

November 2016 Newsletter

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What Were We Thinking? Notes from the 2016 Global Peter Drucker Forum 2016

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Author. Speaker. Consultant.

Dear Colleagues,

If you are a management theory junkie, the 2016 **Peter Drucker Global Conference** in Vienna earlier this month was like catnip. A wonderful list of presenters and commentators spoke to the conference theme, “The Entrepreneurial Society,” which seems apt, as many thinkers seemed to assume that the world, as we know it, is in for a fundamental reshaping.

“What the hell were we thinking?” Capital markets and their detriment to innovation

The first full panel of the conference featured keynotes by Clayton Christensen, Phil Kotler, Anil Gupta and Roger Martin (who provided the quote in the title!). Interestingly, there seemed to be general agreement that the way our capital markets are set up are no longer beneficial to

entrepreneurial growth, and may indeed be a drag on the entire American economy. Roger Martin juxtaposed the organizational quest for reliability (as in meeting numbers and targets) with a search for what he calls 'validity' - meaning achieving outcomes people actually want, rather than metrics that are poor surrogates. In particular, he criticizes the public markets for over-emphasizing reliability and under-investing in the innovations which can create new forms of validity. I hadn't realized that the practice of companies providing financial guidance was only institutionalized in 1996.

This point of view seems to be increasingly in vogue, as observers note that companies are rewarding investors and executives at the expense of employees and the long-term, a point made compellingly by **Bill Lazonick**. As our recent election seems to suggest, we are overdue for a rethink of these fundamental allocations of resources.

For real economic growth, we need to create new users and new demand, not just shuffle demand around

Clay Christensen also makes the argument, as he has in his latest book, that economic growth does not come from what some might call 'red ocean' competition, in which products and services simply substitute for one another. Real economic growth, in his mind, is a function of creating consumption opportunities for entirely new groups of users and buyers. This creates fresh demand, expands the economic pie, and can lead to the creation of new growth jobs.



I think this idea is compelling, with one exception. Many of the new consumption opportunities enabled by digital technologies don't actually involve purchasing anything, which obviously limits their ability to create solid growth.

Nonetheless, some success stories noted throughout the conferences

A few of my favorite thinkers were part of a panel looking at things in a more optimistic way. The topic was, "Can Large Organizations Be Entrepreneurial?" and the panelists (and other speakers) responded with a resounding 'yes' which, considering my line of work, is very good news! One of the most impressive presentations was by Rob Van Leen who told an inspiring story of the journey taken by the former Dutch State Mines (or DSM) to

taken by the former Dutch State Mines (or DSM) to becoming a high-growth, innovative company whose tag line, he jokes, is now “Doing Something Meaningful.”



I was struck by how closely the DSM story mirrored the approach taken by Bruce Harreld and his team at IBM in the early 2000's to revitalize its growth programs. At DSM, beginning about 10 years ago, Van Leen described the creation of a series of innovation enablers, beginning with an innovation enabling function that he directs. The company also created a venture investment group to make equity investments in smaller firms, a licensing arm to navigate both in-and-out licensing of technologies, an IP group which is moving from an emphasis on patents to an emphasis on branding and finally a core R&D group, called Science and Technology, that maintains the core technological underpinnings for the company. On the actual business development side, the company maintains an incubator to experiment with new ideas. When one of these appears material, it becomes its own “Emerging Business Area”. He described three of these that DSM is developing now: one in biomedical areas, one in bio-based products and one in advanced surface materials. The goal is that these innovation-driven businesses will eventually become part of the core business, even as the company disengages from old areas that are exhausted.

The transformation at DSM reflects almost exactly what I would recommend, and offers a great example of a once-bureaucratic exploitation oriented firm that managed an entrepreneurial transformation. For more on this great story than I have time to get into here, see [this link](#).

Hey, CEO – do you really mean it when you say you want innovation?

Curt Carlson, the former CEO of SRI International, during a phase of torrid, innovation-driven growth, brought the conference to a standstill by asking one simple question:

“How many of you have a value-creation playbook, meaning that you’ve trained every employee in innovation practices, and provided them with a manual describing how they can get involved in driving innovation?”

Only about five hands went up in the room. And, things got really quiet.



So, while we are still doing a lot of talking about innovation, it is still, for many companies, no more than "innovation theater". You can read Curt's own description of the talk and a summary of his learnings about how to innovate at scale [here](#).

He's also made his slides available for [download](#) – check them out, as they are very thought provoking.



Time to Change the Practice of Management?

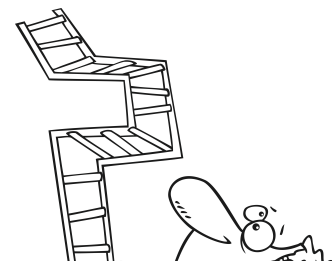
I had the pleasure of chairing a terrific panel on one of my favorite topics: "**How does management need to change as our organizations and their possibilities change?**"

The stories of two very different kinds of organizations, to me, illustrate one of the fundamental shifts we see, which is a significant change in our assumptions about what kind of activity needs to be managed and what can be handled by market transacting.

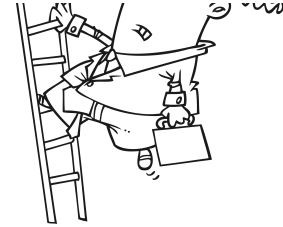
The first concerns a client of mine, a company called Analogic. They invented the CT scanner. They employ very skilled researchers and manufacturers. They make things in the US and offer their employees pretty good jobs. In contrast, we have a London-based company called Deliveroo that operates something like an Uber for food. With all the transactions taking place via a smartphone and an app, its drivers go to a restaurant, pick up an order, only then learning where the food is to be delivered. In a sense, the Deliveroo driver is living in a [super-Taylorist](#) world where the algorithm determines all activity, tasks are measured, and workers are on notice that slipping, in terms of customer satisfaction or other metrics, could result in being terminated. In other words, what we are now seeing is that organizations can be run like markets, which is likely to have [huge implications](#) for management practice.

I also argued, in this discussion, that we are dealing with two management control systems and it is overwhelming us. The first, is traditional bureaucracy which we have yet to slay. The second, is the horizontal system of networks, communications and instantaneous messaging that occupy so much of our working life.

Another point that came up is that the path to the top of many organizations is no longer a ladder, but a zig zag. Companies are looking for [people with diverse ways of thinking](#) who have been



exposed to varied environments. This concept is correlated with learning agility, a prized executive capability.



Entrepreneurship: Productive, Unproductive & Destructive

The final panel of the Drucker Forum included myself, Phil Kotler, Roger Martin, Gary Hamel and Clayton Christensen, moderated by Andrew Hill of the Financial Times. Andrew led off with the question ‘**Can we build an entrepreneurial society?**’ In my response, I suggested that we draw on the thinking of economist William Baumol, who **famously proposed** that a society can have entrepreneurship which is productive, unproductive, or destructive and that the kind of entrepreneurial behavior you get as a society depends on the structure of incentives.

Productive entrepreneurship leads to the outcomes that many at the conference want – innovation, productivity gains, economic dynamism and more opportunities. Unproductive entrepreneurship doesn’t really create wealth. Rather, it involves what economists call ‘rent seeking’. Thus, discovering a legal gambit that no one had seen before to save on taxes might be entrepreneurial, in the sense of being creative and generating profit, but it is unproductive in the sense of creating new growth. Destructive entrepreneurial behavior is even worse – organized crime, large-scale corruption or taking the resources of others by force would be examples. I would suggest that, in many ways, our current structure of payoffs doesn’t incentivize productive entrepreneurial behavior as much as we would like, instead allowing huge payoffs to essentially unproductive behavior. For instance, providing returns to investors via stock buybacks and dividends, as opposed to rewarding investments in innovation.



Indeed, in a compelling and **powerful analysis**, Bill Lazonick creates a connection between the ‘financialization’ of our economy, income inequality and the disappearance of well paying jobs in the American economy. As he argues:

"Trillions of dollars that could have been spent on innovation and related job creation in the U.S. economy over the past three decades have been used instead to buy back stock for the purpose

of manipulating stock prices."

This is entirely consistent with Baumol's argument – if you disproportionately reward rent-seeking behavior over innovation, you're going to get less innovation and more rent-seeking, which was a major theme throughout the Drucker Forum. Lazonick suggests that if we want to restore an equitable distribution of corporate profits to the workers, customers and communities that make those profits possible, that we start with buyback rules. Let's hope the next administration is paying attention.

Facebook Live session on why conventional wisdom is so often dangerous for innovation

As an experiment, my HBR colleagues and I put together a Facebook Live session organized around the concepts of portfolio management and innovation. We got over 138,000 views (and still counting). So for all of you that tuned in, thank you. For those who missed it live, you can see the recording [here](#) – no notes, no PowerPoints, just real-time interaction.

Live Columbia Webinar

If your interest is piqued, mark your calendar for another webinar I'll be running on December 5th. This free session will be a preview of some of the ideas I'll be sharing in our new online course "[Mastering Corporate Entrepreneurship](#)". The course officially launches on January 16th. [Register here](#) for the webinar.

Complimentary Webinar

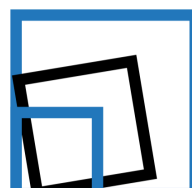
Monday, December 5, 2016

12:30 p.m. – 1:00 p.m. EDT

Including Q&A

Upcoming Events

I'm so pleased to announce the launch of the **Columbia Entrepreneurial Organizations Forum**. We will be kicking off this initiative at an event to be held on the evening of January 10th with Steve Blank and others in mid-town



**COLUMBIA
ENTREPRENEURIAL
ORGANIZATIONS
FORUM**

Manhattan. Details to come.

In the News

- **An echo of past disasters** – The LA Times quotes me on the fate of mega-mergers.
- Steve Blank, Alex Osterwalder, myself and the **bad habits killing innovation** in your company.
- Whither Marisa Mayer? Quoted in USA Today **article**.
- When is contingent work great, and when isn't it? **Reflections** on a Deloitte poll about the gig economy.
- The long shadow of AOL/Time-Warner lives on – Rita **quoted** in an analysis of the AT&T/Time Warner merger.
- Broadway producer seeks to **silence investors**
- **Rita cited as one of the 12 business speakers to see in 2017.**

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

So what else do we need to think about with respect to the practice of management?

Tim Brown of IDEO **suggested** that leadership itself needs to change, to become more nurturing and creativity-friendly rather than simply telling people what to do. **Sara Armbruster** observed that the very spaces we live in shape the interactions that take place in those surroundings. And Rosemarie Ryan reminds us of the importance of **telling your corporate story** to create meaning and focus.

All good thoughts as we head into the holiday season.

Have a wonderful beginning to December!

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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