Leadership & Cultures of Trust and Innovation

Course Background and Syllabus
UC Davis March 30 – May 4, 2013

Course Background

This course will explore the intersections between Leadership, Cultures of Trust and Cultures of Innovation. The perspective from which this course was developed was that of an investment banker, a venture investor, a company board member and an observer of business leaders over a forty year business career. The principal questions addressed in the course revolve around what makes the leader of an enterprise successful over the long-term? What is the relationship between enterprise success and enterprise culture? What are the characteristics of effective leaders that create ‘positive’ enterprise cultures? 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 Trust and 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 Trust and 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. The research for this course suggests that companies that are not adaptive and responsive…companies that are ‘harvesters’ of business and not ‘builders’…companies that do not 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.

The research for this course also suggests that Cultures of Innovation exist only when there are Cultures of Trust in the enterprise.

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 the 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. The initial code is written that night for advertising ‘real estate’ to be placed on the HotWired web site.
- 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?

As suggested above, it seems clear from the course research that Cultures of Innovation are unlikely to exist unless there are high levels of Trust in the organization: relationships of trust between the leaders and employees and among employees. Where do high levels of Trust come from? The answer seems clear that they derive from leadership.

All of these issues and questions are discussed in this course in the context of the history and stories of highly innovative companies and their leaders. This company context is 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 of 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. This video has then been edited into segments that will be used during the course.

Additionally, a number of the people who were leaders of the course companies will Skype into the class to discuss their companies and to be available for questions from students in the class. This year will also include Skype interviews with three highly respected and successful start-up founders, the COO of Amazon and a marketing executive who created one of the most successful brands in the wine industry.

Examples of the diverse topics/issues/questions that have come from discussions during this course in the past include:

- Can you teach leadership? Are leaders just born?
- Common characteristics of effective leaders.
- The relevance of ‘business context’ to the success of a particular business leader.
- Transactional leaders vs. Transformational leaders.
- Confident Humility as a common characteristic of effective leaders of innovative cultures.
- Builders vs. Harvesters.
- Vision vs. Strategy.
- Trust as a link between Leaders and Followers.
- Credibility and Trust.
- Cultures of Trust and ‘fluid’ communications throughout an organization.
- The relationship between Politics and Performance.
- The power of Intense Listening.
- Leading by Asking Questions.
- The power of ‘You Decide.’
- The ‘inverted’ organizational structure of Nordstrom and Dreyer’s.
- A large company business plan developed as 100 separate business plans with 100 ‘pilots in command.’
- The organizational ‘glue’ that can result from shared experiences.
- The importance of Hiring Smart so you don't have to Manage Tough.
- Patience and the ability to Tolerate delay.
- Encouraging risk taking; Measured Tolerance of Failure.
- Innovation and ‘Scrappy’ Attitudes.
- The design of Fast Exits.
- Managing Loose and Managing Tight…from research to production.
- Details and Small Steps as precedents to successful implementation.
• Fatal consequences of poor burn rate management.
• “You have to be prepared to be lucky, to recognize opportunity. Fortune favors only the Prepared Mind.”
• “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.”
• “We were in a cyclical industry: you had to be patient, you had to avoid conventional wisdom, you had to do you homework; but, you also had to be prepared to be decisive when the time was right.”
• “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 ‘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….believably…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.”

It is hoped that students will find among the executives who have participated in the development of this course, certain role models that might be helpful to them 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.

Last, 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: retailing, telecommunications, consumer products, biotechnology, forest products, etc.

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 30 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 Reflection: 20%
• Final Paper: 40%

Student Reflection. Students are asked to submit by email, a reflection on Wednesday, April 10 related to their “take-away” points from the first two days of the course. The reflection should not just be a summary of topics discussed, but should be a student’s personal ‘reflection’ on the materials and discussions. The student reflection will be part of the grading for the course and
will also help inform the Professor as to a student’s engagement in Case issues and will help inform the Professor as to where improvements to the course might be made. **Please email the reflection to: bob@headlandventures.com**

**The Final Paper.** The Final Paper for the course will be due on **Wednesday, May 8**…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 UC Davis campus, to seeing you all at 9:00 am on March 30th 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. The companies include:

- **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, Hot*Wired*.
  - **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 1981 that has become, under management ownership, the second largest wine company in
the world, with the largest wine brand in the world. Annual sales amount to over 1.5 billion glasses of wine group product.

- **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.

In addition to the leaders of these companies, a number of executives of other innovative companies will be covered in this course. Some of these executives will Skype into the class, including:

- **Marc Onetto**: Senior Vice President of Worldwide Operations and Customer Service; Amazon
- **Bret Gallaway**: Entrepreneur; Metricom, Packeteer, AirSpace, Cisco, NewCo
- **Casey Georgeson**: Brand Manager; Developer of Cup Cake Wine Brand
- **Craig Walker**: Entrepreneur; Dial Pad, Grand Central Communications, Google Voice, Google Ventures, Firespotter, Nosh List, Uber Conference, Uber Voice.
- **Larry Mindel**: Entrepreneur: Chianti, MacArthur Park, Il Fornio, Prego, Ciao, Guaymas, Poggio, Copita

Other companies whose leaders will be discussed in the course include King Broadcasting, Federal Express, Airborne Freight Company and TeraData.

Cases To Be Available On SmartSite and the Course Schedule Website:

- 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 posted on Class site at end of day when the Case is discussed:

- Wired Ventures Case Study - Part B
- Metricom Case Study - Part B
- Willamette Case Study – Part B
Class Schedule: March 30-May 4, 2013

Saturday: March 30, 2013:

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

- BREAK

- 10:30 am to 12:00 pm  
  **Wired Ventures - Part A**  
  Readings for Class: Wired Ventures Study Case - Part A

- BREAK - Lunch

- 1:00 pm to 1:45 pm  
  **Wired Ventures - Part B**  
  Wired Ventures Case Study - Part B  
  Will be posted online end of day.

- 1:45 pm to 3:15 pm  
  **Metricom - Part A**  
  Readings for Class: Metricom Case Study - Part A

  BREAK

- 3:30 pm to 4:30 pm  
  **Louis Rossetto**  
  Founder and CEO Wired  
  Skype Interview

Saturday: April 6, 2013:

- 9:00 am to 9:45 am  
  **Metricom - Part B**  
  Metricom Case Study - Part B  
  Will be posted online end of day

- 10:00 am to 10:30 am  
  Recap of Wired and Metricom

- BREAK
• 10:45 am to 11:45 am  Larry Mindel  
  Founder and CEO, Spectrum Foods  
  (Chianti, Ciao, Prego, Guaymas, MacArthur Park)  
  Founder and CEO, Il Fornaio  
  Founder and CEO, Prego and Copita  
  Mindel Video Overview  
  Skype Interview

• BREAK

12:00 pm to 1:00 pm  Craig Walker  
  Entrepreneur in Residence, Google  
  Founder and CEO, Grand Central Communications  
  Founder and CEO, Firespotter Labs  
  Founder and CEO, Uber Conference  
  Walker Video Overview  
  Skype Interview

BREAK – Lunch

2:00 pm to 3:30pm  Genentech  
  Readings for Class: Genentech Case Study

• BREAK

4:30 pm to 5:00 pm  Discussion of Wired, Metricom, Genentech

Saturday: April 13, 2013:

• 9:00 am to 9:45 am  Brett Galloway  
  CTO Metricom  
  Founder Packateer, AirSpace  
  Cisco, SVP, Wireless  
  Skype Interview
BREAK

- 10:00 am to 10:45 am  Judy Swanson  
  Wife of Bob Swanson who founded  
  Genentech, Inc.  
  Skype Interview

BREAK

11:00 am to 12:30 pm  Nordstrom  
Readings for Class: Nordstrom Case Study

BREAK - LUNCH

- 1:30 pm to 3:00 pm  Dreyer’s Grand Ice Cream  
  Readings for Class: Dreyer’s Grand Ice Cream Case Study

BREAK

- 3:15 pm to 4:15 pm  Casey Georgeson  
  Product Manager, Cup Cake Wine  
  The Wine Group  
  Sephora  
  Georgeson Video Overview  
  Skype Interview

BREAK
• 4:30 pm to 5:00 pm  **IN PERSON**  
Gary Rogers  
CEO, Dreyer’s Grand Ice Cream  
Chairman, Levi Strauss  
Chairman Federal Reserve Bank SF

5:00 pm to 6:00 pm  **After Class Refreshments with**  
Gary Rogers

**NO CLASS APRIL 20**

**Saturday: April 27 2013:**

• 9:00 am to 10:30 am  **Willamette - Part A**  
Readings for Class: Willamette  
Case Study - Part A

• **BREAK**

• 10:45 am to 11:30 am  **Willamette - Part B**  
Willamette Case Study - Part B  
Will be posted online end of day

**BREAK - Lunch**

• 12:30 pm to 2:30 pm  **The Wine Group**  
Readings for Class: The Wine Group  
Case Study
• BREAK

2:45 pm to 3:30 pm  
Duane McDougall  
CEO Willamette  
Chairman, Boise Cascade  
Skype Interview

• BREAK

3:45 pm to 4:15 pm  
Marc Onetto  
Former SVP Worldwide Operations and Customer Service  
Amazon, Inc.  
Onetto Video Overview

Saturday: May 4, 2013:

• 9:00 am to 10:45 am  
Andrew Anker  
Chief Technical Officer of Wired  
Chief Business Strategist of Six Apart  
Founder of TugBoatYards  
Skype Interview
• 10:00 am to 11:45 am  Pacific Telesis

• BREAK

• 12:00 am to 12:30 am  Dorothy Bullitt  
  Founder and CEO, King Broadcasting  
  Bullitt Video Overview

• BREAK

• 12:30 pm to 1:30 pm  Class Lunch

IN PERSON  
Art Ciocca, Chairman Emeritus  
The Wine Group

1:45 pm to 2:30 pm  Course Recap

Wednesday: May 8, 2013:

• Course Paper Due by 12:00 noon

Selected Participants in McBryde Institute Leadership Project