a tougher challenge for a leader than if things aren't going well. You know, when you're in a place that's in crisis and you know that if you don't get it fixed you might be out of business. It's not hard to get everybody motivated and focused. And often doing those great things that are going to save the organization. You know, they talk about the burning platform. There are some leaders who say sometimes you have to set the platform on fire.

Now I don't espouse that as a way to do change, because I think that leaders can actually lead, even in times where the platform is not on fire. You know, the fire preventers are a whole lot more valuable to the organization than the people that put out the fires when they happen. But we are in a place right now, where everything is going so well we could be complacent. And my view is now is the time for us to be less complacent than we've ever been. The world is changing around us.

And every conference that I go to, I hear other CEOs either bragging about how they use big data to change their business, or lamenting the fact that somebody else used big data, or artificial intelligence, or some other disruptive technology to impact their business. And so it's starting to look to me like either you are disrupting or you are being disrupted, and there is not, there is very few odd people that I'm running into now that are in the middle there, where neither of those are happening.

So we will choose to be on the side of disrupting and work hard not to be disrupted. And that's a really tough leadership motivational challenge, given that on the surface everything looks like it's going okay.

Interviewer: Right. So it sounds like we need to disrupt ourselves before someone else comes in.

Mike Petters: That's my view, is we certainly need to have a clear view of how someone might disrupt us, and then we can choose to disrupt ourselves in that way, or we can find ways to defend against that, if you will. I think either of those are good strategies. It depends on what the disruption is.

Interviewer: So the products we build are quite specialized, so I would say that we have a risk adverse culture partially due to that. What advice could you give to employees who are trying to disruptively innovate but are facing potential hurdles?

Mike Petters: Yeah. I think first of all I'd like to take the conversation broader than ship building. I think that we by habit kind of drop into a ship building discussion because that's our principle core historic legacy business.

But you know, we have customers in all different branches of the services now. Pieces of the government that are not even in the Pentagon, and we have customers that are not even in the government. And so we have across the organization we have people who are actively working this challenge. I think actually, we have some maturity with this in certain parts of the organization that other parts of the organization could take advantage of. You know, I think our folks in technical solutions, you know, the nature of that business, the fractured or fractionalized marketplaces that they're in.

The way that they go to the market and the way that they compete, the hypercompetitive marketplace requires them to always be thinking about let's disrupt and not be disrupted. I think that we are actually disrupting the marketplace in ship building today by our willingness to invest in capital and by the execution that we're seeing in our business across the board. I think that's actually pretty disruptive to ship building.

Given that, I think that anybody who has been in any part of that business recognizes that there is lots of low hanging fruit that we could go and take advantage of and become more efficient. And because we're so large in those spaces, there is a whole lot of folks out there that are really interested in saying, you know, I don't need to build a ship, but if I could just do this piece of what they do, I can capture that value away from HII and it could become the principle reason for my business.

And so I think that again, you have to choose. Do you want to be the disruptor or the disruptee? And I think all of our leaders across the business in every part of what we do will be choosing – should be choosing to be the disruptor.

Interviewer: So [Technical Solutions](#) just by the nature of how the business is set up could be a little more disruptive than our shipbuilding. How do we transfer that over?

Mike Petters: Why I think there is, I think that goes both way. I mean I think there should be a demand from the shipbuilding side. If they say show us what you can do. And I think there is a push from the technical solution side that says here is what we offer. This is if we can offer this to that customer, we certainly can offer it to the people inside of our business.

You know, years and years ago when I was a program manager, we were – and this goes back to the days when fiber optic was just going onto ships and we had come up working with some other folks. We had come up with an approach to have blown fiber through the ships. To blow it instead of trying to just put it in piece by piece. And it was pretty cool. And I remember our Navy Program Manager was really taken by what we were doing, but then he said, are you guys doing this in your facilities? Are you doing this in the new buildings that you're building? And when the answer was, not yet. Then he stepped back and said well if you're not doing it in your own buildings why should I do it for me?

Interviewer: Yeah.

Mike Petters: And so I think there is a, you know, this is one of those things where if we really think this is good for, if we have an approach, an idea. If we really think it's good for our customers, it's going to be really powerful if we can demonstrate that it's been that good for us. So that's kind of my view of it, and that is going to require a lot of collaboration.

Interviewer: So you talked about fiber optics. Can you name some other examples of disruption that you've seen in your own career?

Mike Petters: Wow, modeling and simulation is a great one. You know, we began playing with simulating the shipyard 20 years ago. Now we simulate the all the flight decks. We simulate production. We've been able to take that tool and go to other customers and show them how we might perform. We've been able to use it for planning. I think the digital framework that we've created in our businesses, you know, 30 years ago everything was paper. And you would send off a request for a report and the next day or the next maybe it would be the next Monday you would get the report.

And it would be bundled and it would be sitting at the elevator as you came in, sitting on the floor there, and so there would be 40 of these reports down there and you had to find the one that was for you, so that you could actually go through it. And then you would manually go through this report and find the stuff that you really needed. Well what we're so far beyond that now that the, we're disrupting ourselves, you know. I would say we're innovating ourselves there incrementally to get to a place where we're really going to disrupt ourselves is going to require a step ahead of those incremental changes that we see.

Interviewer: In the past you've talked about innovation as constructive failure. Can you elaborate on that and how it applies to HII?

Mike Petters: Sure. I mean I think that any sort of method or practice where you're trying to improve your understanding of what's going on, or the way you do business, you're going to need to try stuff that doesn't work. You know, one of the greatest constructive failures was the discovery of penicillin. Right? I mean they weren't trying to find penicillin. It just showed up in the little dish that they were working with, and suddenly they found this stuff and they found out that it actually had some pretty powerful effects.

You know, I was reading a couple of weeks ago about some research being done around MS and they were talking about the effect of the sun in MS and these guys, the scientists did a very controlled experiment where they used sunscreen. And what they found out was that the sun had a little bit of an effect, but the sunscreen had a great effect, and they weren't expecting that either. And so I think that's, to me, those are constructive failures.

I mean you would say that their premise and their thesis of that experiment was not proven to be true, or at least not indicative of great things going forward. And yet, they had great success, because that failure led them to another direction.

So I think the same thing happens in your business when you try certain approaches. The fact that you try something and find out that it doesn't work, that's new value to the company. Now you know something that doesn't work. You didn't know that before, so that's valuable.

I said it so many times people now know that I say this a lot, but if you show me a baseball team where every runner is safe at home, I'm going to show you a team that is not scoring as many runs as they could. In order to score the maximum number of runs you got to have people get thrown out at home, you know. And that's going to require some decisions, and you got to support decision makers who take chances and have runners thrown out at home.

Now you can't support them when they take bad chances or unethical chances, or things like that, but if it takes a perfect play to get this runner out at home and they come up with the perfect play and the runner is out, you don't fire the third base coach for that.

Interviewer: Right.

Mike Petters: You know, you put it in the pocket, you learn from it and you move on to the next game. So I think that that's just a mindset in a culture of how you need to proceed. There are certain pieces of our business where we can never have anybody thrown out at home, you know. When it comes to personal safety or the nuclear safety that we're involved with, I mean it's pretty clear that there is some places where you just can't afford the consequence of having somebody being thrown out.

Interviewer: Exactly.

Mike Petters: But that's not the whole business. That's actually a very small part of our business, and for the most part in our business we have wide latitude to take measured risk and endure constructive failure.

Interviewer: Excellent. Well it sounds like you've given us a lot of inspiration to look for innovation and disruption in our own workplaces, so.

Mike Petters: Yeah, well I mean the point of all of this is we're going to put some energy into this, because if you feel comfortable, you know, that's the calm before the storm. When you think everything is going right, that's a pretty good indication you're about to get run over.

And so, we got a lot of things going right for us, and so right now is the time for us to really buckle down and go find those things that are going to disrupt this company or allow us to disrupt other business, and that's our approach and we're going to be looking at that down many, through many lenses, so.

Interviewer: Words to chew on.

Mike Petters: Mm-hmm.

Interviewer: Well thank you Mr. Petters. This was excellent.

Mike Petters: Oh, thanks for the chance.

Interviewer: All right. Thanks.

Interviewer: Nice talking with you.

Announcer: Thanks for listening to HII Talking Points. This podcast was produced by Huntington, Ingalls Industry's Corporate Communications Team. We welcome your feedback and ideas for future podcasts at www.huntingtoningalls.com/podcast.

[End of Audio]