December 2016 Newsletter

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Dear Colleagues,

In December of 2015, if anyone had predicted how 2016 would pan out, many of us would have been either amused or aghast. My newsletter of that month featured Michael Beer's change management formula, connecting it to the 50th year anniversary of the publication of Ralph Nader's groundbreaking book *Unsafe at Any Speed*, which galvanized remarkable advances in automobile safety, even with the automakers themselves expressing enormous reluctance. I can think of so many issues that could use that kind of united public demand for us all to make progress.

Continuous Reconfiguration – Alphabet

Early this year, we were all still scratching our heads at the decision made by the company, formerly known as Google, to re-brand itself Alphabet. Former Morgan

Stanley banker, Ruth Porat, took on the role of CFO and basically made two promises: first, that the company would return some of the money it seems to print to investors; and secondly, that they could expect greater financial discipline from the sprawling giant. Investors, at least, are happy, given Porat's architecting a $7 billion stock buyback, as well as her determination to rein in some of Alphabet's more speculative moonshot ventures.

The real challenge for Alphabet, of course, is making sure that continued investments in doing new things will be supported by its investors. As my readers will know, colleague Bill Lazonick has been critical of companies that buy back their own shares - supporting the stock price and rewarding investors, but under-spending on their people and innovation. He goes so far as to argue that buybacks make ordinary Americans more vulnerable to globalization and weakens once-strong companies. Google seems to be resisting the pressure, so far, and has doubled down on new ventures, such as a number of forays into physical products.

Continuous Reconfiguration – DuPont

The story at DuPont is, for an old industrial company, like reconfiguration on steroids. The first big change (which, some argue, was prompted by activist investors) was for the company to spin off its TiO_2 business, which created problems for former CEO Ellen Kullman, given the price volatility of the underlying commodity. At the time of the spinoff, most observers headed for the exits, thinking the spun-off company would be left for dead. In a stunning turnaround, Mark Vergnano, the CEO of the new company, Chemours, managed to quickly right the ship and now has even hard-boiled business reporters singing his praises.

Chemours™

The story for the parent company is more confused. Kullman ended up leaving, in spite of prevailing over the activists, having been 'failed' by the board, as colleague Jeffrey Sonnenfeld observes. Shortly thereafter, Dow Chemical and DuPont announced plans to merge, but with a strange twist – after the merger, they would once again spin off into three separate, publicly traded companies. While some observers thought the deal could create new forms of advantage, Kullman herself is more skeptical.

"Break up, recombine. Break up, recombine." Kullman told Fortune's Pattie Sellers. "That doesn't create any value except for bankers and lawyers."

Kullman herself reflected on the grueling experience of her opponents making the situation personal and how she coped in this video. She is one of the best leaders I've worked with – a huge loss for DuPont.

Oh, and that merger? Turns out the European Antitrust regulators are not so thrilled with the concept.

Good jobs very much now part of the national conversation

My colleague over at MIT, Zeynep Ton, and I have been working off and on, exploring why more companies don't employ a "good jobs" strategy, even though research suggests that good jobs help drive demand, improve company performance and, in the long run, pay off for investors. For an overview of the core ideas behind "good jobs", see this video. "Good Jobs" was a hot topic at the Drucker Forum, as well as rising inequality, stagnant paychecks and the disappearing American Dream - which have left people angry and resentful.

Some companies, however, seem to be getting the message that treating people essentially like difficult to manage robots, may not serve them so well, after all. In a previous newsletter, I've mentioned Chobani, Sheetz, and Managed by Q, all companies with a policy of sharing their prosperity with their people.

Gravity Payments made headlines by guaranteeing all of its workers an average paycheck of $70,000 which came out of reducing their CEO's salary. The results of Gravity's experiment have been profound – with more cash, people moved closer to work and cut down their commutes, began families more frequently, and funded their retirement accounts. Which brings me to a point I've made before; instead of mourning manufacturing jobs, why don't we focus realistically on the jobs people actually have?

There are signs of hope in this regard. The move toward better jobs and higher pay is starting to make headway in parts of corporate America. Jamie Dimon, CEO of JP Morgan Chase wrote a powerful Op-Ed entitled "Why We are giving our Employees a Raise", arguing that salaries have powerful Op-Ed entitled 'Why We are giving our Employees a Raise', arguing that salaries have gone 'nowhere' for far too long. Starbucks plans to offer its people a substantial raise as well.

And, even Walmart announced pay increases in 2016. Aside from expanding demand for labor, making good people harder to find, Walmart management also has to be sensitive to becoming the symbol of abusive employment practices and the allocation of great riches to the company's owners, a point Bernie Sanders hammered home in his presidential bid.

Event with Rita, Steve Blank & Brian Murray

January 10, 2017 - New York City
Join us as we discuss the question
"What Comes After Innovation Theater?"

Corporate entrepreneurship is a hot topic these days. Despite all the talk, however, actual innovation performance comes nowhere near to delivering on its promise. We are, perhaps, five years into the latest flurry of excitement about the prospects for innovation-fueled growth. Companies have traveled to Silicon Valley in droves, sponsored innovation boot camps, trained innovation ninjas, and otherwise promised their stakeholders that innovation is front and center on their agendas.

And, yet...

Evidence suggests that much of this activity is more along the lines of 'Innovation Theater'. Indeed, how many corporations focus their cultures around an innovation playbook, and train *all* staff in innovation practices?

In a recent McKinsey study, 94% of executives surveyed reported that they were unhappy with their organization's ability to innovate. Similar research shows that corporations are spending a lot more of their profits on things like share buybacks and dividends than they are on innovation.

Join me, Steve Blank and Brian Murray as we discuss the question "What's next for corporate innovation?"

Columbia's Senior Fellow for Entrepreneurship, Steve Blank is a retired eight-time serial entrepreneur-turned-educator and author. He has changed the way entrepreneurs around the world build their startups. His bestselling *The Startup Owner's Manual*, and his earlier seminal work, *The Four Steps to the Epiphany* are both credited with launching the Lean Startup work, *The Four Steps to the Epiphany* are both credited with launching the Lean Startup movement.

Brian Murray is President & Chief Executive Officer of HarperCollins Publishers. Since being appointed CEO in 2008, Murray has led the transformation of HarperCollins from a traditional print publishing company focused only on English language publishing, to a dynamic print and digital publisher with broad expertise in foreign language publishing and more than $350M in digital revenues.

Click here to register.

Mastering Corporate Entrepreneurship On-Line Launches in January

Our on-line corporate entrepreneurship program will launch on January 16th, under the flagship of the Forum for Dynamic Innovation at Columbia. Participants will learn from myself and several colleagues about what the state of the art for corporate entrepreneurship really is and how to make it a systematic capability. Click here to find out more,

Mastering Corporate Entrepreneurship is comprehensive program that provides executives with the concepts, tools, and application opportunities to dramatically enhance the effectiveness of their efforts to create new businesses from within their firms.

The program is offered in three parts that can be taken individually or as a series and address the three central challenges of corporate entrepreneurship:

- How to find great ideas—**ideation**
- How to develop those ideas into a business—**incubation**
- How to launch this new business so that it can merge successfully with the corporate parent—**acceleration**

Part one is taking place online from January 16 - March 6, 2017 and is open for enrollment. Parts two and three will launch in the second half of 2017 and 2018.

Click here for more information and to register.

Accelerating Team Effectiveness - Valize Workshop - in Lawrenceville, New Jersey

It's inescapable. Your organization's results depend on people working together effectively. But, all too often, under conditions of uncertainty teams get stuck. Instead of flowing smoothly, work gets bogged down, things take way too much time, and people don't connect. Even worse, nobody is talking honestly about what the real issues are. The Valize Accelerating Team Effectiveness process can help.

Everyone wants to work with energized teams that are committed and feel part of something worthwhile. You'll leave the workshop with practical, immediately actionable steps you can take to reduce frictions and accelerate progress.

When: Tuesday, January 31st, 2017 - 8:30-10:30am
Where: Collaboration Core - Lawrenceville, New Jersey (just south of Princeton)

Click here for more information and to register. Workshop to be led by Rita. Space is very limited.

About Valize - Valize LLC is a Princeton-area company dedicated to helping you realize your future strategic value by making your growth and innovation process more reliable, repeatable and lower-risk. Our tools, software and programs help you understand your growth process; monitor your innovation journey; and evaluate your options, risks and resources. In the end, value realized.

VALIZE

What will 2017 bring for the fabled Coca-Cola franchise?

When I talk about transient or temporary advantages, the counter-example that is often used is Coke (and its arch-rival, Pepsi). So, I'm going to be watching with great interest as its long-time CEO Muhtar Kent steps down.

Here are links to two interesting Fortune magazine articles: one on the brand and on on their share price.

Recent Press

Globe & Mail picked up my observations on how we are dealing today with two inconsistent management systems.

Be on the alert for fading advantages, suggests a trade publication MDM - Modern Distribution Management magazine.

More links to recent press mentions can be found on the Press section of my website.

If you thought 2016 was uncertain? Just wait.

While it's impossible to make specific predictions, we can anticipate that 2017 will have its own set of surprises. Will the unicorn phenomenon burn itself out? Will the market for IPO's recover? Will rules around stock buy-backs change? Will we finally take innovation seriously? Will offering good jobs become so ordinary that companies don't make newspaper headlines when they do? We'll be watching.

In the meantime, I hope you find some time for peaceful reflection during the holidays.

Rita

Password for the "Tools" Section of My Website

To access the tools part of the web site (downloadable diagnostics, quizzes, spreadsheets and other cool stuff) go to the RitaMcGrath.com website and use the password - **mcgr8th!** *(the exclamation point is part of the password).*

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