Leadership, Innovation and Enterprise Culture

Course Background and Syllabus
UC Davis March 31 – May 5, 2012

Course Background

This course will explore the intersections between Leadership, Innovation and Enterprise Culture. The perspective from which this course was developed was that of a company board member, a venture investor, an equity investor and an observer of business leaders over a career of forty years. The principal questions addressed in the course 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 companies that are successful over the long-term have a common characteristic: they have Cultures of Innovation. A second theme is that these cultures are the 'product' of leadership. It is these companies, across a wide spectrum of industries and sizes, that achieve, over the long-term, out-sized levels of enterprise value growth. While the ability of leaders to create Cultures of Innovation has clearly been important in the past, there is mounting evidence that it will be even more important in the future.

The expansion of 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 in the future 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 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 active 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 his 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 competitors 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 occurred 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 succeed over the long-term. 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 inspiration? 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 that were 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 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.
- The design of fast exits.
- The presence of a ‘scrappy’ attitude among the employees of innovative enterprises…they negotiate every expense of the business as if it were 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 great 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 is that the class will be visited, via real-time video, by a number of the executives and investors that have participated in the development of the course materials. This will 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 that the course material includes: 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. 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 on March 31st prepared to discuss the Wired Case Study Part A. They should also come to this first class with some observations on the 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, the Monday following each class, a ‘reflection’ on their own ‘take-away’ points from each Case discussion. These reflections should not just be a summary of topics discussed, but should be a student’s personal ‘reflection’ on the materials and discussions. These student reflections will help inform the Professor as to a student’s engagement in Case issues,

#### The Final Paper.

The Final Paper for the course will be due on Tuesday, May 8th...to be submitted by email by noon. Topics that this Final Paper should address will be discussed in the first class.

I look forward to being back on the Davis campus, to seeing you all at 9:00 am on March 31st and to introducing you (via video and via Video Visits) to a number of experienced, thoughtful and interesting executives and investors.
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 were leaders in their respective industries and businesses: 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 company that created the magazine Wired in the most successful magazine launch ever in the publishing industry and created the first advertising supported Web Site, HotWired.

  • Wireless Data Services

    Metricom: The first company to offer Wide Area Wireless Data Services for internet access.

  • 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. Within eighteen months, with the same team and the same asset base, this CEO transformed this company into the most admired and high-performing Bell Regional Holding Company in the AT&T Bell System.

Other companies that will be discussed with their leaders during this course include Amazon, Grand Central Communications (now Google Voice), TeraData, Federal Express and King Broadcasting.

Cases To Be Available February 3, 2012

- 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: March 31, 2012 to May 5, 2012

Saturday: March 31, 2012:

- 9:00 am to 10:15 am
  Introduction to Course
  Discussion of Final Paper
  Discussion of Student Reflections
  Course Road Map

- BREAK

- 10:30 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 1:30 pm
  Wired Ventures - Part B
  Readings for Class: Wired Ventures Case Study - Part B

- 1:45 pm to 2:30 pm
  Louis Rossetto
  Founder and CEO Wired
  Skype Interview
• 2:45 pm to 3:45 pm
   **Craig Walker**
   CEO of Firespotter Labs
   Executive in Residence, Google
   Founder Grand Central Communications
   Presentation Segment
   Skype Interview

**BREAK**

• 4:00 pm to 5:15 pm
   **Metricom - Part A**
   Readings for Class: Metricom
   Case Study - Part A
   - Pick Up: Metricom
     Case Study - Part B

Saturday: April 7, 2012:

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

• 10:00 am to 10:45 am
   **Brett Galloway, CTO**
   Metricom, Inc.
   Founder Packateer, AirSpace
   Cisco, SVP, Wireless
   Skype Interview

**BREAK**

• 11:00 am to 11:45 am
   **Andrew Anker, Founder**
   First Commercial Internet Site

**BREAK – Lunch**

• 12:45 pm to 3:00 pm
   **Genentech**
   Readings for Class: Genentech Case Study

**BREAK**

• 3:15 pm to 4:00 pm
   **Judy Swanson**
   wife of Bob Swanson who founded
   Genentech, Inc.
   Skype Interview
• 4:00 pm to 4:30 pm  Discussion of:
  • Wired, Metricom, Genentech
  • The Leadership Legacy and Lessons of Bob Swanson

Saturday: April 14, 2012:

• 9:00 am to 11:00 am  Nordstrom
  Readings for Class: Nordstrom Case Study

• BREAK

• 11:15 am to 12:00 pm  Casey Georgeson
  Product Manager, Cup Cake Wine
  The Wine Group
  Skype Interview

• BREAK - Lunch

• 1:00 pm to 2:15 pm  Marc Onetto
  SVP Worldwide Operations and Customer Service
  Amazon, Inc.
  Class Visit

• BREAK

• 2:30 pm to 4:15 pm  Dreyer’s Grand Ice Cream
  Readings for Class: Dreyer’s Grand Ice Cream Case Study

• BREAK

• 4:30 pm to 5:30 pm  Rick Cronk,
  President
  Dreyer’s Grand Ice Cream
  Class Visit
NO CLASS SATURDAY, APRIL 21

Saturday: April 28, 2012:

• 9:00 am to 10:30 am  Willamette - Part A  
  Readings for Class: Willamette  
  Case Study - Part A  
  o Pick Up: Willamette Case Study - Part B

• BREAK

• 10:45 pm to 11:30 pm  Willamette - Part B  
  Readings for Class: Willamette Case Study Part B

• 11:45 am to 12:30 pm  Duane McDougall, CEO  
  Willamette  
  Skype Interview

• BREAK - Lunch

• 1:30 pm to 3:00 pm  The Wine Group  
  Readings for Class: The Wine Group Case Study

• BREAK

• 3:15 pm to 4:15 pm  Art Ciocca, Chairman Emeritus  
  The Wine Group  
  Class Visit

Saturday: May 5, 2012:

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

• BREAK

• 11:15 am to 12:15 pm  Course Recap/Lunch Discussion

• Class Lunch Discussion  Gary Rogers  
  CEO  
  Dreyer’s Grand Ice Cream  
  Class Visit

Tuesday: May 8, 2012:
• 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