Leadership, Innovation and Enterprise Culture

Course Background and Syllabus

2011: March 26th, April 2nd, April 9th, April 16th, April 23rd.

Course Background

This course will explore the intersections between Leadership, Innovation and Enterprise Culture. The perspective from which this course was designed was that of a company board member, a venture investor, an equity investor and an observer of business leaders from the ‘inside’ over a career of forty years. These vantage points have informed the development of this course. The principal questions addressed revolve around what makes the leader of an enterprise successful over the long term?...what are the characteristics of these leaders?...what do these leaders do?

An underlying theme of the course is that leaders of companies that are successful over the long-term have one common result: they create in their organizations Cultures of Innovation. This result seems present, based on the research behind this course, in almost all organizations that have achieved out-sized levels of enterprise value creation over the long-term. While this ability of leaders in the past has been important, there is mounting evidence that it will be even more important in the future.

Global information and transportation infrastructures, and the dramatic growth in global commerce that has occurred over the past two decades, have created a business landscape characterized by more rapid change and by waves of new opportunities, new challenges, new competitors, new product solutions, new market alliances, new replacement materials, etc. While it is clear that daily, quarterly and yearly execution of business plans is critical to the success of any enterprise, it seems also clear that successful organizations must be even more adaptive, innovative and responsive to changing circumstances. This course posits that companies that are not adaptive and responsive…companies that are ‘harvesters’ of business and not ‘builders’…companies that don’t have enduring Cultures of Innovation…will, over time, lose market share and margin…no matter what scale or market share advantages that they enjoy today. These losses can often be very incremental and seemingly insignificant, and it is only after years pass that the diminished viability of the organization becomes apparent.

Some organizations discourage innovation by making the cost of failure too high. In other organizations, ‘politics’ can move credit for successful innovation from the innovator to the politician so that, over time, the real innovator either leaves the company or returns to ‘just doing the job.’ Other organizations reserve the job of innovation for headquarters staff and central committees and require commitment to ‘The Plan.’ Some organizations are highly innovative, but their collective creativity does not have a common direction or sound commercial purpose. Then, there are organizations that demonstrate consistent inventiveness that is channeled within a general business mission…innovation that takes place at all levels of the organization…on a daily basis as if on ‘auto-pilot,’ without the intervention, direction or prodding of senior management. This inventiveness might be very dramatic, such as the successful cloning of Interferon by a scientist at Genentech.
However, this inventiveness is more often less dramatic and hardly noteworthy. Examples:

- A paper plant operator, after running calculations during machine downtime, concludes that she can incrementally increase the daily production of her paper machine with a slightly different combination of chemical mix and temperature sets.

- A customer in a Nordstrom store inquires about the availability of a designer shirt. Realizing that his Nordstrom store is out of stock in this particular shirt, a sales person leaves the store, purchases the shirt at Macy’s, returns to the store to make a sale. While not having earned a commission or margin on this shirt, the customer, while browsing during the salesperson’s trip to Macy’s, finds two other items to include in her purchase.

- A grape buyer for Franzia observes on a Saturday morning while taking his son to a baseball game that the weather is turning unusually cold at a critical time in the grape growth cycle. During the game he hears similar concerns from another parent who is a local farmer. After his son’s game, he calls the CEO of Franzia, at home, with his concern about a short crop. Within an hour the grape buyer and a small group of Franzia management make a decision to buy all available white zinfandel grapes.

- A Dreyer’s Grand Ice Cream route driver sees that a competitor’s delivery has been delayed two days. He uses this delivery lapse to absorb 2” of the competitor’s front-facing freezer space with Dreyer’s Mocha Chocolate.

- Wired sets up a team to develop plans for the first commercial internet site. One member of this team struggles with the plan to rely on subscription fees to provide revenue for the site. In a late night meeting at Wired he flashes on the idea of having a clickable space at the top of a web page that is linked to an advertising message.

- A Pacific Telesis business development employee hears from a consulting friend in Europe that the Swedish government is considering establishing a new license for cellular service in Sweden. She immediately calls SAS to schedule a flight to Stockholm that afternoon to pitch, in person, the idea that Telesis should be the technical operator of the new system.

- A young Genentech post-doc reads a paper published by a Beijing-based scientist on a new method of cloning a human protein, and realizes that two steps in the process described by the scientist could be used to solve a problem in her current experiment. She drives to her lab at 3:00 am Pacific Time to begin a collaboration.

All of the above examples happened and are imbedded in the Cases for this course. Note that many involve businesses that are not traditionally viewed as ‘driven’ by innovation: the ice cream business, the wine business, the paper business, the regulated phone company business. But, that is one of the points of the course: adaptive-ness and innovative-ness are characteristics of almost all businesses that, over the long run, succeed. These enterprises had Cultures of Innovation. They had cultures in which the wellspring of innovation was not one person in a corner office ‘thinking’ about the future, or where innovation committees were sequestered at headquarters. Instead, it was the entire organization demonstrating innovative behavior every day…employees discovering small and big ways to improve the performance of the enterprise…employees behaving entrepreneurially and going beyond their job descriptions, going the ‘extra-mile’, finding new ways to advance the overall enterprise mission.

How do leaders create enterprises that have these cultures? Is the answer as simple as the effective use of rewards, punishment and promotion? Is it as simple as just providing vision and inspiring employees? How do leaders encourage employee initiative, but ensure that the collective initiatives are aimed at common and commercially sound goals?

All of these issues and questions are discussed in this course in the context of actual company case histories…with the guidance and advice of the leaders involved. The histories are presented to students both in written Cases and in video interviews that have been conducted with the leaders and senior executives of the companies. These executive video interviews are augmented by video interviews with venture investors, other successful business executives and directors who have points of views on these topics. Over 110 interviews were conducted in preparation of the materials for this course, comprising
over 350 hours of ‘raw’ video. The videos that will be used in the classes are edited segments that have been extracted from this video inventory.

Examples of the diverse topics/issues/questions/quotables that have come from course videos and class discussions in the past include:

- The relevance of business context to the success of a particular business leader.
- Transactional leaders vs. Transforming leaders.
- Trust as a link between Leaders and Followers.
- Credibility and Trust: no need for expanded explanations.
- The common characteristics of leaders who create cultures of innovation.
- Builders vs. Harvesters.
- The importance of hiring smart.
- Encouraging risk taking; measured tolerance of failure.
- Fail fast if failure looks probable.
- Run any business, no matter what its size, like a ‘boot-strap’ operation…negotiate every expense like it was a personal expense.
- The power of ‘You Decide.’
- The importance of entrepreneurial activity being complemented by commercial judgment, homework and a ‘management’ framework.
- Vision vs. Strategy.
- The ‘inverted’ organizational structure of Nordstrom and Dreyer’s.
- The relationship between Politics and Performance in a commercial organization.
- Baby steps to grand results.
- Burn Rates and Fatal Consequences.
- A business plan as 100 separate business plans with 100 ‘pilots in command.’
- The importance of the ethics of the leader in building positive cultures and cultures that create long-term enterprise value.
- “He didn’t promote ethics by writing in the company news letter…’I have ethics and you should too!’…he demonstrated what ethical behavior was in a thousand different ways, every day.”
- Cyclical Industries: the importance of patience, decisiveness, instinct, avoiding conventional wisdom, doing homework, fluid organizational communications.
- Fortune favoring only the Prepared Mind.
- The power of intense listening.
- Confident Humility as a common characteristic of effective leaders of innovative cultures.
- The organizational ‘glue’ that can result from shared experiences.
- “You have to think of individuals in the context of the teams that you are building; you need compliments on a team.”
- Leading by asking questions.
- Knowing when to cut through the organization structure, and when not to.
- “It’s all about people: understanding what motivates them, how to connect with them, how to earn their trust. Business School skills and approaches are important; but, effective Leadership results from being able to synthesize separate ‘business’ skills into an intuitive understanding of what is important…and frequently the most important issues will center on people, on simple strategic directions, and, on the ability to communicate convincingly, in shorthand, with employees, with stakeholders, with customers, with partners.”
- “Don’t compliment them, it’ll give them the Fat Head. Instead, give them training, respect, responsibility, resources and opportunities to succeed.”
- Can you teach leadership? Are leaders just born?

One feature of the course this year is that the class will be visited, via real-time Skype video, by a number of the executives and investors that have participated in the development of the course materials. This will hopefully provide students with even greater exposure to highly successful,
entrepreneurial leaders and to successful investors who have backed innovative companies. Most of these ‘visitors’ will be leaders from the cases discussed during the course. Others will be executives that the course Professor believes will add important perspectives and insights to the course experience.

It is hoped that students will find among these executives, who have contributed their time and experiences to make this course possible, certain role models that might be helpful to students later in their careers. It is also hoped that the materials and class discussions will incite fresh thinking on issues surrounding leadership, innovation and enterprise culture.

Also, it is hoped that students will benefit from exposure to the central issues and details involved in a variety of businesses: issues and details that are discussed by the executive leaders of these businesses.

It is very important that students come to class having read the Case Studies. Case Studies will be handed out in class during the week. Class discussion will be a critical part of the learning process for this course and a reading of the Case Studies will better prepare students for active class participation. Class attendance is essential to the learning process in this course and for achieving a satisfactory grade.

Students should come to the first class March 26th prepared to discuss the Wired Case Study Part A. They should also come to this first class with some observations on general topic of Leadership.

Grading for Course

Grades for this course will be based on the following:

- Class Discussion: 40%
- Student Reflections: 20%
- Final Paper: 40%

**Student Reflections.** Students are asked to submit by email by each Saturday after class, a simple summary of what they believe were ‘take-away’ points from each day’s cases and discussions. These student reflections will help inform the Professor as to a student’s engagement in Course and Case issues and will help inform the Professor as to where improvements to the Course might be implemented.

**The Final Paper.** The Final Paper for the course will be due on Monday April 25th, 2011 by noon, delivered via email. Topics that this Final Paper should address will be discussed in the first class.

Company Case Studies

All of the Case Study Companies were headquartered on the West Coast of the United States. All eight companies were highly innovative and leaders in their fields: examples are Genentech, Nordstrom, Willamette Industries, Pacific Telesis and Air Touch. Two of the companies were the result of Leveraged Buyouts: The Wine Group and Dreyer’s Grand Ice Cream. One of the companies was the first to create a commercial Internet site supported by advertising: Wired Ventures. Another was the first to develop technology for a Wide Area Wireless Public Data Network: Metricom. Students will see the leaders of these companies in the context of the challenges, successes and failures that they faced and experienced.

- **Early Stage Companies:**
• Technology and Media
  **Wired**: The first company to put commercial, advertiser supported content on the Web.

• Wireless Data Services
  **Metricom**: The first company to offer Wide Area Wireless Data Service, for use with email and Web connections.

• Biotechnology
  **Genentech**: The company that founded the Biotechnology Industry.

• **Companies in Cyclical Industries:**
  
  • Wine Production, Marketing and Sales
    **The Wine Group**: A Leveraged Buyout of a small wine company in 1983 that has become, under management ownership, the second largest wine company in the United States, with the largest wine brand in the world.

  • Forest Products
    **Willamette Industries**: The lowest cost and most efficient producer of forest product materials.

• **Consumer Facing Companies:**
  
  • Retailing
    **Nordstrom**: A highly successful retailer that created and maintained a highly unique culture of customer service.

  • Ice Cream Production, Marketing and Sales
    **Dreyer’s**: A Leveraged Buyout of a “Mom and Pop” company that grew from a small ice cream factory in Berkeley, California to a nationwide company that eventually sold out to Nestlé for $3 billion.

• **Company in Need of Culture Change:**
  
  • Telecommunications Services
    **Pacific Telesis**: A company with 110,000 employees that was within months of filing for bankruptcy when an unassuming engineer from AT&T agreed to become its CEO, and who, within a short period of time created, with the same team and the same asset base, the most profitable Bell Regional Holding Company in the AT&T Bell System.
The Course

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Cases To Be Available Online at U.C. Davis:

- Wired Ventures Case Study - Part A
- Metricom Case Study - Part A
- Genentech Case Study
- Dreyer’s Grand Ice Cream Case Study
- Nordstrom Case Study
- Willamette Case Study - Part A
- The Wine Group Case Study
- [There is not a Written Case Study for Telesis]

Cases to be handed out in Class:

- Wired Ventures Case Study - Part B
- Metricom Case Study - Part B
- Willamette Case Study – Part B

Class Schedule

2011: March 26th, April 2nd, April 9th, April 16th, April 23rd

Saturday, March 26th, 2011

- 9:00 am to 10:30 am
  Introduction to Course
  Discussion of Final Paper
  Discussion of Student Reflections
  Course Road Map

- BREAK

- 10:45 am to 12:00 pm
  Wired Ventures - Part A
  Readings for Class: Wired Ventures Study Case - Part A
  - Pick Up: Wired Ventures Case Study - Part B

- BREAK - Lunch

- 1:00 pm to 2:00 pm
  Wired Ventures - Part B
Readings for Class: Wired Ventures
Case Study - Part B

• **BREAK**

• 2:15 pm to 2:45 pm  
  **Andrew Anker, President**  
  HotWired  
  *(first commercial internet site)*  
  Skype Interview

• 3:00 pm to 4:00 pm  
  **Metricom - Part A**  
  Readings for Class: Metricom  
  Case Study - Part A
  
  o Pick Up: Metricom  
  Case Study - Part B

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**Saturday, April 2, 2011**

• 9:00 am to 10:00 am  
  **Metricom - Part B**  
  Readings for Class: Metricom  
  Case Study - Part B

• 10:00 am to 10:30 am  
  **Don Wood, President**  
  Metricom, Inc.  
  Skype Interview

• **BREAK**

• 10:45 am to 12:00 pm  
  **Craig Walker, Entrepreneur in Residence**  
  Google Ventures  
  Presentation Segments  
  Skype Interview

• **BREAK - Lunch**

• 1:00 pm to 2:30 pm  
  **Genentech**  
  Readings for Class: Genentech Case Study

• **BREAK - Lunch**

• 2:45 pm to 3:30 pm  
  **Judy Swanson**  
  Wife of Genentech Founder Bob Swanson  
  Skype Interview
Saturday, April 9, 2011

- 9:00 am to 10:30 am  
  **The Wine Group**  
  Readings for Class: The Wine Group Case Study

- **BREAK**

- 10:45 am to 11:30 am  
  **Art Ciocca, Chairman Emeritus**  
  The Wine Group  
  Skype Interview

- 11:30 am to 12:15 pm  
  **Casey Georgeson**  
  Product Manager, Cup Cake Wine  
  The Wine Group  
  SVP Innovation  
  Sephora USA  
  Skype Interview

- **BREAK - Lunch**

- 1:15 pm to 2:15 pm  
  **Willamette - Part A**  
  Readings for Class: Willamette Case Study - Part A
  
  - Pick Up: Willamette Case Study - Part B

- **BREAK**

- 2:45 pm to 3:30 pm  
  **Willamette - Part B**  
  Readings for Class: Willamette Case Study - Part B

- 3:30 pm to 4:00 pm  
  **Duane McDougall, CEO**  
  Willamette  
  Skype Interview
Saturday, April 16, 2011

• 9:00 am to 11:00 am  
  **Dreyer's Grand Ice Cream**  
  Readings for Class: Dreyer's Grand Ice Cream Case Study

• **BREAK**

• 11:15 am to 12:00 pm  
  **Gary Rogers, CEO**  
  Dreyer’s Grand Ice Cream  
  Skype Interview

• **BREAK – Lunch**

• 1:00 pm to 2:30 pm  
  **Nordstrom**  
  Readings for Class: Nordstrom Case Study

• **BREAK**

• 2:45 pm to 3:15 pm  
  **Blake Nordstrom, CEO**  
  Nordstrom  
  Skype Interview

• 3:15 pm to 4:00 pm  
  Class Discussion [To Be Confirmed]

Saturday, April 23, 2011

• 9:00 am to 11:00 am  
  **Pacific Telesis**

• **BREAK**

• 11:15 am to 12:00 pm  
  **Arun Sarin, CEO**  
  Vodafone  
  Skype Interview [To Be Confirmed]

• **BREAK – Lunch**

• 1:00 pm to 2:00 pm  
  **Mort Meyerson, former CEO**  
  Electronic Data Systems  
  Perot Systems  
  Skype Interview

• 2:00 pm to 3:00 pm  
  Course Recap

Monday: April 25th, 2011

• Course Paper Due by 12:00 noon
Selected Participants in McBryde Institute Leadership Project

Federal Express
Visa
King
TeraData

U. S. Forest Service
Hellman & Friedman
TCI Yankee Network
Genentech

Airborne Freight
Genentech
Microsoft Apple
Organic OnLine

EOS Partners
Pacific Telesis
E & J Gallo
Vodafone