Lessons in Leadership

Eric Benhamou, a leading executive in the networking industry, provides insight and inspiration on being a leader in growing companies, charting new directions in uncertain and changing times as markets evolve and change.

Timeline

1955
Born in Algeria

1960
Eric's family emigrates to France when he is five.

1975
Eric moves to the United States to attend Stanford at age 20.

1977 - 1981
Works at Zilog for four years

1981 - 1987
Co-founder of Bridge Communications, VP Engineering

1987
Upon merging with 3Com, becomes Senior VP

1990
Becomes CEO of 3Com

2001 - 2003
CEO of Palm

2003
Starts Benhamou Global Ventures

Background

The landscape of Silicon Valley has made a major transition over the last several years. Today's entrepreneur is wiser. While the entrepreneurs of the late 1990's focused on buzz and spin, the true leaders of the Valley focused on the key elements of moving their company forward. Our community and the valley have taken notice. They too want to know how to take their company to the threshold of greatness. And once there, they want to know what the steps are to maintain their visibility and importance as part of the technology ecosystem. Leadership, Management, and Strategy – what do these words really mean? How do they impact or drive long term viability? The Lesson's in Leadership series provides insight and inspiration.

Introduction

Eric Benhamou was interviewed by Andreas Kluth, a journalist for The Economist at SAP in Palo Alto on May 5, 2005 as the first speaker in SDForum's Lessons in Leadership series. Eric is currently running Benhamou Global Ventures. He is also the chairman of 3Com and palmOne. He was the CEO of 3Com from 1990 to 2000, and of Palm from 2001 to 2003. He was the co-founder of Bridge Communications and acted as its VP Engineering until merging with 3Com in 1987. Prior to this, he worked at Zilog for 4 years.

Mr. Benhamou is the chairman of the board for 3Com, palmOne, and Cypress Semiconductor and serves on the boards of RealNetworks and Silicon Valley Bancshares. He also serves on the boards of the privately held companies, Intransa, Atrica, Swan Labs and GO Networks.

Origins

Eric was born in Algeria, near the Morocco border in the mid-1950s. There was a terrible war between Algeria and France, with the ultimate outcome being that the Jewish community split into three groups, that immigrated to France, Israel, and the United States. There were many atrocities on both sides, with violence in the streets, and home and schools being bombed. Survivors felt guilty in surviving by chance, when friends standing nearby had been killed.

In the late 1950s, Eric's family came to France, the first of a mass emigration to France that occurred between 1960 and 1965, with 300 to 400 thousand Algerian people arriving. While language was not a problem, since they already spoke French, the culture was. Still, it was a good experience, coming at age 5 to France, since he had to leave his past behind and restart from scratch. At ages 12, 13, and 14, he started writing business plans; in one case to build a moped salvage parts business. He assigned positions to several of his friends, but nothing came of it, since no one would take him seriously, but it was good experience.

France than, and today, was not a good place for entrepreneurs. In school, there was tremendous competition, and a true meritocracy. But once you get out of school, this stopped. Once graduated from a professional school, you could join a state company as an executive, and coast to retirement, not doing much in between, before collecting your pension at age 65. If a person doesn't feel comfortable with this, they should leave France.

Now the French both hate and admire the United States; there is a myth and aura about it. By luck, Eric decided to come to the United States. And in particular, California having more of an aura, than anywhere else in the United States, he came here.

Coming to the United States

At age 20, Eric came to the U.S. and started over. By coming to Stanford to work on his Ph.D., he found himself in an entrepreneur's paradise — Silicon Valley having an ecosystem optimized for high technology businesses.

At the time of the mid-1970s, the microprocessor had been invented. PARC was thriving, but only a few hundred people knew about the things that they were developing.

Eric visited PARC, and upon encouragement, decided to drop out and join Zilog. In his four years with them, he learned a lot about high volume, low-cost manufacturing. It was a very good lesson in innovation and developing new markets.

Uniqueness of Silicon Valley

The thing that makes Silicon Valley unique, is its ability to couple innovation to markets, in having a vision on how innovation will change the world. Despite formidable attempts to compete with Silicon Valley, it has remained at the forefront of innovation. It has done this by continually reinventing itself, success cannot be obtained by continuing to do the same thing.

For example, new opportunities will come from combining nanotechnology, biotechnology, and computing together in innovative ways.

A startup has to be able to go rapidly from concept to plan to action. But this takes an infrastructure with layers and layers of companies that work together. Many senior government officials have visited Silicon Valley, than gone home and tried to duplicate the same ingredients, but they don't get the desired results. Its like baking a cake without the right instructions — similarly, the culture and attitude found in Silicon Valley are critical.

While threats to Silicon Valley are growing, it is amazing at how it continually regrows and renews itself. A dire fate was forecast in the early 1990s, than the Internet boom hit. Today, Silicon Valley is still licking its wounds from the burst of the bubble, but promising new expansion can already be seen.

3Com

Looking back to Eric's years at 3Com, he joined them in 1987 with the acquisition of Bridge. At that time, the first generation of routers and bridges had come to market. 3Com and Bridge were both convinced that large computer companies like IBM, DEC, and Data General would become competitors. It was thought that critical mass was needed for Bridge and 3Com to survive, once computer companies figured out the networking industry.

(Now in fact, it turned out that it is nearly impossible to be good at both computers and networking. Eventually IBM sold its networking division to Cisco, DEC's networking business disappeared, and HP is trying to sell its networking business today.)

The way to achieve critical mass was by merger and acquisition, thus Bridge was acquired by 3Com, with the result that Eric became a senior VP at 3Com. The initial years of the merger were very difficult. Mergers of equals are hard, because while you may agree at the 50,000 foot level, when you get down to the brass tacks of doing things, you find that each company has a different view of the future.

In the late 1980s, 3Com was trying to be a computer and networking company. It had built a file server product around IBM's OS/2 that was on a downward spiral. Being concerned about the future of the company, Eric articulated to the board, various recommendations. The board not having many other choices, decided that it made more sense to have a technologist as head of 3Com, and asked him to become CEO in 1990. This was the first time that the buck stopped on his desk, where he had ultimate responsibility for his actions.

Turning 3Com Around

The first task that Eric had was to convey a compelling vision for turning 3Com around. To do this, he provided a set of analogies. The first step was to cross the desert, because they didn't have the right product. This meant tightening their belts. Eric noted that you can't sell a vision through Powerpoint, you have to do it one person at a time, to small groups, and it is long, hard work. You have to win people over, and ignite the spark in their eyes. This first task took several months.

Second, it takes time to restructure a company; — for 3Com it took two years. This means that you have to show people a path on how you will get from here to there. You can't make this path too complex or too simple. What does seem to work is something that has three phases, with the first phase being where you currently are, and the last phase where you are going to get to. (People seem to think in threes). In this manner, you explain the vision of the future marketplace.

3Com's strengths were tremendous brand recognition, and being very good at thinking and building good products that it could manufacture in high volumes with excellent quality. Why than, did Cisco surpass 3Com in the networking industry? Cisco excelled at building customer relations, particularly with large enterprise accounts, and building its revenues and profits.

But the fundamental problem was timing. Strategically, 3Com thought that the movement from the enterprise to the consumer market would happen five years faster than it did. It acquired U.S. Robotics, with its Palm product in shifting its focus to the consumer market. This was a great strategy until the bubble burst, leaving 3Com poorly positioned to survive it. In retrospect, you want to go as fast as you can, but no faster!

3Com did not buy U.S. Robotics for Palm. But it ended up being a great value for stockholders when Palm went public in March 2000 at a $35B valuation. Unfortunately this was terrible for Palm employees, since March 8th was when the NASD hit its peak, meaning that all subsequent employee stock options were under water.

With the burst of the bubble, it was necessary to shrink 3Com. Eric remained the CEO of

Palm until the acquisition of Handspring in 2003. There used to be religious battles over the advantages of bridges and routers, that today are integrated together. Similarly, having separate PDA and phones won't make sense, eventually everything will be integrated together like the Treo.

Benhamou Global Ventures

In starting Benhamou Global Ventures, Eric's objective is to be the teacher to a new generation of entrepreneurs, helping them to be more successful. By investing in their companies, it forces Eric to care and actively be involved in helping them to succeed.

Eric has an unique investing model in only investing his own money; however he always forms a syndicate with other investors, he never invests by myself. He stays away from companies requiring high capitalization.

He leverages his skills by only investing in things where he deeply understand the technology, market, and business model. He has to connect with the entrepreneur and form a trusting relationship. He looks for entrepreneurs having vision and passion. In this manner, he maximizes the odds on his side.

If a company doesn't fit within the above criteria, he stays away from it. Despite all these conditions, the deal flow that he sees is incredible.

Eric observes that there are many basic things that he can teach. For example, in a seed investment, the entrepreneur needs to hire a team, but typically doesn't know the first thing about who to hire. He helps them clearly articulate the necessary positions, the skill sets that are needed, and state the tradeoffs of what skills are most important.

The next step is to help a startup organize who is going interview people, and what each person will try to learn. Otherwise, many interviews will waste time on chitchat or information already known. Interviews need to determine whether or not there is a match in skills and commitment. You need insightful questions. For example, one question that Eric asks everyone is, "Give me one example from your resume, where you enjoyed yourself the most." This tells him a lot about who as person is, and how they approach a problem.

Questions and Answers

What do you think about the lunacy of FASB in expensing stock options? Eric noted that FASB expensing options and Sarbanes-Oxley were perfectly timed with the resentment against the losses caused by the bursting of the bubble and the aftermath of Enron. He noted that the costs of Sarbanes-Oxley have not yet been measured, but that their ultimate effect is to hurt the competitiveness of public companies by adding new burdens of regulation and cost. It will take another swing of the pendulum for changes to occur.

For example, in France, they established a 35-hour work week, since they have the attitude that work should be shared. But intellectual work cannot be shared. Six years after passing this law, they had to change it. Similarly, there are already attempts to establish Sarbanes-Oxley light, recognizing that young companies should not be subjected to the same burdens that can be borne much easier by mammoth companies like General Motors and Ford.

The biggest issue in stock options is using a more realistic valuation. Silicon Valley firms are still providing broad based stock options to everyone, but only issuing 3% of their stock each year, versus the 5 to 6% in past years. In any event, options have always been fully disclosed to investors, secrets have never been kept from them. Stock options provide a sense of ownership. It was greedy people from outside of Silicon Valley that screwed things up.

What would you do today as an entrepreneur? I don't know. When I started Bridge, I was very naive and hopeful, now I know too much. Being an entrepreneur takes incredible stamina.

What advice do I have for an entrepreneur? A lot of my advice is situational. But you have to believe in your dream. You have to be willing to make a sacrifice, what are you willing to give up? Being an entrepreneur is an act of faith, you have to have a gut feeling. Like Indiana Jones, you have to be willing to step out into the abyss, otherwise you are just pretending. An entrepreneur defies the odds, they should fail, yet they succeed despite large competitors and market obstacles.

How do you manage thousands of employees and stay human? This is something that you do with great difficulty. At 3Com we had 17,000 employees worldwide. You need to establish unity of purpose and culture. The soft stuff matters in how you create a cultural environment. You need to think about your actions, behaviors, and how you communicate.

As a role model, you have to be able to scale well. Leaders have to be humble. You can't know everyone. You have to convey things through 2 or 3 layers of people. You obtain alignment in the company by events that teach the culture. You get people to participate, engage, and discuss.

What is the next big thing? I have no crystal ball. From a geographical standpoint, China and India represent both tremendous new markets and sources of talents. Increasingly, I think the consumer market will be the source of growth with products like the iPod, Treo, media centers, search, and consumer web sites, versus the enterprise and scientific markets of the past. Today we are having a little taste of broadband. But when broadband becomes pervasive, it will spawn a new environment for innovation. These are the things that I believe in, and this is what I am investing in.

What about lawyers and open source? The phenomena that is Google, look at the speed that it happened, emerging through the bubble. This is something that had nothing to do with lawyers. On the other hand, Larry Sonsini (of Wilson Sonsini) has been very insightful in helping me with strategy.

Open source is regenerating creativity. The layered model is letting you stand on the shoulders of giants. By adding your code on top of open source, it enables creating new appliance companies. Look at the recent acquisition by Jupiter of Red Vine. Over 50% of Red Vine's code is based on open source.

With respect to our system of patents, it needs to be reformed. Our patent system is stifling competition, and we need to improve the speed at which it works.

About the Author

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